Eskom

Partnering for growth

ANNUAL REPORT 2007

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Eskom

Profile

Scope of report

The annual report for 1 April 2006 to 31 March 2007 takes the form of an integrated sustainability report as Eskom aligns itself with international sustainability reporting practice. The report considers economic, environmental, social and technical performance and is also available in an Internet version on the Eskom website **(www.eskom.co.za)**. Additional sustainability information is sometimes carried in the Internet report. When this is the case, the availability of extra web-based information is signalled in the printed report.

Nature of business, major products and services

Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers and redistributors. It also buys electricity from and sells electricity to the countries of the Southern African Development Community (SADC).

Eskom is regulated under licences granted by the National Energy Regulator of South Africa (Nersa) originally under the Electricity Act (41 of 1987) (to be replaced by licences under the Electricity Regulation Act (4 of 2006) and by the National Nuclear Regulator in terms of the National Nuclear Regulatory Act (47 of 1999).

Through its subsidiary Eskom Enterprises (Pty) Limited, Eskom is also active in local unregulated markets and various African countries. These activities include the provision of electricity-related services to countries connected to the South African grid. Eskom's core markets are, in order of priority, South Africa, the SADC and the rest of Africa. Eskom Enterprises (Pty) Limited is the holding company of Rotek and Roshcon. They now focus on Eskom's core activities, playing a critical role in repairs, refurbishment and the expansion programme.

The core businesses of subsidiaries, Eskom Finance Company (Pty) Limited, Escap Limited and Gallium Insurance Company Limited include the granting of employee home loans and the management and insurance of business risk. The mortgage book of Eskom Finance Company was largely securitised during the financial year. The planned disposal of this company is expected in the next financial year. Eskom's corporate social investment is channelled principally through the Eskom Development Foundation, a section 21 company.

Countries in which operations are located

Eskom's head office is in Johannesburg and its operations are focused on South Africa.

Other than South Africa, Eskom Enterprises also has subsidiaries in various African countries, with offices in Uganda, Mali, Zambia and Lesotho.

Regional sales breakdown

Most sales are in South Africa. Other countries of southern Africa account for a small percentage of sales. Refer to the financial statements; note 5 on page 122.

Picture captions
Cover: *New Ankerlig open cycle gas turbine station in Atlantis near Cape Town.*
1. *The high-voltage yard at Atlantis power station.*
2. *This baobab tree on the Medupi power station site will be relocated and rehabilitated, and become the symbol of the power station.*
3. *Refurbishment of the mothballed Komati power station.*

Southern Africa grid map

Key

- Existing grid system
- Possible future grid system
- Future hydroelectric power station
- Future thermal power station
- Hydroelectric power station
- Interconnection substation
- Thermal power station
- Future interconnection substation
- Nuclear power station
- Future gas station
- Gas power station
- Town

The map indicates the South African power network and interconnections with neighbouring countries.

