Annual Report 2005

Building capacity
Embracing the future

Eskom

Eskom

Contents

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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.

Strategic Intent

Eskom Values: Integrity, Excellence, Customer Satisfaction and Innovation.
The values define our identity as an organisation as well as the operating qualities used to improve performance.
Ultimately our values will define how we will achieve our strategic intent to be the pre-eminent African energy and related services business, of global stature.

Mission

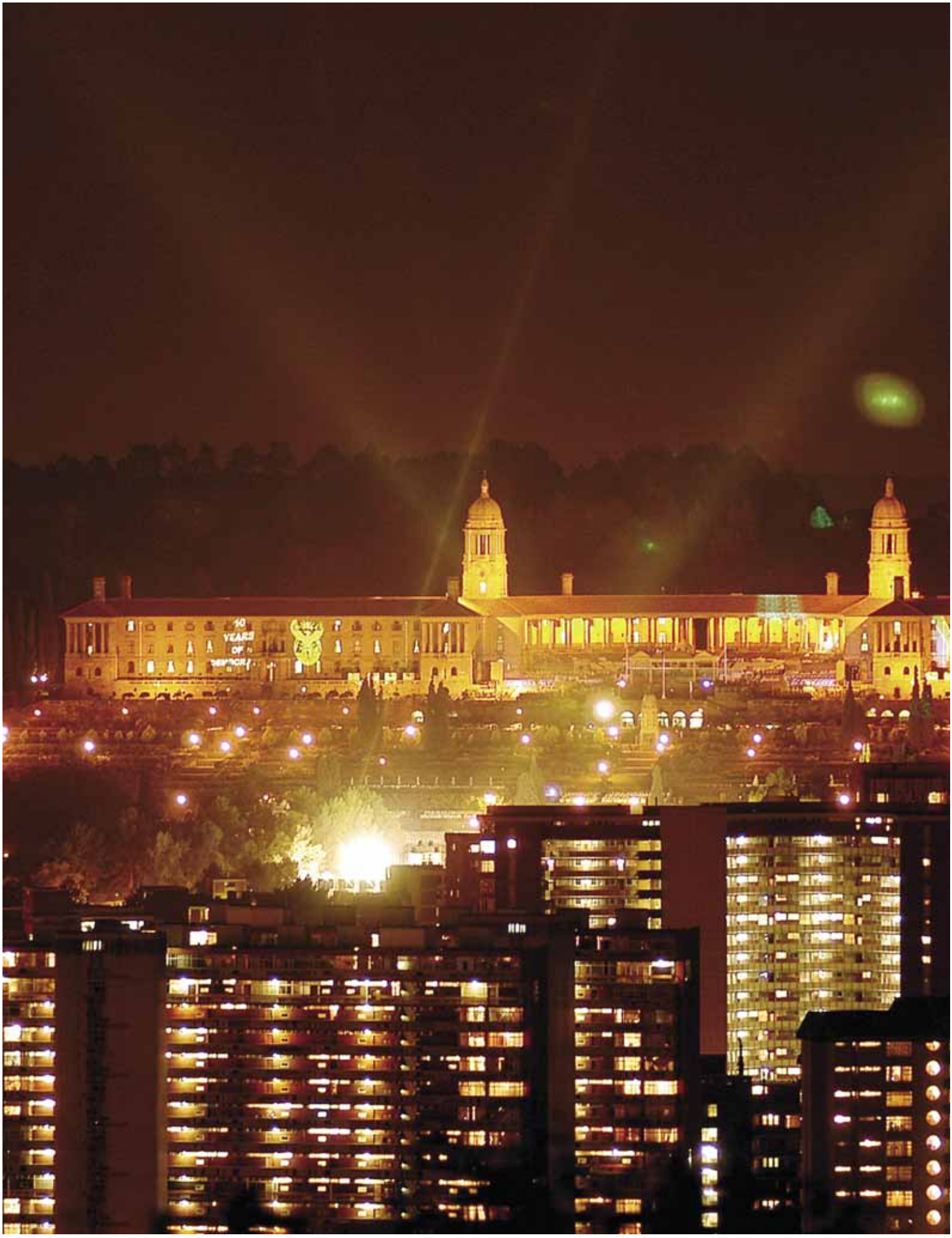
Eskom will grow shareholder value by exceeding the needs of local and foreign customers with energy-related services.

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 (e.g. coal, water) in a challenging business, social, natural and political environment.

Core Strategy

Focusing on our core business of electricity to maximise shareholder value in economic, social and environmental returns.
"Keeping the lights burning" through optimal utilisation and operation of our asset, resource and skills base.
Ensuring the sustainability of the business through balanced financial, social and environmental decision making.
Managing our assets and future capital investments to ensure adequate electricity supply to meet the needs of the South African electricity market.
Making focused and viable investments elsewhere in Africa to further the aims of NEPAD while creating the foundation for a continental business in the long term.



This Annual Report, which covers the 15-month period from 1 January 2004 to 31 March 2005, is an integrated sustainability report based on a balance of economic, environmental, social and technical performance.

At the request of its shareholder, Eskom changed its financial year end from December to March. This has resulted in the current financial reporting period increasing to 15 months. Comparative information reflects the 12-month period from 1 January 2003 to 31 December 2003 making comparability of periods difficult. Where possible and practical, the performance information for the 12-month period ended 31 December 2004 has been included to enable meaningful comparisons with the previous year.

Ownership

The ownership of Eskom vests in the South African Government.

Major products and services

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

Eskom is regulated in terms of licences granted 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 its subsidiary Eskom Enterprises (Pty) Limited, Eskom also undertakes other non-regulated activities related to the energy and electricity supply industry, including the provision of electricity supply and related services to African countries connected to the South African grid and the rest of Africa.

In terms of Eskom's revised business model, Eskom's core markets are in order of priority, South Africa, the South African Development Community and then the rest of Africa.

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 located in Johannesburg, South Africa, and other offices in Uganda, Nigeria, Mali and Zambia.

Nature of markets and customers served

Electricity is distributed to industrial, mining, commercial, agricultural, redistributors and residential customers 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 seven 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.

Corporate social investment

Eskom's corporate social investment is mainly carried out through the Eskom Development Foundation, a section 21 company. The goal of Eskom's corporate social investment is to improve the quality of life of previously disadvantaged South Africans. It includes various programmes for skills development, job creation,

education and health, with an emphasis on women, youth and people with disabilities. The Development Foundation operates extensively throughout South Africa in areas that are underdeveloped, especially in rural and new urban settlements.

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 Head Office:	+27 11 800 8111
Eskom Corporate Communication:	+27 11 800 2323
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

Website and email

Eskom Environmental: envhelp@eskom.co.za
Eskom Annual Report: www.eskom.co.za/annreport05/
Eskom Development Foundation: www.eskom.co.za/csi
Eskom business online: www.eskom.co.za

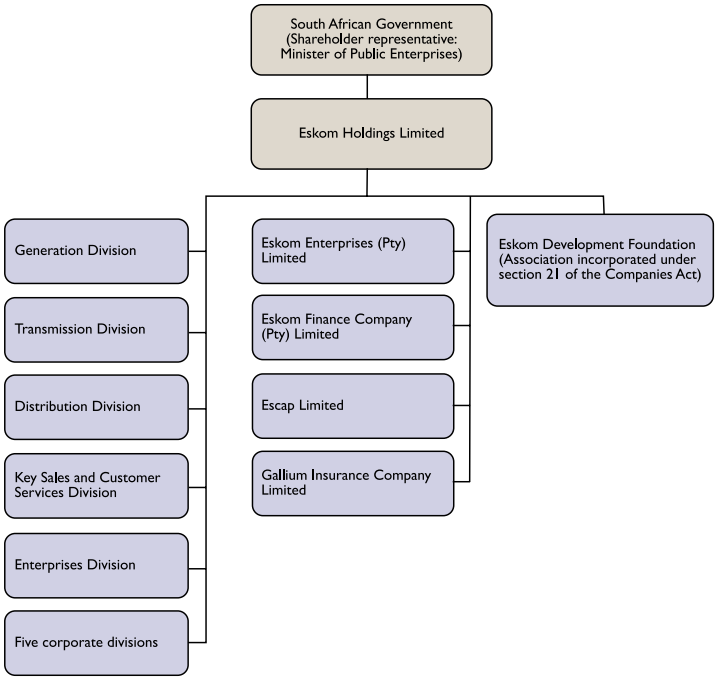
Physical address:

Eskom
Megawatt Park
Maxwell Drive
Sunninghill
Sandton

Postal address:

Eskom
PO Box 1091
Johannesburg
2000

Organisational structure



	Group			Eskom		
	2005[1]	2003	2002	**2005**[1]	2003	2002
Financial/business performance indicators						
Total assets, Rm	**109 205**	96 992	82 482	**104 994**	93 891	80 186
Reserves, Rm	**44 867**	40 683	37 717	**42 556**	39 203	36 412
Net financial market (assets)/liabilities, Rm	**(1 176)**	3 634	9 150	**1 781**	5 507	10 871
Revenue, Rm	**42 984**	32 948	29 684	**41 387**	31 780	28 158
Net profit for the year after tax, Rm	**5 197**	3 417	3 707	**4 353**	3 226	3 185
Cash flows from operating activities, Rm	**14 295**	12 664	11 808	**12 837**	12 256	11 633
Average selling price of electricity, cents per kWh[2]				**16,04**	16,05	14,98
Average total cost of electricity sold, cents per kWh[3]				**13,65**	13,61	12,48
Return on total assets, %[4]	**12,73**	10,35	13,07	**11,67**	10,58	11,92
Debt-equity ratio[4]	**-**	0,09	0,24	**0,04**	0,14	0,30
Debt-equity ratio (including long-term provisions)[4]	**0,18**	0,30	0,46	**0,26**	0,35	0,52
Productivity improvement for the period, %				**1,80**	2,50	1,60
Staff employed, number	**31 475**	31 972	32 357	**29 845**	28 938	29 359
Technical/business performance indicators						
Total electricity sold, GWh				**256 959**	196 980	187 957
Coal burned in power stations, Mt				**136,40**	104,37	96,46
Energy availability factor, %				**89,50**	87,50	89,30
Peak demand on integrated system, MW				**34 195**	31 928	31 621
Nominal capacity, MW[5]				**42 011**	42 011	42 011
Net maximum capacity, MW[5]				**39 810**	39 810	39 810
Power lines (all voltages), km				**347 204**	336 270	325 010
Electricity customers, number (thousands)				**3 603**	3 505	3 418
Environmental/social performance indicators						
Specific water consumption by power stations, ℓ /kWh sent out[6]				**1,28**[7]	1,29	1,27
Relative particulate emissions, kg/MWh sent out				**0,26**[7]	0,28	0,29
Carbon dioxide emissions, Mt[8]				**247,0**	190,1	175,2
Radiation release, milliSieverts (mSv)				**0,0079**[7]	0,0123	0,0060
Disabling injury incidence rate, index				**0,32**	0,37	0,45
Work-related fatalities, number				**15**	5	11
Employment equity, %				**57,9**	56,3	54,6
Gender equity, %				**28,9**	27,8	24,5
People with disabilities, %				**2,0**	1,4	0,16
Electrification, number of homes connected per period				**222 314**	175 396	211 628

1. *This represents, unless indicated otherwise, the 15-month period from 1 January 2004 to 31 March 2005.*
2. *Average price of electricity sold based on total sales.*
3. *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.*
4. *Calculated on the basis described in the five-year financial review.*
5. *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.*
6. *Volume of water consumed per unit of generated power sent out, excluding rain and mine water used.*
7. *Represents the 12-month moving average from 1 April 2004 to 31 March 2005.*
8. *Calculated figures based on coal characteristics and the power station design parameters.*

	Group				
	2005	2003	2002	2001	2000
	Rm	Rm	Rm	Rm	Rm
Balance sheet					
Non-current assets	**74 105**	70 997	65 877	59 643	61 406
Current assets	**35 100**	25 995	16 605	17 266	12 773
Total assets	**109 205**	96 992	82 482	76 909	74 179
Capital and reserves	**44 867**	40 683	37 717	34 148	30 989
Non-current liabilities	**41 722**	32 892	31 701	26 672	28 409
Current liabilities	**22 616**	23 417	13 064	16 089	14 781
Total equity and liabilities	**109 205**	96 992	82 482	76 909	74 179
Income statement					
Revenue	**42 984**	32 948	29 787	26 112	24 459
Operating expenditure	**(34 073)**	(26 130)	(21 466)	(19 409)	(17 979)
Net operating income	**8 911**	6 818	8 321	6 703	6 480
Interest income	**4 298**	4 024	2 506	3 325	1 057
Interest expenditure	**(5 746)**	(5 328)	(5 281)	(6 099)	(4 332)
Profit after interest before fair value (loss)/gain	**7 463**	5 514	5 546	3 929	3 205
Fair value (loss)/gain on financial instruments	**(29)**	(283)	(118)	(157)	129
Profit before tax	**7 434**	5 231	5 428	3 772	3 334
Income tax expense	**(2 308)**	(1 859)	(1 727)	(1 211)	(1 466)
Profit after tax	**5 126**	3 372	3 701	2 561	1 868
Share of profit of associates and joint ventures	**71**	45	26	-	-
Profit for the period	**5 197**	3 417	3 727	2 561	1 868
Cash flow					
Cash generated from operations	**14 821**	13 535	12 911	11 209	9 985
Net interest received/(paid)	**267**	(238)	(1 051)	(2 498)	(2 294)
Income tax paid	**(224)**	(84)	(52)	(70)	(30)
Dividends paid	**(569)**	(549)	-	-	-
Cash flows from operating activities	**14 295**	12 664	11 808	8 641	7 661
Cash used in investing activities	**(8 469)**	(6 980)	(5 750)	(3 711)	(3 538)
Cash effects of financing activities[1]	**5 356**	(7 459)	(3 515)	(3 491)	(2 413)
Net increase/(decrease) in cash and cash equivalents for the year	**11 182**	(1 775)	2 543	1 439	1 710
Ratios					
EARNINGS PROTECTION (Profitability indicators)					
Return on total assets, %[2]	**12,73**	10,35	13,07	11,01	10,40
Return on average equity, %	**12,15**	8,72	10,37	7,86	6,39
Total operating expenditure/revenue, %	**66,35**	67,34	60,38	60,00	60,66
Net pre-tax interest coverage	**2,53**	2,16	2,22	2,07	1,87
EBITDA interest coverage	**3,87**	3,29	3,22	3,91	2,77
Liquidity	**1,55**	1,11	1,27	1,07	0,86
Solvency	**1,70**	1,72	1,84	1,80	1,72
CASH FLOW PROTECTION (Cash flow adequacy indicators)					
Funds from operations/average total debt, %	**40,01**	41,03	41,43	28,50	49,54
Funds from operations/capex, %	**170,97**	183,30	207,60	238,04	232,02
Funds from operations/net interest coverage, %	**9,47**	9,41	4,21	3,07	2,28
CAPITAL STRUCTURE					
Debt:equity	**-**	0,09	0,24	0,41	0,66
Debt:equity (including long-term provisions)	**0,18**	0,30	0,46	0,62	0,85
Interest cover	**6,03**	4,30	2,88	2,29	2,06
OTHER					
Value created per employee, R'000	**771**	578	570	338	428

	Eskom			
2005	2003	2002	2001	2000
Rm	Rm	Rm	Rm	Rm
73 247	70 332	65 484	59 536	61 303
31 747	23 559	14 702	15 173	12 050
104 994	93 891	80 186	74 709	73 353
42 556	39 203	36 412	33 361	30 582
40 639	32 039	31 099	26 176	28 266
21 799	22 649	12 675	15 172	14 505
104 994	93 891	80 186	74 709	73 353
41 387	31 780	28 261	24 983	23 569
(33 360)	(24 946)	(20 777)	(18 791)	(17 441)
8 027	6 834	7 484	6 192	6 128
4 091	3 811	2 664	3 525	1 310
(5 761)	(5 334)	(5 290)	(6 109)	(4 354)
6 357	5 311	4 858	3 608	3 084
29	(277)	(107)	(182)	129
6 386	5 034	4 751	3 426	3 213
(2 033)	(1 808)	(1 566)	(1 154)	(1 454)
4 353	3 226	3 185	2 272	1 759
-	-	-	-	-
4 353	3 226	3 185	2 272	1 759
13 370	13 305	12 608	9 911	9 101
81	(470)	(975)	(2 447)	(2 063)
(45)	(30)	-	-	-
(569)	(549)	-	-	-
12 837	12 256	11 633	7 464	7 038
(8 096)	(6 723)	(5 319)	(3 384)	(3 462)
5 220	(7 474)	(3 853)	(3 762)	(2 423)
9 961	(1 941)	2 461	318	1 153
11,67	10,58	11,92	10,21	9,79
10,65	8,53	9,13	7,11	6,09
67,80	66,70	61,84	60,68	61,32
2,31	2,11	2,06	1,61	1,87
3,56	3,19	3,01	2,42	2,69
1,46	1,04	1,16	1,00	0,83
1,68	1,72	1,83	1,81	1,72
35,97	39,63	40,75	25,70	21,20
160,75	184,24	221,18	236,00	221,60
7,43	7,84	4,38	2,97	2,50
0,04	0,14	0,30	0,48	0,71
0,26	0,35	0,52	0,67	0,89
4,89	3,80	2,74	2,24	2,10
754	625	587	506	441

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.*
- *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.*
- *Liquidity: Current Assets divided by current liabilities.*
- *Solvency: Total assets divided by total liabilities.*
- *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 as per value added statement.*

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 assests and liabilities.*

For the 15-month period ended 31 March 2005

Value added is the wealth created by the regulated business through the generation, transmission, distribution and selling of electricity and the non-regulated businesses.

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		Company	
	2005	2003	**2005**	2003
	Rm	Rm	**Rm**	Rm
Value created				
Revenue and staff costs capitalised	**43 352**	33 171	**41 755**	32 003
Less: Cost of primary energy, materials, services and abnormal items	**(19 084)**	(14 696)	**(19 254)**	(13 903)
	24 268	18 475	**22 501**	18 100
Value distributed				
Salaries, wages and other benefits	**9 576**	7 514	**9 017**	7 362
Social spending	**157**	154	**157**	154
Net interest expense	**1 477**	1 587	**1 641**	1 800
Dividends paid	**569**	549	**569**	549
Taxation	**2 308**	1 859	**2 033**	1 808
	14 087	11 663	**13 417**	11 673
Value reinvested in the group to maintain and develop operations				
Depreciation and amortisation of property, plant and equipment and intangible assets	**5 553**	3 944	**5 300**	3 750
Net profit after dividends	**4 628**	2 868	**3 784**	2 677
	24 268	18 475	**22 501**	18 100

RJ Khoza

(55) bf

Chairman

International Programme for Board Members (IPBM) – IMD, Lausanne, Switzerland
Programme for Management Development (PMD) – Harvard Business School, USA
Marketing Management (MA) – University of Lancaster, UK
Bachelor of Arts: Honours (Psychology) – University of the North, RSA
Founder and Chairman, AKA Capital (Pty) Limited and AKA Resources Holdings
Current chairmanship includes:
NEPAD Business Foundation
Polokwane International Airport
Corobrick (Pty) Ltd
Akani Leisure (Pty) Ltd
Current directorships:
Gold Reef Casino Resorts Ltd
JSE Securities Exchange
Protea Holdings Ltd
Fellow and President, Institute of Directors of Southern Africa
Member, International Business Council of the World Economic Forum
Executive Committee Member, World Business Council for Sustainable Development
Appointed to the Eskom Holdings Limited Board in 2002

TS Gcabashe

(47) bcfg

Chief Executive of Eskom and Chairman of Eskom Enterprises

BA (Botswana), PED (IMD), MURP (Ball State UNIV, USA)
Chairman of Executive Management Committee
Director of Standard Bank of South Africa
Business Map Foundation
Trustee – April 2002
Appointed to the Eskom Holdings Limited Board in 2002

B Nqwababa

(39) ceg

Finance Director

Bachelor of Accountancy Honours (Zimbabwe)
Chartered Accountant (Zimbabwe)
Masters in Business Administration - Finance
Jointly awarded by the Universities of Manchester and Wales, Bangor
Appointed to the Eskom Holdings Limited Board in 2004

Eskom Holdings Limited Board

Dr BM Count
(54) 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
(38) de

Bachelor of Commerce (B Com) 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 CAs; Assoc of Black Accts of SA
Major directorships includes:
Allied Electronics Corporation Limited
Land and Agricultural Development Bank of SA
Blue IQ Investment Holdings Limited
Advisory Board membership of the Nelson Mandela Children's Fund
Appointed to the Eskom Holdings Limited Board in 2002

SE Funde
(61) cef

Master of Science in Electrical Engineering (St Petersburg Polytechnical Institute)
Executive Chairperson of Kemilinks International (South Africa)
Chairman of the South African Broadcasting Corporation (SABC)
President and Board Chairman of the South African Communications Forum (SACF)
Deputy Chairman of the Presidential National Commission of Information Society and Development (PNC & ISAD)
Non-executive director of Murray & Roberts Holdings Limited
Member of the Board of Trustees, Independent Development Trust (IDT)
Appointed to the Eskom Holdings Limited Board in 2002

TN Msomi
(39) af

Bachelor of Law (LLB) University of Natal
(B Proc) University of Natal
Head & Deputy Director General: Transport Regulation and Public Entity Oversight Department of Transport
Trustee of the Nomndayi Family Trust
Chairman: South African Search and Rescue (SASAR)
Appointed to the Eskom Holdings Limited Board in 2002

SA Mpambani
(52) d

BA 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

PM Makwana
(34) ab

Newly appointed director of Standard Bank SA Retail Banking Division for the Polokwane region
Bachelor of Administration (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
Trustee on the boards of the International Marketing Council (Brand SA) and WWWF South Africa
President of Institute for People Management (up to August 2003)
Eskom Holdings Limited and Educor Limited (up to October 2004)
Member of FutureWorld Network of Gurus
President of the University of Zululand's Alumni Convocation
Appointed to the Eskom Holdings Limited Board in 2002

AJ Morgan
(57) 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 Kumba Resources Limited
Appointed to the Eskom Holdings Limited Board in 2002

SV Zilwa
(37) c

BCOMPT 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 Accountants' 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

Eskom Holdings Limited Board

V Mohanlal Rowjee
(34) 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

WE Lucas-Bull
(51) c

Bachelor of Science (University of Witwatersrand)
Board member of Aveng Limited, Nurcha and Business Against Crime
A member of the council of UNISA
Appointed to the Eskom Holdings Limited Board in 2002

LG Josefsson
(54) a

Sweden

Master of Science in Applied Physics
Programme for Executive Development (IMEDE, Lausanne, Switzerland)
President and CEO of Vattenfall
A 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

FM Baleni
(45) df

Diploma in Politics and Trade Unionist (White Hall College, England)
Certificate in Human Resources Management (UNISA)
Building On Talent Programme (Luasanne, Switzerland) (IMD)
Production pillar head of the National Union of Mineworkers (NUM)
Appointed to the Eskom Holdings Limited Board in 2002

The Eskom board committees and their chairmen

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

	Board Committee	
a.	Audit Committee:	JRD Modise
b.	Human Resources, Remuneration and Ethics Committee:	RJ Khoza
c.	Investment and Finance Committee:	WE Lucas-Bull
d.	Tender Committee:	FM Baleni
e.	Risk Management Committee:	SE Funde
f.	Sustainability Committee:	RJ Khoza
g.	Executive Management Committee:	TS Gcabashe

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

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

Eskom

TS Gcabashe

(47)

Chief Executive of Eskom

and Chairman of Eskom Enterprises

BA (Botswana), PED (IMD), MURP (Ball State UNIV, USA)
Chairman of Executive Management Committee
Director of Standard Bank of South Africa
Business Map Foundation Trustee – April 2002
Appointed to the Eskom Executive Management Committee in 2002

TJ Matsau

(56)

Managing Director

External Relations Division (Retired December 2004)

Dip in Transport Economics (West Germany)
Dip in Marketing (Helsinki)
Joined Eskom in 1992
Eskom positioning, stakeholder interface, government liaison, regulation and policy influence.
NEPAD
Appointed to the Eskom Executive Management Committee in 2002

EN Matya

(42)

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
Safety risk management
Appointed to the Eskom Executive Management Committee in 2002

B Nqwababa

(39)

Finance Director

Bachelor of Accountancy Honours (Zimbabwe)
Chartered Accountant (Zimbabwe)
Masters in Business Administration - Finance
Jointly awarded by the Universities of Manchester and Wales, Bangor
Appointed to the Eskom Executive Management Committee in 2004

ME Letlape

(46)

Managing Director

Human Resources Division

BSc (Computer Science and Psychology) (Fort Hare)
Joined Eskom in 2000
Human Resources 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

BA Dames

(39)

Managing Director

Enterprises Division

Chief Executive Officer of EE (PTY) Ltd
Hons B.Sc. Degree in Physics (University of the Western Cape)
Joined Eskom in 1987 as a Nuclear Physicist
MBA degree and Graduate Diploma in Utility Management at Samford University (USA)
Appointed to the Eskom Executive Management Committee in 2004

PD Mbonyana

(51)

Managing Director

Corporate Division

Dip Th (St Bedes)
BTh (Unisa)
MAP (Wits)
MBA (Brunel)
Appointed to the Eskom Executive Management Committee in 2004

Dr WJ Kok

(54)

Finance Director

(Retired August 2004)

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 Solutions Centre
Appointed to Eskom Executive Management Committee in 2002

Executive Management Committee

MM Ntsokolo

(44)

Managing Director

Distribution Division

Registered Professional Engineer 1993
BSc Electrical Engineering (Heavy Current) (Wits 1988)
Exec Dev Programme in Strategic Management (City Univ of New York 1994)
Honours. B (B&A) (Stellenbosch 1997)
MBA (Stellenbosch 1999)
Senior Executive Programme (Harvard Business School 2002)
Appointed to the Eskom Executive Management Committee in 2003

JA Dladla

(42)

Managing Director

Key Sales and Customer Service Division

Chartered Marketer (SA)
BA Comm (Hons) (Fort Hare)
AMP (Harvard Business School)
Joined Eskom in 1992
Customer Service
Marketing
Energy Trading
Risk Management
Demand Side Management
Appointed to the Eskom Executive Management Committee in 2003

PJ Maroga

(45)

Managing Director

Transmission Division

BSc (Elec) (Wits)
Joined Eskom in 1995
Maintenance, refurbishment and expansion of high-voltage electricity network
System operation and control of transmission network
Appointed to the Eskom Executive Management Committee in 2002

Dr SJ Lennon

(46)

Managing Director

Resources and Strategy Division

BSc (Chemistry) (Natal)
MSc (Eng), PhD (Wits)
Joined Eskom in 1983
Long-term strategic planning
Business planning and industry restructuring
Supply - and demand-side planning
Research, development and demonstration
Distribution technology
Environmental management
Occupational health and safety
Information strategy
Business applications service centre
Sustainability management
Investment strategy
Appointed to the Eskom Executive Management Committee in 2002

Introduction

Eskom's approach to good governance is underpinned by its view that corporate governance is an essential part of outstanding performance. The achievement of good corporate governance is therefore a function of effective strategy and leadership, which in turn translates into integrated economic, social and environmental performance. The directors of Eskom are unreservedly committed to ensuring that good governance is maintained so that the company remains a sustainable business of global stature.

Commitment to this concept ensures that Eskom reviews its processes and practices on an ongoing basis to ensure compliance with legal obligations, ensures the use of funds in an economic, efficient, and effective manner and ensures adherence to good corporate governance practices that are continually benchmarked with international practices.

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, are augmented by those contained in the Public Finance Management Act, 1 of 1999 (PFMA).

Some of the key initiatives during the period were:

- Regular review of the delegation of authority.
- Eskom Board of Directors (Board) evaluation.
- Review of the terms of reference of the Board committees.
- Review of Board processes to improve the quality of information and decision-making processes.

Areas that continue to be the subject of greater focus include initiatives to improve stakeholder participation and effective reporting and disclosure to all stakeholders.

The Board believes that Eskom's corporate governance is of world class standard but acknowledges the importance of ongoing improvement in this critical area.

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 (Minister of Public Enterprises), annually agree on the key performance objectives, measures and indicators to be attained by Eskom. This is annexed to the agreed principles contained in the shareholder performance agreement (Shareholder Compact) concluded between Eskom and the shareholder.

The compact is not intended to interfere in any way with the normal principles of company law. 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 in Eskom, by assisting to clarify the respective roles and responsibilities of the Board and the shareholder and ensuring that there is agreement on the mandate and key objectives to be achieved by Eskom.

Governing bodies

Board of Directors

Composition of the Board

The details of the directors appear on pages 11 to 14.

Eskom has a unitary board structure comprising 13 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), are representative of the gender and race demographics of the Republic of South Africa 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 remaining executive directors are appointed by the Board, after the approval of the shareholder.

Dr WJ Kok, the Finance Director, retired in August 2004. He was succeeded by Mr B Nqwababa in September 2004.

The term of office of a non-executive director does not exceed a period of three years. Non-executive directors retire by rotation. The terms of office of the existing non-executive directors expire at the annual general meeting in 2005, but they are eligible for re-appointment. Executive directors are permanent employees in terms of Eskom's conditions of service. The Chief Executive's term of office, however, is three years.

Dates of meetings are scheduled annually in advance. Special meetings are convened as and when material issues requiring decisions arise. Teleconferencing facilities are available to directors or members of committees who are unable to attend meetings in person. Thirteen board meetings, two of which were strategic workshops, were held in the reporting period. The attendance of members at board meetings is reflected below.

Members	Feb[1]	Mar	May	May	May	Jun	July[1]	Sept	Oct	Oct	Dec	Feb[2]	Mar[2]
RJ Khoza[3] (Chairman)	√	√	√	√	√	√	√	√	√	√	√	√	√
FM Baleni[3]	A	√	√	A	A	√	√	√	√	√	√	√	√
BM Count[3]	A	√	A	√	√	√	√	√	√	√	√	√	√
SE Funde[3]	√	√	√	√	√	√	√	A	√	√	√	√	A
TS Gcabashe[4]	√	√	√	√	√	√	A	√	√	√	√	√	√
LG Josefsson[3]	√	√	√	√	√	√	A	√	A	A	√	A	√
WJ Kok[4,5]	√	√	√	√	√	√	√	-	-	-	-	-	-
WE Lucas-Bull[3]	A	√	A	√	√	A	√	√	√	√	√	√	√
PM Makwana[3]	A	√	A	A	A	√	√	√	√	√	√	A	√
JRD Modise[3]	√	√	√	√	√	√	√	√	√	√	√	√	√
AJ Morgan[6]	√	√	√	√	√	√	√	√	√	√	A	√	√
SA Mpambani[3]	√	√	√	√	√	√	√	√	√	√	√	√	√
TN Msomi[6]	√	√	√	√	√	√	A	√	√	√	√	√	A
B Nqwababa[4,7]	-	-	-	-	-	-	-	√	√	√	√	√	√
VM Rowjee[3]	√	√	√	√	√	√	A	√	√	√	√	√	√
SV Zilwa[3]	A	√	A	√	√	√	A	√	A	√	√	A	A

1. *Special meeting.*
2. *Meetings held during the period 1 January 2005 to 31 March 2005.*
3. *Independent non-executive director.*
4. *Executive director.*
5. *Retired August 2004.*
6. *Non-executive director.*
7. *Appointed September 2004.*

√ *Present.*

A *Absent with apologies.*

Role and function of the Board

The Board is the Accounting Authority of Eskom in terms of the PFMA.

In keeping with good corporate governance practices, the Board has developed a Board charter, and has identified its role as follows:

- 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 the 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, the HIV/AIDS strategy.
- Approving transactions that are above the authority level of management.

Delegation of authority

The power and authority to lead, control, manage and conduct the business of Eskom, including the power and authority to delegate, is vested with the Board to ensure that Eskom remains a sustainable and viable business of global stature. It 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, EXCO subcommittees and a comprehensive delegation of authority framework. This framework assists in the control of the decision-making process and does not dilute the duties and responsibilities of the directors. The framework is reviewed on a regular basis, and was last reviewed by the Board in September 2004.

Board evaluation and performance

A comprehensive evaluation of the Board and individual directors was conducted by external consultants in 2004. The evaluation report reflected an enhancement of corporate governance practices and validated the effectiveness at Board and individual level.

The performance of the Board committees is 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 a honorarium and fee 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 behalf of the company. 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 123 to 130.

Company secretarial function

Directors have unrestricted access to the advice and services of the company secretary as well as those of the 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

Several Board committees exist to assist the Board in discharging its responsibilities. This assistance is rendered in the form of recommendations and reports submitted to Board meetings, thus ensuring transparency and full disclosure of committee activities. Each committee operates within the ambit of its defined terms of reference that sets out the composition, role, responsibilities, delegated authority and requirements for convening meetings. 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 evaluating the independence, objectivity and effectiveness of the external auditors and for reviewing 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 and reviewed by the external auditors, for approval by the Board.

Eight committee meetings were held during the period under review. 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	Mar	Mar[1]	Mar[1]	May	Sept	Nov	Feb[1,2]	Mar[2]
JRD Modise (Chairman)	√	√	√	√	√	√	√	√
LG Josefsson	√	A	A	A	√	√	A	√
PM Makwana	√	√	A	√	√	A	A	A
SA Mpambani	√	√	√	√	√	√	√	√
TN Msomi	√	√	√	√	√	√	√	A

1. *Special meeting.*
2. *Meetings held during the period 1 January 2005 to 31 March 2005.*

√ *Present.*
A *Absent with apologies.*

Risk Management Committee

The Risk Management Committee comprises three non-executive directors, the Finance Director and the Managing Director (Generation Division) and is chaired by an independent non-executive director.

Five committee meetings were held during the 15-month period dealing with the integrated risk management strategy, risk accountabilities, major risk exposures, the integrated risk management processes within the group and emerging risk issues. The committee ensures that the company's risk management strategies and processes are aligned with the recommendations of the King II guidelines on corporate governance. The attendance of members at these meetings is reflected below.

Members	Feb	May	Aug	Nov	Mar[1]
SE Funde (Chairman)	√	√	√	√	A
WJ Kok[2]	√	A	√	-	-
EN Matya[3]	-	-	-	√	A
JRD Modise	√	√	√	√	√
AJ Morgan	√	√	√	√	√
B Nqwababa[3]	-	-	-	√	√

Investment and Finance Committee

The Investment and Finance Committee comprises five 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. Seven committee meetings were held during the period under review. The attendance of members at these meetings is reflected below.

Members	Mar	May	Sept	Nov	Dec	Feb[1,4]	Mar[1]
WE Lucas-Bull (Chairman)	√	√	√	√	√	√	√
BM Count	√	√	A	√	√	√	√
SE Funde	√	√	√	√	√	√	√
TS Gcabashe	√	A	A	√	√	√	√
LG Josefsson[3]	-	-	-	A	√	A	√
WJ Kok[2]	√	√	-	-	-	-	-
AJ Morgan[3]	-	-	-	√	√	√	A
B Nqwababa[3]	-	-	-	√	√	√	√
SV Zilwa[5]	√	√	√	-	-	-	-

1. *Meetings held during the period 1 January 2005 to 31 March 2005.*
2. *Retired August 2004.*
3. *Appointed November 2004.*
4. *Special meeting.*
5. *Resigned as a member in September 2004.*

√ *Present.*
A *Absent with apologies.*

Tender Committee

The Tender Committee comprises four non-executive directors, who include an independent non-executive chairman.

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

Seven committee meetings were held during the 15-month period. The attendance of members at committee meetings is reflected below.

Members	Jan[1]	Mar	May	Aug[1]	Sept	Nov	Mar[2]
FM Baleni (Chairman)	√	√	√	√	√	√	√
AJ Morgan	√	√	√	√	√	√	√
SE Mpambani	√	√	A	√	√	√	√
VM Rowjee	√	√	√	A	√	√	√

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 ensures that sufficient time is allocated to each of the areas within the terms of reference of the committee. In particular, there are dedicated slots for ethics, human resources policies, executive remuneration and succession planning.

Seven committee meetings were held during the 15-month period. The attendance of members at these meetings is reflected below.

Members	Mar	Mar	May	Sept	Nov	Dec[1]	Mar[2]
RJ Khoza(Chairman)	√	√	√	√	√	√	√
BM Count	√	√	√	√	√	A	√
TS Gcabashe	√	√	√	√	√	√	√
PM Makwana	√	√	A	√	√	√	√
VM Rowjee	√	√	√	√	√	√	√

1. Special meeting.
2. Meetings held during the period 1 January 2005 to 31 March 2005.
√ Present.
A Absent with apologies.

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 those concerning 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.

Five committee meetings were held during the 15-month period. The attendance of members at these meetings is reflected below.

Members	Feb	May	Aug	Nov	Feb[1]
RJ Khoza (Chairman)	√	√	√	√	A
FM Baleni	√	√	√	√	√
SE Funde	√	√	√	√	A
TS Gcabashe	√	√	√	√	√
TN Msomi	√	√	√	A	√

1. Meetings held during the period 1 January 2005 to 31 March 2005.

√ Present.

A Absent with apologies.

Executive Management Committee

EXCO comprises the Chief Executive, the Finance Director and the managing directors of Eskom's various divisions. The committee is chaired by the Chief Executive. Details of the EXCO members appear on pages 15 to 16.

The committee assists the Chief Executive in guiding and controlling the overall direction of the business and in exercising executive control 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 subcommittees, namely the Procurement, Operations, Investment and Sustainability subcommittees.

Thirty three EXCO meetings were held during the period. Two of these meetings were strategic workshops to which the independent non-executive chairman of Eskom was invited. The attendance of members at the EXCO meetings is reflected below.

Members	Attendance (33 meetings held)
TS Gcabashe (Chairman)	30
EN Banda[1]	1
BA Dames[2]	16
JA Dladla	29
WJ Kok[3]	18
SJ Lennon	29
ME Letlape	25
PJ Maroga	31
TJ Matsau[4]	24
EN Matya	26
PD Mbonyana[2]	15
M Ntsokolo	29
B Nqwababa[5]	14

1. *Resigned April 2004.*
2. *Appointed August 2004.*
3. *Retired August 2004.*
4. *Retired December 2004.*
5. *Appointed September 2004.*

Public Finance Management Act

The 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.

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 set out in the PFMA. The responsibilities of the Board, in terms of the PFMA, include taking appropriate action to ensure that:

- 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 making 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 (IRM)

The Eskom IRM strategy and process 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 risk accountability matrix continues to be the defining framework for determining responsibility for the various categories of risk within Eskom. Risk management is addressed through risk categories that include financial, technical, environmental, legal, human resources, information, stakeholder, regulatory and strategic risks. The matrix is reviewed annually together with the IRM strategy to ensure that Eskom continues to align itself with the recommendations in the King II guidelines.

In October 2003, the Institute of Risk Management South Africa published a Code of Practice on enterprise risk management. Eskom has decided to adopt this code, which encompasses ten principles of enterprise risk management, into its IRM processes. An audit review based on the Code of Practice was conducted by external consultants in the Generation Division. The results have indicated a high-level of compliance with the Code of Practice.

A methodology for determining risk values has been defined which will assist the organisation to better identify which risks should receive priority and the value of the risk mitigation measures. Aligned to this valuation methodology will be risk tolerance levels for each division and main subsidiary together with risk appetite parameters for each functional risk area. These methodologies are under review to ensure they meet the requirements of the business before being fully implemented.

Interaction with the Corporate Audit Department and Corporate Technical Audit Department within Eskom is seen as essential to the ongoing success of the IRM strategy, particularly the risk integration aspects between divisions, subsidiaries and functions. Refer to pages 84 to 85 in Director's Report and pages 161 to 165 in Financial Statements for further information.

Ethical business conduct

Eskom values integrity, excellence, innovation and customer satisfaction, and is committed to the highest standard of ethical behaviour in all its actions and decisions. Ethical behaviour is part of managing the risks and opportunities in Eskom's business. Eskom's Ethics Office, a section of the Risk Management Department focuses on ongoing ethics awareness and training throughout the Eskom Group to monitor compliance with Eskom's Business Conduct Policy, and to promote an ethical culture throughout the organisation. The ethics programme also includes contractors and suppliers.

The Chief Executive is the custodian of ethics, and the General Manager of Risk Management is the ethics caretaker, responsible for establishing, maintaining and co-ordinating the ethics programme. The following processes ensure that appropriate business conduct is effectively implemented throughout Eskom:

- The divisional ethics co-ordinators ensure that the ethics programme is applied across Eskom and that all employees are appropriately exposed to and made aware of the Business Conduct Policy. The role and responsibilities of the divisional ethics co-ordinators are clearly defined and are included in their performance contracts.
- Ethical conduct and compliance with the Business Conduct Policy are included in the performance contracts of all managing directors and their direct reports.
- The Ethics Office conducted an ethics risk assessment during the 15-month period, in line with Eskom's integrated risk categories, within the organisation. The top 20 ethics risks, together with the risk control strategies identified by the relevant managing directors, were shared with the Eskom Executive Committee and the HRREC of the Board.
- During the 15-month period, the Corporate Audit Department conducted ethics audits throughout the organisation to monitor compliance with the Business Conduct Policy.
- An ethics website is maintained to provide core information to employees on Eskom's Business Conduct Policy, key ethical issues, frequently asked questions and training material. A summary of the Business Conduct Policy is also available on the ethics website in the eleven official languages. The visitor counter confirms a monthly increase in visits by Eskom employees, averaging 2 400 hits per month.
- All employees are encouraged to report crime and irregularities through the confidential, toll-free crime line. Eskom's stakeholders are also encouraged to use this reporting facility.
- Employees are required to declare any potential conflict of interest in writing and obtain prior approval before undertaking private work. A database is maintained of all the potential conflicts of interest declared by the directors as well as executive and senior management.
- All departments are required to keep a courtesy register in which gifts given and received are recorded.
- Eskom subscribes to the principles of openness, integrity and accountability in its procurement practices. Eskom expects suppliers and anyone acting on Eskom's behalf or conducting business with Eskom to commit themselves to the highest standard of ethical conduct in all their actions and decisions. To this end, this commitment forms part of Eskom contracts. In addition, suppliers are informed of Eskom's Business Conduct Policy, which is also published on Eskom's website in the eleven official languages. The Ethics Office identified the need to develop

a specific code of conduct for suppliers, which should be implemented in 2005.

- 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 purposes of networking, benefiting from research and advancing the theory and practice of ethics within an organisation.

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 the critical risk areas identified by operational risk management, confirmed by executive management. 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 the action taken to correct weaknesses as they are identified.

Audit

In line with the requirements of the PFMA and the King II Report requirements, Eskom's internal audit function (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 action 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 staff.

The external auditors are responsible for independently auditing and reporting on the financial statements in conformity with Statement 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 of, and opportunity for crime and irregularities, and fraud in particular.

The Security Risk Management Department is mandated to assist Eskom, its subsidiaries and alliances in providing strategic crime prevention, detection and investigative direction as well as services that support the strategic intent and business objectives.

Technical audit

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

Audit programmes are based on a three-year cycle. Additional environmental and technical risk assessments and incident investigations are carried out where necessary.

Regular environmental audits were undertaken in all divisions by the Corporate Technical Audit Department. During the reporting period, audits focused primarily on environmental legal compliance. Audits were also carried out on the implementation of selected elements of the ISO 14001 standard. Data integrity audits were conducted on selected environmental indicators.

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. Local 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 in its affairs by specific government departments, employees, consumers, suppliers, investors and lenders of capital, rating agencies, the media, policy and regulatory bodies such as 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 continue 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 Annual Report. Public participation, as an integral part of environmental impact assessments, took place in relation to a number of proposed developments.

Sustainability, safety and environmental management

The Chief Executive, as chairman of the Sustainability subcommittee of EXCO, is accountable for Eskom's overall sustainability performance.

The General Manager of Corporate Sustainability implements strategic direction in the organisation to ensure acceptable sustainability, safety and environmental performance.

The divisions within Eskom, as well as the subsidiaries, determine the strategic direction in their respective businesses, and provide input via the Sustainability, Environmental and Occupational Health and Safety Liaison committees on an appropriate sustainability, safety and environmental strategy for Eskom.

The divisions are accountable for ensuring the implementation of policies, directives and standards within their areas of delegated authority.

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 Subcommittee of EXCO monitors and assesses the health and safety performance and major incidents to ensure that the necessary corrective measures are taken. The overall strategy is reviewed by the Sustainability Committee of the Board.

Nuclear safety

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

Eskom has a three-tier system of nuclear safety governance, in line with international best practice. The first-tier is the Sustainability Committee of the Board, which 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 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 tiers of committees.

Eskom Development Foundation

Many of Eskom's social responsibilities are carried out through the Eskom Development Foundation, a section 21 company, which is responsible for incorporating and integrating Eskom's 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.

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.

Board of Directors

Eskom Enterprises has a Board comprising a non-executive chairman, two non-executive directors and one executive director.

In March 2004, the former Chief Executive of Eskom Enterprises, Dr E Banda resigned. Mr PD Mbonyana was appointed as the Interim Chief Executive Officer of Eskom Enterprises, and Mr BA Dames was appointed as Chief Executive Officer during the last quarter of 2004.

As a result of the Revised Business Model, which is designed to achieve better integration and symmetry across the Eskom Group, the composition of the Eskom Enterprises Board was reviewed. At the Annual General Meeting, Mr B Nqwababa and Dr SJ Lennon were appointed as new non-executive directors from amongst the Eskom EXCO.

Board committees

In line with the principles of the Revised Business Model, and taking into account the changes in the Board of Eskom Enterprises, new board committees were established. These are the Audit, Integrated Risk Management, Investment and Finance and the Tender and Procurement committees, which are governed by written terms of reference. These committees are also integrated with Eskom as they include Eskom executives as members.

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. 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.

