Eskom

Eskom Holdings Limited Reg No 2002/015527/06
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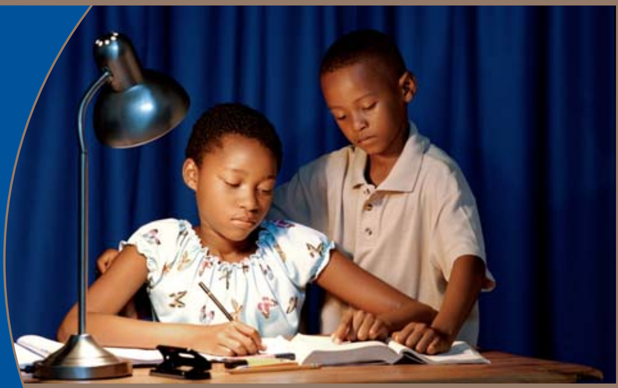
Eskom ANNUAL REPORT 2003

Annual Report 2003

Eskom



Corporate delivery in a decade of democracy

Unleashing Africa's energy

African Energy Fund

During 2002, Eskom spearheaded the setting up of the African Energy Fund; a vehicle for accelerating energy and electricity infrastructual projects aimed at the re-birth of the African continent.

New Partnership for Africa's Development (NEPAD)

Through its programmes in South Africa and on the continent, Eskom actively supports NEPAD's call for action in empowerment processes such as education, training, economic and social development.

Partnerships

We are committed to illuminating the continent, not only by bringing light, but by sharing whatever expertise we may have at our disposal, and to succeed in this we have formed strategic partnerships with many utilities and countries throughout the African continent.

Contents

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Key drivers

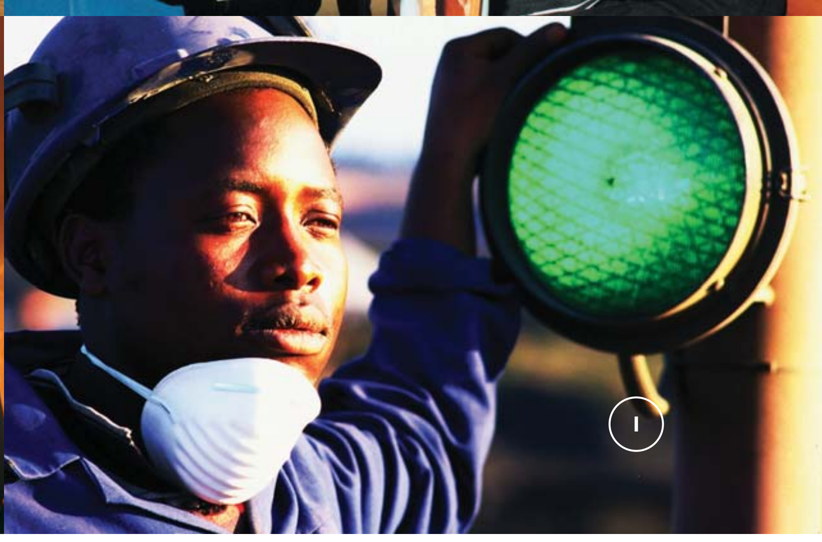
Strategic intent
Eskom will be the pre-eminent African energy and related services business, of global stature.

Mission
Eskom will grow shareholder value by exceeding the needs of local and foreign customers with energy and related services.

Key competency
The ability to develop and manage the entire extended electricity value chain so as to deliver high quality, low cost electricity using low grade and scarce resources (eg coal and water) in a challenging business, social, natural and political environment.

Core strategy
- Retaining and building existing markets whilst mitigating the impact of the industry structure on business growth.
- Retention of vertical integration through globalisation as local industry restructuring reduces local market share.
- Diversification based on the core business.
- Enhancing Eskom's long-term competitive edge through innovative development of new business opportunities aligned with our core competencies.
- High-level of corporate social responsibility.



Eskom was converted into a public company on 1 July 2002. This Annual Report covers the period 1 January 2003 to 31 December 2003. The 2003 report has continued to follow an integrated approach towards sustainability reporting; covering aspects of, amongst others, economic, environmental and social issues.

Major products and services

Eskom Holdings Limited (Eskom) is a vertically integrated operation that generates, transmits and distributes electricity. Eskom generates approximately 95% of the electricity used in South Africa.

Eskom Enterprises, the wholly-owned subsidiary of Eskom, together with its subsidiaries, serves as a means by which all the non-regulated activities of Eskom, both inside and outside South Africa, are carried out. Eskom Enterprises' core lines of business are infrastructure development, energy business operations, specialised energy services and the pursuit of key opportunities in related or strategic businesses, such as information technology and telecommunications.

Eskom's corporate social investment is mainly carried out through the Eskom Development Foundation, a section 21 company, which is responsible for integrating social investment initiatives. The Development Foundation operates extensively throughout South Africa in areas that are underdeveloped, especially in rural and new urban settlements.

Countries in which operations are located

The operations of Eskom are located in South Africa. Eskom Enterprises has operations on the African continent, with its head office being located in Johannesburg, South Africa, and other offices in Uganda, Nigeria and Mali.

Ownership

The ownership of Eskom vests in the South African Government.

Nature of markets and customers served

Electricity is sold to industrial, mining, commercial, agricultural and residential customers and redistributors locally and to international customers in southern Africa.

Scale of activities

Eskom, South Africa's electricity utility, is among the top eleven utilities in the world in terms of generation capacity, and among the top nine in terms of sales.

Regional breakdown of sales

The majority of the sales are in South Africa, with only a small percentage of sales being elsewhere in the southern African region.

Additional information on economic, environmental and social aspects

Eskom is committed to aligning itself with international sustainability reporting initiatives. This Annual Report with additional sustainability information, where appropriate, is available on the Eskom website.

Contact details

Telephone

Eskom Corporate Communication:	+27 11 800 3983
Eskom Enterprises Communication:	+27 11 800 2696
Eskom Development Foundation:	+27 11 800 2758
Eskom environmental helpline:	+27 11 800 4727
Ethics office advisory service:	+27 11 800 2791
Confidential, toll-free crime line:	0800 11 27 22

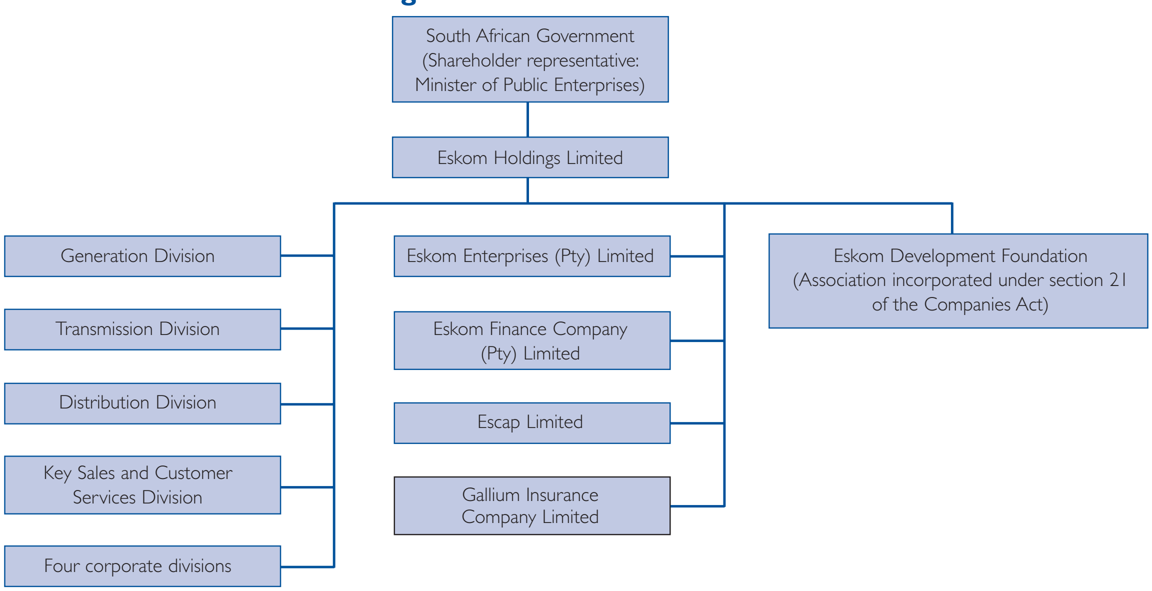
E-mail

Eskom environmental:	envhelp@eskom.co.za

Websites

Eskom Annual Report:	www.eskom.co.za/annreport03/
Eskom Development Foundation:	www.eskom.co.za/csi
Eskom business online:	https://csonline.eskom.co.za

Organisational structure



31 December 2003

	Group			Eskom		
	2003	2002	2001	**2003**	2002	2001
Financial/business performance indicators						
Total assets, Rm	**96 474**	82 482	76 909	**93 374**	80 186	74 709
Capital and reserves, Rm	**40 683**	37 717	34 148	**39 203**	36 412	33 361
Net financial market liabilities, Rm	**3 634**	9 150	14 041	**5 507**	10 871	16 021
Revenue, Rm	**32 848**	29 684	26 112	**31 680**	28 158	24 983
Net profit for the year after tax, Rm	**3 534**	3 707	2 561	**3 226**	3 185	2 272
Cash flows from operating activities, Rm	**12 664**	11 808	8 641	**12 256**	11 633	7 464
Average selling price of electricity, cents per kWh[1]				**16,08**	14,98	13,76
Average total cost of electricity sold, cents per kWh[2]				**13,56**	12,48	11,90
Return on total assets, %[3]	**10,35**	13,07	11,01	**10,58**	11,92	10,21
Real (inflation-adjusted) return on total assets, %[3]				**0,53**	1,69	1,17
Debt-equity ratio[3]	**0,09**	0,24	0,41	**0,14**	0,30	0,48
Debt-equity ratio (including long-term provisions)[3]	**0,30**	0,46	0,61	**0,35**	0,52	0,67
Productivity improvement for the year, %				**2,50**	1,60	0,50
Staff employed, number	**31 972**	32 357	33 032	**28 938**	29 359	29 969
Technical/business performance indicators						
Total electricity sold, GWh				**196 980**	187 957	181 511
Coal burnt in power stations, Mt				**104,37**	96,46	94,14
Energy availability factor, %				**87,50**	89,30	92,00
Peak demand on integrated system, MW				**31 928**	31 621	30 599
Nominal capacity, MW[4]				**42 011**	42 011	42 011
Net maximum capacity, MW[4]				**39 810**	39 810	39 810
Power lines (all voltages), km				**336 270**	325 010	316 339
Electricity customers, number (thousands)				**3 505**	3 418	3 275
Environmental/social performance indicators						
Specific water consumption by power stations, ℓ/kWh sent out[5]				**1,29**	1,27	1,26
Relative particulate emissions, kg/MWh sent out				**0,28**	0,29	0,31
Carbon dioxide emissions, Mt[6]				**190,1**	175,2	169,3
Radiation release, milliSieverts (mSv)[7]				**0,0123**	0,0060	0,0192
Disabling injury incidence rate, index				**0,37**	0,45	0,50
Work-related fatalities, number				**5**	11	8
Employment equity, %				**56,3**	54,6	53,1
Gender equity, %				**27,8**	24,5	21,7
People with disabilities, %				**1,4**	0,16	n/a[8]
Electrification, number of homes connected per annum				**175 396**	211 628	209 535

1. *Average price of electricity sold based on total sales.*
2. *Average total cost of electricity sold calculated as operating expenditure and net interest (including fair value adjustment on financial instruments) and based on external sales.*
3. *Calculated on the basis described in the five-year financial review.*
4. *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.*
5. *Volume of water consumed per unit of generated power sent out, excluding rain and mine water used.*
6. *Calculated annual figures based on coal characteristics and the power station design parameters.*
7. *To ensure meaningful comparisons between years, indicators have been restated based on the new, more conservative methodology approved by the National Nuclear Regulator for use from 1 January 2003. The limit set by the National Nuclear Regulator is* A *0,25mSv.*
8. *Not measured in 2001.*

31 December 2003

	Group			Eskom				
	2003 Rm	2002 Rm	2001 Rm	**2003 Rm**	2002 Rm	2001 Rm	2000 Rm	1999 Rm
Balance sheet								
Non-current assets	**74 694**	65 877	59 643	**74 029**	65 484	59 536	61 303	60 562
Current assets	**21 780**	16 605	17 266	**19 345**	14 702	15 173	12 050	10 821
Total assets	**96 474**	82 482	76 909	**93 374**	80 186	74 709	73 353	71 383
Capital and reserves	**40 683**	37 717	34 148	**39 203**	36 412	33 361	30 582	27 198
Non-current liabilities	**35 900**	31 701	26 672	**35 036**	31 099	26 176	28 266	31 292
Current liabilities	**19 891**	13 064	16 089	**19 135**	12 675	15 172	14 505	12 893
Total equity and liabilities	**96 474**	82 482	76 909	**93 374**	80 186	74 709	73 353	71 383
Income statement								
Revenue	**32 848**	29 684	26 112	**31 680**	28 158	24 983	23 569	21 568
Operating expenditure	**(26 030)**	(21 363)	(19 409)	**(24 846)**	(20 674)	(18 791)	(17 441)	(16 511)
Net operating income	**6 818**	8 321	6 703	**6 834**	7 484	6 192	6 128	5 057
Interest income	**4 024**	2 506	3 325	**3 811**	2 664	3 525	1 310	1 261
Interest expenditure	**(5 328)**	(5 281)	(6 099)	**(5 334)**	(5 290)	(6 109)	(4 354)	(4 256)
Profit after interest before fair value (loss)/gain	**5 514**	5 546	3 929	**5 311**	4 858	3 608	3 084	2 062
Fair value (loss)/gain on financial instruments	**(283)**	(118)	(157)	**(277)**	(107)	(182)	129	–
Profit before tax	**5 231**	5 428	3 772	**5 034**	4 751	3 426	3 213	2 062
Income tax expense	**(1 859)**	(1 727)	(1 211)	**(1 808)**	(1 566)	(1 154)	(1 454)	–
Profit after tax	**3 372**	3 701	2 561	**3 226**	3 185	2 272	1 759	2 062
Income from associates and joint ventures	**45**	26	–					
Minority interest	**117**	(20)	–					
Net profit for the year after tax	**3 534**	3 707	2 561	**3 226**	3 185	2 272	1 759	2 062
Cash flow statement								
Cash generated from operations	**13 845**	12 911	11 209	**13 517**	12 608	9 911	9 101	8 821
Net interest paid	**(548)**	(1 051)	(2 498)	**(682)**	(975)	(2 447)	(2 063)	(2 781)
Income tax paid	**(84)**	(52)	(70)	**(30)**	–	–	–	–
Dividends paid	**(549)**	–	–	**(549)**	–	–	–	–
Cash flows from operating activities	**12 664**	11 808	8 641	**12 256**	11 633	7 464	7 038	6 040
Cash used in investing activities	**(6 980)**	(5 750)	(3 711)	**(6 723)**	(5 319)	(3 384)	(3 462)	(4 397)
Cash effects of financing activities[1]	**(7 459)**	(3 515)	(3 491)	**(7 474)**	(3 853)	(3 762)	(2 423)	(4 285)
Net (decrease)/increase in cash and cash equivalents for the year	**(1 775)**	2 543	1 439	**(1 941)**	2 461	318	1 153	(2 642)
Ratios								
Earnings protection								
(Profitability indicators)								
Return on total assets, %[2]	**10,35**	13,07	11,01	**10,58**	11,92	10,21	9,79	8,26
Return on average equity, %	**9,02**	10,32	7,86	**8,53**	9,13	7,11	6,09	7,48
Total operating expenditure/revenue, %	**67,24**	60,24	60,00	**66,59**	61,70	60,68	61,32	60,10
Real (inflation-adjusted) return on total assets, %[2]	**n/a**	n/a	n/a	**0,53**	1,69	1,17	2,45	1,42
Net pre-tax interest coverage	**2,16**	2,22	2,21	**2,11**	2,06	1,61	1,87	1,47
EBITDA interest coverage	**3,29**	3,22	3,35	**3,19**	3,01	2,42	2,69	2,54
Cash flow protection								
(Cash flow adequacy indicators)								
Funds from operations/average total debt, %	**41,38**	41,43	28,00	**39,96**	40,75	25,70	21,20	16,60
Funds from operations/capex, %	**183,30**	207,60	226,20	**184,24**	221,18	236,00	221,60	151,60
Funds from operations/net interest coverage, %	**9,41**	4,21	3,10	**7,84**	4,38	2,97	2,50	2,40
Capital structure								
Debt: equity	**0,09**	0,24	0,41	**0,14**	0,30	0,48	0,71	0,89
Debt: equity (including long-term provisions)	**0,30**	0,46	0,61	**0,35**	0,52	0,67	0,89	0,89
Interest cover	**4,30**	2,88	2,29	**3,80**	2,74	2,24	2,10	1,69
Other								
Value created per employee, R'000	**601**	570	485	**639**	587	506	441	420

Definitions of ratios

- Return on total assets - Net operating income expressed as a percentage of total assets[2]
- Return on average equity - Net profit divided by average equity
- Total operating expenditure/revenue - Total operating expenditure divided by revenue after making an adjustment for depreciation
- Real (inflation-adjusted) return on total assets - Net inflation adjusted operating income, after taking into account financial gearing adjustment, but before taking into account interest income and interest expenditure, as a percentage of total assets[2]
- Net pre-tax interest coverage - Net profit before tax adjusted by interest expenditure divided by the financial market interest expense adjusted for capitalised interest
- EBITDA interest coverage - Net operating income adjusted for interest income and depreciation divided by the financial market interest expense adjusted for capitalised interest
- Funds from operations/average total debt - Net operating income adjusted for capitalised interest, depreciation and non-cash flow items divided by the average total financial market liabilities
- Funds from operations/capex - Net operating income adjusted for capitalised interest, depreciation and non-cash flow items divided by capital used in investment activities adjusted for capitalised interest
- Funds from operations/net interest coverage - Net operating income adjusted for capitalised interest, depreciation and non-cash flow items divided by interest expenditure adjusted for capitalised interest
- Debt: equity - Net financial market liabilities divided by total reserves
- Debt: equity (including long-term provisions) - Net financial market investments and liabilities plus non-current portion of retirement benefit obligation, decommissioning and nuclear waste management and closure, pollution and rehabilitation divided by total reserves
- Interest cover - Net operating income divided by net interest income and expenditure including the fair value gain or loss
- Value created per employee - Value created divided by number of employees at 31 December as per value added statement

Value creation and distribution

for the year ended 31 December 2003

Value added is the wealth created by the regulated business through the generation, transmission, distribution and selling of electricity and the non-regulated businesses mainly through the provision of electricity supply and related services outside South Africa and non-regulated supply industry activities.

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 and the excess of turnover over cost of goods and services of non-regulated activities.

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 businesses.

	Group		Eskom	
	2003	2002	**2003**	2002
	Rm	Rm	**Rm**	Rm
Value created				
Revenue and staff costs capitalised	**33 071**	29 889	**31 903**	28 363
Less: Cost of primary energy, materials, services and abnormal items	**(13 861)**	(11 431)	**(13 408)**	(11 124)
	19 210	18 458	**18 495**	17 239
Value distributed				
Salaries, wages and other benefits[3]	**7 737**	6 651	**7 362**	6 454
Net interest expense	**1 587**	2 893	**1 800**	2 733
Dividends paid	**549**	-	**549**	-
Taxation	**1 859**	1 727	**1 808**	1 566
	11 732	11 271	**11 519**	10 753
Value reinvested in the group to maintain and develop operations				
Depreciation and amortisation of property, plant and equipment and intangible assets	**3 944**	3 480	**3 750**	3 301
Net profit	**3 534**	3 707	**3 226**	3 185
	19 210	18 458	**18 495**	17 239

1. *Includes increase in non-current financial market assets.*
2. *Total assets are reduced by financial market assets and interest receivable, since Eskom's funding is managed in a single pool of financial market assets and liabilities.*
3. *Including capitalised manpower costs amounting to R223 million (2002: R205 million).*

Reuel J Khoza (54) bf

Chairman

BA Honours (UNIN), MA Marketing Management
(University of Lancaster) (UK) PMD (Harvard), and IPBM (IMD, Lausanne)
Chairman of Aka Capital (Pty) Limited and Akani Leisure (Pty) Limited
Fellow and President of the Institute of Directors of Southern Africa
Executive Committee member of the WEF International Business Council
Board member of JSE Securities Exchange and Protea Hospitality Holdings
Board member of Quaystone Asset Management (Pty) Limited
Board member of Corobrick (Pty) Limited, GRCR Limited

Appointed to the Eskom Holdings Limited Board in 2002

Thulani Gcabashe (46) bcfg

Chief Executive of Eskom and Chairman of Eskom Enterprises

BA (Botswana), PED (IMD), MURP (Ball State UNIV, USA)
Chief Executive of Eskom and Chairman of Eskom Enterprise (Pty) Limited
Chairman of Executive Management Committee
Director of Standard Bank of South Africa

Appointed to the Eskom Holdings Limited Board in 2002

Dr Willem Kok (52) ceg

Finance Director

DCom (RAU)

Appointed to the Eskom Holdings Limited Board in 2002

DR B M Count (53) bc

United Kingdom

Honours degree in Mathematics (Kings College, Cambridge)
PhD in Physics (Exeter University)
Chief Executive Officer of RWE Trading responsible for the energy wholesale trading within the group

Appointed to the Eskom Holdings Limited Board in 2002

JRD Modise (37) de

COO Johnnic Holdings
Bachelor of Commerce (B Comm) Wits
Bachelor of Accountancy (B. Acc) Wits
Chartered Accountant (CA) (SA)
Master of Business Administration (MBA) WBS
Advanced Management Programme (AMP) Harvard
Advanced Management Programme (AMP) Samford
Member of the SA Inst of CA's;
Assoc of Black Accts of SA
Director of Johnnic Communications Limited
Director of Allied Electronics Corporation Limited
Director of the Eskom Holdings Limited
Director of the Land and Agriculture Development Bank of SA
Director of Tsogo Sun KZN (Pty) Limited
Advisory Board Membership of the Nelson Mandela Children's Fund and Wits Business School

Appointed to the Eskom Holdings Limited Board in 2002

S E Funde (60) cef

Master of Science in Engineering (ST Petersburg Polytechnical Institute)
Member of the Board of Trustees, Independent Development Trust (IDT)
Member Board of Directors of Murray & Roberts Holdings Limited,
Executive Chairperson of Kemilinks International (South Africa)
President and Director of the South African Communications Forum
Chairman of SABC

Appointed to the Eskom Holdings Limited Board in 2002

T N Msomi (38) af

Bachelor of Law (LLB), University of Natal
(B Proc) University of Natal
Head (Deputy Director General) Performance Monitoring and Benchmarking Department of Public Enterprises
Non-executive director of SAFCOL
Trustee of the Nomndayi Family Trust

Appointed to the Eskom Holdings Limited Board in 2002

SA Mpambani (50) d

B A Hons BA (Econ) University of Transkei)
MSc, SOAS, University of London
Senior Lecturer – Economics (University of Transkei)
Founder member Untu Consultancy
Member of SA Economic Society
Member of SA Public Administration

Appointed to the Eskom Holdings Limited Board in 2002

Mpho Makwana (33) ab

Chief Executive of the mfsa
Bachelor of Administration Degree (University of Zululand)
B. Admin (Honours) from University of Pretoria
Executive Development Programme - Kellogg Graduate School of Business (North Western University)
Member of Institute of Directors
Group Chief Executive of Saatchi & Saatchi (up to 30 June 2003)
Chief Executive Marketing Federation of Southern Africa (1 July 2003 - current)
President of Institute for People Management (up to August 2003)
Chairman of Association of Advertising Agencies (up to 30 June 2003)
Chairman of Event Dynamics (Pty) Limited
Non Executive Director on the boards of Directors of: Nokusa Consulting, Tourvest Limited (up to 30 September 2003), Eskom Holdings Limited and Educor Limited
Member of FutureWorld network of Gurus
Council Member - Alliance for New Humanity Trustee on the boards of the International Marketing Council (Brand SA) and WWWF South Africa
Trustee on the boards of the International Marketing Council (Brand SA) and WWWF South Africa
President of the University of Zululand's Alumni Convocation

Appointed to the Eskom Holdings Limited Board in 2002

A J Morgan (56) de

BSc B.Eng (Electrical) University of Stellenbosch, Pr Eng
Government Certificate of Competency (Electrical)
Management Development Programme (Unisa)
Executive Development Programme (University of Witwatersrand)
Fellow of the South African Institute of Electrical Engineers
Fellow of the South African Academy of Engineering
Non Executive Director of Murray & Roberts Holdings Limited
Non Executive Director of Kumba Resources Limited

Appointed to the Eskom Holdings Limited Board in 2002

SV Zilwa (36) c

BCAOMPT Hons, CTA, CA, (SA)
Advanced Taxation Certificate (UNISA)
Certified Financial Planner (IFP- SA)
Advanced Diploma in Financial Planning (UOFS),
Advanced Diploma in Banking (RAU)
Chief Executive Officer of Nkonki
Non-Executive director of Woolworths Limited, Primedia Limited and Discovery Holdings Limited
A member of the South African institute of Chartered Accountant's Education Committee
Board member of the Public Accounts and Auditors Board and the GAAP Monitoring Panel

Appointed to the Eskom Holdings Limited Board in 2002

V Mohanlal Rowjee (33) bd

Bachelor of Commerce (General)
University of Witwatersrand
Accounting and Auditing (University)
of South Africa)
Programme of the South African
Institute of Management UNISA
Centre For Business Management

Appointed to the Eskom Holdings
Limited Board in 2002

W E Lucas-Bull (50) c

Bachelor of Science (University of
Witwatersrand)
Chief Executive Officer of First Rand
Retail

Appointed to the Eskom Holdings
Limited Board in 2002

L G Josefsson (53) a

Sweden

Master of Science in Applied Physics
Programme for Executive
Development (IMEDE, Lausanne
Switzerland)
President and CEO of Vattenfall AB
Board member of Bohler-Uddeholm
AG (Vienna, Austria)
Member of the Royal Swedish
Academy of War Science and the
Royal Swedish Society of Naval
Sciences

Appointed to the Eskom Holdings
Limited Board in 2002

F M Baleni (44) df

Diploma in Politics and Trade Unionist
(White Hall College, England)
Certificate in Human Resources
Management (UNISA)
Building On Talent Programme
(Luasanne, Switzerland) (IMD)
Director of Development Institute for
Training, Support and Education for
Labour (DITSELA)
Executive Director of the Num
College (Elija Barayi Memorial Training
Centre)
National Education Co-ordinator of
National Union of Mineworkers
(NUM)

Appointed to the Eskom Holdings
Limited Board in 2002.

The Eskom board committees and their chairpersons

The Board of Directors of Eskom Holdings Limited has delegated authority in Eskom in the seven board committees:

a Audit Committee: **Jacob Modise**
b Human Resources, Remuneration and Ethics Committee: **Reuel Khoza**
c Investment and Finance Committee: **Wendy Lucas-Bull**
d Tender Committee: **Frans Baleni**
e Risk Management Committee: **Sonwabo Funde**
f Sustainability Committee: **Reuel Khoza**
g Executive Management Committee: **Thulani S Gcabashe**

The small letters next to the names indicate membership of the Eskom board committees

Eskom Holdings Secretariat
M Adam (Company secretary)
Megawatt Park
PO Box 1091, Johannesburg 2000
South Africa

Executive Management Committee

Thulani Gcabashe (46)

Chief Executive of Eskom and Chairman of Eskom Enterprises

BA (Botswana), PED (IMD), MURP (Ball State UNIV, USA)
Chief Executive of Eskom and Chairman of Eskom Enterprise (Pty) Limited
Chairman of Executive Management Committee
Director, Standard Bank of South Africa

Appointed to the Eskom Executive Management Committee in 2002

Joe Matsau (55)

Managing Director Corporate Division

Dip in Transport Economics (West Germany)
Dip in Marketing (Helsinki)
Joined Eskom in 1992
Eskom positioning
Policy and assurance
Governance
Regulation

Appointed to the Eskom Executive Management Committee in 2002

Ehud Matya (41)

Managing Director Generation Division

Pr Eng, BSc (Mech) (Wits)
Joined Eskom in 1988
Electricity production
Fuel (coal, nuclear) procurement
Water management
Generation technology
Environmental protection
Nuclear safety assurance
Asset management

Appointed to the Eskom Executive Management Committee in 2002

Dr Willem Kok (52)

Finance Director

DCom (RAU)
Joined Eskom in 1988
Corporate finance, advisory services
Corporate financial management
ESCAP
Corporate taxation
Eskom Finance Company
Financial planning and regulation
Treasury
Commercial services
Integrated risk management
Financial control
Finesse Solution Centre

Appointed to the Eskom Executive Management Committee in 2002

Mpho Letlape (45)

Managing Director Human Resources Division

BSc (Computer Science and Psychology) (Fort Hare)
Joined Eskom in 2000
Human Resource strategy and direction
Human Resources policy and assurance
Human Resources strategic services and projects
Eskom Learning Institutions

Appointed to the Eskom Executive Management Committee in 2002

Mongezi Matthew Ntsokolo (43)

Managing Director Distribution Division

Registered Professional Engineer 1993
B.Sc. Electrical Engineering (Heavy Current) (Wits 1988)
Exec Dev Program in Strategic Management (City Univ. of New York 1994)
Honours.B(B&A) (Stellenbosch 1997)
MBA (Stellenbosch 1999)
Senior Executive Program (Harvard Business School 2002)

Appointed to the Eskom Executive Management Committee in 2003

Johnny A Dladla (41)

Managing Director - Key Sales and Customer Service Division (KSACS)

Advanced Management Programme (Harvard Business School)
Chartered Marketer (SA)
BA Communication (Hons) (University of Fort Hare)
Joined Eskom in 1992
Customer Services
Marketing and Relationship Management
Energy Trading
Risk Management
Demand Side Management

Appointed to the Eskom Executive Management Committee in 2003

Jacob Maroga (44)

Managing Director Transmission Division

BSc (Elect) (Wits)
Joined Eskom in 1995
Customer service
Maintenance, refurbishment and expansion of high-voltage electricity network
System operation and control of transmission network
Transmission network capability
Market operations
South African Power Pool operations, planning and management interface

Appointed to the Eskom Executive Management Committee in 2002

Dr Steve Lennon (45)

Managing Director Resources and Strategy Division

BSc (Chemistry) (Natal)
MSc (Eng), PhD (Wits)
Joined Eskom in 1983
Long term strategic planning
Supply - and demand-side planning
Research development and Demonstration
Environmental management
Information strategy
Technical audit
Sustainability management
Investment strategy

Appointed to the Eskom Executive Management Committee in 2002

Dr Enos Banda (38)

Chief Executive Officer
Eskom Enterprises (Pty) Limited

BA (Hons) in Business Administration (Franklin and Marshall College, Pennsylvania)
Master of Laws and Letters (LL.M) in International and Comparative Law, (Georgetown University School of Law, Washington DC, USA)
Doctorate in Jurisprudence (JD), Western Reserve University School of Law Cleveland, Ohio, USA

Appointed to the Eskom Executive Management Committee in 2002

INTRODUCTION

The directors of Eskom Holdings Limited (Eskom) regard corporate governance as pivotal to the success of the business and are unreservedly committed to ensuring that good governance is practised so that the company remains a sustainable and viable business of global stature. This commitment is embraced at all levels of the company and its subsidiaries.

Eskom ensures that its processes and practices are reviewed on an ongoing basis to ensure compliance with legal obligations, the use of funds in an economic, efficient and effective manner, and adherence to good corporate governance practices that are continually benchmarked with international practices. Processes and practices are characterised by triple-bottom-line reporting underpinned by the principles of openness, integrity and accountability, and an inclusive approach that recognises the importance of all stakeholders with respect to the viability and sustainability of Eskom.

The structures and processes for decision-making in Eskom were restructured on the conversion of Eskom into a public company in 2002 and have served the company well during the course of 2003. In order to keep pace with the changing trends in governance, nationally and internationally, minor changes were made to these structures and processes as the need arose.

Compliance, not only with the letter but also with the spirit of relevant governance codes, remains a priority for the organisation. As a state owned enterprise, Eskom is guided by the principles of the Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance for South Africa 2002 (King II Report), as well as the Protocol on Corporate Governance in the Public Sector 2002. Furthermore, the statutory duties, responsibilities and liabilities imposed on the directors of Eskom by the Companies Act, 61 of 1973, as amended, are augmented by those contained in the Public Finance Management Act, 1 of 1999, as amended by Act 29 of 1999 (PFMA).

SHAREHOLDING

The Government of the Republic of South Africa is the sole shareholder of Eskom. The shareholder representative is the Minister of Public Enterprises.

SHAREHOLDER COMPACT

In terms of the Treasury Regulations issued in accordance with the PFMA, Eskom must, in consultation with its executive authority (the Minister of Public Enterprises), annually conclude a shareholder compact documenting the mandated key performance measures and indicators to be attained by Eskom as agreed between the Board of Directors (Board) and the executive authority.

The compact is not intended to interfere in any way with normal company law principles. The relationship between the shareholder and the Board is preserved, as the Board is responsible for ensuring that proper internal controls are in place and that Eskom is effectively managed. The compact serves to promote and encourage good governance practices within Eskom, by assisting to clarify the respective roles and responsibilities of the Board and the shareholder, setting out the circumstances when shareholder approval is required, when the shareholder needs to be consulted, and the remaining areas where the Board is duly empowered to direct the organisation.

GOVERNING BODIES

Board of Directors

Composition of the Board

The details of the directors appear on pages 6 to 9.

Eskom has a unitary board structure comprising thirteen non-executive directors and two executive directors. The majority of the non-executive directors are independent. The directors, appointed by the Minister of Public Enterprises, were drawn from diverse backgrounds (both local and international) and bring a wide range of experience and professional skills to the Board.

The Articles of Association of Eskom provide that the shareholder shall, after consultation with the Board, appoint the chairman, chief executive and non-executive directors of the company. The executive directors are appointed by the Board, after consultation with the shareholder.

The term of office of a non-executive director does not exceed a period of three years. Non-executive directors retire by rotation but are eligible for re-appointment. Executive directors have standard employee service contracts, which do not exceed five years.

Dates of meetings are scheduled annually in advance. Additional meetings are convened as and when material issues arise, requiring decisions by the Board. Teleconferencing facilities are made available when directors are unable to attend meetings personally. Eight board meetings, two of which were strategic workshops, were held in 2003. The attendance of members at board meetings is reflected below.

Members	Feb	Apr		Jul[1]		Sep	Oct	Dec
RJ Khoza[2]	✓	✓	✓	✓	✓	✓	✓	✓
MF Baleni[2]	✓	✓	✓	✓	✓	✓	✓	✓
BM Count[2]	✓	✓	✓	✓	A	✓	✓	✓
SE Funde[2]	✓	✓	✓	✓	A	✓	✓	✓
TS Gcabashe[3]	✓	✓	✓	✓	✓	✓	✓	✓
LG Josefsson[2]	✓	✓	✓	✓	✓	✓	✓	✓
WJ Kok[3]	✓	✓	✓	✓	A	✓	✓	✓
WE Lucas-Bull[2]	✓	✓	✓	A	A	✓	✓	✓
PM Makwana[2]	✓	✓	✓	✓	A	✓	✓	✓
JRD Modise[2]	✓	✓	✓	✓	✓	✓	✓	✓
AJ Morgan[4]	✓	✓	✓	✓	✓	✓	✓	✓
SA Mpambani[2]	✓	✓	✓	✓	✓	✓	✓	✓
TN Msomi[4]	✓	A	A	A	A	✓	✓	A
VM Rowjee[2]	✓	✓	✓	✓	✓	✓	✓	✓
SV Zilwa[2]	✓	✓	✓	A	✓	✓	✓	✓

Role and function of the Board

The Board is the accounting authority of Eskom in terms of the PFMA.

The Board charter sets out the roles, duties and responsibilities of the Board as well as salient corporate governance principles.

The role of the Board embraces the following activities:
- Providing strategic direction and leadership.
- Determining the goals and objectives of the company.
- Approving key policies including investment and risk management.
- Reviewing the company's goals and the strategies for achieving the company's objectives.
- Approving and monitoring compliance with corporate plans, financial plans and budgets.
- Reviewing and approving the company's financial objectives, plans and expenditure.
- Considering and approving the annual financial statements, interim statements and notices to the shareholder.
- Ensuring good corporate governance and ethics.
- Monitoring and reviewing performance and effectiveness of controls.
- Monitoring and ensuring triple-bottom-line performance.
- Ensuring that succession planning takes place.
- Guiding the restructuring and transformation process.
- Ensuring effective communication with relevant stakeholders.
- Liaising with and reporting to the shareholder.
- Guiding key initiatives, for example, HIV/AIDS strategy.
- Approving transactions beyond the authority of management.

Delegation of authority

The Board retains full and effective control over the operations of the organisation. This responsibility is facilitated by a well developed governance structure comprising various board committees and a comprehensive delegation of authority framework. The delegation framework assists in the control of the decision-making process and does not dilute the duties and responsibilities of the directors.

1. The second meeting in July was an unscheduled meeting.
2. Independent non-executive director.
3. Executive director.
4. Non-executive director.
✓ - Present.
A - Absent with apologies.

Board evaluation and performance

Eskom considered it prudent to afford the board, as constituted on incorporation, the opportunity to adapt to the new environment prior to conducting a formal board evaluation. A comprehensive evaluation will be conducted in the first quarter of 2004. The performance of the board committees are evaluated against their respective terms of reference. The Human Resources, Remuneration and Ethics Committee (HRREC) facilitates the evaluation of senior management.

Director induction and orientation

New directors are taken through an induction programme designed to enhance their understanding of Eskom's legislative framework, its governance processes and the nature and operations of the business.

Continuous training is provided, on request, to meet the needs of each director or group of directors. Directors are also made aware of new laws and regulations on an ongoing basis.

Directors' remuneration

Non-executive directors receive fees for their contributions to the Board and the committees on which they serve. The fees are determined by the shareholder after consultation with the Board. Non-executive directors are also reimbursed for out-of-pocket expenses incurred on the company's behalf. The rewards and remuneration of the executive directors are linked to the value added to Eskom and are determined by the HRREC.

Further information on directors' remuneration appears on pages 129 to 132.

Company secretarial function

Directors have unrestricted access to the advice and services of the company secretary as well as the Secretariat Department. The directors are entitled to obtain independent professional advice, at Eskom's expense, should they deem this necessary.

The company secretary, together with other assurance functions, monitors Eskom's compliance with the requirements of the PFMA, Companies Act and other relevant legislation; and reports to the Board in this regard.

Board committees

A number of board committees exist in order to assist the Board in discharging its responsibilities. This assistance is rendered in the form of recommendations and reports submitted to board meetings whereby transparency and full disclosure of committee activities are ensured. Each committee operates within the ambit of its defined terms of reference that set out the composition, role, responsibilities, delegated authority and meeting requirements of the committee. All the committees, except for the Executive Management Committee (EXCO), comprise a majority of non-executive directors.

Audit Committee

The Audit Committee comprises five non-executive directors, including an independent non-executive director as the chairman.

The committee monitors compliance with relevant legislation and ensures that an appropriate system of internal control is maintained to protect Eskom's interests and assets. It reviews the activities of the Corporate Audit Department (internal audit) and the effectiveness thereof. It is also responsible for the evaluation of the independence, objectivity and effectiveness of the external auditors and for the review of accounting and auditing concerns identified by internal and external audit. The committee reviews the accuracy, reliability and credibility of financial reporting, and recommends the annual financial statements and the annual report of the Eskom Group, as presented by management together with the external auditors report, for approval by the Board.

Five committee meetings were held during 2003. These were attended by the external auditors, the Finance Director, the head of the Corporate Audit Department and relevant corporate officials. The head of the Corporate Audit Department and the external auditors have unrestricted access to the chairman of the committee, and to the chairman of Eskom. The attendance of members at committee meetings is reflected below.

Members	Feb	Jul		Sep	Nov
JRD Modise (Chairman)	✓	✓	✓	✓	✓
LG Josefsson	✓	✓	✓	A	A
PM Makwana	✓	A	✓	✓	✓
SA Mpambani	✓	✓	✓	✓	✓
TN Msomi	✓	✓	A	A	✓

Risk Management Committee

The Risk Management Committee comprises three non-executive directors and the Finance Director and is chaired by an independent non-executive director.

The Board retains ultimate responsibility for risk management in Eskom and is assisted by the Risk Management Committee in ensuring that an effective and integrated risk management process is implemented in the organisation. The process is detailed in the Integrated Risk Management section on page 17.

Five committee meetings were held during 2003. The attendance of members at these meetings is reflected below.

Members	Feb	Apr	Jun	Aug	Oct
SE Funde (Chairman)	✓	✓	✓	✓	✓
WJ Kok	✓	✓	✓	✓	✓
JRD Modise	✓	✓	✓	✓	✓
AJ Morgan	✓	✓	✓	✓	✓

Investment and Finance Committee

The Investment and Finance Committee comprises four non-executive directors, the Chief Executive and the Finance Director and is chaired by an independent non-executive director.

The committee reviews Eskom's investment strategy and makes recommendations to the Board. It evaluates and approves business cases for new ventures or projects, approves criteria and guidelines for investments, and approves investments within its delegated authority.

The committee monitors and oversees the financial health of Eskom, including the review of budgets and financial and business plans. Nine committee meetings were held during 2003. The attendance of members at these meetings is reflected below.

Members	Jan	Feb	Apr	Jun	Jul	Sep	Oct		Nov
WE Lucas-Bull (Chairman)	✓	✓	A	✓	A	✓	✓	✓	✓
BM Count	A	✓	✓	✓	✓	✓	✓	A	✓
SE Funde	✓	✓	✓	✓	✓	✓	✓	✓	✓
TS Gcabashe	✓	✓	✓	✓	✓	✓	✓	✓	A
WJ Kok	✓	✓	✓	✓	✓	✓	✓	✓	✓
SV Zilwa	✓	✓	✓	A	A	✓	A	A	A

Tender Committee

The Tender Committee comprises four non-executive directors, which includes an independent non-executive chairman.

The committee assists the Board in making commercial process decisions, approves procurement policies and ensures that Eskom's procurement system and processes are fair, transparent, competitive and cost effective. The committee approves tenders and contracts within its delegated authority.

Five committee meetings were held during 2003. The attendance of members at committee meetings is reflected below.

Members	Feb	Apr	Jul	Sep	Dec
MF Baleni (Chairman)	✓	✓	✓	✓	✓
AJ Morgan	✓	✓	✓	✓	✓
SA Mpambani	✓	✓	✓	✓	✓
VM Rowjee	A	✓	✓	✓	✓

✓ - Present.
A - Absent with apologies.