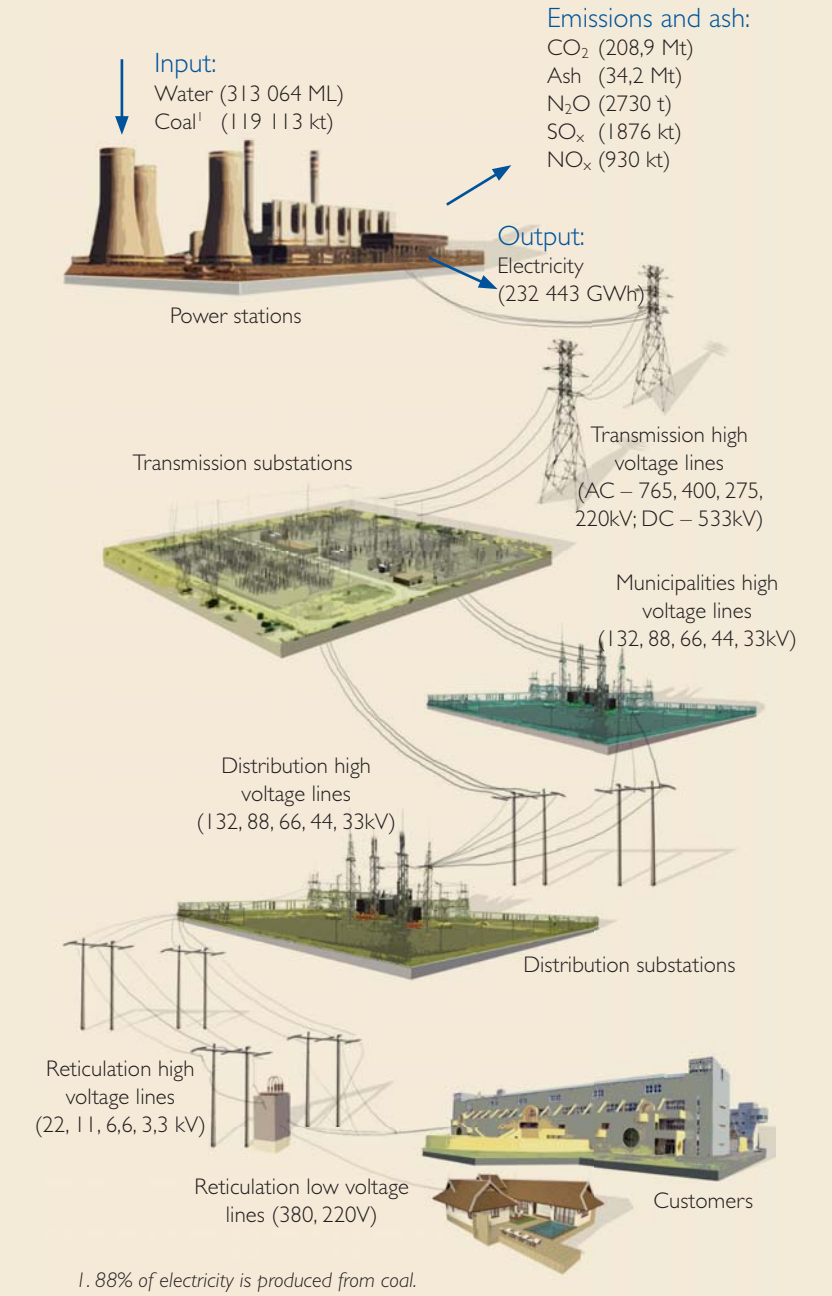
Key facts

Eskom, South Africa's electricity utility:

- is one of the top 10 utilities in the world by generation capacity
- is among the top 11 by sales
- generates approximately 95% of electricity used in South Africa
- generates approximately 45% of electricity used in Africa

> total assets (Rm)	143 754
> net profit (Rm)	6 454
> net cash from operating activities (Rm)	13 281
> capital expenditure (Rm)	17 707
> employees (number)	32 674
> training cost (Rm)	748
> customers (number)	3 963 164
> electricity sales (GWh)	218 120
> nominal capacity (MW)	42 618
> net maximum capacity (MW)	37 761
> power lines (all voltages) (km)	359 854

Electricity: from power station to customer



1. 88% of electricity is produced from coal.

Picture captions
1. Maintenance on a reticulation line.
2. Majuba coal-fired power station near Volksrust.

Organisational structure

South African government – shareholder
(Shareholder representative: Minister of Public Enterprises)

Eskom Holdings Limited[1]

- > Generation division
- > Transmission division
- > Distribution division
- > Key Sales and Customer Services division
- > Enterprises division
- > Four corporate divisions
  - – *Corporate*
  - – *Finance*
  - – *Human resources*
  - – *Resources and strategy*

Eskom Enterprises (Pty) Limited

Escap Limited

Gallium Insurance Company Limited

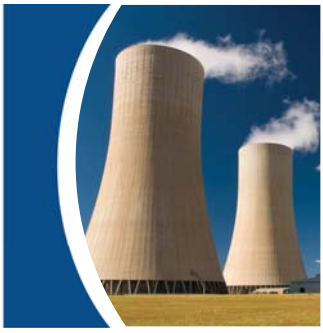
Eskom Finance Company (Pty) Limited

Eskom Development Foundation
(Association incorporated under section 21 of the Companies Act)

1. Only major subsidiaries included.

Picture captions
1. Sibongile Rammopo at the Central Region contact centre.
2. Camden power station near Ermelo is being returned to service.