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

Business conduct

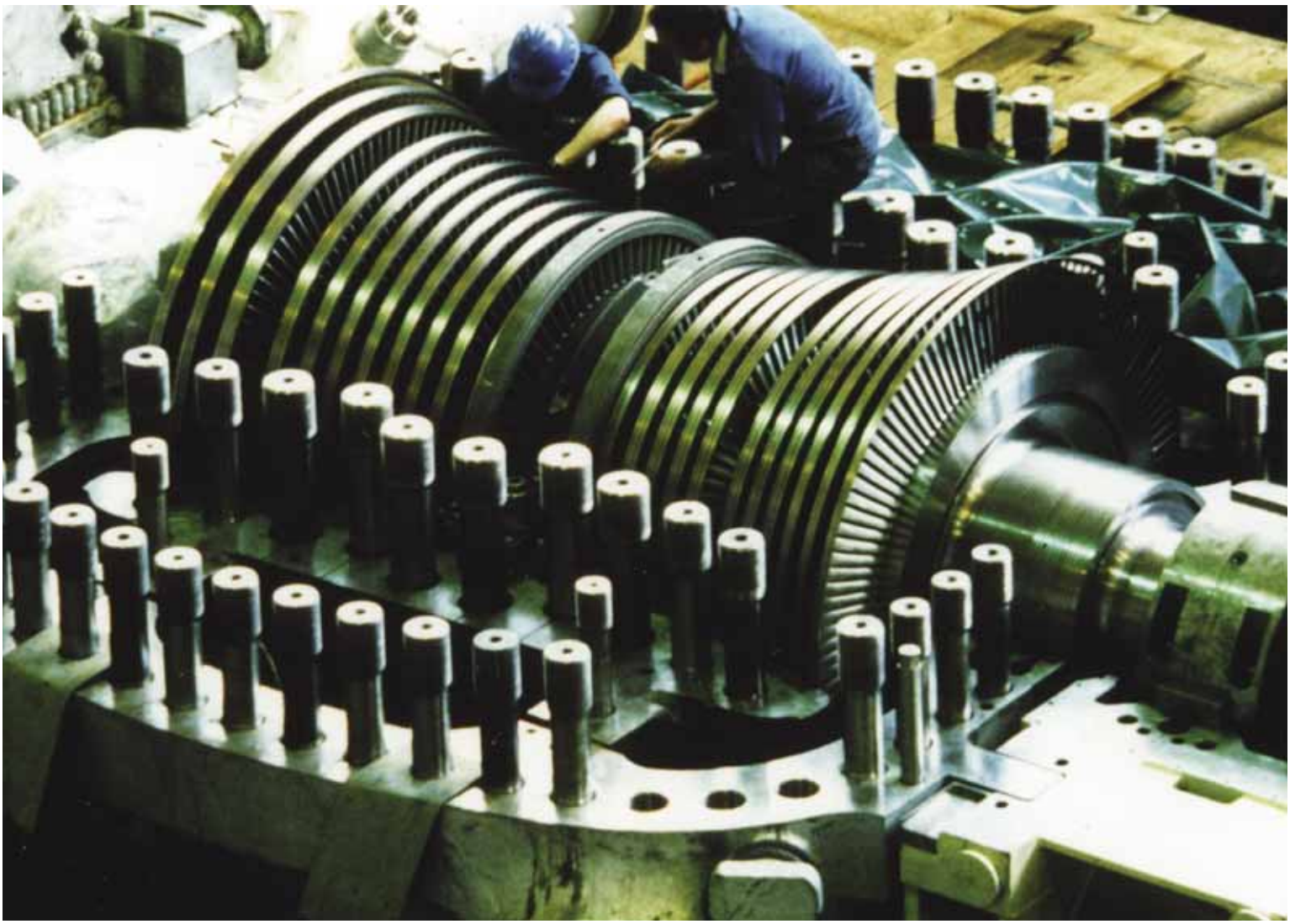
Employees are required to maintain high ethical standards and to ensure that the Eskom Enterprises Group's business practices are conducted in a manner that is above reproach.

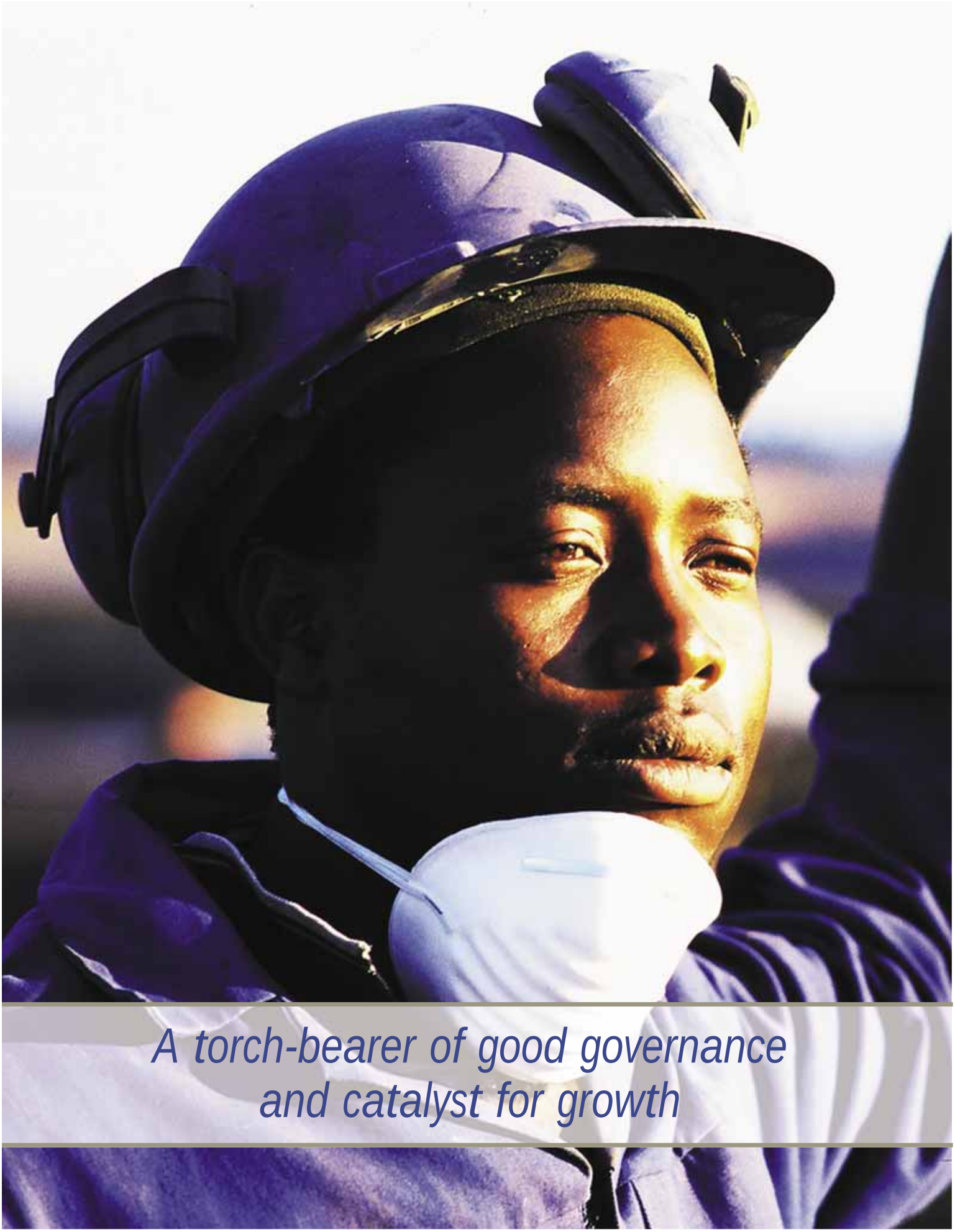
Employee participation

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 directly wholly-owned subsidiaries, Eskom Finance Company (Pty) Limited, Escap Limited and Gallium Insurance Company Limited, are governed by independent board structures. The directors are fully accountable to Eskom as the shareholder. The subsidiaries comply with the requirements of the PFMA and are guided by the principles of the King II Report.





A torch-bearer of good governance and catalyst for growth

Reuel J Khoza

The nature and size of Eskom's customer base is changing rapidly. It is becoming larger and more diversified.

South Africa and the African continent are ready for a great leap forward in the quest for positions of eminence in the global community. This ascendancy is underpinned by the success of state-owned enterprises with their duality of function: contributing towards growth and playing a major role to improve the quality of life among the broader public. This organisational, national and continental ideal can only be achieved through a leadership cadre that is visionary and innovative. This statement goes on record under extraordinary circumstances.

Eight years ago I had the privilege to become the first black chairman of Eskom. I will leave the organisation at the end of June 2005. This report grants me a valuable opportunity to reflect on the challenges and achievements that characterised the organisation's development over the past eight years.

In my first address to the management and staff of Eskom on 1 April 1997, I recounted the mixed blessings of being appointed the chairman of an organisation that was doing relatively well. My good fortune was the result of a combination of circumstances, mostly due to good direction and management by Eskom's previous leadership. Among the salient circumstances were:

- Unlike other major institutions, Eskom had the foresight to undertake transformation of its top and middle management echelons on a proactive basis, and the incoming chairman, unlike at other institutions, did not have to induce and manage the discontinuities that come from transforming the management.
- Unlike other major institutions, Eskom did not suffer a crisis of legitimacy from real or perceived lack of delivery. If anything, Eskom had set the pace in terms of RDP delivery and had the most clear-sighted vision of all the major institutions.
- Unlike other major institutions, Eskom experienced neither confusion nor soul-searching about its role, its mandate or its focus. While debate was yet to be entered into about sharpening Eskom's focus, there were no questions about what our core business was.
- Unlike other major institutions, Eskom had managed to define both the direction and the pace of the industry. While serious discussions regarding the Sector had yet to

be entered into, there was no doubt that Eskom had retained the agenda in the energy and specifically the electric energy debate.

- Unlike other major institutions, Eskom suffered little to no question about the performance effectiveness and efficiency of staff and management. If anything, Eskom's relentless drive to reduce the total cost of delivery to consumers while increasing the scope and quality of delivery was a worthy case study for South African business.

- Unlike other major institutions, Eskom had embraced the process of structured consultation and input from unions. On issues related to the normal running of the organisation, Eskom had achieved a level of harmony and consensual outlook that was the envy of other major state corporations.

- Unlike other major institutions, Eskom did not operate under a regime of crippling debt or unsustainable subsidies from government.

In short, Eskom was a well-run company at the time of my appointment. The mixed blessings of an incoming chairman did therefore not include the simple role of playing Messiah to a troubled company. The truth is, it would not be easy to take a well-run company to new levels of achievement. This was my wonderful misfortune. After a short period of reflection, however, I came to the conclusion that the challenges Eskom would face in the future were far bigger than those we had already tackled.

Since 1997, several milestones have served as important markers during my eight years.

First, 1998 saw the celebration of Eskom's Diamond Jubilee: the organisation's 75 years of existence. The diamond jubilee was not only an opportunity to observe a milestone, but also one for reflection as well as projecting into the future the demands

of leadership, innovation and excellent performance.

The turn of the century, with its alluring possibilities of renewed focus and ever-increasing industriousness did not go unnoticed in our midst.
In 2003 Eskom celebrated 80 years of existence. That milestone was of critical importance for it marked the progression of Eskom from a fledgling utility in 1923, through eight decades of constant innovation, change and growth. It also highlighted an important aspect of the bigger South African story, showing how electricity had initially been a form of energy that was confined to a limited number of South Africans. Today, Eskom supplies 95% of the country's electricity and has accelerated towards the goal of universal access to energy, with people in rural villages benefiting from Eskom's services. The utility generates more than half of the electricity on the African continent and is at the forefront of new innovations aimed at spreading continental access to electricity as a tool for development and a catalyst for growth.

Naturally, the 2004 celebrations of 10 years of democracy were of great significance. Ten years earlier South Africa had been a country in isolation from the global community, an insignificant player in the global economy and excluded from multilateral institutions. In addition, South Africa had a government intent on being exclusionist, a polarised society, internal conflict, a global resistance struggle and an ailing economy.

The political miracle of 1994 led to the first democratic elections and the thrust towards reconstruction and development. Ten years later, the country has a new political order, peace, rapid economic growth and impressive gains in areas under government control such as fiscal, monetary, trade and industrial policy. South Africa today boasts the highest level of macroeconomic stability in 40 years. There has also been great progress in addressing poverty and inequality.

It was against this backdrop that Eskom was able to experience the phenomenal growth that has characterised its operations over the past 11 years, dating back to the first democratic elections in South Africa. Eskom has engaged in a process of repositioning the organisation, shifting national priorities to place more emphasis on a developmental mandate and electrifying the country while pursuing excellent financial performance and paying dividends and taxes. The overall effect has been improved national economic conditions and new vistas in the form of broadening access to external markets for Eskom.

International recognition

One of the most heart-warming elements of the past eight years has been to see Eskom earn wide recognition for its achievements. Of great significance was being voted the best in corporate governance in 1997. This recognition is even more noteworthy when one considers that we were voted the best in a field featuring all the major business institutions in the country.

In 2001 Eskom won the Financial Times Global Energy Award for Power Company of the Year at the awards ceremony in New York. The award was presented in recognition of Eskom's success in "providing the world's lowest-cost electricity while at the same time making superior technological innovations, increasing transmission system reliability and developing economical, efficient and safe methods for combustion of low-grade coal". This is an exceptional achievement and bears testimony to the fact that Eskom has broken new ground in its field. It is the only state-owned enterprise from a developing country that is ranked as one of the largest power companies in the world.

In 2004 the Markinor Sunday Times Top Brands survey, an annual assessment in which the brand reputation of

companies is independently measured, voted Eskom as South Africa's most admired brand. Also in 2004, Eskom won the Grand Prix award for the company that has done the most to uplift the lives of South Africans.

A Progressive Eskom

On the basis of the mandate outlined by the government, Eskom has a set of objectives to meet. The most important of these is the demand to deliver significant socio-economic development and a healthy bottom line, side by side with comprehensive upliftment of all South Africans.

Eskom's vision of being 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, which proclaims:
Eskom will be the pre-eminent African energy and related services business of global stature.

It was within this framework that I joined Eskom as chairman. In pursuit of the fulfilment of our mandate, we set out to achieve goals that would provide new benchmarking levels for the organisation. They are outlined below:

- The best in the development and use of technology
- The best in understanding and meeting market needs
- The best and most formidable competitor
- The best financial risk in the eyes of the markets
- The best contributor to our shareholder
- The best corporate governance of any South African company
- The best company to work for
- The BEST company.

Management of change

One of the resonant issues throughout my tenure has been the process of change. Change management was carried out against the background of a country that was going through a dramatic national transformation.

The organisation's post-1994 business model focused on leveraging our strength, ensuring sustained performance and positioning Eskom as the lowest-cost energy operator globally. In addition, we set out to ensure viable power supply for the country's needs, maintain our record of excellence and grow our culture of innovation. Good corporate governance, a shareholder compact approved by our line Government Ministry and implemented in the most efficient and productive manner, would underpin this model. Structures such as the PFMA, internal controls and effective governance mechanisms were also key features of the model. The measuring mechanism for performance levels was economic growth, a sustainable environment and our contribution to socio-economic development.

Eskom, together with the government, labour and other stakeholders entered into discussions on the restructuring of the energy industry. The restructuring that followed opened a window to the processes of deregulation and competition, at the very least in the generation and the distribution aspects of the business.

Transformation for growth

Transformation has come to be a keyword throughout the organisation as Eskom strove to fall in line with new societal imperatives, new economic realities and new leadership challenges.

There was great urgency surrounding the process of transforming Eskom from a statutory entity that existed in terms of a special Act of Parliament into a state-owned enterprise incorporated in terms of South African

company law, premised in contractual requirements that provide for specific performance targets to be met. The targets included the universal service obligations to ensure that government's social and developmental goals are achieved parallel to the pursuit of excellent performance. In 2002, with the new democratic government firmly in charge, Eskom was converted into a company in terms of the Eskom Conversion Act No 13 of 2001. A single board, in line with current practices of good corporate governance, replaced its two-tier governance model.

Thus, corporatisation became one of the pillars of the transformation process in Eskom. At one level, corporatisation played a key role in ensuring that Eskom met the requirements of a tax and dividend regime that had been put in place.

Of greater importance, however, was the effect that corporatisation was to have on the organisation in creating a firmament of ethics and business discipline.

Black Economic Empowerment is another area where Eskom has gone through major shifts in focus and application. When I took over as chairman of Eskom in 1997, the amount of business outsourced to empowerment suppliers totalled R201 million a year. During the past 15 months, business outsourced to empowerment suppliers amounted to more than R10 billion. One of the most remarkable developments in this regard has been the sourcing of coal supplies from an empowerment company – Eyesizwe. As a national utility and a significant international player, our involvement in Black Economic Empowerment has helped us establish a new trajectory in forging relationships that lead to partners who stand apart as best of breed models.

The enrichment of Eskom's human capital was another critical issue. More than the combined physical assets and the technology, Eskom's people have built the organisation. One of the greater challenges in this regard was gaining the ability to discard the industrial mind-set and to operate in the information age. This required a great deal of investment in creating knowledge workers. The investment did not only vest in training but in changing our systems and processes, our values, our evaluation and reward systems. The challenge was to make Eskom the best company to work for. This challenge had to be met in the context of full commitment to employment diversity and employment equity, in particular.

Employment equity

Several key lessons came to the fore during this process. One of these is the importance of creating a culture of learning as a process of maximising training and ensuring that people are able to settle into their working environments. Eskom has always placed a high priority on education and training. By maintaining the flow of graduates into the organisation, Eskom has continually had a generation of people who have kept the organisation at the forefront of innovation. It is also very important to ensure that the environment puts much emphasis on

support, as people in a new manager's environment can have a major influence over whether such a manager fails or succeeds.

Another critical lesson is the importance of managing transformation in such a way that it runs apace with the essential imperatives of an organisation that is effective and productive.

Empowerment of women

When I started my tenure as chairman, women made up only 5% of Eskom's management cadre. During the 15 months under review, the figure reached the 29% mark – a clear indicator that the advancement of women within the organisation has been another pillar of our transformation programme. Much emphasis has been placed on transforming Eskom from a male-dominated company into a representative corporate organisation that every employee is proud to work for. To create an acceptable balance, measures were put in place to ensure the empowerment of women within the organisation. One of these was the Chief Executive's Women Graduates Programme, whereby women employees were given support to pursue additional qualifications. The rationale was that if a woman has a junior degree, she might not have the confidence and the knowledge to advance in her career. Those who completed the programme were imbued with technical, business and social skills that equipped them for leadership roles in the company.

At the heart of the transformation process was a commitment by Eskom and the South African government to superlative performance. This encompasses economic, financial and operational excellence, social and environmental responsibility and good governance as the cornerstones of business excellence and ongoing sustainability.

Revised business model

The nature and size of Eskom's customer base is changing rapidly. It is becoming larger and more diversified. This brings with it significant new challenges in managing this relationship: to understand the customers' needs, to deliver to the customer the product in the desired form, appropriate quality and at the right time and collect our dues when we have delivered the service – these are critical factors that determine our growth.

Since the turn of the century, there has been a process of acceleration and enhancement of Eskom's overall thrust. A significant part of this is attributable to a shift in policy. In the past the government entertained the possibility of employing privatisation of state-owned enterprises as a way of attracting investment and heightening efficiency. There has been a shift from this position to that of seeing Eskom and other state-owned enterprises as key locomotives for growth, redistribution and global expansion. Eskom, in this context, is behoved to continue on its path as a catalyst for economic and social change. Eskom is well prepared to fulfil these requirements and continues to improve its efficiencies.

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 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.

Governance

Corporate governance plays a major role in ensuring that state-owned enterprises, in the same manner as privately owned enterprises, benefit from functions of leadership, risk management, control, transparency and accountability. For this reason I co-wrote, in association with Mohammed Adam, Eskom's Company Secretary, a book entitled The Power of Governance.

The book opens a window into Eskom's experiences in developing good governance guidelines, principles and values, and tells the story of how we charted our path in that direction. It sets out the issues and challenges in relation to corporate governance in state-owned enterprises.

At its simplest, corporate governance is the system by which organisations are controlled and directed. In the Eskom context, the application of corporate governance is underpinned by an approach to business that is socially responsible, sustainable into the future and that strives to minimise negative impact on the environment and society. It is also important that an organisation takes into account the needs of stakeholders, as well as society at large, in achieving a viable performing business.

The Power of Governance is a direct offshoot of the concerted effort to bring to reality the vision and positioning of Eskom as a pre-eminent African energy and related services business of global stature. By having a benchmark of standards against which we can measure ourselves, we are in a position to be constantly aware of what we need to achieve as an enterprise that is accountable to a nation. Using such benchmarking standards, we introduced a business approach to ensure a continued focus on efficiency and the bottom line.

Our experience at Eskom has shown that part of the nexus for good corporate governance is transparency and accountability. Our board has established a high degree of transparency and accountability, creating a firm premise for the shareholder to evaluate and monitor performance. As an organisation, we established measurement systems, in partnership with the government, accompanied by targets and benchmarking mechanisms.

Closer ties with the rest of Africa

The continental challenge of which Eskom became part over the past 11 years has granted the utility useful opportunities to become a member of the African business community and contribute towards strengthening efficiencies, increasing capacity and facilitating the pooling of resources. In 1997, Eskom was represented in a total of seven countries. All these were in the SADC region. At the height of our involvement in the rest of the continent we were represented in over 30 African countries. It has to be said that we have since reduced our involvement in favour of a policy of consolidation in fewer countries.

Our involvement in the development or operational activities of energy utilities in other African countries called for a significant shift in our approach. Historically, South African state-owned enterprises had adopted the condescending position of organisations that went abroad to offer solutions. Our new thrust has been towards the development of partnerships with other utilities and their governments, in the understanding that we have common continental and developmental goals. This approach has led to a very high degree of acceptance and collaborative activity.

In its thrust towards closer co-operation with other utilities on the continent, Eskom has taken a Sectoral approach to ensure focused development, a shared vision and effective usage of resources.

We are committed to playing our role in ensuring that Africa succeeds as a continent.

We have learned signal lessons on regional co-operation from such projects as Motraco, the co-operative project by South Africa, Swaziland and Mozambique to supply essential electricity to the now highly successful Mozambique Aluminium Smelter (Mozal). A similar but larger scale long value chain project is now in progress – the Western Power Corridor Project involving the DRC (Democratic Republic of the Congo), Angola, Namibia, Botswana and South Africa. The successes of such projects can be replicated in other regions throughout the continent.

Africa must nurture leaders

For centuries the continent has been force-fed foreign concepts and ideas – under the guise of modernisation. However, these foreign ideas and concepts failed to dislodge Africa's indigenous concepts and ideas. Africa reacts differently today from the way she did in the past, with the result that the process of borrowing has undergone an adaptation, through environment and circumstance. Achievement and failure can both be traced to the same

complex and endlessly interesting source: the interplay of people and their environment.
It is, therefore, within Africa's capacity to fashion the right solutions to its prevailing developmental problems.

The challenge of African Business Leadership

It is common to speak about "Western" or "Japanese" leadership styles. In essence, this is an association of leadership qualities with a particular region or culture. In the course of many years in business and management consulting, I found a dichotomy between the leadership style companies valued and the values of Africans entering such companies. In African communities and families, leadership is underpinned by a value system based on interdependence and inclusivity. The challenge lies in adapting African values and leadership qualities to the demands of business leadership in a fashion that will equip African leaders with a style of leadership made in their own image and fashioned after their own value systems.

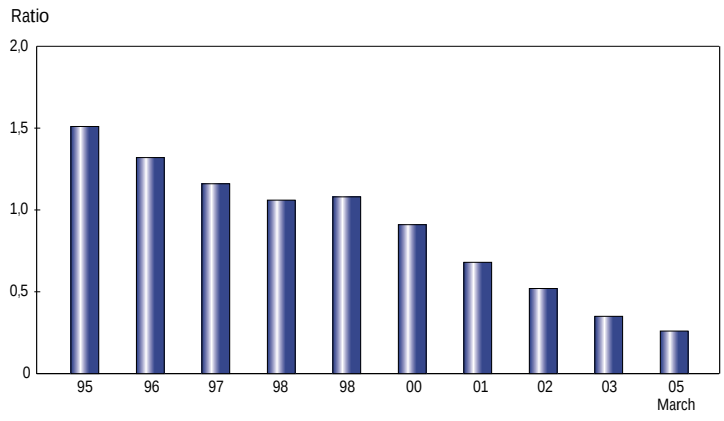
Positioning Eskom for growth

It has become increasingly clear to me that the conventional Western leadership approach does not unleash the inherent potential of businesses to expand in transitional society, to contribute to reconstruction and development challenges, and to strive towards world-class stature.

With regard to governance in state-owned enterprises, what is required is a fundamental shift of emphasis from an analysis of the system of production to a concern with the system of innovation. Innovation is not only about producing, it is about transforming. Innovation basically consists in creating something new, and therefore obviously involves learning. However, the creation of something new is more complex. Ironically, creation is linked with destruction. Inherent in making something new is the destruction or removal of what was there before.

Innovation and effective leadership walk in tandem on the road to good corporate governance. Good corporate governance can only yield results through

Eskom debt: equity, including long-term provisions



effective leadership. An organisation depends on its board to provide it with direction, and the directors need to understand what their leadership role entails.

Furthermore, a great deal depends on the appropriate demarcation of the respective roles of the shareholder, the board and management. Eskom's positioning as a company has increasingly amplified the need for excellent performance. With this in mind, Eskom subjects itself to regular credit rating processes. Both Standard and Poors and Moodys visit Eskom annually to assess its credit rating. The rating agencies ask specific questions about the nature of Eskom's relationship with its shareholder and about the respective roles of the board and government. They always scrutinise Eskom's mandate and objectives, as well as the process of setting targets for the business.

The rating agencies also take note of the entire decision-making process that operates at Eskom, including the delegation of authority from the board, reservation of power, internal controls and risk management. During 2001, we were informed that Eskom had achieved a rating above the Sovereign.

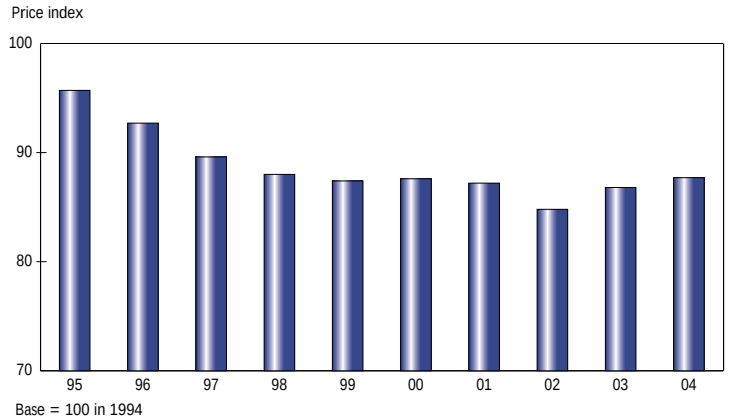
Financial achievement

Eskom is enjoying its best financial position in its 80 years of existence. Like our technical and environmental performance, our financial position has contributed to the healthy upliftment of our organisation.

The group's financial performance was exceptionally good and continued to consolidate the financial strength of the organisation. The balance sheet as at 31 March 2005 reflects a debt/equity ratio of 0,18 (2003 – 0,30), making Eskom virtually debt free. This puts Eskom in a strong position to commence its capital expansion programme, expected to be in the region of R93 billion over the next five years.

Revenue for the 15-month period was R43,0 billion (2003 – R33,0 billion), and net profit after tax was R5,2 billion (2003 – R3,4 billion); this in spite of adopting a conservative accounting

Electricity tariff increase deflated by average consumer price index



approach to the telecommunication investment.

Corporate social investment achievements

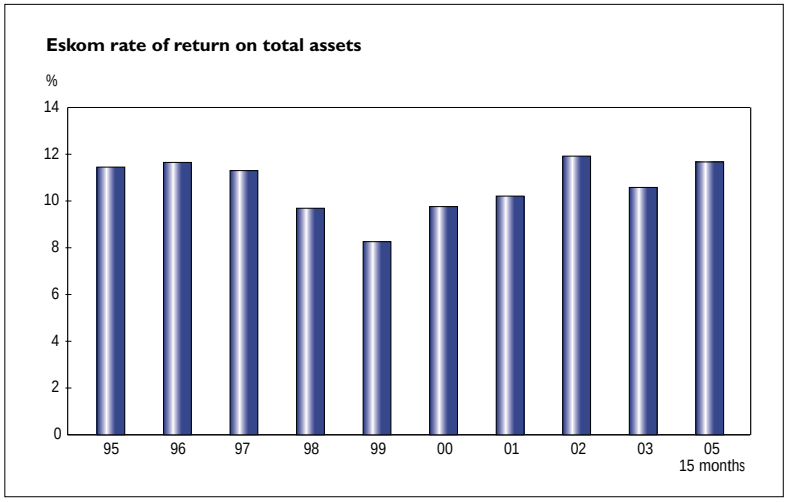
As we face the wave of rapid globalisation of resources, it is all too easy to ignore the welfare and wellbeing of people. Whichever approach we take towards globalisation, it is obvious that the welfare of people, companies and the environment will continue to be interlinked. We cannot therefore ignore the obvious fact that sustainability can only be achieved when we give equal consideration to our social, economic and environmental goals.

Eskom takes its corporate social responsibility seriously. In the past several years as well as in the period under review, we have created sustainable projects in the communities in which we operate. Our corporate investment programmes draw a budget of over R160 million per year and focus on social and economic development. Thinking and acting in the interest of our broader socio-economic environment is not a choice. It is a commitment. A commitment based on the belief that our businesses will only achieve sustainability through partnership with all its stakeholders.

Acknowledgements

I would like to convey my sincere gratitude to the Minister of Public Enterprises, Mr Alec Erwin, and the Minister of Minerals and Energy, Ms Phumzile Mlambo-Ngcuka, and also the former Minister of Public Enterprises, Mr Jeff Radebe.

I have been highly privileged to work with the Eskom board, which I had the honour to chair. The board has made a deep impression on me as a living example of governance at work. During our board sessions, issues were examined thoroughly and in a manner that sought absolute transparency and accountability. This devotion to principled governance has made an enormous contribution



towards the creation of a transformed and progressive Eskom.

A very special word of gratitude to the Chief Executive, Thulani S. Gcabashe. My relationship with the Chief Executive has never been less than optimal. We have enjoyed a common vision of Eskom's future and worked together towards turning the vision into reality.

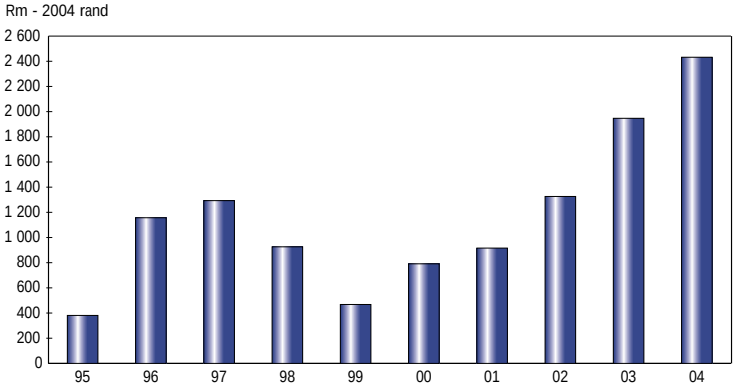
It is important that I express my gratitude to the members of the executive committee, drawn from the managing directors of the various divisions. I have been greatly enriched by my association with them. The fact that our performance as an organisation showed constant improvement was largely due to the collaborative relationship that existed between me, the Chief Executive and these senior managers.

During my tenure at Eskom, I have been rewarded by my association with a large number of people who are experts in their field. While I have no expertise in such fields as the treasury, finance and technical operations, I have been able to achieve the requisite goals in these areas with the support of people who, through industrious co-operation, created a platform for productive delegation of responsibility.

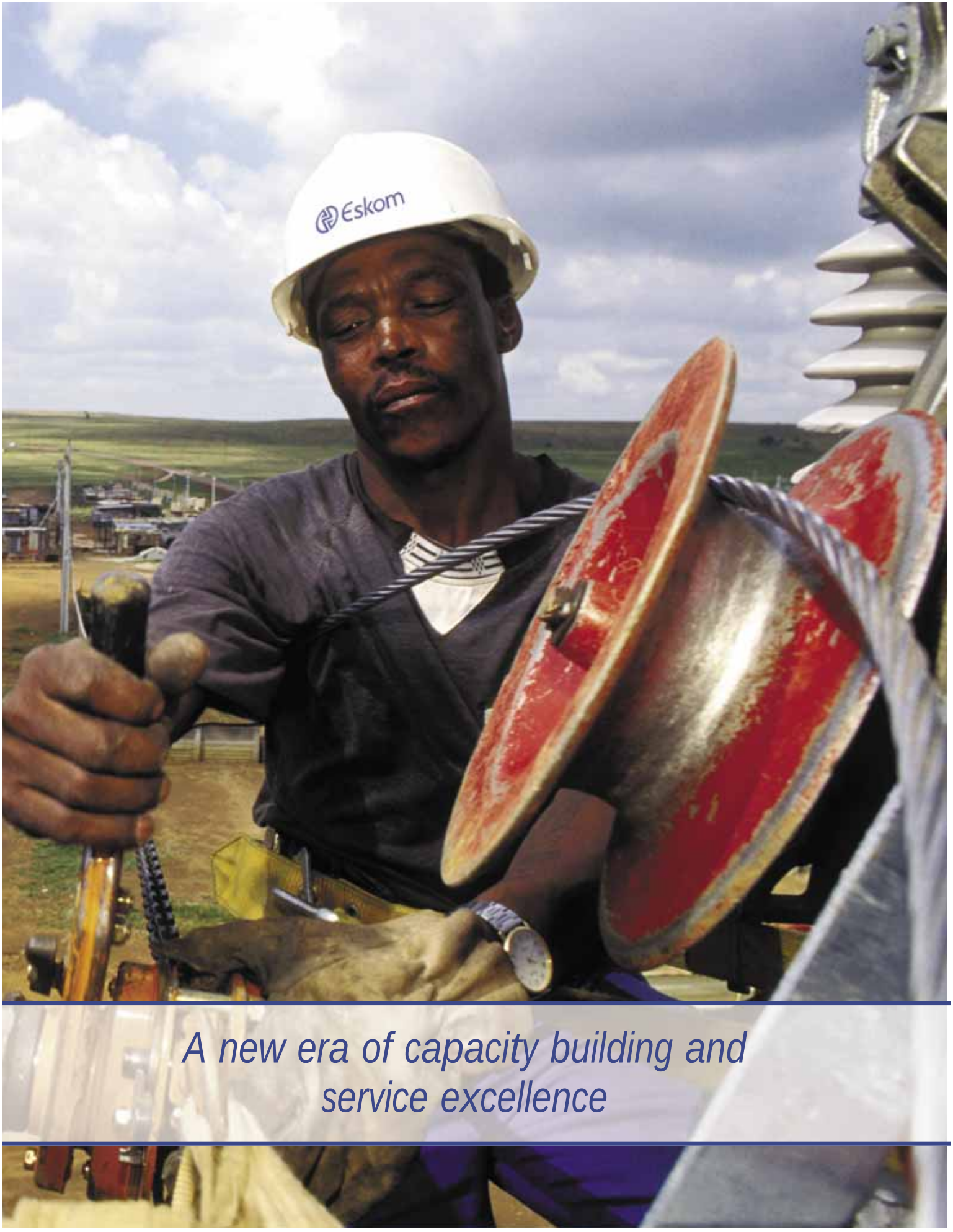
My gratitude is extended to the entire organisation which chose to be aligned to Eskom's strategic intent, and to apply itself with diligence and dedication.

Reuel J Khoza
Chairman

Eskom productivity improvement for all resources



The sum of the cumulative annual productivity savings over the ten-year period amounted to R11 637 million.



A new era of capacity building and service excellence

Thulani S. Gcabashe

Eskom's visionary leadership through the years has given us the confidence that we can meet the energy needs of South Africa now and into the future. Our achievements in the period under review have been underpinned by excellent performance at all levels of our business. Our strategies and programmes have continued to deliver superior results as we work to respond to the growing energy needs of our country. We are building a firm foundation for economic growth and development. And given our success in the past, we are confident that Eskom will be able to play a significant role towards enabling the country meet its infrastructure investment obligations.

Performance overview

For the 5th successive year, we have delivered outstanding performance at all the critical levels, due to the sterling work of all 31 475 members of the Eskom community.

Eskom's financial position has strengthened significantly. Our performance for the period under review exceeded target. Driven by improved sales growth, our operating profit is higher. During 2004 we achieved a growth of 5.1% in sales – a level last seen in the 1990s – off a base of 4.8% in 2003. It is unlikely that we will see growth of a similar magnitude in the new financial year as commodity prices, which are partly responsible for the impressive growth, are levelling off and there are no major new projects in the pipeline. However, the underlying organic growth is still in the region of 2.3%, and we expect this to continue going forward.

The superb operating performance was attained while managing an ageing generation and transmission system, and simultaneously implementing an enormous capacity expansion programme.

Eskom's capacity expansion programme will require an investment of approximately R15 billion per annum for the next five years. Most of this will be funded from operational cash flows, commercial instruments like bonds and export credit agreements. A key part of the funding strategy is to maintain our current credit rating – important for sustaining easy and favourable access to global capital markets.

Our current focus on implementing our capacity-building programme will continue in tandem with government-directed restructuring of the distribution sector.

While our immediate and current focus is on South Africa, we remain committed to helping to meet the regional and continental energy needs in accordance with the strategy of the South African Government and the aspirations of NEPAD and the African Union. This is critical for the continent's long-term economic growth, development and prosperity. Energy capacity and infrastructure roll-out is a crucial challenge facing African business and political leaders.

Revised business model

In June 2004 the Minister of Public Enterprises initiated a new focus for state-owned enterprises (SOEs) in response to President Thabo Mbeki's call, during the State of the Union Address, for an investment-led strategy with SOEs playing a key role in economic development.

The new strategy aims at achieving higher levels of investment, better overall system efficiency for the economy, improved technological capacity, improved management of public assets, enhanced human resource capacity, sustainable non-recourse financing options and better customer service.

Eskom's revised business model was developed to ensure that the organisation would remain robust and be ready to meet current and future challenges. Another important feature of the revised business model is that Eskom retains its competitive edge and is well positioned to capitalise on unfolding opportunities in South Africa, the SADC region, and ultimately the rest of Africa.

The revised business model reflects the boards and management's decision to focus on our core electricity business – generating, transporting, trading and retailing. Meeting these key objectives will ensure that Eskom retains the organisational and operational strength to build new capacity.

Enterprises Division

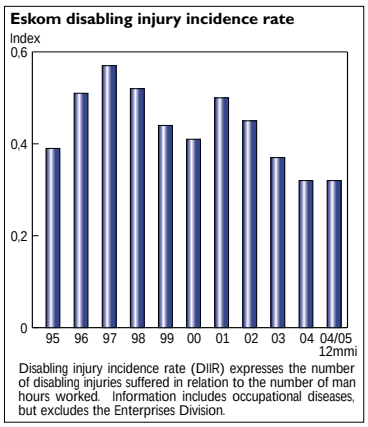
As a direct result of the revised business model, we reviewed the strategic fit of our line divisions and subsidiaries. Eskom Enterprises was transformed into Enterprises Division and given a new revised mandate to project manage and build the new capacity. This has freed and enabled line divisions to concentrate on the day-to-day business of managing the generation, transporting, trading and retailing of electricity. Line divisions become the new clients of the Enterprises Division, while each division retains a unique strategic capability not duplicated elsewhere, with the Executive Committee integrating the functions at the highest level.

To further enhance our focus on the core business, several non-core assets will be disposed of in the new financial year.

HIV/AIDS

The results of a company-wide Eskom HIV/AIDS survey undertaken in 2003 indicate that the incidence of infections within the organisation has stabilised. Over time, we have developed a good understanding of prevalence rates among the different age groups, in different geographic locations and in different business divisions. Through improved quality of data collection, we have been able to measure the effectiveness of our educational intervention programmes. Voluntary testing and counselling remain our primary tools in the fight against the pandemic.

Eskom's revised business model was developed to ensure that the organisation would remain robust and be ready to meet current and future challenges.



Disabling injury incidence rate (DIIR) expresses the number of disabling injuries suffered in relation to the number of man hours worked. Information includes occupational diseases, but excludes the Enterprises Division.

Health and safety

After a worrying spate of accidents in the workplace resulting in an unacceptable number of employee and contractor fatalities, Eskom is redoubling its efforts in the occupational health and safety arena. Much work has gone into implementing preventative interventions. We are nevertheless conscious of the fact that the rapid growth of the business and the attendant pressures require an even greater focus on health and safety. A key response to the challenge is one of "back to basics". Our ongoing health and safety programmes will focus on awareness, training and the enforcement of safety measures.

The environment

As a signatory of the United National Global Compact, Eskom supports and upholds the 10 principles of the compact in the areas of human rights, labour standards, the environment, and anticorruption, extortion and bribery. Our commitment is largely demonstrated through our sustainability strategy. As part of this strategy, the Eskom sustainability performance index was finalised and our renewable energy and climate change strategies were developed.

Amid the challenges of meeting the ever-increasing demand for electricity, Eskom's environmental performance has been good. In spite of the increase in coal burned, our relative particulate emissions target was achieved and we performed better than the previous year. This was primarily due to the retrofitting of two units at Hendrina and Arnot Power Stations with fabric filter bags, and the optimisation of a sulphur trioxide flue gas conditioning plant at Lethabo Power Station.

Despite higher electricity demand our specific water consumption at our power stations in litres per kWh sent out, achieved an improvement when compared with the previous reporting period. This was mainly the result of continual improvements in water management practices. However, water supply remains an area of risk.

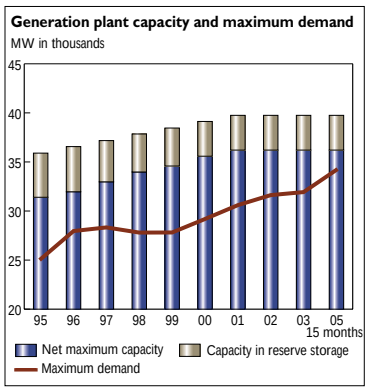
Partnerships in Africa

Eskom's newly defined mandate means that our focus on the continent will be confined to electricity. We will focus on the SADC region as a first priority, and then look at the rest of the continent. Eskom is excited about the potential for developing hydropower plants in the region, most notably the Inga project in the Democratic Republic of the Congo and projects along the Zambezi Valley in Mozambique, where we are about to sign inter-utility memorandum of understanding between Eskom and EDM, the Mozambican electricity utility.

Our second priority in Africa is to continue our work in countries where we already have operations, with any new projects being assessed strictly on a commercial basis. In addition to being a member of the Southern African Power Pool, Eskom is an active participant in the Union of Producers, Transmitters and Distributors of Electric Power in Africa (UPDEA), a non-governmental association of African power utilities that promotes cooperation among and the exchange of expertise between members. Our commitment to UPDEA is essential in helping to build momentum for change in Africa's energy sector.

NEPAD objectives

Our Pan-African grid vision is guiding the plans for many of the NEPAD power projects and as such is providing motivation for Eskom's involvement in the development and implementation of the southern African regional power-sharing initiatives. Eskom's NEPAD office will stay focused on supporting NEPAD efforts aimed at



building Africa's power infrastructure. Eskom has established a dedicated NEPAD team with a mission to facilitate the leveraging of Eskom's resources to promote, develop and implement NEPAD's related projects in the power sector.

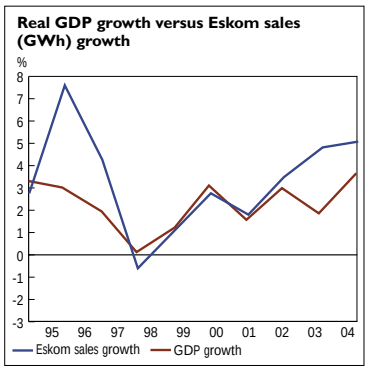
Social investment

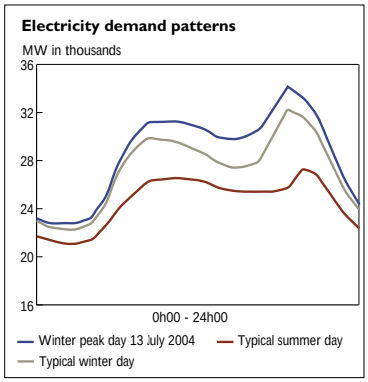
As a key player in the South African economy, Eskom actively pursues national projects – independently and with partners – to find solutions to the endemic challenges of poverty and underdevelopment. Through the Eskom Development Foundation, we engage in projects geared towards eradicating poverty and other social ills. During the last 15 months the Development Foundation has invested R157 million in programmes, particularly focusing on the assistance of women, the youth and people with disabilities.

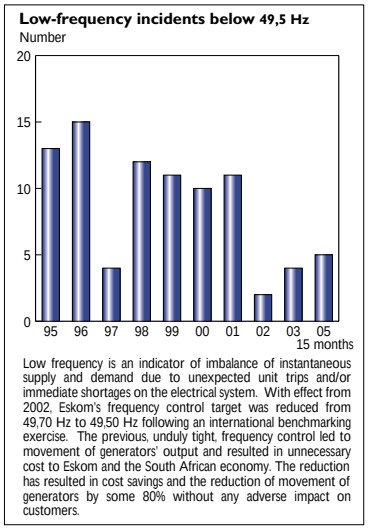
It is heartening that 70% of the Development Foundation projects – according to recent independent research – have been able to maintain or increase employment.

Building capacity

Much has been said and written recently about Eskom's ability to meet future capacity needs. When we refer to capacity, we are concerned about generation capacity – in other words, our ability to generate enough electricity to meet demand. In meeting this demand, we look first at the likely shortfalls which, in the short term, will be in peaking capacity. However, it is important to emphasise that existing







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 benchmarking 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.

assets will continue to perform at optimum levels. This is fundamental. We have demonstrated our ability to perform satisfactorily and will continue to do so.

Our initial projects will be aimed at increasing peaking capacity. In 2007 Eskom will commission two open-cycle gas turbine power stations with a total capacity of 1 000 MW to meet peaking demand. By 2008, we envisage that independent power providers (IPPs) will operate another 1 000 MW. Our existing stations will continue to generate power for both peak and base-load demand. Environmental impact assessments are in progress to ensure informed decision making around these and other capacity expansion projects.

Equally critical to our ability to provide for the growing energy needs in a sustained manner is the introduction of a comprehensive demand side management programme. This programme has been successful in reducing morning and evening peaks. It has saved some 197 MW in capacity in the last year – a demand equivalent to a town the size of Richards Bay or Roodepoort.

Eskom is returning to service three power stations that were mothballed 15 years ago. These will contribute 3 600 MW between 2005 and 2011. Once we have dealt with the immediate need for new peaking capacity, and returned mothballed capacity to service, we will look at brownfield expansion capacity through adding units to existing power stations, as well as alternatives such as combined-cycle gas turbines. We are also well on track to commission our next pumped storage plant in 2011.