Human Resources, Remuneration and Ethics Committee

The HRREC comprises four non-executive directors and the Chief Executive. It is chaired by the independent non-executive chairman of the Board.

The committee:
- influences and approves human resources policies and strategies, and monitors compliance with the Employment Equity Act, 55 of 1998;
- makes recommendations to the Board, for approval by the shareholder, on the remuneration policy for executive and non-executive directors;
- makes recommendations to the Board on the appointment and removal of executive and non-executive directors and senior management;
- ensures that Eskom demonstrates its commitment towards organisational integrity in an appropriate manner; and
- monitors the ethical conduct of the company, its management, employees and suppliers.

The Chairman ensured that sufficient time was allocated to each of the areas within the terms of reference of the committee. In particular, there were dedicated slots for ethics, human resources policies, executive remuneration and succession planning.

Five committee meetings were held during 2003. The attendance of members at these meetings is reflected below.

Members	Feb	Apr	Jul	Sep	Dec
RJ Khoza (Chairman)	✓	✓	✓	✓	✓
BM Count	✓	✓	✓	✓	✓
TS Gcabashe	✓	✓	✓	✓	✓
PM Makwana	✓	*A*	✓	✓	✓
VM Rowjee	*A*	✓	✓	✓	✓

Sustainability Committee

The Sustainability Committee comprises four non-executive directors and the Chief Executive. It is chaired by an independent non-executive director.

The committee addresses economic, environmental and social issues. It approves and makes recommendations to the Board regarding policies, strategies and guidelines, in particular for safety, health, environmental, quality and nuclear issues. The committee performs an oversight function to provide assurance that nuclear safety at Eskom's facilities exceeds compliance with minimum regulatory and Eskom standards, while emulating international best practice.

Four committee meetings were held during 2003. The attendance of members at these meetings is reflected below.

Members	Feb	Apr	Jun	Oct
RJ Khoza (Chairman)	✓	✓	✓	✓
MF Baleni	✓	✓	✓	✓
SE Funde	✓	✓	✓	*A*
TS Gcabashe	✓	✓	✓	✓
TN Msomi	✓	*A*	*A*	✓

Executive Management Committee

EXCO comprises the Chief Executive, the Finance Director, the managing directors of Eskom's various divisions and the Chief Executive Officer of Eskom Enterprises (Pty) Limited. The committee is chaired by the Chief Executive. Details of the EXCO members appear on pages 10 to 11.

The committee assists the Chief Executive in guiding and controlling the overall direction of the business and in exercising executive oversight, and is responsible for ensuring the effective management of the day-to-day operations of the business.

EXCO is assisted in carrying out its delegated duties by its sub-committees: Procurement, Operations, Investment and Sustainability.

Thirty EXCO meetings were held during 2003. Two of these meetings were strategic workshops and were attended by the independent non-executive chairman of Eskom. The attendance of members at the EXCO meetings is reflected on the next page.

✓- Present.
A - Absent with apologies.

Members	Attendance (Meetings held: 30)
TS Gcabashe (Chairman)	27
EN Banda	23
JA Dladla[1]	8
WJ Kok	28
SJ Lennon	25
ME Letlape	28
DD Mokgatle[2]	8
PJ Maroga	27
TJ Matsau	27
EN Matya	26
M Ntsokolo[1]	10

PUBLIC FINANCE MANAGEMENT ACT

The PFMA focuses on financial management with related outputs and responsibilities. Eskom has established an ongoing process of awareness, education and advice on the PFMA to the business.

The directors comply with their fiduciary duties, as the accounting authority, as set out in the PFMA. Responsibilities of the Board, in terms of the PFMA, include taking appropriate action to ensure:

- economic, efficient, effective and transparent systems of financial and risk management, and internal control are in place;
- a system is maintained for properly evaluating all major capital projects prior to a final decision on each project;
- the implementation of appropriate and effective measures to prevent unauthorised, irregular or fruitless and wasteful expenditure, expenditure not complying with legislation, or losses from criminal conduct;
- all revenue due to Eskom is collected;
- the economic and efficient management of available working capital; and
- the definition of objectives and the allocation of resources in an economic, efficient, effective and transparent manner.

INTEGRATED RISK MANAGEMENT

Integrated risk management (IRM) continues to be a focus area within the organisation. Risks and opportunities are identified during risk assessments throughout the organisation, against business objectives, from both a line and functional perspective. Risk integration between divisions and subsidiaries is reviewed at various committees to ensure that a co-ordinated approach to risk mitigation measures is encouraged.

The appropriateness of mitigation strategies for key risks is reviewed by EXCO. The Risk Management Committee reviews the major risk management process and the key risks identified and then reports to the Board.

The Board is responsible for the total process of risk management and internal control, and for reviewing the systems for effectiveness. The risk accountability matrix is the defining framework for determining responsibility for the various categories of risk within Eskom. Risk management is addressed through risk categories that include, amongst others, financial, technical, environmental, legal, human resources, information, stakeholder, regulatory and strategic risks. The matrix together with the IRM strategy is reviewed annually.

The Institute of Risk Management South Africa has published a code of practice on enterprise risk management. Eskom has adopted this risk management code, which encompasses ten principles of enterprise risk management, into its IRM processes.

A methodology for determining a value for a specific risk has been defined, which will assist the organisation to identify better which risks should receive priority and will also show the value of risk mitigation measures. Aligned to this valuation methodology there will be risk tolerance levels for each division and main subsidiaries together with risk appetite parameters for each functional risk area. These methodologies will be tested during 2004 to ensure that they meet the requirements of the business before implementation.

1. *Appointed September 2003.*
2. *Resigned May 2003.*

INTERNAL CONTROL

The Board has ultimate responsibility for establishing a framework for internal control, including an appropriate procurement and provisioning system. The controls throughout Eskom focus on those critical risk areas identified by operational risk management, confirmed by executive management and endorsed by the internal auditors. The controls are designed to provide cost effective assurance that assets are safeguarded, and that liabilities and working capital are efficiently managed. Organisational policies, procedures, structures and approval frameworks provide direction, accountability and segregation of responsibilities, and contain self-monitoring mechanisms. Both management and the Corporate Audit Department closely monitor the controls and actions that are taken to correct deficiencies as they are identified.

AUDIT

In line with the PFMA and the King II Report requirements, the Corporate Audit Department provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of an independent, objective appraisal and evaluation of the risk management processes, internal controls and governance processes, as well as by identifying corrective actions and suggested enhancements to the controls and processes. The risk based audit plan is based on the major risks emanating from Eskom's IRM process. The audit plan is responsive to changes in Eskom's risk profile.

The Corporate Audit Department is fully supported by the Board and the Audit Committee, and has full, unrestricted access to all organisational activities, records, property and personnel.

The external auditors are responsible for independently auditing and reporting on the financial statements in conformity with the Statements of South African Auditing Standards.

FORENSIC INVESTIGATIONS

The Board is responsible for ensuring that an integrated crime prevention plan is implemented in order to minimise the risk and opportunity for crime and irregularities, in particular, fraud.

The Forensic Investigations Department is mandated to assist Eskom, its subsidiaries and alliances by providing strategic crime prevention, detection and investigative direction and services, which support the strategic intent and business objectives.

TECHNICAL AUDIT

The Corporate Technical Audit Department provides assurance to top management, through the audit function, on the technical and environmental performance of Eskom. The department is responsible for technical, quality and environmental audits; as well as quality assurance, incident investigation and performance monitoring. Quarterly performance reports are compiled and issued to EXCO.

An environmental audit programme based on a three-year cycle is conducted to address key issues. Additional environmental and technical risk assessments and incident investigations are carried out where necessary.

REPORTING TO STAKEHOLDERS

In order to present a balanced and understandable assessment of its position, Eskom is continually striving to ensure that reporting and disclosure to stakeholders are relevant, clear and effective. It places great emphasis on reporting on economic, environmental and social matters, as well as addressing both positive and negative aspects in order to demonstrate the long-term sustainability of the organisation. Nationally and internationally recognised guidelines for sustainability reporting, including but not limited to the Global Reporting Initiative (2002) and the King II Report, are used in compiling the annual report.

Eskom's predetermined objectives, representing economic, environmental and social key performance indicators, and its performance against these indicators, are included in the directors' report.

STAKEHOLDER RELATIONS

In addition to the interests of the government as the shareholder, Eskom recognises the legitimate interest of specific government departments, employees, consumers, suppliers, investors and lenders of capital, rating agencies, the media, policy and regulatory bodies including the National Electricity Regulator and the National Nuclear Regulator, trade unions, non-governmental groups and local communities in its affairs. Communication and interaction with stakeholders are ongoing during the year, and are addressed through various channels depending on the different needs of the various stakeholders. High-level stakeholder issues are addressed in this report.

BUSINESS CONDUCT

Eskom has an ethics office, and has developed and implemented an ethics programme that promotes the highest standard of ethical behaviour in the work place. This programme is supported by a written Business Conduct Policy dealing with ethics, which is applicable throughout Eskom and its subsidiaries.

The Chief Executive is the custodian of ethics. The General Manager - Financial Control is the ethics caretaker, and represents the ethics office on the HRREC. The following process ensures that appropriate business conduct is effectively implemented throughout Eskom:

- The role and responsibilities of the divisional ethics co-ordinators are clearly defined. They ensure uniformity of application across Eskom and that all employees are exposed to and made aware of the Business Conduct Policy.
- Ethical conduct and compliance with the Business Conduct Policy are included in the performance contracts of all managing directors, their direct reports and subordinates.
- Various ethics training programmes are in place, e.g. induction programmes, ethics awareness presentations that are included as part of corporate governance training and ad-hoc training that is arranged when required. A formal Eskom fraud prevention workshop, named CURE, was successfully developed and implemented in 2003.
- Various communication and awareness initiatives take place, e.g. ethics articles, cartoon strips, an electronic calendar, a screensaver, posters and pamphlets.
- The ethics office provides an advisory service to all employees regarding ethical conduct and the application of the Business Conduct Policy.
- An ethics website is maintained to provide core information on ethical conduct, including answers to frequently asked questions.
- A database is maintained of all the possible conflicts of interests declared by the Board and executive and senior management. Managing directors are kept informed on their direct reports' declarations.
- Any employee that performs private work must submit a written application for approval. Employees are required to declare any potential conflict of interests in writing.
- All departments are required to keep a courtesy register in which gifts given and received are recorded.
- A confidential ethics helpline is in place.
- Eskom is committed to combating unethical behaviour, crime and irregularities, and encourages anybody that is aware of such behaviour to report this via the confidential toll-free crime line.
- Compliance with the Business Conduct Policy is monitored by the ethics office, and is included in the scope of audits performed by the Corporate Audit Department.
- The ethics programme encourages anyone acting on behalf of Eskom or conducting business with Eskom to commit to the highest standard of ethical conduct. This is achieved by including this commitment in contracts and by distributing the Business Conduct Policy (summary booklet) to all suppliers, consultants and other interested parties. Eskom has also developed an integrity pact that will be included in all major contracts from 2004. Other initiatives include ethics awareness presentations to supplier, contractor and consultant forums.
- Eskom is a founding member of the Ethics and Compliance Custodian Organisation together with the Centre for Business and Professional Ethics (University of Pretoria) for the purpose of networking, to benefit from research and the advancement of the theory and practice of ethics within an organisation.

The continued focus on the Business Conduct Policy has raised awareness of the need for ethical behaviour across the organisation. Calls to the ethics helpline have resulted in the investigation of irregularities across all divisions and subsidiaries.

SUSTAINABILITY AND ENVIRONMENTAL MANAGEMENT

The Chief Executive, as chairman of the Sustainability Sub-committee of EXCO, bears responsibility for Eskom's overall sustainability and environmental performance.

The Corporate Sustainability and Environmental manager provides strategic direction to the organisation to ensure acceptable sustainability and environmental performance. The Corporate Sustainability and Environmental Department facilitates the development and implementation of an overall Eskom strategy and policy, as well as performance measurement and reporting with regard to sustainability and environmental matters.

The divisions within Eskom, as well as the subsidiaries, determine strategic direction within their business, and also provide input via the Sustainability and Environmental Liaison Committees on sustainability and environmental strategy for Eskom. The divisions are accountable to ensure the implementation of policies, directives and standards within their areas of delegated authority.

SAFETY

The Health and Safety Policy and the Occupational Health and Safety Act, 85 of 1993, continue to remain the guiding principles for the achievement of Eskom's health and safety strategy and performance targets. The Operations Committee of EXCO monitors and assesses the health and safety performance and major incidents to ensure that the necessary corrective measures are implemented. The overall strategy is reviewed by the Sustainability Committee of the Board.

The aim of the Occupational Health and Safety Liaison Committee is to:

- make recommendations on occupational health and safety matters to the organisation;
- guide the organisation on the impact of legislation;
- recommend an Eskom position and/or policy on all related matters; and
- provide guidance and direction on such matters affecting Eskom and specific divisions.

Nuclear safety

The independence of the nuclear safety assurance function from the electricity production function is assured by the separation of Eskom's nuclear infrastructure into two structures. The nuclear business arena has direct accountability to the Managing Director of the Generation Division for all aspects of electricity production at Koeberg Power Station, including safety. A separate department in the Generation Division, with its own technical experts and resources, is independently accountable for nuclear safety and licence compliance assurance.

Eskom has a three-tier system of nuclear safety governance in line with international best practice. The Sustainability Committee of the Board dedicates a number of its meetings each year to nuclear considerations. These meetings are attended by a number of experienced international nuclear experts, thus bringing an international perspective to the committee's deliberations. The second tier is the Nuclear Management Committee, chaired by the Managing Director of the Generation Division. This committee monitors, reviews, endorses and recommends for approval all aspects of the Eskom nuclear business, including nuclear policy, standards and rules in relation to international standards and benchmarks and Eskom's overall business requirements. The third tier is the Nuclear Safety Review Group, a forum that brings together nuclear expertise from different parts of Eskom for the purpose of meaningfully debating and evaluating nuclear safety issues, and making appropriate recommendations to senior management and the higher tiered committees.

SOCIAL

Many of Eskom's social responsibilities are carried out through the Eskom Development Foundation, a section 21 company, which is responsible for integrating corporate social investment initiatives. The Eskom Development Foundation's mission is to contribute towards the improvement of the quality of life of previously disadvantaged South African citizens through an integrated, efficient and effective development programme.

The Eskom Development Foundation has a board of directors that uses various committees to manage the grant-making activities of the company, and to conduct business within the ambit of the delegated authority.

SUBSIDIARIES

Eskom Enterprises (Pty) Limited

Eskom Enterprises (Pty) Limited (Eskom Enterprises) and its subsidiaries in South Africa and across the African continent, subscribe to the principles of good corporate governance and high ethical standards as set out in the King II Report.

A new three pillar corporate structure comprising support services, globalisation and new enterprise development and management, was created by Eskom Enterprises, focusing in on its core functions of designing, building and refurbishment of power stations.

Eskom Enterprises also has a unitary board comprising a non-executive chairman, five non-executive directors and one executive director. The non-executive directors are from diverse business backgrounds, and their experience enables them to exercise independent judgement on the Eskom Enterprises Board. All were re-elected for a further one-year term at the annual general meeting held on 28 August 2003.

The role of the Eskom Enterprises Board is to determine the company's direction and strategy, monitor the achievement of business objectives and ensure that the company meets its responsibilities to its shareholder. It is further responsible for ensuring that the control environment adequately protects the company's assets against major risks. All directors have access to the advice and service of the company secretary of Eskom Enterprises and to senior management when necessary.

The Eskom Enterprises Board ensures that similar governance structures exist in each of the subsidiary and joint venture companies that it controls.

Ten board meetings were held in 2003.

Committees

The Eskom Enterprises Board has five principal standing committees, which are governed by written terms of reference. The committees include the Audit Committee, the Finance Committee, the Investment and Procurement Committee, the Remuneration Committee and the Management Committee.

Public Finance Management Act

The Eskom Enterprises Board, as the accounting authority, complies with the various duties and responsibilities as prescribed by the PFMA.

Integrated risk management

Integrated risk management continues to be a focus area within the group. The Eskom Enterprises Board is responsible for the total process of risk management and internal control, and for reviewing the systems for effectiveness.

Internal control

The Eskom Enterprises Board bears ultimate responsibility for the group's system of internal and financial control. Systems have been designed to provide reasonable assurance against inaccurate internal financial information and other irregularities, as well as to ensure the accuracy and integrity of the accounting records.

The Eskom Enterprises Board, through the Audit Committee, has reviewed the effectiveness of the systems of internal control for the year under review, and no indication of significant inappropriate or unsatisfactory conduct has been revealed.

The Corporate Audit Department provides the internal audit function for Eskom Enterprises.

Business conduct

Employees are required to maintain high ethical standards and to ensure that the Eskom Enterprises Group's business practices are conducted in a manner that is above reproach.

Employee participation

Eskom Enterprises has a policy of encouraging employee participation in a wide range of issues, and various participative structures are designed to achieve good employer-employee relationships.

Other Eskom subsidiaries

Eskom's other wholly-owned subsidiaries are governed by independent board structures. The directors are accountable to Eskom as shareholder.

The subsidiaries comply with the requirements of the PFMA and are guided by the principles of the King II Report.

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 on a world-class level of standards and continue to be relevant to Eskom's business as it evolves.

Leadership and corporate delivery in a decade of democracy

Business success in the 21st century will be achieved by leaders whose broad vision inspires them to see the whole planet as their market place.

Reuel J Khoza

Introduction

To gain and retain competitive advantage corporate leaders will have to address global issues, such as interdependence, technology, de-regulation, sustainable development and projects that can tangibly contribute to the well-being of society.

This financial year saw Eskom celebrating 80 years of existence. During these eight decades, the organisation went through numerous transformations. The central objective of Eskom's founding fathers in 1923 was "To render, by provision of power without profit, a worthy and ever-increasing contribution to the development of South Africa and to the welfare of her people."

The founding fathers' vision was inspired by their faith in South Africa, a country possessing abundant resources:

- Raw materials, an energetic people and accessible capital
- Leadership with ability "to foresee the needs of a country fast developing, and by wise anticipation be ever ready to provide power without profit, wherever it may be required."

Over the decades Eskom has refined these beliefs and fine-tuned them. The most important being the need to deliver significant socio-economic development and a healthy bottom line while taking into account the environmental implications. All of these contribute to the comprehensive upliftment of all South Africans.

From its humble beginnings in 1923, Eskom has made significant progress. Today, Eskom supplies 95% of the country's electricity and generates more than half of the electricity on the African continent. A significant portion of Eskom's phenomenal growth has been achieved over the last decade. This period marks the transition to democratic governance in South Africa and her re-admittance into the global arena after years of isolation.

In the last 10 years Eskom has consolidated its vision of transforming the organisation from one focusing only on South Africa to being a global player and the pre-eminent African energy and related services business. And judging by our achievements, we are set firmly on that course.

Eskom's remarkable growth in the past decade is embellished by a number of firsts. In 1997, I was appointed the first Black chairman of Eskom's then Electricity Council. I was also fortunate to be appointed the first chairman of the first Board of Directors of Eskom Holdings Limited incorporated in July 2002.

During the past decade, Eskom has scored a number of notable achievements – on the social, environmental and economic spheres. We have invested a considerable amount of effort and money in our corporate social investment (CSI) initiatives. Our efforts to contribute towards a better life for South Africans were rewarded when Eskom won the Platts Energy Global award for the Community Development Programme of the Year 2003.

Our technical and financial performance over this period has been quite impressive, culminating in the company declaring its first dividend to government as the sole shareholder in 2003. The organisation's excellent technical expertise has seen Eskom expanding its reach beyond the borders of South Africa. Eskom has struck a number of mutually beneficial partnerships with other utilities and countries.

Our global stature was confirmed when we won the 2001 Global Power Company of the Year award in recognition of providing the lowest cost electricity, while making superior technical innovations, increasing transmission system reliability, and developing economical, efficient, and safe combustion of low-grade coal.

The vision of Eskom as the global lowest cost producer of electricity for growth and development attained a new dimension during the decade of democracy in South Africa. This was to be buttressed by the strategic intent that proclaims: Eskom will be the pre-eminent African energy and related services business of global stature.

Our global focus however begins with the expression of our African personality on the African continent. This resonates well with the African Renaissance vision which inspires confidence that Africa is poised to play a much more meaningful role in defining her future.

We cannot ignore the fact that the speed of Eskom's transformation has been made possible by the spectacular leadership that led to political transformation and democracy in South Africa.

The world has taken note of the illustrious record of achievement that the post-apartheid South African leadership has amassed. The leaders of the political economy persisted with their resolve to follow the courage of their convictions. With Nelson Mandela at the helm and Thabo Mbeki later on, the political leadership sought to put all its efforts and wisdom to the tricky task of steadying the newly launched ship of democracy. Despite initial reservations by different voices across the political spectrum, the leadership team entered into painful compromise that guaranteed to this day that the transformation of the political economy succeeds so as to allow Eskom and others to contribute to the miracle that is today's South Africa.

South Africa's first democratic elections of 1994 brought about new freedoms and responsibilities. South Africa has since assumed her seat in the family of nations. What has come to be affectionately referred to as a political miracle has brought with it a set of expectations in our country and beyond. A great deal of effort was exerted across Africa to assist the fight against apartheid. In the words of President Mbeki:

"South Africa has produced the biggest solidarity movement in world history as millions of men and women around the world unite against the tyranny of abuse of power by one racial group over the others."

In June 1994, President Mandela as the first South African President to address the Summit of the Organisation of African Unity (OAU) in Tunis, Tunisia said:

"Finally, at this summit meeting in Tunis, we shall remove from our agenda the question of apartheid South Africa. Where South Africa appears on the agenda again, let it be because we want to discuss what its contribution shall be to the making of the new African Renaissance. Africa cries out for a new birth…We must in action say that there is no obstacle big enough to stop us from bringing about a new African Renaissance."

We strongly believe that Eskom's continued growth in a democratic environment hastens the need for the organisation to continually improve its delivery objectives. Eskom is continually taking stock of its life and finding meaning in circumstances many would perceive as daunting and potentially incapacitating. This capacity for reinvention mirrors eternal youth, a kind of vigour, openness and an enduring capacity for exploration.

Jim Collins in his seminal work, Good to Great, ascribes this capacity for continual improvement to the type of leadership that builds enduring greatness with organisations through a paradoxical blend of personal humility and strong professional will. Looking back at the last decade in particular one observes this brand of leadership at work:

- Tough task masters who were at the same time kind motivators;
- Leaders who insisted on individual excellence as much as they did on team synergy optimisation; and
- Management that understood the need to maintain control whilst giving people the freedom and autonomy they needed to be effective in their work.

The leadership challenge of the 21st century is compounded by acute dynamism. Today, business is moving at a faster pace than ever before. Communication that once took days or weeks is now taking seconds. Customers and business partners expect almost instantaneous responses.

Today's business leaders are also subject to more scrutiny than their predecessors. Scrutiny from shareholders, whose primary concern is ensuring that asset value, continues to appreciate. Scrutiny from employees, whose major concern is that the company is heading in a desirable direction. Scrutiny from competitors whose preoccupation is to win new ground. Scrutiny from customers whose primary concern is enjoying the highest standard of quality and service at the lowest cost.

The pressure is relentless. As the pace of business increases and minimum standards are raised, leadership is expected to provide the compelling vision, enduring sense of purpose and strategy to propel the company forward. The essence of leadership presupposes that you will have people to lead; teams which take the corporate vision and strategy and turn them into reality. There can be no great leadership without well motivated followership.

A progressive Eskom

As a South African state owned enterprise and a leading power utility on the continent, Eskom takes its leadership role quite seriously. Eskom's own African Leadership Development Initiative has been a considered and deliberate response to a particular reality-facing South Africa and in the broader context of the challenges of the African continent.

Eskom has recognised the call from the leaders of the continent to all the people of Africa to engage in the search for solutions to the problems of underdevelopment. Eskom has commissioned wide-ranging research as its contribution to bringing fresh data and insight to the greater discourse on leadership, and in particular African leadership. We are keen to work with other researchers and leadership development institutions such as universities in taking further this search for the good in African-based leadership models.

Secondly, we want to use the information derived from the research to develop specific modular courses to be used in our in-house management and business leadership development training. We are in the process of establishing what will be known as the African Leadership Development Institute. This will be based at our training facility in Midrand. Its facilities such as the library where all the research materials and books will be deposited, training laboratories and lesson modules will largely be for Eskom employee training programmes but in time will be shared with business schools or other partner organisations.

The challenge of African business leadership

Africa will be the instrument of its own salvation. Africa needs business leadership that counts. Leaders of the modern organisation must balance a variety of tensions – such as between the short and the long term; sustaining current performance and growing for the future. In as much as cost cutting skills are important, leaders need also to be able to identify and take new business opportunities. While keeping their eyes on the performance indicators, leaders have to encourage creativity, risk taking and challenge; skills for the future must be developed while achieving this year's targets. Performance has to be maintained; morale revitalised; and a new understanding of the employment relationship established – living with the prospect of even more change.

Africa must nurture leaders:

Whose defining features are probity, humility, integrity, compassion and humanity;
Who demonstrate competence, tenacity and a sense of efficacy;
Who practice introspection and self-renewal;
Who strongly believe that the focus of control for Africa's future is within Africa herself;
Who do not consume seed capital, but invest for the generations to come; and above all else
Who are visionary!

Leadership and NEPAD

The New Partnership for Africa's Development (NEPAD) propagates the vision of an Africa whose children are fed by native produce, its intellectuals nurtured by native founding principles and enquiry; and its industry fuelled by native skills; its landscapes covered by native design and construction. NEPAD envisages and works towards realising an Africa that redefines the term "emergent" from a notion of condescension and derision to a term of vibrancy, and technological prowess.

NEPAD's bigger picture was developed and articulated by Africa's political leadership. Implementation of its programme of action is a collective responsibility of political leadership, committed business and dedicated civil society in its various formations.

In June 2002, some 200 companies doing business in South Africa and Africa signed the Business Endorsement of NEPAD at the African Economic Summit arranged in partnership between the World Economic Forum and the NEPAD Secretariat in Durban. The NEPAD Business Group was thus established and launched.

NEPAD stresses the importance of partnership if the economic recovery and growth is to be attained. As Eskom, we have unashamedly positioned ourselves as one of the partners. The liberalisation of the energy market and the rollout of the NEPAD programmes give Eskom an opportunity to contribute to the revitalisation of the African economy.

Energy plays a critical role in the development process of any country or region. Africa consumes just about 3,1 percent of the world's primary energy, and yet has about 7,3 percent of the world's proven crude oil reserves. It also has 7,2 percent of the natural gas reserves – more than the share of North America – and 17 percent of the world's hydroelectric capacity. It is therefore not surprising that NEPAD has prioritised the development of the African energy sector and, in particular, the access of rural communities to electricity.

In response, Eskom together with the Development Bank of Southern Africa (DBSA) and the Industrial Development Corporation (IDC), were instrumental in launching the African Energy Fund, aimed at acting as a vehicle to drive NEPAD's energy and electricity infrastructural projects.

Eskom through Eskom Enterprises is part of a campaign to light up the continent with a unified grid. The African grid, essential for propelling NEPAD forward, will center on the expansion of the Inga Hydro Project in the Democratic Republic of the Congo (DRC), and the linking of the continent's regional power pools. The Inga 3 Project, when complete, is expected to have a capacity of 3500 megawatts, and ultimately Grand Inga over 40 000 MW.

However, our primary focus is on areas of our existing strength, particularly inside South Africa and in the South African Development Community (SADC) region.

To strengthen NEPAD's capacity, Eskom has seconded staff to the organisation as well as setting up a NEPAD unit in the Eskom Chief Executive's office. This unit's mandate is to integrate all NEPAD's initiatives in Africa that are in line with our strategy.

Eskom constantly engages African institutions that have a bearing on NEPAD, such as the NEPAD economic forum and the Union of Producers, Transporters and Distributors of Electrical Power in Africa (UPDEA) – enabling us to play an active role in promoting Africa's electrification projects and also to get observer status at African Union meetings.

Financial performance

Eskom's visionary leadership has always enabled it to plan strategically and to stay on top of economic adversities. This financial year is no different.

The group continued to consolidate its financial position and at year-end the debt-equity ratio was 0,30 (2002: 0,46). The net profit after tax for the year was R3 534 million (2002: R3 707 million). Although this was slightly less that the previous year, this was after adopting a very conservative accounting approach to our investment in the telecommunications industry, in which we provided R803 million for an impairment.

Sustainability

Sustainable development continued as a focus area in Eskom during the year with the integration and consolidation of economic development, environmental quality and social equity into its business practices to improve performance continually and underpin development.

The outcome of the World Summit on Sustainable Development (WSSD) resulted in a window of opportunity being created for existing energy businesses to diversify or modify their business in alignment with sustainable development principles. Eskom's activities are aimed at furthering the Johannesburg Plan of Implementation, where appropriate, given the fact that access to energy is a key aspect to meeting the goals of sustainable development, and particularly poverty alleviation.

Social responsibility

An estimated R2, 35 billion is spent annually in South Africa on Corporate Social Investment (CSI). Eskom's CSI involvement has grown from philanthropic giving to programmes that make business sense and maturing to an industry of 'best practice' sustainable projects through direct interface with communities.

Since the inception of the Eskom Development Foundation we have always maintained a bias towards the sustainable development of rural communities and newly established urban settlements. This is in line with President Mbeki's Integrated Rural Development Programme, the ideals of the WSSD and those of the African Renaissance. Our mentorship and safety and risk management programmes for small, medium and micro enterprises (SMMEs) who have received grants are critical for the long-term sustainability of these enterprises and their contribution towards the creation of employment opportunities.

The year under review affirms Eskom's commitment to CSI, which, through the efforts of the Eskom Development Foundation, has responded with 'care' to the needs of communities.

It also served to highlight Eskom's contribution to the creation of self reliant and confident communities when it received the Platts Global Energy award for "Best Community Development Programme"; one of five awards made to the Development Foundation during 2003.

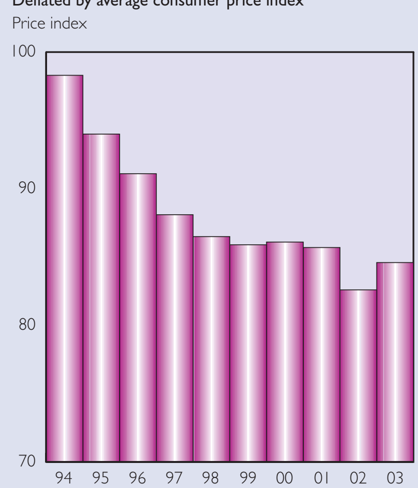
The Development Foundation has an unwavering focus on the alleviation of poverty through development grants and donations, whose objective is to achieve sustainable improvement on people's lives. It focuses on rural and peri-urban areas and nationally contributes to the equity targets, namely, women, youth and people with disabilities. A good number of beneficiaries have grown to even export to very stringent international markets.

Awards and Excellence

Among the several awards and commendable ratings in the year, Eskom achieved the Community Development Programme of the Year award at the Global Energy Awards in New York, arguably the most prestigious awards programme in the industry. Eskom was again placed amongst the most admired and respected brands in South Africa, and also voted as the company that does the most to uplift South Africans.

Eskom debt: equity, including long-term provisions

Electricity tariff increase
Deflated by average consumer price index



Base = 100 in 1993

The Eskom Energy and Sustainability Programme, a partnership between Eskom and the Wildlife and Environment Society of South Africa (WESSA), won second prize in the Youth category of the Energy Globes Awards, giving international recognition to the Eskom - WESSA partnership.

Future challenges

A future Energy sector is full of opportunities and challenges. The greatest challenge is for Eskom to be prepared by aligning its restructuring programme with the nature of the industry of the future. To ensure that we remain successful and competitive in this dynamic environment we have developed a sustainability strategy and revised Eskom's current business model. The Revised Business Model (RBM) captures a set of principles Eskom needs to embrace in line with its dynamic vision. The RBM highlights certain processes, systems, structures, roles, responsibilities and governance issues that need to be considered, developed or changed.

Acknowledgements

I would like to convey my sincere gratitude to the two Cabinet Ministers under whom Eskom falls, the Minister for Public Enterprises, Mr Jeff Radebe and the Minister of Minerals and Energy, Ms Phumzile Mlambo-Ngcuka. Under their wise guidance, the organisation has been able to weather the storms during the restructuring process currently under way in the electricity supply and distribution industries. We are immensely encouraged by their contribution.

My thanks also go to my colleagues in the Eskom Board of Directors who have contributed very much to the organisation's commendable efforts over the past year.

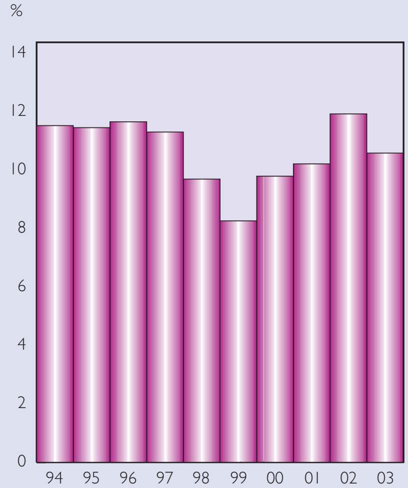
Chief Executive, Thulani Gcabashe, and all members of the Management Executive Committee (EXCO) deserve considerable credit for their imaginative leadership and direction to the operations of the organisation.

Lastly, I would like to thank all Eskom employees for playing their indispensable part in ensuring that their organisation remained a leading player in the market. With the industry and the ingenuity of all these role players, Eskom is firmly set on the road to global pre-eminence.

Reuel J Khoza
Chairman

Eskom rate of return on total assets

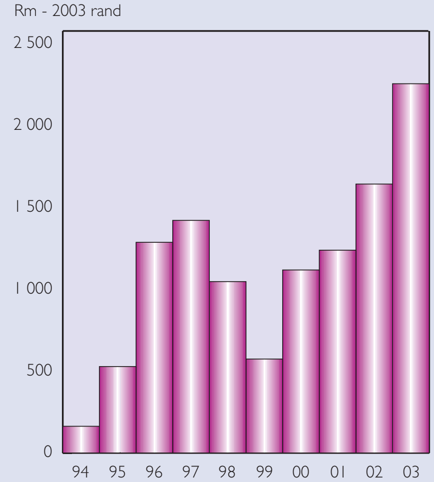
%



Historical cost

Eskom productivity improvement for all resources

Rm - 2003 rand



The sum of the cumulative annual productivity savings over the ten-year period amounted to R11 277 million.

Transformation, service excellence and sustainability

Thulani S Gcabashe

A decade of political and economic transformation in South Africa has strengthened the ability of its business leaders in the management of change.

Introduction

At Eskom, we can unashamedly claim to have taken advantage of the fair winds of our new democracy to transform and grow the energy sector in South Africa. Our results in 2003 are a clear reflection of the worthy achievements of all Eskom staff.

Eskom's economic, social and environmental achievements have gained recognition for being underpinned by performance. Our coherent policies in the energy and related sectors have continued to deliver measurable benefits, nationally, regionally and globally.

As we celebrate a decade of democratic governance in South Africa we must however not lose sight of the fact that a prosperous future is closely linked to sustainable economic growth. Our services are critical to the smooth and productive operation of industrial plants, factories, hospitals and other establishments meeting their targets.

Electricity also has a positive impact on people's quality of life. By bringing electricity to more people we have enabled millions of families to harvest its benefits through commercial activities or simply creating comfort. Eskom is in tune with the economic realities of our nation and recognises the vital role we have to play in bringing about sustainable development.

In 2003 we continued to consolidate our business gains while restructuring in support of the government's imperatives to position Eskom for a competitive local electricity market. These changes will serve the best interest of the customer.

We have kept our corporate objectives within view. Our efforts are primarily aimed at contributing to the economic, social and environmental well being of South Africa and the African continent. Eskom accepts its role and responsibility in contributing to the upliftment of the African continent.

Summary of high-level performance

The regulated business returned a sound financial performance during the year under review. The ongoing focus on productivity contributed R613 million to the bottom line. At the same time sales growth of 4,8% boosted revenue, but necessitated the use of the more expensive stations in order to satisfy the increased demand. The net profit for the year after tax was R3 226 million (2002: R3 185 million).

The Board reassessed its investment in the telecommunications industry and adopted a very conservative accounting treatment, especially with respect to its investment in the fibre optic network infrastructure. As a consequence, R803 million was provided for an impairment and this is included in the above-mentioned financial results.

Ongoing financial support for the Pebble Bed Modular Reactor resulted in R380 million being made available to that company, and again this expenditure has been included in the financial results of the holding company.

The financial results of the non-regulated business were also negatively impacted by the conservative accounting approach to the treatment of the investment in the telecommunications business. This resulted in Eskom Enterprises recording a consolidated net loss of R719 million. The net profit after tax before this provision is R84 million, which reflects a welcome improvement on the previous year's profit of R9 million.

Transformation and sustainability

Business sustainability is even more crucial in this age of turbulent global markets. In 2002, Eskom initiated an internal sustainability performance index review process. A sustainability performance index was developed together with a sustainability strategy. The strategy is aimed at bringing together current and future business objectives, based on Eskom's strategic intent.

I am pleased to announce that we achieved sustainability successes in 2003: The 2003 year-end operational sustainability index score of 89.6% was the second highest ever year-end score. Only in 1997, when the score reached 90.6%, has this score been exceeded.

Creating a safe working environment for our employees is not negotiable. Eskom's investment in work place safety is reflected by the lowest number of fatalities ever recorded since 1969.

African and global objectives

The New Partnership for Africa's Development (NEPAD) is born out of the realisation that Africa and Africans must make a commitment to change the fortunes of the continent. Eskom's strategic intent envisages, among other things, pre-eminence in Africa as well as global stature.

Through Eskom Enterprises the Eskom Group has articulated its partnership strategy in Africa. In 2004, Eskom Enterprises will be divested of non-core companies, a move that will strengthen its operations and position it correctly for African development. In 2003 Eskom Enterprises was restructured into business segments, with a three-pillar structure focused on the following business areas:

- Support services, which will provide all the necessary support services for the energy supply industry;
- Globalisation, which will identify potential opportunities for the development of Eskom's product and service offerings in international markets; and
- New enterprise development and management (NED & M), which will be responsible for identifying new opportunities that will leverage existing technologies, capabilities or assets; and for initiating and incubating ventures for future hand-over or sale.

Support for NEPAD

In accordance with the South African government's commitment to NEPAD, Eskom has established a dedicated NEPAD team. The mission of the team is to facilitate the mobilisation of Eskom's resources to promote, develop and implement NEPAD's related projects in the energy and, in particular, in the power sector. In addition to its operation within Eskom, a unit head has been appointed to lead the Energy Working Group of the South African NEPAD Business Group. The objective is to mobilise private sector resources in the energy sector in South Africa and to engage and contribute to the development of energy related infrastructure.

Eskom's Pan-African power grid vision provides guidance for the planning of many of the NEPAD projects and, as such, is providing the motivation for Eskom's involvement in the development and implementation of the southern African regional "power highway" projects. All these projects aim at developing the appropriate power transfer capacity in the Southern Africa Development Community (SADC) region and beyond, so as to maximise the power trading potential of the Southern African Power Pool.

Commitment to economic, environmental and social goals

In order to successfully revive our country and continent, it is important that we seek urgent solutions to diseases and other threats that limit the capacity. Eskom has a commitment to manage the impact of HIV/AIDS. Our strategy is to empower our employees through knowledge and awareness and thereby enhance the sustainability of the business.

Our ongoing HIV/AIDS education and awareness programmes continued to promote voluntary confidential counselling and testing among employees. The programmes focus on the benefits to all employees of self-awareness, with HIV positive employees then having access to appropriate counselling and support for themselves and their families.

Eskom continues to support the South African AIDS Vaccine Initiative (SAAVI) in its search for an HIV/AIDS vaccine, in order to counter the effect that HIV/AIDS has on both Eskom and the broader economy of South Africa. SAAVI, co-coordinated by the Medical Research Council, was set up to co-ordinate the research, development and testing of affordable and effective HIV/AIDS vaccines for southern Africa. Eskom contributed R15 million in 2003, to bring its cumulative contribution since the inception of this initiative in 2000 to R67 million. Eskom has committed to further fund this research to the extent of R45 million until 2007.

Apart from the above, Eskom provides support through the funding of the training programme for health care professionals on the clinical management of HIV/AIDS. This programme aims to ensure that every health care worker has the knowledge and skills to care for people living with HIV/AIDS. Eskom as a founding sponsor committed R6 million to the programme over a period of three years. The first R2 million was paid in 2003.

Sustainable environment

Eskom is committed to strive continually towards sound environmental management and performance. The consideration of environmental issues is a key part of our operations and decision-making parameters.

In 1998, as part of an overall five-year strategy, Eskom committed to reducing overall particulate emissions to an average of 0,28 kg/MWh sent out. This target was achieved at the end of 2003.

Three years ago a policy decision was made to be ISO 14001 compliant by the end of 2002. This has been achieved through many parts of Eskom obtaining ISO 14001 certification, while the remainder of the group demonstrated compliance during 2003, through third party audits.

Corporate social responsibility

As a signatory to the United Nations Global Compact, Eskom supports and upholds its nine principles in the areas of human rights, labour standards and the environment.

The goal of Eskom's corporate social responsibility is to improve the quality of life of historically disadvantaged South Africans. It includes various programmes for skills development, job creation, health, support for the Proudly South African campaign and other initiatives with an emphasis on women, youth and people with disabilities. Many of Eskom's corporate social investment initiatives are carried out through the Eskom Development Foundation, a section 21 company.

Since the establishment of the Development Foundation in 1999 up to December 2003, a total of R278, 6 million has been disbursed to various sustainable programmes. Eskom is one of the largest grant making companies in South Africa and a major player in the economic development sector. Its target groups include income generating community-based organisations, as well as small, medium and micro enterprises.This sector plays a critical role in economic growth as well as in the eradication of poverty.This explains the level of investment by the Development Foundation.

During the period under review, Eskom, through the Development Foundation, received five awards for its commitment and contribution to development and was rated for the second successive year as "the most caring" company and state-owned enterprise "making the strongest contribution to development".

Independent surveys have rated Eskom as having "the most hands-on approach to corporate social investment" by being fully engaged with projects that had received development grants for the second consecutive year (2002 and 2003) and amongst the top five since 1994.

Reward for excellence

There is an old saying: Champions don't become champions in the ring – they are merely recognised there. This is true of the many awards and recognitions that Eskom has earned in the past few years. In 2003 our achievements were recognised in no less than 17 local, national and international awards. The year was marked by high ratings for Eskom as a good corporate citizen with the presentation of the 2003 Platts Global Energy Award for Community Development Programme of the Year in New York. Eskom was also nominated as a finalist in two other categories:

- Power Company of the Year
- Marketing Campaign of the Year

The many accolades included the recognition of excellence in our brand equity, communications effectiveness, technological innovation as well as our investment in people.