Executive summary



Eskom's principal challenge is to satisfy the increasing demand for electricity, thereby ensuring economic growth and keeping South Africa's lights burning.

Over the next five years Eskom will spend R150 billion on capacity expansion at an unprecedented rate and scale (up from R97 billion), with 70% earmarked for generation, 14% for distribution infrastructure and 14% for the strengthening of the transmission network. Up to R100 billion of the capital expenditure requirements will be funded by raising debt in the financial markets, both locally and internationally.

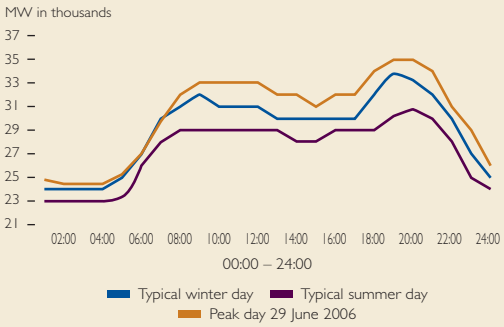
The Eskom group financial performance for the year was good, driven primarily by the large growth in electricity sales volumes (4,9%). The operating profit before net finance cost for the group was R10 965 million including the impact of fair valuing embedded derivatives of R4 275 million. The profit for the year was R6 454 million, and if the impact of embedded derivatives is excluded, the profit after tax was R3 418 million.

To ensure supply reliability, Eskom plans to generate an additional 22 000MW by 2017. A total of 2 053MW will be added by the open cycle gas turbines at Atlantis (Ankerlig power station) and Mossel Bay (Gourikwa power station). Construction started in May 2007 at Medupi power station, the new coal-fired base-load power station in Lephalale, Limpopo. The station will deliver at least 4 500MW to the overall system. The first unit is scheduled to come into service early in 2011. Work has also begun on the Ingula pumped storage scheme near Ladysmith (a peak-load plant), scheduled for completion by 2012 and adding an additional 1 332MW for peak electricity demand.

In the meantime the reserve margin remains precariously low (8% compared with international norms of above 15%). An immediate action plan has been put in place where Eskom has raised its demand-side management target to a saving of 3 000MW by 2012. In an effort to lead by example, we have introduced an internal electricity-saving programme designed to deliver savings of one billion kilowatt hours, and have already achieved 18 million kilowatt hours since September 2006.

Picture captions
1. Typical cooling towers at a coal-fired power station.
2. Sugreem Singh, Nelson Mayisela and Fanie Mhlanga discuss maintenance planning at Majuba power station.

Electricity demand patterns



There are currently no restrictions that apply to Eskom's greenhouse gas emissions. In a pro-active approach, Eskom has developed a comprehensive range of voluntary climate change initiatives. This includes actively pursuing a more diverse energy mix. Coal currently accounts for 88% of its energy mix. This will be reduced to 70% by 2025. Nuclear power's contribution will rise to between 17% and 28% by 2025. Some 1 600MW of renewable energy will also be added to the mix by 2025 in the form of solar and wind power.

Eskom is making significant investments in human resources. It increased its training spend to R748 million in 2007 (up from R543 million in 2006) and has begun recruiting skilled personnel via national and international jobs fairs. The number of bursaries, learnerships and apprenticeships has also increased to 5 136 (2006: 2 163) and can be expected to continue increasing in the future.

Safety continues to receive top priority. The safety policy has been reviewed, training and awareness are being stepped up and Eskom leadership is making much improved safety performance a priority. We will commit increasing resources to vigorous safety and educational programmes among the public, our contractors and our own people in the quest for an injury-free electricity supply industry.

Picture caption
Palmiet pumped storage station near Grabouw focuses on conservation.

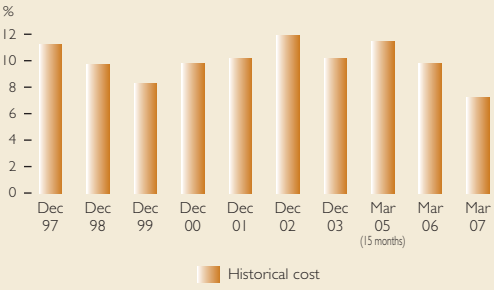
Executive summary continued

Higher capital expenditure over a prolonged period will create an opportunity for Eskom to make a bigger contribution to local economic prospects in the areas in which we are active, especially around our new sites.