Transmission capacity is also being addressed. The Cape area is experiencing considerable economic growth, but the generation plants are a long distance away, necessitating strengthening of the transmission corridor. In addition the country's Northern Corridor, which serves the platinum basin where a lot of mining expansion is taking place, is being reinforced.

Employment creation and new skills

Eskom is aware of the magnitude of interventions needed to manage the transformation process properly. Two things are already happening – firstly, we are accelerating the internal development of skills within the organisation; and secondly, we are looking for partners, both locally and internationally, to complement our skills and capacity needs.

Internally, Eskom's Human Resources Division is assessing the level of project management and engineering skills in the organisation, and drawing available resources into our capital expansion department. A critical outcome is that these initiatives will incubate a robust future project management training programme that will produce highly skilled and knowledgeable staff members able to successfully meet Eskom's growing technical human resources requirements.

This means that Eskom's expansion programme will provide significant opportunities for career development for existing and prospective employees. We are looking to sustain this programme for at least 10 years. The management of these resources will be critical in developing a skills pool of engineers, designers, project managers and planners, which will stand us in good stead well into the future.

The benefits of this expansion programme for South Africa will be immense. Research analysts Econometrix estimate that by recommissioning the three Simunye (mothballed) stations, up to 36 000

direct and indirect jobs will be created, which is predicted to later stabilise at 25 000 jobs.

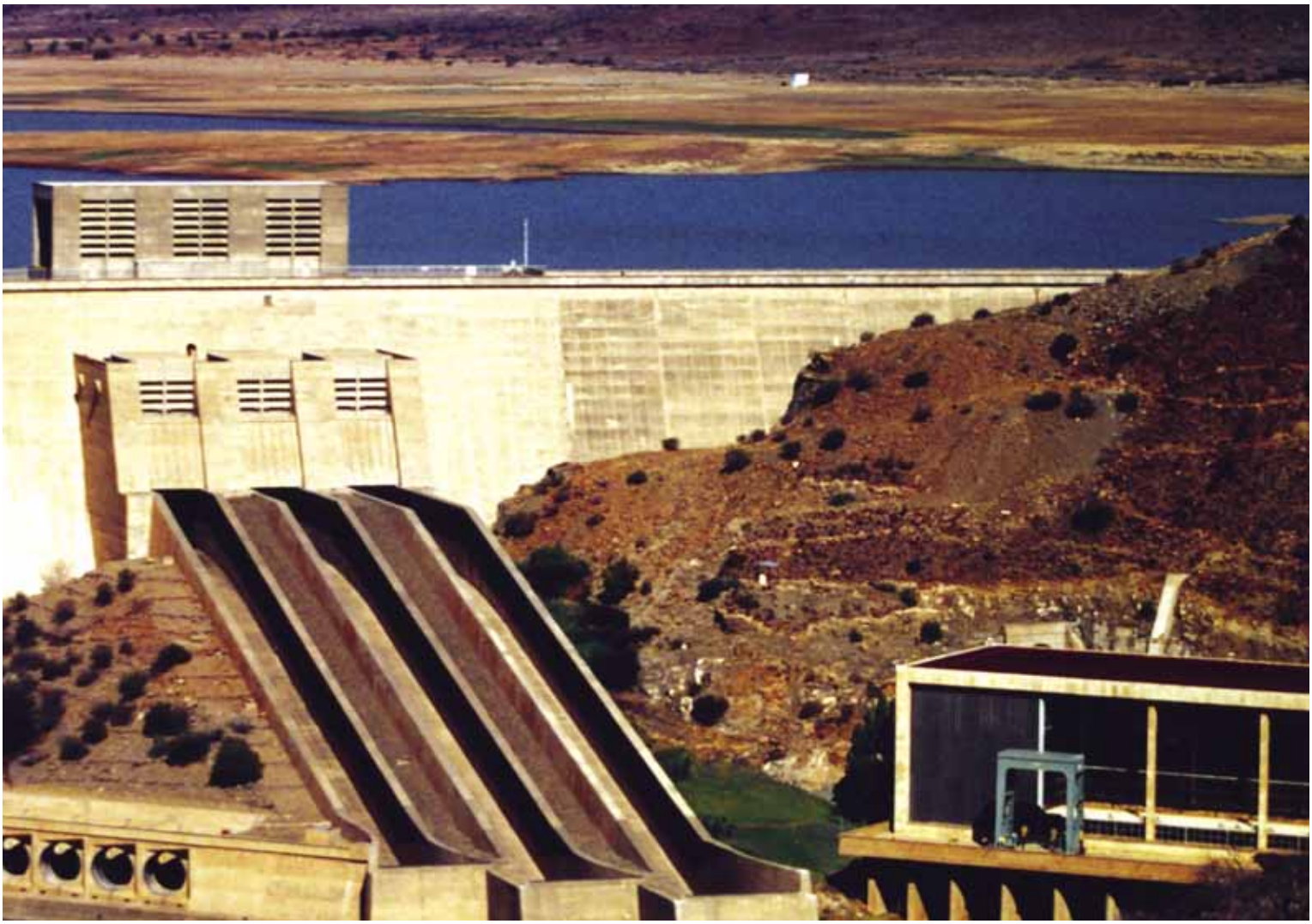
The future

This new era of capacity building and service excellence in Eskom brings with it not only great challenges but also great opportunities. One of the challenges for Eskom is primarily that of aligning its objectives and resources to successfully meet the energy needs of the future. An obvious opportunity is that of being a catalyst for the growth of South Africa's economy and, to a lesser extent, for that of the region. We in Eskom are proud of our ability to develop and manage the entire extended electricity value chain so as to deliver the best possible service while utilising our scarce resources optimally. We are confident that Eskom will continue to meet the energy needs both now and in the future.

Acknowledgments

The success of any organisation depends on the contribution of each and every stakeholder. Eskom has grown in size and stature, essentially because of the efforts of its people. We are grateful to all who make our success possible.

In the 15 months under review we have witnessed the constant commitment of Minister of Public Enterprises (of our

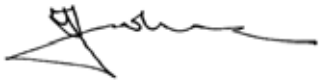


shareholder ministry), Mr Alec Erwin as well as his predecessor Mr Jeff Radebe. We also acknowledge the tireless work of the Minister of Minerals and Energy, Ms Phumzile Mlambo-Ngcuka, our policy minister. Under their guidance, Eskom has been given new impetus to pursue its delivery objectives. We thank them for this input. We would also like to acknowledge the National Electricity Regulator for its continued healthy and constructive interaction with Eskom.

Reuel Khoza, our chairman, has served Eskom in various capacities for the past eight years. Sadly, his term of office expires at the end of June this year. I have cherished the privilege and opportunity of working with Mr Khoza. We thank him for the landmark contributions he has made in seeing Eskom through a significant period of change in South Africa. In particular, his leadership and wisdom during an era of transformation in Eskom will remain a unique achievement in the history of our company.

The management of change has challenged the board and management of Eskom in various ways. I am grateful to our board of directors for their commitment and direction. Our management team has continued to rise to these challenges through multidisciplinary and innovative performance. The excellent results in all aspects of our work are a clear reflection of the unrelenting commitment of the Executive Committee.

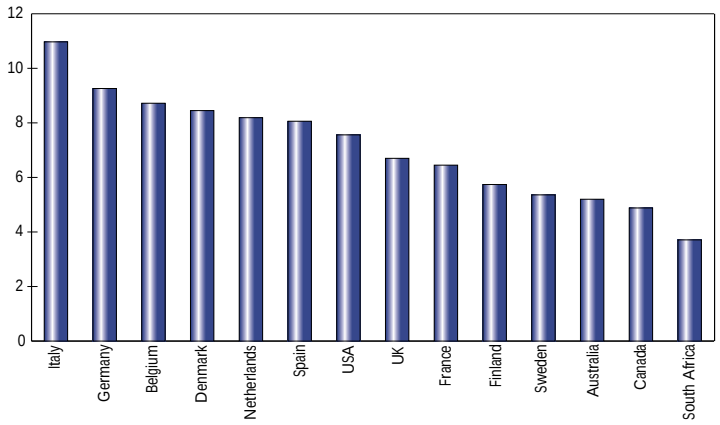
Eskom employees have continued to make the difference at all levels of our organisation. It would have been impossible to deliver first-rate performance year after year without the dedication of all 31 475 members of our team. They have played an indispensable part in ensuring that we remain a world-class organisation.



Thulani S Gcabashe
Chief Executive

World industrial electricity prices from a representative utility in each country

US cents per KWh



The survey is based on prices as of 1 April 2004 for the supply of 1 000 kW for an organisation with a monthly usage of 450 000 kWh. All prices are in US cents per kilowatt hour and exlude VAT. Where there is more than a single supplier, an unweighted average of available prices was used.

Source: Extract from *©2003-2004 NUS Consulting Group International Electricity Survey and Cost Comparison, April 2004*

For the 15-month period ended 31 March 2005

Contents

Currency of financial statements

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

The following are approximate values of R1,00 for selected currencies at:

	March 2005	December 2003
US dollar	**0,16**	0,15
Pound sterling	**0,09**	0,08
Euro	**0,12**	0,12
Swiss franc	**0,19**	0,19
Japanese yen	**17,16**	16,14

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 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 period in terms of generally accepted accounting practice.

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

The 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 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 March 2006 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.

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.

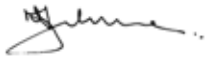
The directors are of the opinion, based on the information and explanations given by management and the Corporate Audit Department and discussions with the independent external auditors on the result of their audits, that the internal accounting controls are adequate to ensure that the financial records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

Nothing significant has come to the attention of the directors, to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the period under review.

In the opinion of the directors, based on the information available to date, the financial statements fairly present the financial position of Eskom and the Group at 31 March 2005 and the results of its operations and cash flow information for the 15-month period.

The financial statements of Eskom and the Group for the 15-month period ended 31 March 2005, set out on pages 64 to 184, have been approved by the Board of Directors and signed on its behalf on 9 June 2005 by

Reuel J Khoza
Chairman



Thulani S Gcabashe
Chief Executive

Report of the independent auditors to the Minister of Public Enterprises

We have audited the financial statements of Eskom Holdings Limited (Eskom) and the Group set out on pages 64 to 184 for the 15-month period ended 31 March 2005. The financial statements of Eskom 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 set out in the Directors' Report on pages 64 to 122 is the responsibility of Eskom's 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 period.

Scope of audit of financial information

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit was also planned and performed to obtain reasonable assurance that our duties in terms of sections 27 and 28 of the Public Audit Act, 25 of 2004, have been complied with. An audit includes:

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

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

Scope of assurance engagement on non-financial performance information

Work performed

Our opinion is based on a test of the reliability of the performance information by way of:

- conducting interviews and holding discussions with management, key personnel and/or stakeholders of Eskom and the Group and assessing data trends;
- obtaining an understanding of the systems used to generate, aggregate and report the performance information;
- conducting site visits on a sample basis to test systems and data and inspecting premises where necessary;
- assessing the completeness, accuracy, existence and validity of the performance information;
- reviewing and analysing collected information and effecting re-calculations where considered appropriate; and
- applying suitable criteria as relevant to the subject matter reported, where the criteria is based on Eskom's internal policies and procedures and Shareholder's Compact that is available from Eskom on request.

Basis of opinion on non-financial performance information

There are no generally accepted international environmental, social and economic reporting standards. This engagement was conducted in accordance with the International Standards for Assurance Engagements, "Assurance Engagements other than audits/reviews of historical information" (ISAE 3000). Therefore, we planned and carried out our work in order to obtain reasonable, rather than absolute, assurance on the reliability of the performance information as set out in the directors' report. We believe our work provides a reasonable basis for our opinion.

Considerations and limitations of non-financial performance information

Non-financial performance information is subject to more inherent limitations than financial data, given both their nature and the methods used for determining, calculating or estimating such data. We have not undertaken work to confirm that all relevant issues are included, nor have we carried out any work on data reported in respect of future projections and targets.

Audit opinion

In our opinion:

- the financial statements fairly present, in all material respects, the financial position of Eskom and the Group at 31 March 2005 and the results of their operations and cash flows for the 15-month period then ended, in accordance with International Financial Reporting Standards and South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act, 61 of 1973, as amended, in South Africa, the Public Finance Management Act, 1 of 1999, as amended, and the Public Audit Act, 25 of 2004;
- the performance information of Eskom 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 and the Group's performance for the period ended 31 March 2005 against predetermined objectives and is, where applicable, consistent with that of the preceding year; and
- the transactions of Eskom and the Group that had come to our attention during auditing were in all material respects in accordance with the mandatory functions of Eskom, as determined by law or otherwise.

PricewaterhouseCoopers Inc
Registered Accountants and Auditors
Chartered Accountants (SA)

SizweNtsaluba VSP Inc
Registered Accountants and Auditors
Chartered Accountants (SA)

Johannesburg
9 June 2005

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 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 effectiveness of the Corporate Audit Department.
- The activities of the Corporate Audit Department, 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 of 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 ensure that the financial records may be relied upon for preparing the financial statements, and accountability for assets and liabilities is maintained.

Nothing significant has come to the attention of the Audit Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the period under review.

The Audit Committee has evaluated the financial statements of Eskom Holdings Limited and the Group for the period ended 31 March 2005 and, based on the information provided to the Audit Committee, considers that they comply, 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, 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 financial statements is appropriate. The Audit Committee has therefore, at their meeting held on 8 June 2005, recommended the adoption of the financial statements by the Board of Directors.

JRD Modise
Chairman

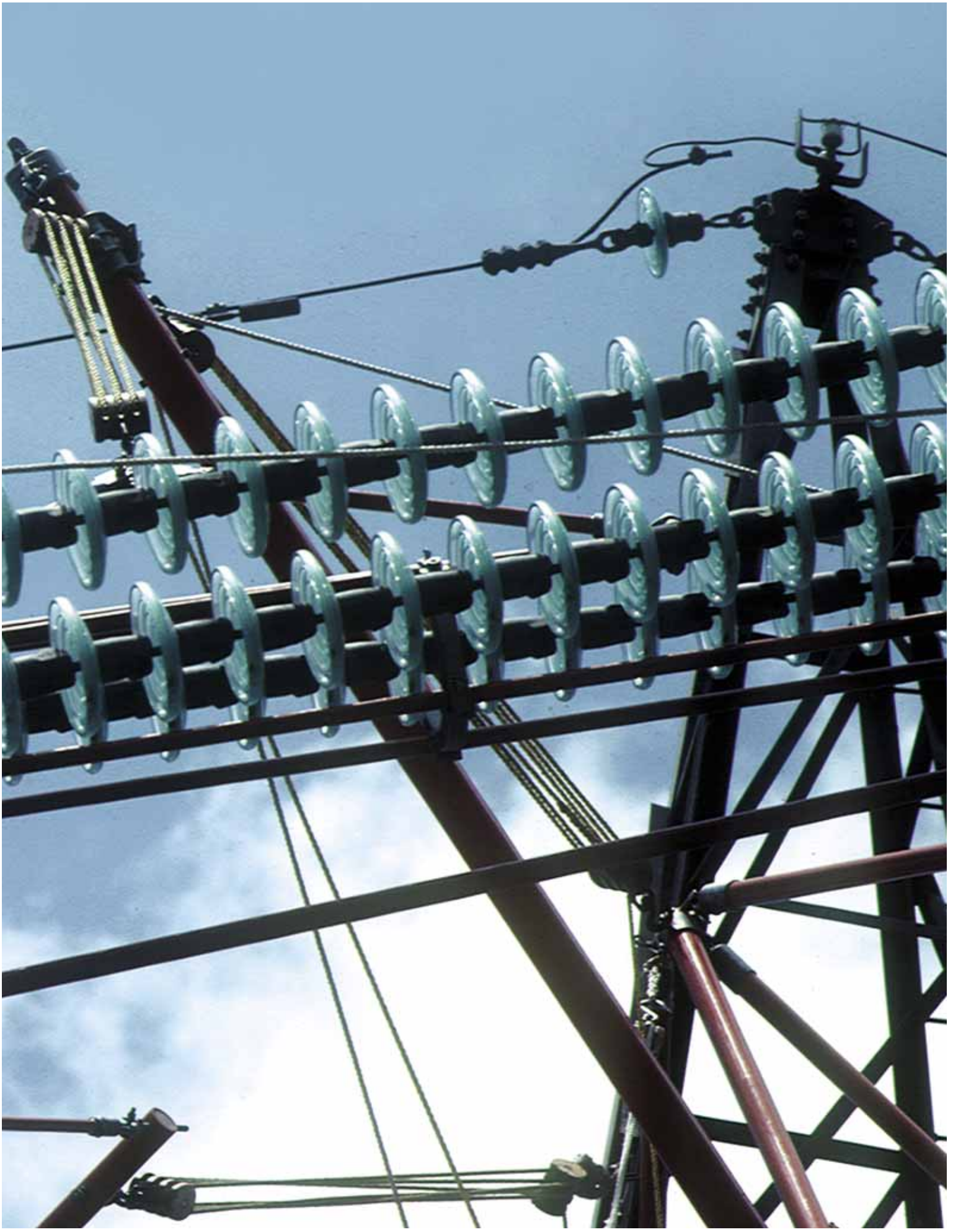
9 June 2005

Statement by Company Secretary

In terms of Section 268G(d) of the Companies Act, 61 of 1973, as amended, I certify that Eskom Holdings Limited 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
Company Secretary

9 June 2005



Introduction

The directors have pleasure in presenting their report and the audited financial statements for Eskom Holdings Limited (Eskom) and the Group for the 15-month period ended 31 March 2005. A detailed version of the 2005 Directors' Report is available on the Eskom website: www.eskom.co.za

The period under review was once again highly successful 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 taken to limit Eskom's impact on the environment. Regrettably there was an unacceptable and unfortunate increase in the number of fatalities among employees, contractors and the public. Refer to page 109 on safety performance.

At the request of its shareholder, Eskom changed its financial year end from 31 December 2004 to 31 March 2005. Its subsidiaries, with the exception of three foreign indirect subsidiaries whose results are insignificant to the Eskom Group results, have also changed their financial year ends to align with Eskom's financial year end.

The information in this report reflects the performance over a 15-month period from 1 January 2004 to 31 March 2005. Comparative information reflects the 12-month period from 1 January 2003 to 31 December 2003 making the comparability of periods difficult. Where possible and practical, performance information for the 12-month period ended 31 December 2004 has been included to enable meaningful comparisons with the previous year.

A revised business model was implemented during the reporting period, robust enough to exploit the opportunities and challenges facing the organisation.

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 (PFMA), as amended 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 transparent disclosure to all stakeholders. As is evident in this report, Eskom's focus in managing the business is based on a balance of economic, technical, social and environmental performance.

The directors are of the opinion that Eskom has complied, in all material respects, with the provisions of the PFMA and other applicable legislation, during the 15-month period under review.

Function and objectives of the business

Nature of the business

Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agricultural, redistributors and residential customers, as well as the purchase and sale of electricity from and to Southern African Development Community (SADC) countries. 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.

Eskom also undertakes through Eskom Enterprises (Pty) Limited (Eskom Enterprises), other non-regulated activities related to energy and the electricity supply industry, including the provision of electricity supply and related services in African countries connected to the South African grid, as well as to the rest of Africa.

The core businesses of the other subsidiaries, Eskom Finance Company (Pty) Limited, Escap Limited and Gallium Insurance Company include the granting of home loans to employees and the management and insurance of the relevant risks to Eskom.

Sustainability strategy

Eskom's sustainability strategy brings together the current and future business objectives, based on Eskom's strategic intent to ensure the achievement of integrated economic, environmental and social goals. Key challenges addressed are based on Eskom's corporate values, namely customer satisfaction, innovation, integrity and excellence. During the 15-month period, the sustainability performance index was finalised, investment, renewable energy and climate change strategies were developed, and the development of a value chain strategy was initiated.

An internal assessment confirmed that the strategy is aligned to the sustainability performance index. A revision of the sustainability strategy was initiated to ensure that it remains current.

Benchmarking of Eskom's sustainability performance

In 2003, Eskom's sustainability performance, using 2002 data, was benchmarked in terms of the Dow Jones Sustainability Index world criteria by Sustainable Asset Management Research, based in Switzerland. Eskom's overall performance was rated as being above the industry average and very close to best practice. Eskom was considered among the leading sustainability companies globally in the electric utility sector. Further benchmarking studies will be undertaken in the future.

Eskom sustainability performance index

The Eskom sustainability performance index, implemented in 2004, tracks Eskom's overall sustainability performance and is a mechanism to ensure that short-term performance as well as long-term sustainability is measured. The index measures performance from a technical, economic, environmental and social perspective, by measuring the performance of a selected number of key sustainability measures ranging from poor to excellent. The long-term targets are based on the Eskom Business Plan and take into account international trends and developments. The index score is used to assess performance and identify problem areas.

To test the index, it is included as a discussion point in senior executives' performance compacts. Full reporting on the indicator is expected when the pilot phase is completed in 2006.

The human resources sustainability index (refer page 89) and operational sustainability index (refer page 96) operate at a detailed level. These indices measure the sustainability of the human resources, technical and operational aspects of the business using a more comprehensive selection of business sustainability measures.

Objectives

Regulated business

The medium-term, five-year business plan setting out Eskom's strategic direction, as well as the critical key indicators for managing the business effectively, was developed and updated after taking into account the input of key stakeholders. The Board of Directors (Board) approved the business plan, including the predetermined strategic and operational objectives for the 12 months to December 2004. Key Performance Indicators (KPIs) linked to these objectives are included in the budget as well as the Shareholder Compact with the Government. Given the challenges regarding the change of year end, targets were only updated for the 15-month period where practical. The 12-month predetermined objectives per the Shareholder's Compact were not adjusted.

Annual budgets are aligned with the strategic intent contained in the medium-term business plan. In addition to the 12-month budget for 2004, a budget was prepared and approved for the first three months of 2005 to cater for the 15-month financial period. 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, as well as quarterly to the Board. The divisional objectives are encompassed within Eskom's objectives, and are communicated and measured at appropriate levels using relevant KPIs. These objectives and indicators are discussed in detail in this Directors' Report.

Non-regulated business

The implementation of the Eskom Revised Business Model (RBM) during 2004 has brought significant changes to the mandate and role of Eskom Enterprises. Though Eskom Enterprises will continue as the contracting vehicle for non-regulated activities, it will also house the non-core assets and businesses that have been identified for disposal. PFMA approval for the disposal of specific non-core assets and businesses is awaited.

The Enterprises Division has been created as a division of Eskom, in support of Eskom's focus on its core business, in terms of the RBM. Consequently a large number of the employees of Eskom Enterprises (excluding Rotek Industries (Pty) Limited and Roshcon (Pty) Limited) have been redeployed to the Enterprises Division.

A medium-term, three-year business plan setting out the strategic direction and priorities of the Eskom Enterprises Group and Enterprises Division, as well as the KPIs that are critical for managing the business effectively, was developed taking into account the change in role and focus of Eskom Enterprises.

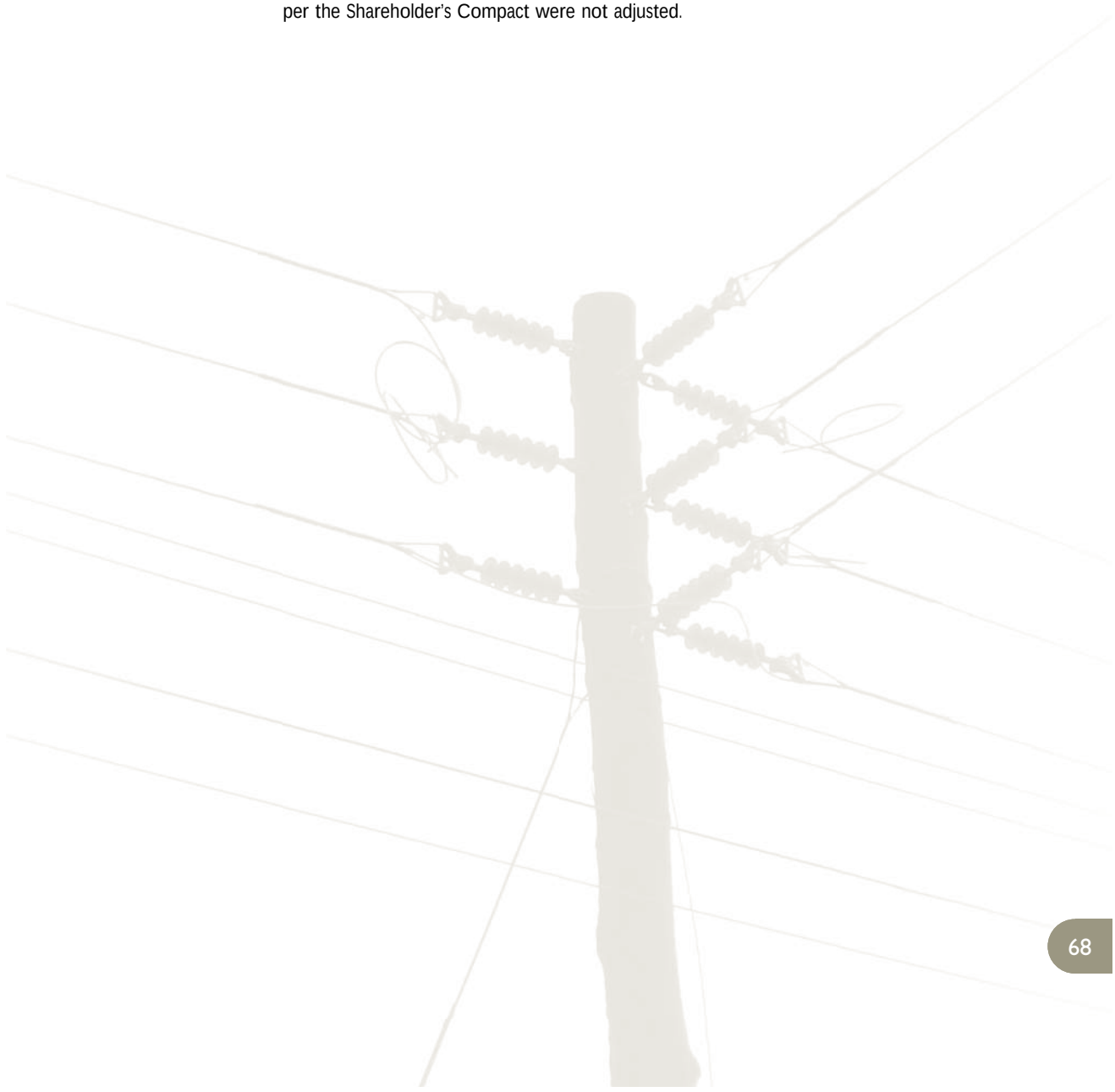
Other subsidiaries

Other subsidiaries also prepare business plans which incorporate the objectives and KPIs that have been approved by their respective boards of directors.

High-level performance for the period

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

Given the challenges regarding the change of the year end, targets were only updated for the 15-month period where practical. The 12-month pre-determined objectives per the Shareholder's Compact were not adjusted.



Eskom high-level performance

Objectives	Key performance indicators	Targets December 2004 (12 months)	Performance results December 2004 (12 months)
1. Revised business model (RBM) Demonstrate progress towards achieving Eskom's intended business model through:			
• Restructuring Eskom to support the strategic intent and aligning it with Government policy	• Implement Government's Electricity Supply Industry/Electricity Distribution Industry restructuring policies and execute plans within Eskom's control	Achievement of KPI	• Eskom aligned itself with Government's new restructuring strategy and policy
	• Implement internal restructuring milestones and plans towards achieving Eskom's strategic intent	Achievement of KPI	• Business model revised and implemented
	- Generation cluster subsidiaries		- Clusters remain as divisions
	- Generation black economic empowerment sale		- Eskom participated in line with Government's direction
	- South African Power Exchange (SAPEX)		- Power Exchange Department ring-fenced as step towards establishing SAPEX
	- EDI preparation		- Distribution business restructured to support Government's plans
	- Repositioning of Eskom Enterprises		- Repositioning of Eskom Enterprises is in progress
• Diversification of markets, products and services	• Expenditure on diversification and market growth, Rm	R20m	• Eskom's revised business model now focuses on core business (retail, trading, transmission and generation of electricity)
	• Market-related, risk-adjusted return on new investments as approved per investment, %	Individual projects within agreed limits	• Investment strategy and policy revised and approved
2. Economic Improve the management of resources through:			
• Maintaining long-term financial viability	• Profit after interest before fair value adjustment, Rm	≥R4 212m	• Exceeded - R6 141m 2005: R6 357m (2003: R5 311m)
	• Profit after taxation, Rm	≥R2 899m	• Exceeded - R4 314m 2005: R4 353m (2003: R3 226m)
	• Debt-equity ratio (including long-term provisions)	≤0,56	• Exceeded - 0,24 2005: 0,26 (2003: 0,35)
	• Return on total assets, %	≥8,61%	• Exceeded - 11,09% 2005: 11,67% (2003: 10,58%)
• Economic, efficient and effective usage of resources	• Productivity improvement for the period, %	≥1,0%	• Exceeded - 1,8% (2003: 2,5%)
	• Human resources sustainability index, %	≥80,0%	• Exceeded - 87,0% 2005: 84,5% (2003: 91,8%)
• Focusing on customer satisfaction	• Customer service index, %	≥75,0%	• Exceeded - 78,22% 2005: 78,96% (2003: 74,70[1]%)
• Maintaining excellent technical performance	• Operational sustainability index, %	≥80,0%	• Exceeded - 89,10% 2005: 90,40% (2003: 89,62%)

1. 2003 restated using the current period's weighting and components.

Objectives	Key performance indicators	Targets December 2004 (12 months)	Performance results December 2004 (12 months)
• Continued focus on affirmative action and actively promoting women and disability equity	• Black management, professional and supervisory staff at end of period, %	>57,9%	• Exceeded - 58,5% 2005: 57,9% (2003: 56,3%)
	• Women management, professional and supervisory staff at end of period, %	≥29,1%	• Exceeded - 30,0% 2005: 28,9% (2003: 27,8%)
	• People with disabilities, %	≥1,9%	• Achieved - 1,9% 2005: 2,0% (2003: 1,4%)
	• Procurement expenditure and supply of services, both capital and operating: - Black economic empowerment, Rm	≥R7 465m[1]	- Spent - R8 323m 2005: R10 334m (2003: R6 861m)
	- Women empowerment, Rm	≥R521m[2]	- Exceeded - R840m 2005: R1 086m (2003: R517m)
3. Social Demonstrate exemplary corporate citizenship and harmony with society through:			
• Supporting socio-economic development	• Eskom's financial contribution to the AIDS vaccine development research, Rm	R15m	• Contributed R15m (2003: R15m)
	• Eskom's contribution to advanced AIDS training for medical practitioners, Rm	R2m	• Contributed R2m (2003: R2m)
	• Employees enrolled in Vision E management development programme, number	2000	• 908 employees enrolled, and 679 completed the programme
	• Expenditure on Eskom Development Foundation, Rm	R42m	• Spent R41,7m 2005: R50,3m Total spent on corporate social responsibilty - R124,7m 2005: R157,0m (2003: R158,6m)
• Support for new Partnership for Africa's Development	• Expenditure on projects to encourage electricity development in Africa (Westcor), USD	USD 100 000	• Commited USD 100 000 for feasibility studies
4. Sustainable environment Manage Eskom's impact on the environment by demonstrating exemplary commitment to a sustainable environment	• Reported legal contraventions counted in the operational sustainability index, number	0	• Not achieved - 2 2005: 3 (2003: 2)
	• Specific water consumption[3], ℓ/kWh sent out target	≤1,28	• Exceeded - 1,26 2005: 1,28 (2003: 1,29)
	• Relative particulate emissions[3], kg/MWh sent out	≤0,27	• Achieved - 0,27 2005: 0,26 (2003: 0,28)

1. Calculated as a percentage of discretionary expenditure together with coal purchases.
2. Should be > 5% of BEE amount.
3. Calculated as a 12-month moving average.

1. Revised Business Model

Electricity industry restructuring

In June 2004, the Minister of Public Enterprises emphasised the role and contribution that state-owned enterprises (SOEs), including Eskom, have in contributing to infrastructure development in South Africa.

In terms of the above, the Government changed its objective regarding the restructuring of the electricity sector from establishing a wholesale market for electricity, to a focus on ensuring the security of supply and consequently infrastructure development. Based on this imperative, it has been agreed that independent power producers (IPPs), be introduced only in respect of new capacity requirements.

To initiate this revised approach, the Department of Minerals and Energy (DME) is issuing a tender for IPPs to provide approximately 1 000 MW of new capacity by the end of 2008. Eskom will still continue over the next five years to deliver on South Africa's energy needs in the generation, transmission and distribution sectors with a mandate to invest approximately R93 billion in the build programme.

Internal restructuring

A project was undertaken by Eskom, with the assistance of external advisers, to design a revised business model robust enough to exploit the opportunities and challenges facing the organisation. This was in response to local and global industry trends, changes in the electricity industry and key uncertainties facing Eskom, including:

- An increasing demand for energy.
- Diminishing surplus capacity.
- The ageing of existing infrastructure.
- The increasing importance of innovation and technology.
- Eskom's ability to fund future investments required to meet the future demand for energy:
  - Achieving the adequate price increases.
  - Receiving fair value for the assets transferred.
  - Maintaining Eskom's credit rating.
- The international appetite for IPPs to invest in electricity assets in southern Africa. As Eskom is currently one of the lowest cost producers in the world, the IPPs may require power purchase agreements to ensure their viability.
- The pace of market restructuring.
- The regulatory environment.

The Revised Business Model (RBM), approved for implementation, positions Eskom appropriately in view of the changing environment. In particular, the RBM:

- Allows Eskom to fulfill its strategic intent and mandate.
- Clarifies Eskom's business focus.
- Enables Eskom to position itself appropriately regarding the ongoing restructuring of the electricity industry.
- Leverages synergies and reduces duplication.
- Ensures strategic flexibility is built into structures and processes.
- Clarifies roles, responsibilities and functions.

The RBM was based on the following principles, amongst others:

- Eskom will initiate the build programme in order to address the required new generation and transmission capacity.

- Each business area within the Group will have a unique strategic capability that no other area duplicates, and appropriate skills will be consolidated and leveraged on behalf of the Group.

Eskom has accordingly refined its business focus. Eskom's core business is electricity, which includes retail, trading, transport and generation. In addition, Eskom will be involved in services related to the electricity business where its core competence can be leveraged for value. Eskom's core markets shall be in South Africa, the SADC countries and the rest of Africa in that order of priority.

Eskom's strategic intent "To be the pre-eminent African energy and related services business of global stature" remains intact, but with a much tighter focus.

Enterprises Division

Eskom's business focus in terms of the RBM has changed Eskom's relationship with Eskom Enterprises. Given the strategic importance and operational interdependence of the different business activities of Eskom Enterprises and Eskom, the RBM project questioned the logic of two separate legally ring-fenced entities. Though the original idea was that their strategic paths would diverge, the change in focus indicated the need for greater integration of the activities of Eskom and Eskom Enterprises.

To overcome the barriers to integration, and meet the requirements to ring-fence what the NER regards as non-regulated activities, a hybrid solution (part division, part subsidiary) has been adopted for the repositioning of Eskom Enterprises.

The Enterprises Division has been created to design, build and refurbish Eskom's electricity assets, to act as a catalyst for project development for the Eskom Group (identification and selection of investment opportunities in electricity assets) and to be the custodian of Eskom's non-regulated businesses. The Enterprises Division will also offer strategic and commercial life-cycle services to the Eskom line divisions. In line with the above, a large number of Eskom Enterprises staff members (excluding Rotek Industries (Pty) Limited and Roshcon (Pty) Limited) were transferred to Eskom on 1 January 2005.

Eskom Enterprise (Pty) Limited will continue to operate as an asset-holding company, a company for contracting non-regulated work such as telecommunication, network protection and measurement. It will also house the non-core businesses identified for exit. Rotek Industries (Pty) Limited will remain a subsidiary providing strategic technical support and life-cycle services for Eskom.

Generation Division

The Generation Division will play an important role in the new build programme. A divisional client office was established to complement the project office capabilities within the Enterprises Division and to ensure that all the project management steps developed in the RBM are implemented.

Generation clusters are fully operational. The appointment of General Managers (Production) to clusters has provided for the establishment of appropriate accountability at cluster level in preparation for industry restructuring, while still pursuing the optimisation of business within Eskom for the foreseeable future.

Transmission Division

In the medium to long-term, 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 but will eventually be established as a separate state-owned transmission company. Eskom has ring-fenced its Power Exchange Department in preparation for the possible establishment of the South African Power Exchange.

Distribution Division

The process for the restructuring of the Electricity Distribution Industry (EDI) provides for the creation of six Regional Electricity Distributors (REDs) to be implemented under the guidance of EDI Holdings (Pty) Limited, the project company responsible for implementing the Government's policy in this regard. The REDs will be used as business vehicles to merge the electricity distribution business of Eskom, with that of the municipalities. The Western Cape Region (predominantly the Cape Town area of supply) has been identified as the first RED to be implemented.

Recent developments include a policy decision by Government that the REDs will be municipal entities, thus assigning effective control of these businesses to the respective municipalities. This decision, together with other alternative proposals made by the industry stakeholders, is being analysed for further development and future implementation. Eskom has continued its engagement with the various stakeholders to provide support and inputs into this process of restructuring.

As internal preparation for the REDs, the Distribution Division reorganised its business operation from seven to six operating regions. This included an organisational review and alignment, network reconfiguration, data and customer transfers and a decentralisation of various head office activities to the operating regions.

2. Economic

2.1 Financial performance

High-level performance of Eskom Holdings Limited

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

	Target 2005 (15 months)	Actual 2005 (15 months)	Actual 2003 (12 months)
Sales, GWh:			
Total external sales	**253 484**	**256 453**	196 576
International	**15 162**	**16 008**	10 173
Customised pricing arrangements	**14 327**	**14 421**	12 636
Other distribution	**223 995**	**226 024**	173 767
External sales growth, GWh %	**29,0**[1]	**30,5**[2]	4,8
External sales growth, Rm %	**26,8**	**30,3**	12,5
Revenue, Rm:			
External revenue	**40 019**	**41 127**	31 554
International	**1 346**	**1 381**	973
Customised pricing arrangements	**1 737**	**1 871**	1 850
Other distribution	**36 936**	**37 875**	28 731
Internal usage	**82**	**96**	64
Other revenue	**52**	**164**	162
Total revenue	**40 153**	**41 387**	31 780
Other results:			
Operating expenditure, Rm	**33 528**	**33 360**	24 946
Interest income, Rm	**n/a**[3]	**4 091**	3 811
Interest expenditure, Rm	**n/a**[3]	**(5 761)**	(5 334)
Average total cost of electricity, R/MWh[4]	**141,24**	**136,48**	136,06
Profit after interest before fair value adjustment, Rm	**4 274**	**6 357**	5 311
Net fair value adjustment on financial instruments, Rm	**25**	**29**	(277)
Net profit for the year after tax, Rm	**n/a**[5]	**4 353**	3 226
Debt-equity ratio (including long-term provisions)	**0,13**	**0,26**	0,35
Return on total assets, %	**9,7**	**11,67**	10,58

1. Budgeted sales growth for the period 1 January 2004 to 31 December 2004 was 2,9% and 1,2% for the 3-month period from 1 January 2005 to 31 March 2005.
2. Actual sales growth was 5,1% for the 12 months from 1 January 2004 to 31 December 2004 and negative 1,2% for the three months from 1 January 2005 to 31 March 2005.
3. Net interest income and expenditure budget R2 326 million.
4. Based on external sales.
5. No target set.

When reading this commentary on the financial performance of the company, it should be borne in mind that, due to the change in the financial year end to 31 March 2005, a 15-month period is being compared with a 12-month period.

The financial performance for the company was most gratifying. Revenue, boosted by a strong growth in demand, was R41 387 million. With costs well contained, the profit before tax increased to R6 386 million. It should however be highlighted that despite the large profit before tax of R6 386 million, the rate of return is only 11,67%.

The balance sheet has strengthened further and at 31 March 2005 the debt-equity improved further to a new record low of 0,26 compared to 0,35 at 31 December 2003. This is considered appropriate in view of the huge capital expansion programme that will be embarked on in the very near future.

Embedded derivatives

Eskom has entered into a number of agreements to supply electricity to electricity intensive industries, where the revenue of these contracts is based on commodity prices, foreign currency rates or foreign production price indices that gave rise to embedded derivatives. The net impact for the 15-month period was a fair value gain of R72 million to the income statement of Eskom and a fair value loss of R4 million for the Group. However, the impact on the balance sheet was significant. The embedded derivative assets were R5 076 million and embedded derivative liabilities were R5 004 million for Eskom. The Group numbers for embedded derivative assets were R5 081 million and embedded derivative liabilities were R5 085 million.

Value-based management (VBM)

The VBM approach, implemented in 2003, is used to measure financial sustainability over the long-term. The process of measuring economic performance enables management to identify focus areas for value creation and areas where value is not being added. The major factors influencing Eskom's economic performance are the cost of capital used by the business and the reported asset lives. Based on the approved targeted weighted average cost of capital, Eskom's economic performance for the 12 months ended December 2004 reflected a reduced value compared with the economic performance of 2003, mainly due to the lower than expected price increase. Certain of the economic measures identified to measure business performance were incorporated as performance indicators in the short-term incentive scheme for employees in 2004.

Revenue management

The Accounting Authority 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 in place during the period.

The collection of revenue remains a challenge for domestic customers, especially Soweto. The enhancement of credit control strategies and monitoring of payment levels in Soweto continue to receive constant management attention. The payment levels in Soweto, expressed as a percentage of billings, increased to 38% (2003: 21%).

The trade debtors and other receivables at the end of the period are summarised as follows:

	Actual 2005 Rm	Actual 2003 Rm
Trade debtors and other receivables	**6 200**	5 240
Soweto, take-overs and suspense accounts	**982**	754
Other trade debtors	**3 143**	2 732
International debtors	**151**	278
Trade debtors	**4 276**	3 764
Other debtors (including interest receivable)	**1 924**	1 476
Provision for doubtful debt, including interest	**(1 215)**	(1 197)
Local trade debtors	**(1 086)**	(921)
International trade debtors	**(22)**	(155)
Other debtors	**(107)**	(121)
Movement in bad and doubtful debt:	**15 months**	12 months
Bad and doubtful debt	**93**	382
Local trade debtors	**233**	296
International trade debtors	**(133)**	66
Other debtors	**(7)**	20

Management of credit risk

Credit risk is managed as part of the Integrated Risk Management process, which tracks major risk issues, designs mitigating strategies and monitors the status on an ongoing basis.

Valuation of assets

Although there is cross-subsidisation between certain customer categories, (which depends on customers' electricity consumption levels, geographical location and voltage supply levels), 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 is required to the value of assets relating to any particular customer category.

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 the impairment of certain classes of property, plant and equipment in the current period. 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's investment in Eskom Enterprises has been further impaired as a result of the impairment of two investments in the accounting records of Eskom Enterprises.

Full Services Network and Second National Operator (SNO)

Eskom Enterprises invested R760 million in the Full Services Network (FSN). The issuance of a licence to the SNO was initially scheduled for May 2002, but was delayed by the search for a suitable strategic equity partner.

During December 2004, a ministerial announcement defined the shareholding in the SNO as follows: 30% in total to Eskom Enterprises and Transtel; 19% to Nexus Connection; 12,5% to CommuniTel; 12,5% to TwoConsortium; and 26% to Tata Africa Holdings (representing Videsh Sanchar Nigam Limited, an international telecommunications operator in India).

The integration of the six shareholders is being facilitated through the leadership of a joint steering committee together with a number of working groups, each with representation from all of the shareholders.

The parties are currently engaged in preparing the shareholder's agreement and business plan for submission to the Minister of Communications and the Independent Communications Association of South Africa (ICASA) for the SNO licence.

As the licence for the SNO has not yet been issued, the carrying values of all assets, including the fibre optic network, have been reviewed for impairment. The long delay in the issuing of the licence has prompted the Board to take a conservative view and to raise a full impairment provision of R760 million (2003: R649 million) against this investment.

Mountain Communications (Pty) Limited (MKC)

In 2002, Eskom Enterprises invested R216 million in MKC, a company registered in Lesotho.

In terms of the sale of shares agreement, MKC committed, by way of a guarantee, R380 million (USD 56 million, estimated at the then prevailing exchange rate), to a capital expansion programme. This commitment has been fulfilled at 31 March 2005, as the amount expended to date exceeds the original commitment by MKC.

The Telecom Lesotho operating licence issued by the Lesotho Telecommunications Authority (LTA) stipulates system expansion targets and to the extent that these targets are not met, penalties are payable to the LTA. Provision has been made for a possible shortfall against these targets.

The Board has taken a conservative approach and the total impairment provision raised at 31 March 2005 was R208 million (2003: R154 million) in the Eskom Group financial statements.

High-level performance of subsidiaries

The discussion below covers all the significant subsidiaries of Eskom.

Eskom Enterprises

Eskom Enterprises, a company domiciled in South Africa, was registered to accommodate all the non-regulated energy-related activities of Eskom in South Africa and its energy-related activities outside South Africa. The operating results for Eskom Enterprises reflect its performance in terms of the 2004 business plan.

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

	Target 2005 (15 months) Rm	**Actual 2005 (15 months) Rm**	Actual 2003 (12 months) Rm
Revenue	**3 887**	**3 977**	3 317
- Eskom	**2 283**	**2 618**	2 108
- Non-Eskom	**1 604**	**1 359**	1 209
Profit before interest	**105**	**258**	71
Interest income/(expense)	**(22)**	**16**	(15)
Profit after interest before fair value adjustment	**83**	**274**	56
Fair value loss on financial instruments	**-**	**(77)**	(12)
Profit after fair value adjustment and before exceptional items	**83**	**197**	44
Exceptional items	**-**	**(106)**	(921)
- Impairment of investment and assets	**-**	**(233)**	(649)
- Provision for onerous contract in MKC	**-**	**195**	(220)
- Impairment of goodwill in MKC	**-**	**(68)**	(52)
Profit/(loss) before taxation	**83**	**91**	(877)
Taxation	**(109)**	**(96)**	7
Loss for the period before minority interest	**(26)**	**(5)**	(870)
Income from associates and joint ventures	**72**	**46**	34
Minority shareholders' interest	**(14)**	**(6)**	117
- Exceptional items	**-**	**-**	118
- Other	**(14)**	**(6)**	(1)
Net profit/(loss) for the period after tax	**32**	**35**	(719)
Return on equity on historical basis, %	**4**	**14**	2
Annual capital investment in new business, Rm	**n/a[1]**	**3**	79

1. No target set.

Eskom Enterprises reported an improvement in its financial results despite recording R106 million of exceptional items. The exceptional items relate to impairment provisions raised for MKC, SNO, and a range of smaller investments. The exceptional item charge was favourably impacted by the partial reversal of the onerous contract provision raised in 2003 in respect of MKC.