As an organisation, we believe that our staff are our most precious resource. Our view is that a strong workforce is the key ingredient to our organisation as we seek to deliver the kind of performance that is recognised by our peers and customers as world class. We therefore dedicate these awards to the 31 972 men and women of Eskom who on a daily basis deliver a full-hearted service to our market place.

Towards the future

Certain issues in our business environment continue to pose challenges to our business. Amongst them are the following:

- Regulatory changes and competition,
- Increasing energy requirements,
- Increasing pressure on margins and,
- Increasing importance of innovation and technology.

To ensure that we remain successful and competitive in this dynamic environment we have revised Eskom's current business model. The Revised Business Model (RBM) captures a set of principles Eskom needs to embrace to focus our activities and resources. It also highlights certain processes, systems, structures, roles, responsibilities and governance issues that need to be considered, developed or changed to make us more resilient to change.

The Revised Business Model will enable Eskom to fulfil its strategic intent, it will enable ongoing restructuring of the industry; leverage synergies across Eskom to reduce duplication and ensure strategic flexibility is built into our structures and processes.

Diversification

Given current trends in the global energy sector, Eskom decided to re-evaluate its investment targets for the diversification of markets, products and services. Subsequently, Eskom has developed an investment strategy with associated targets and exposure limits for businesses areas, industries and geographical locations.

Eskom's investment strategy articulates how Eskom will identify, make and manage investments and clearly defines the investment criteria, processes and roles and responsibilities. In line with the revised business model, the investment strategy will focus Eskom's investments on its core competencies in the execution of large generation and network capacity expansion projects in South and Southern Africa.

The investment strategy is designed to achieve Eskom's strategic intent, including selective investments in diversified markets, products and services.

Electricity industry restructuring

The electricity distribution industry (EDI) restructuring process continued to gain momentum during 2003. This restructuring process will separate the electricity distribution function from Eskom and merge with municipal electricity undertakings to form six Regional Electricity Distributors (REDs).

A draft-restructuring bill was released for public comment in April 2003. A draft bill is being revised based on the comments and inputs received from industry stakeholders. The EDI Holding Company, as the driver of transformation of the electricity distribution industry, replaced Government's EDI Restructuring Committee. Eskom is represented on the Board of the EDI Holding Company. There was extensive industry engagement during the year around revising the RED boundaries as detailed in the original restructuring blueprint. Primary concerns centred on high implementation costs, impact on network operations, the people impact and financial viability. Eskom is in the process of re-aligning its Distribution Business in accordance with the RED boundaries in preparation for EDI restructuring.

In preparation for a significantly different future business environment, the Generation division has established a new divisional governance structure. This structure provides for a more focused approach towards enabling Generation to operate as a fully established division of Eskom Holdings Limited. Eskom is doing all this mindful of the impending sale of 30% of Eskom's generating capacity, with 10% earmarked for Black economic empowerment (BEE).

In the medium-term, the Government will establish a separate state-owned transmission company that will be independent of generation and the retail businesses, with a ring-fenced transmission system and market operation functions. Initially, this transmission company will be a subsidiary of Eskom and would eventually be established as a separate state-owned transmission company.

The way forward

The outcome of the World Summit on Sustainable Development held in Johannesburg in 2002 has provided Eskom with an opportunity to diversify and modify our business in alignment with sustainable development principles. Clearly, access to energy is a key aspect to meeting the goals of sustainable development, and particularly poverty alleviation. Eskom's sustainability strategy and resulting activities are aimed at furthering the Johannesburg Plan of Implementation, where appropriate.

Electrical safety awareness amongst members of the public remains a focus area of Eskom especially in light of the expansion of Eskom's power network through the electrification programme. However, this expansion has also resulted in an increase in the risk of public electrical contact fatalities that arise from illegal connections and energy theft.

It is estimated that Eskom's excess peaking load capacity will be depleted by the year 2007. This is why we have been concentrating so much on Demand Side Management activities (DSM). Through DSM, Eskom implements activities designed to influence the time, pattern and amount of electricity usage in such a way that it will increase customer satisfaction without loss in production and, at the same time, produce desired changes in the load shape.

Apart from DSM and the focus on energy efficiency programmes to bring down consumption levels, Eskom is also exploring clean energy and renewable energies, including solar and wind projects, gas-fired plant, pulverised-fuel plant, imported hydro, nuclear plant and greenfield fluidised bed combustion technology. In addition to investing in new capacity, which eventually will happen notwithstanding the costs, Eskom will resuscitate some of its mothballed power stations. All these activities are undertaken in an effort to meet South Africa's energy challenges. As the supplier of last resort in South Africa, Eskom will continue to ensure the provision of adequate and lowest cost electricity.

Acknowledgements

I would like to thank the Chairman and members of the Board of Directors of Eskom Holdings Limited for their support throughout the year. We highly value their guidance and I believe that their vast and diverse wealth of experience will enable the organisation to go from strength to strength.

We would also like to acknowledge the continued co-operation between the National Electricity Regulator (NER) and ourselves. Much appreciation goes to the Minister for Public Enterprises, Mr Jeff T Radebe, the Minister of Minerals and Energy, Ms Phumzile Mlambo-Ngcuka, and to their respective staff. Lastly, my colleagues on the Executive Management Committee and I would like to thank all Eskom employees for the tremendous support and the dedication they have displayed. It is through this kind of commitment that the organisation continues to make an impact in the global arena. We know that we can always rely on their continued support to take the organisation a step further in its quest to be a pre-eminent global player.

Thulani S Gcabashe
Chief Executive

Two thirds of South Africa's largely rural population was still without electricity by the late 1980s. Eskom committed to a massive electrification programme that would enhance living standards, support economic growth and provide for sustainable development. In 1994, South Africa's first year of democratic rule, the organisation committed itself to achieving 10 key issues between 1994 and 2000 in line with the government's Reconstruction and Development Programme (RDP). These were:

- Reducing the real price of electricity by 15% - so as to become the world's lowest-cost producer of electricity.
- Electrifying an additional 1 750 000 homes – improving the lives of 11 million South Africans.
- Changing its staff profile – 50% of management, professional and supervisory staff shall be black South Africans.
- Educating, training and upgrading sufficient numbers of people to meet Eskom's future managerial, technical and other professional staff needs.
- Maintaining transparency and worker consultation in decision-making.
- Contributing R50 million per year to the electrification of schools and clinics and other community development activities – particularly in rural areas.
- Enabling all Eskom employees to own a home.
- Encouraging small and medium enterprise development – through Eskom's buying policies and by giving managerial support.
- Protecting the environment.
- Financing the above from South African and own resources, and from overseas development funding.

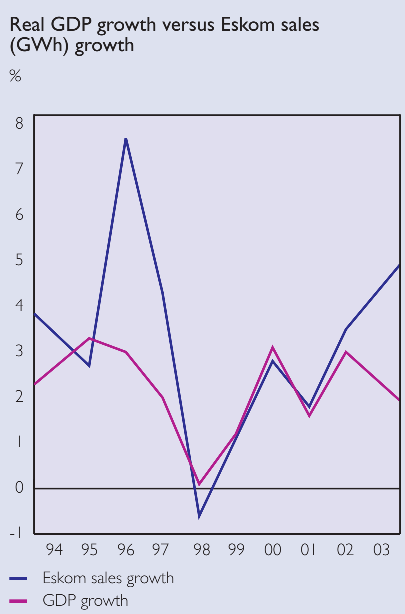
It is gratifying to note that Eskom met and, in some cases, exceeded some of the electrification targets it had set itself in terms of achieving these commitments. Eskom exceeded its target by 750 homes a year ahead of schedule in November 1999.

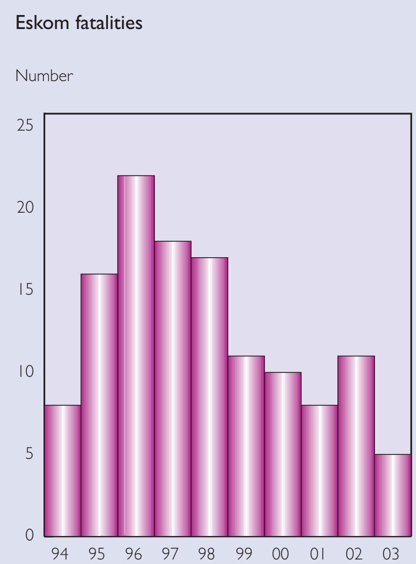
In its bid to help women balance work and parenting responsibilities, Eskom has introduced flexible working hours and work-from-home options for women.

The organisation has also implemented employment equity policies that are inclusive of race, gender and people with disabilities to ensure that it builds an organisation that is representative of all the people of South Africa.

Eskom is committed to the training and development of all employees and to contribute towards the skills development of not only the Eskom employees, but also the broader South African. As a result, it plays a significant leadership, development and management role within the Energy Sector Education and Training Authorit.

South Africa's first year of democracy also saw the official opening of Kendal Power Station, the world's biggest dry-cooled power station. In its first full year of operation, Kendal set a world record for a six-unit power station when its maximum hourly net power produced reached 4 056 MW in September 1994.





Eskom's water use is amongst the lowest in the world. Since 1994, Eskom's average specific water consumption figures have been maintained at levels less than or equal to 1,29 ℓ/kWh (volume of water consumed per unit of power sent out by all generating stations, excluding rain and mine water used). In 1997, the lowest level was achieved at 1,20 ℓ/kWh.

At a summit meeting of the Southern African Development Community (SADC) in August 1995, most SADC countries signed a government-level memorandum of understanding for the creation of an electricity power pool in the region under the name of the Southern African Power Pool (SAPP). The SAPP agreement was signed at utility-level in December the same year. The establishment of the SAPP is seen as a significant step in creating a market for the buying and selling of electrical energy, with the objective of providing access to electricity.

In 1995, Eskom formed a strategic partnership with the Endangered Wildlife Trust (EWT) to establish the extent of, and develop mitigation measures to prevent bird fatalities due to Eskom's electrical infrastructure. The EWT is a conservation Non-governmental organisation formed with the objective of conserving South Africa's endangered natural resources. Through this partnership, Eskom is able to identify areas where negative interactions result in poor quality of supply and impacts on bird populations, and implement measures to prevent these incidents.

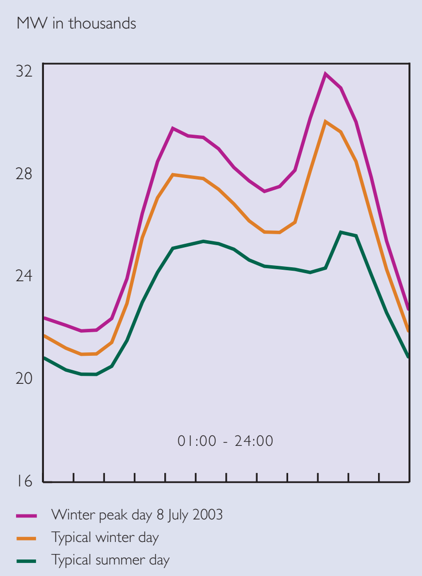
1996 saw Eskom receiving the electricity industry's highest award, the Edison Award for its contribution to electrification. It also received the World Wide Fund for Nature Award for environmental reporting.

For the last ten years Eskom has reported on its environmental performance. Eskom's first environmental report was produced to report on its 1994 performance. After six consecutive environmental reports it was decided to incorporate the environmental report in the Eskom annual report to follow an intergrated approach towards sustainability reporting, covering aspects of, amongst others, economic, social and environmental issues.

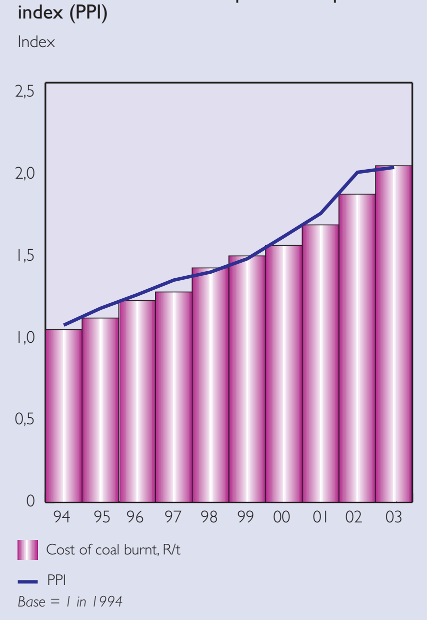
Eskom has continued its commitment to reducing overall particulate emissions. In 1994 relative particulate emissions were recorded at 0,76 kg/MWh sent out. In 1999 a five-year target was set at 0,28 kg/MWh sent out, when the performance in that year was 0,37 kg/MWh sent out. This target was achieved at the end of 2003.

The National Electricity Regulator (NER) was created in 1995 and given the task of rationalising the electricity supply industry. All municipalities as well as Eskom became subject to its regulation. The NER was to be funded from licence fees imposed on the generation of electricity.

Electricity demand patterns



Cost of coal burnt versus production price index (PPI)



In 1997, Reuel Khoza was appointed as the first black Chairman of the Eskom Electricity Council. He took over an Eskom that ranks as a world-class organisation which has, over the years, through the dedication and commitment of its management and employees, maintained its very high technical, human resources and financial achievements. One of these achievements was it being awarded the prestigious Corporate Governance Award.

Having played a significant role in the area of job creation and community development, Eskom is considered by many to be the leading corporate role model. In order to consolidate these efforts and maximise results, the organisation established the Eskom Development Foundation in 1998, with an initial contribution of R150 million. In addition, Eskom made provision for R50 million towards the Business Initiative for Job Creation and Human Capacity Development, which focuses on building a more resilient economy through employment opportunities.

In a bid to support black economic empowerment (BEE), Eskom implements procurement policies and managerial support programmes to supports small, medium and micro enterprises (SMMEs) and large black businesses by the procurement and supply of goods and services from such enterprises. Furthermore, 2002 saw the organisation adopting a policy framework for the economic empowerment of women through which it procures goods and services from women-owned businesses.

Eskom has committed enormous resources over the past ten years to fighting HIV/AIDS. Aside from counseling and training in the workplace, it has given considerable support to key medical initiatives, an example being its support to the South African AIDS Vaccine Initiative (SAAVI) which aims to find a vaccine for the pandemic. Eskom has also joined forces with the Foundation for Professional Development to launch one of the biggest HIV/AIDS training interventions for medical practitioners in South Africa.

In line with government's plans for the restructuring of state-owned enterprises, a decision was made to restructure Eskom in order to improve efficiency and ensure Eskom's sustainability as a top-performing organisation. A wholly owned subsidiary, Eskom Enterprises, was therefore established in 1999 to focus on Eskom's non-regulated business activities, both local and international. All existing subsidiaries and joint ventures, as well as commercial non-regulated activities now fall under this structure. The formation of Eskom Enterprises would

enable Eskom to be better geared to focus on the vital area of sales, while Eskom Enterprises would be looking after new business opportunities.

The current Chief Executive, Thulani S Gcabashe, was appointed to his post in 2001, a very significant year in Eskom's history. It is the year that the organisation's Management Board approved a new corporate logo and corporate identity style for Eskom and Eskom Enterprises. The year closed on a high note for Eskom when it was named the Global Power Company of the Year in recognition of:

- providing the lowest cost electricity, while making superior technical innovations,
- increasing transmission system reliability, and
- developing economical, efficient, and safe combustion of low-grade coal.

One of the milestones in the restructuring of Eskom has been its conversion to a company. This took effect on 1 July 2002, when Eskom Holdings Limited, a public company under the leadership of a new Board of Directors, was established. This followed a process of consultation, which culminated in the enactment of the Eskom Conversion Act No 13 of 2001, which had the effect of converting Eskom into Eskom Holdings Limited. The conversion is intended to better position the company to meet the challenges posed by the global and market demands including competition whilst also enabling it to continue playing its developmental role in the country.

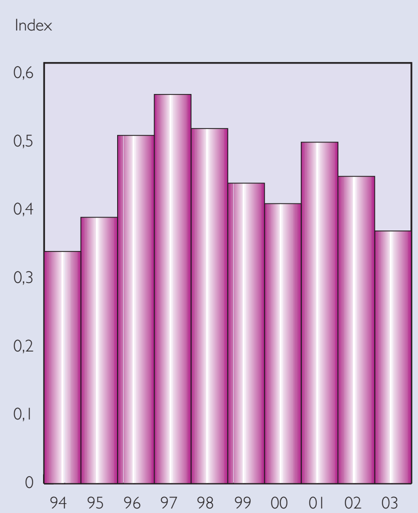
Eskom's long history of involvement in and commitment to sustainable development issues led to its active participation and co-sponsorship in the 2002 World Summit on Sustainable Development. Eskom's involvement included hosting and co-hosting events through partnerships and participation in the South African Business Co-ordinating Forum and the international Business Action for Sustainable Development with Eskom's Chairman as the Co-Chair of both these bodies.

Eskom Holdings held its first Annual General Meeting in 2003, where it handed over it's first dividend pay-out to its shareholder, government.

Eskom's commitment to environmental management goes back to the late seventies and the first environmental policy being adopted in 1980. In 1994 Eskom's revised policy made a commitment to the establishment of an environmental management system (EMS). In 2003 Eskom, through third party audits, has demonstrated compliance to the ISO 14001 EMS standard.

Eskom's corporate social investments efforts were highlighted and rewarded with the 2003 Community Development Programme of the Year award at the Platts Global Energy Awards.

Eskom disabling injury incidence rate



Disabling injury incidence rate expresses the number of employees that suffered a disabling injury over a 12 - month period.

for the year ended 31 December 2003

Contents

Currency of annual 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:

	2003	2002
US dollar	**0,15**	0,12
Pound sterling	**0,08**	0,07
Euro	**0,12**	0,11
Swiss franc	**0,19**	0,16
Japanese yen	**16,14**	13,80

Statement of responsibilities and approval

The Public Finance Management Act requires the directors to ensure that Eskom Holdings Limited (Eskom) and the group keep full and proper records of its financial affairs. The annual financial statements should fairly present the state of affairs of Eskom and the group, its financial results, its performance against predetermined objectives and its financial position at the end of the year in terms of generally accepted accounting practice.

The annual financial statements are the responsibility of the directors. The external auditors are responsible for independently auditing and reporting on the annual financial statements.

The annual financial statements of Eskom and the group have been prepared in terms of International Financial Reporting Standards, Statements of South African Generally Accepted Accounting Practice and the Companies Act. These annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates and are prepared on the going concern basis.

The directors have reviewed the group's cash flow forecast for the year ending 31 December 2004 and the risks and challenges for the future. In light of this review and the current financial position, they are satisfied that the group has adequate resources or has access to adequate resources to continue in operational existence for the foreseeable future with a positive socio economic and environmental contribution.

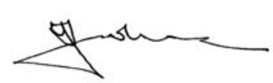
To enable the directors to meet the above responsibilities, the Eskom Board of Directors sets standards and implements systems of internal control. The controls are designed to provide cost effective assurance that assets are safeguarded, and that liabilities and working capital are efficiently managed. Policies, procedures, structures and approval frameworks provide direction, accountability and division of responsibilities, and contain self-monitoring mechanisms. The controls throughout Eskom focus on those critical risk areas identified by operational risk management and confirmed by executive management. Both management and the Corporate Audit Department closely monitor the controls, and actions are taken to correct deficiencies as they are identified.

The directors are of the opinion, based on the information and explanations given by management and the Corporate Audit Department and discussions with the independent external auditors on the result of their audits, that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the annual financial statements, and accountability for assets and liabilities is maintained.

Nothing significant has come to the attention of the directors, other than the matters referred to in the directors' report, to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

In the opinion of the directors, based on the information available to date, the annual financial statements fairly present the financial position of Eskom and the group at 31 December 2003 and the results of its operations and cash flow information for the year.

The annual financial statements of Eskom and the group for the year ended 31 December 2003, set out on pages 44 to 134, have been approved by the Board of Directors and signed on its behalf on 24 March 2004 by



Reuel J Khoza
Chairman

Thulani S Gcabashe
Chief Executive

To the Minister of Public Enterprises

We have audited the annual financial statements of Eskom Holdings Limited and the group set out on pages 44 to 132 for the year ended 31 December 2003. The annual financial statements of Eskom Holdings Limited and the group are the responsibility of Eskom's accounting authority. Our responsibility is to express an opinion on these financial statements based on our audit. The performance information is the responsibility of the accounting authority. Our responsibility is to express an opinion on whether the performance information furnished in terms of sub-section 55(2)(a) of the Public Finance Management Act, 1 of 1999, as amended, is fair in all material respects and, on a basis consistent with that of the preceding year.

Scope

We conducted our audit in accordance with Statements of South African Auditing Standards issued by The South African Institute of Chartered Accountants. Those 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 our duties in terms of sections 60 and 61 of the Public Finance Management Act, 1 of 1999, as amended, have been complied with. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the annual 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.

Audit opinion

In our opinion:

- the financial statements fairly present, in all material respects, the financial position of Eskom Holdings Limited and the group at 31 December 2003, and the results of their operations and cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice issued by the Accounting Practices Board and International Financial Reporting Standards issued by the International Accounting Standards Board applied on a basis consistent with that of the previous year; and in the manner required by the Companies Act, 61 of 1973 in South Africa, and the Public Finance Management Act, 1 of 1999, as amended;

- the performance information of Eskom Holdings Limited and the group furnished in terms of section 55(2)(a) of the Public Finance Management Act, 1 of 1999, as amended, fairly presents in all material respects Eskom Holdings Limited and the group's performance for the year ended 31 December 2003 against predetermined objectives and is, where applicable, consistent with that of the preceding year; and

- the transactions of Eskom Holdings Limited and the group that had come to the auditor's attention during auditing were in all material respects in accordance with mandatory functions of Eskom Holdings Limited, as determined by law or otherwise, with the exception of the matter as outlined in the directors' report under the heading Mountain Communications (Pty) Limited on page 60.

We have examined the inflation-adjusted financial information set out on pages 133 to 134. In our opinion the statements have been properly prepared on the basis set out in the notes thereto.

Deloitte + Touche

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

KPMG Inc

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

SizweNtsaluba VSP

SizweNtsaluba VSP
Registered Accountants and Auditors
Chartered Accountants (SA)

Johannesburg
24 March 2004

Report of the Audit Committee in terms of regulations 27(1)(10)(b) and (c) of the Public Finance Management Act, 1 of 1999, as amended

The Audit Committee reports that it has adopted appropriate formal terms of reference as its audit committee charter, and has regulated its affairs in compliance with this charter, and has discharged all of its responsibilities contained therein.

In the conduct of its duties, the Audit Committee has, inter-alia, reviewed the following:
- The effectiveness of the internal control systems.
- The effectiveness of the Corporate Audit Department.
- The risk areas of the entity's operations covered in the scope of internal and external audits.
- The adequacy, reliability and accuracy of financial information provided by management and other users of such information.
- Accounting and auditing concerns identified as a result of internal and external audits.
- The entity's compliance with legal and regulatory provisions.
- The activities of the Corporate Audit function, including its annual work programme, co-ordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations.
- The independence and objectivity of the external auditors.

The Audit Committee is of the opinion, based on the information and explanations given by management and the Corporate Audit Department and discussions with the independent external auditors on the result of their audits, that the internal accounting controls are adequate to ensue that the financial records may be relied upon for preparing the annual financial statements, and accountability for assets and liabilities is maintained.

Nothing significant has come to the attention of the Audit Committee other than the matters referred to in the directors' report to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The Audit Committee has evaluated the annual financial statements of Eskom Holdings Limited and the group for the year ended 31 December 2003 and, based on the information provided to the Audit Committee, considers that it complies, in all material respects, with the requirements of the Companies Act, 61 of 1973, as amended, and the Public Finance Management Act, 1 of 1999, as amended and Statements of International Financial Reporting Standards and South African Statements of Generally Accepted Accounting Practice. The Audit Committee concurs that the adoption of the going concern premise in the preparation of the annual financial statements is appropriate. At their meeting held on 24 March 2004, the Audit Committee recommended the adoption of the annual financial statements by the Board of Directors.

JRD Modise
Chairman
24 March 2004

Statement by Corporate Counsel/Company Secretary

In terms of Section 268G(d) of the Companies Act, 61 of 1973, I certify that the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Act, and that all such returns are true, correct and up to date.

M Adam
Corporate Counsel/Company Secretary
24 March 2004

Index

INTRODUCTION

The directors have pleasure in presenting their report and the audited Eskom Holdings Limited (Eskom) and the group annual financial statements for the year ended 31 December 2003. The year under review was once again a very successful year, with sound financial performance considerably better than target, improved delivery on social commitments and sustained world-class technical performance, while at the same time due care was exercised in limiting Eskom's impact on the environment.

This report addresses the performance of the Eskom Group and includes relevant statutory information, in particular with regard to the Public Finance Management Act, 1 of 1999, as amended by Act 29 of 1999 (PFMA), and the Companies Act, 61 of 1973, as amended. In addition to compliance with relevant legislation, the focus of reporting is on demonstrating good governance practices by way of material, relevant and clear disclosure to all stakeholders. As is evident from this report, Eskom's focus in managing the business is a balance of economic, environmental, social and technical performance.

The Board of Directors (Board) is the accounting authority in terms of the PFMA, of which Eskom is listed as a Schedule 2 public entity. This Act also applies to subsidiaries and entities under the ownership and control of Eskom, as they are also classified as Schedule 2 public entities.

Except as further set out herein, the directors are of the opinion that Eskom has complied, in all material respects, with the provisions of the PFMA, during the period under review.

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 regulated in terms of licences granted, inter alia, by the National Electricity Regulator (NER) in terms of the Electricity Act, 41 of 1987 and the National Nuclear Regulator in terms of the National Nuclear Regulatory Act, 47 of 1999. Through Eskom Enterprises (Pty) Limited (Eskom Enterprises), Eskom also pursues non-regulated business activities in the energy and related services sector.

The core businesses of the main subsidiaries include non-regulated electricity supply industry activities, the provision of electricity supply and related services outside South Africa, the granting of home loans to employees and the insurance of the relevant risks to Eskom.

Sustainability strategy

A sustainability strategy was developed during 2003. It is aimed at bringing together current and future business objectives, based on Eskom's strategic intent, under a dynamic strategy to ensure the integrated achievement of economic, environmental and social goals. Key challenges addressed are based on Eskom's corporate values - customer satisfaction, innovation, integrity and excellence.

Benchmarking of Eskom's sustainability performance

Eskom requested Sustainable Asset Management (SAM) Research, based in Switzerland, to conduct a benchmarking exercise on Eskom's sustainability performance, using 2002 data, in terms of the Dow Jones Sustainability Index world criteria. Eskom's overall performance was rated as being above the industry average and very close to best practice. Eskom was considered amongst the leading sustainability companies in the electric utility sector globally.

Sustainability performance index

During 2003, Eskom's sustainability performance index was developed and approved. This index aims to track the Eskom Group's overall sustainability performance and incorporates existing indicators and initiatives, where appropriate. The indicators that comprise this index reflect a long-term view as well as the principle of continual improvement.

Objectives

Regulated business

The medium-term, three-year business plan setting out Eskom's strategic direction, as well as critical Key Performance Indicators (KPIs) to manage the business effectively, were developed and updated after taking into account the input of key stakeholders and input from all divisions. The Board approved the business plan, including the predetermined strategic and operational objectives for 2003. KPIs linked to these objectives are included in both the budget and the shareholder compact with government.

Annual budgets are aligned to the strategic intent contained in the medium-term business plan. The 2003 budget was approved at the end of 2002 subject to certain information that was finalised early in 2003. KPIs are used to measure performance against budget and targets, and are reported to the Executive Management Committee (EXCO) on a monthly basis in the Eskom and divisional business reports, and quarterly to the Board. The divisional objectives are encompassed within Eskom's objectives, with relevant KPIs, and are communicated and measured at appropriate levels. These objectives and KPIs are discussed in detail in this directors' report.

Non-regulated business

The medium-term, three-year business plan setting out the strategic direction of the Eskom Enterprises Group, as well as critical KPIs to manage the business effectively, was developed and updated taking into account the input of key stakeholders and using input from all divisions and subsidiaries. The Eskom Board and the Eskom Enterprises Board approved the medium-term business plan, including the annual budget. The objectives that encompass KPIs for the year have been included in a shareholder compact with Eskom, and the performance against these KPIs is discussed in this directors' report.

Other subsidiaries

Other subsidiaries also prepare business plans that incorporate objectives and KPIs that are approved by their respective boards of directors.

HIGH-LEVEL PERFORMANCE FOR THE YEAR

An overview of a substantial portion of the Eskom Group's business performance against its objectives is contained in the table on the following page. The detailed performance is described in the remainder of this report. Performance information relating to subsidiaries is dealt with in the section addressing the high-level performance of subsidiaries.

Eskom high-level performance

	Objectives	Key performance indicators
1.	**Economic** Improve the management of resources through:	
	- Maintaining long-term financial viability	- Profit after interest before fair value adjustment, Rm - Profit after taxation, Rm - Debt-equity ratio (including long-term provisions) - Historic cost return on total assets, % - Sales growth, GWh % - Gradually increasing, predictable and stable average electricity prices over the long-term - Risk management policies and processes in place, applied and effective - Maintaining effective financial discipline, governance and accountability
	- Economic, efficient and effective usage of resources	- Productivity improvement for the year, % - Human resources sustainability index, % - Management of HIV/AIDS
	- Focusing on customer satisfaction	- Customer service index, %
	- Maintaining excellent technical performance	- Operational sustainability index, %
	- Improving safety performance	- Disabling injury incidence rate, less than target - Work-related fatalities, number - Public electrical contact fatalities, number
2.	**Socio economic** Demonstrate exemplary corporate citizenship and harmony with society through:	
	- Continued focus on affirmative action and actively promoting women and disability equity	- Black management, professional and supervisory staff at 31 December, % - Women management, professional and supervisory staff at 31 December, % - People with disabilities, % - Procurement expenditure and supply of services, both capital and operating: • Black economic empowerment, Rm • Women empowerment, Rm

1. Calculated as a percentage of discretionary expenditure.

Targets	Performance results
BR5 004m	Exceeded - R5 311m (2002: R4 858m)
BR3 521m	Not achieved - R3 226m (2002: R3 185m)
A0,54	Exceeded - 0,35 (2002: 0,52)
B11,20%	Not achieved - 10,58% (2002: 11,92%)
B1,9%	Exceeded - 4,8% (2002: 3,5%)
Real annual price increase above CPI	Not achieved - 2,5% price increase (2003: 8,43%)
Positive finding	In place
Positive finding	In place
B1,4%	Exceeded - 2,5% (2002: 1,6%)
B80%	Exceeded - 91,8% (2002: 89,8%)
HIV/AIDS response strategies implemented	Ongoing
B80%	Exceeded - 82,63%
B80%	Exceeded - 89,62% (2002: 88,18%)
<0,40	Exceeded - 0,37 (2002: 0,45)
Striving for 0 or less than previous year	Actual - 5 (2002: 11)
Striving for 0 or less than previous year	Actual - 20 (2002: 24)
>54,6%	Exceeded - 56,3% (2002: 54,6%)
>24,0%	Exceeded - 27,8% (2002: 24,5%)
>0,5%	Exceeded - 1,4% (2002: 0,16%)
BR5 045m[1]	Exceeded - R6 861m (2002: R4 891m)
BR311m	Exceeded - R517m (2002: R197m)

Objectives	Key performance indicators
- Electrification as implementation agent for government	- Homes electrified during 2003, number
	- Capital expenditure on electrification (subject to government funding), Rm
- Supplying free basic electricity in terms of government policy, taking into account the sustainability of the business	- Customers supplied with free basic electricity, number
- Supporting socio economic development	- Expenditure on Eskom Development Foundation, other corporate social investments and rural development commitment, Rm
- Support for New Partnership for Africa's Development (NEPAD)	- Expenditure on projects to encourage electricity development in Africa, Rm
3. Sustainable environment Manage Eskom's impact on the environment	- Reported legal contraventions counted in the operational sustainability index, number
	- All divisions to be ISO 14001 compliant
4. Future business model Demonstrate progress towards achieving Eskom's intended business model through: - Diversification of markets, products and services	- Eskom Enterprises non-Eskom revenue as a percentage of total sales, %
	- Market-related, risk-adjusted return on new investments as approved per investment, %
	- Investment towards achievement of new business aspiration, Rm
	- Revenue during 2003 generated from new business since 2001, Rm
- Restructure Eskom to support the strategic intent and align with government policy	- Implement government's Electricity Supply Industry/ Electricity Distribution Industry restructuring policies and execute plans within Eskom's control
	- Implement internal restructuring milestones and plans towards Eskom's strategic intent

Targets	Performance results
Agreed government target - 164 107	Exceeded - 175 396 (2002: 211 628)
R560m	Exceeded - R586m (2002: R546m)
No target approved	Formal roll out has commenced
Minimum of R115m	Spent R158,6m including other initiatives
To be calculated when project prioritisation and scheduling are finalised	Dedicated NEPAD team established and operationalised
0	Not achieved - 2 (2002: 3)
Positive assessment	Achieved compliance
49,0%	Not achieved as focus was on core business - 36,0% (2002: 43,0%)
Rate of return per individual project	No new equity investments made in 2003
R1 739m	No new equity investments made in 2003
R3 400m (2000 rand value)	Not achieved - 2003: R1 200m 2002: R1 200m 2001: R700m
Achievement	Eskom participated and contributed appropriately
Achievement of dates	Revised business model was developed and approved by the Board in October 2003 for implementation from January 2004

1. ECONOMIC

1.1 Financial performance

High-level performance of Eskom Holdings Limited

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

	Budget 2003	**Actual 2003**	Actual 2002
Sales, GWh:			
Total external sales	**191 119**	**196 576**	187 589
International	**8 984**	**10 173**	7 182
Customised pricing arrangements	**13 112**	**12 636**	13 916
Other distribution	**169 023**	**173 767**	166 491
External sales growth, GWh %	**1,9**	**4,8**	3,5
External sales growth, Rm %	**8,5**	**12,5**	12,7
Revenue, Rm:			
External revenue	**30 472**	**31 616**	28 101
International	**829**	**1 034**	815
Customised pricing arrangements	**1 755**	**1 850**	1 833
Other distribution	**27 888**	**28 732**	25 453
Internal usage	**56**	**64**	57
Total revenue	**30 528**	**31 680**	28 158
Other results:			
Operating expenditure, Rm	**23 360**	**24 846**	20 674
Interest income, Rm	**n/a[1]**	**3 811**	2 664
Interest expenditure, Rm	**n/a[1]**	**(5 334)**	(5 290)
Average total cost of electricity, R/MWh[2]	**132,83**	**135,55**	124,78
Profit after interest before fair value adjustment on historical cost basis, Rm	**5 004**	**5 311**	4 858
Net fair value adjustment on financial instruments, Rm	**137**	**(277)**	(107)
Net profit for the year after tax on historical cost basis, Rm	**3 521**	**3 226**	3 185
Debt-equity ratio (including long-term provisions)	**0,54**	**0,35**	0,52
Historic cost return on total assets, %	**11,20**	**10,58**	11,92
Net loss on inflation-adjusted basis, Rm	**n/a[3]**	**(2 913)**	(2 067)
Real (inflation-adjusted) rate of return, %	**n/a[3]**	**0,53**	1,69

In determining the real performance of Eskom, the inflation-adjusted results must be used. This indicates that in real terms Eskom made a loss of R2 913 million and the inflation-adjusted return of 0,53% is currently considerably below market returns.

Eskom's financial performance for the year exceeded expectations. When the performance for 2003 is compared with 2002, the net profit before tax and fair value adjustment increased to R5 311 million from R4 858 million. This is R307 million more that the budgeted net profit for 2003.

External revenue was positively impacted by a higher than expected sales growth of 4,8% compared with a budgeted sales growth of 1,9%.

Operating expenditure was negatively impacted by a significant increase in the provision for post retirement medical aid due to a large increase in the medical aid contributions as a result of medical aid inflation. The budget variance was offset by a large increase in insurance proceeds received from external insurers mainly as a result of the claim for the repair of the Duvha Power Station, which in terms of accounting practice is now reflected as income.

1. Net interest income and expenditure budget: R2 164 million.
2. Based on external sales.
3. No target set.

Value-based management

Eskom embarked on a value-based management approach to measure and ensure sustainability over the long-term. The objective is to enable management to identify focus areas for value creation, and to eliminate or mitigate value destruction in areas under Eskom's control. A value-based management system and tools have been implemented whereby Eskom's economic performance will be measured and reported. This will support decision-making processes and assist in discussions with stakeholders regarding the long-term sustainability of Eskom.

Revenue management

The accounting authority, in terms of the PFMA, is responsible for establishing systems, procedures, processes and training programmes to ensure efficient and effective revenue management. Adequate cash, banking and investment management processes and procedures were put in place during the year.

As a result of the terms of the Service Delivery Framework (SDF)[1], an initiative aimed at resolving the non-payment of accounts, arrear debts of approximately R1 300 million including value added tax (VAT), which were fully provided for in previous years, were finally written off. The payment levels in Soweto, expressed as a percentage of bills submitted, decreased to 21% (2002: 36%) due to the delay in the finalisation of the SDF implementation process. The enhancement of credit control strategies and monitoring of payment levels in Soweto continue to receive constant management attention.

The trade debtors at year end are summarised as follows:

	Actual 2003 Rm	Actual 2002 Rm
Trade debtors	**3 764**	4 435
Local debtors		
Soweto, take-overs and suspense accounts	**754**	1 193
Other trade debtors	**2 732**	3 083
International debtors	**278**	159
Provision for doubtful debts, including interest	**(1 163)**	(1 921)
Local trade debtors	**(921)**	(1 759)
International trade debtors	**(155)**	(90)
Other debtors	**(87)**	(72)
Bad and doubtful debts	**382**	337
Local trade debtors	**296**	289
International trade debtors	**66**	12
Other debtors	**20**	36

Management of credit risk

As an inherent risk of the business, credit risk is managed as part of the integrated risk management process, which tracks major risk issues, designs mitigating structures and monitors the status thereof on an ongoing basis.

Duvha Power Station

On 8 January 2003, the turbine generator of Unit 2 at Duvha Power Station experienced a catastrophic failure. Eskom's insurers have accepted that the incident was covered by Eskom's insurance policy and reimbursed Eskom for the costs incurred in returning the unit to service.

Aluminium Pechiney project

On 30 September 2003, Aluminium Pechiney, a subsidiary of Pechiney SA, formally notified Eskom in terms of the Energy Supply Contract of its intention to proceed with the construction of the proposed smelter at Coega. As a result of this notice, Eskom has an obligation to construct the necessary infrastructure to ensure that the required energy supply is available at the site within 26 months from the notice date. A Canadian aluminium company, Alcan Incorporated, has subsequently taken over Pechiney SA. As a result of the change in shareholding, Aluminium Pechiney has not proceeded with construction of the smelter and is awaiting further notification from the ultimate holding company.

1. *Negotiated agreement with stakeholders in residential areas.*

Valuation of assets
Although cross-subsidisation, which depends on customers' electricity consumption levels, geographical location and voltage supply levels, exists between certain customer categories, Eskom fully recovers all costs of supplying electricity to its customer base as a whole, and earns a positive return on assets. On this basis, the directors believe that no adjustment to the value of assets relating to any particular customer category is required.

Future restructuring of the Electricity Distribution Industry (EDI)
The directors believe that, based on the principle of cross-subsidisation, there is no need to raise a provision for impairment of certain classes of property, plant and equipment in the current year. Depending on how the EDI restructuring takes place, it might however be necessary for Eskom to raise a provision for impairment in future years.

Investment in Eskom Enterprises
Eskom Enterprises was formed in 1999, as the holding company's investment vehicle for non-regulated business in Africa and beyond.

A re-evaluation by the Eskom Board in 2003 of its investment strategy, resulted in a decision to refocus its efforts on core business. In response to this decision a restructuring exercise of Eskom Enterprises was undertaken during the year, which will ultimately result in the company divesting of all but its core business activities.

Second National Operator (SNO)
In terms of the Telecoms Act, 103 of 1996, as amended, the SNO company (still to be formed) shall be granted a public switched telecommunication licence, and Eskom Enterprises and Transnet shall have shares set aside for them.

Eskom Enterprises has to date spent a total of R748 million in capital rollout on the fibre optic network which will be taken into account in determining its equity stake in the SNO.

During November 2003, the future shareholding in the SNO was allocated as follows: 30% in total to Eskom Enterprises and Transnet, 19% to Nexus, 13% to Communitel and 13% to TwoConsortium while the government retained the remaining 25%.

The integration of the five (future) shareholders is being facilitated through a joint steering committee under leadership of the Department of Communications and the SNO Interim Board (which has representation from all five shareholders) and with representatives from the Department of Public Enterprises (DPE).

The five existing shareholders are currently involved in an intensive programme in preparing for the licence.

However, the long delay in the issuing of the licence has prompted the Board to take a conservative view and to raise an impairment provision of R649 million against this investment.

Mountain Communications (Pty) Limited (MKC)
In 2002, Eskom Enterprises invested R216 million in MKC, a Lesotho registered company.

In terms of the sale of shares agreement, MKC committed to a capital expansion programme as contained in the bid document of R380 million (US dollar 56 million estimated at the then ruling exchange rate) which at 31 December 2003 had been fully expended.

The licence issued by the Lesotho Telecommunications Authority (LTA) stipulates system expansion targets. To the extent that these targets are not met, the licence provides for penalties becoming payable to the LTA. There is currently some disagreement regarding the targets and although discussions are taking place with the LTA to revise the system expansion targets as specified in the licence, the Board has taken a conservative approach and has raised an onerous contract provision in the annual financial statements. The impact of this provision on the Eskom and the Eskom Enterprises group results is R110 million.

The Board considered it prudent, in light of revised future projections in the business case of MKC, to raise an impairment provision of R52 million in the annual financial statements of MKC which has an impact of R44 million on the group annual financial statements of Eskom and Eskom Enterprises.

High-level performance of subsidiaries
The discussion that follows covers all the significant subsidiaries of Eskom.

Eskom Enterprises

Eskom Enterprises was registered to accommodate all the non-regulated energy-related activities of Eskom in South Africa and its energy-related activities outside South Africa. Eskom Enterprises and its subsidiaries, associate companies and joint ventures, leverage off the competencies of Eskom. Eskom Enterprises conducts its operations through numerous autonomous operating divisions and a corporate head office.

Eskom Enterprises has re-evaluated its activities and has decided to refocus on the holding company core business. This means that Eskom Enterprises will now focus on the design, building and refurbishment of generation, transmission and distribution infrastructure. Core businesses that are performing well will be pursued to ensure continued success. Non-core and non-critical businesses will be divested over time.