HIGHLIGHTS OF THE REVIEW PERIOD

- The profit for the Eskom company was R6 008 million. However, this includes the impact of fair valuing embedded derivatives which amounted to R2 912 million after tax (long-term commodity-linked pricing contracts with major customers that take a forward view on currencies, commodities and interest rates). A high growth in electricity sales volumes (4,9%) also contributed to the good results.
- The construction of two new open cycle gas turbine power stations has been completed in record time (Ankerlig near Atlantis and Gourikwa near Mossel Bay) and will soon come into full operation (four units were already in commercial operation at 31 March 2007). They will be available to assist in managing the winter peak demand in 2007.
- The return-to-service programme for the previously mothballed Camden, Grootvlei and Komati power stations is progressing with 772MW commissioned in 2007, (2006: 190MW). Work has also begun with the construction of the Ingula pumped storage scheme near Ladysmith.
- A major achievement in our research into clean coal technologies was the first flaring of gas at the underground coal gasification project next to Majuba power station, a first for Africa.

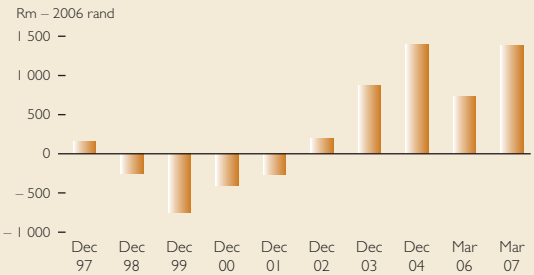
Eskom (company) rate of return on assets



Picture captions
1. Tshepiso Ntsimane answers customer calls in Johannesburg.
2. The dusting plant below the precipitators at Kendal power station.

- The transmission network was considerably strengthened through the building of around 430km of new lines.
- Eskom supported 5 136 learners, students and graduates.
- The procurement spend by the group with black business exceeded the target of 67% of all discretionary expenditure, reaching R16,56 billion against the budgeted R14,57 billion. This included expenditure with black women-owned business that increased to R2,10 billion against R1,30 billion in 2006.
- For 2007, Eskom's national demand-side management (DSM) programme achieved verified sustainable savings of 169,8MW (2006: 72,3MW) contributing to a reduction of 289kt of CO_2 emissions. (Its annual Nersa-approved target is 152MW for the evening peak period.)
- Eskom has demonstrated the scope for significant energy savings by the success of a special DSM campaign during the Western Cape power shortages in the winter of 2006. Savings of approximately 500MW a day were achieved. As it was a crisis-driven, short-term situation these savings are only partially sustainable.
- The number of black staff at management level in Eskom has reached 63,0% (up from 60,1% in 2006). The percentage of women at managerial level is now 33,3% (31,8% in 2006). People with disabilities account for 2,8% of Eskom staff.

Eskom productivity improvement for all resources



The sum of the cumulative annual productivity savings over the 10-year period amounted to R3 054 million.

Picture captions
1. The new high-voltage yard at Ankerlig power station in Atlantis.
2. Majuba power station from a side view.

Executive summary continued

- Particulate emissions at coal-fired power plants were 0,20kg/MWh sent out against 0,21kg/MWh sent out in 2006.
- Since Eskom's electrification programme began in 1991, 3 469 650 homes have been electrified. During the year 152 125 homes were connected, financed from DME and Eskom funds (135 903 in 2006).
- The number of municipalities engaged in the free basic electricity (FBE) programme rose from 228 to 240. The number of meters reconfigured for FBE rose to 1 074 340 from 1 048 000.
- The productivity gain this year was 1,9% or R667 million.
- A strategic sourcing initiative (project Sisonke) in supply chain management entailing sourcing strategies for complex and costly commodities was launched in 2006 to secure the long-term requirements for the build programme. Eskom achieved savings of R716 million against a target of R490 million for 2007. Cumulative savings targets to March 2010 have been set at R7,8 billion.