The underlying business exceeded expected performance with core businesses contributing significantly to the improved performance.

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

Objective	Key performance indicators	Targets (15 months)	Performance results
• Maintain long-term financial viability	• Net profit after tax for the period, Rm	R32m	• Exceeded – R35m (2003: net loss R719m)
	• Sales growth, %	17%	• Achieved – 19,0% (2003: 14, 0%)
• Demonstrate exemplary corporate citizenship and harmony with society through:			
- a continued focus on affirmative action and actively promoting women and disability equity	• Black management, professional and supervisory staff, %	50,0[1]%	• Not achieved – 49,5[1]% (2003: 49,4%)
	• Women management, professional and supervisory staff, %	18,0[1]%	• Achieved – 18,1[1]% (2003: 17,5%)
	• Women at all levels, %	23,8[1]%	• Achieved - 23,8[1]% (2003: 24,8%)
	• Procurement expenditure, both capital and operating, on black economic empowerment for the group, Rm	R431m	• Exceeded – R567m (2003: R395m)

Eskom Finance Company (Pty) Limited

The Eskom Finance Company (Pty) Limited (EFC) was established as a vehicle to achieve Eskom's commitment to enabling its employees to have access to accommodation while optimising costs to Eskom and its employees. EFC makes home loans available at favourable interest rates to employees of the Eskom Group.

1. Targets and actuals relate to 31 December 2004.

The operating results for the period are summarised as follows:

	Target 2005 (15 months) Rm	**Actual 2005 (15 months) Rm**	Actual 2003 (12 months) Rm
Financing income	**350**	**358**	384
Financing costs	**(301)**	**(299)**	(334)
Net financing income	**49**	**59**	50
Administration costs	**(3)**	**(3)**	(4)
Profit before tax	**46**	**56**	46
Taxation	**(14)**	**(17)**	(14)
Net profit for the period after tax	**32**	**39**	32

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

Objective	**Key performance indicators**	**Targets (15 months)**	**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 by the Government affecting EFC
	• Economic value added to Eskom, Rm	≥R65 m	• Exceeded - R77,0m (2003: R61,0m)
	• Customer satisfaction level index, %	≥88%	• Exceeded - 92,2% (2003: 87,1%)
	• Human resources sustainability index, %	≥80%	• Not achieved - 75,8% (2003: 90,3%) As EFC has a small staff complement, its performance was negatively affected by a death and serious illness
	• Culture and climate index, %	≥69%	• Exceeded - 73,0% (2003: 69,0%)

The intention is to dispose of EFC as a going concern, subject to the continuation of its current services to Eskom and its employees. A team including members from DPE, Eskom and EFC are implementing this decision to effect the disposal during the next financial year and appropriately position the company in line with its strategic intent.

Escap Limited

Escap Limited (Escap) was established in 1993 to reduce Eskom's overall cost of risk management and insurance. It forms part of Eskom's risk financing strategy to formalise the insurance function and acts as a vehicle for creating reserves and additional insurance capacity.

The operating results for the 15-month period are summarised as follows:

	Target 2005 (15 months) Rm	Actual 2005 (15 months) Rm	Actual 2003 (12 months) Rm
Premium income	**786**	**822**	419
Reinsurance premium expenditure	**(62)**	**(60)**	(40)
Net premium income	**724**	**762**	379
Insurance expenditure	**(662)**	**(656)**	(577)
Underwriting profit/(loss)	**62**	**106**	(198)
Investment income	**112**	**121**	111
Profit/(loss) before tax	**174**	**227**	(87)
Taxation	**(52)**	**(54)**	(15)
Net profit/(loss) for the period after tax	**122**	**173**	(102)

The high-level performance against objectives for the 15-month period is as follows:

Objective	Key performance indicators	Targets (15 months)	Performance results
• Manage administration costs effectively	• Administration costs as a percentage of net premium income, %	<8%	• Achieved – 5,1% (2003: 8,1%)
• Maintain financial viability over the long-term	• Solvency/net asset ratio, %	>30%	• Achieved – 51,0% (2003: 26,0%)
• Encourage black economic empowerment	• Procurement expenditure on black economic empowerment, %	>75% of discretionary expenses	• Achieved - 91,3% (2003: 92,0%)
• Improve discipline, governance and accountability	• Shareholder Compact approved and implemented	In place	• Approved by Board on 4 May 2005
	• Effective governance structures and processes implemented	In place	• Yes
	• Internal controls are in place, and they are effective	In place	• No material breakdown occurred during the period under review

Premium income increased in the current period when compared to 2003, due to the need to charge premiums that were commensurate with the risks underwritten, and to improve Escap's solvency ratio. The insurance excesses for the different classes of business were also increased for the Eskom divisions.

A loss ratio protection policy was arranged with Gallium Insurance Company Limited (Gallium) until 31 December 2004, which afforded Escap some protection to limit the impact of claims. This policy was deemed to have succeeded in its objective and has been terminated.

Gallium Insurance Company Limited

Gallium, a wholly-owned insurance subsidiary of Eskom, registered in the Isle of Man, was established in 1995 to provide Eskom and Escap with additional capacity for less predictable 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. The reinsurance policy for the protection of losses in excess of R200 million was terminated as the company no longer needs this protection. Gallium received R135 million from Cologne Re to support the exposure that will henceforth be retained by Gallium.

The operating results for the 15-month period are summarised as follows:

	Target 2005 (15 months) Rm	**Actual 2005 (15 months) Rm**	Actual 2003 (12 months) Rm
Premium income	**472**	**670**	321
Reinsurance premium expenditure	**(189)**	**(225)**	(160)
Net premium income	**283**	**445**	161
Insurance expenditure	**(272)**	**(404)**	(150)
Underwriting profit	**11**	**41**	11
Investment income and foreign exchange gain	**83**	**103**	88
Net profit for the period	**94**	**144**	99

The high-level performance against objectives for the 15-month period is as follows:

Objective	Key performance indicators	Targets (15 months)	Performance results
• Operating and capital resources are used economically, efficiently and effectively	• Operating costs as a percentage of net premium income, %	≤1%	• Achieved - 1% (2003: 1,0%)
• Maintain financial viability over the long-term.	• Surplus over Isle of Man statutory solvency margin, %	100,0% of solvency margin	• Exceeded - the 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 and economic regulation

An average price increase of 2,5% was approved by the NER in 2003 for the 12-month period to 31 December 2004 (the 2004 price increase). In November 2004, the NER approved a 4,1% average price increase for the 15-month period from 1 January 2005 to 31 March 2006 (2005/6 price increase).

Eskom has been regulated according to a rate-of-return methodology since 2002. The detailed rules of this methodology have been refined in recent years. The rules governing the allowed rate of return, as well as a rule called "clawback" are of particular importance.

During the review of the 2004 price increase, the NER implemented the "clawback" rule and also applied it to the 2005/6 price increase. According to this rule, Eskom is deemed to have over-recovered revenue from customers if the actual regulated return earned by Eskom is in excess of that allowed by the NER. To provide Eskom with an appropriate incentive to improve its efficiencies, the NER may allow Eskom to retain up to 50% of the over-recovery. The balance is clawed back in the calculation of future price increases.

Eskom's allowed rate of return for 2004 was 14,5%[1] on a nominal basis before tax (10,2% after tax). The allowed rate of return for 2005/6 was reduced to 11,1% on a nominal basis before tax (7,9% after tax). The rules for the allowed return are currently being reviewed and will be factored into the next price review.

Eskom exceeded the 2004 allowed rate of return of 14,5% as a result of reduced costs, higher sales volumes and other factors. Regulated profit is estimated to be R1,4 billion in excess of that allowed by the NER. In addition, Eskom and the NER have also agreed on an amount of R1 billion (because the return allowed for

1. The Eskom rate of return of 11,67% and the NER allowed rate of return of 14,15% differs because certain costs are not allowed to be recovered in the tariff, as the asset base excludes certain assets in terms of the regulatory framework.

2003 had been exceeded) that will be recovered by reducing future price increases. In terms of accounting standards, the clawback cannot be recognised as a charge to the income statement, nor can the corresponding liability be raised on the balance sheet.

Due to the volatility and uncertainty resulting from an annual pricing review process, the NER and Eskom are in the process of designing a three-year pricing agreement which will take the relevant clawback amounts into account. This agreement will be effective from 1 April 2006 to 31 March 2009 and will provide stable and predictable electricity prices over the next three years, and a more certain planning environment, especially for large customers.

Present electricity prices are unsustainably low. Prices are based on Eskom's low depreciated asset base that is valued at historical cost. The cost of building a new fossil-fuel power station is six to seven times that of an existing power station. The South African economy is continually growing, resulting in the need to make significant investments in electricity infrastructure to meet the continued growth in demand. The reality of the cost of new capacity will therefore have to be reflected in the future pricing of electricity. Though future real (above inflation) electricity price increases are inevitable, the intention is to ensure that such increases are introduced in a gradual and predictable manner and are as low as possible, without compromising the ability to build the needed additional capacity.

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's 2005 Tariff Restructuring Plan is a continuation of the work started in 1996, building on the principles that tariff structures should ideally reflect the structure of costs and should also support energy efficiency. Changes to the tariff structures for the period 1 January 2005 to 31 March 2006 include the last major alignment of the tariffs with the unbundling of the network and energy components into cost-reflective network and energy charges for Megaflex, Miniflex and Nightsave (Urban) tariffs. The levy paid towards subsidising other tariffs is now shown as a transparent rate rebalancing levy. These changes have resulted in a signal to manage the overall utilisation of electricity more efficiently, not only from an energy perspective but also from a network perspective which will encourage efficient investments in electricity.

Integrated risk management

The integrated risk management (IRM) process has been implemented in 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 (refer to page 26 in the Corporate Governance statement).

IRM expertise within the organisation is growing and internal training continues to enhance the IRM processes. 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 message and approach is maintained.

Some areas of common risk and opportunity within the divisions and main subsidiaries have been addressed during the 2004 period, such as the shortage of

specific skills, enabling appropriate risk mitigation measures to be taken. The Business Continuity Management Framework (a disaster recovery initiative) is currently being implemented by the organisation.

An IRM conference held during 2004, managed by the Institute of Risk Management South Africa (IRMSA), provided training and networking opportunities for Eskom staff and external parties. A number of events to promote the IRM process at various levels within the organisation continue to highlight the need to communicate and report on risk issues.

An internal survey regarding perception and understanding of the IRMSA Code of Practice was conducted at a management level across Eskom during December 2004. The findings of this survey will assist in identifying areas for improvement. In addition, the application of the IRMSA Code of Practice was independently reviewed in one of Eskom's divisions and indicated a high level of compliance with the code.

Eskom's major risk process continues to identify the key risks facing the organisation. This review is conducted twice a year and follows a bottom-up approach for both line and functional areas. The risks identified by the divisions and subsidiaries are then reviewed by senior management. The major risks identified include the following:

- Regulatory – the requirement for a clear regulatory framework and adequate price increases to ensure long-term sustainability.
- Long-term capacity – the long-term availability of capacity, the impact of new capital projects, the ability to maintain consistent supply, ageing plant and enhancing plant performance.
- Technical and/or short-term capacity management – the potential for costly and extended outages due to ageing generators with multiple knock-on effects.
- Eskom's long-term business strategy – the ability to respond to the changes in the industry and still achieve the shareholder's objectives for the company.
- ESI/EDI – stakeholder requests that may not support Eskom's strategic objectives.
- Information management – information security, management of the outsourced contract for information technology services, a lack of skills and resources, information technology business continuity management.
- Long-term skills management – the availability of the skills required for future business needs including the retention of skills, training, multi-skilling and succession planning. The impact of HIV/AIDS is also addressed in this key risk area.
- Revenue assurance – insufficient price increases or conventionally billed customers not paying for electricity consumed.
- Funding and project management – funding, risk management and management of major projects.

Mitigation strategies in respect of key risks are reviewed on a regular basis by senior management and presented for discussion to the Risk Management Committee, which then report to the Board.

Some of the challenges for 2006 include feedback on the Business Continuity Management Framework and its implementation within the Eskom Group, and a communication strategy to encompass key risk reporting within the organisation. Training in enterprise risk management will continue. The review of a risk assessment software system, which needs to be aligned to shareholder requirements, is in progress.

Sensitivity to financial market forces

Eskom's policy of hedging all fixed and ascertainable foreign exposures remained unchanged, thereby minimising the effect of volatility on operational activities due to currency fluctuations. Training in the identification, reporting and hedging of currency risk especially in the view of the imminent build programme remains a priority. Eskom once again produced surplus cash from operations which was utilised by investing in instruments maturing in 2005 and 2006, thereby reducing the expected funding requirements in those years.

Maintaining good governance

Shareholder Compact

A Shareholder Compact between Eskom and the Government, as shareholder, has been in place for the 12-months ended 31 December 2004. The compact was developed to promote and encourage good governance practices within Eskom. Additional information appears on page18.

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 audit, have confirmed that, in all significant respects, the systems of internal control are in place and are effective.

Additional information on corporate governance, ethics and internal control appears on pages 27 to 28.

Public Finance Management Act

Implementation, training and awareness

Eskom and its subsidiaries comply 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 staff regarding the application of the PFMA, continued during the period under review. Non-compliance with the Act is dealt with in terms of Eskom's existing disciplinary procedures.

Losses through criminal conduct and irregular, fruitless and wasteful expenditure

Fruitless and wasteful expenditure

No significant fruitless and wasteful expenditure was incurred during the period.

Criminal conduct

Revenue losses

The electricity revenue losses due to fraud and illegal connections remain a focus area. 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.

Some of the steps taken to reduce fraud and illegal connections associated with revenue losses include the following:

- Continued focus on customer education through the public media by way of the "izinyoka" (the Zulu word for snakes) campaign.
- The visibility of Eskom's resources at area level has been improved.
- Focus on increasing the internal resource capacity and forensic investigations to ensure the successful conviction of transgressors.
- Expanded field revenue protection audits.
- Established task teams to remove illegal connections.
- Expanded risk mitigation via the use of upfront cash vending for prepaid customers.
- Assessing other more convenient customer-focused strategies, such as on-line vending.

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 the issue of conductor theft from a national perspective. Significant progress has again been made in the reduction of losses. The number of incidents decreased from 1 708 in 2003 to 727 for the 12 months to December 2004, with a total of 834 incidents for the 15 months to March 2005. This represents a substantial decrease in the kilometres of conductor stolen. The losses incurred for the 15 months are estimated at R39 million.

Information management

The integration of information management into business planning and processes was confirmed by the reconfiguration of the existing information systems to support the RBM. Governance in respect of information management was strengthened by the appointment of a chief information officer and the creation of a portfolio management office, as well as the implementation of the Cobit governance framework. These interventions ensure that Eskom maintains an optimal investment in information technology systems. Emphasis was placed on the security framework to manage information risks. A service level agreement for technical infrastructure support was renegotiated with Arivia.kom (Pty) Limited.

Promotion of Access to Information Act

Eskom complies with the Promotion of Access to Information Act, 2 of 2000. The update of the information manual in terms of the Act for Eskom is being finalised.

2.2 Use of resources

Productivity performance

Information on productivity performance 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. Price recovery is the relationship 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. Productivity improvements create additional wealth and thereby drive sustainable business performance. Price recovery, on the other hand, indicates how wealth is distributed to the stakeholders of the organisation, including its customers, employees and investors.

The 15-month accounting period compared with the 12 months for the previous year distorts the productivity measurement. Therefore a more meaningful comparison has been made by comparing the 12 months ended December 2004 to the 12 months ended December 2003. This approach has been endorsed by the National Productivity Institute (NPI).

Eskom's overall performance is summarised in the table below:

	2004 (12 months) Rm	2003 (12 months) Rm
Net profit for the period before fair value adjustment	**6 141**	5 311
Net profit for the previous period before fair value adjustment	**5 311**	4 858
Change in net profit before fair value adjustment	**830**	453
Adjustments not impacting on overall performance[1]	**(413)**	1 194
Change in adjusted net profit	**417**	1 647
This is attributable to:		
Wealth (distributed)/ reinvested in the business	**(23)**	1 065
Net productivity improvement	**485**	613
Price (under)/over recovery	**(508)**	452
Growth	**440**	582
Total	**417**	1 647

Overall productivity and price recovery

For the 12-month period ending 31 December 2004 the organisation recorded a productivity improvement of 1,8% or R485 million. However, this was absorbed by a price under recovery of R508 million, thus benefiting consumers to this extent.

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

Capacity utilisation and efficiency view

The table below shows the contribution to the productivity performance from a capacity utilisation and efficiency view.

	2004 (12 months)		2003 (12 months)	
	Rm	%	Rm	%
Total	**485**	1,8	613	2,5
Primary energy	**(32)**	(0,4)	(182)	(2,3)
Manpower	**349**	4,8	281	4,0
Operating expenses	**40**	0,8	390	6,8
Capital	**128**	2,4	124	2,7
Total	**485**	1,8	613	2,5
Capacity utilisation	**588**	2,2	563	2,2
Efficiency	**(103)**	(0,2)	50	0,2

The productivity improvement of R485 million arose mainly through capacity utilisation from the sales growth of 4,5% recorded during the period.

The productivity improvement is attributable to manpower (R349 million), operating costs (R40 million) and capital (R128 million), which is partially offset by negative productivity on primary energy of R32 million.

The cumulative wealth created through productivity improvements has benefited consumers and other stakeholders by R11 637 million (in 2004 rand) over the past ten years. Productivity improvements contributed significantly towards absorbing the impact of inflation on the business over this period. Productivity remains a focus area into the future.

The National Productivity Institute (NPI) has reviewed the productivity results. The review included an examination of the structure of the analysis, the appropriateness of quantity and price drivers, 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 the 12-month period ended 31 December 2004.

Human resources

Human resources sustainability index

The human resources sustainability index (HRSI) provides a measure of Eskom's ongoing ability to achieve its human resources objectives. The index comprises 26 (2003: 25) measures in the areas of employee satisfaction, employee competence, equity, and employee health and wellness. The measures are reviewed on an annual basis to ensure their continuing appropriateness. The HRSI threshold of 80% was exceeded with an achievement of 87,0% at 31 December 2004 (2003: 91,8%) and 84,5% at 31 March 2005. The decline in the HRSI was due mainly to the introduction

in 2005 of three new components in the measure relating to the HIV/AIDS response strategies.

Human resources shared services

The human resources shared services unit was piloted for the corporate divisions in November 2004, with the objective of achieving greater business efficiencies and increasing both customer service levels and the quality of information, while allowing human resources practitioners to focus on their core competencies. The rollout process to the rest of the organisation commenced in February 2005.

Change management

In November 2004 a permanent change management office was established with the objective of continuously providing a strategic change management impetus to the business initiatives as guided by the RBM.

People development

Skills management

A skills management system to identify and retain critical, core and scarce skills had been populated with skills profiles for all management and professional levels. This has enabled management and human resources practitioners to identify current and future skills availability and requirements. Initiatives are in place to address the provision of scarce and critical skills.

Vision E

Vision E is a transformational leadership development programme which uses a blended approach to learning, developing the competencies of Eskom leaders at managerial and professional levels, and embraces the concept of African leadership. Currently, 908 of the 2 600 Eskom managers and professionals are involved in the programme, of which 679 have completed the programme.

Training and development

Eskom is committed to the training and development of all employees. Through learnerships, it contributes to the skills development of not only the employee, but also the broader South African community. Development is a prerequisite for all employees and is managed through their personal development plans.

Training and learnerships	Actual 2005 (15 months)	Actual 2004 (12 months)	Actual 2003 (12 months)
Training			
Total training cost, Rm	**654**	**518**	505
Average training cost per employee, R'000	**22**	**18**	17
Learnerships			
Bursary-holders and trainees, number	**1 568**	**1 447**	1 850
Black bursary-holders and trainees, %	**85**	**86**	87
Women bursary holders and trainees, %	**55**	**54**	50

Bursaries

Bursaries are available to students for tertiary education at both university and university of technologies levels, particularly to talented South African youth with the potential to become future employees.

Learnerships

Learnerships are structured learning programmes coupled with practical work experience that employees can use to close the skills gap to benefit themselves and the organisation.

Apart from training current employees, learnerships also provide training for the unemployed learners who will benefit by improving their prospects for future employment.

In the 15-month period, Eskom registered 853 (2003: 356) learnerships with the Energy Sector Education and Training Authority (ESETA).

Eskom Learning Institutions

Eskom Learning Institutions (ELI) provide ESETA accredited in-house technical and non-technical training. A total of 44 856 student training days were recorded during the period January to December 2004 and a further 10 681 student days from January 2005 to March 2005.

ELI sourced 40 learners from the unemployed sector, (24 black males, 14 black females and 2 white males), who completed Level 2 of the National Qualifications Framework (NQF) in the fabrication learnerships during 2004. These students are currently studying for NQF Level 3 before progressing to the NQF Level 4 needed for a full qualification.

Remuneration and benefits

Grading, assessment, remuneration positioning (GARP)

GARP is a new remuneration and market positioning approach for Eskom. Job profiles are being rewritten and graded using the Tuned Assessment of Skills and Knowledge (TASK) process. The rollout of GARP started in January 2004.

The rollout will facilitate the alignment of the reward strategy throughout the business.

Scholarships

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

Employee relations

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

Only one instance of national industrial action occurred in the 12 months to December 2004, resulting in 48 man days being lost. One additional man day was lost in the three months to March 2005. This is a great improvement when compared to the 1 140 man days lost in 2003.

Health and wellness

Managing the impact of HIV/AIDS

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

A second organisation-wide voluntary surveillance study was carried out in 2003. The results of the survey, including an economic impact analysis, were presented to EXCO in July 2004, and have been incorporated into Eskom's response strategy through an extensive communication campaign in the organisation. Special emphasis was given to Voluntary Counselling and Testing (VCT).

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

Within the primary health care environment, Eskom implemented access to immune modulator therapy, assisting patients to maintain their immune system. Employees and registered dependents have access to antiretroviral therapy through disease management companies within the medical aid schemes.

Allied to the education programme is the identification of high-risk circumstances where Eskom employees could be more vulnerable to HIV infection. Mitigation strategies have been implemented in operational plans throughout Eskom with a strong emphasis on helping to reduce the incidence of infection in such circumstances.

Eskom maintains a strategic focus on HIV/AIDS related developments, and provides updated management information regarding HIV/AIDS related issues. Other response strategies include ensuring that all business practices affected by HIV/AIDS adopt a non-discriminatory approach. A communication plan in the form of a comprehensive toolkit has been developed to communicate the HIV/AIDS response strategies in a structured way to the organisation.

Wellness

Eskom has a comprehensive health and wellness programme that consists of employee assistance, sports and recreation, biokinetics, spiritual wellness, occupational health and medicine, health education, travel medicine and expatriate health.

2.3 Customer satisfaction

Customer perception

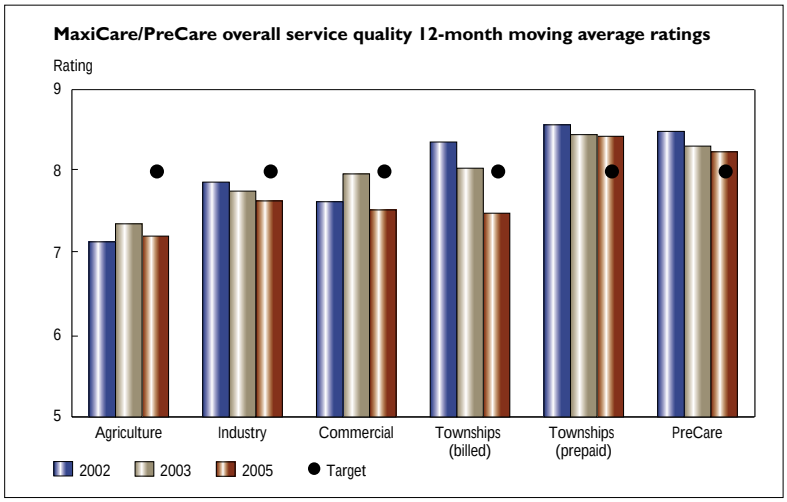
Eskom uses a variety of statistical perception surveys, conducted by an independent organisation, to measure customer satisfaction with the service delivered.

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. As the weights and components change every year in line with business priorities, the December 2003 performance was restated as 74,70%. The index score at 31 March 2005 was 78,96%. The index score at 31 December 2004 was 78,22% against a 12-month moving average target of 75,00%. This improvement was due to focused management action in attaining the goals of its long-term customer service strategies.

MaxiCare[1] and PreCare[2]

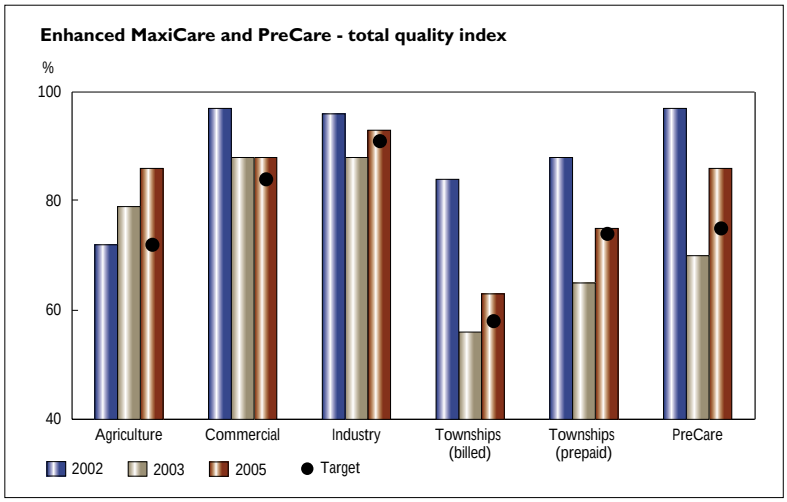
The combined MaxiCare and PreCare surveys resulted in an overall service quality rating of 7,66 at March 2005 (2003: 7,87). The overall combined rating as at December 2004 was 7,66 against a 12-month moving average target of 8,10. In the current reporting period the combined PreCare survey was added to the five customer categories from MaxiCare for enhanced reporting. With regard to the Township (billed) category the year on year performance was affected by the stronger credit management actions taken. This index will be discontinued in the next financial year as the Enhanced MaxiCare and PreCare tool is a more accurate measure and sufficient history is now available on this tool.



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 and PreCare for all customer categories at 31 March 2005 was 85% (2003: 79%) and 83% at 31 December 2004.



KeyCare[2]

The KeyCare TQI, which measures the perceptions of key (major) customers, reflected performance of 111% (2003: 110%) against a target of 98% at 31 December 2004, and 110% for the 15-month period at 31 March 2005.

CustomerCare[3]

Call volumes answered by contact centres, as measured during a 12-month moving window, increased to 2 655 676 at 31 March 2005 (2003: 2 411 006, 2004: 2 615 022). The contact centre service level at 31 March 2005 improved to 78,5% (2003: 73%) of calls answered within 30 seconds. At 31 December 2004 the service level measured 78,9% against a target of 78%. The international benchmark is currently 80% for the first[4] quartile performance of comparable utilities.

The CustomerCare survey measures the satisfaction of customers who had phoned the contact centre in the previous week. On a scale of one to ten, customers rated the contact centre service delivery at 31 March 2005 as 7,72 (2003: 7,44) and the follow-up service delivery at 5,30 (2003: 5,99).

A new customer relationship management solution was implemented in November 2004. This will assist with the tracking and automatic escalation of customer queries for resolution, as well as enabling a follow-up service and will continue to be a major focus in the forthcoming year.

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 who have phoned the call centre are asked to rate the various aspects of their experience on a scale of one to ten.*
4. *The first quartile is a measure which represents the 12-month moving average for customer service level performance of comparable top performing international utilities.*

2.4 Technical performance

Operational sustainability index

The purpose of the operational sustainability index is to reflect overall technical performance, while balancing the low-cost production of electricity with sustainable long-term reliability. The operational sustainability index, through its monitoring process, assists management to achieve the smooth and sustainable long-term technical running of Eskom. The operational sustainability index, which is a 12-month moving average, combines 17 (2003: 18) weighted indicators into a composite index. The number of weighted indicators was reduced by one after the more logical regrouping of the sub-measures.

The operational sustainability 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 for the 12 months ended 31 December 2004 was 89,1% (2003: 89,6%) against a minimum threshold of 80%. This level of performance has been maintained for the past three years. The score achieved for the period 1 April 2004 to 31 March 2005 was 90,4% which 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 of 100,0% (2003: 94,0%) was achieved at 31 December 2004. The increase in the score was as a result of the Unplanned Capability Loss Factor (UCLF) recovering from 5,5% in 2003 to 3,2% in 2004. The index score at 31 March 2005 was 100,0%.

In the Transmission Division the score was 92,0% (2003: 97,0%) at 31 December 2004 for measures which cover aspects of availability, reliability, disturbance and the power quality. The reduction in the score was due to the incident at the Bighorn Substation which occurred in March 2004. At 31 March 2005 a score of 100,0% was achieved. The recovery was in the area of transmission availability where the Bighorn Substation incident moved out of the measurement window.

The Distribution Division's measures of reliability, disturbance, voltage quality and customer service achieved a score of 80,0% (2003: 85,0%) at 31 December 2004. The score decreased due to the deterioration of the distribution customer component of this measure from 75,0% to 64,0%. The score at 31 March 2005 was 82,0% and was also negatively impacted by the deterioration of the distribution customer component.

Safety and environmental measures are the responsibility of all divisions.

Safety scored 40% (2003: 40%) at 31 December 2004 and 20% at 31 March 2005 as a result of an increase in electrical contact fatalities.

Environmental measures scored 100% at both 31 December 2004 and 31 March 2005 (2003: 100%).

Generation plant performance

Generation energy availability factor (EAF)

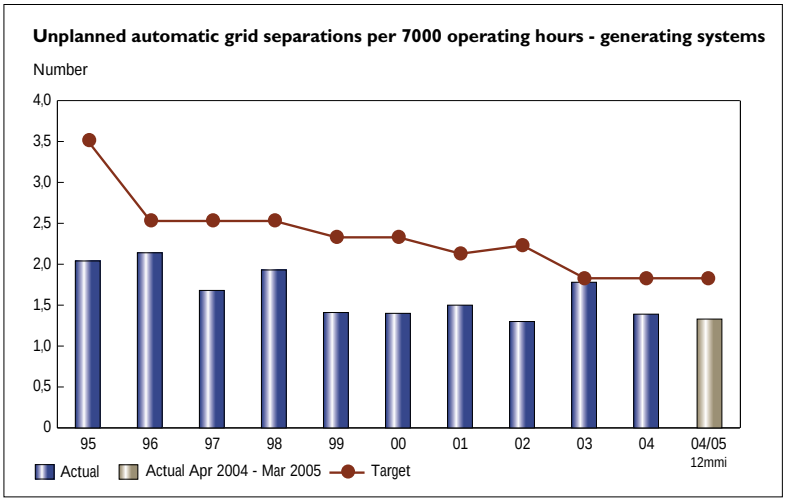
The EAF measures plant availability and takes into account energy losses not under the control of plant management, as well as internal non-engineering constraints. During 2004, a performance of 89,5% (2003: 87,5%) was achieved against an annual target of 89%. The improvement was due to the decrease in the Unplanned Capability Loss Factor (UCLF) to 3,2 for 2004 (2003: 5,48). For the 12-month period April 2004 to March 2005, an EAF of 89,5% was achieved.

Plant unit capability factor (UCF)

The UCF reflected an improved performance in 2004 of 90,0% (2003: 88,7%) against an annual target of 90%. For the 12-month period April 2004 to March 2005 a performance of 89,9% was achieved.

Unplanned automatic grid separations (UAGS)

UAGS/7 000 hours, a EURELECTRIC base-load plant indicator, is a measure of the reliability of the service provided to the electrical grid, and measures the number of supply interruptions per operating period (7 000 hours on average). During 2004, this indicator measured 1,39 (2003: 1,78) trips per unit per year against a target of 1,7 and for the 12-month period April 2004 to March 2005, a performance of 1,33 was achieved.



Transmission system performance

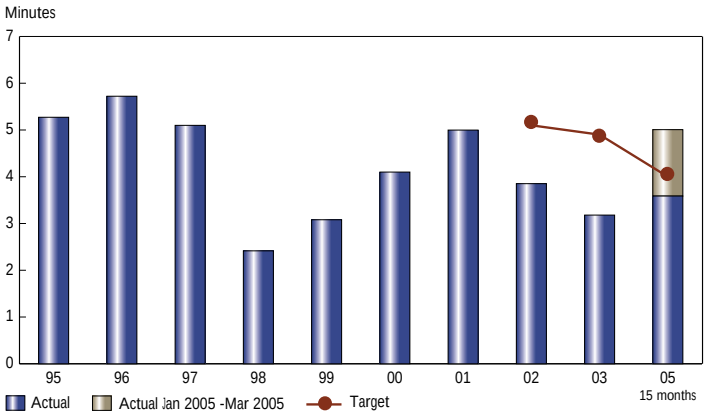
The key measures in the Transmission Division, which have a direct impact on the continuity of supply to customers, are the number of system minutes lost and the number of interruptions.

Over the past few years, a major focus has been placed on reducing the number of interruptions that affect customers. During the 12-month period ended 31 December 2004, 33 interruptions (2003: 37) were reported against a target of 46. This represents the best performance recorded to date. For the 15-month period, 44 interruptions were reported.

A performance of 3,59 (2003: 3,18) against a threshold of 4 was recorded for system minutes lost (for incidents less than one system minute) for the 12 months ended 31 December 2004. For the 15-month period, 5,01 system minutes were lost. During 2004, there was one (2003: one) incident with a severity greater than one system minute. It was a very large system event caused by the consecutive failures of two Bighorn 275/88kV transformers in the Platinum Basin near Rustenburg. This incident resulted in 23,1 system minutes lost. No further major incidents occurred and the number of incidents for the 15-month period remained the same.

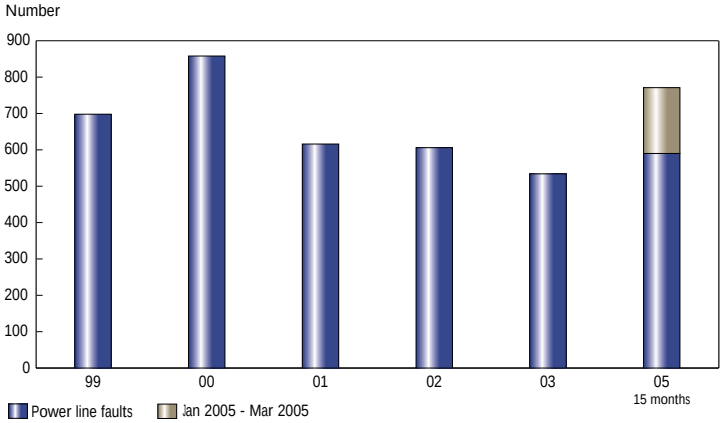
Another key indicator, which impacts on the quality of the supply delivered to customers, is the number of line faults. The Transmission Division's ongoing initiative to reduce the number of line faults has resulted in another acceptable performance of 590 (2003: 534) line faults for the 12-month period ended December 2004 against a target of 600. For the 15-month period 771 line faults were reported.

System minutes for incidents less than one system minute



No targets were set for system minutes less than one before 2002. Large interruption 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.

Power line faults



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, whereas power quality indicators measure the technical quality of electricity supplied to customers.

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 is reflected below:

Measure		Target December 2004 % (12 months)	Actual[1] March 2005 % (12 months)	Actual December 2004 % (12 months)	Actual December 2003 % (12 months)
Waveform quality indicators	Regulation[2]	**96,2**	**99,5**	**98,9**	98,7
	Unbalance[3]	**97,0**	**100,0**	**99,5**	99,2
	Harmonics[4]	**98,0**	**100,0**	**100,0**	100,0
Disturbance indicators	Type X dips[5]	**96,2**	**96,3**	**97,6**	98,6
	Type S dips[4]	**96,2**	**96,3**	**99,4**	100,0
	Type T dips[4]	**96,2**	**99,4**	**99,4**	100,0
	Type Z dips[4]	**96,2**	**98,8**	**99,4**	100,0

The 12-month moving index 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. To improve performance during the current period significant emphasis has been placed on more efficient outage management as well as high priority maintenance and reliability projects.

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.

1. *Represents the 12-month moving average from 1 April 2004 to 31 March 2005.*
2. *Reflects the ability to control deviations from the nominal supply voltage contracted with customers.*
3. *Reflects the ability to keep the three phases of the supply voltage electrically balanced, i.e. displaced by 120 degrees relative to one another and the same magnitude.*
4. *Reflects the ability to avoid higher order frequencies in the 50 Hz supply voltage.*
5. *Reflects the ability to minimise faults and breaker operations at various voltage levels.*

Coal

The higher than expected growth in the total electricity demand resulted in an increase in the quantity of coal purchased and burned as compared to both budget and 2003.

Coal burned and coal purchased	2005 (15 months)	2004 (12 months)	2003 (12 months)
Coal burned, million tons	**136,4**	**109,5**	104,4
	(budget - 133,8)	**(budget - 106,4)**	
Coal purchased, million tons	**137,8**	**112,7**	104,9
	(budget - 135,0)	**(budget - 106,8)**	
BEE purchases, million tons	**28,6**	**23,2**	23,8

The emergency purchases situation which began in 2003 continued into 2004, when stockpiles at a few power stations were reduced to unacceptably low levels and additional coal was sourced to meet the increased demand. Towards the latter part of 2004, the situation had stabilised and stockpiles were back in line with expectations. However, the planned electricity supplies from Cahora Bassa during the last few months of 2004 did not materialise, and this, combined with plant problems experienced at certain stations, as well as coal supply problems from Eskom's major rail-based supplier, resulted in a dramatic reduction in the stockpile at Majuba Power Station, which necessitated additional coal purchases early in 2005.

To transport the additional purchases, the maximum availability of Spoornet is always used first. Only then was road transport used. Approximately 19,1 million tons of coal (2003: 6,7 million tons) was transported by rail and road to the Eskom coal-fired power stations during the 15-month period. Of this, 3,1 million tons was transported by rail and 16,0 million tons by road. Road conditions are poor, and Eskom has been in constant communication with the Road Transport Authority and the Mpumalanga Province to expedite the road repairs in the area, and will continue with this interaction until the situation has been rectified.

Black Economic Empowerment (BEE)

Eskom continues to support BEE coal mining initiatives when purchasing additional coal, as well as utilising BEE road transport companies to transport the coal where required, in order to develop them into sustainable operations into the future.

The list of pre-qualified suppliers was used as the basis for acquiring additional emergency coal purchases in 2004 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).

Major projects

The Matla 4-seam shortwall produced a South African record production of 722 000 tons in one month during 2004. The increased production was used to supply coal to other Eskom power stations.

The Khutala Pit A opencast operations increased production in 2004 to meet the additional burn requirements of the Kendal Power Station.

The Majuba coal transport system project initiated in 2003 is awaiting final approval. The Tutuka coal transport system is still under investigation and a decision on the way forward is expected during the next financial 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 17 on pages 170 to 171.

Water

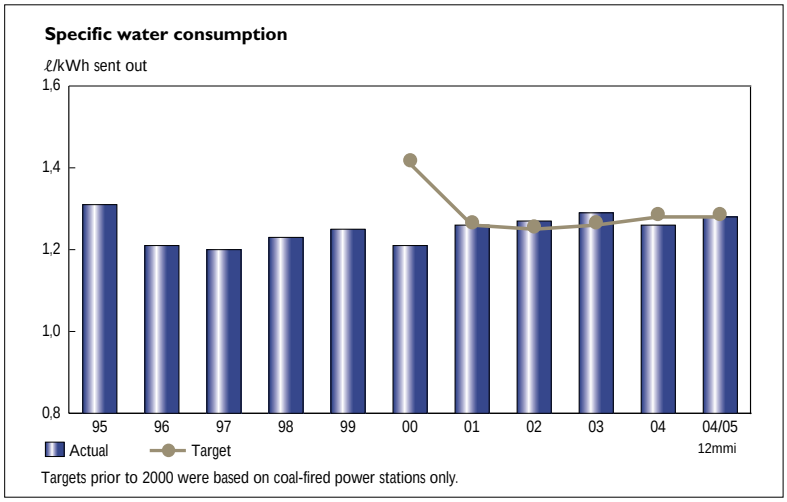
The water consumption at Eskom's power stations for the 15 months to March 2005, detailed below, takes into consideration the use of all water abstracted from state water schemes, and of mine water used at Tutuka and Lethabo power stations. The improved consumption per kWh sent out compared to the previous year can be attributed to changes in the water management practices.

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.

Raw water used in the production of electricity	Actual 2005 (15 months)	Actual 2004 (12 months)	Actual 2003 (12 months)
Raw water used by Eskom power stations, Mℓ	**347 135**	**277 557**	271 940
Electricity produced, GWh	**273 403**	**220 151**	210 218
Specific water consumption, ℓ/kWh sent out	**1,27**	**1,26** (Target - 1,28)	1,29

The assurance of water supply to power stations in the Mpumalanga Highveld could be at risk in the near future because of the increased demand by all users and decreasing water yields due to cycles of drought. To mitigate this risk, the Department of Water Affairs and Forestry (DWAF) is to construct a pipeline to integrate the water supply system with the Vaal Dam. It is estimated that this project, due for completion in mid 2007, will provide water security to the power stations and other users for the next 25 years.

Eskom continues to liaise with DWAF to ensure optimum management of water supply systems and the planning of new water infrastructure for the development of new power stations.



Hydro and pumped storage schemes

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. Hydro and pumped storage schemes contributed 1,66% (2003: 1,6%) of the electricity generated by Eskom during 2004. During the 15 months to 31 March 2005, hydro and pumped storage schemes contributed 1,67% of the electricity generated by Eskom primarily during periods of peak electricity demand. The maximum peak demand increased by 7,1% (2003: 1,0%) to 34 195 MW (2003: 31 928 MW). Such peak demands are usually of short duration.

Eskom has commenced the design of the Braamhoek Pumped Storage Scheme and anticipates it will be operational in 2012. As the demand for peak electricity continues to grow, Eskom will continue to explore the development of new hydro and pumped storage schemes.

Nuclear fuel

Two enriched uranium product supply contracts were negotiated and signed during 2004 and Government's authorisation obtained. These two contracts, as well as the fuel fabrication contracts entered into during 2002, will ensure the availability of nuclear fuel to Koeberg Power Station at competitive prices until the end of 2010.

Research, development and demonstration

Research, development and demonstration are focused on supporting sustainable development in Eskom. Investment in technical research, development and demonstration projects detailed below included development expenditure on the Pebble Bed Modular Reactor (PBMR). It is estimated that, in 2004, research expenditure (excluding costs relating to the PBMR) provided a projected return of approximately 6:1 (2003: 5:1) in terms of avoided and direct cost reductions. In addition, non-quantifiable benefits in social, environmental and customer satisfaction were realised.

Research, development and demonstration expenditure	2005 (15 months)	2004 (12 months)	2003 (12 months)
Research, development and demonstration, Rm	**227,6**	**188,9**	178,0
PBMR, Rm	**35,0**	**35,0**	380,0
Total, Rm	**262,6**	**223,9**	558,0
Percentage of revenue, %	**0,63**	**0,66**	1,80

Fine coal research

It has been estimated that between 100 to 200 million tons of ultra-fine coal has been discarded in the Mpumalanga Highveld. In addition, approximately 6 million tons are added annually. The coal has a high calorific value, but is unsuitable as a fuel for power generation due to the high moisture content. A research project is determining whether the waste heat from a station could be used to dry the coal and render it available as a fuel. It has been established that the ultra-fine coal is suitable for use at the Hendrina Power Station and an opportunity exists for its use at other power stations.

High Voltage Direct Current (HVDC) research

Eskom's research into HVDC technology endorsed the critical finding from international studies that the operational use of voltage of ± 800 kV is technically feasible. The focus of the research project is on the Westcor Project.

Underground coal gasification

Underground coal gasification is currently under development. The technology promises to open unminable coal resources in South Africa, and enable coal-based power generation in one of the most environmentally acceptable manners. The in situ (on site) nature of the technology obviates the need for coal mining, transportation, preparation, and disposal of ash. The aim was to establish a drilling programme on the Majuba coalfield, for evaluating the coal reactivity, geology, rock mechanics and hydrogeology of the site.

The South African Centre for Essential Community Services

The South African Centre for Essential Community Services, originally established by Eskom and the Electric Power Research Institute, aims to identify, develop and implement technologies that improve the quality of life in South African communities. The centre developed its sustainable development concept in 2004, which is based on the development of technologies that can sustain small businesses in the rural communities.

Demonstration

Eskom's strategic planning takes into account research and development relating to the identification of demonstration plants.

Wind

The wind energy demonstration facility is situated at Klipheuwel in the Western Cape. During the 15-month period, the three wind turbines produced 5,9 GWh and a total of 9,8 GWh since the commissioning of the first wind turbine in 2002.

The turbines delivered an availability of between 89,78% and 94,63% during 2004, with an energy use factor of between 13,32% and 15,89%. The relatively low energy use factor is determined by the prevalence of wind.

Solar

The solar dish stirling system, commissioned in August 2002, sent out a total net energy of 6 438 kWh in 2004. The low output of energy was as a result of system unavailability, changes and modifications made as part of the research programme. The system was damaged in October 2004 and no electricity was generated for the rest of the reporting period. The research and demonstration has confirmed that the dish is not yet a commercially viable option.

Biomass

Eskom is planning to pilot a biomass gasification technology in the Eastern Cape. Initial discussions started with the affected community and the University of Fort Hare in 2003. The energy produced from the gasifier will be utilised for development within the community around a sawmill. It is projected that the system will generate 100 kW of energy.

Ocean energy

Eskom is investigating the feasibility of using ocean energy as a future primary energy source. A resource assessment of the wave and tidal power density along the South African coastline continued in 2004.

The study is aimed at assessing international technologies and determining which technology to implement in South Africa.