The operating results of the Eskom Enterprises Group for the year are summarised as follows:

	Budget 2003 Rm	**Actual 2003 Rm**	Actual 2002 Rm
Revenue	**2 743**	**3 317**	2 907
- Eskom	**1 399**	**2 108**	1 666
- Non-Eskom	**1 344**	**1 209**	1 241
Profit before interest	**201**	**105**	58
Interest	**(45)**	**(15)**	(11)
Profit after interest before fair value adjustment	**156**	**90**	47
Fair value loss on financial instruments	**–**	**(12)**	(11)
Profit after fair value adjustment and before exceptional items	**156**	**78**	36
Exceptional items[1]	**–**	**(921)**	–
- Impairment of investment in SNO	**–**	**(649)**	–
- Provision for onerous contract in MKC	**–**	**(220)**	–
- Impairment of goodwill in MKC	**–**	**(52)**	–
(Loss)/profit before taxation	**156**	**(843)**	36
Taxation	**(59)**	**7**	(7)
(Loss)/profit for the year before minority interest	**97**	**(836)**	29
Minority shareholders' interest	**(25)**	**117**	(20)
- Exceptional items	**–**	**118**	–
- Other	**(25)**	**(1)**	(20)
Net (loss)/profit for the year after tax	**72**	**(719)**	9
Return on equity on historical basis before exceptional items, %	**14**	**2**	1
Annual capital investment in new business, Rm	**n/a[2]**	**79**	548

The results include the provision for the impairment of the investment in the SNO and MKC and the provision for the possible onerous contract in MKC. The net impact of these provisions amounted to R803 million.

1. No taxation implication on these exceptional items.
2. No target set.

The high-level performance against objectives for the year is as follows:

Objectives	Key performance indicators	Targets	Performance results
- Diversification of markets, products and services	- Eskom Enterprises non-Eskom revenue as a percentage of total sales, %	B49,0%	Not achieved - 36,0% (2002: 43,0%)
- Maintain long-term financial viability	- Net profit after tax for the year, Rm	BR72m	Not achieved - net loss R719m (2002: net profit R9m)
	- Sales growth, %	B15,0%[1]	Not achieved - 14,0% (2002: 23,0%)
- Demonstrate exemplary corporate citizenship and harmony with society through:			
• Continued focus on affirmative action and actively promoting women and disability equity	- Black management, professional and supervisory staff, %	B50,0%	Not achieved - 49,4% (2002: 47,2%)
	- Women management, professional and supervisory staff, %	B17,0%	Achieved - 17,5% (2002: 15,7%)
	- Women at all levels, %	n/a[2]	24,8% (2002: 36,4%)
	- Procurement expenditure, both capital and operating, on black economic empowerment for the group, Rm	BR275m	Exceeded - R395m[3] (2002: R562m)

Eskom Enterprises recorded a productivity improvement of 2,2% or R71 million (2002: 2,3% or R64 million) during 2003. This is an improvement on the previous year and closer to the targeted annual improvement of 3,0% per year. This performance is before the impact of asset impairment.

Eskom Finance Company (Pty) Limited

Eskom Finance Company (Pty) Limited (EFC) makes home loans with favourable interest rates available to employees of the Eskom Group.

The operating results for the year are summarised as follows:

	Budget 2003 Rm	**Actual 2003 Rm**	Actual 2002 Rm
Financing income	**416**	**384**	358
Financing costs	**(383)**	**(334)**	(303)
Net financing income	**33**	**50**	55
Administration costs	**(7)**	**(4)**	(1)
Profit before tax	**26**	**46**	54
Taxation	**(8)**	**(14)**	(17)
Net profit for the year after tax	**18**	**32**	37

1. *The target is based on the budget of the previous year.*
2. *No target set.*
3. *This included an amount of R64 million (2002: R283 million) spent on the fibre optic network.*

The high-level performance against objectives for the year is as follows:

Objectives	**Key performance indicators**	**Targets**	**Performance results**
- Position EFC to be the financial services provider of choice in the electricity industry and other selected niche markets	- Structure the EFC funding mechanism and launch EFC rated commercial paper to facilitate funding	In place	Repositioning put on hold in response to a strategic decision affecting EFC by the government
	- Economic value added to Eskom, Rm	BR42,0m	Exceeded - R61,0m (2002: R93,6m)
	- Customer satisfaction level index, %	B80,0%	Exceeded - 87,1% (2002: 86,5%)
	- Human resources sustainability index, %	B90,0%	Exceeded - 90,3% (2002: 95,0%)
	- Culture and climate index, %	B50,0%	Exceeded - 69,0% (Not measured in 2002)

Escap Limited

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

The operating results for the year are summarised as follows:

	Budget 2003 Rm	**Actual 2003 Rm**	Actual 2002 Rm
Premium income	**543**	**419**	467
Reinsurance premium expenditure	**(100)**	**(40)**	(67)
Net premium income	**443**	**379**	400
Insurance expenditure	**(451)**	**(577)**	(489)
Underwriting loss	**(8)**	**(198)**	(89)
Investment income	**95**	**111**	100
Profit/(loss) before tax	**87**	**(87)**	11
Taxation	**(26)**	**(15)**	(7)
Net profit/(loss) for the year after tax	**61**	**(102)**	4

The high-level performance against objectives for the year is as follows:

Objectives	Key performance indicators	Targets	Performance results
- Operating and capital resources are used economically, efficiently and effectively	- Operating costs as a percentage of net premium income, %	<15,0%	Achieved - 14,3% (2002: 13,3%)
- Maintain financial viability over the long-term	- Solvency/net asset ratio, %	>60,0%	Not achieved - 26,0% (2002: 53,0%)
- Support black economic empowerment	- Procurement expenditure on black economic empowerment, %	60,0% of discretionary expenses	Achieved - 92,0% (2002: 92,0%)
- Improve discipline, governance and accountability	- Shareholder compact approved and implemented	Yes	Not achieved but in progress
	- Effective governance structures and processes implemented	Yes	In place
	- Internal controls are in place, and they are effective	Yes	No material breakdown occurred during the period under review

During 2003, Escap experienced an unprecedented increase in the value and frequency of insurance claims. A loss ratio protection policy was arranged with Gallium Insurance Company Limited (Gallium) which afforded some protection to limit the impact of claims. The estimated recovery from this policy is R81 million (2002: R85 million) at 31 December 2003.

Premium income reduced in 2003 when compared to 2002 due to the reinsurance programme that moved a higher proportion of exposure to Gallium. Insurance deductibles and limits for the Eskom divisions differ year on year.

Although Escap's solvency margin is below the target, it is still within the acceptable parameters required by the Financial Services Board. There will be ongoing management attention and risk management in 2004 to address the underwriting loss.

Gallium Insurance Company Limited

Gallium, a wholly-owned insurance subsidiary of Eskom, was established in 1995 to provide insurance capacity to Eskom and Escap for catastrophic risks and risks for which insurance cover is not available. Gallium retains risks for its net account, which is prudent in relation to its financial resources, and purchases reinsurance as appropriate from international markets. Gallium was also adversely affected by the numerous high value asset claims that occurred during 2003 and a higher proportion of reinsurance exposure.

The operating results for the year are summarised as follows:

	Budget 2003 Rm	**Actual 2003 Rm**	Actual 2002 Rm
Premium income	**289**	**321**	130
Reinsurance premium expenditure	**(109)**	**(160)**	(83)
Net premium income	**180**	**161**	47
Insurance expenditure	**(164)**	**(150)**	(204)
Underwriting profit/(loss)	**16**	**11**	(157)
Investment income	**91**	**88**	74
Net profit/(loss) for the year	**107**	**99**	(83)

The high-level performance against objectives for the year is as follows:

Objectives	Key performance indicators	Targets	Performance results
- Operating and capital resources are used economically, efficiently and effectively	- Operating costs as a percentage of net premium income, %	A1,0%	Achieved - 1,0% (2002: 2,0%)
- Maintain financial viability over the long-term	- Surplus over Isle of Man statutory solvency margin, %	100,0% of solvency margin	Exceeded - solvency margin substantially in excess of 100%.
- Improve discipline, governance and accountability	- Effective governance structures and processes implemented	Yes	In place
	- Internal controls are in place, and they are effective	Yes	No material breakdown occurred during the period under review

Electricity tariffs

Average price increase

In October 2003, the NER approved a 2,50% average price increase for implementation on 1 January 2004. The price increase approved in 2002 for 2003 was 8,43%.

Electricity prices are currently not cost-reflective. Although Eskom is able to recover its operating costs and finance charges, the true cost of the capital invested in Eskom's assets is not reflected in the electricity price. This is evidenced by Eskom's very low inflation-adjusted return on assets. Eskom has therefore proposed a gradual increase in the real price of electricity (together with efficiency savings and sales growth) in order to ensure that the true cost of capital is recovered. Cost-reflective prices are essential to ensure a sustainable industry and healthy pricing signals, leading to economic efficiency from a macro-economic perspective. Eskom has recognised that there would have to be a phasing-in period to increase prices to cost-reflective levels in order to avoid price instability.

While the price increase of 8,43% for 2003 was regarded as a positive step in the direction of cost-reflective prices, Eskom is concerned that the price increase of only 2,50% allowed for 2004 may result in long-term price instability. Eskom based its 8,50% price increase application on the principle that prices need to become cost-reflective. Eskom has therefore contested the NER's decision on a number of grounds. A formal appeal has been made to the Minister of Minerals and Energy and feedback on the appeal is now awaited.

Regulation

The relationship between Eskom and the NER continues to be constructive. The NER developed an economic regulatory framework in 2002, which was debated amongst various stakeholders, including Eskom, at a workshop hosted by the NER during 2003. The current framework is based on the rate-of-return methodology. The NER has indicated that it intends gradually to move away from the rate-of-return methodology to incentive-based regulation.

Tariff restructuring

Cost-reflective tariff structures provide pricing signals that promote the sustainable, efficient and effective use of electricity. This principle is entrenched in the Energy White Paper and forms part of Eskom's strategic pricing direction. Eskom has, since 1996, implemented gradual changes to its tariff structures to make tariffs more cost-reflective and to rationalise different tariffs. Changes to the tariff structure have resulted in the following benefits during 2003:

- More cost-reflective pricing of energy costs in the different time-of-use periods and seasons have contributed to changes in customers' energy consumption patterns, thereby supporting the demand-side management programme with an estimated load shift of 450 MW during peak hours between 2001 and 2003.
- Customers that are efficient and effective users of electricity and who have responded to the pricing signals have seen reductions in overall prices reflected on their electricity invoices.
- Better quantification of cross-subsidies.

Proposed future structural changes to Eskom retail tariffs include the unbundling of the network and retail components for the Megaflex, Miniflex and Nightsave (Urban) tariffs.

Integrated risk management (IRM)

The IRM process has been implemented within the entire Eskom Group of companies and takes into account known and possible risks and opportunities to which the organisation is or may be exposed. These risks and opportunities are identified and evaluated. Significant risks are then mitigated by those accountable for decision-making.

Eskom's IRM process continues to identify the key risks by which the organisation is faced. A review is conducted twice a year and follows a bottom up approach for both line and functional areas. The risks identified by the Eskom Group are then ranked by senior management. The following key risks were identified for the second part of 2003:

- Regulatory risk that encompasses the need for a clear regulatory framework and adequate price increases to ensure long-term sustainability.
- Future capacity, where the following needs to be addressed:
  - The availability of capacity in the long-term.
  - The impact of new capital projects on the overall business.
  - The ongoing ability to maintain consistent supply.
  - Aging plant and increasing plant performance requirements.
- Debt management of small power users.
- Non-technical energy losses where the theft of conductors results in the lack of supply of power and the potential for injuries to the public.
- The ability to respond to changes in the industry arising from the proposed new Electricity Supply Industry in South Africa while meeting the shareholder's objectives for the company.
- Shareholder relationships with the focus on the ability to manage the different expectations of the shareholder and government departments in terms of Eskom's business objectives.
- Information security, management of the outsourced information technology service contract, lack of skills and resources, and information technology business continuity management.
- Availability of the skills required for the future business needs including skills retention, training and succession planning. The impact of HIV/AIDS is also addressed as a component of this key risk area.

Further information with regard to risk areas, such as health and safety, treasury and environmental issues, is provided separately within this report.

Internal training continues to enhance the IRM process, and has further improved the IRM expertise within the organisation. Each division and main subsidiary has a risk co-ordinator, and the communication flow from the corporate office through these co-ordinators down the line and back up to the Board is designed to ensure that a common approach is maintained.

Another IRM conference was held in 2003 to provide training and networking opportunities for Eskom staff. A number of events to promote the IRM process at various levels within the organisation were held, which highlighted the need to communicate and to report on risk issues.

During 2003, the Board conducted a risk review of the potential key risks and opportunities facing the organisation. Some of the challenges for 2004 include a communication strategy to encompass key risk reporting within the organisation, to enhance the organisational risk culture, the review of a risk assessment software system and the ability to assess the risk of a lost opportunity.

Sensitivity to financial market forces

During the year, the internal procedure for identifying and reporting foreign currency exposures has been further refined. Eskom's policy to hedge all fixed and ascertainable foreign currency commitments remained unchanged, thereby minimising volatility on operational activities due to currency fluctuations. Eskom maintained its strategy of shortening the duration of its debt portfolio through the use of interest rate swaps which, in the declining interest rate environment experienced during 2003, resulted in a significant reduction in the cost of debt. Surplus cash from operations was invested at better than average rates to mature in 2004 and 2005, to reduce the expected cash requirements in those years.

Maintaining good governance

Shareholder compact

A shareholder compact between Eskom and the government, as shareholder, has been in place for 2003. The compact was developed to encourage and promote good governance practices within Eskom. Additional information appears on page 12.

Governance structures and processes

Effective governance structures and processes, in line with the King II Report and in terms of the PFMA, have been implemented in Eskom and its subsidiaries. The behaviour of employees and management is governed in terms of the Business Conduct Policy.

Internal control

Various internal control assurance functions, including internal and external audit, have confirmed that, in all significant respects, systems of internal control are in place and are effective.

Additional information on corporate governance, ethics and internal control appears on pages 12 to 21.

Public Finance Management Act

Implementation, training and awareness

Whilst Eskom complies in all significant respects with the provisions of the PFMA, training within the major divisions, as well as the subsidiaries, to create awareness of and provide guidance to all staff regarding its application, continued during 2003. Non-compliance with this act is dealt with in terms of Eskom's existing disciplinary process.

The materiality framework for reporting losses through criminal conduct and irregular, fruitless and wasteful expenditure, as well as for significant transactions envisaged per section 54(2) of the PFMA, has been finalised and incorporated into the shareholder compact.

Losses through criminal conduct and irregular, fruitless and wasteful expenditure

Fruitless and wasteful expenditure

No significant fruitless and wasteful expenditure was identified as having been incurred during the year.

A loss of R128 million that was incurred in 2002 as a result of excess foreign exchange cover taken was reported in the 2002 annual financial statements. Comprehensive training and awareness initiatives and additional control measures to prevent the recurrence of the issue were successfully implemented in 2003. The disciplinary process to determine the appropriate action to be taken is approaching finalisation.

Criminal conduct

Revenue losses

The reduction of electricity revenue losses due to fraud and illegal connections remains an area of continued focus. Actual losses are monitored and reported on a monthly basis. Actions to curtail the losses are tracked to ensure strategies are continuously realigned for relevance and effectiveness. Strategies and interventions implemented to reduce non-technical losses indicate improvements in this area.

Actions taken to reduce illegal connections included the following:

- Field revenue protection audits have been expanded.
- The visibility of Eskom resources at area level has been improved.
- Focus on customer education through public media is currently underway by way of the "izinyoka" (the zulu word for "snakes") campaign.
- There is a focus on increasing current internal resource capacity and forensic investigations to ensure successful conviction of transgressors.
- Task teams have been established to remove illegal connections.

These initiatives continue to be a key priority within the Distribution Division.

Conductor theft

There is continued collaborative effort between Eskom, other affected state-owned enterprises and the government law enforcement agencies to address conductor theft from a national perspective. Significant progress was made in the reduction of conductor theft. The number of incidents decreased from 2 538 in 2002 to 1 708 in 2003, with a substantial decrease in the kilometres of conductor stolen.

Eskom Enterprises and other subsidiaries

Eskom Enterprises complies in all significant respects with the provisions of the PFMA. The Eskom Enterprises Board, as the accounting authority, complies with the various duties and responsibilities as prescribed by the Act. An awareness programme, run by Eskom, has been used to communicate the implications of the Act. Training has been provided to other subsidiaries during the year to educate employees and create employee awareness.

Mountain Communication (Pty) Limited (MKC)

Eskom Enterprises invested in MKC and obtained approval for the initial investment in terms of section 54 of the PFMA. Procedural non-compliance with the PFMA relating to an additional investment in MKC was reported in the 2002 annual financial statements where transactions to the value of R167 million of the total investment of R216 million were not in compliance with the PFMA. The Eskom Enterprises Board approved the transactions retrospectively, on the basis that Eskom Enterprises was bound by the agreement. Eskom Enterprises applied for retrospective approval in this regard from DPE.

The Eskom Board reviewed the business case for MKC and raised a provision for impairment against the investment in MKC. Eskom will follow due process in 2004 to ensure compliance before final feedback will be given to the shareholder. An appropriate disciplinary process was followed and concluded. At the same time steps have been taken to strengthen the procedural processes, in particular with regard to PFMA applications, to prevent similar occurrences.

Information management

Eskom recognises the need to manage its information in an integrated manner. This takes cognisance of the need to balance transparency and openness towards stakeholders with confidentiality and protection of intellectual assets. Information categories are identified and managed to ensure adherence to this objective. Information management is integrated with good business management and is supported by effective information systems in a manner that allows for the systematic entry and exit points for information into and out of the organisation.

Promotion of Access to Information Act

Eskom complies with the Access to Information Act, 2 of 2000. The information manual for Eskom was published, in terms of the Act, in the Government Gazette in February 2003 and is available on the Eskom website.

Business systems and processes

Key initiatives under business systems and processes included the following:

Customer billing system

The CorDaptix billing system was implemented for the conventional customers in November 2002. The solution for prepaid customers was successfully implemented in July 2003.

Human resources information system (HoRISon)

HoRISon, an integrated human resources information system was implemented in Eskom on 1 November 2003. Eskom selected the human resources module of Systems Application Products (SAP) as the technology platform for this initiative. The objective of the programme is to integrate existing human resources systems, processes and procedures across all divisions into a single technical system, to align Eskom's business processes with best practices in human resources management.

SAP upgrade

The upgrade to SAP 4.6 in all divisions was successfully implemented in May 2003.

1.2 Use of resources

Productivity performance

Productivity performance measurement provides 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 price of Eskom's resources. 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, who include customers, employees and investors.

The change in net profit between 2002 and 2003 was as follows:

	2003 Rm	2002 Rm
Net profit for the year before fair value adjustment	**5 311**	4 858
Net profit for the previous year before fair value adjustment	**(4 858)**	(3 608)
Change in net profit before fair value adjustment	**453**	1 250
Adjustments and provisions not impacting on overall performance	**1 194**	(682)
Change in adjusted net profit	**1 647**	568
Attributable to:		
Net productivity improvement	**613**	382
Price recovery	**452**	(338)
Wealth reinvested in the business	**1 065**	44
Growth	**582**	524
Total	**1 647**	568

The adjustments and provisions not impacting on overall performance include the effect of insurance repairs and recovery, asset impairments and other extraordinary expenditure.

The sustainable improvement in productivity continues to be a key focus area for the business. This is reflected by an improvement of R613 million during the year with a positive contribution from efficiency as well as the better utilisation of fixed capacity through increased sales volumes.

The result indicates that Eskom further increased the improvements achieved in previous years, thereby demonstrating its commitment to improving performance on a sustainable basis. The results also indicate that there was a positive price recovery of 1,8 percentage points or R452 million. This represents the difference between the effective price increase passed onto the customer and the price increase that the business had to absorb from its suppliers of resources. This meant that Eskom's effective average electricity price increase was higher than the impact of inflation on the business. The improvement achieved was as a result of the better utilisation of existing capacity and infrastructure through increased sales, as well as improvements in business efficiency. Over the past ten years, Eskom's cumulative productivity saving, when expressed in 2003 rand value, amounted to R11 277 million.

The productivity results for the year were as follows:

	Budget 2003 Rm	Actual 2003 Rm	Actual 2002 Rm
Productivity - resource view	**189**	**613**	382
Primary energy	**16**	**(182)**	3
Operating manpower	**82**	**281**	193
Other operating expenses	**81**	**390**	89
Capital	**10**	**124**	97
Productivity - business view	**189**	**613**	382
Core business	**203**	**629**	390
Electrification and takeovers	**(14)**	**26**	(20)
Other	**-**	**(42)**	12
Productivity - capacity and efficiency view	**189**	**613**	382
Capacity utilisation	**265**	**563**	453
- Primary energy	**5**	**12**	31
- Other	**260**	**551**	422
Efficiency	**(76)**	**50**	(71)
- Primary energy	**11**	**(194)**	(28)
- Other	**(87)**	**244**	(43)

Eskom recorded a bottom-line productivity improvement of 2,5% (2002: 1,6%) during 2003. There were significant productivity improvements in operating manpower, other operating expenses and capital, excluding primary energy. The results reflect the highest level of improvement, in percentage terms, achieved since 1996. In financial terms, the sum of the improvements in these resource categories saved the business R795 million (2002: R379 million). At Eskom level, primary energy recorded negative productivity during 2003 due to a change in the mix of power generation used, increased coal handling as well as an increase in technical and non-technical losses. As electricity demand increases and spare generating capacity reduces, Eskom is forced to use the higher cost power stations. The productivity improvement against budget was due to a focus on improving business efficiency as well as actual sales growth being 2,9 percentage points higher than budget. Employee productivity improvement resulted in a positive contribution of R281 million (2002: R193 million).

The productivity results have been reviewed by the National Productivity Institute (NPI). It 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 presents the overall performance of Eskom for 2003 when compared with 2002. The NPI congratulated Eskom for its commitment to account for its productivity performance and its transparency and consistency in reporting its productivity results.

Human resources sustainability index

The human resources sustainability index provides a measure of Eskom's ongoing ability to achieve its human resources objectives. The index comprises 25 (2002: 20) measures in the areas of employee satisfaction, competence, equity, and health and wellness. The measures are reviewed on an annual basis to ensure their continuing appropriateness. The target of 80,0% for 2003 was exceeded with an achievement of 91,8% (2002: 89,8%).

Skills management

A skills management system to identify and develop requisite skills had been populated with skills profiles for all management and professional levels. This has assisted management and human resources practitioners to map current and future individual skills profiles. Eskom has also established partnerships to address the provision of identified scarce and critical skills.

Eskom Learning Institutions (ELI)

During 2003, ELI aligned themselves with national legislative requirements whereby the uplifting, empowering and up-skilling of human resources in South Africa has been enhanced. In the area of Education, Training and Development (ETD) a pilot project involving unemployed black women was conducted at the ELI to assist in the creation of an equity skills pool in the technical ETD arena through exposure in the technical fields of electrical and electronic engineering. Aside from technical education, general training takes place in all Eskom divisions that are aimed to increase competency levels.

Work-life balance

Eskom's policies on flexible work practices have enabled, amongst others, women to balance work and family responsibilities.

Training and development

Eskom is committed to the training and development of all employees and to contribute towards the skills development of not only the Eskom employees, but also the broader South African community. Development is a prerequisite for all employees, and the completion of appropriate training and development is managed through their performance contracts and tracked on the skills management system.

Eskom plays a significant leadership, development and management role within the Energy Sector Education and Training Authority in ensuring that appropriate training is provided for the industry. ELI, in conjunction with subject matter experts from Eskom and collaborative industrial partners, has developed several programmes for learnerships to be registered with the South African Qualifications Authority (SAQA).

Eskom bursaries are available to students for tertiary education, particularly to talented South African youths who could become future employees. Through various levels of structured learning programmes, coupled with practical work experience, current employees can upgrade their existing skills to benefit themselves and the organisation. Apart from training current employees, learnerships will benefit unemployed people by improving their prospects of future employment. During the year, 356 learners in various disciplines have been indentured. The project's key objective is to address the skills shortage in South Africa.

Scholarships are also provided to the children of employees without further obligation to Eskom. These are awarded on a weighted system, based on the length of employee service, student results and demographical representation. Interest free loans are also available to all Eskom employees with children at school level to assist with education needs.

Training and development	**Actual 2003**[1]	Actual 2002
Training		
Total training cost, Rm	**505**	494
Average training cost per employee, R'000	**17**	17
Learnerships		
Bursars and trainees, number	**1 850**	2 010
Black bursars and trainees, %	**87**	87
Women bursars and trainees, %	**50**	58
Black bursars and trainees that completed training, number	**455**	590

Vision E

Vision E, a transformational leadership development programme that uses a blended learning approach, comprises an electronic or internet-based content, learning laboratories, case studies, mastery tests, simulations and discussion databases. It was implemented in August 2003 and will run until 2005. This transformation programme addresses Eskom values and the competencies of Eskom leaders on managerial and professional levels, and embraces the concept of African leadership.

Remuneration and benefits

The incentive scheme and performance management processes introduced for managerial levels in 2002 have been extended to all staff in 2003. These are designed to encourage employee behaviour that will contribute to business performance.

Employee relations

The decision-making process in Eskom encapsulates employees' input through a two-pronged process, which includes direct communication with managers and professionals and through consultation with employees in the bargaining unit with their recognised trade unions in terms of the recognition agreement. Both approaches are based on the principle of encouraging employee participation with the objective of fostering co-operation in the workplace.

No national industrial action was experienced in 2003. There were, however, regional incidents that resulted in a total of 1 140 man days lost. This is a notable improvement when compared to the 2 567 man days lost in 2002.

Health and wellness

Eskom has a comprehensive health and wellness programme that encompasses psycho-social support, sports and recreation, biokinetics, spiritual wellness, occupational health and medicine, travel medicine, expatriate health and health education/promotion. The health and wellness programme, implemented in 2000, has now cemented itself within the organisation. The 2004 focus of the programme will be ongoing awareness and the further empowerment of women.

Managing the impact of HIV/AIDS

Through its commitment to managing the impact of HIV/AIDS through integrated response strategies, Eskom aims to empower all its employees through knowledge and awareness, and thereby enhance the sustainability of the business.

A second organisation-wide surveillance study was carried out in 2003. The results of the survey are being analysed and will be incorporated into Eskom's response strategies.

The ongoing HIV/AIDS education and awareness programmes continued to promote voluntary confidential counselling and testing among employees. The programmes focus on the benefits to all employees of self awareness, with subsequent access to appropriate counselling and support for HIV positive employees and their families, as well as access to medical care for the treatment of tuberculosis, sexually transmitted diseases and other opportunistic infections.

Allied to the education programme is the identification of high risk circumstances where Eskom employees could be more vulnerable to HIV infection. Mitigation strategies will be implemented to help reduce the incidence of infection in such circumstances.

Eskom aims to maintain a strategic focus on HIV/AIDS related developments, and to provide updated management information regarding HIV/AIDS related issues. In addition, Eskom is ensuring that all its business practices impacted by HIV/AIDS employ a non-discriminatory approach. A communication plan has been developed to communicate the HIV/AIDS response strategies to the organisation in a structured way.

1. No target set.

Eskom's Managing Director for the Human Resources Division was recently appointed to the board of governors of the South African Business Coalition on HIV/AIDS. Eskom is a founding member and current sponsor of this coalition that strives to co-ordinate the business response to the pandemic in South Africa, and to share best practices in the care and support of sufferers. Eskom is also a delegated member of the Global Fund to Fight HIV/AIDS, tuberculosis and malaria, as well as a member of another three international organisations focusing on HIV/AIDS management.

Eskom continues to support the South African AIDS Vaccine Initiative (SAAVI) in its search for a HIV/AIDS vaccine, in order to counter the effect that HIV/AIDS has on both Eskom and the broader economy of South Africa. SAAVI, co-ordinated by the Medical Research Council, was set up to co-ordinate the research, development and testing of affordable and effective HIV/AIDS vaccines for southern Africa. Eskom contributed R15 million in 2003, to bring its cumulative contribution since the inception of this initiative in 2000 to R67 million. Eskom has committed to fund this research further to the extent of R45 million until 2007.

Eskom is involved in the funding, governance and strategic direction of the training programme for health care professionals regarding the clinical management of HIV/AIDS. This programme aims at ensuring that every health care worker has the knowledge and skills to care for people living with HIV/AIDS. Eskom, as a founding sponsor, committed R6 million to the Foundation for Professional Development over a period of three years. The first R2 million was paid in 2003.

1.3 Customer management performance

Customer perception

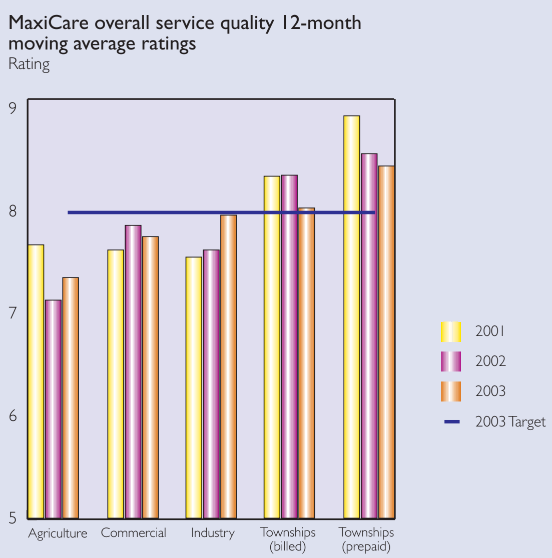
Eskom uses a variety of statistical perception surveys, conducted by an independent organisation, which measure customer satisfaction with the service delivered.

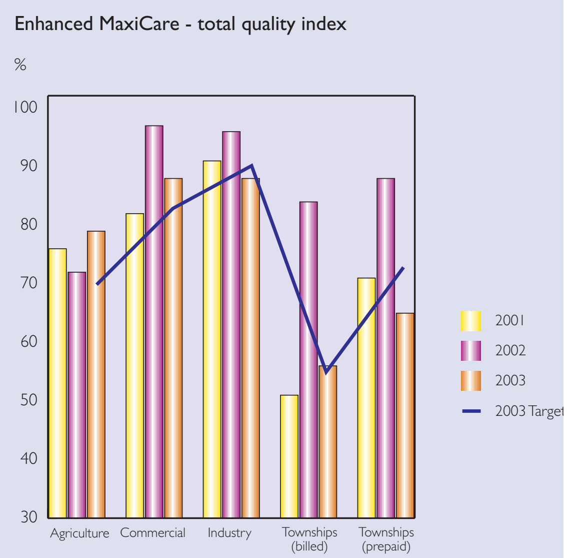
Customer service index

The results of the various customer service perception studies and some relevant internal customer service measurements are combined in the customer service index. At the end of 2003, the customer service index was 82,63% against a target of 80%.

MaxiCare[1] and PreCare[2]

MaxiCare and PreCare surveys rated Eskom's overall service quality at 7,83 (2002: 7,91) for MaxiCare and 8,31 (2002: 8,49) for PreCare against targets of 8. Areas highlighted for improvement in the agriculture, commercial and industry customer categories related to account estimates, quality of supply and outage management.





1. Monthly survey of customers that have been receiving electricity for longer than six months on a scale of one to ten.
2. Monthly survey of new customers or customers with revised contracts on a scale of one to ten.

Enhanced MaxiCare[1] and PreCare[1]

The Total Quality Index (TQI) summarises the enhanced MaxiCare and PreCare results and gives a broader overall indication of the quality of service delivered. Both the importance and perceived performance of the individual service aspects measured are taken into account. The average TQI for enhanced MaxiCare for all customer categories was 79% (2002: 87%) against a target of 77%. The TQI for enhanced PreCare was 70% (2002: 97%) for residential customers against a target of 72%.

The TQI analysis indicates an improvement in the agriculture category and realistic levels for all other categories given the adjustments to the new billing system and the culture of non-payment in the township billed category. The market in this category has been very volatile and many of the areas have been changed to the prepaid system.

KeyCare[2]

The KeyCare TQI, which measures the perceptions of key customers, reflected performance of 110% (2002: 104%).

CallCare[3]

Call volumes answered by the seven contact centres decreased to 2 411 006 (2002: 2 430 173). The contact centre service level measured during a 12-month moving window improved to 73% (2002: 70%) of calls answered within 30 seconds.

The CallCare survey measures the satisfaction of customers who phoned the contact centre in the previous week. Customers rated the contact centre service delivery as 7,44 (2002: 7,30) and the follow-up service delivery at 5,99 (2002: 6,20) on a scale of one to ten.

A new customer relationship management solution has been initiated for implementation in 2004. This will assist in the tracking and automatic escalation of customer queries for resolution and follow-up.

1.4 Technical performance

Operational sustainability index

The purpose of the operational sustainability index is to reflect overall technical performance, and to balance low-cost production of electricity against sustainable long-term reliability. The index, through its monitoring process, assists management to achieve the smooth and sustainable long-term technical running of Eskom. The index combines 18 (2002: 19) weighted indicators into a composite index. The number of weighted indicators was reduced by one as a result of the more logical regrouping of the sub-measures.

The index is revised annually to ensure that appropriate indicators are measured, and that standards and alarms are realistic. International and regional trends are monitored and, where appropriate, included in the index. Employee performance is evaluated against this index.

The score achieved for 2003 was 89,62% (2002: 88,18%) against a minimum threshold of 80%. This is the second highest score since the inception of the index in 1996.

In the Generation Division, where annual availability, reliability, long-term plant health and nuclear safety are measured, a score on the index of 94% (2002: 100%) was achieved. The reduction in the score of the Generation Division was as a result of the unplanned capability loss factor that moved from 3,0% in 2002 to 5,5% in 2003 due to a catastrophic plant failure at Duvha Power Station. In the Transmission Division the score was 97% (2002: 97%) for measures that included system stability, plant health, interruption performance and quality of supply. Although there were slight improvements in performance, this did not change the score in any of the measures. The Distribution Division measures quality of supply and customer service and achieved a score of 85% (2002: 73%). The score improved due to improvements in the customer service measure from 56% in 2002 to 75% this year.

The safety and environmental measures, which are the responsibility of all divisions, scored 40% and 100% respectively (2002: 30% and 100%). The safety score improved because Eskom vehicle and other fatalities reduced from six in 2002 to two this year.

The common NRS 048 compliance measure, which measures compliance with the NER's requirements for power quality, scored 100% (2002: 100%).

1. *Monthly survey where retail customers and newly electrified residential customers rate both importance and perceived performance on detailed service issues where results are the TQI percentage against importance.*
2. *Monthly survey where key customers rate both importance and perceived performance on detailed service issues where results are the TQI percentage against importance.*
3. *Monthly survey where customers that have phoned the call centre are asked to rate the various aspects of their experience on a scale of one to ten.*

Generation plant performance

Generation energy availability factor (EAF)

The EAF measures plant availability and takes into account energy losses not under control of plant management, as well as internal non-engineering constraints. During 2003, a performance of 87,5% (2002: 89,3%) was achieved against an annual target of 89,2%. This deterioration, relative to 2002, resulted from an increase in planned and forced outages.

Plant unit capability factor (UCF)

During 2003, the Generation Division experienced an abnormal catastrophic failure relating to the turbine generator of Unit 2 at Duvha Power Station. This compounded other major events, which also had an impact on performance and resulted in an abnormal rise in forced outages of approximately 3,0%. This is reflected in the average generating unit UCF for 2003 of 88,7% (2002: 91,7%). Despite the unfortunate plant failures, the Generation Division was still able to meet the significantly increased load growth during 2003 by increasing production by 4,9% for the year against an expected increased production level of 1,6%.

Unplanned automatic grid separations (UAGS)

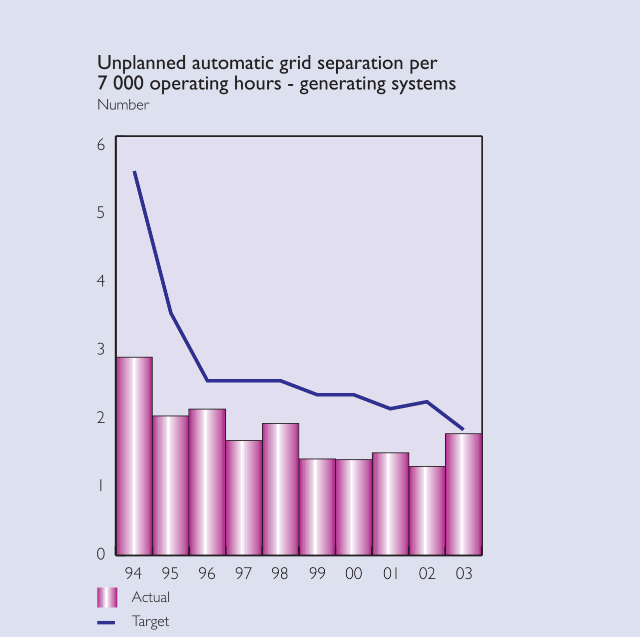
UAGS/7 000 hours, a EURELECTRIC base load plant indicator, is a measure of the reliability of service provided to the electrical grid, and measures the number of supply interruptions per operating period (7 000 hours on average). During 2003, this indicator measured 1,78 (2002: 1,30) trips per unit per year against a target of 1,80. This is reflective of the increase in forced outages explained above.

Transmission system performance

The key Transmission Division measures, which directly impact on continuity of supply to customers, are system minutes lost and the number of interruptions.

Over the past few years, a major focus has been placed on reducing the number of interruptions that affect customers. The Transmission Division reported 37 (2002: 51) interruptions for the year against a target of 49 and 3,18 (2002: 3,85) system minutes (less than one) lost against a target of 4,90. During 2003, there was one (2002: two) incident with a severity greater than one system minute. This occurred at the Invubu substation and resulted in 1,17 system minutes lost.

Another key indicator, which impacts on the quality of the supply delivered to customers, is the number of line faults. The Transmission Division's ongoing initiatives to reduce the number of line faults has resulted in another best ever performance in 2003 of only 534 line faults, compared to the 606 line faults reported in 2002.



Distribution system performance

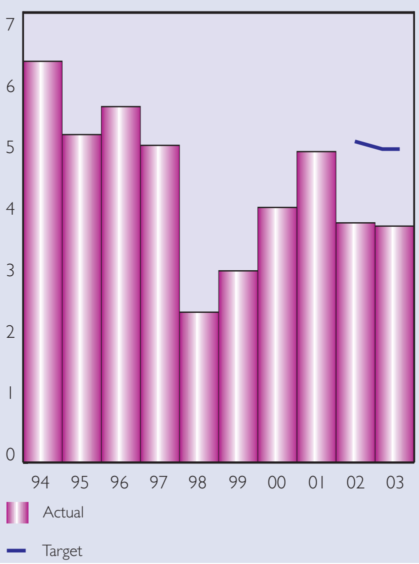
Distribution system performance is measured by network performance and power quality indicators. Network performance indicators are measures of the frequency, duration and impact of interruptions as experienced by customers, while power quality indicators measure the technical quality of electricity supplied to customers.

The Distribution Division implemented an information system called Network Equipment Performance System to capture and quantify the impact of interruptions on customers. National reporting will commence in 2004, as the interruption data has now stabilised sufficiently for the trends of these indicators to be measured meaningfully.

Power quality indicators are those associated with voltage waveform (regulation, unbalance, and harmonics) and voltage disturbance (S,T, X and Z-type dips). The performance for these power quality indicators was:

Measure		**Target 2003 %**	**Actual 2003 %**	Actual 2002 %
Waveform quality indicators	Regulation[1]	**97,0**	**98,7**	98,0
	Unbalance[2]	**97,0**	**99,2**	98,4
	Harmonics[3]	**97,0**	**100,0**	100,0
Disturbance indicators	Type X dips[4]	**96,0**	**98,6**	98,8
	Type S dips[4]	**96,0**	**100,0**	96,4
	Type T dips[4]	**96,0**	**100,0**	100,0
	Type Z dips[4]	**96,0**	**100,0**	95,2

Systems minutes for incidents less than one system minute
Minutes



No targets were set for systems minutes less than one before 2002. Large interuption events (all individual events greater than or equal to one system minute) are reported separately from 2002 to ensure that trends in the underlying performance of the system are understood.

1. *Reflects the ability to control deviations from the nominal supply voltage contracted with customers.*
2. *Reflects the ability to keep the three phases of the supply voltage electrically balanced, i.e. displaced by 120 degrees relative to each other and the same magnitude.*
3. *Reflects the ability to avoid higher order frequencies in the 50 Hz supply voltage.*
4. *Reflects the ability to minimise faults and breaker operations at various voltage levels.*

The targets for these indicators are based on regulatory requirements set by the NER, as well as a continued drive by the Distribution Division to improve the quality of power supply. Steps taken include reconfiguration of networks, improvement of equipment performance and improved management of external factors, such as bird interactions, pollution, veld fires and lightning. The Distribution Division is focusing on improving this performance further, as these measures have a direct impact on the satisfaction and profitability of certain customers.

Energy purchases and resource management

Eskom continued to review its fuel supply options and plant operating methodology with a view to reducing costs and improving efficiency and flexibility.

Coal

The higher than expected growth in the total electricity demand for 2003 resulted in 104,4 million tons (2002: 96,5 million tons) burned compared to the budget of 98,9 million tons.

Coal stockpile levels have generally remained at an acceptable level throughout the year. However, emergency purchases were required to supplement the low stockpile levels at Tutuka and Majuba Power Stations. These low stockpiles were as a result of a number of technical problems at other power stations combined with the additional growth in electricity consumption. To transport the additional purchases, the maximum availability of Spoornet was used, whereafter road transport was used.

Black economic empowerment (BEE)

During 2003, Eskom purchased 104,9 million tons of coal (2002: 92,8 million tons) against a budget of 97,2 million tons. Of this, 23,8 million tons (2002: 18,1 million tons) were purchased from BEE suppliers, including purchases from Eyesizwe Mining (Pty) Limited.

The list of pre-qualified suppliers was used as the basis for acquiring emergency coal in 2003, in line with Eskom's long-term plan to support BEE and introduce flexibility when purchasing additional coal (over and above the existing long-term contracts). Eskom has now requested tenders to secure coal supplies for the Tutuka and Majuba Power Stations.

Major projects

Projects are being carried out on the Eskom-tied collieries to ensure stable coal supplies, which will enhance Eskom's ability to meet electricity production requirements.

The Matla 2-seam shortwall, which was installed during 2002, achieved a record production of 423,2 kt in October 2003, proving that the high expectations were valid.

The Khutala Pit A opencast operations were behind schedule due to delays in the approval of the environmental management programme. Production has started in the pit during 2003, with the overland conveyor expected to be fully operational in 2004.

A project to develop a coal transport system that will meet the full burn requirements of Majuba Power Station and any shortfall at Tutuka Power Station, as well as to improve source and inter-station flexibility, has been initiated.