LOWLIGHTS

- Eight employee fatalities occurred in 2007, and there was also a rise in the number of electrical contact injuries to Eskom workers (30 against 25 in 2006). Regrettably contractor fatalities rose from 13 to 18 and fatalities among members of the public rose from 34 to 41.
- Eskom customers were for the second year affected by supply interruptions with two major incidents. One incident occurred on 18 January 2007 due to generation shortages resulting in the loss of 40,48 system minutes, and in a separate incident 1,24 system minutes were lost due to a sustained line fault.
- Eskom water consumption rose from 291 516ML in 2006 to 313 064ML. Several factors contributed, including the need to run older coal-fired stations for longer and at lower efficiency levels at some stations.
- Critical skills shortage in management is an area of concern which has been aggravated by the higher than anticipated skills turnover in the engineering field.

Picture captions
1. Samantha Stephenson in the new control room at Ankerlig power station.
2. Contractors look at the generator transformer at Ankerlig.

Vision, values and strategic objectives

R150 billion

capacity expansion

2006: R97 billion

Eskom contributes to its vision of ***Together building the powerbase for sustainable growth and development*** through its core business focus on electricity generation, transportation, trading and retail. It entrenches the values of excellence, innovation, customer satisfaction and integrity across all business operations.

Achieving the vision requires in-depth planning and energetic implementation in a complex environment characterised by higher economic growth, greater demand for electricity and the heightened need for significant infrastructure expansion with attendant competition for scarce materials, funding, skills and supplier inputs. Challenges are compounded by the rising cost of primary energy and new components, regulatory pressure, restructuring of the electricity distribution industry, expectations of better environmental performance and the growing involvement of stakeholder groups.

Four strategic objectives are key:

- **Sustaining quality and continuity of supply**
  This requires effective management of total system capacity and reliability planning, focusing on primary energy availability, maintenance, refurbishment and energy efficiency. Stretch targets need to be set while maintaining rigorous occupational health and safety standards.
- **Capacity expansion**
  Successful delivery on the capacity expansion programme is central to Eskom's vision and entails thorough environmental impact assessments, site selection and optimisation, procurement efficiency, project management and commitment to health and safety in the construction environment while rigorously applying Eskom's climate change and air quality strategies. The challenge is to build new plant, on time and on budget, while running existing plant at optimal levels.

4,9%

sales volume growth

2006: 0,8%

7,8%

return on total assets

2006: 9,1%

0,30

debt:equity ratio

2006: 0,22

Picture caption
Trucks haul rock from the exploratory tunnel at Ingula pumped storage scheme.

Vision, values and strategic objectives continued

Vision

Together building the powerbase for sustainable growth and development

Values

- Integrity
- Customer satisfaction
- Innovation
- Excellence

Strategic objectives

- Continuity of supply
- Capacity expansion
- Funding and resourcing
- Developmental initiatives

Business focus areas

Ensuring reliable electricity supply

- Reliability and availability
- Maintenance and refurbishment
- Use of primary resources
- Energy efficiency
- Customer satisfaction

Impact on the environment and climate change

- Environment
- Climate change

Providing electricity for growth

- The supply challenge
- Renewable energy
- Research and development

Our people

- Human resources
- Safety

Our finances

- Funding
- Pricing
- Financial performance
- Productivity performance
- Value creation and distribution

Contribution to society

- Accelerated and Shared Growth Initiative for South Africa (Black economic empowerment, electrification and free basic electricity, corporate social investment)
- Supporting the New Partnership for Africa's Development

Actively manage risks

Stakeholder engagement

Regulators | Customers | Suppliers | Independent power producers | Government | Investors, Financiers, Rating agencies | Employees, Labour | Non governmental organisations, Communities, Civil society organisations

Theme

Partnering for growth

Picture captions
1. Trenches are dug for fencing at the Ankerlig power station.
2. Drilling machines during construction of the Ankerlig power station in the Western Cape.