Fuel cell

Eskom and the University of the Western Cape have for the past three years collaborated on local fuel cell research. This research was mainly aimed at the development of skills in terms of this technology. The prototype 50 Watt battery charger is currently under development and the aim is for the first demonstration model of the device to be completed by the end of 2005.

Nuclear

PBMR (Pty) Limited was established to investigate the feasibility of establishing an inherently safe reactor, the Pebble Bed Modular Reactor (PBMR). The intention is to create a relatively small (about 165 MW) modular reactor.

During 2004, PBMR project was reconfigured with Eskom's role becoming that of operating the demonstration plant and to be a potential commercial user of the technology. Since May 2004, the Government has provided funding for the PBMR Company.

The aim is to build a demonstration reactor at Koeberg near Cape Town and a pilot fuel plant at Pelindaba near Tshwane. To this end a comprehensive environmental impact assessment (EIA) was conducted for the project, for which a positive Record of Decision (ROD) was issued by the Director General of the Department of Environmental Affairs and Tourism (DEAT). Following an application by Earthlife Africa, the Cape High Court in January 2005 ruled that Earthlife Africa and other stakeholders be allowed to make further written submissions to the Director General for consideration before finalising the decision. Steps to implement the court ruling were initiated in 2005.

The construction of the helium test facility (HTF) at Pelindaba commenced in November 2004. The HTF is a high temperature, high pressure rig which will test the complete helium cycle system for the PBMR. It will also simulate the fuel handling, reactivity control and shut-down systems.

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 (ISEP9a) was approved early in 2004 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 most attractive supply-side option remains the return to service of the three mothballed power stations, Camden, Komati and Grootvlei, which were placed in reserve storage during the period of high excess capacity on the Eskom system. The project to return Camden Power Station to service is currently underway with the first two units planned to come on line towards the latter part of 2005.

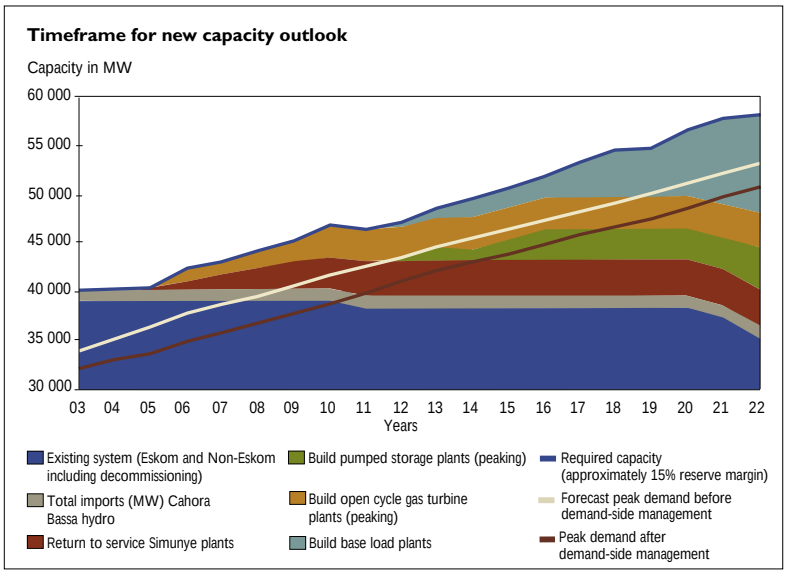
Thereafter Eskom continues to investigate a variety of options, including conventional pulverised fuel plants, pumped storage schemes, gas-fired plants, nuclear plants (PBMR), greenfield fluidised bed combustion technologies, renewable energy technologies (mainly wind and solar projects) as well as import options.

Government has recently taken the decision that Eskom will build approximately 70% of the new capacity required in South Africa. The balance is expected to come from Independent Power Producers (IPPs). It is likely that Eskom will be the counterparty in the power purchase agreements with these IPPs.

Of the base load capacity options (high utilisation factor), the selection of the preferred alternative from those being investigated is expected by the end of 2005. This will allow the first chosen plant to be commissioned after 2010.

With moderate growth in demand for electricity, additional peaking capacity (low utilisation factor) will be needed from 2006. Initially this will be met by certain contingency plans, including demand-side management capacity. Also, in addition to the return to service programme, Eskom is planning to bring into service about 1 000 MW of gas turbine capacity in 2007. Gas turbine technology can also operate on fuel sources other than gas, such as kerosene and oil. A similar gas turbine project will be developed by IPPs for service at the end of 2008. The latter tender process for the IPPs is being administered by the Department of Minerals and Energy (DME).

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. The ISEP plan considers it prudent to maintain a 15% reserve margin, as reflected in the graph. In addition, at the end of 2004, an Eskom implementation plan was developed that targets a programme of higher and accelerated studies to hedge against potential risks such as development delays that might affect lead times.



Sustainability issues continue to be integrated into the ISEP process including the assessment and internalisation, where possible, of relevant externalities. During 2004, the use of multi-criteria decision analysis techniques continued to improve the integration of sustainability issues in decision-making.

Eskom's Demand-side Management (DSM) programme aims to provide lower cost alternatives to generation system expansion by focusing on the usage of electricity. Consumers are incentivised to use electricity more efficiently and at times of the day outside of Eskom's peak periods. This is a joint initiative between the DME, the NER and Eskom and it aims to save 4 255 MW of generation capacity over a 25-year period.

The DSM implementation target of 153 MW contracted for the 12 months to 31 December 2004 was exceeded by 30% with projects with an expected saving of 197 MW being recorded, with a further 40 MW recorded during the three months to 31 March 2005. This performance is still being verified by independent measurement and verification entities as there is a time lag of up to six months before savings can be verified. The recent history of actual projects verified compared to the projected savings reflected a variance of less than 5%.

The peak demand of 34 195 MW recorded in the 15-month period (2003: 31 928 MW) was substantially higher than that recorded in 2003. There was a substantial decrease in the generation reserve margin from 16,9% in 2003 to 8,5% in 2004.

2.5 Equity

Employment equity

Eskom aims to demonstrate exemplary corporate citizenship and harmony with society through the 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.

The transfer of 1 370 staff members from Eskom Enterprises into Eskom, of whom 964 were at a managerial[2] level, has had a negative impact on both Eskom's race and gender equity statistics at managerial level, as the percentage equity achievements in Eskom Enterprises were lower than those in Eskom.

Employment equity	Target December 2004	Actual March 2005	Actual December 2004	Actual December 2003
Eskom				
Race:				
- Black[1] staff at managerial[2] level, %	**57,9**	**57,9**	**58,5**	56,3
- Black staff at all levels, %	**n/a[3]**	**69,1**	**69,7**	69,3
Gender:				
- Women at managerial level, %	**29,1**	**28,9**	**30,0**	27,8
- Women at all levels, %	**n/a[3]**	**23,3**	**22,9**	21,6
- People with disabilities, %	**1,9**	**2,0**	**1,9**	1,4
Internal promotions				
- Black staff at all levels, %	**n/a[3]**	**75,3**	**91,7**	82,5
- Women at all levels, %	**n/a[3]**	**44,4**	**16,7**	26,9
Eskom Enterprises				
Race:				
- Black staff at managerial[2] level, %	**50,0**	**39,6[4]**	**49,5**	49,4
- Black staff at all levels, %	**n/a[3]**	**52,6[4]**	**53,0**	53,0
Gender:				
- Women at managerial level, %	**18,0**	**14,4[4]**	**18,1**	17,5
- Women at all levels, %	**n/a[3]**	**14,9[4]**	**19,6**	24,8

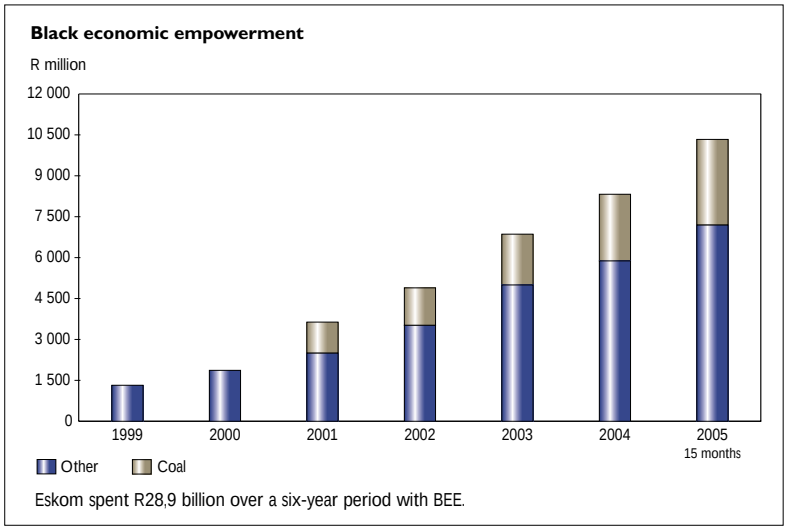
1. Black, Asian and Coloured South Africans.
2. Managers, professionals and supervisors in the CU to F Band levels on the Paterson grading.
3. No target set.
4. Staff employed by Rotek Industries (Pty) Limited and Roshcon (Pty) Limited.

Black economic empowerment (BEE)

As part of its procurement policies and managerial support programmes, Eskom continues to support small, medium and micro enterprises and large black businesses for the supply of goods and services thereby contributing to BEE. The amounts reported include expenditure on both coal and demand-side management referred to elsewhere in this report.

In line with Eskom's policy framework for the economic empowerment of women, there is an increased focus on the promotion and empowerment of black women entrepreneurs to facilitate their participation in the mainstream economy.

	Target 2005 (15 months) Rm	**Actual[1] 2005 (15 months) Rm**	**Actual[1] 2004 (12 months) Rm**	Actual[1] 2003 (12 months) Rm
Total BEE expenditure	**9 652**	**10 334**	**8 323 (target 7 465)**	6 861
Black women owned business (included in total BEE expenditure)	**695**	**1 086**	**840 (target 521)**	517



Eskom spent R28,9 billion over a six-year period with BEE.

1. Amounts inclusive of VAT.

2.6 Occupational health and safety risk management

The Chief Executive continues to take overall leadership for occupational health and safety. A strong message from the Chief Executive directed at senior management called for visible leadership, improved discipline, and overall accountability for safety.

There has been a significant and unacceptable increase in employee fatalities (18) during the period 1 January 2004 to 31 March 2005 (2003: 5), including three fatalities in Eskom Enterprises. Three incidents caused seven fatalities. This increase in fatalities occurred not withstanding the fact that there was a reduction in the disabling injury incidence rate (DIIR) for Eskom from 0,37 during 2003 to 0,32 for the period 1 January 2004 to 31 March 2005. The DIIR for Eskom Enterprises was 0,94 for the period 1 January 2004 to 31 March 2005 (2003: 0,53[1]).

A strategy to address vehicle, construction, contractor and electrical safety, as well as the role of leadership was presented and endorsed by the EXCO Operations Subcommittee. Major findings during audits and investigations indicated non-compliance with legal requirements, health and safety rules not followed and a general lack of discipline. A communication strategy is being implemented to focus on safety awareness and behavioural safety.

In view of this, an electronic training programme for middle management was implemented and focuses on all areas of occupational health and safety. The World Health and Safety Day (7 May 2004), was also used as an opportunity to focus on vehicle safety, electrical contact safety, prevention of noise induced hearing loss, falling from heights and incidents relating to slips, trips and falls.

All serious incidents are discussed at the EXCO Operations Subcommittee meetings. Case studies sharing the lessons learnt from investigations are made available throughout Eskom to continually improve the health and safety performance. The divisions presented strategies on how to improve safety performance.

Disabling injury incidence rate (DIIR[2])	**Target December 2004 (12 months)**	**Actual March 2005 (12 months)[3]**	**Actual December 2004 (12 months)**	Actual December 2003 (12 months)
DIIR[4]	**0,43**	**0,32**	**0,32**	0,37

1. Correction made to the 2003 figure due to late reporting.
2. DIIR expresses the number of disabling injuries suffered in relation to the number of man hours worked.
3. This includes the 12-month moving average from 1 April 2004 to 31 March 2005.
4. Figures include occupational diseases, and exclude Eskom Enterprises and the Enterprises Division.

Safety statistics	Actual March 2005 (15 months)	Actual December 2004 (12 months)	Actual December 2003 (12 months)
Employee safety			
Total fatalities, number	**15**	**8**	5
Electrical contact fatalities, number	**3**	**1**	3
Vehicle accident fatalities, number	**10**	**6**	2
Other fatalities, number	**2**	**1**	-
Electrical contact injuries, number	**19**	**17**	23
Public electrical safety			
Total public fatalities, number	**39**	**29**	27
Electrical contact fatalities, number	**28**	**21**	20
Fatalities as a result of other causes, number	**11**	**8**	7
Contractor safety			
Total contractor fatalities, number	**17**	**11**	6
Contact fatalities, number	**5**	**3**	4
Other fatalities, number	**12**	**8**	2

Safety performance

There was a reduction in electrical contact injuries for the 15-month period ending 31 March 2005, compared to 2003.

The increase in fatalities is a cause for concern. Employee fatalities related to motor vehicle accidents increased from two in 2003 to ten in the 15-month period. Third parties caused four of these fatalities. There was also an increase in contractor and public fatalities during this period.

The incidents relating to contractors included electrical contacts and falls from heights. The major causes of public electrical contact incidents remain conductor theft, illegal connections, low hanging conductor, and objects making contact with lines.

Electrical safety

The Eskom Operating Regulations for High-Voltage Systems and the National Operating Regulations for High-Voltage Systems are two high-level interventions used to promote safety in the high-voltage environment. These systems are overseen by a committee which comprises representatives from the Generation, Transmission and Distribution divisions, Corporate Risk Control, Corporate Technical Audit Department and Eskom Enterprises. It reports to the EXCO Operations Subcommittee on a regular basis.

The committee, with its various substructures, supports the drive towards zero electrical contact incidents and the minimising of operating errors where the focus is on the safety of employees and contractors.

Fleet safety

Fleet safety campaigns continued and included driver training and awareness, and improved controls over the use of company vehicles. Emphasis was placed on the effective management of information from the on-board computers fitted in Eskom vehicles, as well as the issuing of Eskom driver evaluation permits.

A seminar was held with consultants from the National Roads Agency to promote vehicle safety, and various awareness campaigns were launched in conjunction with the Arrive Alive campaign. The campaigns included road safety brochures, guides, banners and videos on vehicle safety and awareness. A guide to anti-hijacking was produced and distributed to staff in all divisions in Eskom.

Occupational hygiene

Ongoing asbestos management programmes continue to be implemented in most of the business units in the Generation Division with special attention given to the return to service of power stations (Camden, Grootvlei and Komati) prior to their re-commissioning.

The occupational hygiene programmes are overseen by the Eskom Approved Inspection Authority which is approved by the Department of Labour for this purpose.

Other occupational hygiene initiatives include the following:

- Continued involvement of Eskom's Approved Inspection Authority during incident investigations for occupational diseases as per the Eskom procedure.
- An ongoing programme and committee for hazardous biological agents was established through the Occupational Hygiene Management Action Group.
- An ongoing programme for the development of graduates in occupational hygiene as part of capacity building within Eskom.
- An occupational hygiene training programme was compiled to improve the knowledge and skills of managers and supervisors.
- Awareness courses are ongoing in Eskom to improve the management of hazardous chemical substances.
- Audits are conducted to ensure that occupational hygiene programmes are implemented.

Public safety

The major causes of public electrical contact incidents remain conductor theft, illegal connections, low hanging conductor, and objects making contact with lines.

Eskom has a social responsibility to ensure electrical safety awareness amongst members of the public and this remains an ongoing focus area.

Electrical safety awareness initiatives focused on educating the public about the dangers of electricity inside and outside the home. Various promotional items were used for regional-based initiatives.

Contractor safety

Workshops were held with various disciplines in the organisation to identify potential health and safety risk areas. The workshops focused on construction work during routine maintenance and capital expansion.

During this period, a request was made for proposals on best practices in the construction industry.

Fire risk management

During the 15-month period to 31 March 2005, Eskom experienced two major fire incidents, both of which involved transformers. Three public liability incident claims were made against Eskom for damage to property as a result of fire. Evaluations were also undertaken by the Eskom re-insurers within the Generation Division. Recommendations are being implemented and followed up.

Emergency preparedness

Emergency planning was tested during emergency incidents. Emergency incidents that require emergency planning typically include power failures due to veld and transformer fires, lightning strikes, weather storms and technical faults. Emergency planning in the technical service centres was reviewed as a result of the incidents.

Occupational health and safety performance of Eskom Enterprises

The DIIR definitions, calculations and interpretations used in Eskom Enterprises have been aligned with those in use in Eskom. Based on the revised criteria, Eskom Enterprises reported a DIIR of 0,94 for the 12 months to December 2004 against 0,53 as reported in 2003. Three fatal incidents were reported for the period 1 January 2004 to 31 March 2005 (2003: 1).

Nuclear safety performance

Eskom's nuclear safety performance continues to meet world standards as measured against the latest available information on pressurised water reactors of a similar design. Koeberg performance is calculated monthly using the performance indicator procedures of the World Association of Nuclear Operators (WANO), and benchmarked against the latest results available from WANO which are published quarterly.

Regular reviews of Koeberg Power Station, compared with international industry best practice, are carried out as part of Eskom's ongoing commitment to nuclear safety. These are coupled with self assessments and various technical support missions by international experts. To ensure that there is continual improvement in performance, a full WANO peer review was done at Koeberg in January 2004.

3. Social performance

3.1 Socio-economic development

HIV/AIDS

Eskom continues to support the South African AIDS Vaccine Initiative (SAAVI) in its search for a 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 2004, to bring its cumulative contribution since the inception of this initiative in 2000 to R82,5 million. Eskom has committed to further fund this research to the extent of R30 million until 2007.

Eskom is involved in the funding, governance and strategic direction of the training programme for health care professionals on 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 programme over a period of three years. The first R2 million was paid in 2003, with a further R2 million paid in 2004.

Corporate social investment

The goal of Eskom's corporate social investment is to improve the quality of life of previously disadvantaged South Africans. It includes various programmes for skills development, job creation, education, health, support for the Proudly South African campaign and other cause-related 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[1], a Section 21 company.

The predetermined objectives for 2004 detail the grants committed for HIV/AIDS vaccine development research (R15 million), the training of health care professionals (R2 million) and R42 million for the Eskom Development Foundation. These items as well as other initiatives not included in the predetermined objectives are detailed in the table below, with a combined budget of R167,5 million.

The following was spent during the 15-month period:

	Target 2004 (12 months) Rm	Actual 2005 (15 months) Rm	Actual 2004 (12 months) Rm	Actual 2003 (12 months) Rm
Social, economic development and national programmes	**25,0**	**30,9**	**24,7**	23,0
Eskom mathematics and science education programme	**3,6**	**4,3**	**3,6**	4,5
Rural development[2]	**50,0**	**19,8**	**15,6**	21,6
Legacy projects	**6,4**	**6,8**	**6,4**	9,2
SAAVI[3]	**15,0**	**15,0**	**15,0**	15,0
Health care professionals training[3]	**2,0**	**2,0**	**2,0**	2,0
Eskom public scholarship programme[4]	**52,8**	**57,1**	**38,9**	67,3
- Maths and science students	**9,5**	**16,1**	**10,4**	7,4
- Other scholarships	**43,3**	**41,0**	**28,5**	59,9
Donations (Eskom Development Foundation, Chairman and Chief Executive Fund)	**6,9**	**11,7**	**9,1**	11,5
Cause-related initiatives	**5,8**	**9,4**	**9,4**	4,5
- Expo for young scientists	**4,2**	**5,9**	**5,9**	1,5
- Proudly South African campaign	**1,6**	**3,5**	**3,5**	3,0
	167,5	**157,0**	**124,7**	158,6

1. *The operating expenditures associated with the Eskom Development Foundation are not reported as corporate social investment costs.*
2. *The budget variance emanates from implementation challenges which are being resolved. The release of funds had to be managed to focus on sustainability initiatives. The situation is gradually improving.*
3. *Details of these initiatives are included in the statement on HIV/AIDS.*
4. *The other scholarship amounts include experiential trainees, tertiary support education programme, university and technikon bursaries, Van der Bijl and Straszacker scholarships.*

During the period under review, Eskom, through the Development Foundation, received a number of awards, including being rated as one of the top three good corporate grant-makers over the past six years (1999-2004), the top state-owned enterprise making the strongest contribution to development as well as the most caring company in South Africa.

Electrification

The DME commenced funding the National Electrification Programme in April 2001. Eskom is responsible for the implementation of the programme in its licenced areas of supply on behalf of DME. Operating costs continue to be the responsibility of the licenced distributors.

The result of this electrification programme for the 15 months are:

Electrification	**Target (15 months) 2005**	**Actual (15 months) 2005**	Actual (12 months) 2003
Total connections	**211 529**	**222 314**	175 396
Direct connections, excluding farm workers, number	**209 500**	**219 885**	173 094
Farm worker connections, number	**2 029**	**2 429**	2 302
Capital expenditure, Rm	**815**	**891**	586
Capital cost per connection, R	**3 889**	**3 942**[1]	3 385
Farm worker connections incentives paid, Rm	**4,5**	**5**	4

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 3 210 557 homes have been electrified.

Electrification of schools and clinics

Funds applied to the electrification of grid schools and clinics	**Target (15 months) 2005**		**Actual (15 months) 2005**		Actual (12 months) 2003	
	Number	**Rm**	**Number**	**Rm**	Number	Rm
Department of Minerals and Energy	**1 389**	**81,64**	**1 286**	**79,84**	1 114	57,62

1. Capital cost excludes ministerial connections for which a full refund of costs has been received.

Since 2002, the electrification of schools and clinics has been fully funded by the DME through the National Electrification Fund. The funding for projects committed and not completed in the current year has been carried forward for projects to be continued and completed in the next financial year.

Free Basic Electricity (FBE)

There are two categories of customers that receive FBE, namely:

- Billed customers - customers who receive a monthly bill for electricity consumption. They receive their FBE automatically via an adjustment on their monthly bill.
- Prepaid customers - customers who must buy prepaid electricity tokens. FBE can only be issued if the customer collects the token from an electricity vendor.

The national Electricity Basic Services Support Tariff policy was gazetted by the Government in July 2003. 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 are eligible to receive 50kWh of free electricity every month.

Eskom is a service provider for FBE in its areas of supply. Payment for the supply of FBE is recoverable from municipalities at a standard tariff. Any shortfall as a result of differences between the actual customer tariff and the applied FBE standard tariff, implementation costs or other costs is recoverable from Government. During the 15-month reporting period, a cumulative amount of R64,8 million has been invoiced to contracted municipalities. A further amount of R6,2 million representing the shortfall mentioned above is recoverable from Government.

At 31 March 2005, 88% (2003: 35%) of the 238 municipalities, representing 750 000 (2003: 425 000) customers, had contracted with Eskom to provide FBE. Of the 750 000 customers approved by the municipalities to receive FBE, 585 000 customers (78%) have had their meter software configured by Eskom to receive FBE. On average 57% of the 585 000 customers configured to receive FBE have consumed their free electricity allocation during the 15-month period.

3.2 Support for New Partnership for Africa's Development (NEPAD)

Eskom has established a dedicated NEPAD team to facilitate the mobilisation of Eskom's resources to promote, develop and implement NEPAD's related projects in the power sector. Eskom has dedicated resources to support and assist the activities of the South African NEPAD Business Group by leading its Energy Working Group. The aim of the Energy Working Group is to mobilise private sector resources in the energy sector in South Africa and to engage in and contribute to the development of energy related infrastructure.

Eskom's vision of a Pan-African grid guides the plans for many of the NEPAD power projects and, as such, provides the motivation for Eskom's involvement in the development and implementation of the southern African regional "power highways" projects. All these projects aim at developing the appropriate power transfer capacity in the SADC region and beyond, so as to exploit the economies of scale in developing new generation plant and maximise the power trading potential of the Southern African Power Pool (SAPP). Significant progress was made in the Western Power Corridor project (Westcor), through the signing of the inter-government and inter-utility agreements to co-develop the project. Eskom has committed USD 100 000 to be used for the funding of the feasibility studies for this project. The Westcor project includes the development of a 3 500 MW hydro power plant on

the Congo River (Inga III - first phase) and the associated Western Corridor (DRC-Angola-Namibia-Botswana-RSA power transmission line).

Operation and investment activities continued in Mali, Zambia, Lesotho and Uganda, as well as co-operation and development activities in the Democratic Republic of the Congo, Angola, Libya and Mozambique.

In addition to being a member of the SAPP, Eskom is a contributing and an active member of the Union of Producers, Transmitters and Distributors of Electric Power in Africa (UPDEA), a non-governmental association of African power utilities with the aim of promoting co-operation and exchange of expertise amongst members. Eskom's Chief Executive is the current president of UPDEA.

3.3 United Nations Global Compact

The United Nations (UN) Global Compact asks companies to embrace, support and enact ten universal principles in the areas of human rights, labour standards, the environment and on anti-corruption and anti-bribery. Eskom, a signatory to the compact, continues its support through its sustainable practices. During 2004, Eskom participated in the UN Global Compact process to introduce the tenth principle on anti-corruption and anti-bribery and the Eskom Chief Executive participated in the Global Compact Leaders Summit.

4. Sustainable environment

4.1 Environmental management system

The Eskom environmental policy commits the business to the establishment of an environmental management system with a view to ensuring continual improvement in business activities.

Many parts of Eskom have received ISO 14001 standard certification, while the remainder of the Group undertakes audits and management reviews to assess the levels of compliance with the standard.

Those business units certified to the ISO 14001 standard are the Corporate Sustainability Department, Corporate Technical Audit Department, Rotek Engineering, PTM (protection, tele-control and measurement), Roshcon and the operational business units within the Transmission Division. Due to re-organisation within the Transmission Division the human resources business unit's certification was suspended in February 2005. A re-certification audit will be carried out in 2005. Although not certified, the Distribution and Generation divisions achieved compliance with the standard in 2003. Ongoing audits are undertaken to assist the divisions to maintain this level of compliance. With the establishment of the Enterprises Division, a commitment was made to ensure conformance to the standard during 2006.

Environmental legal requirements

Eskom's policy is to comply with legislation as a minimum standard and, where appropriate in the interest of the sustainability of the business, to set standards where no legislation exists. The organisation continues to interact with the relevant authorities regarding legislative compliance issues. Legislation requirements are incorporated into policies, procedures and standards. Legal compliance audits were carried out within the operational divisions of Eskom.

Eskom continues to keep abreast of developments in relevant legislation and continually assesses the impact of legislation on its business. Eskom provided input into environmentally related legislative issues, including the National Environmental Management Air Quality Bill, the air quality standard-setting process and the draft environmental impact assessment regulations.

Eskom reported 57 (2003: 36) contraventions of environmental legislation during the period 1 January 2004 to 31 March 2005. Legal compliance audits contributed towards improved reporting. These contraventions were primarily due to human error and deviations from procedures. Contraventions of legislation are reported and processes to mitigate any impacts are implemented and monitored. The number of contraventions reported in terms of the operational sustainability index were three (2003: two) during the reporting period. Contraventions are reported against the operational sustainability index when reporting does not take place as required (a formal censure is received from an authority, the event needs to be escalated to executive level for attention or the event is not timeously dealt with).

Environmental impact assessments (EIAs)

Eskom supports the undertaking of EIAs to support decision making and to obtain the necessary authorisation. This is entrenched in Eskom's environmental policy and decision making process.

EIAs for two open cycle gas turbine power stations and a coal-fired power station were initiated. EIAs continued for new transmission power lines, as part of the Eskom Cape Strengthening and Platinum Basin projects, and power lines and access roads for the Braamhoek Pumped Storage Scheme. The EIA also continued for the transport mode and route to supply Tutuka and Majuba power stations with coal. Following a High Court application, the positive ROD received in 2003 for the proposed PBMR demonstration module was set aside in January 2005. This will allow interested and affected parties to make further written submissions to the Director-General of DEAT for consideration before issuing a new ROD.

Other forms of environmental assessments were undertaken in support of Eskom's capacity expansion programme. These included the return to service of the mothballed power stations (Camden, Grootvlei and Komati), underground coal gasification and combined cycle gas turbine power stations.

Environmental management programmes

Environmental management programmes (EMPs) are developed, implemented and maintained as part of the EIA process for new projects and the implementation of environmental management systems. EMPs are in place within the Generation Division. The Transmission Division maintained EMPs for 100% of substations (2003: 100%) and for 100% of power lines (2003: 98%) and the Distribution Division completed EMPs for 100% of substations (2003: 100%) and 60% (2003: 50%) of all sub-transmission power lines (33kV - 132kV).

Environmental education

Training and awareness programmes form part of the environmental management systems in the divisions. Several capacity building workshops were held during the 15-month period.

Environmental accounting

Environmental accounting refers to the practice of identifying and reporting on the expenditure incurred for environmental purposes.
During 2004 a review was undertaken of Eskom's environmental accounting practices. The overall purpose of the review was to increase the relevance of the environmental accounting practices in Eskom. The outcome of the review will change the existing reporting practices.

During the 15-month period, R380 million (2003: R172 million) was spent on capital and R381 million (2003: R286 million) on operational environmental activities. The increase in capital expenditure resulted from the installation of bag filters at various power stations.

The Generation Division incurred 83% (2003: 77%), the Distribution Division 6% (2003: 7%) and the Resources and Strategy Division 6% (2003: 10%) 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 Distribution Division related to environmental assessments associated with power line and substation construction projects.

Environmental externalities

Environmental 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 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.

1. Based on the definition by the European Commission studies, 1998.

4.2 Environmental performance

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

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

Environmental performance indicators	Target December (12 months) 2004[1]	Actual March (12 months) 2005	Actual December (12 months) 2004	Actual December (12 months) 2003
Operational sustainability index indicators				
Relative particulate emissions, kg/MWh sent out[2,3]	**≤0,27**	**0,26**	**0,27**	0,28
Specific water consumption, ℓ/kWh sent out[2,4]	**≤1,28**	**1,28**	**1,26**	1,29
PreCare/MaxiCare - environmental component[2]	**≥8,10**	**8,29**	**8,31**	8,47
Reported legal contraventions in terms of the operational sustainability index	**0**	**3**	**2**	2
Other performance indicators				
Radiation exposure, milliSieverts per annum[2]	**0,25[5]**	**0,0079**	**0,0087**	0,0123
Net raw water consumption, Mℓ	**n/a**	**347 135**	**277 557**	271 940

Environmental events are reported monthly to the Eskom Environmental Liaison Committee where they are classified as events, legal contraventions or legal contraventions in terms of the operational sustainability index.

Of the 57 (2003: 36) legal contraventions reported, three (2003: two) were registered against the operational sustainability index. The three reported legal contraventions in terms of the operational sustainability index were for non-compliance with EIA regulations.

Air quality management

Particulate emissions

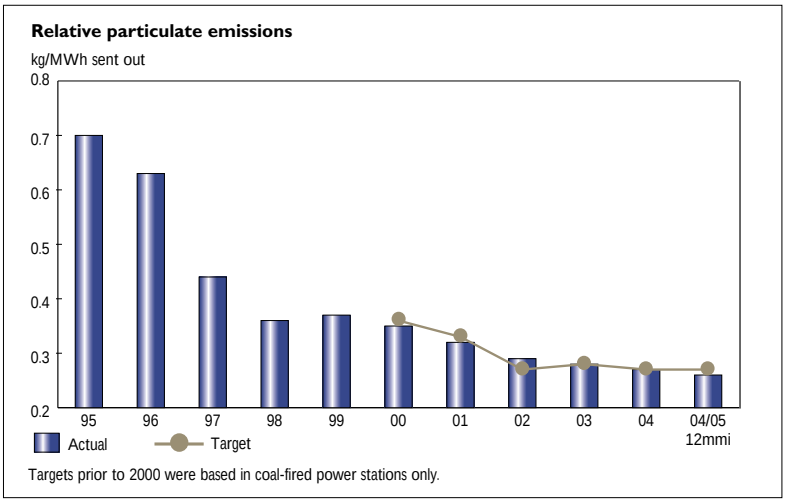
The emission of particulates (ash) is regulated by the Chief Air Pollution Control Officer (CAPCO) of the DEAT. Registration certificates for individual power stations are issued by CAPCO, which state the actual quantity of particulate emissions that may be emitted from the power station stacks during a 31-day period as well as the level of emission allowed in milligrams per standard cubic metre (mg/Sm^3).

The relative performance target for particulate emissions of ≤ 0,27 kg/MWh sent out was achieved (2003: 0,28 kg/MWh sent out) by the end of 2004. This was primarily due to the retrofitting of two units at Hendrina Power Station and two at Arnot Power

1. Targets remained the same for the period 1 April 2004 to 31 March 2005.
2. Figures are calculated as a twelve month moving index.
3. Amount of ash emitted per unit of generated power sent out.
4. Volume of water consumed per unit of power sent out by all generating stations.
5. National Nuclear Regulator limit.

Station with fabric filter bags and the optimisation of the sulphur trioxide flue gas conditioning plant at Lethabo Power Station.

Eskom and the Tshwane University of Technology jointly hosted the ninth International Conference on Electrostatic Precipitation in South Africa in May 2004. Technical papers were presented on topics ranging from mathematical modelling, back to basics and cold plasma technologies.



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 due to an increase in the amount of coal burned as a result of increased electricity demand and poorer quality coal.

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.

Monitoring equipment is calibrated against National Meteorological Laboratory standards in a laboratory accredited by the South African National Accreditation Systems.

Ambient air quality results indicate that the annual concentrations of SO_2, NO_x and FPM at all sites, with the exception of the Leandra site, are already within the standards that still need to be put into effect in terms of the National Environmental Management Air Quality Act. At the Leandra site, the FPM was above the limit.

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 Endangered Wildlife Trust (EWT) focused on efforts to manage the interactions between birds and electrical infrastructure. During the reporting period there were a total of 318 reported bird fatalities (collisions or electrocutions). A total of 605 field investigations of wildlife mortality have been performed since August 1996 by EWT volunteers as well as Eskom staff members, thus keeping in line with the long-term strategic aims of the projects to build capacity within Eskom. In most cases investigations conducted led to recommendations on preventative action. In situations where there was low biological significance or low impact on supply, no action was taken. In such cases the incident is closed or the landowner or field investigator monitors the situation.

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

Waste management

Eskom supports Government's commitment to waste management as a means of ensuring the protection of the environment. In this regard Eskom implemented a directive relating to waste management and reporting to support the waste policy.

The divisions report on different waste streams, which vary in significance according to the operations of that division. The reporting includes general waste, garden refuse, building rubble, metals and health care risk waste. Hazardous waste is monitored carefully throughout the organisation. During the 15-month period, 6 100 tons of asbestos were removed from power stations and disposed of at registered sites. In the Generation, Transmission and Distribution Divisions used oil was recycled. Paper recycling is encouraged throughout Eskom, with more than a ton recycled each working day. For example, at the Eskom head office 240 tons of paper were recycled over the 15-month period. During the period, 33 tons (2003: 130 tons) of Polychlorinated Biphenyls (PCB) capacitor cans were disposed of and 12,4 tons of PCB contaminated oil was cleaned by de-chlorination and burned as fuel oil.

Approximately 40 million tons of coal ash were produced at Eskom's coal-fired power stations over the 15-month period, and 4,8% of this was recycled. The ash for recycling was collected from Lethabo, Kendal and Matla power stations. This ash is used in the production of cement, amongst other uses. All remaining ash is disposed of in ash dams and dumps at power stations and rehabilitated using soil and local vegetation to minimise the impact on the environment.

A total of 264 (2003: 185) oil spills were reported, all of which have been addressed and appropriate mitigation measures implemented.

During the reporting period, legal compliance audits, were conducted, including the assessment of waste management practices. Two waste related contraventions were identified. These contraventions related to the disposal of waste at an unregistered site and poor management of waste skips leading to localised pollution.

Global climate change

Eskom takes a serious approach to global climate change. Eskom has developed a detailed policy and strategy to deal with climate change issues which are in line with the South African Government's National Climate Change Response Strategy, published in 2004.

The strategy covers activities such as studying options for internal energy efficiency improvements, demand-side management and the utilisation of lower carbon emitting technologies such as renewables (including large hydro), as well as nuclear, gas and clean coal. This strategy is aligned with Government's policy on diversification of the South African energy mix and is integrated into Eskom's investment strategy.

Eskom continues to have direct representation on the National Committee for Climate Change, which advises the Minister of Environmental Affairs and Tourism on climate change matters and also serves on the South African delegation to the Conference of the Parties to the United Nations Convention on Climate Change, as well as the Carbon Sequestration Leadership Forum.

Input was given into several other related international bodies, such as the Intergovernmental Panel on Climate Change. Eskom maintains an active profile with various other international bodies such as the World Business Council for Sustainable Development, the International Chamber of Commerce's climate and energy task forces and the International Emissions Trading Association.

Eskom undertook a number of activities that resulted in the avoidance of greenhouse gas emissions over the reporting period. These activities included the demand-side management energy efficiency and the renewable energy programmes. In addition, detailed studies were initiated on various options for projects under the clean development mechanism[1].

A research programme, which addresses adaptation, economic implications and the development of lower carbon emitting technologies, continued over the reporting period. This included research into clean coal technologies, efficiency improvements, carbon sequestration, renewable energy, gas and nuclear energy technologies.

Renewable energy

Eskom's renewable energy strategy supports the South African Government's white paper on renewable energy. Eskom is committed to investigating and evaluating the options for the diversification of the energy mix over time (including renewable energies).

All renewable energy resources available in South Africa will be evaluated for their applicability to Eskom. Eskom's strategy will have to be updated as Government policy is finalised. Eskom was part of the South African delegation to the Renewables 2004 conference and submitted a number of projects to the International Action Programme for Renewable Energies.

A number of research demonstration facilities continued to be operated as part of Eskom's renewable energy research programme. These included the operation of Africa's first wind energy demonstration facility in the Western Cape, which was opened in 2003. In addition, Eskom conducted a number of pilot projects to assess issues related to the green power market in South Africa.

1. The Kyoto Protocol established emissions trading and joint implementation between developed countries and a clean development mechanism (CDM) to encourage joint emission reduction projects between developed and developing countries.

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 the Eskom's authorised share capital and the number of shares issued are set out in note 15 to the Financial Statements.

The dividend of R569 million proposed in 2003, based on a dividend cover of six, excluding secondary tax, was approved and paid in 2004. The directors have proposed a dividend of R981 million based on a dividend cover of three and a special dividend of R662 million, excluding secondary tax on companies, for approval by the Shareholder at the annual general meeting.

Capital expenditure

Capital expenditure on property, plant, equipment and intangible assets was R8 897 million (2003: R6 078 million) that included expenditure of R891 million (2003: R586 million) on electrification.

The capital commitments at 31 March 2005 amounted to R21 610 million (2003: R20 606 million).

Subsidiaries, associates and joint ventures

Details of Eskom's principal subsidiaries, significant associates and joint ventures are set out in Schedule 1 and Schedule 2 of the Financial Statements on pages 182 to 184.

Directorate and secretariat

The names of the directors and the address of Eskom's Secretariat appear on page 14.

Changes in the composition of directors appear on page 127.

Post balance sheet events

There were no post balance sheet events.

Directors' remuneration

Remuneration philosophy

It is essential to retain key individuals over the longer term. Eskom's remuneration philosophy is based on the belief that the appropriate remuneration for management should be linked to the retention of skilled leaders and the performance of the organisation.

Remuneration is determined with regard to performance and market factors and consideration is given to short and long-term incentives as well as basic salary. International and local benchmarks are evaluated to align all packages to companies of a similar size to Eskom. It is Eskom's intent to remunerate in the median of the market with the objective of recruiting and retaining the best management team to lead the business.

Remuneration Committee

The Human Resources, Remuneration and Ethics Committee (HRREC) has been established to assist the Board in dealing with the human resources policy for Eskom, remuneration of executives, nomination of executives for senior positions and conditions of service in accordance with the policy approved by the shareholder.

The committee comprises four non-executive directors and the Chief Executive. The committee is chaired by the Chairman of the Board. The committee enhances business performance through:

- Approving, guiding and influencing key human resources policies and strategies.
- Monitoring compliance with the Employment Equity Act, 55 of 1998.
- Guiding strategies to achieve equity in Eskom.
- Approving the principles regarding the reward and incentive schemes.

Non-executive directors

The remuneration of non-executive directors is based on benchmarking of similar sized companies. Remuneration is considered by the HRREC and proposals put forward to the Board. The Board reviews the proposals and makes recommendations to the shareholder for approval.

Non-executive directors receive a honorarium and fee per meeting for serving on the board and its committees. They are contracted on a three-year term, which may be extended at the end of each term based on shareholder approval.

Chief Executive and divisional managing directors

The HRREC makes recommendations to the Board on the remuneration of the Chief Executive and the divisional managing directors. The Board approves the remuneration of all divisional managing directors. The Board makes a recommendation regarding the remuneration of the Chief Executive, which is then approved by the Shareholder.

The remuneration of the Chief Executive and divisional managing directors first is based on the individual's level of skill, experience and expertise and secondly on his/her contribution to the performance and success of the Group. Remuneration includes a total package and an incentive component comprising both short and long-term incentives.

The HRREC annually reviews the structure of the remuneration packages of the Chief Executive and divisional managing directors to ensure that the balance between fixed and variable remuneration and short and long-term incentives and rewards remains appropriate.

The divisional managing directors, with the exception of the Chief Executive, do not have term contracts. Previously, these directors held five-year employment contracts with Eskom. The majority of these contracts expired in 2004. The Board made a decision to terminate all contracts to achieve standardisation. As a result, Eskom honoured the obligations in terms of these contracts during the period under review, as detailed below. The new contracts are not term-based and are based on Eskom's standard conditions of service. All divisional managing directors are required to give six months notice.

The Chief Executive signed a new three-year contract on 1 January 2005 and is required to give six months notice. His previous five-year contract was terminated together with those of the divisional managing directors.

Remuneration structure

The remuneration of the Chief Executive and divisional managing directors consists of the following components:

Guaranteed amount

The Chief Executive and divisional managing directors receive a guaranteed pay package. Their remuneration is based on cost to company, which comprises a fixed cash portion, compulsory benefits (medical aid, life cover and pension fund) and motor vehicle benefits. Annual increases are based on the guaranteed amount and with the intent to keep remuneration in line with the market.

Short-term incentives

Short-term incentives are based on achieving individual predetermined performance objectives, KPIs and targets as included in the performance contracts and agreed with the Chief Executive for each divisional managing director. The HRREC approves the targets set for the Chief Executive. Should the performance score calculated on the scorecard, be below 45%, no bonus will be payable.

The short-term incentive scheme bonus is calculated as a percentage of pensionable earnings and is capped at 60%. The percentage performance score per the scorecard (45%-60%) is used as the percentage in calculating the bonus.

Long-term incentives

Long-term incentives are designed to ensure the alignment of the longer-term objectives of the shareholder.

The long-term incentive for the 12-month period ended December 2004 was based on the Eskom Performance Index (EPI). EPI is a uniform model measuring organisational performance and captures Eskom's performance relative to three broad categories:

- Shareholder Compact.
- South African economy
  - Macroeconomic indicators
  - Performance of a basket of selected South African companies
- A basket of international utility companies.

The EPI model produces a percentage value that captures the relative performance of Eskom on a number of diverse measures.

The EPI percentage achieved was used as a basis for calculating the long-term incentive payment as a percentage of pensionable earnings. One third of this payment was paid in the current period and two thirds were taken to a "bonus bank" to be paid with interest at the end of the contracts. Since all the contracts have been terminated during the current financial period, the accumulated amount in the bonus bank was paid. These payments, relate to performance in prior periods which were expensed in those years, but retained by Eskom until the end of the contracts. The total EPI for the 12-month period ended December 2004 was paid.

The EPI model has been terminated with effect from 31 December 2004 and a new incentive scheme was approved by the Board and the shareholder to bring the long-term incentive scheme in line with global best practices.

The new long-term incentive scheme, called the Long-term Performance Incentive scheme (LTI), together with a Deferred Bonus Plan is designed to attract, retain and reward the Chief Executive and the divisional managing directors for performance.

The LTI scheme takes into account recent developments in global share-based remuneration and accounting practice. To this end the quantum and nature of the benefits of the scheme have been benchmarked against global share-based schemes and is designed to be competitive in the global market.

In terms of the LTI, a grant of a specified number of notional performance shares (award performance shares) will be awarded to the Chief Executive and the divisional managing directors at 1 April 2005. The award performance shares will be attributed a value at the date of the grant, based on the Eskom Value Model (a fair valuation of Eskom).

The vesting period will be three financial years from the date of the grant. At the end of the vesting period the HRREC will determine:

- the percentage of award performance shares which vest, based on the performance conditions achieved; and
- the value of the award performance shares based on the Eskom Value Model at the end of the vesting period.

The HRREC will set performance conditions based on financial and non-financial criteria. Vesting of the award performance shares will be based on the achievement of the performance conditions. Subject to the award cap, as set out in the rules of the LTI, each participant will receive an amount equal to the value of the vested award performance shares granted. Each award is conditional on the participant remaining in Eskom's employment throughout the vesting period. If employment ceases (other than for permitted reasons) during the vesting period, the award will lapse.

In terms of the Deferred Bonus Plan, Eskom will create bonus shares, being notional shares, that will be attributed a value in terms of the Eskom Value Model at the date of granting the shares. Participants have the right to accept a certain number of bonus shares (valued as aforesaid on the date of grant), in lieu of the payment of a percentage (not exceeding 50%) of their annual bonus after tax. If the award is accepted, the company will determine the value of the bonus shares (based on the Eskom Valuation Model) at the end of the performance period of three years and the participant will receive an amount equal to twice the value of the bonus shares which were accepted.

If employment ceases (other than for permitted reasons) during the performance period, only the value (without any multiple) of the number of bonus shares which were offered to and accepted by the participant, will be paid at the end of the financial period preceding the date of termination of employment.

Gratuity

The Chief Executive and the divisional managing directors were excluded from the gratuity scheme applicable to other Eskom employees as they were required to enter into restraint of trade agreements which prevented them from doing business in the energy sector for a period of two years following their termination of services with Eskom.

Restraint of trade

Restraint of trade payments were made to the Chief Executive and the divisional managing directors during the financial period under review based on the decision to terminate their employment contracts at 31 December 2004. These agreements allowed for a payment calculated as twice the pensionable earnings of the individual and was paid at the termination of the employment contract. The restraint of trade restrictions imposed by the agreements will remain intact going forward, although the financial implications of the contracts have now been settled.