Approximately 6,7 million tons of coal were transported by rail and road to the Eskom coal fired power stations during 2003. Of this, 3,4 million tons were transported via rail and 3,3 million tons via road. Due to the poor condition of the roads in the Mpumalanga province, and the lack of funds within the provincial government, Eskom spent approximately R20 million on road repairs during the year.

Environmental

Eskom has long-term coal supply contracts with mines to ensure the continuous supply of coal to the power stations. Information relating to closure, pollution control and rehabilitation provisions appears in note 18 on page 115.

A feasibility study was initiated to determine the most economically, technically and environmentally viable transport mode and route to supply Tutuka and Majuba Power Stations with coal. These stations will be required to generate electricity at full capacity by 2006.

Eskom continues to support the commitment of the mining houses to meet international environmental standards, in particular the implementation of the ISO 14001 standard.

Water

During 2003, Eskom's power stations used 271 940 Mℓ (2002: 251 611 Mℓ) raw water to produce 210 218 GWh (2002: 197 737 GWh) of electricity, resulting in specific water consumption of 1,29 ℓ/kWh (2002: 1,27 ℓ/kWh) sent out against a target of 1,26 ℓ/kWh sent out. The higher specific consumption over the last three years is mainly attributable to changes in the production mix and to the water management practices during the drier climatic conditions. The target for water consumption is adjusted depending on the projected energy production from wet-cooled power stations and water quality. These targets are also benchmarked against historical as well as theoretical water consumption for each power station. Eskom continues to explore the use of mine water as a supplementary source to its overall water abstraction.

Eskom, as a strategic user of water, is mindful of the importance of water to its business, as well as the development of the country. It continually assesses the impact of water related issues on its business, and actively participates in the formation of catchment management agencies.

Key environmentally related water research projects undertaken include the development of a water model for optimised water management, a surface water monitoring programme and brine disposal management.

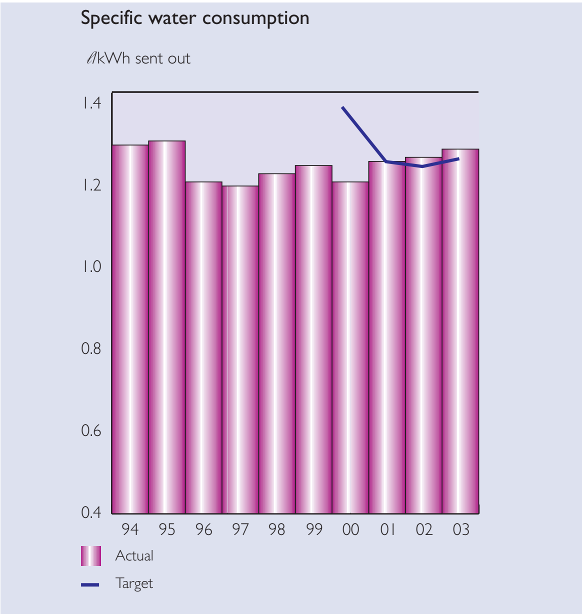
Hydro and pumped storage schemes

Hydro and pumped storage schemes contributed 1,6% (2002: 2,1%) of the electricity generated by Eskom during 2003, primarily during periods of peak electricity demand. The maximum peak demand increased by 1,0% (2002: 3,3%) to 31 928 MW (2002: 31 621 MW). Such peak demands are usually of short duration. Hydro electric power stations and pumped storage schemes are cost effective electricity generating technologies, providing a rapid response to peak electricity demand, and are important contributors to ensuring a sustainable supply of affordable electricity. Eskom continues to explore the development of new hydro schemes, both in South Africa (with the co-operation of the Department of Water Affairs and Forestry (DWAF)), as well as neighbouring countries, for the generation of electricity.

Nuclear

A nuclear fuel fabrication contract negotiated during 2002 was signed by Eskom and authorised by the government during 2003.

In accordance with Eskom's long-term strategy for the supply of enriched uranium, a tender process was entered into and tenders were awarded to two successful suppliers. The contracts with the two suppliers will be finalised during 2004. The contracts were hedged against foreign currency fluctuations and will ensure the supply of nuclear fuel to Eskom's Koeberg nuclear power plant at competitive prices until 2010.



Targets prior to 2000 were based on coal fired power stations only.

Research, development and demonstration

Research, development and demonstration is focused on supporting sustainable development in Eskom. Investment in technical research, development and demonstration projects amounted to R558 million (2002: R325 million) which is 1,8% (2002: 1,2%) of total revenue. This includes an amount of R380 million (2002: R189 million) spent on development expenditure on the Pebble Bed Modular Reactor (PBMR). It is estimated that, in 2003, research expenditure (excluding costs relating to the PBMR) provided a projected return of approximately 5:1 (2002: 5:1) in terms of avoided and direct cost reductions. In addition, non-quantifiable benefits in social, environmental and customer satisfaction were realised.

During 2003, highlights of activities included the official opening of Africa's first wind energy demonstration facility in the Western Cape. Eskom hosted the third South African Electric Power Research Conference and the Power Institute of Eastern and Southern Africa (PIESA) conference. Achievements included receiving the Platinum Class Award from the University of Durban-Westville for research and development. Five patent applications were made during the year.

Key research achievements, both at an operational and strategic level, in 2003 included:

- controlled skew gas flow technology for electrostatic precipitators for the removal of particulate emissions, which has saved Eskom approximately R70 million;
- the initiation of an air quality impact research facility at the Elandsfontein monitoring site to understand fully emission-atmosphere-impact relationships;
- pilot work was undertaken in the area of distribution automation, which is a technology whereby a customer can theoretically be reconnected to the electricity supply system in a shorter period of time; and
- pulse detection equipment which has been tested, to detect fires under transmission lines.

The South African Centre for Essential Community Services originally established by Eskom and the Electric Power Research Institute (EPRI), aims to identify, develop and implement technologies that improve the quality of life in South African communities. In 2003, efforts were directed towards technology for small businesses, water and sanitation, health and energy.

Demonstration

Eskom's strategic planning takes into account research and development relating to the identification of demonstration plants. Environmental impact assessments (EIAs) are integrated into business planning and investment decisions.

Wind

The wind energy demonstration facility was officially opened at Klipheuwel in the Western Cape in February 2003. During 2003, the three wind turbines produced 3,4 GWh and a total of 4,0 GWh since the commissioning of the first wind turbine in 2002.

Solar

The solar dish stirling system, commissioned in 2002, sent out a total net energy of 3 637 kWh in 2003. Low availability of the unit was due to problems with the control system, which have now been addressed. A close lightning strike also caused a control system and plant breakdown.

Biomass

In 2003, facilitation of the System Johansson Gasifier project continued in collaboration with the University of Fort Hare.

Sea currents

An investigation of the generation of electricity from the Aghulas sea current was initiated in 2003. A proposal for further work in this field has been developed.

Nuclear

In 2002, the EIAs were completed for both the demonstration PBMR nuclear power plant and its proposed fuel manufacturing facility. The final environmental impact report for the proposed PBMR was submitted to the Department of Environmental Affairs and Tourism (DEAT).

In 2003, the DEAT issued a positive Record of Decision (RoD) with conditions. Eskom is in the process of ensuring compliance with these conditions. A number of appeals were submitted to, and are being considered by, the Minister of Environmental Affairs and Tourism (Minister).

During 2003, in line with the conditions of the RoD, PBMR (Pty) Limited was externally audited and found to be compliant with the ISO 14001 standard.

The next phase of the PBMR project is subject to the outcome of the Minister's consideration of appeals and the required funding being secured. In this regard, local and international partners have been approached to secure full funding of the demonstration plant. Should funding not be secured by early 2004, the current partners will have to reconsider the future of the project.

Capacity planning and management

Eskom's Integrated Strategic Electricity Planning (ISEP) process provides strategic projections of supply-side and demand-side options to be implemented to meet long-term load forecasts. It provides the framework for Eskom to investigate a wide range of new supply-side and demand-side technologies, with a view to optimising investments and returns.

The most recent ISEP plan (ISEP9) was approved in June 2003 and provides economically and environmentally acceptable options for flexible and timely decision-making. The focus has been to provide a robust plan, taking into account Eskom's and the shareholder's objectives.

The graph shows the national position and includes the approximately 5% of capacity and sales contributed by non-Eskom generators and imports from neighbouring countries.

With moderate growth in demand for electricity, additional supply-side options are anticipated for commercial service from 2006. Eskom has entered into a demand-side management programme in order to defer the commissioning of new plant. The most attractive supply-side option is the return to service of the mothballed plant referred to as the Simunye Power Stations, which were placed in reserve storage during the period of high excess capacity on the Eskom system. Eskom has taken the decision to return Camden Power Station to service. The project is currently underway with the first unit planned to come on line in 2005. Eskom has investigated a variety of options, including conventional pulverised fuel plants, pumped storage schemes, gas fired plants, nuclear plants (PBMR), greenfield fluidised bed combustion technologies and renewable energy technologies (mainly wind and solar projects).

The process of defining future supply investments is being managed, and Eskom is confident that it will meet future demand, provided that it is allowed to build new capacity in South Africa. With regard to building new capacity, policy clarity regarding Eskom's obligation to supply electricity is required in terms of security of supply.

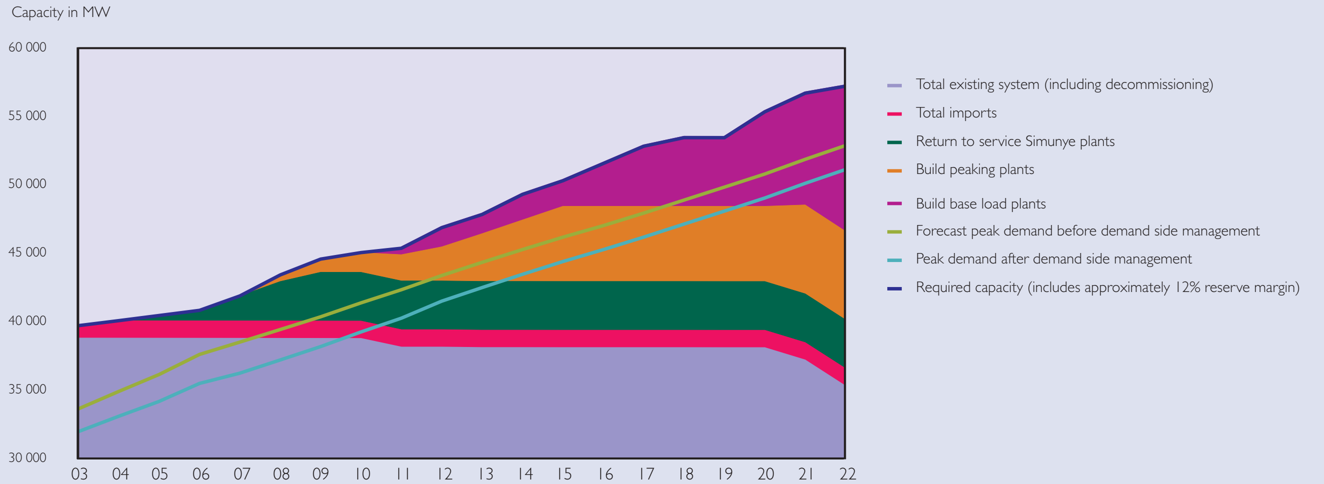
Environmental issues also continue to be integrated into the ISEP process. During 2003, the use of multi criteria decision analysis techniques continued to improve the integration of sustainability issues in decision-making.

Demand-side management is a process that influences changes in customer demand profile. The primary objective is to reduce the average cost of generating capacity and improve the use of existing resources, using lower risk demand-side alternatives instead of focusing on system expansion. The quantitative objective of demand-side management is to save 4 255 MW over a period of 25 years. For the 2003 year, an actual saving of 101 MW was achieved against a target of 234 MW. Of the saving of 101 MW, 1 MW was achieved through the energy services companies and the balance through a pilot tariff project (demand market participation). In addition, tariff restructuring during peak periods resulted in changes in the MegaFlex customers' demand with a saving of 450 MW during 2001 to 2003.

The peak demand of 31 928 MW recorded in 2003 was slightly higher than that recorded in 2002. There was a slight decrease in the generation reserve margin from 17,0% in 2002 to 16,9% in 2003.

Eskom pledged R20 million to the National Energy Efficiency Week, as part of its commitment to promote energy efficiency in South Africa.

Timeframe for new capacity outlook



1.5 Safety risk management

Safety performance

There has been a significant reduction in the number of fatalities during 2003, with the number being the lowest in more than 30 years.

Safety performance	Target 2003	Actual 2003	Actual 2002
Work related safety			
Total fatalities, number	**n/a[1]**	**5**	11
Electrical contact fatalities, number	**n/a[1]**	**3**	5
Vehicle accident fatalities, number	**n/a[1]**	**2**	2
Other fatalities, number	**n/a[1]**	**–**	4
Disabling injury incidence rate (DIIR)[2], including occupational diseases	**0,40**	**0,37**	0,45
DIIR, excluding occupational diseases	**n/a[1]**	**0,32**	n/a[3]
Electrical contact injuries, number	**n/a[1]**	**23**	12
Public safety			
Total public fatalities, number	**n/a[1]**	**27**	41
Electrical contact fatalities, number	**–**	**20**	24
Fatalities as a result of other causes, number	**n/a[1]**	**7**	17
Contractor safety			
Total contractor fatalities, number	**n/a[1]**	**6**	4
Contact fatalities, number	**n/a[1]**	**4**	1
Other fatalities, number	**n/a[1]**	**2**	3

Work related safety performance

The increased focus on health and safety during 2003 resulted in a reduction in the DIIR. Electrical contact incidents remain a high risk area, and management continues to implement strategies to minimise and eliminate the risk factors within its control. The quality of job observations and safe working procedures has improved.

The Eskom Health and Safety Policy as well as the Occupational Health and Safety Act, 85 of 1993 (OHSA), continue to form the key documents in management of health and safety matters. The policy contributes towards Eskom's sustainability with the focus on the protection of employees, its contractors and the public, consistent with its legal, moral and business obligation.

The EXCO Operations Committee tracks the health and safety performance on a monthly basis via the operational sustainability index. All serious incidents are discussed at this committee. Results from investigations conducted during the year indicated weaknesses in the areas of job supervision and risk assessments.

Fleet safety

Fleet safety is a risk area that needs ongoing attention. Fleet safety campaigns continued and included driver training and awareness, improved controls over the issue of vehicles, and the installation and monitoring of onboard computers. The low level of vehicle related incidents was maintained. In addition to the above, efforts were focused on behavioural safety programmes to address poor driver attitude as well as substance abuse. The two fatal vehicle accidents that were reported during 2003 (2002: two) were as a result of third party negligence.

Occupational hygiene

There has been an increase in the level of reporting and investigation of occupational health related diseases, with a 13,5% negative impact on the overall DIIR for Eskom. The majority of incidents reported were noise induced hearing loss cases.

To comply with the Noise Induced Hearing Loss Regulations promulgated during 2003, employees that are at high risk of exposure to high noise levels have been put through medical surveillance and baseline audiometric tests. Audits will be carried out during 2004 to ensure ongoing compliance.

1. No target set.
2. DIIR expresses the number of workers that suffered a disabling injury during a consecutive 12-month period.
3. Not previously reported. In 2003 it was decided to report occupational diseases separate from other disabling injuries.

Emergency preparedness

Ongoing emergency planning management courses have been presented to all divisions and awareness workshops were presented to staff, to support effective management of emergency planning within the divisions.

Audits were conducted during the year to evaluate the effectiveness of the programmes, and to identify potential exposure. Emergency planning exercises were also conducted at various business units to assess and improve their co-ordination of and response to emergency situations.

Training and awareness

The continuous changes and new developments within the field of occupational health and safety requires appropriate upgrading and development of the knowledge and skills of managers, supervisors, practitioners and employees.

Training and awareness programmes form a key component of ongoing improvement to the safety culture throughout the organisation. Ongoing involvement with SAQA and Occupational Hygiene, Safety and Associated Practitioners is aimed at creating standards for increased capacity-building at all levels.

Public safety performance

There has been an overall reduction in the number of public electrical contact fatalities and injuries for the year. Low hanging lines, objects into lines and physical electrical contact incidents remain the major cause of these incidents.

A committee, with representation from the Generation, Transmission and Distribution Divisions, has been tasked with the reduction of conductor theft. The number of fatalities as a result of conductor theft incidents decreased in 2003.

The expansion of Eskom's power network as a result of the electrification programme has increased the risk of public electrical contact fatalities that arise from illegal connections, energy theft and an increased market for scrap conductor and copper sales. Electrical safety awareness amongst members of the public remains a focus area of Eskom.

Contractor safety

Construction regulations, promulgated during July 2003 in terms of the OHSA, placed additional responsibility on Eskom to ensure the effectiveness of the safety programmes of contractors. Eskom has started with a process to implement the requirements of the Act.

Safety performance of subsidiaries

The safety performance indicators of Eskom Enterprises and its subsidiaries are not included in the calculation of the overall performance figures of Eskom. The DIIR of Eskom Enterprises has improved, from 0,60 in 2002 to 0,40 in 2003. One fatal vehicle related incident was reported for 2003 (2002: nil).

Fire risk management

Eskom experienced four significant fire incidents during 2003. The major incident related to the mechanical failure of the turbine generator of Unit 2 at Duvha Power Station, which resulted in a fire. The incident was handled effectively and competently, with no injuries, and the fire was extinguished within two hours. A series of internal audits and risk assessments were conducted in Eskom divisions and Eskom Enterprises on a random basis. Recommendations are being addressed.

Nuclear safety performance

Eskom's nuclear safety performance continues to meet world standards as measured against the latest available information for comparable plants. Actions have been taken to make appropriate improvements in areas where specific safety performance has been identified as being below the top quartile.

Regular reviews of Koeberg Power Station against international industry best practice are carried out as part of Eskom's ongoing commitment to nuclear safety. This has been coupled, during the past year, with self assessments, including an executive self assessment with international team members (in preparation for a World Association of Nuclear Operators peer review, currently underway), as well as technical support missions by international experts.

2. SOCIO ECONOMIC PERFORMANCE

2.1 Equity

Employment equity

Eskom aims to demonstrate exemplary corporate citizenship and harmony with society through continued focus on affirmative action and actively promoting women and disability equity. Employment equity policies have been implemented that are inclusive of race, gender, and people with disabilities to ensure that Eskom builds an organisation that is representative of all the people of South Africa.

Employment equity	**Target 2003**	**Actual 2003**	Actual 2002
Eskom			
Race			
- Black[1] staff at managerial[2] level, %	**>54,6**	**56,3**	54,6
- Black staff at all levels, %	**n/a[3]**	**69,3**	68,8
Gender			
- Women at managerial level, %	**>24,0**	**27,8**	24,5
- Women at all levels, %	**n/a[3]**	**21,6**	19,7
- People with disabilities, %	**>0,5**	**1,4**	0,16
Internal promotions			
- Black staff at all levels, %	**n/a[3]**	**82,5**	78,9
- Women at all levels, %	**n/a[3]**	**26,9**	26,8
Eskom Enterprises			
Race			
- Black staff at managerial level, %	**>50,0**	**49,4**	47,2
- Black staff at all levels, %	**n/a[3]**	**53,0**	52,0
Gender			
- Women at managerial level, %	**>17,0**	**17,5**	15,7
- Women at all levels, %	**n/a[3]**	**24,8**	36,4

Black economic empowerment

As part of its procurement policies and managerial support programmes, Eskom supports small, medium and micro enterprises (SMMEs) and large black businesses for the procurement of goods and services, thereby contributing to BEE. An amount of R6 861 million (2002: R4 891 million) was spent in this regard, against a target of R5 045 million, all amounts inclusive of VAT.

A policy framework for the economic empowerment of women was implemented in 2002. An amount of R517 million (2002: R197 million) was spent in this regard, against a target of R311 million. The target represents 6% (2002: 5%) of the overall Eskom target on BEE.

1. Black, Asian and Coloured South Africans.
2. Managers, professionals and supervisors within the CU to F Band levels on the Paterson grading.
3. No target set.

2.2 Electrification

The Department of Minerals and Energy (DME) commenced funding the National Electrification Programme in April 2001. Eskom is responsible for the implementation of the programme in its licensed areas of supply. Operating costs continue to be the responsibility of the licensed distributors.

Electrification	Target 2003	Actual 2003	Actual 2002
Direct connections, excluding farm workers, number	162 457	173 094	209 056
Capital expenditure, Rm	560	586	546
Capital cost per connection, R	3 449	3 385	2 614
Farm worker connections, number	1 650	2 302	2 572
Farm worker connection incentives paid, Rm	3	4	5

As the business planning and implementation agent for the DME, Eskom spent R586 million (2002: R546 million) during 2003 and electrified 175 396 (2002: 211 628) homes, including those of farm workers, for and on behalf of the DME. The increase in capital cost per connection is primarily due to connections in deep rural areas, where there is no existing electricity infrastructure and housing densities are low.

Since the inception of Eskom's electrification programme in 1991, a total of 2 988 243 homes have been electrified.

Electrification of schools and clinics

Funds applied to the electrification of schools and clinics	Budget 2003		Actual 2003		Actual 2002	
	Number	Rm	Number	Rm	Number	Rm
Eskom Development Foundation	–	–	–	–	61	4,04
Department of Minerals and Energy	1 071	76,24	1 114	57,62	915	40,80

As of 2002, electrification of schools and clinics is fully funded by the DME through the National Electrification Fund. The actual expenditure in 2003 is lower than target due to projects that were completed at a lower cost per school or clinic than anticipated.

2.3 Free basic electricity

The national Electricity Basic Services Support Tariff Policy was gazetted by the government in July 2003. The objective of the policy seeks to bring relief, through government intervention, to low income group households and to ensure optimal socio economic benefits from the National Electrification Programme. Qualifying customers will be eligible to receive 50kWh of free electricity every month.

Eskom is a service provider for free basic electricity in its areas of supply. The shortfall in revenue arising from the supply of the free basic electricity will be recovered from the municipalities at a standard rate on a monthly basis and the balance annually from the government.

The process to implement free basic electricity was initiated in 2003. By December 2003, 35% of the municipalities, which have approximately 425 000 customers, entered into agreements with Eskom. Formal procedures to roll out the implementation of free basic electricity to these customers have commenced.

2.4 Corporate social responsibility

The goal of Eskom's corporate social responsibility is to improve the quality of life of historically disadvantaged South Africans. It includes various programmes for skills development, job creation, health, support for the Proudly South African Campaign and other cause-related initiatives with an emphasis on women, youths and people with disabilities. Many of Eskom's corporate social investment initiatives are carried out through the Eskom Development Foundation[1], a section 21 company. The budget of R115 million in the predetermined objectives for 2003 included the Eskom Development Foundation, rural development and the grant committed for the SAAVI. These items as well as other initiatives not included in the predetermined objectives are detailed in the table below, with a combined budget of R172,8 million.

The following was spent during 2003:

	Budget 2003 Rm	Actual 2003[2] Rm
Social development programme	4,2	4,0
Economic development programme	12,6	12,6
Rural development[3]	50,0	21,6
National and strategic programmes, including education	19,3	20,1
SAAVI[4]	15,0	15,0
Health care professionals training[4]	2,0	2,0
Eskom public scholarship programme[5]	55,6	67,3
Donations	10,3	11,5
Cause-related initiatives	4,1	4,5
- Expo for young scientists	1,1	1,5
- Proudly South African Campaign	3,0	3,0
	173,1	158,6

During the period under review, Eskom, through the Eskom Development Foundation, received five awards for its commitment and contribution to development and was rated for the second successive year as "the most caring" company and the state-owned enterprise "making the strongest contribution to development".

2.5 Support for NEPAD

Eskom has established a dedicated NEPAD team. The mission of the team is to facilitate the mobilisation of Eskom's resources to promote, develop and implement NEPAD's related projects in the energy and, in particular, the power sector. In addition to its operation within Eskom, a unit head has been appointed to lead the Energy Working Group of the South African NEPAD Business Group. The objective is to mobilise private sector resources in the energy sector in South Africa and to engage with and contribute to the development of energy related infrastructure.

Eskom's Pan-African grid vision is guiding the plans for many of the NEPAD projects and, as such, is providing the motivation for Eskom's involvement in the development and implementation of the southern African regional "power highway" projects. All these projects aim at developing the appropriate power transfer capacity in the Southern African Developing Countries region and beyond, so as to maximise the power trading potential of the Southern African Power Pool (SAPP).

2.6 United Nations Global Compact

The United Nations (UN) Global Compact requests companies to embrace, support and enact nine universal principles in the areas of human rights, labour standards and the environment. Eskom, a signatory to the compact, continues to support the UN Global Compact through its sustainable practices.

1. *The operating expenditure associated with the Eskom Development Foundation is not reported as corporate social responsibility cost.*
2. *In 2002, R64,9 million was spent by the Eskom Development Foundation.*
3. *The budget variance emanates from implementation challenges, which are being resolved.*
4. *Details of these initiatives are included in the statement on HIV/AIDS.*
5. *These costs are included in the total training costs in the training and development statement.*

3. SUSTAINABLE ENVIRONMENT

Environmental management system

Eskom is committed to strive continually towards sound environmental management and performance. An environmental management system (EMS) functions as an effective management tool to ensure legal compliance, reduce risk, demonstrate due diligence and monitor ongoing environmental performance.

During 2000, a policy decision was made that the operating divisions in Eskom and Eskom Enterprises would be ISO 14001 compliant by the end of 2002. Many parts of Eskom have received ISO 14001 certification, while the remainder of the group demonstrated compliance during 2003, through third party audits.

Those business units that achieved or maintained certification to the ISO 14001 standard were the operational business units within the Transmission Division, the Corporate Sustainability and Environment Department and Eskom Enterprises (Technology Services International, Rotek Engineering and Roshcon).

Environmental legal requirements

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. The organisation continues to interact with the relevant authorities regarding legislative compliance issues. Legislative requirements are incorporated into policies, procedures and standards. During 2002, as part of the ISO 14001 compliance process, legal aspect registers were compiled for the relevant Eskom divisions and subsidiaries.

Eskom continues to keep abreast of developments in relevant legislation and continually assesses the impact of legislation on its business. Eskom has provided input on environmentally related legislative issues, including the National Environmental Management Second Amendment Bill, the National Environmental Management Air Quality Bill, the air quality standard-setting process and the National Environmental Management Protected Areas Bill. Eskom has developed its Renewable Energy Policy in line with the draft White Paper on Renewable Energy issued by the DME.

Eskom reported 36 (2002: 18) contraventions of legislation during 2003, primarily due to more stringent emission limits, operational deficiencies and improved reporting. All contraventions of legislation are reported, and processes to mitigate any impacts are implemented and monitored. Despite this increase, the number of contraventions reported in terms of the operational sustainability index decreased to two (2002: three). Refer to page 79 for more information.

Conventions

South Africa ratified the United Nations Framework Convention on Climate Change (UNFCCC) during August 1997 as a developing country.

Eskom participated in the UNFCCC and various other conventions that included continued evaluation of opportunities under the clean development mechanism and the evaluation of adaptation projects. The ninth conference of parties on climate change was held in Milan in December 2003. Eskom participated as part of the Government of South Africa and the business delegations.

Environmental impact assessments

Eskom's corporate directive requires that EIAs are conducted for all projects as defined in the relevant regulations. All relevant divisions have compiled and implemented procedures incorporating environmental screening into the overall project planning processes. During 2003, four projects (2002: two) were initiated prior to the issue of a RoD by the relevant authority, and nine projects (2002: eight) experienced delays, in excess of six months, in obtaining a RoD.

EIA related audits focused on the degree of compliance with national legislation and Eskom requirements. Results indicated that EIA processes are in place and are in compliance with applicable legislation. Plans have been developed to address specific audit findings.

Environmental management programmes (EMPs)

As part of the EIA process for new projects and the implementation of environmental management systems, EMPs are being compiled. EMPs are in place within the Generation Division. The Transmission Division maintained EMPs for 100% of substations (2002: 100%) and for 100% of power lines (2002: 98%) and the Distribution Division completed EMPs for 100% of substations (2002: 100%) and 50% of targeted sub-transmission power lines (33kV - 132kV) that have generic EMPs.

EMS compliance audits indicated that all the business units have EMPs in place that satisfy the requirements of the ISO 14001 standard.

Stakeholder relationships

Partnerships and associations

Eskom continues to maintain and, where appropriate, develop long-term partnerships and sustainable environmental programmes with relevant stakeholders.

Partnerships have been established with Birdlife South Africa and Middelpunt Wetland Trust, the Endangered Wildlife Trust (EWT), Food and Trees for Africa, the Wildlife and Environment Society of Southern Africa and the World Wide Fund for Nature (SA). These partnerships focus on co-operative initiatives towards sustainable development, capacity-building and joint ventures.

Eskom interacts with other businesses and organisations, both nationally and internationally. These include the Business Council for Sustainable Development South Africa, Business South Africa, the National Business Initiative, PIESA, the South African Chamber of Business and the SAPP. Key initiatives undertaken in 2003 included Eskom's participation in the Sustainable Livelihoods Project with the World Business Council for Sustainable Development.

Communication and marketing

Communication has been facilitated by the development of a sustainability and environmental intranet portal, which makes information available to the organisation.

Environmental awards are held on an annual basis to reward superior performance in Eskom. A sustainability award will replace the environmental award in future.

World Summit on Sustainable Development

Access to energy is a key aspect to meeting the goals of sustainable development, and particularly poverty alleviation. The World Summit on Sustainable Development resulted in a window of opportunity being created for existing energy businesses to diversify or modify their business in alignment with sustainable development principles. Eskom's activities are aimed at furthering the Johannesburg Plan of Implementation, where appropriate.

Environmental auditing

Regular environmental audits are undertaken on all divisions by the Corporate Technical Audit Department. During 2003, external audits focused primarily on compliance with ISO 14001 to verify the findings of internal audits undertaken in 2002. Land, water, waste and air emission compliance audits were undertaken for internal assurance. The implementation of the EIA process was audited against EIA legislation. Audits on vegetation clearance under Eskom power lines and water related incidents at power stations were undertaken as required by the corporate incident investigation process. Data integrity audits were conducted on selected environmental indicators. Key findings from these audits are included in this report.

Environmental education

Eskom is committed, through its environmental policy, to educate, train and motivate its employees about the environment. Training and awareness programmes have been implemented as part of the EMS in the divisions. Several capacity-building workshops were held in 2003 through the African Centre for Energy and Environment (ACEE). These included training workshops customised for members of the SAPP, specifically on animal interactions with electricity infrastructure as well as environmental management systems. Collaboration between ACEE and the Basel Convention Regional Centre also resulted in the piloting of a hazardous waste management training course.

Environmental accounting

Environmental accounting refers to the practice of identifying and reporting on expenditure incurred for environmental purposes. During 2003, R172 million (2002: R164 million) was spent on capital and R286 million (2002: R325 million) on operational environmental activities.

The Generation Division incurred 77% (2002: 66%) and the Resources and Strategy Division accounted for 10% (2002: 21%) of Eskom's total environmental costs. The majority of the expenditure in the Generation Division related to air quality management at the coal fired power stations and rehabilitation at the coal mines. The expenditure incurred by the Resources and Strategy Division decreased in 2003, as a substantial part of the expenditure reported in 2002 related to the construction of the wind energy demonstration facility.

The balance of the expenditure was incurred in the Transmission and Distribution Divisions. Expenditure within the Transmission Division was mainly for erosion control and alien vegetation management while in the Distribution Division expenditure was incurred mainly for environmental assessments associated with reticulation power lines.

Environmental externalities

Externalities[1] refer to costs and benefits experienced by third parties, as a result of the actions of an organisation, that are not accounted for in the price of the product. Eskom has continued to undertake research to establish a robust methodology for identifying and managing current and future externalities. Eskom has expanded the traditional approach to include positive externalities and has applied this to the environmental, social, economic and political areas. Eskom's research in the area of externalities is continuing to expand to address further operational and strategic issues. While awaiting the results of an international peer review, the focus is on consolidating the findings of the research into an operational model to assist with business decision analysis.

Environmental performance

Assessment and measurement of environmental performance are managed through the operational sustainability index and reporting on additional key environmental indicators and issues to the Board. During the year, both these reporting processes were reviewed and internally audited.

The environmental component of the index comprises four equally weighted KPIs: relative particulate emissions, specific water consumption, customer satisfaction (PreCare/MaxiCare) and legal compliance.

Environmental performance indicators	**Target 2003**	**Actual 2003**	Actual 2002
Operational sustainability index indicators			
Relative particulate emissions, kg/MWh sent out[2]	**0,28**	**0,28**	0,29
Specific water consumption, ℓ/kWh sent out[3]	**1,26**	**1,29**	1,27
PreCare/MaxiCare - environmental component	**>8,40**	**8,47**	8,57
Reported legal contraventions counted in sustainability index	**0**	**2**	3
Other performance indicators			
Radiation exposure, milliSieverts per annum	A**0,25**[4]	**0,0123**[5]	0,0060[5]
Net raw water consumption, Mℓ	**n/a**[6]	**271 940**	251 611

Of the 36 (2002: 18) legal contraventions reported, two (2002: three) were registered against the index. Contraventions are reported on the index when poor reporting takes place, when a formal censure is received or the event is of such a nature that it needs to be escalated to executive level for attention. While the total number of legal contraventions reported has increased, the number reported to the index has decreased.

National legislation requires that an EIA is undertaken prior to the construction, erection or upgrade of infrastructure for bulk supply. The following two contraventions of legislation occurred in the construction of the Merensky/Steelpoort power line and the Maandagshoek/Winnaarshoek power line in the North East region of the Distribution Division.

- Construction was completed prior to the receipt of formal authorisation for the Merensky/Steelpoort 132kV power line project and the route constructed was not entirely as recommended in the scoping report.
- The line was not constructed on the route for which the RoD was obtained for the Maandagshoek/Winnaarshoek 132kV power line. Two deviations were made and these had not been communicated to or approved by the relevant authorities prior to construction.

In both cases an assessment indicated that no significant negative environmental impact had occurred as a result of non-compliance with applicable legislation. Adjustments have been made to the North East region's capital investment process to prevent the recurrence of power lines being constructed without the necessary authorisations or on alternative routes to those approved in the RoD.

1. *Based on the definition by the European Commission Studies, 1998.*
2. *Amount of ash emitted per unit of generated power sent out.*
3. *Volume of water consumed per unit of generated power sent out, excluding rain and mine water used.*
4. *National Nuclear Regulator limit.*
5. *To ensure meaningful comparisons between years, indicators have been restated based on the new, more conservative methodology approved by the National Nuclear Regulator for use from 1 January 2003.*
6. *No target set.*

Air quality management

Particulate emissions

The emission of particulates (ash) is regulated by the Chief Air Pollution Control Officer (CAPCO) of the DEAT. Registration certificates for individual power stations are issued by CAPCO, which state the actual quantity of particulate emissions that may be emitted from the power station stacks during a 31-day period.

Eskom has committed to reducing overall particulate emissions to an average of 0,28 kg/MWh sent out by the end of 2003 as part of a five year strategy initiated in 1998. This target was achieved with relative emissions of 0,28 kg/MWh (2002: 0,29 kg/MWh) sent out. This was primarily due to retrofitting two units at Hendrina Power Station with fabric filter bags, the installation of sulphur trioxide flue gas conditioning on all six units at Lethabo Power Station and enhanced management attention at Kriel Power Station.

Gaseous emissions

The quantities of oxides of nitrogen (NO_x), sulphur dioxide (SO_2) and carbon dioxide (CO_2) emitted from Eskom power stations are calculated annually, based on the coal characteristics and the power station design parameters. The increase in CO_2, SO_2 and NO_x emissions is primarily due to an increase in the amount of coal burnt as a result of increased electricity demand.

Ambient air quality

Eskom has been operating an ambient air quality monitoring network since the 1980s. This network includes strategic sites and sites in the immediate vicinity of certain power stations. The network provides strategic information on long-term trends in air quality from various sources on a national and regional scale.

All sites, with the exception of two, are equipped to monitor SO_2, NO_x, ozone (O_3), fine particulate matter (FPM) and the relevant meteorological parameters comprising wind speed, wind direction and ambient temperature. The remaining two are equipped to monitor SO_2, FPM and meteorological parameters.

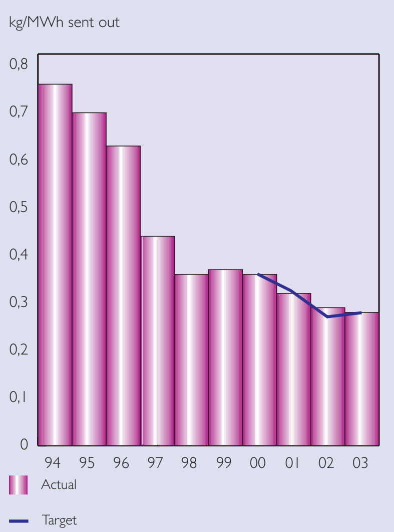
All monitoring equipment is calibrated against National Meteorological Laboratory standards in a South African National Accreditation Systems (SANAS) accredited laboratory.

Ambient air quality results indicate that the annual concentrations at all sites are within the guidelines set by the DEAT for SO_2, NO_x and FPM.

Other related impacts

Eskom continues to monitor international trends in respect of electromagnetic frequency activity. Eskom adheres to national standards that govern the noise pollution levels associated with electrical power plants. Research is being undertaken to understand the noise relating to high voltage power lines.

Relative particulate emissions



Targets prior to 2000 were based on coal fired power stations only.

Land, biodiversity and quality of supply management

The environmental land management directive requires the sustainable use and maintenance of all Eskom land in order to ensure conformance with applicable legislation and to optimise its asset value.

Eskom's partnership with the EWT focused on efforts to manage interactions between birds and electrical infrastructure. There were 1 996 reported bird mortalities since the inception of the project in 1996, of which 1 326 are threatened species. These included collisions, electrocutions and pollution related incidents. There were 312 field investigations, which resulted in recommendations for mitigation at 325 sites. More than 80% of these have been completed.

Land management audits focused on compliance with appropriate environmental legislation and conformance with applicable Eskom requirements. Contraventions of legislation have occurred and have been addressed through the appropriate internal processes.

Key projects include the National Crane species research, and work was initiated on the management of vulture interactions with distribution power lines.

Waste management

In 2001, Eskom implemented a directive relating to waste management and reporting to support the waste policy that requires the proactive management of waste and integrated environmental management. While the different divisions do report on waste, accurate waste reporting figures are not available for every waste stream.

A total of 185 (2002: 139) oil spills were reported, all of which have been addressed and appropriate mitigation measures implemented.

Approximately 130 tons of Polychlorinated Biphenyls capacitor cans were disposed of by thermal desorption during October 2003 in accordance with national requirements.

During 2003, waste management audits focused on compliance with waste related legislation. Results indicated that sites audited are in compliance with applicable legislation.

Key research projects include a review of the national road traffic regulation focusing on hazardous substances, cleaner production in the electricity sector focusing on waste minimisation at a power station and the initiation of research on the use of used bag filters in the production of composite materials.

4. FUTURE BUSINESS MODEL

To ensure that Eskom remains successful and competitive in a dynamic business environment, the Eskom revised business model has been developed. The revised business model reflects the changing environment in which Eskom operates and captures a set of principles that Eskom needs to embrace to focus on its activities and resources.

The revised business model requires refocused objectives, measures and targets.

4.1 Diversification of markets, products and services

Eskom's investment strategy articulates how Eskom will identify, make and manage investments and clearly defines the investment criteria, processes and roles and responsibilities. In line with the revised business model, the investment strategy will focus Eskom's investments on its core competencies in advance of large generation projects in South Africa and southern Africa and network capacity expansion projects in Africa.

The investment strategy is designed to achieve Eskom's strategic intent, including selective investments in diversified markets, products and services.

Given current trends in the global energy sector, Eskom has decided to re-evaluate its investment targets for diversification of markets, products and services in order to be in line with international best practices. Subsequently, Eskom has developed an investment strategy with associated targets and exposure limits for business areas, industries and geographical locations.

4.2 Restructuring of Eskom

Electricity industry restructuring

Distribution Division

The EDI restructuring process by the government continued to gain momentum during 2003. This restructuring process will separate the electricity distribution function from Eskom and merge with municipal electricity undertakings to form six Regional Electricity Distributors (REDs).

A draft restructuring bill was released for public comment in April 2003. The initial bill stated that Eskom would not be an equity partner in the REDs. A draft bill is being revised based on the comments and inputs received from industry stakeholders.

The EDI Holding Company, as the driver of transformation of the electricity distribution industry, replaced the government's EDI Restructuring Committee. Eskom is represented on the Board of the EDI Holding Company.

There was extensive industry engagement during the year around revising the RED boundaries as detailed in the original restructuring blueprint. Primary concerns centred on high implementation costs, impact on network operations, the people impact and financial viability. A modified set of boundaries was supported first by the EDI Restructuring Committee, and later by the EDI Holding Company. Eskom is in the process of re-aligning its distribution business as per these RED boundaries in preparation for EDI restructuring.

Generation Division

The Generation Division has established a new divisional governance structure that provides for a more focused approach towards preparing the division for a significantly different future business environment.

General Managers (Production), also known as Cluster Managers, provide for the establishment of appropriate accountability at cluster level in anticipation of increasing future independence and competition between clusters. These appointees will guide clusters through the preparation and transformation as spearheaded by the government.

Transmission Division

In the medium-term, the government's policy is to establish a separate state-owned transmission company that will be independent of generation and the retail businesses, with a ring-fenced transmission system. Initially, this transmission company will be a subsidiary of Eskom and would eventually be established as a separate state-owned transmission company.

INFORMATION AS REQUIRED UNDER SCHEDULE 4 OF THE COMPANIES ACT

Share capital and dividends

Eskom was converted into Eskom Holdings Limited on 1 July 2002 with an issued share capital of R1. Equity consists of reserves. Full details of Eskom's authorised share capital and the number of shares issued are set out in note 16 to the annual financial statements.

The dividend of R549 million proposed in 2002, based on a dividend cover of six, excluding secondary tax on companies (STC), was approved and paid in 2003. The directors have proposed a dividend of R569 million based on a dividend cover of six, excluding STC, for approval by the shareholder at the annual general meeting.

Capital expenditure

Net capital expenditure on property, plant, equipment and intangible assets for the Eskom Group was R6 078 million (2002: 5 385 million) that included expenditure of R586 million (2002: R546 million) on electrification.

The capital commitments at 31 December 2003 amounted to R20 606 million (2002: R6 145 million). The large increase is mainly as a result of commitments relating to the return to service of the mothballed power stations.

Subsidiaries, associates and joint ventures

Details of Eskom's principal subsidiaries, significant associates and joint ventures appear on pages 127 to 128.