- **Funding and resourcing**
  The build programme imposes significant funding and resourcing requirements. Appropriate skills and information management systems are also vital to ensure a sustainable business and delivery on the build programme. Other key factors include multi-year pricing determination, revenue management, efficiency initiatives and Eskom's skills acquisition and retention strategies.
- **Leveraging business operations for developmental benefits**
  Sustainability shapes the way Eskom conducts business and provides the context for its developmental initiatives.

The magnitude of the current business procurement spend and the planned capacity expansion programme create opportunities for maximising the organisation's contribution to government's Accelerated and Shared Growth Initiative for South Africa. The mechanisms include the fostering of small and medium enterprises, black women-owned businesses and skills development, accelerated electrification and Eskom's corporate social investment spend. Local content will be a core requirement when major contracts are awarded.

All strategic objectives are pursued while paying due regard to the environment, stakeholder engagements and short-term priorities.

Enabling strategies

Various initiatives will be implemented to facilitate Eskom's four strategic objectives. Focused research and development will help Eskom reach its technical performance and capacity expansion objectives. A stakeholder management strategy will ensure close cooperation with stakeholders, providing an enabling environment for the business. Heightened commitment to the customer will improve the service culture within the organisation, support the expansion programme and further improve relationships with a growing customer base.

The theme of this annual report is ***Partnering for growth.*** Eskom is a national asset. As such, it cannot operate successfully without strong partnerships. As a public enterprise we work closely with government, more specifically our shareholder – the Department of Public Enterprises – and the Department of Minerals and Energy (responsible for energy policy), to mention but a few. Given the legislative requirements attached to a build programme and the maintenance of the electricity network, we work in close collaboration with regulatory bodies such as the National Energy Regulator of South Africa and the National Nuclear Regulator. In this growth phase we clearly also need strong alliances with local and international funders and investors, given our R150 billion capital investment over the next five years. In the current scenario of tight margins and demand pressures, Eskom needs both industry and residential users to partner with it to develop a culture of energy efficiency. Equally, Eskom relies on strong partnerships with suppliers to ensure the creation of adequate electricity infrastructure, now and in the future. Critical partners are our staff who maintain current plant and build new plant – offering new, challenging careers to many.

Our annual report is structured around the current and future material aspects that we face, and these are determined through our business priorities, risks and issues that are raised by our stakeholders.

Picture caption
Thabo Nthatisi and Fairhope Mogashoa (in the background) from the Witbank Contact Centre tend to customer calls.