Directors' emoluments

The following payments were made to the directors of Eskom and its main subsidiaries during the 15-month period.

Name	Salary/ fees	Bonus and related payments[1]	Contributions	Expense allowances	Pension benefits	**Sub total March 2005 (15 months)**	Total December 2003 (12 months)	EPI bonus bank payments[2]	Restraint payments[3]	Sub total bonus bank and restraint payments	**Total March 2005 (15 months)**
	R'000	R'000	R'000	R'000	R'000	**R'000**	R'000	R'000	R'000	R'000	**R'000**
Eskom Holdings Limited											
Non-executive directors											
RJ Khoza	1 638	-	51	447	-	**2 136**	1 477	-	-	-	**2 136**
FM Baleni	247	-	-	-	-	**247**	180	-	-	-	**247**
BM Count	570	-	-	-	-	**570**	497	-	-	-	**570**
SE Funde	235	-	-	-	-	**235**	222	-	-	-	**235**
LG Josefsson	465	-	-	-	-	**465**	387	-	-	-	**465**
PM Makwana	181	-	-	-	-	**181**	152	-	-	-	**181**
JRD Modise[4]	243	-	-	-	-	**243**	184	-	-	-	**243**
AJ Morgan	221	-	-	-	-	**221**	172	-	-	-	**221**
SA Mpambani	215	-	-	-	-	**215**	168	-	-	-	**215**
TN Msomi	-	-	-	-	-	**-**	-	-	-	-	**-**
VM Rowjee	212	-	-	-	-	**212**	160	-	-	-	**212**
SV Zilwa	151	-	-	-	-	**151**	132	-	-	-	**151**
WE Lucas-Bull[5]	202	-	-	-	-	**202**	170	-	-	-	**202**
Executive directors											
TS Gcabashe	3 794	2 765	-	-	-	**6 559**	4 983	2 237	4 249	6 486	**13 045**
WJ Kok[6]	1 147	-	-	-	-	**1 147**	27 395[7]	-	-	-	**1 147**
B Nqwababa[8]	911	645	-	-	-	**1 556**	-	-	-	-	**1 556**
Total - directors' emoluments	10 432	3 410	51	447	-	**14 340**	36 279	2 237	4 249	6 486	**20 826**
Divisional managing directors[9]											
EN Matya	2 177	1 779	-	-	-	**3 956**	2 591	1 242	2 605	3 847	**7 803**
PJ Maroga	2 082	1 628	-	-	-	**3 710**	2 379	1 184	2 333	3 517	**7 227**
SJ Lennon	1 957	1 484	-	-	-	**3 441**	2 506	1 157	2 193	3 350	**6 791**
ME Letlape	1 849	1 392	-	-	-	**3 241**	2 268	1 054	2 068	3 122	**6 363**
PD Mbonyana	1 839	1 384	-	-	-	**3 223**	1 746	974	2 061	3 035	**6 258**
JA Dladla	1 744	1 380	-	-	-	**3 124**	1 889	913	2 124	3 037	**6 161**
MM Ntsokolo[10]	1 820	1 552	-	-	-	**3 372**	287	139	2 265	2 404	**5 776**
BA Dames[11]	758	384	-	-	-	**1 142**	-	-	-	-	**1 142**
TJ Matsau[12]	1 526	1380	-	-	3 198	**6 104**	2 323	1 105	2 054	3 159	**9 263**
Total - divisional managing directors' emoluments	15 752	12 363	-	-	3 198	**31 313**	15 989	7 768	17 703	25 471	**56 784**

1. *Bonus and related payments include both the short-term incentive and interim long-term incentive (EPI) bonuses, but exclude EPI bonus bank payments.*
2. *Concluding of 5-year term contracts and payout of bonus bank earned in previous years.*
3. *Concluding of 5-year term contracts and payment of restraint of trade.*
4. *This includes an amount of R134 812 that was paid over to Johnnic Limited.*
5. *This includes an amount of R105 508 that was paid over to FirstRand Limited.*
6. *Consulting services rendered between January 2004 and August 2004. Retired as executive director in August 2004.*
7. *Termination benefits included R20 331 000 as disclosed in the 2003 Annual Report.*
8. *Appointed in August 2004.*
9. *Disclosure in terms of regulation 28.1 of the Public Finance Management Act.*
10. *Appointed in October 2003.*
11. *Appointed in September 2004.*
12. *Retired on 31 December 2004.*

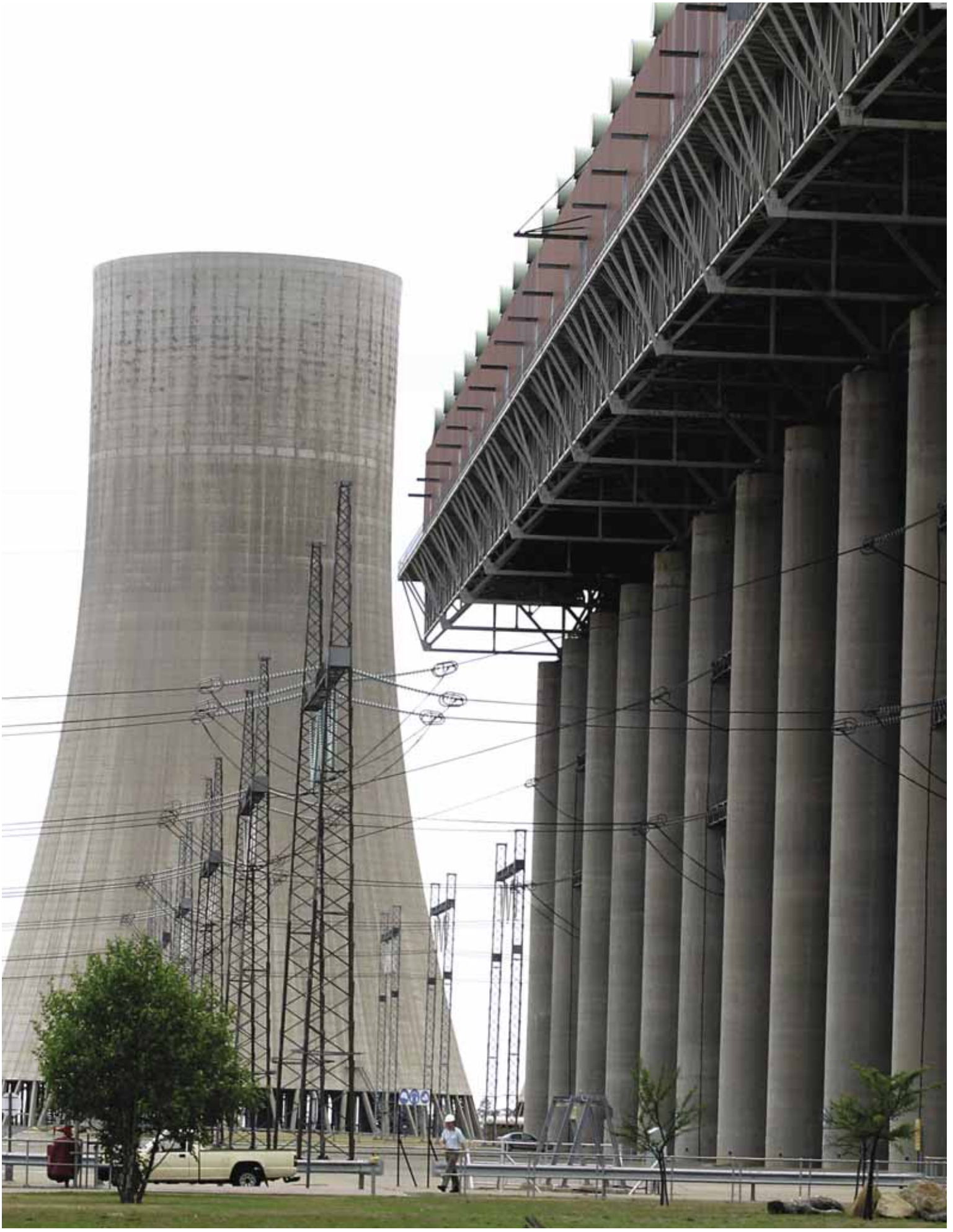
	March (15 months) 2005 R'000	December (12 months) 2003 R'000
Loans to directors		
Housing loan - TS Gcabashe	**929**	1 337
Housing loan - B Nqwababa	**2 864**	-

The interest rate on the loan from Eskom Finance Company (Pty) Limited at 31 March 2005 was 9% (31 December 2003: 10%). The loans are repayable over a maximum period of 25 years. On resignation, the loans are repayable in full within 90 days from date of resignation. After resignation date, the interest rate increases to 2% above the prime lending rate.

Name	Salary/ fees	Bonus and related payments	Contributions	Expense allowances	Termination benefits	**Total March (15 months) 2005**	Total December (12 months) 2003
	R'000	R'000	R'000	R'000	R'000	**R'000**	R'000
Subsidiary companies							
Eskom Enterprises (Pty) Limited							
Non-executive directors							
TS Gcabashe (paid by Eskom)	-	-	-	-	-	**-**	-
B Nqwababa (paid by Eskom)	-	-	-	-	-	**-**	-
S Lennon (paid by Eskom)	-	-	-	-	-	**-**	-
KJ Hlongwane (resigned 31 August 2004)	51	-	-	4	-	**55**	86
DB Mostert (resigned 31 August 2004)	73	-	-	4	-	**77**	125
DM Ramaphosa (resigned 31 August 2004)	33	-	-	1	-	**34**	50
DR Geeringh (resigned 31 August 2004)	51	-	-	3	-	**54**	44
S Dakile-Hlongwane (resigned 31 August 2004)	41	-	-	2	-	**43**	66
Executive directors							
B Dames[1] (appointed 15 November 2004)	-	-	24	17	-	**41**	-
E Banda (resigned 31 March 2004)	431	-	59	97	144[2]	**731**	2 143
VTL Ngubeni (death in service 9 May 2003)	-	-	-	-	-	**-**	1 412
PD Mbonyana (resigned 1 March 2003)	-	-	-	-	-	**-**	317
RS Moloko (resigned 30 June 2003)	-	-	-	-	-	**-**	3 845
R Naidoo (resigned 30 June 2003)	-	-	-	-	-	**-**	3 861
	680	-	83	128	144	**1 035**	11 949
Past directors - retirement funding	-	-	-	-	-	**-**	6 621
- bonus bank	-	-	-	-	-	**-**	785
	680	-	83	128	144	**1 035**	19 355
Eskom Finance Company (Pty) Limited							
Non-executive directors							
WJ Kok[1] (resigned 1 September 2004)	10	-	-	-	-	**10**	25
M de Jager (deceased 21 August 2004)	75	-	-	-	-	**75**	139
RS Moloko[1]		-	-	-	-	**-**	5
J van der Berg[1] (resigned 1 October 2005)	10	-	-	-	-	**10**	30
PB Mabelane[1]	35	-	-	-	-	**35**	95
VT Makhuvha[1] (resigned 1 October 2004)	20	-	-	-	-	**20**	25
B Nqwababa[1] (appointed 26 October 2004)	10	-	-	-	-	**10**	-
SM de Wet[1] (appointed 26 October 2004)	15	-	-	-	-	**15**	-
GI Fourie[1] (appointed 26 October 2004)	10	-	-	-	-	**10**	-
Executive director							
MM Bashe[1]	584	204	132	224	-	**1 144**	972
	769	204	132	224	-	**1 329**	1 291

1. *Fees paid to Eskom.*
2. *Leave payout on termination of employment.*

Name	Salary/fees	Bonus and related payments	Contributions	Expense allowances	Other	**Total March (15 months) 2005**	Total December (12 months) 2003
	R,000	R,000	R,000	R,000	R,000	**R,000**	R,000
Escap Limited							
Non-executive directors							
WJ Kok (fees paid to Eskom, resigned 31 August 2004)	21	-	-	-	-	**21**	39
K Nilsson (resigned 31 December 2002)		-	-	-	-	**-**	2
R Vivian	96	-	-	-	-	**96**	39
PK Darbourn (fees paid to Eskom)	96	-	-	-	-	**96**	39
SP Ndlovu	104	-	-	-	-	**104**	39
DJ van den Berg (resigned 1 October 2004)	23	-	-	-	-	**23**	-
B Nqwababa (appointed 1 September 2004)	15	-	-	-	-	**15**	-
Executive directors							
SI Kotane (salary paid by Eskom, deceased 19 February 2004)	-	-	-	-	-	**-**	-
	355	-	-	-	-	**355**	158
Gallium Insurance Limited							
Non-executive directors							
SI Kotane (salary paid by Eskom, deceased 19 February 2004)	-	-	-	-	-	**-**	-
PK Darbourn (salary paid by Eskom, appointed 8 March 2004)							
JC Fagher	47	-	-	-	-	**47**	37
PJV Dougherty	47	-	-	-	-	**47**	37
J Boyd	47	-	-	-	-	**47**	22
	141	-	-	-	-	**141**	96



At 31 March 2005

	Notes	Group March 2005 Rm	Group December 2003 Rm	Company March 2005 Rm	Company December 2003 Rm
Assets					
Non-current assets		**74 105**	70 997	**73 247**	70 332
Property, plant and equipment	2	**56 701**	53 475	**55 635**	52 198
Goodwill	3	**-**	70	**-**	-
Negative goodwill	4	**(126)**	(174)	**(126)**	(174)
Intangible assets	5	**462**	428	**462**	402
Future fuel supplies	6	**2 471**	2 781	**2 471**	2 781
Financial instruments	7	**11 576**	11 187	**11 572**	11 187
Loans receivable	9	**2 464**	2 580	**-**	-
Investment in associates and joint ventures	10	**370**	292	**99**	93
Investment in subsidiary companies	11	**-**	-	**3 087**	3 638
Deferred tax	12	**140**	151	**-**	-
Trade and other receivables	13	**47**	207	**47**	207
Current assets		**35 100**	25 995	**31 747**	23 559
Inventories	14	**2 817**	2 397	**2 598**	2 224
Trade and other receivables	13	**5 073**	4 224	**4 938**	3 836
Financial instruments	7	**27 210**	19 374	**24 211**	17 499
Total assets		**109 205**	96 992	**104 994**	93 891
Equity and liabilities					
Capital and reserves		**44 867**	40 683	**42 556**	39 203
Non-current liabilities		**41 722**	32 892	**40 639**	32 039
Financial instruments	7	**22 871**	18 324	**22 549**	18 015
Retirement benefit obligations	16	**4 820**	4 264	**4 640**	4 103
Nuclear decommissioning and waste management	17	**2 224**	1 914	**2 224**	1 914
Other decommissioning	17	**1 063**	918	**1 063**	918
Closure, pollution control and rehabilitation	17	**776**	679	**776**	679
Other provisions	17	**505**	793	**498**	573
Deferred income	18	**2 925**	1 713	**2 623**	1 713
Deferred tax	12	**6 538**	4 287	**6 266**	4 124
Current liabilities		**22 616**	23 417	**21 799**	22 649
Trade and other payables	19	**6 710**	5 382	**6 208**	4 806
Taxation		**47**	76	**-**	-
Financial instruments	7	**14 739**	15 871	**15 015**	16 178
Retirement benefit obligations	16	**166**	1 434	**160**	1 348
Provisions	17	**954**	654	**416**	317
Total equity and liabilities		**109 205**	96 992	**104 994**	93 891

For the 15-month period ended 31 March 2005

	Notes	Group		Company	
		March 2005 Rm	December 2003 Rm	**March 2005 Rm**	December 2003 Rm
Revenue	22	**42 984**	32 948	**41 387**	31 780
Other income		**246**	338	**660**	1 258
Changes in inventories of finished goods and work in progress		**(441)**	(13)	**(373)**	(51)
Work performed by the entity and capitalised		**10 831**	6 382	**10 511**	6 057
Raw materials and consumables used		**(14 890)**	(10 884)	**(13 822)**	(9 670)
Employee benefits expense	23	**(9 576)**	(7 514)	**(9 017)**	(7 362)
Depreciation and amortisation expense	24	**(5 691)**	(4 070)	**(5 436)**	(3 817)
Impairment expense		**(110)**	(698)	**(110)**	(852)
Other expenses	25	**(14 442)**	(9 671)	**(15 773)**	(10 509)
Operating profit		**8 911**	6 818	**8 027**	6 834
Net finance costs		**(1 477)**	(1 587)	**(1 641)**	(1 800)
- Interest income	26	**4 298**	4 024	**4 091**	3 811
- Interest expense	27	**(5 746)**	(5 328)	**(5 761)**	(5 334)
- Fair value (loss)/gain on financial instruments	28	**(29)**	(283)	**29**	(277)
Profit before tax		**7 434**	5 231	**6 386**	5 034
Income tax expense	29	**(2 308)**	(1 859)	**(2 033)**	(1 808)
Share of profit of associates and joint ventures	10	**71**	45	**-**	-
Profit for the period		**5 197**	3 417	**4 353**	3 226
Attributable to:					
Equity holders of the company		**5 190**	3 534	**4 353**	3 226
Minority interest		**7**	(117)	**-**	-
		5 197	3 417	**4 353**	3 226

For the 15-month period ended 31 March 2005

	Notes	Group March 2005 Rm	Group December 2003 Rm	Company March 2005 Rm	Company December 2003 Rm
Cash flows from operating activities					
Profit before taxation		**7 434**	5 231	**6 386**	5 034
Adjustments for:		**7 331**	7 523	**7 061**	7 369
Depreciation and amortisation expense	24	**5 691**	4 070	**5 436**	3 817
Net impairment losses		**110**	698	**110**	852
Net profit on disposal of property, plant and equipment and intangible assets		**(233)**	(144)	**(230)**	(140)
Net movement in provisions		**(1 105)**	764	**(1 003)**	479
Increase in deferred income		**1 409**	591	**1 107**	591
Other		**(18)**	(43)	**-**	(30)
Interest income	26	**(4 298)**	(4 024)	**(4 091)**	(3 811)
Interest expense	27	**5 746**	5 328	**5 761**	5 334
Net fair value gain/(loss) on financial instruments	28	**29**	283	**(29)**	277
		14 765	12 754	**13 447**	12 403
Increase in inventories		**(420)**	(13)	**(374)**	(51)
Increase in trade and other receivables		**(849)**	(449)	**(1 102)**	(171)
Increase in trade and other payables		**1 325**	1 243	**1 399**	1 124
Cash generated from operations		**14 821**	13 535	**13 370**	13 305
Interest received	30	**4 088**	3 669	**3 861**	3 450
Interest paid	31	**(3 821)**	(3 907)	**(3 780)**	(3 920)
Income taxes paid	32	**(224)**	(84)	**(45)**	(30)
Dividends paid		**(569)**	(549)	**(569)**	(549)
Net cash from operating activities		**14 295**	12 664	**12 837**	12 256
Cash flows from investing activities					
Proceeds on disposal of property, plant and equipment and intangible assets		**347**	318	**341**	288
Expenditure on property, plant and equipment		**(8 642)**	(6 241)	**(8 539)**	(5 943)
Expenditure on intangible assets		**(356)**	(155)	**(358)**	(211)
Future fuel supplies		**(124)**	(841)	**(124)**	(841)
Investment in associates, joint ventures and subsidiary companies		**23**	(31)	**424**	(72)
Non-current trade and other receivables		**160**	56	**160**	56
Loans receivable		**123**	(86)	**-**	-
Net cash used in investing activities		**(8 469)**	(6 980)	**(8 096)**	(6 723)
Cash flows from financing activities					
Debt raised		**14 130**	33 954	**14 112**	33 785
Debt repaid		**(15 035)**	(34 470)	**(15 078)**	(34 454)
Increase/(decrease) in non-current financial instruments		**6 261**	(6 943)	**6 186**	(6 805)
Net cash generated/(used) in financing activities		**5 356**	(7 459)	**5 220**	(7 474)
Net increase/(decrease) in cash and cash equivalents	33	**11 182**	(1 775)	**9 961**	(1 941)
Cash and cash equivalents at beginning of the period	33	**2 445**	4 220	**276**	2 217
Cash and cash equivalents at end of the period	33	**13 627**	2 445	**10 237**	276

For the 15-month period ended 31 March 2005

Group	Issued capital[1] Rm	Foreign revaluation Rm	Local revaluation Rm	Insurance reserve Rm	Accumulated profit Rm	Minority interest Rm	Total Rm
Balance at 1 January 2003	-	169	551	102	36 761	132	37 715
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	(117)	3 417
Dividend paid	-	-	-	-	(549)	-	(549)
Transfer of net unrealised revaluation gains net of deferred tax from non-distributable reserves to distributable reserve	-	(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**
Available-for-sale asset movements							
- Fair value losses	**-**	**-**	**(464)**	**-**	**-**	**-**	**(464)**
Cash flow hedges							
- Fair value gains	**-**	**50**	**-**	**-**	**-**	**-**	**50**
- Deferred tax thereon	**-**	**(17)**	**-**	**-**	**-**	**-**	**(17)**
Net profit for the period after tax	**-**	**-**	**-**	**-**	**5 190**	**7**	**5 197**
Dividend paid	**-**	**-**	**-**	**-**	**(569)**	**-**	**(569)**
Other movements	**-**	**-**	**-**	**-**	**-**	**(13)**	**(13)**
Transfer of net unrealised revaluation gains net of deferred tax from non-distributable reserves to distributable reserve	**-**	**52**	**(104)**	**-**	**52**	**-**	**-**
Transfer of insurance reserve to accumulated profit	**-**	**-**	**-**	**(9)**	**9**	**-**	**-**
Balance at 31 March 2005	**-**	**51**	**96**	**77**	**44 634**	**9**	**44 867**

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. The variable revaluation exists until the maturity of these instruments, coincides with the maturity of the underlying obligation.

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 interest swaps.

1. Nominal amount.

Company	Issued capital[1] Rm	Foreign revaluation Rm	Local revaluation Rm	Insurance reserve Rm	Accumulated profit Rm	Total Rm
Balance at 1 January 2003	-	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
Net profit for the year after tax	-	-	-	-	3 226	3 226
Dividend paid	-	-	-	-	(549)	(549)
Transfer of net unrealised revaluation gains net of deferred tax from non-distributable reserves to distributable reserve	-	(36)	(152)	-	188	-
Balance at 31 December 2003	**-**	**(23)**	**667**	**-**	**38 559**	**39 203**
Available-for-sale asset movements						
- Fair value losses	**-**	**-**	**(464)**	**-**	**-**	**(464)**
Cash flow hedges						
- Fair value gains	**-**	**50**	**-**	**-**	**-**	**50**
- Deferred tax thereon	**-**	**(17)**	**-**	**-**	**-**	**(17)**
Net profit for the period after tax	**-**	**-**	**-**	**-**	**4 353**	**4 353**
Dividend paid	**-**	**-**	**-**	**-**	**(569)**	**(569)**
Transfer of net unrealised revaluation gains net of deferred tax from non-distributable reserves to distributable reserve	**-**	**52**	**(104)**	**-**	**52**	**-**
Balance at 31 March 2005	**-**	**62**	**99**	**-**	**42 395**	**42 556**

Dividend proposed

A normal dividend of R981 million (2003: R569 million) and a special dividend of R662 million (2003: nil) have been proposed by the Board of Directors.

1. Accounting policies

Basis of preparation

The financial statements of Eskom and the Group are prepared in accordance with the Companies Act, 61 of 1973, as amended, and comply with International Financial Reporting Standards and South African Statements of Generally Accepted Accounting Practice.

The Eskom and Group 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:

Consolidation

Investment in subsidiary companies

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. The excess of the fair value of the Group's share of the identifiable net assets over the cost of acquisition is recorded as negative goodwill.

Inter-company transactions, balances and unrealised gains on transactions between companies in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group.

Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures are contractual arrangements whereby two or more parties undertake an economic activity that is subject to joint control.

Investment in associates and joint ventures are accounted for at cost in the financial statements of Eskom. Investment in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost in the financial statements of the Group. The Group's investment in associates and joint ventures includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates and joint ventures post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movement in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecurable receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates or joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 are 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.

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.

Materials used in the construction of property, plant and equipment are stated at weighted average cost.

Leased assets

Finance leases

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.

Cross-border leases

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.

Operating leases

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

Goodwill

Any excess of the cost of the acquisition, compared with the value of the net assets acquired, is described as goodwill and is amortised to the income statement on a straight-line basis over its estimated useful life.

1. Accounting policies (continued)

Negative goodwill

Any excess of the fair value of the net assets acquired over the cost of the acquisition is described as negative goodwill and 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 consist mainly of servitudes and rights of way under power lines. 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 its expected useful life, not exceeding twenty years from the commencement of the commercial production of the product or when the new product is used.

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 borrowing costs applicable to the 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. Hedge accounting is applied to foreign exchange contracts with the effective portion being capitalised during the fabrication period. Advance payments in terms of agreements are capitalised.

Financial instruments

Short-term negotiable securities, trading assets and investment securities

Recognition and measurement

Financial assets are held for liquidity, investment and trading purposes. All financial assets are measured initially at cost and include transaction costs where appropriate. These financial assets are recognised on the date of commitment to purchase (trade date) and are derecognised when Eskom no longer has control over the assets. Realised gains and losses on disposal are determined using the average costing method.

The appropriate classification of the financial asset is determined at the time of the purchase. Short-term negotiable instruments with fixed maturity, where management has both the intent and ability to hold the security to maturity are classified as either held-to-maturity or originated loans and are carried at amortised cost, using the effective interest rate method.

Financial assets held in the trading portfolio's are measured at fair value. All related realised and unrealised gains and losses arising from the change in fair value are recognised in the income statement.

Financial assets that are not held-for-trading purposes, originated by the enterprise or held-to-maturity are classified as available-for-sale assets. Unrealised gains or losses from the changes in fair value are recognised in equity. On disposal of available-for-sale assets, the fair value adjustments accumulated in equity are recognised in the income statement.

Translation of foreign currencies

Foreign currency transactions are recorded on initial recognition in rand, by applying to the foreign currency amount the exchange rate between the rand and the foreign currency at the date of the transaction.

At each balance sheet date, foreign assets are restated at closing exchange rates and the resultant profit or loss is recognised in the income statement.

Fair value

The fair value of trading assets and available-for-sale assets are based on quoted bid prices. Where pricing models are used, inputs are based on market-related measures at the balance sheet date. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a financial asset with similar terms and conditions at the balance sheet date.

1. Accounting policies (continued)

Impairment

A review for impairment indicators is carried out at each financial year end. If impairment indicators are present, an impairment test is carried out. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The recoverable amount of an instrument measured at fair value is the present value of expected cash flows discounted at the current market rate of interest for a similar financial asset. If any such impairment indicators signify that it is probable that the company will be unable to collect all amounts due, a provision for impairment is made to reduce the carrying amount of the asset to its estimated recoverable amount.

Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, requires little or no initial investment and is settled at a future date. All derivatives are accounted for as trading instruments unless they meet the criteria for hedge accounting. Derivatives are initially recognised at cost and subsequently re-measured at fair value. Fair values are obtained from quoted market prices, discounted cashflow models and options pricing models which consider current market and contractual prices for the underlying instruments as well as the time value of money.

All derivative instruments of the Group are carried as assets when the fair value is positive and as liabilities when the fair value is negative and generally there is no offsetting. Realised and unrealised gains and losses are recognised in the income statement.

Hedge accounting

On the date that a derivative contract is designated as a hedging instrument, Eskom designates the derivative as either a hedge of a:
- fair value of a recognised asset or liability (fair value hedge); or
- future cash flow attributable to a recognised asset or liability, a forecast transaction or a firm commitment (cash flow hedge).

A hedging relationship exists where:
- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is highly effective throughout the reporting period; and
- for a hedge of a forecast transaction, the transaction is highly probable and presents an exposure to variation in cash flows that could ultimately effect net profit.

The fair value of a derivative hedging instrument is calculated in the same manner as the fair value of a trading instrument.

Where a hedge relationship is designated as a fair value hedge the hedged item is stated at fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the fair value hedge and the hedged instrument are allocated to the same income statement category as the related hedged item.

The effective portion of changes in the fair value of a derivative that are cash flow hedges are recognised in equity. The ineffective part of any gain or loss is recognised in the income statement. When a hedging instrument or hedge relationship is terminated, but the hedged transaction is still expected to occur, the cumulative gains or losses recognised in equity remains in equity and are recognised in accordance with the above policy.

Loans and advances

Loans and advances originated by Eskom are classified as originated loans. Purchased loans that Eskom has the intent and ability to hold to maturity are classified as held-to-maturity-assets. Originated loans and held-to-maturity loans are accounted for at amortised cost.

Repurchase and resale agreements

Securities sold subject to linked repurchase agreements are retained in the financial statements as trading assets and are valued in terms of the accounting policy. The liability to the counterparty is included under bank overdrafts.

Securities purchased under agreements to resell are recorded as loans or advances receivable under resale agreements and are included in bank balances.

The difference between the sale and repurchase price or purchase and resale price is treated as interest accrued over the life of the repurchase or resale agreement using the effective yield method.

Bank overdrafts and other short term liabilities

This includes bank overdrafts with local banks, any liability as a result of unsettled transactions and other short-term liabilities which mature within one year.

Short-term securities issued, trading liabilities and long-term securities issued

Recognition and measurement

Financial liabilities are issued for funding, liquidity and trading purposes. All financial liabilities are measured initially at cost and include transaction costs where appropriate. These financial liabilities are recognised on the date of commitment to purchase (trade date) and are derecognised when Eskom no longer has an obligation under the liabilities. Realised gains and losses on disposal are determined using the weighted average costing method.

Financial liabilities held in the trading portfolio's are measured at fair value. All related realised and unrealised gains and losses arising from the change in fair value are included in the income statement.

Financial liabilities that are not held for trading purposes are classified as other liabilities and are accounted for on an amortised cost basis. Any profit or loss on early redemption is recognised in the income statement.

Loans raised on the foreign market are initially recognised at the exchange rates prevailing at transaction date. At balance sheet date, foreign loans are restated at closing exchange rates and the resultant profit or loss is recognised in the income statement.

Fair value

The fair value of trading liabilities is based on quoted offer prices. Where pricing models are used, inputs are based on market-related measures at the balance sheet date. Discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for a financial liability with similar terms and conditions.

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.

1. Accounting policies (continued)

Financial instruments (continued)

Other financial market instruments

Trade and other receivables

Trade and other receivables are stated at nominal value, after a provision for doubtful receivables, which approximates fair value. 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.

Embedded derivatives

Definition

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, or other variable. The hybrid contract is the entire contract and the host contract is the main body of the contract excluding the embedded derivative.

Recognition and derecognition

An embedded derivative is separated from the host contract and accounted for as a derivative if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- a combined instrument is not measured at fair value with changes in fair value recognised in profit or loss.

Valuation

Non-option-based derivatives are separated on terms that result in a fair value at the date of inception of zero. Option-based derivatives are separated on the terms stated in the contracts and will not necessarily have a fair value equal to zero at the initial recognition of the embedded derivative. The fair value will depend on the strike price at inception.

The valuation at inception is adjusted for cash flows since inception. The value of the embedded derivatives which involves a foreign currency is first determined by calculating the future cash flows and then discounting the cash flows by using the relevant interest rate curve and only then the net present value of the cash flows is converted at the relevant rand/foreign currency spot rate to the reporting currency.

The selection of the host contract of an electricity contract is based on the standard electricity tariff specified in the contract and where no standard tariff is specified, the tariff that would normally apply to such a customer.

The fair value of the embedded derivative is determined on the basis of its terms and conditions. If this is not possible then the value of the embedded derivative is determined by fair valuing the whole contract and deducting from it the fair value of the host contract.

Valuation methods and inputs

Where there is no active market for the embedded derivatives, valuation techniques are used to ascertain the fair value of the embedded derivatives. Financial models were developed incorporating valuation methods, formulae and assumptions. The valuation methods include the following:

- Swaps – electricity tariff is swapped for a commodity in a foreign currency.
- Forwards – electricity tariff or other revenue or expenditure is based on a foreign currency.
- Options – electricity tariff or other revenue is based on an embedded derivative floor or cap on foreign consumer or production prices indices or interest rates. The Monte Carlo simulation technique is used to produce various floor and cap strike prices.

The more important assumptions are obtained either with reference to the contractual provisions of the relevant contracts or from independent market sources where appropriate. The more important inputs used in the valuation models are:

- Spot and forward commodity prices.
- Spot and forward foreign currency exchange rates.
- Spot and forward interest rates.
- Forecasted sales volumes.
- Spot and forward consumer and foreign production price indices.
- Spot and forward electricity prices.

Disclosure

Embedded derivatives are disclosed as derivative assets or liabilities held for trading. The changes in fair value are disclosed as fair value gains or losses on financial instruments on the face of the income statement. The impact of the fair value gains or losses is taken into account in the calculation of taxation and deferred taxation.

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.

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 of seven percent of net premium income is created in Escap Limited and Gallium Insurance Company Limited in terms of the Short-term Insurance Act, 53 of 1998.

1. Accounting policies (continued)

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

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.

Decommissioning and nuclear waste management

Nuclear and other generation plant

A provision is raised for the estimated decommissioning cost of nuclear and 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.

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 of money 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.

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 of money 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.

Any subsequent change to the provision regarding a change in the estimate of the environmental and rehabilitation 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 of money on the provision is reflected in the income statement.

Deferred income

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 is credited to the income statement on a straight-line basis over the expected useful lives of related assets.

Retirement benefits

Retirement benefits are provided for 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 was accounted for over the potential working life of the employees based on the assessment by independent actuaries, which took into account the probability of employees remaining in Eskom's employ. During 2004, the liability was paid out to employees.

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 discontinuance date.

Cash and cash equivalents

Cash and cash equivalents comprise balances with local and international banks, monies in call accounts and short-term assets and liabilities due to unsettled deals.

Cash equivalents are defined as money market assets and liabilities which mature within three months.

Revenue

Revenue, which excludes value-added tax, represents the aggregate sale of goods, services, completed contracts and separately identifiable portions of contracts delivered to customers (including contracts which have been accounted for using the percentage of completion method).

Electricity revenue

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

1. Accounting policies (continued)

Revenue (continued)

Other revenue

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the buyer and the amount of revenue can be measured reliably.

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			Company		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm
March 2005						
Land	**298**	**-**	**298**	**265**	**-**	**265**
Buildings and facilities	**2 821**	**(1 594)**	**1 227**	**2 696**	**(1 542)**	**1 154**
Plant - Generation	**47 722**	**(22 973)**	**24 749**	**47 722**	**(22 973)**	**24 749**
- Transmission	**10 733**	**(5 104)**	**5 629**	**10 733**	**(5 104)**	**5 629**
- Distribution	**29 334**	**(11 737)**	**17 597**	**29 334**	**(11 737)**	**17 597**
Regular distribution	**18 832**	**(7 000)**	**11 832**	**18 832**	**(7 000)**	**11 832**
Electrification	**10 502**	**(4 737)**	**5 765**	**10 502**	**(4 737)**	**5 765**
- Test, telecommunication and other plant	**2 501**	**(1 742)**	**759**	**448**	**(435)**	**13**
Equipment and vehicles	**4 102**	**(2 630)**	**1 472**	**3 664**	**(2 348)**	**1 316**
Total in commission	**97 511**	**(45 780)**	**51 731**	**94 862**	**(44 139)**	**50 723**
Plant at mothballed power stations	**586**	**(364)**	**222**	**586**	**(364)**	**222**
Works under construction	**4 567**	**-**	**4 567**	**4 509**	**-**	**4 509**
Construction materials	**181**	**-**	**181**	**181**	**-**	**181**
	102 845	**(46 144)**	**56 701**	**100 138**	**(44 503)**	**55 635**
December 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

Reconciliation of movements

	Carrying value beginning of period	Additions and transfers	Disposals	Impairment losses and write back	Depreciation	Carrying value end of period
	Rm	Rm	Rm	Rm	Rm	Rm
Group						
March 2005						
Land	**291**	**29**	**(22)**	**-**	**-**	**298**
Buildings and facilities	**1 228**	**174**	**(59)**	**9**	**(125)**	**1 227**
Plant	**47 127**	**6 181**	**(23)**	**(44)**	**(4 507)**	**48 734**
Equipment and vehicles	**1 278**	**839**	**(9)**	**(15)**	**(621)**	**1 472**
Plant at mothballed power stations	**222**	**-**	**-**	**-**	**-**	**222**
Works under construction	**3 218**	**1 349**	**-**	**-**	**-**	**4 567**
Construction materials	**111**	**70**	**-**	**-**	**-**	**181**
	53 475	**8 642**	**(113)**	**(50)**	**(5 253)**	**56 701**
Company						
March 2005						
Land	**259**	**28**	**(22)**	**-**	**-**	**265**
Buildings and facilities	**1 153**	**170**	**(59)**	**9**	**(119)**	**1 154**
Plant	**46 317**	**6 009**	**(22)**	**2**	**(4 318)**	**47 988**
Equipment and vehicles	**1 090**	**799**	**(7)**	**-**	**(566)**	**1 316**
Plant at mothballed power stations	**222**	**-**	**-**	**-**	**-**	**222**
Works under construction	**3 046**	**1 463**	**-**	**-**	**-**	**4 509**
Construction materials	**111**	**70**	**-**	**-**	**-**	**181**
	52 198	**8 539**	**(110)**	**11**	**(5 003)**	**55 635**

	Group		Company	
	March 2005	December 2003	**March 2005**	December 2003
	Rm	Rm	**Rm**	Rm
Borrowing costs are capitalised at a weighted average rate of 13,67% (2003: 14,13%).				
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	**3 622**	4 809	**3 622**	4 809
The cross-border lease transactions comprise primary lease terms of 18,8 and 22 years (of which the remaining lease terms are 11,8 and 15 years respectively) 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

	Group			Company		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm
March 2005	**142**	**(142)**	**-**	**-**	**-**	**-**
December 2003	142	(72)	70	-	-	-

Reconciliation of movements

	Group March 2005 Rm	Company March 2005 Rm
Carrying value beginning of period	**70**	**-**
Impairment losses	**(68)**	**-**
Amortisation	**(2)**	**-**
Carrying value end of period	**-**	**-**

4. Negative goodwill

	Group			Company		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm
March 2005	**(404)**	**278**	**(126)**	**(404)**	**278**	**(126)**
December 2003	(404)	230	(174)	(404)	230	(174)

Reconciliation of movements

	Group March 2005 Rm	Company March 2005 Rm
Carrying value at beginning of period	**(174)**	**(174)**
Amortisation	**48**	**48**
Carrying value at end of period	**(126)**	**(126)**

For the 15-month period ended 31 March 2005

5. Intangible assets

	Group			Company		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm
March 2005						
Rights	**283**	**(221)**	**62**	**283**	**(221)**	**62**
Computer software	**1 357**	**(957)**	**400**	**1 357**	**(957)**	**400**
Total	**1 640**	**(1 178)**	**462**	**1 640**	**(1 178)**	**462**
December 2003						
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

Reconciliation of movements	Carrying value beginning of period	Additions	Disposals	Impairment losses	Amortisation	Carrying value end of period
Group	Rm	Rm	Rm	Rm	Rm	Rm
March 2005						
Rights	**18**	**54**	**(1)**	**-**	**(9)**	**62**
Computer software	**410**	**303**	**-**	**(22)**	**(291)**	**400**
Total	**428**	**357**	**(1)**	**(22)**	**(300)**	**462**
Company						
March 2005						
Rights	**18**	**54**	**(1)**	**-**	**(9)**	**62**
Computer software	**384**	**304**	**-**	**-**	**(288)**	**400**
Total	**402**	**358**	**(1)**	**-**	**(297)**	**462**

6. Future fuel supplies

	Group		Company	
	March 2005 Rm	December 2003 Rm	**March 2005 Rm**	December 2003 Rm
Coal	**2 285**	2 481	**2 285**	2 481
Balance at beginning of the period	**2 481**	2 389	**2 481**	2 389
Additions	**181**	311	**181**	311
Amortised during the period	**(377)**	(219)	**(377)**	(219)
Nuclear	**186**	300	**186**	300
Balance at beginning of the period	**300**	31	**300**	31
Additions	**511**	484	**511**	484
Amortised during the period	**(4)**	(1)	**(4)**	(1)
Transfer to inventories	**(621)**	(214)	**(621)**	(214)
Total	**2 471**	2 781	**2 471**	2 781

7. Financial instruments

	Notes	Group March 2005 Fair value and carrying amount Rm	Group December 2003 Fair value and carrying amount Rm	Company March 2005 Fair value and carrying amount Rm	Company December 2003 Fair value and carrying amount Rm
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		**11 576**	11 187	**11 572**	11 187
Originated loans and advances	7.1.1	**2 997**	2 995	**2 997**	2 995
Available-for-sale assets	7.1.2	**4 191**	5 842	**4 191**	5 842
Assets held-to-maturity	7.1.3	**100**	2 350	**100**	2 350
Embedded derivatives	7.8.1	**4 288**	-	**4 284**	-
Current assets		**27 210**	19 374	**24 211**	17 499
Trading assets	7.2.1	**7 650**	6 764	**7 650**	6 764
Derivatives held for trading	7.6	**1 114**	1 145	**1 114**	1 145
Derivatives held for hedging	7.6	**21**	350	**21**	350
Bank balances	7.2.2	**2 931**	2 835	**979**	1 571
Originated loans and advances	7.2.3	**6 220**	5 029	**6 220**	5 029
Available-for-sale assets	7.2.4	**216**	1 308	**216**	1 273
Assets held at fair value	7.2.5	**86**	167	**-**	167
Assets held-to-maturity	7.2.6	**8 179**	1 776	**7 219**	1 200
Embedded derivatives	7.8.1	**793**	-	**792**	-
		38 786	30 561	**35 783**	28 686
Financial market liabilities					
Financial liabilities other than trade and other payables include:					
Non-current liabilities		**22 871**	18 324	**22 549**	18 015
Bank	7.3	**1 233**	1 233	**1 233**	1 233
Long term securities issued at amortised cost	7.4	**16 779**	17 091	**16 513**	16 782
Embedded derivatives	7.8.1	**4 859**	-	**4 803**	-
Current liabilities		**14 739**	15 871	**15 015**	16 178
Derivatives held for trading	7.6	**1 312**	1 406	**1 312**	1 406
Derivatives held for hedging	7.6	**49**	384	**49**	384
Bank	7.3	**2 723**	5 372	**2 723**	5 372
Short-term liabilities held at amortised cost	7.5.1	**3 586**	2 651	**3 572**	2 970
Short-term liabilities held at fair value	7.5.2	**6 843**	6 058	**7 158**	6 046
Embedded derivatives	7.8.1	**226**	-	**201**	-
		37 610	34 195	**37 564**	34 193

For the 15-month period ended 31 March 2005

		Group		Company	
		March 2005 Rm	December 2003 Rm	**March 2005 Rm**	December 2003 Rm
7.1	**Non-current assets**				
7.1.1	**Originated loans and advances**				
	Unlisted marketable securities	**2 997**	2 995	**2 997**	2 995
	Maturity analysis				
	- Due between one to five years	**347**	1 245	**347**	1 245
	- More than five years	**2 650**	1 750	**2 650**	1 750
		2 997	2 995	**2 997**	2 995
7.1.2	**Available-for-sale assets**				
	Listed marketable securities				
	- Securities of, or guaranteed by the South African Government	**4 191**	5 842	**4 191**	5 842
	Maturity analysis				
	- Due between one to five years	**2 382**	2 375	**2 382**	2 375
	- More than five years	**1 809**	3 467	**1 809**	3 467
		4 191	5 842	**4 191**	5 842
7.1.3	**Assets held-to-maturity**				
	Unlisted marketable securities	**100**	2 350	**100**	2 350
	Maturity analysis				
	- Due between one to five years	**-**	2 250	**-**	2 250
	- More than five years	**100**	100	**100**	100
		100	2 350	**100**	2 350
7.2	**Current assets**				
7.2.1	**Trading assets**				
	Listed marketable securities				
	- Securities of, or guaranteed by the South African Government	**575**	2 699	**575**	2 699
	Unlisted	**7 075**	4 065	**7 075**	4 065
		7 650	6 764	**7 650**	6 764
	Maturity analysis				
	- Due within one year	**7 650**	6 764	**7 650**	6 764
	Included in the amount of R6 764 million for 2003 is an amount of R2 720 million which was previously classified under non-current assets (refer to note 6.1.4 capital market instruments in the 2003 Annual Report).				
	Repurchase commitments				
	Trading assets include securities that are subject to repurchase agreements to the value of	**3 900**	6 600	**3 900**	6 600
7.2.2	**Bank balances**				
	Call deposits	**499**	1 041	**499**	1 041
	Other bank balances	**2 034**	1 277	**82**	13
	Unsettled deals	**398**	517	**398**	517
		2 931	2 835	**979**	1 571
7.2.3	**Originated loans and advances**				
	- Short term negotiable securities	**6 220**	5 029	**6 220**	5 029
7.2.4	**Available-for-sale assets**				
	- Short term negotiable securities	**216**	1 308	**216**	1 273
7.2.5	**Assets held at fair value**				
	- Short term negotiable securities	**86**	167	**-**	167
7.2.6	**Assets held-to-maturity**				
	- Short term negotiable securities	**8 179**	1 776	**7 219**	1 200

7. Financial instruments (continued)

	Group		Company	
	March 2005 Rm	December 2003 Rm	**March 2005 Rm**	December 2003 Rm
7.3 Bank overdraft				
Unsettled deals	**3 956**	6 605	**3 956**	6 605
Maturity analysis				
- Due within one year	**2 723**	5 372	**2 723**	5 372
- Due between one to five years	**1 233**	1 233	**1 233**	1 233
	3 956	6 605	**3 956**	6 605
7.4 Long term securities issued				
Held at amortised cost				
Export credit facilities	**-**	1	**-**	1
Euro rand zero coupon bonds issued	**1 149**	985	**1 149**	985
Rand loans	**320**	360	**122**	122
Electrification participation note	**1 519**	1 578	**1 519**	1 578
Promissory note	**74**	61	**74**	61
Foreign loans	**68**	1 855	**-**	1 784
- Euro	**68**	1 832	**-**	1 761
- Pound sterling	**-**	23	**-**	23
Eskom bonds issued	**13 649**	12 251	**13 649**	12 251
	16 779	17 091	**16 513**	16 782
Maturity analysis				
- Due between one to five years	**9 081**	9 603	**8 970**	9 294
- More than five years	**7 698**	7 488	**7 543**	7 488
	16 779	17 091	**16 513**	16 782
7.5 Short term liabilities				
7.5.1 Held at amortised cost				
Commercial paper bills issued	**1 819**	2 385	**1 819**	2 704
Rand loans	**4**	-	**-**	-
Foreign loans	**1 710**	89	**1 700**	89
- US dollar	**-**	3	**-**	3
- Euro	**1 687**	75	**1 677**	75
- Pound sterling	**23**	11	**23**	11
Eskom bonds issued	**45**	177	**45**	177
Other	**8**	-	**8**	-
	3 586	2 651	**3 572**	2 970
7.5.2 Held at fair value				
Commercial paper issued in trading portfolios	**6 050**	4 025	**6 365**	4 025
Eskom bonds issued in trading portfolios	**778**	2 021	**778**	2 021
Term borrowings (related parties)	**15**	12	**15**	-
	6 843	6 058	**7 158**	6 046

Included in the amount of R2 021 million for 2003 is an amount of R1 969 million which was previously classified under non-current liabilities (refer to note 6.2.1 Capital market instruments in the 2003 Annual Report).