Directorate and secretariat

The names of the directors and the address of Eskom's Secretariat appear on pages 6 to 9.

Details of directors' emoluments appear on pages 129 to 132.

Post balance sheet events

There were no post balance sheet events.

Comparative information

The financial information for the period 1 January 2002 to 30 June 2002 before incorporation was included as part of the results of Eskom Holdings Limited for 2002.

at 31 December 2003

	Note	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Assets					
Non-current assets		**74 694**	65 877	**74 029**	65 484
Property, plant and equipment	2	**53 475**	51 826	**52 198**	49 980
Goodwill	3	**(104)**	(83)	**(174)**	(212)
Intangible assets	4	**428**	460	**402**	376
Future fuel supplies	5	**2 781**	2 420	**2 781**	2 420
Financial market assets	6	**14 884**	8 158	**14 884**	8 158
Loans receivable	9	**2 580**	2 494	**–**	–
Investments in associates and joint ventures	10	**292**	252	**93**	97
Investments in subsidiary companies	11			**3 638**	4 400
Other investments	12	**40**	42	**40**	42
Deferred tax assets	13	**151**	85	**–**	–
Trade and other receivables	14	**167**	223	**167**	223
Current assets		**21 780**	16 605	**19 345**	14 702
Inventories	15	**2 397**	2 384	**2 224**	2 173
Trade and other receivables	14	**4 224**	3 775	**3 836**	3 665
Financial market assets	6	**15 159**	10 446	**13 285**	8 864
Total assets		**96 474**	82 482	**93 374**	80 186
Equity and liabilities					
Capital and reserves		**40 683**	37 717	**39 203**	36 412
Non-current liabilities		**35 900**	31 701	**35 036**	31 099
Financial market liabilities	6	**21 332**	19 583	**21 012**	19 454
Retirement benefit obligations	17	**4 264**	4 654	**4 103**	4 443
Decommissioning and nuclear waste management	18	**2 832**	2 488	**2 832**	2 488
Closure, pollution control and rehabilitation	18	**679**	611	**679**	611
Other provisions	18	**793**	585	**573**	456
Deferred income	19	**1 713**	1 236	**1 713**	1 236
Deferred tax liabilities	13	**4 287**	2 544	**4 124**	2 411
Current liabilities		**19 891**	13 064	**19 135**	12 675
Trade and other payables	20	**5 382**	4 139	**4 806**	3 682
Taxation		**76**	43	**–**	–
Financial market liabilities	6	**12 345**	8 171	**12 664**	8 439
Provisions	18	**2 088**	711	**1 665**	554
Total equity and liabilities		**96 474**	82 482	**93 374**	80 186

Income statements

for the year ended 31 December 2003

	Note	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Revenue	23	**32 848**	29 684	**31 680**	28 158
Operating expenditure	24	**(26 030)**	(21 363)	**(24 846)**	(20 674)
Net operating income		**6 818**	8 321	**6 834**	7 484
Interest income	25	**4 024**	2 506	**3 811**	2 664
Interest expenditure	26	**(5 328)**	(5 281)	**(5 334)**	(5 290)
Profit after interest before fair value adjustment		**5 514**	5 546	**5 311**	4 858
Net fair value adjustment on financial instruments	26	**(283)**	(118)	**(277)**	(107)
Profit before tax		**5 231**	5 428	**5 034**	4 751
Income tax expense	27	**(1 859)**	(1 727)	**(1 808)**	(1 566)
Profit after tax		**3 372**	3 701	**3 226**	3 185
Income from associates and joint ventures	10	**45**	26		
Minority interest		**117**	(20)		
Net profit for the year after tax		**3 534**	3 707	**3 226**	3 185

Cash flow statements

for the year ended 31 December 2003

	Note	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Cash flows from operating activities		**12 664**	11 808	**12 256**	11 633
Cash generated from operations	28	**13 845**	12 911	**13 517**	12 608
Interest received	29	**3 345**	3 559	**3 224**	3 654
Interest paid	30	**(3 893)**	(4 610)	**(3 906)**	(4 629)
Income tax paid	31	**(84)**	(52)	**(30)**	–
Dividends paid		**(549)**	–	**(549)**	–
Cash used in investing activities	32	**(6 980)**	(5 750)	**(6 723)**	(5 319)
Cash effects of financing activities[1]	33	**(7 459)**	(3 515)	**(7 474)**	(3 853)
Net (decrease)/increase in cash and cash equivalents for the year	34	**(1 775)**	2 543	**(1 941)**	2 461

1. *Include increase in non-current financial market assets.*

for the year ended 31 December 2003

Group

	Issued capital Rm	Foreign revaluation Rm	Local revaluation Rm	Insurance reserve Rm	Accumulated profit Rm	Minority interest Rm	Total Rm
Balance at 1 January 2002							
– Previously reported	–	1 069	(182)	103	33 140	–	34 130
– Effect of prior year adjustment (refer to page 88)	–	–	(157)	–	(1)	–	(158)
– Effect of prior year adjustment on deferred tax	–	(150)	216	–	(38)	–	28
– Restated balance	–	919	(123)	103	33 101	–	34 000
Available-for-sale asset movements							
– Fair value gains	–	–	143	–	–	–	143
– Fair value losses	–	–	(4)	–	–	–	(4)
– Items realised in net profit	–	–	–	–	(116)	–	(116)
Cash flow hedges							
– Fair value losses	–	(210)	–	–	–	–	(210)
– Deferred tax thereon	–	63	–	–	–	–	63
Net profit for the year after tax	–	–	–	–	3 707	–	3 707
Outside shareholders interest	–	–	–	–	–	134	134
Issue of shares	[1]	–	–	–	–	–	–
Transfer of net unrealised revaluation gains / (losses) net of deferred tax from distributable reserves to non-distributable reserves	–	(603)	535	–	68	–	–
Transfer of insurance reserve to accumulated profit	–	–	–	(1)	1	–	–
Balance at 31 December 2002	**–**	**(169)**	**551**	**102**	**36 761**	**134**	**37 717**
Available-for-sale asset movements							
– Fair value gains	**–**	**–**	**267**	**–**	**–**	**–**	**267**
Cash flow hedges							
– Fair value losses	**–**	**(218)**	**–**	**–**	**–**	**–**	**(218)**
– Deferred tax thereon	**–**	**65**	**–**	**–**	**–**	**–**	**65**
Foreign currency translation	**–**	**(14)**	**–**	**–**	**–**	**–**	**(14)**
Net profit for the year after tax	**–**	**–**	**–**	**–**	**3 534**	**–**	**3 534**
Dividend paid	**–**	**–**	**–**	**–**	**(549)**	**–**	**(549)**
Outside shareholder's interest	**–**	**–**	**–**	**–**	**–**	**(119)**	**(119)**
Transfer of net unrealised revaluation gains/(losses) net of deferred tax from distributable reserves to non-distributable reserves	**–**	**(36)**	**(154)**	**–**	**190**	**–**	**–**
Transfer of insurance reserve to accumulated profit	**–**	**–**	**–**	**(16)**	**16**	**–**	**–**
Balance at 31 December 2003	**–**	**(34)**	**664**	**86**	**39 952**	**15**	**40 683**

Foreign revaluation

The foreign revaluation reserve includes gains and losses on the fair value revaluation of forward exchange contracts and similar instruments designated as cash flow hedges for future anticipated foreign currency denominated transactions and the revaluation of foreign debtors and creditors. The variable revaluation exists until the maturity of these instruments, which coincides with the maturity of the underlying obligation, thereby resulting in the actual contracted cost of cover being taken to the income statement.

Local revaluation

The local revaluation reserve comprises gains and losses on the fair value revaluation of available-for-sale assets and gains and losses on interests swaps.

Restatement of deferred tax on reserves

During the current year, deferred tax was provided on the fair value losses arising on hedging transactions recorded in the foreign revaluation reserve, and on the transfer of unrealised revaluation differences between reserves. Prior year adjustments have also been made to provide for deferred tax on similar fair value and unrealised revaluation adjustments recorded in the years 2000 to 2002.

1. *Nominal amount.*

Eskom	Issued capital Rm	Foreign revaluation Rm	Local revaluation Rm	Insurance reserve Rm	Accumulated profit Rm	Total Rm
Balance at 1 January 2002						
– Previously reported	–	1 063	(185)	–	32 483	33 361
– Effect of prior year adjustment (refer to page 88)	–	–	(157)	–	(1)	(158)
– Effect of prior year adjustment on deferred tax	–	(150)	216	–	(38)	28
– Restated balance	–	913	(126)	–	32 444	33 231
Available-for-sale asset movements						
– Fair value gains	–	–	143	–	–	143
– Fair value losses	–	–	–	–	–	–
– Items realised in net profit	–	–	–	–	–	–
Cash flow hedges						
– Fair value losses	–	(210)	–	–	–	(210)
– Deferred tax thereon	–	63	–	–	–	63
Net profit for the year after tax	–	–	–	–	3 185	3 185
Outside shareholders interest	–	–	–	–	–	–
Issue of shares	1	–	–	–	–	–
Transfer of net unrealised revaluation gains / (losses) net of deferred tax from distributable reserves to non-distributable reserves	–	(600)	535	–	65	–
Transfer of insurance reserve to accumulated profit	–	–	–	–	–	–
Balance at 31 December 2002	**–**	**166**	**552**	**–**	**35 694**	**36 412**
Available-for-sale asset movements						
– Fair value gains	**–**	**–**	**267**	**–**	**–**	**267**
Cash flow hedges						
– Fair value losses	**–**	**(218)**	**–**	**–**	**–**	**(218)**
– Deferred tax thereon	**–**	**65**	**–**	**–**	**–**	**65**
Foreign currency translation	**–**	**–**	**–**	**–**	**–**	**–**
Net profit for the year after tax	**–**	**–**	**–**	**–**	**3 226**	**3 226**
Dividend paid	**–**	**–**	**–**	**–**	**(549)**	**(549)**
Outside shareholder's interest	**–**	**–**	**–**	**–**	**–**	**–**
Transfer of net unrealised revaluation gains/(losses) net of deferred tax from distributable reserves to non-distributable reserves	**–**	**(36)**	**(152)**	**–**	**188**	**–**
Transfer of insurance reserve to accumulated profit	**–**	**–**	**–**	**–**	**–**	**–**
Balance at 31 December 2003	**–**	**(23)**	**667**	**–**	**38 559**	**39 203**

Dividend proposed

A dividend of R569 million (2002: R549 million) has been proposed by the Board of Directors for approval at the annual general meeting by the shareholder.

1. *Nominal amount.*

for the year ended 31 December 2003

Restatement of the opening balance of accumulated profit and revaluation reserve and financial market assets and liabilities

Eskom finances some of its operations through the issue of Eskom bonds.

In Eskom's funding portfolio, liabilities are held at amortised cost and where a strategic decision is made to redeem debt with surplus funds derecognition at historical yield to maturity rates has always been applied in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

In order to reduce the cost of funding and provide liquidity in the market place, Eskom acts as a buyer of last resort in these bonds and operates a market-making portfolio that is used to buy or sell Eskom bonds in response to market requirements. The practice is to keep a hedged position, predominantly with Government bonds, within strict portfolio limits until the position can be closed out.

Derecognition was previously deemed inappropriate as the trading portfolios are strictly ring-fenced, all assets and liabilities carried therein are marked to market daily, and the resultant profits or losses are taken to the income statement immediately.

In December 2003, application guidance on the revised IAS 39 (effective January 2005) was issued. This guidance explicitly addresses derecognition in respect of market-making activities. Derecognition criteria have thus been applied retrospectively to 1 January 2000 to assets and liabilities in the trading portfolios with an overall net profit for the period of four years of R88 million. The retrospective implementation has resulted in significant reclassifications within the financial market asset and liability categories in the balance sheet.

The revaluation reserve has been impacted by profits released from equity and the reclassification of assets from available-for-sale to assets held at fair value.

Where derecognition of Eskom and Government bonds is required, it has impacted positions in the funding and liquidity portfolios. The remaining liability and asset positions in these portfolios are recognised as held-to-maturity and assets as available-for-sale respectively.

The net impact of this derecognition on the 2002 and prior years financial statements is shown below:

		Eskom	
	Previously reported 2002 Rm	Adjustment 2002 Rm	Restated 2002 Rm
Accumulated profit			
Opening balance at 1 January	32 483	(1)	32 482
Net profit for the year after tax	3 217	(32)	3 185
Local revaluation reserve			
Opening balance at 1 January	(185)	(157)	(342)
Net movement for the year before deferred tax	853	55	908
Financial market assets			
Balance at 31 December			
– Total	16 783	239	17 022
– Available-for-sale assets	5 798	(843)	4 955
– Assets carried at fair value	4 213	1 082	5 295
Financial market liabilities			
Balance at 31 December			
– Total	27 711	182	27 893
– Liabilities carried at fair value	2 799	982	3 781
– Other liabilities	21 028	(799)	20 229

The 2002 opening balances of financial market assets and liabilities have been restated to align the categories with the adjustments.

for the year ended 31 December 2003

1. ACCOUNTING POLICIES

Basis of preparation

The annual financial statements of Eskom and the group are prepared in accordance with the Companies Act, 61 of 1973 and comply with International Financial Reporting Standards (IFRS) and South African Statements of Generally Accepted Accounting Practice.

The Eskom and group annual financial statements are prepared on the historical cost basis except that certain financial instruments, such as foreign loans, derivative financial instruments, available-for-sale investments and trading assets and liabilities, are stated at fair value or amortised cost at balance sheet date.

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

Basis of consolidation

The group annual financial statements present the consolidated financial position and changes therein, operating results and cash flow information of Eskom and its subsidiaries. Subsidiaries are those entities in which the group has the power to exercise control and to derive benefits. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

The results of subsidiaries are included for the duration in which the group exercises control over the subsidiary. All significant intercompany transactions and resulting profits and losses between the group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the group.

Investments

Investments in subsidiary companies

Investments in subsidiaries are carried at cost less provision for impairment losses.

Investments in associates and joint ventures

An associate is an entity over which the group is in a position to exercise significant influence over the financial and operating policies, but it does not control it. A joint venture is an entity jointly controlled by the group and one or more other venturers in terms of a contractual agreement.

Investments in associates and joint ventures are accounted for at cost in the financial statements of Eskom and in the group, the equity method is used for the duration that the group has the ability to exercise significant influence or joint control established by contractual agreement. Equity accounted income represents the group's proportionate share of profits of these entities and the share of taxation thereon. All material unrealised intergroup profits and losses are eliminated.

Carrying amounts of investments in associates and joint ventures are reduced to their recoverable amount where this is lower than their carrying amount.

Other investments

Unlisted investments are stated at cost less accumulated impairment losses.

Property, plant and equipment

Owned assets

Property, plant and equipment is stated at cost of acquisition or construction, less accumulated depreciation and less impairment losses.

Land is not depreciated. Mothballed power stations are plant that is out of commission, and not being depreciated.

Major overhaul costs are capitalised as part of generating plant and depreciated on a straight-line basis over the estimated useful lives of overhauls.

for the year ended 31 December 2003

1. ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

	Years
Buildings and facilities	10 to 40
Plant – Generation	6 to 35
– Transmission	25
– Distribution	15 to 25
– Test, telecommunication and other plant	3 to 10
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.

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 the shorter of their estimated useful lives, or the lease term. Lease finance charges are included in interest expenditure as they become due.

Lease and leaseback transactions in terms of which the group assumes substantially all the risks and rewards of ownership, are classified as finance leases. The lease and leaseback assets are recorded at their carrying amount and depreciated over their remaining useful lives.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Positive and negative goodwill

Any excess of the fair value of the net assets acquired over the cost of the acquisition is described as negative goodwill. Any excess of the cost of the acquisition, compared with the value of the net assets acquired, is described as positive goodwill.

Positive goodwill is amortised to the income statement on a straight-line basis over its estimated useful life and negative goodwill is recognised as income in the income statement over the life of the assets, on a straight-line basis, both over a period not exceeding twenty years.

Intangible assets

Rights

Rights are depreciated on a straight-line basis over their estimated useful life of twenty years.

Computer software

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

Research and development

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets to the extent that such expenditure is expected to generate future economic benefits. Other development expenditures are recognised as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised by Eskom and the group on a straight-line basis over the period of the expected benefit from the commencement of the commercial production of the product or when the new product is used. The amortisation period adopted does not exceed five years.

Capitalisation of borrowing costs

Borrowing costs attributable to the construction of qualifying assets are capitalised as part of the cost of these assets over the period of construction to the extent that the assets are financed by financial instruments. The capitalisation rate applied is the weighted average of the net borrowing costs applicable to the net borrowings of the group.

Impairment of assets

The carrying amounts of assets stated in the balance sheet, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated as the higher of the net selling price and its value in use. An impairment loss is recognised in the income statement whenever the carrying amount exceeds the recoverable amount.

In assessing value in use, the expected future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

A previously recognised impairment loss is only reversed if there has been a change in the estimates used to determine the recoverable amount; however, not to an amount higher than the carrying amount that would have been determined (net of depreciation and amortisation) had no impairment loss been recognised in previous years.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in the recoverable amount relates clearly to the reversal of the effect of that specific event.

Future fuel supplies

Coal

Non-refundable advances to suppliers, together with related borrowing costs thereon, are deferred and amortised against the cost of coal supplied on the basis of the estimated life of the asset procured by the suppliers.

Repayable advances to suppliers are capitalised, and the interest earned thereon is credited to interest income and repaid in terms of the agreements.

Nuclear

Fuel assemblies in the process of fabrication are valued at cost and include borrowing costs, which are capitalised during the fabrication period. Advance payments in terms of agreements are capitalised.

Financial instruments

Measurement

Financial instruments are initially measured at cost, which includes transactions costs. Subsequent to initial recognition these instruments are measure as set out below.

Local financial market instruments

Derivative financial market instruments

Derivative financial assets and derivative financial liabilities are deemed to be held for trading unless they are designated as effective hedging instruments and comply with hedging criteria. Certain derivative transactions, while providing effective economic hedges under risk management policies, do not qualify for hedge accounting under the specific rules of IAS 39, Financial Instruments: Recognition and Measurement.

Derivative financial instruments held for trading purposes are measured at fair value, with the resultant gains and losses included in interest income and interest expenditure respectively.

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Local financial market instruments (continued)

Interest rate swaps
The fair value of interest rate swaps is the estimated amount that the group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Financial market assets
Held-to-maturity assets, originated loans and receivables are measured at amortised cost.

Available-for-sale assets are measured at fair value with the resultant gains or losses recognised in equity until the financial asset is sold, or otherwise disposed of, or found to be impaired, at which time the cumulative gains or losses previously recognised in equity are included in interest income and interest expenditure respectively. Fair value gains or losses recognised in equity exclude interest, and are reported in the income statement on an accrual basis.

Financial assets held for trading purposes are measured at fair value, and the resultant gains and losses are included in the income statement.

The settlement of financial market transactions, established by regulation or market convention, are accounted for using trade date accounting.

Securities sold or purchased under re-purchase agreements and their corresponding unsettled liability or asset are recorded in the annual financial statements at fair value. Accordingly no derecognition is required. The resultant profit or loss is taken to the income statement.

Financial market liabilities
All financial market liabilities other than liabilities held for trading purposes, and derivative liabilities are measured at amortised cost.

Financial market liabilities held for trading purposes and derivative liabilities are measured at fair value, and the resultant gains and losses are included in the income statement.

Fair value estimation
Fair value is determined from a discounted cash flow calculation using independently sourced market rates for similar instruments.

Capital market instruments specifically, are calculated on a clean price basis as interest accrued to date is disclosed separately and options are fair valued using the Black-scholes model.

Amortised cost basis
Amortised cost is determined using the effective interest rate method.

Foreign currency financial market instruments

Transactions in foreign currencies are initially recognised at the exchange rates prevailing on the transaction date.

Foreign loans are non-trading and are recorded at the exchange rates ruling at the date of the transaction. At balance sheet date, foreign loans are restated at the closing rates and the gains or losses are recognised in the income statement for the period. The initial measurement of foreign loans is adjusted for discounts or premiums. The discounts or premiums are amortised over the period of the relevant loan using the yield to maturity method.

Other monetary assets, liabilities and commitments in foreign currencies are translated at the exchange rates ruling at the balance sheet date.

Forward exchange contracts and similar instruments, designated as cash flow hedges for future anticipated foreign currency denominated transactions, are measured at fair value with the resultant gains or losses being recognised in equity. If the hedged forecasted transaction results in the recognition of an asset or liability, the cumulative amount recognised in equity is adjusted against the initial measurement of the asset or liability. For other cash flow hedges, the cumulative amount recognised in equity is included in the income statement in the period when the forecasted transaction affects profits or losses.

Forward exchange contracts and similar instruments, designated as fair value hedges for recognised foreign denominated transactions, are measured at fair value with the resultant gains or losses being credited or charged to the income statement in the period.

Foreign entities

The financial statements of foreign entities are translated into the reporting currency as follows:

- Assets and liabilities are translated at rates of exchange ruling at the financial year end.
- Income and expenditure and cash flow items are translated at a weighted average rate for the period.

Dividends are translated at the rate of exchange ruling at the date of the transaction.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the balance sheet date.

Exchange differences arising on the translation of foreign entities are taken directly to a foreign currency translation reserve.

Other financial market instruments

Trade and other receivables

Trade and other receivables are stated at cost less impairment losses. Debts considered to be irrecoverable are written off.

Trade and other payables

Local trade and other payables are stated at nominal value, which approximates fair value.

Loans receivable

Loans receivable consist of finance provided to employees of the group mainly for the purchase of immovable property, and are stated after a provision for doubtful loans. Specific impairment provisions are made against identified doubtful loans. An impairment provision is also raised based on periodic evaluations of loans and taking into account past experience, economic conditions and changes in the nature and levels of risk exposure.

Inventories

Coal, maintenance spares and consumables

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average basis.

Nuclear fuel

Nuclear fuel is valued at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis and includes borrowing costs. Nuclear fuel consists of raw materials, fabricated fuel assemblies and fuel in reactors.

Insurance reserve

A full contingency reserve is created in Escap Limited and Gallium Insurance Company Limited in terms of the Short-term Insurance Act, 53 of 1998.

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

An onerous contract is a contract under which the unavoidable cost of meeting the obligation exceeds the economic benefit expected to be received under it. When a contract becomes onerous, the present obligation under a contract is recognised and measured as a provision.

If the effect is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

for the year ended 31 December 2003

1. ACCOUNTING POLICIES (continued)

Decommissioning and nuclear waste management

Nuclear and other generation plant

A provision is raised for the estimated decommissioning cost of nuclear or other generation plant and capitalised to the cost of nuclear or other generation plant when it is commissioned. The estimated cost of decommissioning at the end of the productive life of plant is based on engineering estimates and reports from independent experts. Decommissioning cost capitalised to the cost of nuclear or other generation plant, is written off on a straight-line basis over the estimated useful lives of the plant.

Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money and, where appropriate, the risk specific to the liability.

Any subsequent change to the provision regarding a change in the estimate of the decommissioning cost is charged to the income statement.

The provisions are restated on an annual basis to reflect the changes in time value of money. The impact of the change in time value on the provision is reflected in the income statement.

Spent nuclear fuel

A provision is made, over the life of the plant, for 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.

Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money and, where appropriate, the risk specific to the liability.

The provisions are restated on an annual basis to reflect the changes in time value of money. The impact of the change in time value on the provision is reflected in the income statement.

Closure, pollution control and rehabilitation

Expenditure on property, plant and equipment for pollution control is capitalised and depreciated over the useful lives of the assets. The cost of current ongoing programmes to prevent and control pollution and to rehabilitate the environment is charged to the income statement as incurred, unless a present legal or constructive obligation exists to recognise such expenditure, in which case a provision is created based on the best estimates available.

Provision is made for the estimated cost of closure, pollution control and rehabilitation during, and at the end of, the life of mines where a constructive obligation exists to pay coal suppliers. Closure, pollution control and rehabilitation costs capitalised to future fuel are written off over the estimated useful life of the power station.

Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money and, where appropriate, the risk specific to the liability.

Any subsequent change to the provision regarding a change in the estimate of the environmental and rehabilitation cost is charged to the income statement.

Deferred income

Cross-border lease

Income realised on cross-border lease transactions is deferred. This income is recognised over the period that Eskom is exposed to a risk of a cancellation event on the contract and is allocated to the income statement on the same basis as the risk exposure profile.

Grants

Government grants received relating to the creation of electrification assets are included in non-current liabilities as deferred income, and are credited to the income statement on a straight-line basis over the expected useful lives of the related assets.

Capital expenditure paid in advance

Capital expenditure paid in advance by customers relating to the construction of regular distribution and transmission assets are credited to the income statement on a straight-line basis over the expected lives of the related assets.

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 pensionable emoluments and are expensed in the period in which they are incurred.

The net benefit liability or asset at the balance sheet date is not accounted for in the financial statements. The rules of the Eskom Pension and Provident Fund state that any deficit on the valuation of the Fund will be funded by increases in future contributions or reductions in benefits. If there is a substantial surplus on the valuation of the Fund, future contributions may be decreased or benefits may be improved as determined by the Trustees of the Fund.

The estimated cost of gratuities is accounted for over the potential working life of the employees based on the assessment by independent actuaries, which takes into account the probability of employees remaining in Eskom's employ.

Provision is made for post-retirement medical contributions by accounting through the income statement for the estimated cost over the expected period to retirement of the employees. The cost to the employer, in the form of employer contributions, is determined by using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses that exceed 10% of the present value of the post-retirement medical aid obligation are amortised to the income statement over the lesser of 10 years or the expected remaining working lives of the participating employees. The amount recognised in the balance sheet represents the present value of the post-retirement medical aid contribution as adjusted for unrecognised actuarial gains and losses.

Discontinuing operations

A discontinuing operation is a significant distinguishable component of the group's business that is abandoned or terminated pursuant to a single formal plan, and which represents a separate major line of business or geographical area of operations.

The profit or loss on the sale or abandonment of a discontinuing operation is determined from the formalised discontinuance date.

Exceptional items

Exceptional items are material items that derive from events or transactions that fall within the ordinary activities of Eskom and the group and that individually or, if of a similar type in aggregate, need to be disclosed by virtue of their size, incidence or nature.

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.

Revenue

Revenue, which excludes value-added tax, represents the gross value of goods or services invoiced and accrued.

Electricity revenue
Electricity revenue is recognised when electricity is consumed by the customer.

Other revenue
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the buyer.

1. ACCOUNTING POLICIES (continued)

Interest income

Interest income comprises interest receivable on loans, advances, trade receivables and income from financial market investments. Interest is only recognised where it is probable that the economic benefits associated with the transaction will flow to Eskom and the group. Interest income is recognised on a time proportionate basis that takes into account the effective yield on assets.

Interest expenditure

Interest expenditure comprises interest payable on borrowings calculated using the effective interest rate method as well as interest resulting from the unwinding of discount on provisions.

Taxation

Income tax on the net profit for the year comprises current, deferred and secondary tax on companies. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

The charge for current tax is based on the results for the year as adjusted for items that are exempt or disallowed using tax rates that have been enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of a previous year.

Deferred tax is provided on the comprehensive basis using the balance sheet liability method on all temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to positive and negative goodwill not deductible for taxation purposes and the initial recognition of assets or liabilities that affect neither accounting nor computed taxable profits or losses.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and is charged to the income statement.

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

2. PROPERTY, PLANT AND EQUIPMENT

	Group Cost Rm	Group Accumulated depreciation Rm	Group Carrying value Rm	Eskom Cost Rm	Eskom Accumulated depreciation Rm	Eskom Carrying value Rm
2003						
Land	**291**	**–**	**291**	**259**	**–**	**259**
Buildings and facilities	**2 819**	**1 591**	**1 228**	**2 698**	**1 545**	**1 153**
Plant – Generation	**45 835**	**21 137**	**24 698**	**45 835**	**21 137**	**24 698**
– Transmission	**9 865**	**4 625**	**5 240**	**9 865**	**4 625**	**5 240**
– Distribution	**26 255**	**9 900**	**16 355**	**26 255**	**9 900**	**16 355**
• Regular distribution	**16 555**	**5 888**	**10 667**	**16 555**	**5 888**	**10 667**
• Electrification	**9 700**	**4 012**	**5 688**	**9 700**	**4 012**	**5 688**
– Test, telecommunication and other plant	**2 431**	**1 597**	**834**	**504**	**480**	**24**
Equipment and vehicles	**3 534**	**2 256**	**1 278**	**3 119**	**2 029**	**1 090**
Total in commission	**91 030**	**41 106**	**49 924**	**88 535**	**39 716**	**48 819**
Plant at mothballed power stations	**586**	**364**	**222**	**586**	**364**	**222**
Works under construction	**3 867**	**649**	**3 218**	**3 046**	**–**	**3 046**
Construction materials	**111**	**–**	**111**	**111**	**–**	**111**
	95 594	**42 119**	**53 475**	**92 278**	**40 080**	**52 198**
2002						
Land	302	–	302	271	–	271
Buildings and facilities	2 887	1 586	1 301	2 767	1 545	1 222
Plant – Generation	45 072	19 760	25 312	45 072	19 760	25 312
– Transmission	9 711	4 289	5 422	9 711	4 289	5 422
– Distribution	24 098	8 728	15 370	24 098	8 728	15 370
• Regular distribution	14 877	5 230	9 647	14 877	5 230	9 647
• Electrification	9 221	3 498	5 723	9 221	3 498	5 723
– Test, telecommunication and other plant	2 172	1 429	743	503	463	40
Equipment and vehicles	3 063	2 038	1 025	2 706	1 847	859
Total in commission	87 305	37 830	49 475	85 128	36 632	48 496
Plant at mothballed power stations	588	367	221	588	367	221
Works under construction	2 049	–	2 049	1 182	–	1 182
Construction materials	81	–	81	81	–	81
	90 023	38 197	51 826	86 979	36 999	49 980

for the year ended 31 December 2003

2. PROPERTY, PLANT AND EQUIPMENT (continued)

	Carrying value beginning of year Rm	Additions and transfers Rm	Disposals Rm	Impairment losses Rm	Depreciation Rm	Carrying value end of year Rm
Reconciliation of movements						
Group						
2003						
Land	**302**	**2**	**13**	**–**	**–**	**291**
Buildings and facilities	**1 301**	**72**	**45**	**–**	**100**	**1 228**
Plant	**46 847**	**3 642**	**93**	**12**	**3 257**	**47 127**
Equipment and vehicles	**1 025**	**676**	**23**	**–**	**400**	**1 278**
Plant at mothballed power stations	**221**	**1**	**–**	**–**	**–**	**222**
Works under construction	**2 049**	**1 818**	**–**	**649**	**–**	**3 218**
Construction materials	**81**	**30**	**–**	**–**	**–**	**111**
	51 826	**6 241**	**174**	**661**	**3 757**	**53 475**
Eskom						
2003						
Land	**271**	**1**	**13**	**–**	**–**	**259**
Buildings and facilities	**1 222**	**71**	**44**	**–**	**96**	**1 153**
Plant	**46 144**	**3 377**	**86**	**12**	**3 106**	**46 317**
Equipment and vehicles	**859**	**599**	**5**	**–**	**363**	**1 090**
Plant at mothballed power stations	**221**	**1**	**–**	**–**	**–**	**222**
Works under construction	**1 182**	**1 864**	**–**	**–**	**–**	**3 046**
Construction materials	**81**	**30**	**–**	**–**	**–**	**111**
	49 980	**5 943**	**148**	**12**	**3 565**	**52 198**

	Group		Eskom	
	2003 Rm	2002 Rm	**2003 Rm**	2002 Rm
Borrowing costs are capitalised at a weighted average rate of 14,13% (2002: 10,49%).				
Details of land and buildings are available for examination at the registered offices of the respective businesses.				
Included in generation plant are assets leased to an international party and leased back under cross-border lease agreements with a book value of	**4 809**	4 979	**4 809**	4 979

The cross-border lease transactions over three units 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 assets will return to Eskom.

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

3. GOODWILL

2003	Group Cost Rm	Group Accumulated amortisation Rm	Group Carrying value Rm	Eskom Cost Rm	Eskom Accumulated amortisation Rm	Eskom Carrying value Rm
Positive goodwill	**142**	**72**	**70**	**–**	**–**	**–**
Negative goodwill	**(404)**	**(230)**	**(174)**	**(404)**	**(230)**	**(174)**
	(262)	**(158)**	**(104)**	**(404)**	**(230)**	**(174)**
2002						
Positive goodwill	142	13	129	–	–	–
Negative goodwill	(404)	(192)	(212)	(404)	(192)	(212)
	(262)	(179)	(83)	(404)	(192)	(212)

Reconciliation of movements

	Carrying value beginning of year Rm	Additions Rm	Amortisation Rm	Carrying value end of year Rm
Group				
2003				
Positive goodwill	**129**	**–**	**59**	**70**
Negative goodwill	**(212)**	**–**	**(38)**	**(174)**
	(83)	**–**	**(21)**	**(104)**
Eskom				
2003				
Positive goodwill	**–**	**–**	**–**	**–**
Negative goodwill	**(212)**	**–**	**(38)**	**(174)**
	(212)	**–**	**(38)**	**(174)**

for the year ended 31 December 2003

4. INTANGIBLE ASSETS

2003	Group Cost Rm	Group Accumulated amortisation Rm	Group Carrying value Rm	Eskom Cost Rm	Eskom Accumulated amortisation Rm	Eskom Carrying value Rm
Rights	**235**	**217**	**18**	**235**	**217**	**18**
Computer software	**1 094**	**684**	**410**	**1 054**	**670**	**384**
Total	**1 329**	**901**	**428**	**1 289**	**887**	**402**
2002						
Rights	214	212	2	214	212	2
Computer software	960	502	458	864	490	374
Total	1 174	714	460	1 078	702	376

Reconciliation of movements	Carrying value beginning of year Rm	Additions Rm	Disposals Rm	Impairment losses Rm	Amortisation Rm	Carrying value end of year Rm
Group						
2003						
Rights	**2**	**23**	**–**	**–**	**7**	**18**
Computer software	**458**	**132**	**–**	**–**	**180**	**410**
Total	**460**	**155**	**–**	**–**	**187**	**428**
Eskom						
2003						
Rights	**2**	**23**	**–**	**–**	**7**	**18**
Computer software	**374**	**188**	**–**	**–**	**178**	**384**
Total	**376**	**211**	**–**	**–**	**185**	**402**

5. FUTURE FUEL SUPPLIES

	Group **2003 Rm**	Group 2002 Rm	Eskom **2003 Rm**	Eskom 2002 Rm
Coal	**2 481**	2 389	**2 481**	2 389
Balance at beginning of the year	**2 389**	2 384	**2 389**	2 384
Additions	**311**	199	**311**	199
Amortised during the year	**(219)**	(194)	**(219)**	(194)
Nuclear	**300**	31	**300**	31
Balance at beginning of the year	**31**	141	**31**	141
Additions	**482**	305	**482**	305
Transfer to inventories	**(213)**	(415)	**(213)**	(415)
	2 781	2 420	**2 781**	2 420

6. FINANCIAL INSTRUMENTS

		Group		Eskom	
		2003	2002	**2003**	2002
		Fair value and carrying amount Rm	Fair value and carrying amount Rm	**Fair value and carrying amount Rm**	Fair value and carrying amount Rm
6.1 Financial market assets					
Financial assets, other than investments in subsidiaries, associates and joint ventures, trade and other receivables, comprise the following classes of financial assets:					
Non-current assets		**14 884**	8 158	**14 884**	8 158
Held-to-maturity assets	6.1.1	**2 350**	100	**2 350**	100
Originated loans and receivables	6.1.2	**2 996**	1 614	**2 996**	1 614
Available-for-sale assets	6.1.3	**5 842**	4 572	**5 842**	4 572
Assets carried at fair value	6.1.4	**3 146**	1 553	**3 146**	1 553
Hedging instruments	6.1.5	**550**	319	**550**	319
Current assets		**15 159**	10 446	**13 285**	8 864
Held-to-maturity assets	6.1.1	**1 777**	1 975	**1 200**	1 406
Originated loans and receivables	6.1.2	**7 344**	3 767	**6 082**	2 784
Available-for-sale assets	6.1.3	**1 309**	413	**1 274**	383
Assets carried at fair value	6.1.4	**4 382**	3 742	**4 382**	3 742
Hedging instruments	6.1.5	**347**	549	**347**	549
		30 043	18 604	**28 169**	17 022
6.2 Financial market liabilities					
Financial liabilities other than trade and other payables comprise:					
Non-current liabilities		**21 332**	19 583	**21 012**	19 454
Liabilities carried at fair value	6.2.1	**2 493**	998	**2 482**	998
Other liabilities	6.2.2	**16 541**	16 256	**16 232**	16 127
Hedged items	6.2.3	**1 784**	2 029	**1 784**	2 029
Hedging instruments	6.2.4	**514**	300	**514**	300
Current liabilities		**12 345**	8 171	**12 664**	8 439
Liabilities carried at fair value	6.2.1	**3 867**	2 507	**4 199**	2 783
Other liabilities	6.2.2	**7 748**	4 110	**7 735**	4 102
Hedged items	6.2.3	**89**	184	**89**	184
Hedging instruments	6.2.4	**641**	1 370	**641**	1 370
		33 677	27 754	**33 676**	27 893

for the year ended 31 December 2003

6. FINANCIAL INSTRUMENTS (continued)

	Group 2003 Carrying and fair value Rm	Group 2002 Carrying and fair value Rm
6.1 Financial market assets		
6.1.1 Held to maturity	**4 127**	2 075
Capital market instruments	**104**	103
Money market instruments	**4 023**	1 972
6.1.2 Originated loans and receivables	**10 340**	5 381
Capital market instruments	**2 217**	990
Money market instruments	**5 311**	1 942
Cash and other deposits	**2 316**	1 718
Foreign deposits	**496**	731
6.1.3 Available-for-sale assets	**7 151**	4 985
Capital market instruments	**6 622**	4 572
Money market instruments	**529**	413
6.1.4 Assets carried at fair value	**7 528**	5 295
Capital market instruments	**2 699**	1 346
Money market instruments	**4 065**	3 431
Trading derivatives	**40**	1
Local derivatives	**421**	146
Foreign derivatives	**136**	156
Foreign assets	**167**	215
6.1.5 Hedging instruments	**897**	868
Cash flow hedges	**548**	663
Fair value hedges	**349**	205
	30 043	18 604

Eskom								
2003	2003	2003	2003	2003	2003	2002	2002	2002
Current	Non-current		Sub	Total	Weighted	Current	Non-	Total
1 year	2-5 years	After 5 years	total	carrying and fair value	average		current	carrying and fair value
Rm	Rm	Rm	Rm	Rm	%	Rm	Rm	Rm
1 200	2 250	100	2 350	3 550	8,90	1 406	100	1 506
–	–	100	100	100		–	100	100
1 200	2 250	–	2 250	3 450		1 406	–	1 406
6 082	1 245	1 751	2 996	9 078		2 784	1 614	4 398
17	945	1 255	2 200	2 217	7,18	17	973	990
5 011	300	–	300	5 311	8,19	1 942	–	1 942
1 054	–	–	–	1 054		735	–	735
–	–	496	496	496	7,38	90	641	731
1 274	2 375	3 467	5 842	7 116	10,72	383	4 572	4 955
745	2 375	3 467	5 842	6 587		–	4 572	4 572
529	–	–	–	529		383	–	383
4 382	1 699	1 447	3 146	7 528		3 742	1 553	5 295
(21)	1 481	1 239	2 720	2 699	8,96	(30)	1 376	1 346
4 065	–	–	–	4 065	9,70	3 431	–	3 431
40	–	–	–	40		1	–	1
40	173	208	381	421		18	128	146
91	45	–	45	136		107	49	156
167	–	–	–	167	7,40	215	–	215
347	550	–	550	897		549	319	868
244	304	–	304	548		458	205	663
103	246	–	246	349		91	114	205
13 285	8 119	6 765	14 884	28 169		8 864	8 158	17 022

for the year ended 31 December 2003

6. FINANCIAL INSTRUMENTS (continued)

	Group 2003 Carrying and fair value Rm	Group 2002 Carrying and fair value Rm
6.2 Financial market liabilities		
6.2.1 Liabilities carried at fair value	**6 360**	3 505
Capital market instruments	**2 021**	957
Money market instruments	**3 693**	2 268
Trading derivatives	**51**	–
Local derivatives	**520**	139
Foreign derivatives	**75**	141
6.2.2 Other liabilities	**24 289**	20 366
Capital market instruments	**12 428**	12 254
Money market instruments	**2 703**	2 707
Other	**3 071**	3 525
Other – unsettled financial market deals	**6 087**	1 880
6.2.3 Hedged items		
Foreign liabilities	**1 873**	2 213
Euro	**1 836**	2 115
US dollar	**3**	45
Pound sterling	**34**	53
6.2.4 Hedging instruments	**1 155**	1 670
Cash flow hedges	**866**	1 326
Fair value hedges	**289**	344
	33 677	27 754

	Eskom								
	2003	2003	2003	2003	2003	2003	2002	2002	2002
	Current 1 year	Non-current 2-5 years	Non-current After 5 years	Sub total	Total carrying and fair value	Weighted average	Current	Non-current	Total carrying and fair value
	Rm	Rm	Rm	Rm	Rm	%	Rm	Rm	Rm
	4 199	1 624	858	2 482	6 681		2 783	998	3 781
	51	1 398	572	1 970	2 021	9,23	207	750	957
	4 025	–	–	–	4 025	8,55	2 544	–	2 544
	40	–	–	–	40		–	–	–
	17	217	286	503	520		1	138	139
	66	9	–	9	75		31	110	141
	7 735	8 744	7 488	16 232	23 967		4 102	16 127	20 229
	177	7 388	4 863	12 251	12 428	14,56	15	12 239	12 254
	2 703	–	–	–	2 703	9,15	2 578	–	2 578
	–	123	2 625	2 748	2 748		862	2 655	3 517
	4 855	1 233	–	1 233	6 088		647	1 233	1 880
	89	1 784	–	1 784	1 873		184	2 029	2 213
	75	1 761	–	1 761	1 836	11,70	130	1 985	2 115
	3	–	–	–	3	7,28	41	4	45
	11	23	–	23	34	8,64	13	40	53
	641	514	–	514	1 155		1 370	300	1 670
	552	314	–	314	866		1 133	193	1 326
	89	200	–	200	289		237	107	344
	12 664	12 666	8 346	21 012	33 676		8 439	19 454	27 893

for the year ended 31 December 2003

6. FINANCIAL INSTRUMENTS (continued)

		Eskom 2003	Eskom 2002
	The items discussed below apply to both Eskom and the group.		
6.3	Key interest rate risk indicators for non-trading instruments		
	Domestic to foreign interest rate mix, ratio	**63:37**	70:30
	The weighted average maturity period of financial market instruments, years	**12,27**	9,38
	Short-term financial market liabilities including credits and short-term loans of a revolving nature amounting to, Rm	**6 820**	5 264
6.4	The average annual rate of interest and finance charges based on average net financial market instruments, %		
	Including fair value adjustment	**14,84**	16,13
	Excluding fair value adjustment but including book loss on debt buybacks	**10,19**	14,57
6.5	Fair value information		
	Integrated fair value information for portfolios where the intention is to hold the instruments to maturity is only prepared on a pool basis for risk assessment and risk management purposes.		
6.6	The nominal value of locally issued Eskom bonds, Rm		
	Authorised	**43 768**	48 380
	Issued	**14 693**	14 042
6.7	Financial market liabilities and interest thereon are secured by a first claim against revenue and assets.		
6.8	Foreign debt guaranteed by the Government of the Republic of South Africa, Rm	**156**	200
6.9	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 economically. 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 used includes domestic and foreign interest rate swap agreements, forward rate agreements, forward exchange contracts, commodity option contracts, bond option contracts and commodity futures contracts.

	Eskom 2003 Rm	Eskom 2002 Rm
6.10 Unrealised gains applicable to:		
Investments in subsidiary companies	**680**	833
Investments in associates and joint ventures	**4**	31
Unrealised gains	**684**	864

The carrying amount of cash, trade receivables and trade payables approximates fair values because of the short maturity period of these instruments. Trade and other receivables, after provision for impairment losses, and trade payables are mainly expected to mature within 12 months.

The fair value of investment in associates and joint ventures, and other investments is based on directors' valuations.

The method and assumptions for the fair value of the rest of the instruments are stated in the accounting policies and, as a result, the carrying values approximate the fair values.

7. MARKET RISK MANAGEMENT

The items discussed below refer to both Eskom and the group.

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.

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 used for risk and accounting evaluations are obtained from independent external sources.

To ensure impartiality and independance, the risk assessment and compliance functions within the centralised Treasury have direct access and reporting responsibility to the Finance Director.

Risk management

The Treasury 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.

1. *Group of 30 leading international bankers.*

for the year ended 31 December 2003

7. MARKET RISK MANAGEMENT (continued)

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 customised pricing arrangements exposing it to commodity risk on the income side of the business. Where necessary, Eskom uses derivative instruments, including options, futures and forward agreements, to manage the exposure to these commodities.

Liquidity risk

Liquidity risk arises primarily from variations 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 Finance Director, reviews and approves these limits on a quarterly basis. International Swap Dealers Association (ISDA) netting agreements are in place with all Eskom's major counterparties. For investments where collateral is held, these are reflected under the appropriate category of the insurer.

	Group		Eskom	
	2003	2002	**2003**	2002
The credit exposures by risk rating as at 31 December were:				
RSA Government, %	**22**	24	**22**	24
A1+, %	**67**	55	**67**	55
Other, %	**11**	21	**11**	21
	100	100	**100**	100
Market value of collateral held at 31 December, Rm	**445**	–	**445**	–

	Group		Eskom	
	2003	2002	**2003**	2002

Trade debtors comprise a large, widespread customer base. Credit evaluations are performed for all new customers together with required cash deposits and guarantees. Ongoing credit evaluation is performed on the financial condition of debtors and, where necessary, appropriate steps are taken to minimise risk. Information on trade receivables is contained under revenue management in the directors' report on page 51.

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. Interest rate swaps are used as cash flow hedges of future interest rate payments, which has the economic effect of converting borrowings from floating to fixed rates. Interest rate swaps and forward rate agreements are used to limit the exposure to interest rate fluctuations.

Funding requirements

Eskom's requirements for external funding have been decreasing steadily over recent years. Eskom was a net investor of cash of R4 589 million (2002: R6 788 million) in the domestic and foreign markets during 2003 and depending on the future financial framework, this trend is expected to continue.

8. CUSTOMISED PRICING ARRANGEMENTS

Eskom has entered into a number of agreements to supply electricity to electricity intensive industries where the price is influenced by commodity prices, foreign exchange rates and production price indices. Due to the long-term nature of the contracts, relevant and reliable forward pricing data is unavailable for many of the inputs needed in determining the value.

Estimates of value, given various simulations of forward prices, yield a range of values that is so variable and the possibilities of the various outcomes are so numerous that the usefulness of estimates of value is negated.

Disclosure has been provided to reflect the economic characteristics and inputs that are necessary in determining a range of values.

The following disclosure has been provided according to the type of commodity to which the pricing agreement is linked.

Commodity	Pricing components	Mechanism	Period	Annual commodity tonnages[1]	% of electricity revenue
Aluminium	3-month forward aluminium price US dollar/R	The monthly consumption on these contracts is converted at the ruling three month LME (London Metals Exchange) aluminium price converted to rand at the then ruling spot US dollar rate	2002	113 632	5,7
			2003	106 500	4,8
			2004 - 2012	116 880	
			2013 - 2020	200 978	
			2021 - 2025	84 098	
Ferrochrome	Ferrochrome spot price US dollar/R	The monthly consumption on these contracts is converted at the historical three month ferrochrome price converted to rand at the then ruling spot US dollar rate. These contracts all vary within a collar	2002	44 518	1,1
			2003	46 817	0,7
			2004	3 968	
			2005	3 968	
			2006	384	
Other	US PPI	Annual price escalated by US PPI	2002		0,3
			2003		0,4

Rates	Average		Year end	
	2003	2002	**2003**	2002
Aluminium price, US dollar/ton	**1 428,30**	1 364,80	**1 606,00**	1 362,50
Ferrochrome price, US dollar/ton	**858,85**	651,02	**1059,00**	704,68
US dollar/R	**7,550**	10,506	**6,625**	8,605
US PPI, %	**2,5**	(2,2)	**2,8**	3,8
RSA PPI, %	**1,7**	14,2	**(1,8)**	12,4

1. *Annual tonnages fluctuate due to the commencement or expiry of the commodity component of existing contracts.*

9. LOANS RECEIVABLE

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Secured by mortgages	**2 554**	2 474	**–**	–
Other	**53**	53	**–**	–
	2 607	2 527	**–**	–
Provision for impairment losses	**(27)**	(33)	**–**	–
	2 580	2 494	**–**	–

10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Associates	**191**	151	**4**	4
Cost of investment	**420**	392	**300**	275
Share of post-acquisition profit, net of dividends received	**67**	30	**–**	–
	487	422	**300**	275
Provision for impairment losses	**(296)**	(271)	**(296)**	(271)
Joint ventures	**101**	101	**89**	93
Cost of investment	**133**	129	**133**	125
Share of post-acquisition profit, net of dividends received	**13**	5	**–**	–
	146	134	**133**	125
Provision for impairment losses	**(45)**	(33)	**(44)**	(32)
Total (refer schedule 1)	**292**	252	**93**	97
Net income after tax attributable to associates and joint ventures	**45**	26		

11. INVESTMENTS IN SUBSIDIARY COMPANIES

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Shares at cost			**184**	184
Indebtedness			**4 257**	4 216
Provision for impairment losses			**(803)**	–
Total (refer schedule 2)			**3 638**	4 400
Aggregate attributable after tax profits of subsidiary companies	**130**	50		
Aggregate attributable after tax losses of subsidiary companies	**821**	83		

12. OTHER INVESTMENTS

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Amounts owed by electricity utilities	**29**	29	**29**	29
Other	**45**	47	**45**	47
	74	76	**74**	76
Provision for impairment losses	**(34)**	(34)	**(34)**	(34)
	40	42	**40**	42

for the year ended 31 December 2003

13. DEFERRED TAX

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Deferred tax assets	**151**	85	**–**	–
Balance at beginning of the year	**85**	44	**–**	–
Transfer from income statement (refer note 27)	**66**	41	**–**	–
Deferred tax liabilities	**(4 287)**	(2 544)	**(4 124)**	(2 411)
Balance at beginning of the year	**(2 544)**	(943)	**(2 411)**	(936)
Prior year adjustment	**–**	28	**–**	28
Restated balance	**(2 544)**	(915)	**(2 411)**	(908)
Transfer from income statement (refer note 27)	**(1 808)**	(1 692)	**(1 778)**	(1 566)
Transfer to statement of changes in equity	**65**	63	**65**	63
	(4 136)	(2 459)	**(4 124)**	(2 411)
Comprising:				
Deferred tax assets				
Property, plant and equipment	**7**	(13)	**–**	–
Inventories	**46**	–	**–**	–
Provisions	**41**	72	**–**	–
Computed tax losses used	**–**	10	**–**	–
Other	**57**	16	**–**	–
	151	85	**–**	–
Deferred tax liabilities				
Property, plant and equipment	**8 201**	5 987	**8 201**	5 987
Inventories	**135**	97	**135**	97
Provisions	**(3 192)**	(2 518)	**(3 192)**	(2 518)
Computed tax losses used	**(401)**	(830)	**(401)**	(830)
Other	**(456)**	(192)	**(619)**	(325)
	4 287	2 544	**4 124**	2 411
Computed tax losses not used, but available for set-off against future taxable income	**75**	98	**–**	–

14. TRADE AND OTHER RECEIVABLES

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Trade	**4 404**	4 678	**3 764**	4 435
Interest receivable	**531**	207	**586**	360
Other	**706**	1 081	**816**	1 014
	5 641	5 966	**5 166**	5 809
Provision for impairment losses	**(1 250)**	(1 968)	**(1 163)**	(1 921)
	4 391	3 998	**4 003**	3 888
Non-current portion	**(167)**	(223)	**(167)**	(223)
	4 224	3 775	**3 836**	3 665

15. INVENTORIES

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Coal	**705**	675	**705**	675
Nuclear fuel	**650**	741	**650**	741
Maintenance spares and consumables	**1 042**	968	**869**	757
	2 397	2 384	**2 224**	2 173

16. ISSUED CAPITAL

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Authorised				
1 000 ordinary shares of R1 each	[1]	[1]	[1]	[1]
Issued				
1 ordinary share of R1	[1]	[1]	[1]	[1]

In terms of the Memorandum and Articles of Association the unissued share capital is under the control of the Department of Public Enterprises as the sole shareholder.

17. RETIREMENT BENEFITS

17.1 The Eskom Pension and Provident Fund is registered in terms of the Pension Funds Act, 1956 as amended. All the employees are members of the Fund. Contributions comprise 20,8% of pensionable emoluments of which members pay 7,3%. The assets of the Fund are held separately from those of the group in respect of funds under the control of the trustees.

The Fund is actuarially valued annually on the solvency basis on 31 December. The actuarial present value of promised retirement benefits at 31 December 2003 was R23 878 million (2002: R21 070 million), while the fair value of the Fund's assets at this date was R23 878 million (2002: R21 345 million), indicating no surplus or deficit for the current year (2002: R275 million surplus).

The principal actuarial assumptions used for actuarial valuation purposes were, %

	Group 2003	Group 2002	Eskom 2003	Eskom 2002
Long-term interest rate before tax	**9,25**	10,50	**9,25**	10,50
Salary inflation rate	**5,50**	7,10	**5,50**	7,10
Future pension increases	**4,50**	6,00	**4,50**	6,00

A process is under way to convert the current Eskom Pension and Provident Fund into a defined contribution fund.

1. *Nominal value.*

for the year ended 31 December 2003

17. RETIREMENT BENEFITS (continued)

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
17.2 A service gratuity, where applicable, is payable on retirement or death. The estimated present value of the anticipated expenditure for gratuities was calculated by independent actuaries at 31 December 2003. The probability of employees remaining in Eskom's employ is taken into account when calculating the provision.				
Amount provided, Rm				
Present value of obligation	**1 333**	1 148	**1 228**	1 079
Unrecognised actuarial gain/(loss)	**8**	(4)	**8**	(21)
	1 341	1 144	**1 236**	1 058
The principal actuarial assumptions used for actuarial valuation purposes were, %				
Long-term interest rate before tax	**9,25**	10,50	**9,25**	10,50
Expected rate of salary increases	**5,50**	5,50	**5,50**	5,50
A process to settle the gratuity liability is currently being discussed with stakeholders.				
17.3 The group 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, for both in-service and continuation members, was recalculated by independent actuaries at 31 December 2003. An independent actuarial valuation is performed annually.				
Amount provided, Rm				
Present value of obligation	**4 351**	3 612	**4 209**	3 507
Unrecognised actuarial gain	**6**	36	**6**	10
	4 357	3 648	**4 215**	3 517
The principal actuarial assumptions used for actuarial valuation purposes were, %:				
Long-term interest rate before tax	**9,25**	10,50	**9,25**	10,50
Long-term medical aid inflation	**7,25**	8,50	**7,25**	8,50
An investigation to determine whether or not the post medical aid liability can be limited is currently underway.				
17.4 Provision for post-retirement medical aid and gratuities, Rm				
Balance at beginning of the year	**4 792**	4 063	**4 575**	3 860
Provision for additional year of service	**214**	210	**196**	189
Interest adjustment	**483**	427	**464**	405
Actuarial gains and losses	**381**	257	**381**	257
Expenditure incurred	**(172)**	(165)	**(165)**	(136)
Balance at end of the year (refer notes 17.2 and 17.3)	**5 698**	4 792	**5 451**	4 575
Current portion	**(1 434)**	(138)	**(1 348)**	(132)
	4 264	4 654	**4 103**	4 443

18. PROVISIONS

	Group		Eskom					
	Total Group	Other sub-sidiaries	Total Eskom	Nuclear decom-missioning and waste management	Other decom-missioning	Closure, pollution control and reha-bilitation	Letter of credit facilities	Other
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Balance at 1 January 2002	4 038	502	3 536	1 451	762	614	108	601
Provision for the year	156	–	156	41	(9)	(67)	–	191
Interest adjustment	384	–	384	200	101	83	–	–
Revaluation	31	–	31	–	–	–	31	–
Foreign exchange profit	(31)	–	(31)	–	–	–	(31)	–
Expenditure incurred	(321)	(222)	(99)	(11)	(12)	(8)	(23)	(45)
Balance at 31 December 2002	**4 257**	**280**	**3 977**	**1 681**	**842**	**622**	**85**	**747**
Provision for the year	**831**	**515**	**316**	**49**	**9**	**18**	**–**	**240**
Interest adjustment	**360**	**–**	**360**	**196**	**86**	**78**	**–**	**–**
Revaluation	**(3)**	**–**	**(3)**	**–**	**–**	**–**	**(3)**	**–**
Foreign exchange profit	**(18)**	**–**	**(18)**	**–**	**–**	**–**	**(18)**	**–**
Expenditure incurred	**(469)**	**(238)**	**(231)**	**(6)**	**(14)**	**(28)**	**(13)**	**(170)**
Balance at 31 December 2003	**4 958**	**557**	**4 401**	**1 920**	**923**	**690**	**51**	**817**

	Group		Eskom	
	2003	2002	**2003**	2002
	Rm	Rm	**Rm**	Rm
Disclosed as:				
Non-current portion	**4 304**	3 684	**4 084**	3 555
Decommissioning and nuclear waste management	**2 832**	2 488	**2 832**	2 488
Closure, pollution control and rehabilitation	**679**	611	**679**	611
Other	**793**	585	**573**	456
Current portion	**654**	573	**317**	422
	4 958	4 257	**4 401**	3 977
Current portion of provisions				
As above	**654**	573	**317**	422
Provision for post-retirement medical aid and gratuities (refer note17.4)	**1 434**	138	**1 348**	132
	2 088	711	**1 665**	554

for the year ended 31 December

18. PROVISIONS (continued)

	Group		Eskom	
	2003	2002	**2003**	2002

Nuclear decommissioning and waste management

The payment dates of total expected future decommissioning costs are uncertain, but are currently expected to be between 2021 and 2050.

The provisions for the estimated decommissioning and waste management cost of nuclear plant have been discounted at 5% (2002: 5%).

The payment dates of total expected future spent fuel costs are uncertain, but the majority of the payments are currently expected to be between 2031 and 2080. The provision for the estimated spent fuel cost has been discounted at 5% (2002: 5%).

Other decommissioning

The payment dates of total expected future decommissioning costs are uncertain, but are currently expected to be between 2025 and 2048.

The provision for the estimated decommissioning cost of other plant has been discounted at 5% (2002: 5%).

Closure, pollution control and rehabilitation of coal mines

Provision is made for the estimated cost of closure, pollution control and rehabilitation and mine employee benefits at the end of the life of the mines, where a constructive and contractual obligation exists to pay coal suppliers.

The payment dates of total expected closure, pollution control and rehabilitation costs are uncertain, but are currently expected to be between 2004 and 2067. The provision has been discounted at 5% (2002: 5%).

Letter of credit facilities

The letter of credit facilities arise 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 determine the provision required.

Other

Provision is made for annual and occasional leave, and other sundry provisions.

19. DEFERRED INCOME

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Cross-border lease	**172**	211	**172**	211
Government grant and capital expenditure paid upfront	**1 541**	1 025	**1 541**	1 025
	1 713	1 236	**1 713**	1 236
Reconciliation of movement				
Balance at the beginning of the year	**1 236**	702	**1 236**	702
Additions during the year	**591**	573	**591**	573
Income recognition during the year	**(114)**	(39)	**(114)**	(39)
Balance at end of the year	**1 713**	1 236	**1 713**	1 236

Cross-border lease

The deferred income arises from benefits realised through cross-border lease transactions over certain generating plant (refer note 2). The present value of the lease and leaseback commitments was settled in full on commencement of the transactions and a profit resulted.

Government grant

The Government's transitional electrification programmes are managed by Eskom on behalf of the Department of Minerals and Energy (DME). The funding for the electrification of homes is provided by the DME. Eskom retains ownership and responsibility for the electrification assets created upon conclusion of the agreement.

Capital expenditure paid in advance

Amounts relate to capital expenditure paid in advance by customers for the construction of electricity network assets.

20. TRADE AND OTHER PAYABLES

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Trade and other payables	**4 936**	3 707	**4 359**	3 249
Interest accrued	**446**	432	**447**	433
	5 382	4 139	**4 806**	3 682

for the year ended 31 December 2003

21. COMMITMENTS

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
21.1 Capital expenditure				
Estimated capital expenditure	**20 606**	6 145	**20 602**	6 018
Contracted	**2 204**	2 255	**2 204**	2 090
Approved, not yet contracted for	**18 402**	3 890	**18 398**	3 928
This expenditure will be financed from debt and internally generated funds and is expected to be incurred as follows:	**20 606**	6 145	**20 602**	6 018
Within one year	**4 077**	2 944	**4 073**	2 826
Thereafter	**16 529**	3 201	**16 529**	3 192
21.2 Future minimum operating lease payments	**146**	157	**144**	71
Within one year	**45**	50	**44**	36
Between 2 and 5 years	**101**	107	**100**	35

21.3 Derivative financial instruments

The range of derivative instruments used includes domestic and foreign interest rate swap agreements, forward rate agreements, forward exchange contracts, commodity option contracts, bond option contracts and commodity futures contracts.

21.4 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.

21.5 Coal

Eskom has entered into long-term agreements with suppliers for coal purchases. The annual cost of coal is regarded as part of the cost of primary energy and is included in operating expenditure.

22. CONTINGENT LIABILITIES

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
22.1 Guarantees and suretyships, issued on behalf of group companies and third parties, amount to	**435**	559	**317**	362
22.2 Eskom has guaranteed the debt raised by Motraco – Mozambique Transmission Company SARL. At year end the outstanding commitment was	**576**	784	**576**	784
22.3 Guarantees have been issued for the pollution control costs and part of the estimated closure and rehabilitation costs for certain collieries. The unprovided portion at year end was	**95**	104	**95**	104

22.4 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.

22.5 Eskom has underwritten the solvency margin of its subsidiary, Escap Limited, in accordance with the requirements of the Insurance Act. At 31 December, Escap Limited had a 26% solvency ratio against the statutory requirement of 15%.

	Group		Eskom	
	2003	2002	**2003**	2002
	Rm	Rm	**Rm**	Rm
22.6 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. 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 entity, 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 2003, the amount guaranteed is US dollar 407 million (2002: US dollar 399 million).	**2 696**	3 433	**2 696**	3 433
22.7 Eskom Enterprises issued letters of support amounting to a total of R158 million to Standard Bank of Lesotho Limited and Lesotho Bank Limited in respect of overdraft facilities extended to Tele-Com Lesotho (Pty) Limited. The letters of support expire on 31 March 2004. Mountain Communications (Pty) Limited (MKC) committed to a capital expansion programme in its subsidiary companies to the equivalent of US dollar 56 million over a three year period. Eskom Enterprises guarantees, to the extent that MKC has not met its commitments, to fund the shortfall. The committed capital expenditure has been exceeded (at the end of 2002, R217 million was still required to be spent).				
22.8 Eskom Finance Company (Pty) Limited has granted home loans (secured by mortgage bonds on the properties) to employees of the Eskom Group. This possible exposure is the difference between the value of the properties at the time that the loans were given and the current value of the loans receivable. The values of the mortgaged properties could well have changed since each contract was entered into. There is a maximum possible exposure of approximately R276 million in the event of all the employees leaving the service of the group.	**276**	253	**276**	253

for the year ended 31 December 2003

23. REVENUE

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Electricity revenue	**31 680**	28 158	**31 680**	28 158
Other revenue	**1 168**	1 526	**–**	–
	32 848	29 684	**31 680**	28 158

24. OPERATING EXPENDITURE

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Primary energy	**7 847**	6 199	**7 847**	6 199
Materials	**1 815**	1 529	**665**	545
Contracts	**668**	1 097	**641**	1 200
Repairs and maintenance	**2 853**	1 410	**2 827**	1 397
Transport	**493**	472	**469**	474
Staff costs	**7 514**	6 446	**7 139**	6 249
Salaries and other staff costs	**6 231**	5 371	**5 896**	5 209
Pension contributions	**492**	411	**485**	404
Post-retirement medical aid benefits and gratuities	**606**	467	**576**	446
Training and development (only manpower-related costs)	**185**	197	**182**	190
Depreciation and amortisation	**3 965**	3 451	**3 712**	3 263
Depreciation of property, plant and equipment	**3 757**	3 366	**3 565**	3 189
Amortisation of intangible assets	**187**	114	**185**	112
Amortisation of negative goodwill	**(38)**	(38)	**(38)**	(38)
Amortisation of positive goodwill	**59**	9	**–**	–
Insurance proceeds	**(194)**	(466)	**(1 103)**	(466)
Managerial, technical and other fees	**502**	431	**493**	423
Net profit on disposal of property, plant, equipment and intangible assets	**(144)**	(49)	**(140)**	(46)
Research and development	**558**	325	**558**	325
Operating lease payments	**86**	102	**84**	99
Deferred income recognised	**(114)**	(39)	**(114)**	(39)
Net impairment losses	**1 129**	490	**1 234**	475
Property, plant and equipment	**661**	34	**12**	34
Investments in subsidiary companies			**803**	–
Investments in associates and joint ventures	**37**	105	**37**	104
Trade and other receivables	**431**	351	**382**	337
Directors' emoluments (refer schedule 3)	**36**	22	**36**	22
Auditors' remuneration	**27**	19	**19**	15
Audit	**26**	18	**18**	14
Other	**1**	1	**1**	1
Other operating (income)/expenditure	**(1 011)**	(76)	**479**	539
Total operating expenditure	**26 030**	21 363	**24 846**	20 674

25. INTEREST INCOME

	Group		Eskom	
	2003	2002	**2003**	2002
	Rm	Rm	**Rm**	Rm
Interest and discount amortised on financial market assets	**3 977**	2 475	**3 440**	2 317
Net income from treasury trading	**47**	31	**47**	31
Interest received from subsidiary companies			**324**	316
Interest income per income statement	**4 024**	2 506	**3 811**	2 664
Fair value gains on financial instruments	**86**	841	**80**	841
	4 110	3 347	**3 891**	3 505
Interest income includes preference dividends received amounting to	**211**	107	**211**	107

26. INTEREST EXPENDITURE

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Interest and discount amortised	**4 492**	4 437	**4 517**	4 467
Locally issued bonds	**2 709**	2 808	**2 709**	2 808
Other local debt	**1 129**	943	**1 154**	973
Foreign debt	**654**	686	**654**	686
Other net financial losses – exchange differences	**39**	75	**39**	75
Amounts capitalised	**(46)**	(42)	**(46)**	(41)
Unwinding of discount on provisions (refer notes 17 and 18)	**843**	811	**824**	789
Interest expenditure per income statement	**5 328**	5 281	**5 334**	5 290
Fair value losses on financial instruments	**369**	959	**357**	948
	5 697	6 240	**5 691**	6 238
Net fair value adjustment on financial instruments				
Gains (refer note 25)	**86**	841	**80**	841
Losses	**(369)**	(959)	**(357)**	(948)
	(283)	(118)	**(277)**	(107)

for the year ended 31 December 2003

27. INCOME TAX EXPENSE

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Current tax	**88**	76	**–**	–
Current year	**74**	63	**–**	–
Underprovided in prior years	**14**	13	**–**	–
Secondary tax on companies	**30**	–	**30**	–
Deferred tax	**1 741**	1 651	**1 778**	1 566
Origination and reversal of temporary differences current year	**1 794**	1 816	**1 809**	1 707
Overprovided in prior years	**(53)**	(165)	**(31)**	(141)
Total income tax expense in income statement	**1 859**	1 727	**1 808**	1 566
Computed tax losses	**1 377**	2 865	**1 339**	2 767
Unused tax losses available for set-off against future income	**75**	98	**–**	–
Reconciliation of effective tax rate	**%**	%	**%**	%
Taxation as a percentage of profit before tax	**35,54**	31,81	**35,92**	32,95
Taxation effect of				
Exempt income	**4,51**	0,70	**4,01**	0,73
Expenditure not allowed	**(10,34)**	(5,55)	**(9,93)**	(6,66)
Secondary tax on companies	**(0,58)**	–	**(0,61)**	–
Foreign tax rate differential	**(0,03)**	0,01	**–**	–
Used tax losses	**0,59**	0,25	**–**	–
Computed tax losses not used	**(0,43)**	–	**–**	–
Prior year adjustment	**0,74**	2,78	**0,61**	2,98
Standard tax rate	**30,00**	30,00	**30,00**	30,00

28. CASH GENERATED FROM OPERATIONS

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Net operating income	**6 818**	8 321	**6 834**	7 484
Non-cash items	**5 979**	4 411	**5 598**	4 450
Depreciation on property, plant and equipment	**3 757**	3 366	**3 565**	3 189
Amortisation of intangible assets	**187**	114	**185**	112
Amortisation of future fuel	**219**	194	**219**	194
Positive goodwill amortised	**59**	9	**–**	–
Negative goodwill recognised	**(38)**	(38)	**(38)**	(38)
Net profit on disposal of property, plant, equipment and intangible assets	**(144)**	(49)	**(140)**	(46)
Net impairment losses (excluding trade and other receivables)	**698**	139	**852**	138
Net movement in provisions	**764**	137	**479**	367
Net movement on deferred income	**477**	534	**477**	534
Other	**–**	5	**(1)**	–
	12 797	12 732	**12 432**	11 934
Changes in working capital	**1 048**	179	**1 085**	674
Inventories	**(13)**	(91)	**(51)**	37
Trade and other receivables	**(125)**	(715)	**55**	(515)
Trade and other payables	**1 186**	985	**1 081**	1 152
	13 845	12 911	**13 517**	12 608

29. INTEREST RECEIVED

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Interest income (refer note 25)	**4 024**	2 506	**3 811**	2 664
Non-cash items	**(679)**	1 053	**(587)**	990
Interest receivable	**(324)**	418	**(226)**	355
Discount amortised	**(142)**	(45)	**(142)**	(45)
Other	**(213)**	680	**(219)**	680
	3 345	3 559	**3 224**	3 654

30. INTEREST PAID

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Interest expenditure (refer note 26)	**(5 328)**	(5 281)	**(5 334)**	(5 290)
Non-cash items	**1 435**	671	**1 428**	661
Interest accrued	**14**	(335)	**14**	(334)
Discount amortised	**567**	664	**567**	664
Other	**854**	342	**847**	331
	(3 893)	(4 610)	**(3 906)**	(4 629)

for the year ended 31 December 2003

31. INCOME TAX PAID

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Amounts unpaid at beginning of the year	**(43)**	(19)	**–**	–
Current taxation charged to income statement	**(118)**	(76)	**(30)**	–
Amounts unpaid at end of the year	**77**	43	**–**	–
	(84)	(52)	**(30)**	–

32. CASH USED IN INVESTING ACTIVITIES

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Expenditure on property, plant and equipment	**(6 241)**	(5 235)	**(5 943)**	(4 128)
Expenditure on intangible assets	**(155)**	(406)	**(211)**	(322)
	(6 396)	(5 641)	**(6 154)**	(4 450)
Proceeds from disposals	**318**	256	**288**	252
Net expenditure on property, plant, equipment and intangible assets	**(6 078)**	(5 385)	**(5 866)**	(4 198)
Future fuel supplies	**(841)**	(151)	**(841)**	(151)
Investment in associates, joint ventures, subsidiary companies and other investments	**(31)**	(84)	**(72)**	(926)
Non-current trade and other receivables	**56**	(44)	**56**	(44)
Loans receivable	**(86)**	(86)	**–**	–
	(6 980)	(5 750)	**(6 723)**	(5 319)

33. CASH EFFECTS OF FINANCING ACTIVITIES

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Debt raised	**949**	2 296	**780**	2 065
Debt repaid	**(1 465)**	(5 108)	**(1 449)**	(5 245)
Increase in non-current financial assets	**(6 943)**	(703)	**(6 805)**	(673)
	(7 459)	(3 515)	**(7 474)**	(3 853)

34. CASH AND CASH EQUIVALENTS

	Group 2003 Rm	Group 2002 Rm	Eskom 2003 Rm	Eskom 2002 Rm
Cash and bank, and money market assets	**13 694**	9 704	**11 859**	7 987
Cash equivalents	**(4 854)**	(647)	**(4 854)**	(647)
Commercial paper bills	**(6 395)**	(4 837)	**(6 729)**	(5 123)
Total cash and cash equivalents at end of the year	**2 445**	4 220	**276**	2 217
Total cash and cash equivalents at beginning of the year	**4 220**	1 677	**2 217**	(244)
Net (decrease)/increase in cash and cash equivalents for the year	**(1 775)**	2 543	**(1 941)**	2 461

35. RELATED-PARTY INFORMATION

	Group		Eskom	
	2003	2002	**2003**	2002

Associates and joint ventures

Details of investments in associates and joint ventures are disclosed in note 10 and schedule 1. Interest income of R3 million (2002: R13 million) is included in note 25.

The group sold goods to the value of R429 million (2002: R352 million) to associates and joint ventures.

The group purchased goods to the value of R436 million (2002: R299 million) from associates and joint ventures.

The outstanding balances included in trade and other receivables (note 14) amounted to R82 million (2002: R162 million).

The above transactions were made on commercial terms and conditions at market rates.

There is an exemption in terms of IAS 24 paragraph 4(d) in respect of shareholder and related state-controlled entities.

for the year ended 31 December 2003

36. SEGMENT REPORTING

	Regulated		Non-regulated		Group eliminations		Consolidated	
	2003 Rm	2002 Rm	**2003 Rm**	2002 Rm	**2003 Rm**	2002 Rm	**2003 Rm**	2002 Rm
Revenue	**31 680**	28 158	**4 023**	3 830	**(2 855)**	(2 304)	**32 848**	29 684
Net operating income/(loss)	**6 834**	7 484	**(1 033)**	536	**1 017**	301	**6 818**	8 321
Interest income	**3 811**	2 664	**617**	209	**(404)**	(367)	**4 024**	2 506
Interest expenditure	**(5 334)**	(5 290)	**(398)**	(57)	**404**	66	**(5 328)**	(5 281)
Net fair value adjustment	**(277)**	(107)	**(6)**	(11)	**–**	–	**(283)**	(118)
Profit/(loss) before tax	**5 034**	4 751	**(820)**	677	**1 017**	–	**5 231**	5 428
Income tax expense	**(1 808)**	(1 566)	**(21)**	(161)	**(30)**	–	**(1 859)**	(1 727)
Profit/(loss) after tax	**3 226**	3 185	**(841)**	516	**987**	–	**3 372**	3 701
Income from associates and joint ventures			**45**	26			**45**	26
Minority interest			**117**	(20)			**117**	(20)
Net profit/(loss) for the year after tax	**3 226**	3 185	**(679)**	522	**987**	–	**3 534**	3 707
Other information								
Capital expenditure	**6 154**	4 450	**242**	1 191	**–**	–	**6 396**	5 641
Depreciation and amortisation	**3 712**	3 263	**253**	188	**–**	–	**3 965**	3 451
Net impairment losses	**1 234**	475	**698**	15	**(803)**	–	**1 129**	490
Non-cash flow items	**5 598**	4 450	**263**	(39)	**118**	–	**5 979**	4 411
Assets and liabilities								
Assets	**93 281**	80 089	**8 567**	3 514	**(5 666)**	(1 373)	**96 182**	82 230
Investments in associates and joint ventures	**93**	97	**177**	137	**22**	18	**292**	252
Total assets	**93 374**	80 186	**8 744**	3 651	**(5 644)**	(1 355)	**96 474**	82 482
Capital and reserves	**39 203**	36 412	**2 095**	2 090	**(615)**	(785)	**40 683**	37 717
Liabilities	**54 171**	43 774	**6 649**	1 561	**(5 029)**	(570)	**55 791**	44 765
Total equity and liabilities	**93 374**	80 186	**8 744**	3 651	**(5 644)**	(1 355)	**96 474**	82 482
Geographical segmentation								
Revenue								
South Africa	**30 646**	27 343	**3 408**	3 403	**(2 855)**	(2 304)	**31 199**	28 442
Outside South Africa	**1 034**	815	**615**	427	**–**	–	**1 649**	1 242
Total revenue	**31 680**	28 158	**4 023**	3 830	**(2 855)**	(2 304)	**32 848**	29 684

1. The assets and liabilities are not presented on a geographical level. The assets and liabilities outside South Africa of the non-regulated business are not significant.

Schedule 1: Investments in associates and joint ventures

at 31 December 2003

Name	Nature of operation	Issued/ stated capital R	Effective holding 2003 %	2002 %	Group carrying value 2003 Rm	2002 Rm	Eskom carrying value 2003 Rm	2002 Rm
Associates								
Unlisted shares								
Directly held								
PN Energy Services (Pty) Limited	Electricity reticulation	3 000 000	**50**	50	**13**	13	**4**	4
TED (Pty) Limited[1] (Transitional Electricity Distributor)	Electricity reticulation	1 000	**50**	50	**294**	269	**294**	269
Uitesco (Pty) Limited (Uitenhage Electricity Supply Company (Pty) Limited)	Electricity reticulation	60 000	**33**	33	**6**	2	**2**	2
Indirectly held								
Arivia.kom (Pty) Limited	Information technology	301 156 570	**45**	45	**161**	128	**–**	–
Elgas SARL	Gas energy	100	**25**	25	**6**	8	**–**	–
Gesco (Libya)	Technology refurbishment	1 000 000	**49**	49	**7**	2	**–**	–
Total investments in associates					**487**	422	**300**	275
Joint ventures								
Incorporated								
Directly held								
Motraco-Mozambique Transmission Company SARL	Management of electricity transmission system and supply of electricity	39 500 000[2]	**33**	33	**105**	100	**95**	95
Eskom-Shell Solar Home Systems (Pty) Limited	Electrification	100	**50**	50	**38**	30	**38**	30
Indirectly held								
Trans Africa Projects (Pty) Limited[1]	Construction	4 000	**50**	50	**–**	–	**–**	–
Trans Africa Projects Limited (Mauritius)[1]	Construction	100 000[2]	**50**	50	**–**	3	**–**	–
Hem-Kom Live Line Engineering (Pty) Limited	Live line maintenance	900 000	**50**	50	**–**	1	**–**	–
EON-Solutions Africa (Pty) Limited	Telecommunication consulting	100	**50**	50	**3**	–	**–**	–
Ash Resources (Pty) Limited	Manufacture	200	**25**	25	**–**	–	**–**	–
South Dunes Coal Terminal (Pty) Limited	Coal	100 000	**50**	50	**–**	–	**–**	–
Total investments in joint ventures					**146**	134	**133**	125
Total investments in associates and joint ventures					**633**	556	**433**	400
Provision for impairment losses					**(341)**	(304)	**(340)**	(303)
Investments in associates and joint ventures (Refer note 10)					**292**	252	**93**	97

	Associates 2003 Rm	2002 Rm	Joint ventures 2003 Rm	2002 Rm
Income statements				
Revenue	**858**	707	**202**	210
Operating expenditure	**(807)**	(687)	**(194)**	(195)
Net operating income	**51**	20	**8**	15
Interest income	**1**	1	**1**	4
Interest expenditure	**(2)**	(1)	**(9)**	(13)
Income before taxation	**50**	20	**–**	6
Taxation	**(5)**	2	**–**	(2)
Net income after tax attributable to the Eskom Group	**45**	22	**–**	4
Balance sheets				
Non-current assets	**154**	136	**289**	327
Current assets	**279**	232	**63**	112
Total assets	**433**	368	**352**	439
Capital and reserves	**208**	172	**104**	132
Non-current liabilities	**43**	35	**183**	179
Current liabilities	**182**	161	**65**	128
Total equity and liabilities	**433**	368	**352**	439

Where the above entities' financial year-ends are not coterminous with that of Eskom, financial information has been obtained from published information or management accounts as appropriate.