7. Financial instruments (continued)

31 March 2005

	Group and Company									
	Maturity value of assets				Maturity value of liabilities					
	<1 year	1 to 5 years	> 5 years	Fair value of assets	<1 year	1 to 5 years	> 5 years	Fair value of liabilities	Net fair value	Notional amount
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
7.6 Derivative assets and liabilities										
Derivatives held for trading	**1 114**	**-**	**-**	**1 114**	**(1 312)**	**-**	**-**	**(1 312)**	**(198)**	**17 863**
Foreign exchange derivatives	**513**	**-**	**-**	**513**	**(466)**	**-**	**-**	**(466)**	**47**	**1 422**
- Swaps	**77**	**-**	**-**	**77**	**(51)**	**-**	**-**	**(51)**	**26**	**210**
- Foreign exchange contracts	**436**	**-**	**-**	**436**	**(415)**	**-**	**-**	**(415)**	**21**	**1 212**
Interest rate derivatives	**548**	**-**	**-**	**548**	**(693)**	**-**	**-**	**(693)**	**(145)**	**15 165**
- Swaps	**529**	**-**	**-**	**529**	**(667)**	**-**	**-**	**(667)**	**(138)**	**16 058**
- Options	**17**	**-**	**-**	**17**	**(25)**	**-**	**-**	**(25)**	**(8)**	**(160)**
- Forwards	**2**	**-**	**-**	**2**	**(1)**	**-**	**-**	**(1)**	**1**	**(733)**
Commodity derivatives	**53**	**-**	**-**	**53**	**(153)**	**-**	**-**	**(153)**	**(100)**	**1 276**
- Caps and floors	**8**	**-**	**-**	**8**	**(108)**	**-**	**-**	**(108)**	**(100)**	**1 276**
- Gold swap	**45**	**-**	**-**	**45**	**(45)**	**-**	**-**	**(45)**	**-**	**-**
Derivatives held for hedging	**21**	**-**	**-**	**21**	**(49)**	**-**	**-**	**(49)**	**(28)**	**3 580**
Derivatives designated as fair value hedges	**3**	**-**	**-**	**3**	**(46)**	**-**	**-**	**(46)**	**(43)**	**1 717**
Derivatives designated as cash flow hedges	**18**	**-**	**-**	**18**	**(3)**	**-**	**-**	**(3)**	**15**	**1 863**
Total derivatives	**1 135**	**-**	**-**	**1 135**	**(1 361)**	**-**	**-**	**(1 361)**	**(226)**	**21 443**

31 December 2003

Maturity value of assets				Maturity value of liabilities					
<1 year	1 to 5 years	> 5 years	Fair value of assets	<1 year	1 to 5 years	> 5 years	Fair value of liabilities	Net fair value	Notional amount
Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
1 145	-	-	1 145	(1 406)	-	-	(1 406)	(261)	18 898
616	-	-	616	(771)	-	-	(771)	(155)	1 880
68	-	-	68	-	-	-	-	68	225
548	-	-	548	(771)	-	-	(771)	(223)	1 655
431	-	-	431	(559)	-	-	(559)	(128)	15 852
390	-	-	390	(519)	-	-	(519)	(129)	15 644
40	-	-	40	(39)	-	-	(39)	1	-
1	-	-	1	(1)	-	-	(1)	-	208
98	-	-	98	(76)	-	-	(76)	22	1 166
98	-	-	98	(76)	-	-	(76)	22	1 166
-	-	-	-	-	-	-	-	-	-
350	-	-	350	(384)	-	-	(384)	(34)	3 913
350	-	-	350	(289)	-	-	(289)	61	1 903
-	-	-	-	(95)	-	-	(95)	(95)	2 010
1 495	-	-	1 495	(1 790)	-	-	(1 790)	(295)	22 811

Included in the amount of R1 495 million is an amount of R381 million relating to local derivatives and an amount of R45 million relating to foreign derivatives (refer to note 6.1.4 in the 2003 Annual Report). Also included is an amount of R304 million relating to cash flow hedges and R246 million relating to fair value hedges (refer to note 6.1.5 in the 2003 Annual Report).

Included in the amount of R1 790 million is an amount of R503 million relating to local derivatives and an amount of R9 million relating to foreign derivatives (refer to note 6.2.1 in the 2003 Annual Report). Also included is an amount of R314 million relating to cash flow hedges and R200 million relating to fair value hedges (refer to note 6.2.4 in the 2003 Annual Report).

7. Financial instruments (continued)

7.7 Derivative instruments

Fair values

The fair value of a derivative financial instrument represents the value of the cash flow (either negative or positive), which would have occurred if the rights and obligations arising from that instrument were closed out in the market place at year end.

Notional amount

The gross notional amount represents the sum of the absolute value of all bought and sold contracts. The amount cannot be used to assess the market risk associated with the position and should be used only as a means of assessing Eskom's participation in derivative contracts.

Use and measurement of derivative instruments

In the normal course of business, Eskom enters into a variety of derivative instrument transactions to hedge foreign exchange and interest rate exposure and to a lesser degree for trading purposes. However, as Eskom does not apply hedge accounting on many of the derivative instruments used to economically hedge interest rate and foreign currency exposure, these are then classified as derivatives held for trading purposes in accordance with the requirement of IAS 39. Derivatives used by Eskom in both hedging and trading activities include swaps, options and forwards.

The risks associated with the derivative instruments are actively monitored together with the underlying instrument and across a range of various instruments on a pool basis.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. The major types of swap transactions undertaken by Eskom are as follows:

- Interest rate swap contracts entail a contractual exchange of fixed and floating interest payments in a single currency, based on a notional amount and an interest rate reference.
- Cross currency interest rate swaps involve the exchange on interest payments based on two currency principal balances and interest reference rates and generally include the exchange of principal at the start and/or end of the contract.

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy or sell, a specified amount of a financial instrument or commodity at a predetermined price. The seller receives a premium from the purchaser for this right. Options may be traded over the counter or on a regulated exchange.

Forwards and futures are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified rate. Forward contracts are contracted over the counter to suit the relevant counterparty, whereas futures are standardised contracts transacted on regulated exchanges.

7. Financial instruments (continued)

7.8 Embedded derivatives

Background

Eskom has entered into a number of agreements to supply electricity to electricity intensive industries where the revenue from these contracts is based on commodity prices and foreign currency rates (mainly dollar or pound sterling) or foreign production price indices that give rise to embedded derivatives as a result of the different characteristics of these contracts and the host. Subsidiaries of Eskom Enterprises also entered into sales contracts where the revenue is based on the dollar, foreign production price indices and foreign interest rates that give rise to embedded derivatives. The contractual periods vary and are up to 25 years.

Change in accounting treatment

Previously, due to the long-term nature of the contracts, relevant and reliable forward pricing data was unavailable for many of the inputs needed in determining the value of embedded derivatives. It was indicated in the previous financial statements that estimates of value, given various simulations of forward prices, yielded a range of values that was so variable and the possibilities of the various outcomes were so numerous that the usefulness of the estimates of value was negated. Consequently no estimate of the value of the embedded derivatives was disclosed in the 2003 annual financial statements.

With the additional guidance in the revised IAS 39, it is clear that there is a presumption that the embedded derivatives can be fair valued. The valuations have been based on the assumptions stated in the following notes. The electricity price used in determining the fair value of the host contract is based on a recent arms length transaction and the average change in electricity prices. The host contracts were fair valued by taking into account the ruling prices and the expected forward electricity curve. The electricity forward curve is based on the consumer price index plus 2%.

The embedded derivatives, for which a measure was not previously available, have now been fair valued and the difference between the carrying amount and fair value has been accounted for in net profit for the 15-month period ended 31 March 2005. The net impact on the income statement of the company is a fair value gain of R72 million and a fair value loss of R4 million for the Group. However, the impact on the balance sheet and sensitivity to the assumptions is significant. The Group amount for embedded derivative assets is R5 081 million and for embedded derivative liabilities is R5 085 million.

Assumptions

The spot electricity price is based on the latest announced price in terms of the tariff specified in the electricity sales contract. The forward electricity price is based on the spot price of electricity and the change in the local consumer price index (CPI) plus 2%. The Board believes that an electricity tariff increase of CPI plus 2% (on average) is required over the long-term to ensure that the sustainability of the electricity business is maintained when the new build programme is taken into account.

Forecasted sales volumes are based on the most likely future sales volumes which have been back-tested against historic volumes.

At inception a margin based approach was used to determine the spot and forward consumer price indices.

Market information was not available for every input for the whole period of the contracts. Included in the Group results is an embedded derivative for one of the subsidiaries in Africa. Due to the absence of observable forward interest rates in excess of two years, the embedded derivative was modeled on a two-year rolling basis, i.e. only cash flows for the next two years were modeled at each valuation date. The valuation of this embedded derivative is a liability of R15 million at 31 March 2005. The valuation of this embedded derivative will be extended to the full duration of the contract when observable data beyond two years becomes available.

The embedded derivatives have been divided into three categories:

- Commodity and/or foreign currency derivatives.
- Foreign currency or interest rate derivatives.
- Production price and foreign currency derivatives.

7. Financial instruments (continued)

7.8 Embedded derivatives (continued)

Management of risks associated to contracts containing embedded derivatives

The risks contained in the contracts containing embedded derivatives are addressed as part of the risk management process.

The following risks are covered:
- Credit risk – the risk from default of a counter party
- Market risk – the adverse move in the market variables such as commodities, currency exchange and interest rates
- Compliance risk – the non compliance with requirements of the South African Reserve Bank

Electricity contracts that contain embedded derivatives are considered for hedging. It is anticipated that hedging in respect of certain commodity exposures will continue to be executed on a short term basis. The Reserve Bank currently allows Eskom to hedge any foreign exchange risk to a maximum of three years with a foreign counterparty and to a maximum of five years with a local counterparty.

Valuation assumptions

The following valuation assumptions are regarded as the best estimates by the Board of Directors:

		Year ending 31 March				
Input	Unit	2005	2006[1]	2007[1]	2008[1]	2009[1]
Aluminium	US Dollar/ton	1 959	1 794	1 728	1 678	1 647
Rand/dollar	US dollar per rand	0,16	-	-	-	-
Rand interest rates	Continuous actual/365 days, %	7,14	7,66	7,97	8,19	8,35
Dollar interest rates	Continuous actual/360 days, %	2,95	4,17	4,40	4,55	4,66
United States production price indices	Year on year, %	2,0	2,0	2,0	2,0	2,0
South African consumer price indices	Year on year, %	3,8	4,3	5,0	5,0	4,9

Sensitivity analysis

The following is the approximate change in the value of the embedded derivatives if one of the following inputs is changed with reference to the value at 31 March 2005:

Variable	Description of change	Pecentage change	Increase in profit Rm	Decrease in profit Rm
Eskom				
Aluminium	Increase in price	10%	1 809	-
Aluminium	Decrease in price	10%	-	(1 809)
Rand/dollar	Weakening of rand	10%	2 500	-
Rand/dollar	Appreciation of rand	10%	-	(2 494)
Rand interest rates	Parallel shift up	1%	1 879	-
Rand interest rates	Parallel shift down	1%	-	(2 083)
Dollar interest rates	Parallel shift up	1%	-	(1 608)
Dollar interest rates	Parallel shift down	1%	1 802	-
Consumer price indices	Parallel shift up	1%	-	(2 021)
Consumer price indices	Parallel shift down	1%	1 866	-
United States production price indices	Parallel shift up	1%	91	-
Subsidiaries				
Uganda interest rate	Parallel shift up	1%	8	-
Dollar interest rates	Parallel shift up	1%	-	(7)
Uganda shilling/US dollar	Weakening of Uganda shilling	10%	51	-
Rand/dollar	Weakening of rand	10%	-	(8)
Euro interest rates	Parallel shift up	1%	2	-
Zambian Kwatcha/US dollar	Weakening of Zambian Kwatcha	10%	1	-
Zambian Kwatcha interest rates	Parallel shift up	1%	1	-

1. Forward curve based on calendar years.

7. Financial instruments (continued)

7.8 Embedded derivatives (continued)

7.8.1 Value of embedded derivatives

The value of the embedded derivatives at 31 March 2005 were as follows:

	Group				Company			
		Maturity				Maturity		
	Total asset value	< than 1 year	> than 1 year < than 5 years	> than 5 years	Total asset value	< than 1 year	> than 1 year < than 5 years	> than 5 years
Assets								
Type of derivative	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Commodity and/or foreign currency	**5 049**	**786**	**2 060**	**2 203**	**5 049**	**786**	**2 060**	**2 203**
Foreign currency or interest rate	**5**	**1**	**3**	**1**	**-**	**-**	**-**	**-**
Production price indices and foreign currency	**27**	**6**	**21**	**-**	**27**	**6**	**21**	**-**
Total	**5 081**	**793**	**2 084**	**2 204**	**5 076**	**792**	**2 081**	**2 203**
Liabilities								
Type of derivative								
Commodity and/or foreign currency	**1 345**	**7**	**8**	**1 330**	**1 345**	**7**	**8**	**1 330**
Foreign currency or interest rate	**1 455**	**174**	**1 077**	**204**	**1 379**	**149**	**1 026**	**204**
Production price indices and foreign currency	**2 285**	**45**	**350**	**1 890**	**2 280**	**45**	**348**	**1 887**
Total	**5 085**	**226**	**1 435**	**3 424**	**5 004**	**201**	**1 382**	**3 421**

8. Risk management

Eskom has an integrated risk management framework. For more information on risk, refer to page 26 in the Corporate Governance Statement and page 84 in the Directors' Report.

The management of the financial and market risks takes place within Eskom's centralised Treasury function. The objective is to ensure that Eskom is not unduly exposed to financial and market risks.

Eskom Treasury's approach is based on risk governance structures; risk management policies; risk ownership and risk identification, measurement and reporting.

Risk governance structures

A risk governance structure is in place to ensure independent management of risks. The Board of Directors determine the risk levels and risk appetite for the organisation. The management and monitoring of these risks are delegated to the Credit Committee and the Asset and Liability Committee (ALCO) with overall responsibility always remaining with the Board of Directors.

The governance structure also includes an independent monitoring and compliance function.

Risk management policies

Risk management policies are formally documented and approved. The accountability for developing and maintaining risk policies rests with the General Manager (Treasury).

Risk ownership

The ownership of the risk management function resides with ALCO and the Credit Committee, under the Chairmanship of the Finance Director and the General Manager (Treasury).

Risk identification, measurement and reporting

The risk identification, measurement and reporting takes place by an independent department (Risk Assessment) and the main areas of activities are:
- understanding business and risk profiles;
- develop risk measurement processes, strategies and practices;
- monitor, assess and support risk management practices; and
- report on the state of risk and risk practices to executive management.

Major risks

Eskom has identified the following major risks that the organisation is exposed to:
- **Credit risk** - arising from default of counterparty.
- **Market risk** - the risk of a decrease in the market value of a portfolio of financial instruments caused by an adverse move in market variables such as bond prices, commodity prices, currency exchange rates and interest rates as well as implied volatilities on all of the above.
- **Liquidity risk** - the risk that Eskom has insufficient funds or marketable securities available to fulfill it's cash flow obligations on time.
- **Compliance risk** - the risk of non-compliance with any statutory requirement of central or local Government and includes the South African Reserve Bank, Financial Services Board and various financial exchanges.
- **Operational risk** - resulting from inadequate or failed internal processes, people and systems or from external events.

8. Risk management (continued)

Credit risk

The risk of counterparty default 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 for all Eskom's major counterparties. For investments where collateral is held, these are reflected under the appropriate category of the issuer of the paper.

There are three components to credit risk:

- settlement risk - the risk arises in transactions involving the exchange of values when the group must honour its obligations to deliver without first being able to determine that the group has received the counter value;
- pre-settlement risk - the risk arises from the potential non-performance by a counter party to a derivative obligation. The group is exposed to the loss of value through the cost of replacing the transaction, which is no longer at market rates; and
- issuer risk - the risk that the issuer of debt instruments defaults on a particular principal payment or set of payments due under the instrument.

Credit quality

All external investments held are rated AA or A1 and higher, or fully secured. The mark-to-market and capital-at-risk exposures are as follows:

	Mark-to-market exposure		Capital-at-risk exposure	
	2005	2003	**2005**	2003
	Rm	Rm	**Rm**	Rm
Customers	**2 591**	3 502	**48**	158
Financial market participants	**28 423**	26 582	**3**	3
	31 014	30 084	**51**	161

8. Risk management (continued)

Interest rate risk

Eskom is primarily exposed to upward interest rate movements on floating debt issued or downward interest rate movements on floating investments purchased, as well as interest rate risk in repricing forward exchange contracts. Floating debt issued and floating investments purchased do not expose Eskom to market risk, as the fair value of these instruments do not change as interest rates change.

Interest rate risk is managed on an integrated basis via a monthly ALCO process where strategies are recommended and approved. The sensitivity of the book to interest rates is mainly managed through the use of derivatives (predominantly interest rate swaps) in response to the shape of the yield curve together with management's best estimate of the interest rates.

Repricing analysis of assets and liabilities at 31 March 2005

	Group			Company		
	Within one year Rm	More than 12 months Rm	Non-rate sensitive Rm	Within one year Rm	More than 12 months Rm	Non-rate sensitive Rm
Total assets	**17 539**	**4 813**	**16 434**	**15 421**	**4 809**	**15 554**
Total liabilities	**(8 258)**	**(5 835)**	**(23 517)**	**(8 534)**	**(5 542)**	**(23 489)**
Interest rate sensitivity gap	**9 281**	**(1 022)**	**(7 083)**	**6 887**	**(733)**	**(7 935)**
Cumulative interest rate sensitivity gap	**9 281**	**8 259**	**1 176**	**6 887**	**6 154**	**(1 781)**

Repricing analysis of assets and liabilities at 31 December 2003

	Within one year Rm	More than 12 months Rm	Non-rate sensitive Rm	Within one year Rm	More than 12 months Rm	Non-rate sensitive Rm
Total assets	10 015	2 405	18 139	8 642	2 405	17 639
Total liabilities	(12 037)	(1 279)	(20 877)	(12 346)	(1 018)	(20 829)
Interest rate sensitivity gap	(2 022)	1 126	(2 738)	(3 704)	1 387	(3 190)
Cumulative interest rate sensitivity gap	(2 022)	(896)	(3 634)	(3 704)	(2 317)	(5 507)

(Refer to note 7.6 for disclosure on Interest Rate Swaps).

8. Risk management (continued)

Counterparty risk

Capital-at-risk and mark-to-market of the top ten counterparties fall broadly into the following categories:

	Mark-to-market exposure		Capital-at-risk exposure	
	2005	2003	**2005**	2003
	Rm	Rm	**Rm**	Rm
Customers	**666**	704	**48,0**	157,5
Local banks	**12 150**	7 092	**1,4**	0,8
Other local institutions	**4 878**	8 126	**0,5**	0,8
Foreign banks	**6 795**	7 710	**0,7**	0,7
	24 489	23 632	**50,6**	159,8
Percentage of grand total	78,96%	78,55%	**99,12%**	99,37%

Market value of collateral held at 31 March 2005 was nil (2003: R445 million).

Market risk

Market risk exists wherever Eskom Treasury has raised debt locally and/or internationally; invested surplus funds and to a lesser degree when trading positions are taken. Market risk is also taken on hedging certain revenue streams.

The management of market risk takes place on an integrated basis, in two separate streams (strategic and trading) through risk limits. A range of various risk measurement methodologies and tools to establish limits, which include value-at-risk (VaR), loss triggers and stress testing as well as other traditional risk management techniques are in place.

Historical VaR is generally used to derive quantitative measures for market risk under normal market conditions and are supplemented by loss triggers to enforce management intervention at pre-determined loss levels. Other risk management techniques involve measures which include permissable trading instruments, concentration of exposure as well as quality of paper held.

Currency risk

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

(Refer to note 7.6 for disclosure on forward exchange contracts).

8. Risk management (continued)

Liquidity risk

Liquidity risk arises primarily from variation in revenue flows as well as Eskom's commitment to act as a market maker in it's own debt instruments as well as to repay principle debt and interest. Eskom's approach to liquidity management include:

- maintenance of adequate level to short-term marketable securities, including minimal and maximum call balances;
- effective periodic forecast cash flow management;
- implementation of long-term and short-term funding and investment strategies;
- diversification of funding and investing activities;
- daily independent monitoring of minimum and maximum levels of liquidity; and
- formal early warning procedures to relevant management enabling a pro-active liquidity management approach rather than a reactive approach.

Liquid assets under management amounted to R14 570 million (2003: R9 231 million).

During the period under review Eskom was a net investor of cash to the amount of R7 233 million (2003: R4 589 million) in the domestic markets. It is expected that this trend on net investment of cash will continue until the capital expansion programme is fully implemented.

Compliance risk

The Eskom Treasury Department is subject to supervisory and regulatory legislations which include the Financial Services Board, the South African Reserve Bank, the Financial Intelligence Centre Act and the Public Finance Management Act. Responsibility for Treasury compliance lies with the General Manager (Treasury) through an independent monitoring and reporting function within the department

The approach adopted to manage these risks include a combination of the following key activities:

- Training staff on their responsibilities related to the various legislation.
- Implementation of adequate procedures to assist management achieve adherence to the legislative requirements.
- Effective monitoring and reporting to ensure compliance.

Operational risk

Operational risk management

Eskom recognises operational risk, inclusive of information risk and business continuity, as a significant risk category and manages it within acceptable levels. Eskom continues to develop and expand its guidelines, standards, methodologies and systems in order to enhance the management of operational risk.

Approach to managing operational risk

To support this, Eskom has established sound practices, including:

- policies and procedures to sustain effective risk management; and
- ongoing assessment of the effects of changes in the regulatory environment and acquisition of skills and knowledge of best practices to ensure the group's own endeavours are most appropriate for the environment.

	Group		Company	
	March 2005 Rm	December 2003 Rm	**March 2005 Rm**	December 2003 Rm
9. Loans receivable				
Secured by mortgages	**2 442**	2 554	**-**	-
Other	**42**	53	**-**	-
	2 484	2 607	**-**	-
Provision for impairment losses	**(20)**	(27)	**-**	-
	2 464	2 580	**-**	-
Maturity structure				
Less than three months	**1**	1		
More than three months but less than one year	**5**	-		
Due between one to five years	**38**	59		
More than five years	**2 441**	2 548		
	2 484	2 607		
10. Investment in associates and joint ventures				
Associates	**245**	191	**4**	4
Cost of investment	**429**	420	**300**	300
Share of post-acquisition profit, net of dividends received	**124**	67	**-**	-
	553	487	**300**	300
Provision for impairment losses	**(308)**	(296)	**(296)**	(296)
Joint ventures	**125**	101	**95**	89
Cost of investment	**100**	133	**95**	133
Share of post-acquisition profit, net of dividends received	**27**	13	**-**	-
	127	146	**95**	133
Provision for impairment losses	**(2)**	(45)	**-**	(44)
Total (refer to schedule 1 for further details)	**370**	292	**99**	93
Net income after tax attributable to associates and joint ventures	**71**	45		
11. Investment in subsidiary companies				
Shares at cost			**184**	184
Indebtedness			**3 871**	4 257
Provision for impairment losses			**(968)**	(803)
Total (refer schedule 2 for further details)			**3 087**	3 638
Aggregate attributable after tax profits of subsidiary companies	**390**	130		
Aggregate attributable after tax losses of subsidiary companies	**-**	821		

1. Nominal Value.

	Group		Company	
	March 2005 Rm	December 2003 Rm	**March 2005 Rm**	December 2003 Rm
12. Deferred tax				
Deferred tax assets	**140**	151	**-**	-
Balance at beginning of the period	**151**	85	**-**	-
Transfer from income statement (refer note 29)	**(11)**	66	**-**	-
Deferred tax liabilities	**(6 538)**	(4 287)	**(6 266)**	(4 124)
Balance at beginning of the period	**(4 287)**	(2 544)	**(4 124)**	(2 411)
Prior year overprovision	**5**	-	**-**	-
Restated balance	**(4 282)**	(2 544)	**(4 124)**	(2 411)
Transfer from income statement (refer note 29)	**(2 102)**	(1 808)	**(1 988)**	(1 778)
Transfer (from)/to statement of changes in equity	**(154)**	65	**(154)**	65
	(6 398)	(4 136)	**(6 266)**	(4 124)
Comprising:				
Deferred tax assets				
Property, plant and equipment	**47**	7	**-**	-
Inventories	**-**	46	**-**	-
Provisions	**25**	41	**-**	-
Tax losses	**11**	-	**-**	-
Other	**57**	57	**-**	-
	140	151	**-**	-
Deferred tax liabilities				
Property, plant and equipment	**9 852**	8 201	**9 852**	8 201
Inventories	**172**	135	**172**	135
Provisions	**(3 127)**	(3 192)	**(3 127)**	(3 192)
Tax losses	**(476)**	(401)	**(476)**	(401)
Other	**117**	(456)	**(155)**	(619)
	6 538	4 287	**6 266**	4 124
Computed tax losses not used, but available for set-off against future taxable income	**-**	75	**-**	-

		Group		Company	
		March 2005	December 2003	**March 2005**	December 2003
		Rm	Rm	**Rm**	Rm
13.	**Trade and other receivables**				
	Trade	**4 712**	4 404	**4 276**	3 764
	Interest receivable	**423**	531	**455**	586
	Other	**1 351**	780	**1 469**	890
		6 486	5 715	**6 200**	5 240
	Provision for doubtful receivables	**(1 366)**	(1 284)	**(1 215)**	(1 197)
		5 120	4 431	**4 985**	4 043
	Non-current portion	**(47)**	(207)	**(47)**	(207)
		5 073	4 224	**4 938**	3 836
14.	**Inventories**				
	Coal	**886**	705	**886**	705
	Nuclear fuel	**828**	650	**828**	650
	Maintenance spares and consumables	**1 325**	1 255	**1 106**	1 082
		3 039	2 610	**2 820**	2 437
	Provision for obsolescence	**(222)**	(213)	**(222)**	(213)
		2 817	2 397	**2 598**	2 224
15.	**Issued capital**				
	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.

1. *Nominal value.*

16. Retirement benefit obligations

		Group		Company	
		March 2005	December 2003	**March 2005**	December 2003
16.1	The Eskom Pension and Provident Fund is registered in terms of the Pension Funds Act, 1956 as amended. All 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 was actuarially valued on the solvency basis on 31 March 2005 (previous valuation at 31 December 2003).				
	The actuarial present value of promised retirement benefits at 31 March 2005 was R28 794 million (December 2003: R23 878 million), while the fair value of the Fund's assets at this date was R30 608 million (December 2003: R23 878 million).				
	The principal actuarial assumptions used for actuarial valuation purposes were,				
	Long-term interest rate before tax, %	**8,80**	9,25	**8,80**	9,25
	Salary inflation rate, %	**5,60**	5,50	**5,60**	5,50
	Future pension increases, %	**4,50**	4,50	**4,50**	4,50
16.2	The estimated cost of gratuities was accounted for over the potential working life of the employees based on the assessment by independent actuaries, which took into account the probability of employees remaining in Eskom's employ. During 2004, the liability was paid out to employees.				
	Balance at the end of the period, Rm	**24**	1 341	**3**	1 236
16.3	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 calculated by independent actuaries at 31 March 2005. An independent actuarial valuation is performed annually.				
	Amount provided, Rm				
	Present value of obligation	**4 962**	4 351	**4 797**	4 209
	Unrecognised actuarial gain	**-**	6	**-**	6
		4 962	4 357	**4 797**	4 215
	The principal actuarial assumptions used for actuarial valuation purposes were,				
	Long-term interest rate before tax, %	**8,80**	9,25	**8,80**	9,25
	Long-term medical aid inflation, %	**6,80**	7,25	**6,80**	7,25
16.4	Provision for post-retirement medical aid and gratuities, Rm				
	Balance at beginning of the period	**5 698**	4 792	**5 451**	4 575
	Provision for additional period of service	**232**	214	**217**	196
	Interest cost	**514**	483	**492**	464
	Actuarial (loss)/gain	**(26)**	381	**(26)**	381
	Expenditure incurred	**(1 513)**	(172)	**(1 415)**	(165)
	Transfer of Eskom Enterprises	**81**	-	**81**	-
	Balance at end of the period (refer notes 16.2 and 16.3)	**4 986**	5 698	**4 800**	5 451
	Current portion	**(166)**	(1 434)	**(160)**	(1 348)
		4 820	4 264	**4 640**	4 103

17. Provisions

	Nuclear decom-missioning and waste management Rm	Other decom-missioning Rm	Closure, pollution control and rehabilitation Rm	Letter of credit facilities Rm	Leave pay Rm	Other Rm	Total Rm
Group							
Balance at 1 January 2003	1 681	842	622	85	463	564	4 257
Provision for the year	49	9	18	-	277	412	765
Interest cost	196	86	78	-	-	-	360
Revaluation	-	-	-	(3)	-	-	(3)
Foreign exchange profit	-	-	-	(18)	-	-	(18)
Expenditure incurred	(6)	(14)	(28)	(13)	(139)	(203)	(403)
Balance at 31 December 2003	**1 920**	**923**	**690**	**51**	**601**	**773**	**4 958**
Provision for the period	**76**	**82**	**24**	**-**	**1 778**	**607**	**2 567**
Interest cost	**257**	**94**	**85**	**-**	**-**	**-**	**436**
Reversal of provision	**-**	**-**	**-**	**(42)**	**(831)**	**(195)**	**(1 068)**
Expenditure incurred	**(16)**	**(20)**	**(13)**	**(9)**	**(762)**	**(551)**	**(1 371)**
Balance at 31 March 2005	**2 237**	**1 079**	**786**	**-**	**786**	**634**	**5 522**
Disclosed as:							
Balance at 31 December 2003	1 920	923	690	51	601	773	4 958
Less: short-term portion	(6)	(5)	(11)	-	(295)	(337)	(654)
Non-current portion at 31 December 2003	1 914	918	679	51	306	436	4 304
Balance at 31 March 2005	**2 237**	**1 079**	**786**	**-**	**786**	**634**	**5 522**
Less: short-term portion	**(13)**	**(16)**	**(10)**	**-**	**(288)**	**(627)**	**(954)**
Non-current portion at 31 March 2005	**2 224**	**1 063**	**776**	**-**	**498**	**7**	**4 568**
Company							
Balance at 1 January 2003	1 681	842	622	85	421	326	3 977
Provision for the year	49	9	18	-	240	(66)	250
Interest cost	196	86	78	-	-	-	360
Revaluation	-	-	-	(3)	-	-	(3)
Foreign exchange profit	-	-	-	(18)	-	-	(18)
Expenditure incurred	(6)	(14)	(28)	(13)	(139)	35	(165)
Balance at 31 December 2003	**1 920**	**923**	**690**	**51**	**522**	**295**	**4 401**
Provision for the period	**76**	**82**	**24**	**-**	**1 772**	**174**	**2 128**
Interest cost	**257**	**94**	**85**	**-**	**-**	**-**	**436**
Reversal of provision	**-**	**-**	**-**	**(42)**	**(831)**	**-**	**(873)**
Expenditure incurred	**(16)**	**(20)**	**(13)**	**(9)**	**(762)**	**(295)**	**(1 115)**
Balance at 31 March 2005	**2 237**	**1 079**	**786**	**-**	**701**	**174**	**4 977**
Disclosed as:							
Balance at 31 December 2003	1 920	923	690	51	522	295	4 401
Less: short-term portion	(6)	(5)	(11)	-	(295)	-	(317)
Non-current portion at 31 December 2003	1 914	918	679	51	227	295	4 084
Balance at 31 March 2005	**2 237**	**1 079**	**786**	**-**	**701**	**174**	**4 977**
Less: short-term portion	**(13)**	**(16)**	**(10)**	**-**	**(203)**	**(174)**	**(416)**
Non-current portion at 31 March 2005	**2 224**	**1 063**	**776**	**-**	**498**	**-**	**4 561**

17. Provisions (continued)

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% (2003: 5%).

The payment dates of total expected future spent fuel costs are uncertain, but the majority of the payments are currently expected to be made between 2031 and 2080. The provision for the estimated spent fuel cost has been discounted at 5% (2003: 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% (2003: 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 2005 and 2067. The provision has been discounted at 5% (2003: 5%).

Leave provision

The leave provision includes annual leave and occasional leave and is valued at the remuneration rate. The remuneration rate is based on current salaries and the occasional leave takes into account the probability of leave sold and other factors.

18. Deferred income

	Group		Company	
	March 2005	December 2003	**March 2005**	December 2003
	Rm	Rm	**Rm**	Rm
Cross-border lease	**125**	172	**125**	172
Government grant	**2 499**	1 541	**2 243**	1 489
Capital contributions received from customers	**301**	-	**255**	52
	2 925	1 713	**2 623**	1 713
Reconciliation of movement				
Balance at the beginning of the period	**1 713**	1 236	**1 713**	1 236
Additions during the period	**1 538**	591	**1 107**	591
Income recognised during the period	**(326)**	(114)	**(197)**	(114)
Balance at end of the period	**2 925**	1 713	**2 623**	1 713

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 contributions received from customers

Contributions paid in advance by electricity customers for capital expenditure. Amounts relate to capital expenditure paid in advance by customers for the construction of electricity network assets.

19. Trade and other payables

Trade and other payables	**6 129**	4 936	**5 623**	4 359
Interest accrued	**581**	446	**585**	447
	6 710	5 382	**6 208**	4 806

For the 15-month period ended 31 March 2005

		Group		Company	
		March 2005	December 2003	**March 2005**	December 2003
		Rm	Rm	**Rm**	Rm
20.	**Commitments**				
20.1	**Capital expenditure**				
	Estimated capital expenditure	**21 627**	20 606	**21 610**	20 602
	Contracted	**4 043**	2 204	**4 026**	2 204
	Approved, not yet contracted for	**17 584**	18 402	**17 584**	18 398
	This expenditure will be financed from debt and internally generated funds and is expected to be incurred as follows:				
		21 627	20 606	**21 610**	20 602
	Within one year	**6 660**	4 077	**6 643**	4 073
	Thereafter	**14 967**	16 529	**14 967**	16 529
20.2	**Future minimum operating lease payments**	**170**	146	**151**	144
	Within one year	**79**	45	**73**	44
	Between one and five years	**90**	101	**77**	100
	After five years	**1**	-	**1**	-
20.3	**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 currency option contracts.				
20.4	**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.				
20.5	**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.				
21.	**Contingent liabilities**				
21.1	Guarantees and suretyships, issued on behalf of group companies and third parties, amount to	**345**	435	**345**	317
21.2	Eskom has guaranteed the debt raised by Motraco - Mozambique Transmission Company SARL. At the end of the period the outstanding commitment was	**511**	576	**511**	576
21.3	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 the end of the period was	**86**	95	**86**	95

		Group		Company	
		March 2005 Rm	December 2003 Rm	**March 2005 Rm**	December 2003 Rm
21.	**Contingent liabilities (continued)**				
21.4	Eskom has indemnified the Eskom Pension and Provident Fund against any loss resulting from the negligence, dishonesty or fraud by the Fund's officers or trustees.				
21.5	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 company, established as part of the cross-border lease structures, in favour of all parties to whom the company has such obligations in terms of the lease and leaseback operative documents. At 31 March 2005, the amount guaranteed is US dollar 302 million (2003: US dollar 407 million) at the year end exchange rate (relates to derivative of R189 thousand included in derivatives in note 7.6).	**1 884**	2 696	**1 884**	2 696
21.6	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 have been extended to 30 June 2005. 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. A letter dated 4 March 2005 from the Government of Lesotho confirmed that MKC had fulfilled its capital expansion obligation.				
21.7	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 R238 million (2003: R276 million) in the event of all the employees leaving the service of the Group.	**238**	276	**217**	247

For the 15-month period ended 31 March 2005

		Group		Company	
		March 2005	December 2003	**March 2005**	December 2003
		Rm	Rm	**Rm**	Rm
22.	**Revenue**				
	Electricity revenue	**41 223**	31 618	**41 223**	31 618
	Other revenue	**1 761**	1 330	**164**	162
		42 984	32 948	**41 387**	31 780
23.	**Employee benefits expense**				
	Salaries and other staff costs	**8 437**	6 231	**7 918**	6 118
	Pension contributions	**661**	492	**638**	485
	Post-retirement medical aid benefits and gratuities	**258**	606	**249**	576
	Training and development	**220**	185	**212**	183
		9 576	7 514	**9 017**	7 362
24.	**Depreciation and amortisation expense**				
	Depreciation of property, plant and equipment	**5 253**	3 757	**5 003**	3 565
	Amortisation of intangible assets	**300**	187	**297**	185
	Amortisation of goodwill	**2**	59	**-**	-
	Amortisation of negative goodwill	**(48)**	(38)	**(48)**	(38)
	Amortisation of future fuel	**381**	219	**381**	219
	Deferred income recognised	**(197)**	(114)	**(197)**	(114)
		5 691	4 070	**5 436**	3 817
25.	**Other expenses**				
	Contracts	**7 100**	668	**7 029**	4 560
	Repairs and maintenance	**3 533**	2 853	**3 499**	2 827
	Transport	**750**	493	**679**	475
	Managerial, technical and other fees	**537**	502	**533**	493
	Research and development	**278**	558	**278**	558
	Operating lease payments	**140**	86	**115**	84
	Directors' emoluments (refer to page 127)	**14**	36	**14**	36
	Auditors' remuneration	**27**	27	**18**	19
	Bad and doubtful debts	**148**	-	**93**	382
	Other expenses	**1 915**	4 448	**3 515**	1 075
		14 442	9 671	**15 773**	10 509
26.	**Interest income**				
	Interest and discount amortised on financial market investments	**4 254**	3 977	**3 821**	3 440
	Net income from Treasury trading	**44**	47	**44**	47
	Interest received from subsidiary and associate companies	**-**	-	**226**	324
		4 298	4 024	**4 091**	3 811
	Interest income includes preference dividends received amounting to	**221**	211	**221**	211

	Group		Company	
	March 2005 Rm	December 2003 Rm	**March 2005 Rm**	December 2003 Rm
27. Interest expense				
Interest and discount amortised	**4 850**	4 492	**4 887**	4 517
Locally issued bonds	**2 727**	2 709	**2 727**	2 709
Other local debt	**1 402**	1 129	**1 444**	1 154
Foreign debt	**721**	654	**716**	654
Other net financial profits and losses				
Exchange differences	**14**	39	**14**	39
Amounts capitalised	**(68)**	(46)	**(68)**	(46)
Unwinding of discount on provisions (refer notes 16 and 17)	**950**	843	**928**	824
	5 746	5 328	**5 761**	5 334
28. Fair value (losses)/gains on financial instruments				
Fair value gains on financial instruments	**179**	86	**159**	80
Fair value losses on financial instruments	**(208)**	(369)	**(130)**	(357)
	(29)	(283)	**29**	(277)
29. Income tax expense				
Current tax	**150**	88	**-**	-
Current period	**144**	74	**-**	-
Underprovision in prior years	**6**	14	**-**	-
Secondary tax on companies	**45**	30	**45**	30
Deferred tax	**2 113**	1 741	**1 988**	1 778
Originating and reversal of temporary differences for the current period	**2 397**	1 794	**2 276**	1 809
Change in deferred tax rate	**(216)**	-	**(216)**	-
Overprovision in prior years	**(68)**	(53)	**(72)**	(31)
Total income tax expense in income statement	**2 308**	1 859	**2 033**	1 808
Computed tax losses	**1 680**	1 377	**1 643**	1 339
Unused tax losses available for set-off against future income	**-**	75	**-**	-
Reconciliation of effective tax rate	**%**	%	**%**	%
Taxation as a percentage of profit before tax	**31,05**	35,54	**31,83**	35,92
Taxation effect of				
Exempt income	**3,49**	4,51	**3,23**	4,01
Expenses not deductible for tax purposes	**(8,03)**	(10,34)	**(8,28)**	(9,93)
Controlled foreign operations income	**-**	-	**(0,61)**	-
Secondary tax on companies	**(0,59)**	(0,58)	**(0,70)**	(0,61)
Foreign tax rate differential	**0,05**	(0,03)	**-**	-
Used tax losses	**0,30**	0,59	**-**	-
Change in tax rate	**2,88**	-	**3,38**	-
Computed tax losses not used	**-**	(0,43)	**-**	-
Overprovision in prior years	**0,83**	0,74	**1,13**	0,61
Other	**0,02**	-	**0,02**	-
Standard tax rate (%)	**30,00**	30,00	**30,00**	30,00
Deferred tax rate (%)	**29,00**	30,00	**29,00**	30,00

On 23 February 2005 the Minister of Finance delivered his Budget speech and changed the corporate tax rate from 30% to 29%.

For the 15-month period ended 31 March 2005

	Group		Company	
	March 2005 Rm	December 2003 Rm	**March 2005 Rm**	December 2003 Rm
30. Interest received				
Interest income (refer note 26)	**4 298**	4 024	**4 091**	3 811
Non-cash items	**(210)**	(355)	**(230)**	(361)
Discount amortised	**361**	(142)	**182**	(142)
Other	**(571)**	(213)	**(412)**	(219)
	4 088	3 669	**3 861**	3 450
31. Interest paid				
Interest expenditure (refer note 27)	**(5 746)**	(5 328)	**(5 761)**	(5 334)
Non-cash items	**1 925**	1 421	**1 981**	1 414
Discount amortised	**1 651**	567	**909**	567
Other	**274**	854	**1 072**	847
	(3 821)	(3 907)	**(3 780)**	(3 920)
32. Income taxes paid				
Amounts unpaid at beginning of the period	**(76)**	(43)	**-**	-
Current taxation charged to income statement	**(195)**	(117)	**(45)**	(30)
Amounts unpaid at end of the period	**47**	76	**-**	-
	(224)	(84)	**(45)**	(30)

	Notes	Group March 2005 Rm	Group December 2003 Rm	Company March 2005 Rm	Company December 2003 Rm
33. Cash and cash equivalents					
Cash and bank, and money market assets		**21 779**	13 694	**18 705**	11 859
Cash equivalents		**(2 325)**	(4 854)	**(2 325)**	(4 854)
Commercial paper bills		**(5 827)**	(6 395)	**(6 143)**	(6 729)
Total cash and cash equivalents at end of the period		**13 627**	2 445	**10 237**	276
Total cash and cash equivalents at beginning of the period		**2 445**	4 220	**276**	2 217
Net increase/(decrease) in cash and cash equivalents for the period		**11 182**	(1 775)	**9 961**	(1 941)
Analysis of total cash and cash equivalents					
Trading assets	7.2.1	**6 765**	4 335	**6 765**	4 335
Bank balances	7.2.2	**2 892**	2 833	**979**	1 571
Originated loans and advances	7.2.3	**6 189**	5 028	**6 189**	5 028
Available-for-sale assets	7.2.4	**-**	75	**-**	75
Assets held at fair value	7.2.5	**-**	167	**-**	167
Assets held-to-maturity	7.2.6	**6 655**	2 107	**5 178**	1 200
Bank overdraft	7.3	**(2 723)**	(5 372)	**(2 723)**	(5 372)
Short-term liabilities held at amortised cost	7.5.1	**(7)**	(2 703)	**(7)**	(2 703)
Short-term liabilities held at fair value	7.5.2	**(6 144)**	(4 025)	**(6 144)**	(4 025)
		13 627	2 445	**10 237**	276
The above amounts are incorporated in the totals of the relevant notes as indicated.					

	Group		Company	
	March 2005 Rm	December 2003 Rm	**March 2005** Rm	December 2003 Rm

34. Related-party information

Associates and joint ventures

Details of investment in associates and joint ventures are disclosed in note 10 and schedule 1. Interest income of R2 million (2003: R3 million) is included in note 26.

The group sold goods to the value of R392 million (2003: R429 million) to associates and joint ventures.

The group purchased goods to the value of R835 million (2003: R436 million) from associates and joint ventures.

The outstanding balances included in trade and other receivables (note 13) amounted to R46 million (2003: R82 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.