1. *Year-end other than 31 December.*
2. *Authorised capital in US dollar.*

Schedule 2: Investments in subsidiary companies

at 31 December 2003

Name	Nature of operation	Country of incorporation	Issued/ stated capital R	Effective holding 2003 %	Effective holding 2002 %	Interest of Eskom: Investment 2003 Rm	Investment 2002 Rm	Indebtedness 2003 Rm	Indebtedness 2002 Rm
Subsidiary companies									
Directly held									
Eskom Finance Company (Pty) Limited	Finance (employee housing loans)	South Africa	4 000	**100**	100	[1]	[1]	**2 465**	2 374
Escap Limited	Insurance	South Africa	179 500 000	**100**	100	**180**	180	**–**	–
Gallium Insurance Company Limited	Insurance	Isle of Man	4 000 000 [2]	**100**	100	**4**	4	**–**	–
Eskom Enterprises (Pty) Limited[3]	Non-regulated electricity supply industry activities and electricity supply and related services outside South Africa	South Africa	100	**100**	100	[1]	[1]	**1 792**	1 842
Indirectly held									
Golang Coal (Pty) Limited	Coal exports	South Africa	1 000	**67**	67	**–**	–	**–**	**–**
Eskom Enterprises Global West Africa	Operations management	Nigeria	100 [2]	**100**	100	**–**	–	**–**	**–**
Eskom Energie Manantali SA	Energy supply	Mali	1 000 [2]	**100**	100	**–**	–	**–**	–
Pebble Bed Modular Reactor (Pty) Limited	Reactor driven generation project	South Africa	100	**100**	100	**–**	–	**–**	–
Technology Services International (Pty) Limited	Technical consulting	South Africa	100	**100**	100	**–**	–	**–**	–
Rotek Industries (Pty) Limited	Maintenance and services	South Africa	4 000	**100**	100	**–**	–	**–**	–
Rosherville Properties (Pty) Limited	Properties	South Africa	1	**100**	100	**–**	–	**–**	–
Rosherville Vehicle Services (Pty) Limited	Transport	South Africa	1	**100**	100	**–**	–	**–**	–
Roschon (Pty) Limited	Construction	South Africa	1	**100**	100	**–**	–	**–**	–
Airborne Laser Solutions (Pty) Limited	Aerial surveying technologies	South Africa	1	**100**	100	**–**	–	**–**	–
Amazing Amanzi (Pty) Limited	Low-energy utility devices	South Africa	100	**70**	70	**–**	–	**–**	–
Mountain Communications (Pty) Limited	Telecommunication	Lesotho	1 646 [2]	**71**	71	**–**	–	**–**	–
Lumsemfwa Hydro Power Company	Operations and maintenance service	Zambia	1 825 [2]	**51**	51	**–**	–	**–**	–
						184	184	**4 257**	4 216
Investment								**184**	184
Indebtedness								**4 257**	4 216
Provision for impairment losses								**(803)**	–
Investments in subsidiary companies								**3 638**	4 400

1. *Nominal value.*
2. *Authorised capital in currency of country of incorporation.*
3. *The equity loan by Eskom Holdings Limited to Eskom Enterprises (Pty) Limited has been subordinated to the amount of R1 501 million.*

for the year ended 31 December 2003

Name	Salary/ fees	Bonus and related payments	Contri- butions	Expense allowances	Termi- nation benefits	Total	Total
						2003	2002
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Eskom Holdings Limited							
Non-executive directors							
RJ Khoza	**1 200**	**–**	**–**	**277**	**–**	**1 477**	1 081
FM Baleni	**180**	**–**	**–**	**–**	**–**	**180**	164
BM Count	**497**	**–**	**–**	**–**	**–**	**497**	296
SE Funde	**222**	**–**	**–**	**–**	**–**	**222**	145
LG Josefsson	**387**	**–**	**–**	**–**	**–**	**387**	186
PM Makwana	**152**	**–**	**–**	**–**	**–**	**152**	70
JRD Modise	**184**	**–**	**–**	**–**	**–**	**184**	70
AJ Morgan	**172**	**–**	**–**	**–**	**–**	**172**	82
SA Mpambani	**168**	**–**	**–**	**–**	**–**	**168**	82
TN Msomi[1]	**–**	**–**	**–**	**–**	**–**	**–**	–
VM Rowjee	**160**	**–**	**–**	**–**	**–**	**160**	82
V Zilwa	**132**	**–**	**–**	**–**	**–**	**132**	58
WE Lucas-Bull	**170**	**–**	**–**	**–**	**–**	**170**	42
Past directors	**–**	**–**	**–**	**–**	**–**	**–**	740
Executive directors							
TS Gcabashe	**1 980**	**2 320**[2]	**402**	**281**	**–**	**4 983**	3 970
WJ Kok	**885**	**5 427**[2]	**255**	**497**	**20 331**	**27 395**	6 011
	6 489	**7 747**	**657**	**1 055**	**20 331**	**36 279**	13 079
Past directors – retirement funding	**–**	**–**	**–**	**–**	**–**	**–**	9 003
	6 489	**7 747**	**657**	**1 055**	**20 331**	**36 279**	22 082

Termination benefits

Termination benefits consist of the following:

Service gratuity	**1 324**
Retirement funding	**5 321**
Restraint of trade payment	**6 667**
Bonus bank payment due on termination	**6 872**
Other	**147**
Total	**20 331**

Bonus bank

Bonus related to previous years, only due and payable in future years (2005-2006)

TS Gcabashe	1 905

1. *Fees not paid.*
2. *The performance bonuses for 2003 were approved in March 2004 and are payable in 2004.*

for the year ended 31 December 2003

	Eskom	
	2003	2002
	R'000	R'000
Contributions include Eskom's contributions to the Eskom Pension and Provident Fund, the Executive Group Life Insurance Scheme and medical aid.		
All the executive directors have normal employment contracts with Eskom. The continuation of their service is dependent on satisfactory performance on an ongoing basis and notice periods do not exceed one year. There are no service contracts for non-executive directors.		
Please refer to page 14 in the corporate governance statement for more information		
Loans to directors		
Housing loan - TS Gcabashe	**1 337**	1 308
The interest rate on the loan from Eskom Finance Company (Pty) Limited at the end of the year was 10% (2002: 15%). The loan is repayable over a maximum period of 25 years. On resignation, the loan is repayable in full within 90 days from date of resignation. After resignation date, the interest rate increases to 2% above the prime lending rate.		

for the year ended 31 December 2003

	Salary/ fees R'000	Bonus and related payments R'000	Contri- butions R'000	Expense allowances R'000	Termi- nation benefits R'000	Total 2003 R'000	Total 2002 R'000
Subsidiary companies							
Eskom Enterprises (Pty) Limited							
Non-executive directors							
TS Gcabashe (paid by Eskom)	**–**	**–**	**–**	**–**	**–**	**–**	–
KJ Hlongwane	**86**	**–**	**–**	**–**	**–**	**86**	84
DB Mostert	**125**	**–**	**–**	**–**	**–**	**125**	118
DM Ramaphosa	**50**	**–**	**–**	**–**	**–**	**50**	46
DR Geeringh	**44**	**–**	**–**	**–**	**–**	**44**	78
S Dakile-Hlongwane	**66**	**–**	**–**	**–**	**–**	**66**	54
Executive directors							
E Banda[1] (appointed 1 August 2002)	**1 591**	**–**	**268**	**284**	**–**	**2 143**	874
VTL Ngubeni (death in service 9 May 2003)	**296**	**370**	**68**	**60**	**618**	**1 412**	2 020
PD Mbonyana (resigned and joined Eskom Holdings Limited – 1 March 2003)	**134**	**100**	**30**	**53**	**–**	**317**	2 083
RS Moloko (resigned 30 June 2003)	**432**	**367**	**107**	**100**	**2 839**	**3 845**	2 032
R Naidoo (resigned 30 June 2003)	**415**	**99**	**71**	**89**	**3 187**	**3 861**	1 507
JA de Beer (resigned 31 December 2002)	**–**	**–**	**–**	**–**	**–**	**–**	5 553
	3 239	**936**	**544**	**586**	**6 644**	**11 949**	14 449
Past director – retirement funding	**–**	**–**	**–**	**–**	**6 621**	**6 621**	–
– bonus bank	**–**	**–**	**–**	**–**	**785**	**785**	–
	3 239	**936**	**544**	**586**	**14 050**	**19 355**	14 449

Termination benefits

Termination benefits consist of the following:

	VTL Ngubeni	RS Moloko	R Naidoo	Total
Service gratuity	**361**	**–**	**–**	**361**
Restraint of trade payment	**–**	**1 163**	**–**	**1 163**
Bonus bank payment	**–**	**534**	**198**	**732**
Other	**257**	**1 142**	**2 989**	**4 388**
Total	**618**	**2 839**	**3 187**	**6 644**

1. *Bonus-related payment relating to 2003 not yet determined.*

Schedule 3: Directors' emoluments

for the year ended 31 December 2003

	Salary/ fees R'000	Bonus and related payments R'000	Contri-butions R'000	Expense allowances R'000	Other R'000	Total 2003 R'000	Total 2002 R'000
Eskom Finance Company (Pty) Limited							
Non-executive directors							
WJ Kok (fees paid to Eskom)	**25**	**–**	**–**	**–**	**–**	**25**	20
M de Jager	**130**	**–**	**–**	**–**	**9**	**139**	47
RS Moloko (fees paid to Eskom)	**5**	**–**	**–**	**–**	**–**	**5**	20
J van der Berg (fees paid to Eskom)	**30**	**–**	**–**	**–**	**–**	**30**	20
PB Mabelane (fees paid to Eskom)	**95**	**–**	**–**	**–**	**–**	**95**	10
VT Makhuvha	**25**	**–**	**–**	**–**	**–**	**25**	–
Executive director							
MM Bashe	**625**	**242**	**102**	**3**	**–**	**972**	872
	935	**242**	**102**	**3**	**9**	**1 291**	989
Escap Limited							
Non-executive directors							
WJ Kok (fees paid to Eskom)	**39**	**–**	**–**	**–**	**–**	**39**	24
K Nilsson (resigned 31 December 2002)	**2**	**–**	**–**	**–**	**–**	**2**	24
R Vivian	**39**	**–**	**–**	**–**	**–**	**39**	24
PK Darbourn (fees paid to Eskom)	**39**	**–**	**–**	**–**	**–**	**39**	24
SP Ndlovu	**39**	**–**	**–**	**–**	**–**	**39**	24
Executive director							
SI Kotane (salary paid by Eskom)	**–**	**–**	**–**	**–**	**–**	**–**	–
	158	**–**	**–**	**–**	**–**	**158**	120
Gallium Insurance Limited							
Non-executive directors							
SI Kotane (salary paid by Eskom)	**–**	**–**	**–**	**–**	**–**	**–**	–
JC Fagher	**37**	**–**	**–**	**–**	**–**	**37**	40
PJV Dougherty	**37**	**–**	**–**	**–**	**–**	**37**	40
J Boyd	**22**	**–**	**–**	**–**	**–**	**22**	–
	96	**–**	**–**	**–**	**–**	**96**	80

for the year ended 31 December 2003

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 inflation-adjusted financial statements based on IAS 15, Information Reflecting the Effect of Changing Prices.

In reflecting the impact 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 adjustments are necessary, especially as regards the effect of inflation on future fuel supplies, maintenance spares and consumables and the relief provided by funding assets with monetary liabilities, additional adjustments have been made.

The portion of the fair value adjustment of foreign financial market assets and liabilities relating to future anticipated transactions is taken directly to equity. All other adjustments to reflect the fair value of financial market assets and liabilities are included in the income statement.

The following summary shows the fully adjusted performance and financial position of Eskom prepared in terms of the principles contained in IAS 15.

	Eskom	
	2003	2002
Summarised income statement	**Rm**	Rm
Historical cost net profit for the year after tax	**3 226**	3 185
Inflation adjustments	**(6 139)**	(5 252)
Additional depreciation	**(5 879)**	(5 111)
Cost of sales	**(467)**	(460)
Financial gearing adjustment	**207**	319
Inflation-adjusted net loss for the year	**(2 913)**	(2 067)

at 31 December 2003

	Historical 2003 Rm	Adjustments 2003 Rm	Current value 2003 Rm	Current value 2002 Rm
Summarised balance sheet of Eskom				
Assets				
Property, plant, equipment and intangible assets	**52 426**	**62 696**	**115 122**	115 700
Non-current and current financial market assets	**28 169**	**–**	**28 169**	17 022
Other non-current assets	**6 719**	**3 237**	**9 956**	10 825
Other current assets	**6 060**	**7**	**6 067**	5 888
	93 374	**65 940**	**159 314**	149 435
Equity and liabilities				
Capital and reserves	**39 203**	**65 940**	**105 143**	105 661
Non-current and current financial market liabilities	**33 676**	**–**	**33 676**	27 893
Other non-current liabilities	**14 024**	**–**	**14 024**	11 645
Other current liabilities	**6 471**	**–**	**6 471**	4 236
	93 374	**65 940**	**159 314**	149 435
Ratios[1]				
Average production price index, %			**1,70**	14,27
Real return on total assets (after taking account of the financial gearing adjustment), %			**0,53**	1,69
Financial gearing adjustment, %			**3,26**	5,74
Debt:equity			**0,05**	0,10
Interest cover			**0,39**	0,82

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

Contents

1. Statistical overview

	2003	2002	2001
Sales			
Total sold, GWh[1]	**196 980[2]**	187 957[2]	181 511[2]
Growth in GWh sales, %	**4,8[3]**	3,5[3]	1,8[3]
Electricity output			
Total electricity for Eskom system (Eskom stations and purchased), GWh[4]	**218 412**	207 233	198 790
Total produced by Eskom stations, GWh (net)	**210 218**	197 737	189 590
Coal-fired stations, GWh (net)	**194 046**	181 651	175 223
Hydroelectric stations, GWh (net)	**777**	2 357	2 061
Pumped storage stations, GWh (net)	**2 732**	1 738	1 587
Gas turbine stations, GWh (net)	**–**	–	–
Nuclear power station, GWh (net)	**12 663**	11 991	10 719
Total purchased for Eskom system, GWh	**8 194**	9 496	9 200
Total consumed by Eskom, GWh[5]	**3 664**	2 354	2 177
Total available for distribution, GWh[1]	**214 748**	204 879	196 613
Plant performance indicators			
Total power station nominal capacity, MW	**42 011**	42 011	42 011
Total power station net maximum capacity, MW[6]	**39 810**	39 810	39 810
Peak demand on integrated Eskom system, MW	**31 928**	31 621	30 599
Average energy availability - EAF (UCF) (after excess capacity), %[7]	**87,5 (88,7)**	89,3 (91,7)	92,0 (92,5)
Generation load factor (after excess capacity management), %[8]	**60,4 (66,3)**	56,8 (62,3)	54,4 (59,8)
Integrated Eskom system load factor, %	**76,8**	74,0	73,4
Environmental indicators			
Relative particulate emissions, kg/MWh sent out	**0,28**	0,29	0,31
Specific water consumption, ℓ/kWh sent out[9]	**1,29**	1,27	1,26
Reported legal contraventions counted in the operational sustainability index, number[10]	**2**	3	2
Customer satisfaction (PreCare/MaxiCare), ratio	**8,47**	8,57	8,43
Net raw water consumption, Mℓ	**271 940**	251 611	239 233
Coal burnt, kt	**104 370**	96 460	94 136
Average calorific value, MJ/kg	**19,41**	19,54	19,42
Average ash content, %	**28,9**	28,4	28,8
Average sulphur content, %	**0,92**	0,92	0,93
Overall thermal efficiency, %	**34,2**	34,1	34,1
Line losses, %	**8,3**	8,2	7,2
Nitrous oxide (N_2O), t[11]	**2 580**	2 246	2 154
Carbon dioxide (CO_2), Mt[11]	**190,1**	175,2	169,3
Sulphur dioxide (SO_2), kt[11]	**1 728**	1 494	1 500
Nitrogen oxide (NO_x) as NO_2, kt[11]	**760**	702	684
Particulate emissions, kt	**58,65**	57,53	59,64
Ash produced, Mt	**29,8**	26,2	26,5
Ash sold, Mt	**1,197**	1,257	1,161
Radiation release, mSv[12]	**–**	0,0005	0,0007
Radiation release, mSv[13]	**0,0123**	0,0060	0,0192
Low-level waste - steel drums, cubic metres	**86,90**	89,04	117,25
Intermediate-level waste - concrete drums, cubic metres	**37,4**	30,21	45,65
Spent nuclear fuel, number of elements (cumulative figure)[14]	**104 (1 349)**	48 (1 245)[15]	104 (1 197)
Employees			
Total number at 31 December[16]	**28 938**	29 359	29 969
GWh sold per employee	**6,807**	6,402	6,054
Sales to countries in southern Africa, GWh	**9 977**	6 956	6 710
Botswana	**1 390**	1 124	1 183
Mozambique	**5 875**	3 907	3 899
Namibia	**918**	598	578
Zimbabwe	**793**	298	371
Lesotho[17]	**38**	16	40
Swaziland	**796**	799	639
Zambia[18]	**151**	103	–
Short-term energy market[19]	**16**	111	–

1. Difference between electricity available for distribution and electricity sold (includes internal usage) 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. Own usage is not included in the calculation.
4. Includes Eskom electricity produced and delivered to neighbouring countries.
5. 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.
6. Includes reserve stored and Transkei generators.
7. Capacity hours available times 100 divided by total capacity hours in year.
8. kWh produced times 100 divided by average net maximum capacity times hours in year.
9. Volume of water consumed per unit of generated power sent out, excluding rain and mine water used.
10. 2000 to 2002 are in terms of the revised definition of the operational sustainability index. Since 1998, other environment-related contraventions are also included. Prior to 1998 only water-related incidents were reported.

	2000	1999	1998	1997	1996	1995	1994
	178 193[2]	173 412[2]	171 457[2]	172 550[2]	165 370[2]	153 547	149 443
	2,8[3]	1,1[3]	(0,6)[3]	4,3[3]	7,7[3]	2,7	3,9
	194 601	188 475	185 583	187 850	178 884	165 006	160 351
	189 307	181 818	183 093	187 811	178 855	164 834	160 293
	172 362	165 665	165 473	170 464	163 541	151 730	148 003
	1 343	726	1 596	2 092	1 319	529	1 074
	2 591	2 590	2 420	2 608	2 220	1 274	1 517
	1	–	3	–	–	–	2
	13 010	12 837	13 601	12 647	11 775	11 301	9 697
	5 294	6 657	2 490	39	29	172	58
	3 478	3 507	3 299	3 511	3 130	1 866	2 113
	191 123	184 968	182 284	184 339	175 754	163 140	158 238
	41 298	40 585	39 872	39 154	38 497	37 840	37 840
	39 186	38 517	37 848	37 175	36 563	35 951	35 926
	29 188	27 813	27 803	28 329	27 967	25 133	24 798
	92,1 (92,8)	91,0 (92,5)	91,6 (92,7)	90,4 (91,5)	89,6 (90,6)	81,6 (84,3)	77,1 (79,9)
	55,1 (60,6)	54,9 (61,2)	55,3 (61,6)	57,7 (65,0)	55,7 (63,9)	52,3 (59,0)	50,9 (58,3)
	74,7	75,9	74,8	74,3	71,5	74,1	72,8
	0,35	0,37	0,36	0,44	0,63	0,70	0,76
	1,21	1,25	1,23	1,20	1,21	1,28	1,29
	3	9	9	15	11	–	–
	8,82	8,78	8,90	9,10	8,72	–	–
	228 759	227 288	225 280	225 699	216 131	210 612	206 955
	92 454	88 470	87 225	90 169	85 401	79 377	76 883
	19,50	19,53	19,84	19,68	19,83	19,95	20,09
	28,6	28,5	29,1	28,4	27,8	28,7	29,0
	0,90	0,96	0,93	0,94	0,97	0,95	0,97
	34,4	34,4	34,2	34,5	34,5	34,4	34,4
	7,4	6,2	5,9	6,4	5,9	5,9	5,6
	2 093	2 010	2 031	2 085	2 004	1 864	1 830
	161,2	159,4	163,2	169,0	158,6	147,0	142,9
	1 505	1 506	1 583	1 383	1 295	1 198	1 167
	674	673	669	688	647	603	582
	66,08	67,08	65,21	83,43	112,11	115,32	122,00
	24,6	24,3	24,7	23,7	22,2	23,0	22,1
	1,126	1,116	1,180	1,118	0,995	0,942	0,827
	0,0005	0,0005	0,0007	0,0008	0,0008	0,0004	0,0005
	0,0059	0,0112	0,0088	0,0122	0,0156	0,0076	0,0090
	72,80	70,77	61,18	89,95	109,06	73,29	85,47
	22,10	37,11	22,77	26,26	35,35	28,76	42,64
	52 (1 093)	104 (1 041)	52 (937)	104 (885)	104 (781)	52 (677)	52 (625)
	32 832	34 027	37 311	39 241	39 857	39 952	39 760
	5,427	5,096	4,595	4,397	4,149	3,843	3,759
	3 872	3 884	4 093	6 439	5 554	2 986	2 628
	986	934	689	748	685	340	205
	1 331	68	385	680	596	600	559
	640	562	602	1 295	1 100	950	813
	788	1 564	1 521	2 790	2 267	154	164
	12	55	209	318	335	324	310
	115	701	687	608	571	618	577
	–	–	–	–	–	–	–
	–	–	–	–	–	–	–

11. Calculated annual figures based on coal characteristics and power station design parameters.
12. These indicators are provided for reference purposes. They are the radiation releases previously reported, based on the methodology stipulated by the National Nuclear Regulator prior to 2003.
13. To ensure meaningful comparisons between years, indicators have been restated based on the new more conservative methodology approved by the National Nuclear Regulator for use from 1 January 2003. The limit set by the National Nuclear Regulator is A 0,25mSv.
14. Spent fuel means nuclear fuel that has been irradiated in, and permanently removed from, the reactor core.
15. Correction made to the 2002 figure as one element was under reported.
16. Excludes employees of subsidiary companies.
17. Lesotho started its own generation in 1999.
18. Zambia included as from 2002.
19. The short-term energy market consists of all the utilities in the southern African countries that form part of the Southern African Power Pool. Energy is traded on a daily, weekly and monthly basis as there is no long-term bilateral contract.

2. Power stations in commission at 31 December 2003

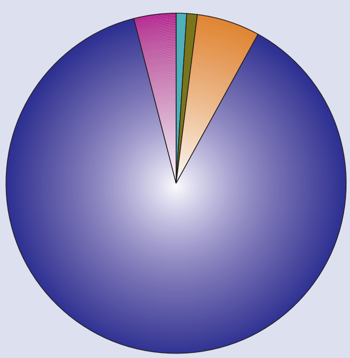
Name of station	Location	Number and capacity of generator sets MW	Total nominal capacity MW[1]	Total net maximum capacity MW[1]	Generators in reserve storage Number	Generators in reserve storage Total rating MW	Other generation Total rating MW[2]
Coal-fired stations							
Arnot[3]	Middelburg, Mpumalanga	6 x 350	2 100	1 980	–	–	–
Camden[4]	Ermelo	8 x 200	1 600	–	8	1 520	–
Duvha[3]	Witbank	6 x 600	3 600	3 450	–	–	–
Grootvlei[4]	Balfour	6 x 200	1 200	–	6	1 130	–
Hendrina[3]	Hendrina	10 x 200	2 000	1 895[1]	–	–	–
Kendal[3, 5]	Witbank	6 x 686	4 116	3 840	–	–	–
Komati[4]	Middelburg, Mpumalanga	5 x 100; 4 x 125	1 000	–	9	891	–
Kriel[3]	Bethal	6 x 500	3 000	2 850	–	–	–
Lethabo[3]	Sasolburg	6 x 618	3 708	3 558	–	–	–
Majuba	Volksrust	3 x 657; 3 x 713	4 110	3 843	–	–	–
Matimba[3, 5]	Lephalale	6 x 665	3 990	3 690	–	–	–
Matla[3]	Bethal	6 x 600	3 600	3 450	–	–	–
Tutuka[3]	Standerton	6 x 609	3 654	3 510	–	–	–
Total coal-fired stations (13)			37 678	32 066	23	3 541	–
Gas turbine stations[6]							
Acacia	Cape Town	3 x 57	171	171	–	–	–
Port Rex	East London	3 x 57	171	171	–	–	–
Total gas turbine stations (2)			342	342	–	–	–
Hydroelectric stations							
Colley Wobbles	Mbashe River	3 x 14	42	–	–	–	42
First Falls	Umtata River	2 x 3	6	–	–	–	6
Gariep[7]	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[7]	Petrusville	2 x 120	240	240	–	–	–
Total hydroelectric stations (6)			661	600	–	–	61
Pumped storage schemes[8]							
Drakensberg	Bergville	4 x 250	1 000	1 000	–	–	–
Palmiet	Grabouw	2 x 200	400	400	–	–	–
Total pumped storage schemes (2)			1 400	1 400	–	–	–
Nuclear power station							
Koeberg[3]	Cape Town	2 x 965	1 930	1 800[1]	–	–	–
Total Eskom stations in commission (24)			42 011	36 208	23	3 541	61

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. Operational but not included for capacity management purposes.
3. Base-load station.
4. In long-term reserve storage (mothballed).
5. Dry-cooled unit specifications are based on design back-pressure and ambient air temperature.
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 so that electricity can be generated during peak periods.

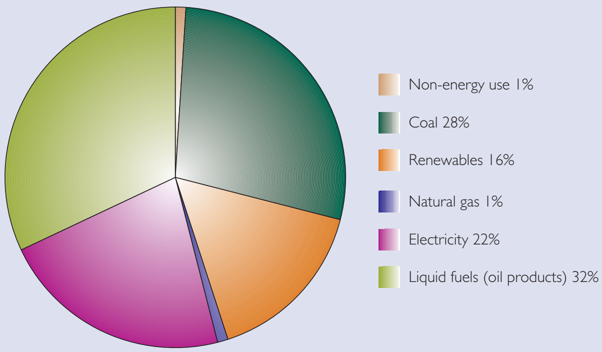
3. Environmental implications of using one kilowatt-hour of electricity[1]

	2003	2002	2001	2000	1999	1998	1992[2]
Water usage, ℓ[3]	**1,29**	1,27	1,26	1,21	1,25	1,23	1,45
Coal usage, kg	**0,50**	0,49	0,50	0,49	0,49	0,48	0,48
Ash produced, g	**142,01**	132,62	139,78	129,95	133,65	134,90	–
Ash emitted, g	**0,28**	0,29	0,31	0,35	0,37	0,36	1,03
SO_2 emissions, g[4]	**8,22**	7,56	7,91	7,95	8,28	8,65	7,25
NO_x emissions, g[4]	**3,62**	3,55	3,61	3,56	3,70	3,65	3,65
CO_2 emissions, kg[4]	**0,90**	0,89	0,89	0,85	0,88	0,89	0,90

Eskom energy mix

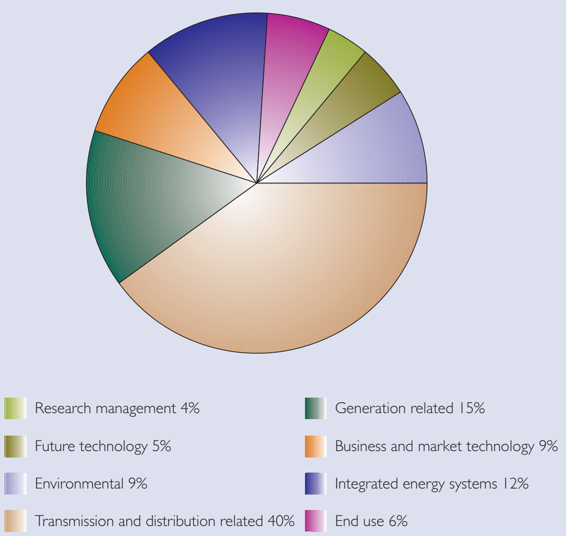


South African energy mix



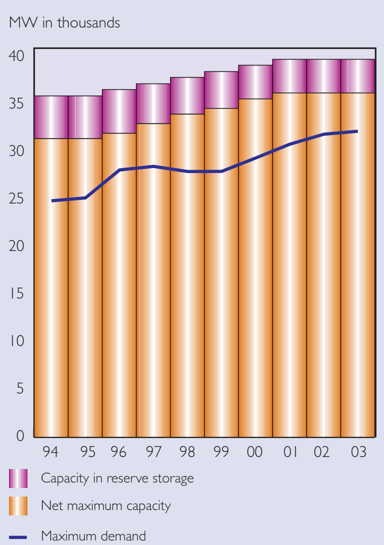
Source: SA Energy Profile (1998)
South African National Energy Association

Eskom research portfolio expressed as a percentage of total research cost



Excludes cost spent on the PBMR

Generation plant capacity and maximum demand

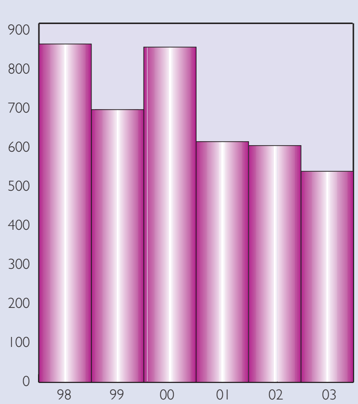


1. *Figures are calculated based on total energy produced by Eskom power stations. Further information can be obtained through the environmental helpline. Details appear on page 2.*
2. *This is a base year to be used for reference purposes only.*
3. *Volume of water consumed per unit of generated power sent out, excluding rain and mine water used.*
4. *Calculated annual figures based on coal characteristics and power station design parameters.*

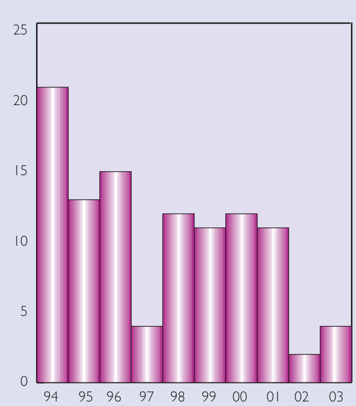
4. Transmission and distribution equipment in service at 31 December 2003

	2003	2002	Change
Power lines			
Transmission power lines, km[1]	**26 772**	26 510	262
765 kV	**870**	870	–
533 kV DC (monopolar)	**1 035**	1 031	4
400 kV	**15 202**	15 204	(2)
275 kV	**7 388**	7 254	134
220 kV	**1 336**	1 336	–
132 kV	**941**	815	126
Distribution power lines, km	**42 526**	42 091	435
165-132 kV	**21 349**	20 932	417
88-33 kV	**21 177**	21 159	18
Reticulation power lines, km			
22 kV and lower	**266 972**	256 409	10 563
Total all power lines, km	**336 270**	325 010	11 260
Cables			
165-132 kV, km	**118**	77	41
88-33 kV, km	**–**	240	(240)
22 kV and lower, km	**7 270**	6 999	271
Total all cables, km	**7 388**	7 316	72
Transformer capacity			
Transmission, MVA[2]	**112 075**	112 075	–
Distribution and reticulation, MVA	**83 102**	80 798	2 304
Total transformer capacity, MVA	**195 177**	192 873	2 304
Transformers			
Transmission, number	**362**	363	(1)
Distribution and reticulation, number	**280 072**	269 777	10 295
Total transformers, number	**280 434**	270 140	10 294

Power line faults



Low-frequency incidents below 49,50 Hz



Low frequency is an indicator of imbalance of instantaneous supply and demand due to unexpected unit trips and/or immediate shortages on the electrical system. With effect from 2002, Eskom's frequency control target was reduced from 49,70 Hz to 49,50 Hz following an international benchmark exercise. The previous, unduly tight, frequency control led to movement of generators' output and resulted in unnecessary cost to Eskom and the South African economy. The reduction has resulted in cost savings and the reduction of movement of generators by some 80% without any adverse impact on customers.

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

5. Sales of electricity to categories of customers

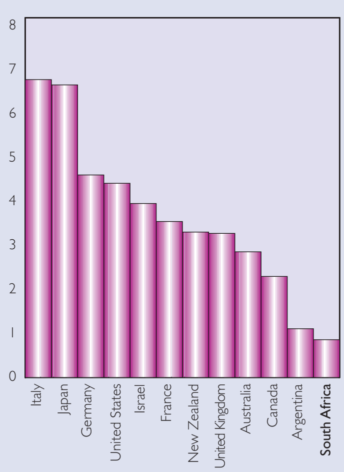
Category	Number of customers[1] 2003	2002	Change %	GWh sold 2003	2002	Change %
Distributors	**743**	734	1,2	**76 825**	74 636	2,9
Residential	**3 376 835**	3 283 848	2,8	**8 015**	7 888	1,6
Commercial	**43 880**	48 514	(9,6)	**6 936**	6 483	7,0
Industrial	**2 988**	3 215	(7,1)	**53 715**	51 581	4,1
Mining	**1 180**	1 252	(5,8)	**33 372**	32 549	2,5
Agricultural	**78 433**	79 125	(0,9)	**4 358**	4 009	8,7
Traction	**511**	511	0,0	**3 182**	3 259	(2,4)
Distribution International	**5**	5	0,0	**196**	228	(14,0)
Eskom International	**8**	8	0,0	**9 977**	6 956	43,4
Internal	**456**	440	3,6	**404**	368	9,8
	3 505 039	3 417 652	2,6	**196 980**	187 957	4,8[2]

6. Net revenue per category of customer

Category	Net revenue Rm 2003	2002	Change %	Average net price c/kWh sold 2003	2002	Change %
Redistributors	**11 712**	10 514	11,4	**15,25**	14,09	8,2
Residential[3]	**2 932**	2 637	11,2	**36,58**	33,43	9,4
Commercial	**1 430**	1 265	13,0	**20,62**	19,51	5,7
Industrial	**7 605**	6 646	14,4	**14,16**	12,88	9,9
Mining	**5 029**	4 604	9,2	**15,07**	14,14	6,6
Agricultural	**1 270**	1 061	19,7	**29,14**	26,47	10,1
Traction	**604**	559	8,1	**18,98**	17,15	10,7
Distribution International	**31**	33	(6,1)	**15,82**	14,44	9,6
Eskom International	**1 003**	782	28,3	**10,05**	11,24	(10,6)
Internal	**64**	57	12,3	**15,84**	15,49	2,3
	31 680	28 158	12,5	**16,08**	14,98	7,3[4]

World industrial electricity prices from a representative utility in each country

UK pence per kWh

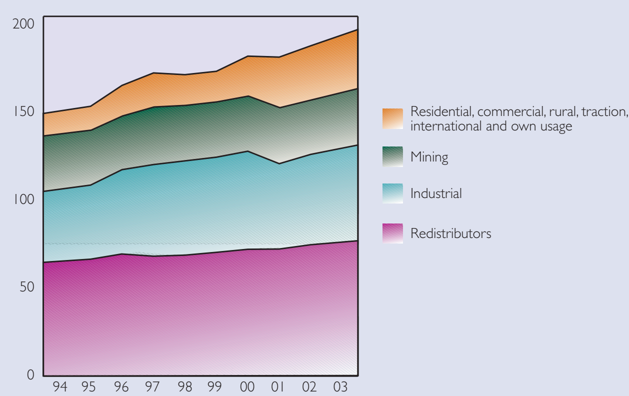


Price per kWh*, including local taxes but excluding recoverable VAT, from a representative utility in each country for a typical 2,5 MW, 40% load factor supply as at **1 January 2003**. Relative purchasing power of the respective currencies is not reflected in these values.

*Converted, using 31 December 2002 exchange rates, to UK pence per kilowatt-hour. Source: Extract from *© Electricity Association Services Limited, International Electricity Prices - Issue 30*

Sales by category

GWh in thousands



1. *Customer numbers have been revised to take into account the removal of disconnected customers and homes that no longer exist as a result of floods and other reasons.*
2. *The GWh sold growth from 2002 to 2003 increased by 4,8% if internal usage is excluded.*
3. *Prepayments included under Residential.*
4. *General price increase with effect from 1 January 2003 equals 8,43%.*

Global Community Development Programme of the Year Award

Eskom walked away with the Community Development Programme of the Year award at the Global Energy Awards in New York in 2003. Judging for this award looks at the extent to which a company's community development programmes target the unique needs of its community and assess the degree of employee participation. Now at its fifth year, the Platts Global Energy Awards has become the most prestigious awards programme in the industry. The criteria included the extent to which a company's community development programmes targeted the unique needs of its community as well as assessing the degree of employee participation.
Eskom had been nominated as a finalist in three categories;

- Power Company of the Year
- Marketing Campaign of the Year
- Community Development Programme of the Year

MICE Grading Award

The Eskom Convention Centre received a 4 MICE Medallions grading award - from the MICE Association (Meetings Incentive Conventions and Events). It also received a 4 SABS Crystals grading award from South African Bureau of Standards (SABS) Tourism division. The Eskom Convention Centre was a finalist in the Leading Venues / Venue Finders Venue of the Year Awards.

Apex Award

For the second time in succession, the Eskom NEWS publication won the international Apex Award for communication excellence in the category "Magazines and Journals" and has received an award of excellence in this category. The APEX 2003 awards were based on excellence in graphic design, editorial content and the success of the entry in achieving overall communications effectiveness and excellence.

Markinor Brand Award

At the annual Markinor Brand Award function, Eskom was again placed amongst the most admired and respected brands in South Africa. The organisation was placed third, after Coca Cola and Telkom respectively, one position up from its placement in 2002. In a new category, introduced for the first time in 2003, Eskom was also voted as the company that does the most to uplift South Africans.

Technology Top 100 Award

Eskom walked away with four awards at the annual Technology Top 100 (TT 100) Awards. The TT100 Awards measure the sustainability of organisations through an evaluation and rigorous adjudication process. The four awards won by Eskom are:

- The Da Vinci Institute for Technology Management Award to the Research, Development & Demonstration section in recognition of excellence in technology management.
- Technology Services International won in the Services sector awards for their returns on technology investment, innovation and exceptional export turnover and profits in the external market.
- Eskom Research, Development & Demonstration also walked away with a special Platinum Award for maintaining the TT100 emblem of excellence for the last five years.
- Rotek Engineering won an award in the category Outstanding Intellectual Capital Management.

Energy Globes Award

The Eskom Energy and Sustainability Programme, a partnership between Eskom and the Wildlife and Environment Society of South Africa (WESSA), won second prize in the Youth category of the Energy Globes Awards. The Energy Globes are awarded annually for environmentally sustainable projects in the categories Earth, Fire, Water, Air and Youth. The submission from Eskom's Energy and Sustainability Programme was shortlisted from 997 entries submitted from 95 countries. The award gives international recognition to the Eskom-WESSA partnership.

Finance Week Award

Eskom was recognised in the Finance Week's edition of "The Best Companies to Work for in South Africa 2004", for its inspirational approach towards the management and development of its people and received an award for being one of the best companies to work for in South Africa.

Investing in the Future Awards

The Eskom Play Pump Water Project won a special award for Innovation from the Mail & Guardian's fifteenth Investing in the Future Awards in 2003. The objective of the awards is to acknowledge corporate citizens' contributions to corporate social investment (CSI).
The Eskom Development Foundation entry was singled out for its innovation and social relevance. The Development Foundation has funded the installation of 40 play pumps in four provinces. The play pumps are an innovative way of introducing sustainable, inventive technology to draw water. This will benefit some 100 000 people in the different communities.

Sasol Award
The Transmission Division was given an award by the Sasol Executive Management team for having completed ten years of uninterrupted supply to Sasol Synfuels head office.

Iscor Award
Eskom's Transmission Division received an award from Iscor for its contribution towards quality and delivery as well as competitive pricing during Iscor's financial period of 2002/2003.

Black Business Quarterly Award
The Eskom Development Foundation received the Black Business Quarterly Corporate Social Investment Programme of the Year Award.

Professional Management Review Award
The Eskom Development Foundation received the Professional Management Review Corporate Care Award as the winner in the Industry category as the top-rated State-owned Enterprise for its contribution to black economic empowerment, job creation and training; and was placed on the role of honour for social upliftment.

International Hydropower Association Blue Planet Prize
The International HydroPower Association Blue Planet Prize was awarded to the Palmiet Pumped Storage Scheme. The aim of the prize is to increase awareness of hydropower's contribution to sustainable development and the welfare of mankind, and to promote good practice in the use of the world's hydropower resources. The prize recognises good practice in the development and operation of a hydropower scheme, on the basis of technical, economic, social and environmental criteria, and excellence in one or more of these aspects.

The scheme is unique in that it is located in the Kogelberg Nature Reserve, the first internationally recognised biosphere reserve in the Republic of South Africa.

NAFCOC Award
The Eskom Development Foundation received the NAFCOC Gauteng Award for Development.

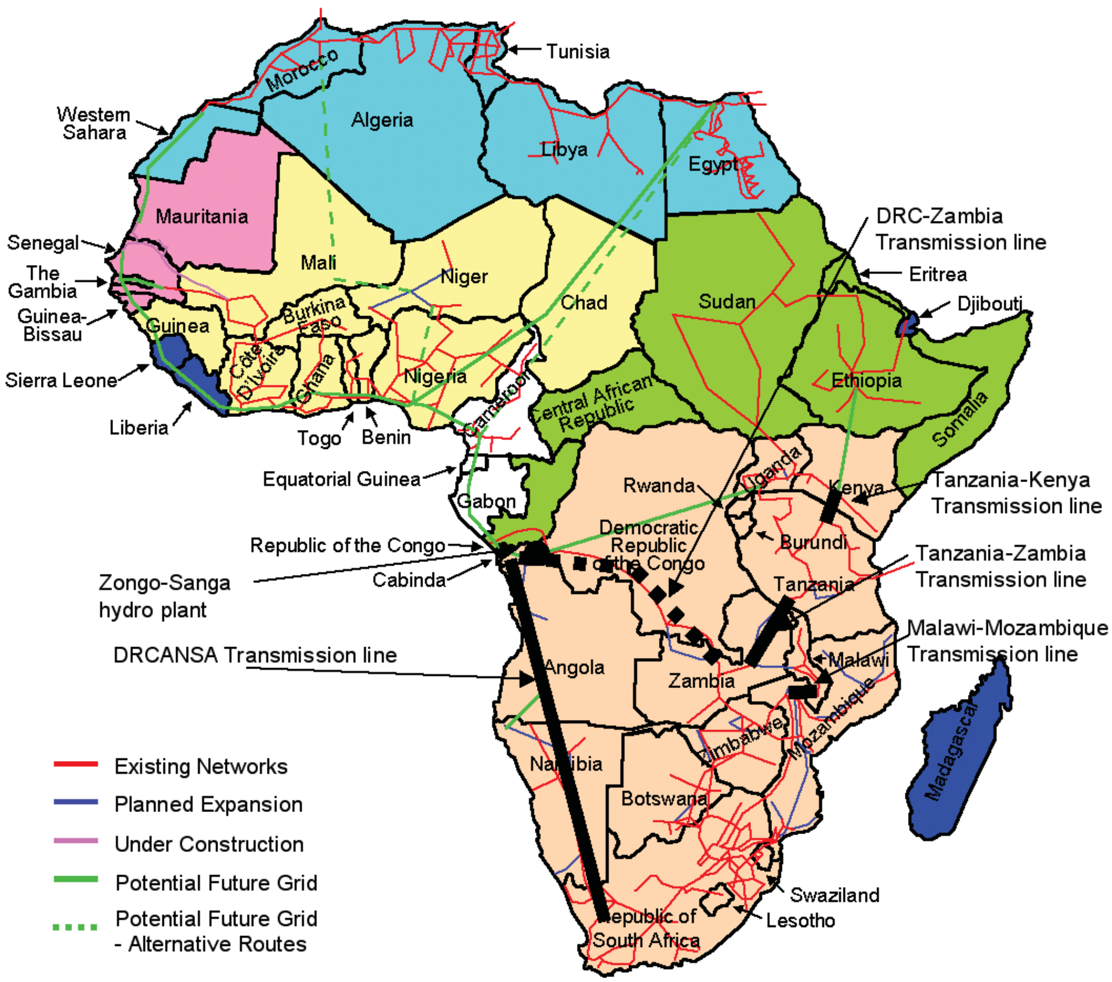
Ratings
Eskom was ranked as having "the most hands-on approach to corporate social investment" by being fully engaged with projects that had received development grants for the second consecutive year (2002 and 2003) and amongst the top five since 1994 (The CSI Handbook, 6th Edition, Trialogue 2003).

As in 2002, Eskom was again perceived by responding corporate grant makers and non-profit organisations to be "making the strongest contribution to development" in the state-owned enterprises sector (The CSI Handbook, 6th Edition, Trialogue 2003).

Eskom received the highest rating as the most caring company in South Africa for the second consecutive year and amongst the top five since 1994 (Corporate Care Check, Corporate & Social Market Research, August 2003).

Eskom was rated to be the best company in South Africa in 2003 (Corporate Care Check, Corporate & Social Market Research, August 2003).

African Transmission Networks & Power Pools



*Northern Pool - 158,473 GWh**

*Western Pool - 45,791 GWh**

*East and Southern Pool - 40,400 GWh**

* Figures based on total 2015 forecast consumption for study countries only

+ Source: "Africa-Europe Electrical Interconnection and Prospects of Worldwide Interconnections", CIGRE Keynote Address, August 1994

International comparisons by capacity and sales

Major electricity utilities in the world – rated by sales

Company	Country	Sales TWh	Rating by sales
RAO-UES	Russia	617,4	1
EDF	France	525,2	2
E.On	Germany	343,3	3
TEPCO	Japan	281,9	4
KEPCO	South Korea	278,5	5
RWE Energie AG	Germany	241,1	6
AEP	USA	200,0	7
Enel	Italy	194,3	8
Eskom	**South Africa**	**188,0**	**9**
Vattenfall	Sweden	175,0	10
Tennessee Valley Authority (TVA)	USA	160,1	11
Hydro-Québec	Canada	157,9	12
Southern Company	USA	151,9	13
Kansai Electric Power Co.	Japan	141,8	14
Endesa	Spain	133,1	15
TXU	USA	127,0	16
Ontario Power Generation	Canada	125,3	17
Exelon	USA	123,6	18
Corp Chubu Electric Power Co.	Japan	120,9	19
Entergy Corporation	North America	111,5	20

Source: Data Monitor UK 2003 figures

Major electricity utilities in the world – rated by generation capacity

Company	Country	Generation capacity MW	Rating by capacity
RAO-UES	Russia	155,600	1
EDF	France	121,135	2
Tepco Electric Power Co.	Japan	60,337	3
KEPCO	South Korea	53,801	4
E.On	Germany	53,534	5
Enel	Italy	45,300	6
AES	USA	44,323	7
RWE Energie AG	Germany	44,067	8
Exelon Corp	USA	43,000	9
Endesa Group	Spain	39,941	10
Eskom	**South Africa**	**39,810**	**11**
AEP	USA	38,354	12
Hydro-Quebec	Canada	37,944	13
Southern Company	USA	36,351	14
Kansai Electric Power	Japan	35,434	15
Tennessee Valley Authority (TVA)	USA	31,517	16
Electrobrás	Brazil	31,232	17
Vattenfall	Sweden	31,000	18
Entergy Corporation	North America	30,000	19
Chubu Electric Power Co.	Japan	28,975	20

Source: Data Monitor UK, 2003 figures.

Health and Safety policy

Eskom will provide and maintain a healthy and safe work environment for its employees.

It is Eskom's policy to provide the resources necessary to:

- maintain health and safety systems;
- protect individuals against risk to health and safety arising out of Eskom's business;
- protect Eskom's property against damage or loss; and
- minimise risk to the environment arising out of Eskom's activities.

No operating condition or urgency of service can ever justify endangering the life of anyone.

Thulani Gcabashe
Chief Executive

Eskom will:

- promote open communication on environmental issues amongst employees and stakeholders;
- establish an environmental management system with a view to ensuring continual improvement in appropriate business activities including prevention of pollution where economically viable and sustainable;
- contribute toward sustainable development through the efficient production, distribution and use of energy; and
- educate, train and motivate its employees about the environment.

Thulani Gcabashe
Chief Executive