35. Segment reporting

Business segmentation	Regulated		Non-regulated		Inter-segmental transactions		Consolidated	
	March 2005	December 2003	**March 2005**	December 2003	**March 2005**	December 2003	**March 2005**	December 2003
	Rm	Rm	**Rm**	Rm	**Rm**	Rm	**Rm**	Rm
Revenue	**41 387**	31 780	**5 451**	4 023	**(3 854)**	(2 855)	**42 984**	32 948
Other income	**660**	1 258	**77**	1 540	**(491)**	(2 460)	**246**	338
Changes in inventories of finished goods and work in progress	**(373)**	(51)	**(68)**	38	**-**	-	**(441)**	(13)
Work performed by the entity and capitalised	**10 511**	6 057	**320**	325	**-**	-	**10 831**	6 382
Raw materials and consumables used	**(13 822)**	(9 670)	**(1 068)**	(1 214)	**-**	-	**(14 890)**	(10 884)
Employee benefits expense	**(9 017)**	(7 362)	**(559)**	(152)	**-**	-	**(9 576)**	(7 514)
Depreciation and amortisation expense	**(5 436)**	(3 817)	**(255)**	(253)	**-**	-	**(5 691)**	(4 070)
Impairment expense	**(110)**	(852)	**(164)**	(649)	**164**	803	**(110)**	(698)
Other expenses	**(15 773)**	(10 509)	**(3 384)**	(4 691)	**4 715**	5 529	**(14 442)**	(9 671)
Net operating income	**8 027**	6 834	**350**	(1 033)	**534**	1 017	**8 911**	6 818
Interest income	**4 091**	3 811	**609**	617	**(402)**	(404)	**4 298**	4 024
Interest expenditure	**(5 761)**	(5 334)	**(384)**	(398)	**399**	404	**(5 746)**	(5 328)
Net fair value adjustment	**29**	(277)	**(58)**	(6)	**-**	-	**(29)**	(283)
Profit before tax	**6 386**	5 034	**517**	(820)	**531**	1 017	**7 434**	5 231
Income tax expense	**(2 033)**	(1 808)	**(167)**	(21)	**(108)**	(30)	**(2 308)**	(1 859)
Profit after tax	**4 353**	3 226	**350**	(841)	**423**	987	**5 126**	3 372
Income from associates and joint ventures	**-**	-	**71**	45	**-**	-	**71**	45
Net profit for the period after tax	**4 353**	3 226	**421**	(796)	**423**	987	**5 197**	3 417
Attributable to:								
Equity holders of the company	**4 353**	3 226	**414**	(679)	**423**	987	**5 190**	3 534
Minority interest	**-**	-	**7**	(117)	**-**	-	**7**	(117)
	4 353	3 226	**421**	(796)	**423**	987	**5 197**	3 417
Other information								
Capital expenditure	**8 897**	6 154	**101**	242	**-**	-	**8 998**	6 396
Non-cash flow items	**7 061**	7 369	**270**	36	**-**	118	**7 331**	7 523

For the 15-month period ended 31 March 2005

	Regulated		Non-regulated		Inter-segmental transactions		Consolidated	
	March 2005 Rm	December 2003 Rm	**March 2005 Rm**	December 2003 Rm	**March 2005 Rm**	December 2003 Rm	**March 2005 Rm**	December 2003 Rm
Assets and liabilities								
Assets	**104 895**	93 798	**9 219**	8 567	**(5 279)**	(5 665)	**108 835**	96 700
Investments in associates and joint ventures	**99**	93	**223**	177	**48**	22	**370**	292
Total assets	**104 994**	93 891	**9 442**	8 744	**(5 231)**	(5 643)	**109 205**	96 992
Capital and reserves	**42 556**	39 203	**2 475**	2 095	**(164)**	(615)	**44 867**	40 683
Liabilities	**62 438**	54 688	**6 967**	6 649	**(5 067)**	(5 028)	**64 338**	56 309
Total equity and liabilities	**104 994**	93 891	**9 442**	8 744	**(5 231)**	(5 643)	**109 205**	96 992
Geographical segmentation								
Revenue								
South Africa	**40 006**	30 746	**4 872**	3 408	**(3 854)**	(2 855)	**41 024**	31 299
Outside South Africa	**1 381**	1 034	**579**	615	**-**	-	**1 960**	1 649
Total revenue	**41 387**	31 780	**5 451**	4 023	**(3 854)**	(2 855)	**42 984**	32 948
Assets								
South Africa	**104 899**	93 796	**8 649**	7 807	**(5 231)**	(5 643)	**108 317**	95 960
Outside South Africa	**95**	95	**793**	937	**-**	-	**888**	1 032
	104 994	93 891	**9 442**	8 744	**(5 231)**	(5 643)	**109 205**	96 992
Liabilities								
South Africa	**60 738**	52 815	**6 865**	6 500	**(5 066)**	(5 028)	**62 537**	54 287
Outside South Africa	**1 700**	1 873	**102**	149	**(1)**	-	**1 801**	2 022
	62 438	54 688	**6 967**	6 649	**(5 067)**	(5 028)	**64 338**	56 309
Capital expenditure								
South Africa	**8 897**	6 154	**78**	152	**-**	-	**8 975**	6 306
Outside South Africa	**-**	-	**23**	90	**-**	-	**23**	90
	8 897	6 154	**101**	242	**-**	-	**8 998**	6 396

Primary reporting format-business segments

At 31 March 2005, the Group is organised into two main business areas:

- Regulated - electricity business regulated in terms of the National Electricity Regulator.
- Non-regulated - 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.

Secondary reporting format-geographical segments

The Group's two business segments operate in two geographical areas: local and international.

Liabilities outside South Africa comprise of foreign loans as well as amounts owed to creditors outside South Africa by Eskom's subsidiary situated in the Isle of Man, Gallium Insurance Company Limited.

Inter-segmental transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Schedule 1: Investment in associates and joint ventures

At 31 March 2005

Name	Nature of operation	Issued/ stated capital	Effective holding		Group carrying value		Company carrying value	
			March 2005	December 2003	**March 2005**	December 2003	**March 2005**	December 2003
		R	**%**	%	**Rm**	Rm	**Rm**	Rm
Associates								
Unlisted shares								
Directly held								
PN Energy Services (Pty) Limited	Electricity reticulation	3 000 000	**50**	50	**19**	13	**4**	4
TED (Pty) Limited[1] (Transitional Electricity Distributor)	Electricity reticulation	1 000	**50**	50	**294**	294	**294**	294
Uitesco (Pty) Limited (Uitenhage Electricity Supply Company (Pty) Limited)	Electricity reticulation	60 000	**33**	33	**12**	6	**2**	2
Indirectly held								
Arivia.kom (Pty) Limited	Information technology	301 156 570	**45**	45	**208**	161	-	-
Elgas SARL	Gas energy	100	**25**	25	**6**	6	-	-
Gesco (Libya)	Technology refurbishment	1 000 000	**49**	49	**2**	7	-	-
Ash Resources (Pty) Limited	Manufacture	200	**25**	25	**9**	-	-	-
Umeme Limited	Electricity distribution company	3 680 000	**44**	44	**3**	-	-	-
Total investment in associates					**553**	487	**300**	300
Joint ventures								
Directly held								
Motraco - Mozambique Transmission Company SARL	Management of electricity transmission system and supply of electricity	39 500 000[2]	**33**	33	**118**	105	**95**	95
Eskom-Shell Solar Home Systems (Pty) Limited	Electrification	100	**-**	50	**-**	38	-	38
Indirectly held								
Trans Africa Projects (Pty) Limited[1]	Construction	4 000	**50**	50	**7**	-	-	-
Trans Africa Projects Limited (Mauritius)[1]	Construction	100 000	**50**	50	**-**	-	-	-
Hem~Kom Live Line Engineering (Pty) Limited	Live line maintenance	900 000	**50**	50	**-**	-	-	-
EON~Solutions Africa (Pty) Limited	Telecommunication consulting	100	**50**	50	**2**	3	-	-
South Dunes Coal Terminal (Pty) Limited	Coal	100 000	**50**	50	**-**	-	-	-
Total investment in joint ventures					**127**	146	**95**	133
Total investment in associates and joint ventures					**680**	633	**395**	433
Provision for impairment losses					**(310)**	(341)	**(296)**	(340)
Investment in associates and joint ventures (refer note 10)					**370**	292	**99**	93
Directors' valuation					**378**	387	**117**	97

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 March.*
2. *Authorised capital in US dollar.*

Eskom

Schedule 1: Investment in associates and joint ventures

For the 15-month period ended 31 March 2005

	Associates		Joint ventures	
	March 2005 Rm	December 2003 Rm	**March 2005 Rm**	December 2003 Rm
Income statements				
Revenue	**945**	858	**239**	202
Operating expenditure	**(876)**	(807)	**(214)**	(194)
Net operating income	**69**	51	**25**	8
Interest income	**9**	1	**1**	1
Interest expenditure	**(6)**	(2)	**(10)**	(9)
Profit before taxation	**72**	50	**16**	-
Taxation	**(15)**	(5)	**(2)**	-
Net profit attributable to ordinary shareholders	**57**	45	**14**	-
Balance sheets				
Non-current assets	**157**	154	**258**	289
Current assets	**323**	279	**52**	63
Total assets	**480**	433	**310**	352
Capital and reserves	**271**	208	**98**	104
Non-current liabilities	**12**	43	**108**	183
Current liabilities	**197**	182	**104**	65
Total equity and liabilities	**480**	433	**310**	352

Schedule 2: Investment in subsidiary companies

At 31 March 2005

Name	Nature of operation	Country of incorporation	Issued/stated capital	Effective holding		Interest of Eskom			
						Investment		Indebtedness	
				March 2005	December 2003	**March 2005**	December 2003	**March 2005**	December 2003
			R	**%**	%	**Rm**	Rm	**Rm**	Rm
Subsidiary companies									
Directly held									
Eskom Finance Company (Pty) Limited	Finance (employee housing loans)	South Africa	4 000	**100**	100	[1]	[1]	**2 313**	2 465
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]	**1 558**	1 792
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	1000[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	**-**	-	**-**	-
Lunsemfwa Hydro Power Company	Operations and maintenance service	Zambia	1 825[2]	**51**	51	**-**	-	**-**	-
						184	184	**3 871**	4 257
Investment								**184**	184
Indebtedness								**3 871**	4 257
Provision for impairment losses								**(968)**	(803)
Investment in subsidiary companies								**3 087**	3 638
Directors' valuation								**4 827**	4 318

The Natal Navigation Colliers & Estate Company Limited and Eskom Development Fund have not been consolidated due to immaterial amounts. The net assets of these subsidiaries are R2 million.

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 094 million.*

1. Statistical overview

	2005[1] (15 months)	2004	2003	2002
Sales				
Total sold, GWh[2,3]	**256 959**	**206 799**	**196 980**	**187 957**
Growth in GWh sales, %[4]	**30,5**	**5,0**	**4,8**	**3,5**
Electricity output				
Total electricity for Eskom system (Eskom stations and purchased), GWh[5]	**285 601**	**229 970**	218 412	207 233
Total produced by Eskom stations, GWh (net)	**273 404**	**220 152**	210 218	197 737
Coal-fired stations, GWh (net)	**251 914**	**202 171**	194 046	181 651
Hydroelectric stations, GWh (net)	**903**	**720**	777	2 357
Pumped storage stations, GWh (net)	**3 675**	**2 981**	2 732	1 738
Gas turbine stations, GWh (net)	**-**	**-**	-	-
Nuclear power station, GWh (net)	**16 912**	**14 280**	12 663	11 991
Total purchased for Eskom system, GWh	**12 197**	**9 818**	8 194	9 496
Total consumed by Eskom, GWh[6]	**5 043**	**4 040**	3 664	2 354
Total available for distribution, GWh[2]	**280 558**	**225 930**	214 748	204 879
Plant performance indicators				
Total power station nominal capacity, MW	**42 011**	**42 011**	42 011	42 011
Total power station net maximum capacity, MW[7]	**39 810**	**39 810**	39 810	39 810
Peak demand on integrated Eskom system, MW	**34 195**	**34 195**	31 928	31 621
Average energy availability - EAF (UCF) (after excess capacity), %[8]	**89,5(89,9)[10]**	**89,5(90,0)**	87,5(88,7)	89,3(91,7)
Generation load factor (after excess capacity management), %[9]	**69,0**	**69,2**	60,4(66,3)	56,8(62,3)
Integrated Eskom system load factor, %	**78,0**	**77,4**	76,8	74,0
Environmental indicators				
Relative particulate emissions, kg/MWh sent out	**0,26[10]**	**0,27**	0,28	0,29
Specific water consumption, ℓ/kWh sent out[11]	**1,28[10]**	**1,26**	1,29	1,27
Reported legal contraventions counted in the operational sustainability index, number[12]	**3[10]**	**2**	2	3
Customer satisfaction (PreCare/MaxiCare), ratio	**8,29[10]**	**8,31**	8,47	8,57
Net raw water consumption, Mℓ	**347 147**	**277 557**	271 940	251 611
Coal burned, kt	**136 437**	**109 508**	104 370	96 460
Average calorific value, MJ/kg	**19,36**	**19,42**	19,41	19,54
Average ash content, %	**29,6**	**29,6**	28,9	28,4
Average sulphur content, %	**0,87**	**0,87**	0,92	0,92
Overall thermal efficiency, %	**34,0**	**34,0**	34,2	34,1
Line losses, %	**8,2[10]**	**7,8**	8,3	8,2
Nitrous oxide (N_2O), t[13]	**3 552**	**2 924**	2 580	2 246
Carbon dioxide (CO_2), Mt[13]	**247,0**	**197,7**	190,1	175,2
Sulphur dioxide (SO_2), kt[13]	**2 236**	**1 779**	1 728	1 494
Nitrogen oxide (NO_x) as NO_2, kt[13]	**994**	**797**	760	702
Particulate emissions, kt	**72,83**	**59,17**	58,65	57,53
Ash produced, Mt	**40,8**	**33,1**	29,8	26,2
Ash sold, Mt	**1,957**	**1,590**	1,197	1,257
Radiation release, mSv[14]	**-**	**-**	-	0,0005
Radiation release, mSv[15]	**0,0079[10]**	**0,0087**	0,0123	0,0060
Low-level waste - steel drums, cubic metres	**282,5**	**258,8**	86,9	89,04
Intermediate-level waste - concrete drums, cubic metres	**114,5**	**97,5**	37,4	30,21
Low-level nuclear waste - fuel racks, cubic metres[16]	**697**	**697**	-	-
Spent nuclear fuel, number of elements (cumulative figure)[17]	**104 (1 453)**	**56 (1 405)**	104 (1 349)	48 (1 245)[18]
Employees				
Total number at 31 December[19]	**29 845**	**28 396**	28 938	29 359
GWh sold per employee	**8,854**	**7,283**	6,807	6,402
Sales to countries in southern Africa, GWh	**16 008**	**12 954**	10 173	6 956
Botswana	**2 111**	**1 699**	1 390	1 124
Mozambique	**10 108**	**8 076**	5 875	3 907
Namibia	**1 821**	**1 515**	1 114	598
Zimbabwe	**598**	**532**	793	298
Lesotho[20]	**13**	**12**	38	16
Swaziland	**872**	**697**	796	799
Zambia[21]	**465**	**403**	151	103
Short-term energy market[22]	**20**	**20**	16	111

2001	2000	1999	1998	1997	1996	1995
181 511	**178 193**	**173 412**	**171 457**	**172 550**	**165 370**	**153 547**
1,8	**2,8**	**1,1**	**(0,6)**	**4,3**	**7,7**	**2,7**
198 790	194 601	188 475	185 583	187 850	178 884	165 006
189 590	189 307	181 818	183 093	187 811	178 855	164 834
175 223	172 362	165 665	165 473	170 464	163 541	151 730
2 061	1 343	726	1 596	2 092	1 319	529
1 587	2 591	2 590	2 420	2 608	2 220	1 274
-	1	-	3	-	-	-
10 719	13 010	12 837	13 601	12 647	11 775	11 301
9 200	5 294	6 657	2 490	39	29	172
2 177	3 478	3 507	3 299	3 511	3 130	1 866
196 613	191 123	184 968	182 284	184 339	175 754	163 140
42 011	41 298	40 585	39 872	39 154	38 497	37 840
39 810	39 186	38 517	37 848	37 175	36 563	35 951
30 599	29 188	27 813	27 803	28 329	27 967	25 133
92,0(92,5)	92,1(92,8)	91,0(92,5)	91,6(92,7)	90,4(91,5)	89,6(90,6)	81,6(84,3)
54,4(59,8)	55,1(60,6)	54,9(61,2)	55,3(61,6)	57,7(65,0)	55,7(63,9)	52,3(59,0)
73,4	74,7	75,9	74,8	74,3	71,5	74,1
0,31	0,35	0,37	0,36	0,44	0,63	0,70
1,26	1,21	1,25	1,23	1,20	1,21	1,28
2	3	9	9	15	11	-
8,43	8,82	8,78	8,90	9,10	8,72	-
239 233	228 759	227 288	225 280	225 699	216 131	210 612
94 136	92 454	88 470	87 225	90 169	85 401	79 377
19,42	19,50	19,53	19,84	19,68	19,83	19,95
28,8	28,6	28,5	29,1	28,4	27,8	28,7
0,93	0,90	0,96	0,93	0,94	0,97	0,95
34,1	34,4	34,4	34,2	34,5	34,5	34,4
7,2	7,4	6,2	5,9	6,4	5,9	5,9
2 154	2 093	2 010	2 031	2 085	2 004	1 864
169,3	161,2	159,4	163,2	169,0	158,6	147,0
1 500	1 505	1 506	1 583	1 383	1 295	1 198
684	674	673	669	688	647	603
59,64	66,08	67,08	65,21	83,43	112,11	115,32
26,5	24,6	24,3	24,7	23,7	22,2	23,0
1,161	1,126	1,116	1,180	1,118	0,995	0,942
0,0007	0,0005	0,0005	0,0007	0,0008	0,0008	0,0004
0,0192	0,0059	0,0112	0,0088	0,0122	0,0156	0,0076
117,25	72,80	70,77	61,18	89,95	109,06	73,29
45,65	22,10	37,11	22,77	26,26	35,35	28,76
-	-	-	-	-	-	-
104 (1 197)	52 (1 093)	104 (1 041)	52 (937)	104 (885)	104 (781)	52 (677)
29 969	32 832	34 027	37 311	39 241	39 857	39 952
6,054	5,427	5,096	4,595	4,397	4,149	3,843
6 710	3 872	3 884	4 093	6 439	5 554	2 986
1 183	986	934	689	748	685	340
3 899	1 331	68	385	680	596	600
578	640	562	602	1 295	1 100	950
371	788	1 564	1 521	2 790	2 267	154
40	12	55	209	318	335	324
639	115	701	687	608	571	618
-	-	-	-	-	-	-
-	-	-	-	-	-	-

1. *Information represents a 15-month period, unless indicated otherwise.*
2. *Difference between electricity available for distribution and electricity sold (includes internal usage) is due to transmission and other losses.*
3. *Includes sales in respect of Department of Water Affairs and Forestry (DWAF) not stated in previous years.*
4. *Own usage is not included in the calculation.*
5. *Includes Eskom electricity produced and delivered to neighbouring countries.*
6. *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.*
7. *Includes reserve storage and Transkei generators.*
8. *Capacity hours available times 100 divided by total capacity hours in year.*
9. *kWh produced times 100 divided by average net maximum capacity times hours in year.*
10. *Represents the 12-month moving average for 1 April 2004 to 31 March 2005.*
11. *Volume of water consumed per unit of generated power sent out, excluding rain and mine water used.*
12. *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.*
13. *Calculated annual figures based on coal characteristics and power station design parameters.*
14. *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.*
15. *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 ≤ 0,25mSv.*
16. *Waste as a result of re-racking of spent fuel elements at Koeberg Power Station.*
17. *Spent fuel means nuclear fuel that has been irradiated in, and permanently removed from, the reactor core.*
18. *Correction made to the 2002 figure as one element was under reported.*
19. *Excludes employees of subsidiary companies.*
20. *Lesotho started its own generation in 1999.*
21. *Zambia included as from 2002.*
22. *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 March 2005

Name of station	Location	Number and capacity of generator sets	Total nominal capacity	Total net maximum capacity	Generators in reserve storage Total rating		Other generation Total rating
		MW	MW[1]	MW[1]	Number	MW	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	-	-	-
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]	Ellisras	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	-	-	-
Subtotal 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	-	-	-
Subtotal 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	-	-	-
Subtotal 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	-	-	-
Subtotal pumped storage schemes (2)			1 400	1 400	-	-	-
Nuclear power station							
Koeberg[3]	Cape Town	2 x 965	1 930	1 800	-	-	-
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 or saving electricity[1]

		If electricity consumption is measured in:			
	Factor[2]	**kWh**	**MWh**	**GWh**	**TWh**
Coal use	**0,53**	kilogram	ton	thousand tons (kt)	million tons
Water use[3,4]	**1,26**	litre	kilolitre	megalitre	thousand megalitre
Ash produced	**157**	gram	kilogram	ton	thousand tons (kt)
Particulate emissions[4]	**0,28**	gram	kilogram	ton	thousand tons (kt)
CO_2 emissions[5]	**0,963**	kilogram	ton	thousand tons (kt)	million tons
SO_2 emissions[5]	**8,793**	gram	kilogram	ton	thousand tons (kt)
NO_x emissions[5]	**3,872**	gram	kilogram	ton	thousand tons (kt)

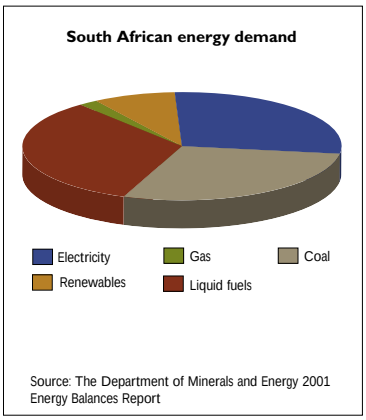
Use of table: multiply electricity consumption or saving by the relevant factor to determine the environmental implication.

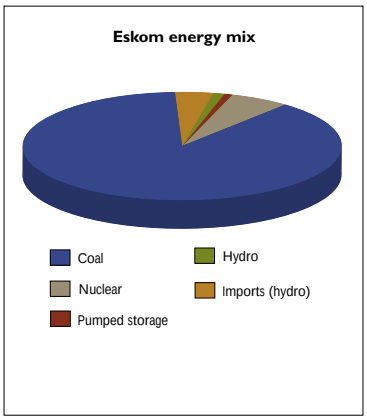
Example 1:

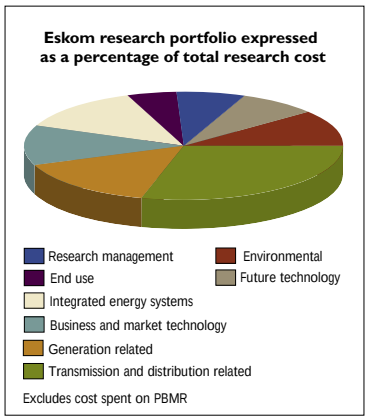
Used 90 kWh of electricity.
Water consumption: 90 X 1,26 = 113,4.
Therefore 113,4 litres of water used.

Example 2:

Used 90 GWh of electricity.
CO_2 emissions 90 x 0,963 = 86,67.
Therefore 86,67 thousand tons emitted.



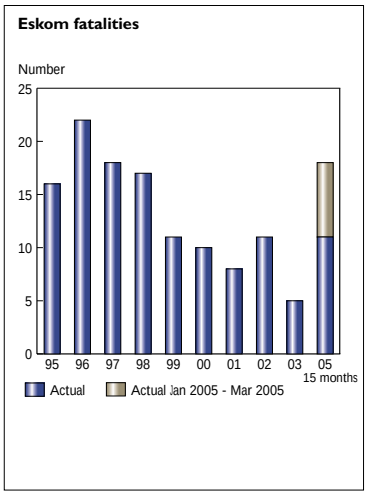


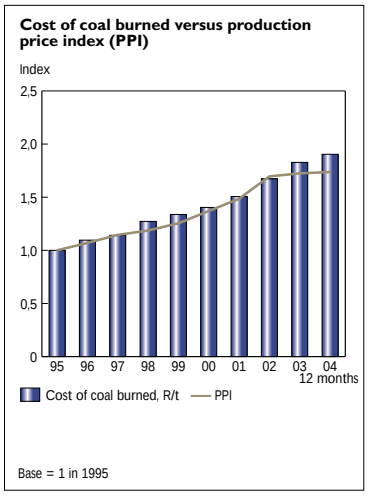


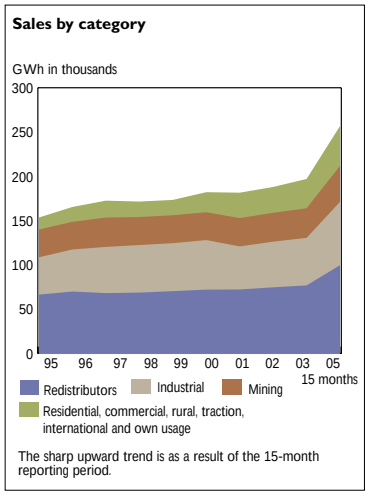
1. *Figures are calculated based on total energy sold by Eskom. Regular users of this part of the report will notice a slight change from the previous year. This is due to the use of electricity sold rather than electricity produced figures to calculate the factor. It is hoped that this will allow users to calculate figures more accurately than in the past. Further information can be obtained through the Eskom environmental helpline. Contact details appear on page 4.*
2. *Figures represent the 12-month period from 1 April 2004 to 31 March 2005.*
3. *Volume of water consumed per unit of generated power sent out, excluding rain and mine water used.*
4. *Represents a 12-month moving average.*
5. *Calculated annual figures based on coal characteristics and power station design parameters.*

4. Transmission and distribution equipment in service at 31 March 2005

	2005	2003	Change
Power lines			
Transmission power lines, km[1]	**27 169**	26 772	397
765 kV	**1 153**	870	283
533 kV DC (monopolar)	**1 035**	1 035	-
400 kV	**15 318**	15 202	116
275 kV	**7 383**	7 388	(5)
220 kV	**1 336**	1 336	-
132 kV	**944**	941	3
Distribution power lines, km	**42 988**	42 526	462
165-132 kV	**21 801**	21 349	452
88-33 kV	**21 187**	21 177	10
Reticulation power lines, km			
22 kV and lower	**277 047**	266 972	10 075
Total all power lines, km	**347 204**	336 270	10 934
Cables, km	**7 743**	7 388	355
165-132 kV	**137**	118	19
22 kV and lower	**7 606**	7 270	336
Total transformer capacity, MVA	**202 706**	195 177	7 529
Transmission[2]	**117 355**	112 075	5 280
Distribution and reticulation	**85 351**	83 102	2 249
Total transformers, number	**293 049**	280 434	12 615
Transmission	**371**	362	9
Distribution and reticulation	**292 678**	280 072	12 606







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] 2005	2003	Change %	GWh sold 2005	2003	Change %
Redistributors	**741**	743	(0,3)	**99 661**	76 825	29,7
Residential	**3 475 330**	3 376 835	2,9	**10 146**	8 015	26,6
Commercial	**42 620**	43 880	(2,9)	**8 929**	6 936	28,7
Industrial	**3 019**	2 988	1,0	**71 629**	53 715	33,4
Mining	**1 124**	1 180	(4,7)	**40 557**	33 372	21,5
Agricultural	**80 131**	78 433	2,2	**5 605**	4 358	28,6
Traction	**511**	511	0,0	**3 918**	3 182	23,1
International	**10**	13	(23,1)[2]	**16 008**	10 173	57,4
Internal	**457**	456	0,2	**506**	404	25,2
	3 603 943	3 505 039	2,8	**256 959**	196 980	30,4[3]

6. Net revenue per category of customer

Category	Net revenue Rm 2005	Rm 2003	Change %	Average net price c/kWh sold 2005	2003	Change %
Redistributors	**15 139**	11 712	29,3	**15,19**	15,25	(0,4)
Residential[4]	**3 927**	2 932	33,9	**38,70**	36,58	5,8
Commercial	**1 954**	1 430	36,6	**21,88**	20,62	6,1
Industrial	**10 008**	7 605	31,6	**13,97**	14,16	(1,3)
Mining	**6 231**	5 029	23,9	**15,36**	15,07	1,9
Agricultural	**1 728**	1 270	36,1	**30,83**	29,14	5,8
Traction	**759**	604	25,7	**19,37**	18,98	2,1
International	**1 381**	972	42,1	**8,63**	9,55	(9,6)
Internal	**96**	64	50,0	**18,97**	15,84	19,8
	41 223	31 618	30,4	**16,04**	16,05	(0,1)[5]

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 number of international customers decreased because of a customer that is now classified as a single customer that was previously classified separately for billing, energy consumption and wheeling charges.*
3. *The growth in GWh sold from December 2003 to March 2005 increased by 30,4% if internal usage is excluded. This large increase results from the additional three months, 1 January 2005 to 31 March 2005, included in the reporting period.*
4. *Prepayments included under residential.*
5. *General price increase with effect from 1 January 2004 equalled 2,5% and the increase from 1 January 2005 was 4,1%. The percentage average net price change was influenced by the two general price increases, as well as the additional three months of lower summer tariffs (1 January 2005 to 31 March 2005).*

SUNDAY TIMES MARKINOR SURVEY

In June 2004, Eskom walked away with South Africa's most Admired Brand overall and a Grand Prix Award for the company that has done the most to uplift the lives of South Africans, in the best liked TV advertising category from June 2003 to June 2004.

The Sunday Times Markinor Survey is an annual premier assessment against which companies get independently measured in terms of their brand reputation in the market place.

ESI AFRICA EXCELLENCE AWARD 2004 IN THE CATEGORY OF BEST SERVICE PROVIDER.

This was handed out at the AMEU conference.

PMR AFRICA WESTERN CAPE LEADERS AND ACHIEVERS SILVER AWARD 2005.

Awarded by the Professional Management Review Africa for State Owned Enterprises doing the most to enhance the province's economic growth and development.

ELECTED AS A 2005 LAUREATE BY THE COMPUTERWORLD INFORMATION TECHNOLOGY AWARDS FOUNDATION, FOR THE UBUSO PROJECT (IMPLEMENTATION OF A CUSTOMER RELATIONSHIP MANAGEMENT SYSTEM).

The Ubuso Project was also selected as one of five finalists in the Environment, Energy and Agriculture Category of the Foundation's 21st Century Achievement Awards Program. The final result of these awards was not known at the time of writing.

THE UTILITY AWARDS FOR CIS/ CRM EXCELLENCE (ACE).

The award was won for the Encore - Customer Information Management System and was awarded to Eskom by the EPN™'s global Utility CIS/CRM Consortium

This other award was won late in 2003 but only awarded in 2004

FOSSIL FUEL FOUNDATION OF AFRICA - COMPANY ACHIEVEMENT AWARD

The Fuels and Combustion Technologies section of TSI was granted this award on 5 June 2004, for outstanding corporate contributions in the fields of fossil fuel, energy and the environment, with specific reference to the development of combustion technology research.

BENCHMARKING SOUTH AFRICA'S BEST EMPLOYERS

This year, Corporate Research Foundation (CRF), in collaboration with Finance Week, launched the fifth edition of The Best Companies to Work for in South Africa 2004. Eskom Holdings was recognised for its inspirational approach toward the management and development of its people and received a certificate and an award for being the tenth Best Company to Work for in South Africa.

Awards

AWARDS MADE TO THE ESKOM DEVELOPMENT FOUNDATION IN 2004

- The Eskom Development Foundation received the Mail & Guardian's Investing in the Future 2004 Award for Consistent Achiever (in CSI).
- In recognition of its contribution to a better South Africa, the Eskom Development Foundation received the first place overall Corporate Care Award as winner for state-owned enterprises from the Professional Management Review Africa in October 2004.

The Development Foundation was acknowledged for its contributions in the following categories:

DIAMOND STATUS

Corporate governance

Job creation and training

Social upliftment

GOLD STATUS

Education

Environmental care

War against crime

SILVER STATUS

Black Economic Empowerment (BEE)

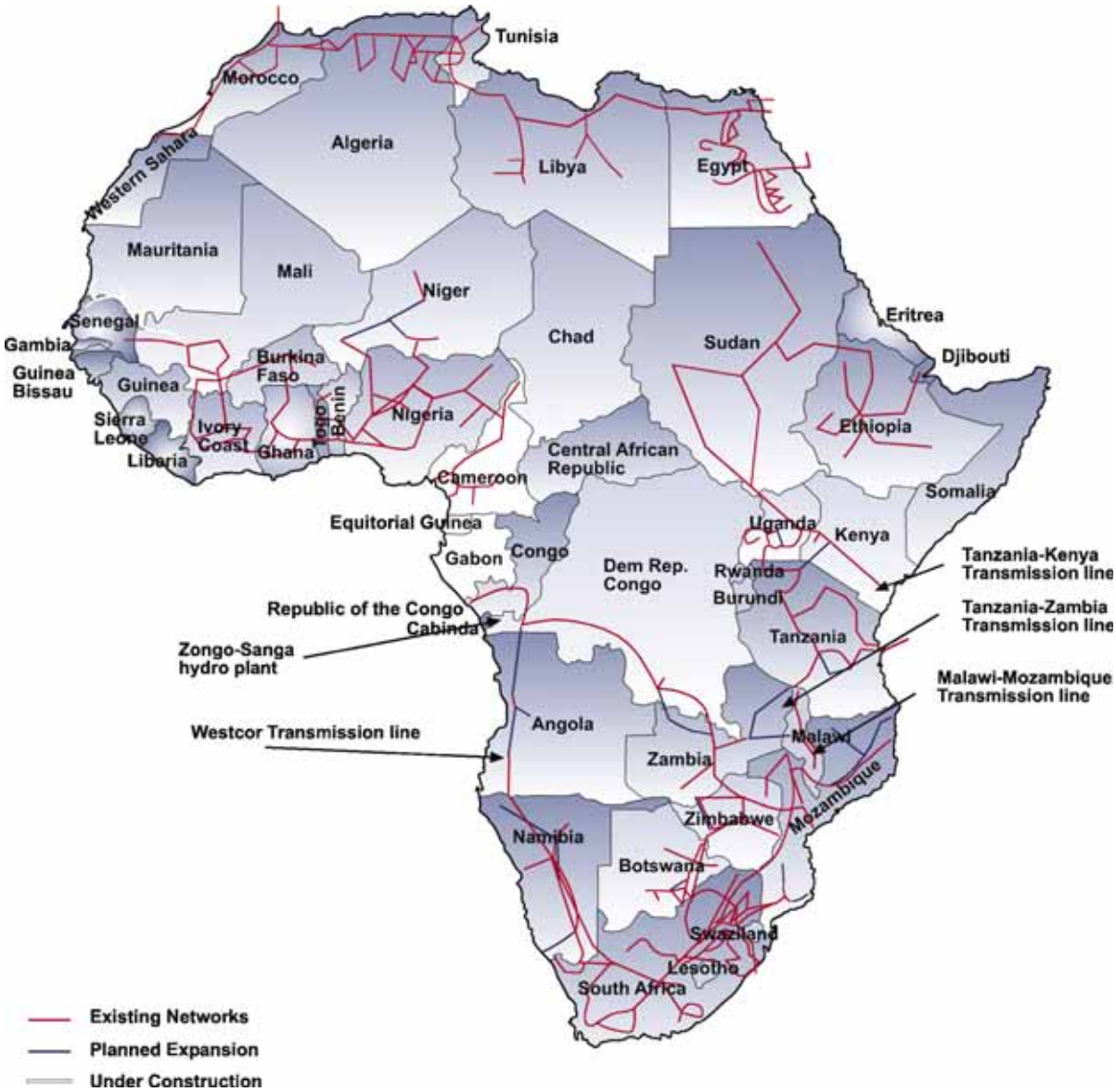
Primary healthcare

AWARDS MADE TO THE CHIEF EXECUTIVE OFFICER

- In April 2004 Mabel Makibelo, Chief Executive Officer of the Eskom Development Foundation received the 2004 Eskom Executive of the Year Award.

- In August 2004 Mabel Makibelo, Chief Executive Officer of the Eskom Development Foundation, received the 2004 Diva Africa Achievement Award for Social Development and Community Involvement and the Diva Africa Recognition Award for "Women in leadership and in business supporting the development of young people and encouraging the growth of SMMEs".

AFRICAN TRANSMISSION NETWORKS



Largest Power companies in the world by generating capacity

Company	Country	Generating capacity (MW)	Rating by Capacity
RAO UES	Russia	156600	1
EDF	France	122600	2
TEPCO	Japan	62660	3
E.On	Germany	54000	4
Korea Electric Power Company (KEPCO)	South Korea	50432	5
Enel	Italy	47000	6
AES	USA	46000	7
RWE	Germany	45000	8
Endesa	Spain	43000	9
Eletrobras	Brazil	40854	10
Eskom	**South Africa**	**39810**	**11**
Southern	USA	39000	12
Duke	USA	38748	13
Exelon	USA	38000	14
AEP	USA	36000	15
Kansai Electric	Japan	35434	16
Hydro Quebec	Canada	34000	17
Taiwan Power (TaiPower)	Taiwan	33290	18
TVA	USA	33189	19
Vattenfall	Sweden	33000	20

Largest Power companies in the world by generating sales

Company	Country	Sales TWh	Rating by Sales
RAO UES	Russia	636	1
EdF	France	473	2
E.On	Germany	404	3
Korea Electric Power Company (KEPCO)	South Korea	294	4
TEPCO	Japan	281	5
RWE	Germany	230	6
Eskom	**South Africa**	**206**	**7**
Vattenfall	Sweden	186	8
Eletrobras	Brazil	178	9
Hydro Quebec	Canada	169	10
Taiwan Power (TaiPower)	Taiwan	159	11
Enel	Italy	156	12
TVA	USA	155	13
Kansai Electric	Japan	142	14
Electrabel	Belgium	137	15
Endesa	Sapin	134	16
Chubu	Japan	123	17
AEP	USA	118	18
AES	USA	108	19
FPL	USA	103	20

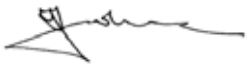
Health and Safety policy

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.

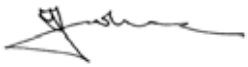


Thulani S. Gcabashe
Chief Executive

Environmental policy

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 S. Gcabashe
Chief Executive

The table provides a summary of Eskom's 2005 Annual Report against the Global Reporting Initiative (GRI) sustainability reporting guideline criteria and the ten principles of the UN Global Compact

GRI Report Content	Description	UN Global Compact Principle	Reference(s) in 2005 Annual Report	Page
Vision and Strategy				
1.1	Vision and strategy statement	8 (Environmental responsibility)	Key drivers Chairman's statement	1 34
1.2	Statement from CEO		Chief Executive's report	50
Profile				
2.1 – 2.8	Details of the organisations		Profile Functions and objectives of the business Revised business model Schedule 1: Investments in associate and joint venture companies	3 66 71 182
2.9	List of stakeholders		Corporate governance (stakeholder relations)	29
2.10 – 2.14	Details and scope of report		Profile (contact details) Introduction	4 65
2.15	Reporting on joint ventures		Schedule 1: Investments in associate and joint venture companies Schedule 2: Investments in subsidiary companies	182 184
2.16	Restatements		Tables: Statistical overview (footnotes and explanations)	185
2.20	Internal assurance	10 (work against corruption and bribery)	Corporate governance	17
2.21	Independent verification		Report of the independent auditors	59
2.22	Additional information		Profile (additional information)	4
Governance structures and management systems				
3.1 – 3.4 3.6 & 3.8	Governance and organisational structure, shareholder resolutions		Corporate governance Profile (organisational structure) Maintaining good governance	17 4 86
3.5	Link to executive compensation		Directors' remuneration Directors' emoluments	123 127
3.7	Mission and value		Key drivers	1
3.9 – 3.12	Stakeholder engagement		Corporate governance (stakeholder relations)	29
3.13	Precautionary principle	7 (Precautionary)	Environmental impact assessments	117
3.14	External initiatives		Public saftey Corporate social investment Electrification	111 113 114
3.15	Business association memberships		Stakeholder relations	29
3.18	Major operations decisions		Revised business model	67
3.16 3.17 3.19 & 3.20	Impacts, performance and management system		Financial performance Use of resources Customer satisfaction Technical performance Social performance Sustainable environment	74 88 94 96 112 116

GRI Report Content	Description	UN Global Compact Principle	Reference(s) in 2005 Annual Report	Page
Economic performance indicators				
EC1, EC2	Net sales and breakdown of markets		Key statistics: Technical/business performance indicators Tables (categories of customers)	5 190
EC3	Cost of all goods, materials and services		Notes to the financial statements (other expenses) Income statement	175 133
EC5	Total payroll and benefits		Notes to the financial statements (employee benefit expense)	175
EC6, EC7	Distributions to providers of capital and increase/ decrease in retained earnings		Balance sheets and income statements Cash flow statements	132 134
EC8 – EC10, EC12 (Additional)	Taxes, subsidies, donations and total spent on non-core business infrastructure		Balance sheets and income statements Cash flow statements Corporate social investment	132 134 113
EC13 (Additional)	Organisation's indirect economic impacts		Electrification and free basic electricity Environmental externalities	114 118
Environmental performance indicators				
EN1, EN2	Total material used	8 (Environmental responsibility)	Tables: statistical overview Waste management	185 121
EN3, EN4, EN17 – EN19 (Additional)	Energy use, renewable and energy consumption	8 (Environmental responsibility) 9 (Environmentally friendly technologies)	Table 3: environmental implications of using electricity Research, development and demonstration Capacity planning and management Renewable energy	188 102 105 122
EN5, EN20 – EN22 (Additional)	Water use	8 (Environmental responsibility) 9 (Environmentally friendly technologies)	Use of resources Sustainable environment (environmental performance) Tables: statistical overview Technical performance	88 119 185 96
EN6, EN7, EN23 – EN29 (Additional)	Biodiversity	8 (Environmental responsibility)	Land, biodiversity and quality of supply management Table 2: power stations in commission Table 4: transmition and distribution equipment	121 187 189
EN8 – EN13	Emissions and waste	8 (Environmental responsibility) 9 (Environmentally friendly technologies)	Air quality management Waste management Global climate change Tables: statistical overview	119 121 122 185
EN31 (Additional)	Hazardous waste (Basel)	8 (Environmental responsibility)	Waste management	121
EN14 EN15	Environmental impacts	8 (Environmental responsibility)	Occupational health and safety risk management Sustainable environment	109 116
EN16	Noncompliance penalties	8 (Environmental responsibility)	Environmental legal requirements	116
EN34 (Additional)	Impacts of transport		Coal	100
EN35 (Additional)	Total environmental expenditure by type		Environmental accounting	118

GRI Report Content	Description	UN Global Compact Principle	Reference(s) in 2005 Annual Report	Page
Social performance indicators: labour practices and decent work				
LA12 (Additional)	Employee benefits		Remuneration and benefits	92
LA3 LA4	Labour	3 (Freedom of association)	Employee relations	92
LA5 – LA8	Health and safety reporting and HIV/AIDS policies and programmes		Corporate governance (sustainability, safety and environmental management) HIV/AIDS Occupational health and safety risk management	29 112 109
LA14, LA15 (Additional)	Compliance with ILO and agreements on health and safety		Use of resources Occupational health and safety risk management	88 109
LA9, LA16, LA17 (Additional)	Training and skills management		People development Remuneration and benefits	90 92
LA10, LA11	Equal opportunity and female/male ratio in management	6 (Eliminate discrimination)	Equity Eskom high level performance (social)	107 70
Social performance indicators: human rights				
HR1, HR2	Human rights and consideration of human rights impacts	1 (Human rights) 2 (Not complicit in human rights)	Human resources Health and wellness	89 92
HR4 – HR7	Nondiscrimination freedom of association child labor forced labor	1 (Human rights) 3 (Freedom of association) 4 (Elimination of forced or compulsory labour) 5 (Abolition of child labour) 6 (Eliminate discrimination)	Equity	107
HR14 (Additional)	Revenues distributed to local communities		Corporate social investment	113
Social performance indicators: society				
SO1	Impacts on communities		Electrification Free basic electricity	114 115
SO4 (Additional)	Awards		Awards Chairman's statement	191 34
SO2	Bribery and corruption	10 (work against corruption and bribery)	Ethical business conduct Public finance management act UN global compact	27 26 116
SO3	Political lobbying and contributions policy		Chief Executive's report and Chairman's statement NEPAD	34 115
Social performance indicators: Product responsibility				
PR1, PR4, PR5 (Additional)	Customer health and safety		Public safety	111
PR3	Consumer privacy		Information management	87

BEE
Black Economic Empowerment

CAPCO
Chief Air Pollution Control Officer
CO_2
Carbon Dioxide

DEAT
Department of Environmental Affairs and Tourism
DIIR
Disabling Injury Incidence Rate
DME
Department of Minerals and Energy
DPE
Department of Public Enterprises
DSM
Demand-side management
DWAF
Department of Water Affairs and Forestry

EAF
Energy Availability Factor
EDI
Electricity Distribution Industry
EIA
Environmental Impact Assessment
EMS
Environmental Management System
ELI
Eskom Learning Institutions
EMPs
Environmental Management Programmes
EPRI
Electric Power Research Institute
ESETA
Energy Sector Education and Training Authority
ESP
Electrostatic Precipitators
EWT
Endangered Wildlife Trust
EXCO
Executive Management Committee

FBE
Free basic electricity
FPM
Fine Particulate Matter

GWh
Gigawatt hour (1000 MWh)
GARP
Grading Assessment, Remuneration Positioning

HRREC
Human Resources, Remuneration and Ethics Committee
HRSI
Human Resources Sustainability Index

HTF
Helium Test Facility
HVDC
High Voltage Direct Current

IFRS
International Financial Reporting Standards
ILO
International Labour Organisation
IPP
Independant Power Producer
ISEP
Integrated Strategic Electricity Planning
IRM
Integrated Risk Management
ISDA
International Swap Dealer Association
ISRDP
Intergrated Sustainable Rural Development Programme
IRMSA
Institute of Risk Management South Africa

KPI
Key Performance Indicator
Kt
Kilotons (1 000 tons)
kWh
Kilowatt hour
kWh SO
Kilowatt hour sent out

LME
London Metals Exchange
LTA
Lesotho Telecommunications Authority

MKC
Mountain Kingdom Communications
MMI
Monthly moving index
MW
Megawatt
MWh
Megawatt hour (1 000 KWh)
Mℓ
Mega litre (1 000 000 litres).
Mt
Million tons

NPI
National Productivity Institute
N_2O
Nitrous oxide
NOx
Nitrogen oxide
NEPAD
New Partnership for Africa's Development
NER
National Electricity Regulator
NNR
National Nuclear Regulator
NQF
National Qualification Framework

OHSA
Occupational Health and Safety Act
OSI
Operational sustainability index

PCB
Polychlorinated Biphenyls
PBMR
Pebble Bed Modular Reactor
PFMA
Public Finance Management Act
PIESA
Power Institute of Eastern and Southern Africa
RBM
Revised Business Model
RDP
Reconstruction and Development Programme
RED
Regional Electricity Distributor
ROD
Record of Decision

SAAVI
South African Aids Vaccine Initiative
SADC
Southern African Development Community
SANAS
South African National Accreditation Systems
SAPP
Southern African Power Pool
SAQA
South African Qualifications Authority
SDF
Service Delivery Framework
SMME
Small, Medium and Macro Enterprises
SNO
Second Network Operator
SOE
State-owned Enterprise
SO_2
Sulphur dioxide
Sm^3
Standard cubic metre

TASK
Tuned Assessment of Skills and Knowledge
TQI
Total Quality Index

UCF
Unit Capability Factor
UCLF
Unplanned Capacity Lost Factor
UN
United Nations
UNFCCC
United Nations Framework Convention on Climate Change
USD
United States Dollar

VAT
Value Added Tax
VCT
Voluntary Counselling and Testing

WANO
World Association of Nuclear Operators

Eskom

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