Eskom

Group five-year review

	Unit	**2007 (12 months)**	2006 (12 months)	2005[1] (15 months)	2003 (12 months)	2002 (12 months)
FUNDING AND RESOURCES						
Key financial figures						
Total assets	Rm	**143 754**	128 286	110 027	99 499	82 482
Total equity	Rm	**56 809**	50 371	46 947	42 841	37 717
Total equity and liabilities	Rm	**143 754**	128 286	110 027	99 499	82 482
Revenue	Rm	**40 068**	36 052	43 207	32 948	29 684
Net fair value gain on embedded derivatives	Rm	**4 275**	1 318	72	–	–
Net fair value loss on other derivatives	Rm	**(613)**	(182)	(171)	(283)	(118)
Finance income	Rm	**2 748**	2 783	3 936	4 024	2 506
Finance cost	Rm	**(4 296)**	(4 521)	(5 447)	(5 328)	(5 281)
Profit before tax	Rm	**9 458**	6 647	7 686	5 276	5 454
Income tax expense	Rm	**(2 504)**	(2 122)	(2 313)	(1 859)	(1 727)
Profit for the year	Rm	**6 454**	4 641	5 411	3 417	3 727
Cash generated from operations	Rm	**14 804**	13 292	15 515	13 535	12 911
Net cash from operating activities	Rm	**13 281**	12 346	15 302	13 451	12 859
Net cash used in investing activities	Rm	**(14 104)**	(9 003)	(5 345)	(3 311)	(2 191)
Net cash from/(used in) financing activities	Rm	**1 128**	(1 368)	(8 873)	(11 915)	(8 125)
Financial ratios						
Earnings protection (profitability indicators)						
Return on total assets	%	**7,80**	9,06	12,74	9,97	13,07
Return on average equity	%	**12,04**	9,54	12,05	8,48	10,37
Total operating expenditure/revenue	%	**70,52**	67,15	65,26	64,84	60,24
Net pre-tax interest coverage	ratio	**3,68**	2,82	2,69	2,17	2,23
EBITDA interest coverage	ratio	**4,13**	4,00	4,16	3,48	3,22
Liquidity	ratio	**1,49**	1,28	1,57	1,12	1,27
Solvency	ratio	**1,65**	1,65	1,74	1,76	1,84
Cash flow protection (cash flow adequacy indicators)						
Funds from operations/average total debt	%	**29,85**	32,05	46,81	43,43	44,96
Funds from operations/capex	%	**94,16**	137,13	286,29	406,25	586,90
Funds from operations/net interest coverage	%	**7,71**	6,77	9,70	9,96	4,57
Capital structure						
Debt:equity	ratio	**0,09**	0,01	–	0,08	0,24
Debt:equity (including long-term provisions)	ratio	**0,30**	0,22	0,17	0,29	0,46
Interest cover	ratio	**3,38**	3,76	5,50	4,30	2,88
Credit ratings						
Standard and Poor's						
– Foreign currency	rating	**BBB+/Stable**	BBB+/Stable	BBB/Stable	BBB/Stable	BBB-/Positive
– Local currency	rating	**A-/Stable**	A-/Stable	A-/Stable	A-/Positive	A-/Stable
Moody's						
– Foreign currency	rating	**A2/Stable**	A2/Stable	Baa1/Stable	Baa1/Stable	Baa1/Stable
– Local currency	rating	**A1/Stable**	A1/Stable	A3/Stable	A3/Stable	A3/Stable
FitchRatings						
– Foreign currency	rating	–	–	–	–	–
– Local currency	rating	**A/Stable**	A/Stable	A-/Stable	A-/Stable	BBB+/Stable
Other						
Average selling price of electricity[2]	cents per kWh	**18,06[3]**	17,01[3]	16,04[3]	16,05[3]	14,98[3]
Average total cost of electricity sold	cents per kWh	**16,09[3]**	14,25[3]	14,25[3]	13,61[3]	12,48[3]
Employees	number	**32 674**	31 458	31 475	31 972	32 357
Value created per employee	R000	**781**	679	808	578	570
Productivity improvement/(decline) for electricity business	%	**1,90[3]**	(2,10)[3]	1,80[3]	2,50[3]	1,60[3]
Employment equity	%	**63,00[3]**	60,10[3]	57,90[3]	56,30[3]	54,60[3]
Gender equity	%	**33,30[3]**	31,80[3]	28,90[3]	27,80[3]	24,50[3]
People with disabilities	%	**2,80[3]**	2,50[3]	2,00[3]	1,40[3]	0,16[3]
Training cost	Rm	**748[3]**	543[3]	518[3]	505[3]	494[3]
Eskom bursars	number	**5 136[3]**	2 163[3]	1 568[3]	1 850[3]	2 010[3]

	Unit	**2007 (12 months)**	2006 (12 months)	2005[1] (15 months)	2003 (12 months)	2002 (12 months)
CONTINUITY OF SUPPLY						
Total electricity sold	GWh	**218 120**	207 921	256 959	196 980	187 957
Coal burnt in power stations	Mt	**119,11**	112,10	136,40	104,40	96,50
Energy availability factor	%	**87,50**	87,40	89,50	87,50	89,30
Peak demand on integrated system	MW	**34 807**	33 461	34 195	31 928	31 621
Peak demand on integrated system including load reductions	MW	**35 312**	33 461	34 195	31 928	31 621
Unplanned automatic grid separations	trips per unit	**1,76**	1,55	1,33	1,78	1,30
Demand-side management savings	MW	**169,80**	72,30	85,40	0,50	–
Specific water consumption by power stations[4]	L/kWh sent out	**1,35**	1,32	1,27	1,29	1,27
Relative particulate emissions	kg/MWh sent out	**0,20**	0,21	0,26	0,28	0,29
Carbon dioxide emissions[5]	Mt	**208,90**	203,70	247,00	190,10	175,20
Radiation release	millisieverts	**0,0034**	0,0049	0,0079	0,0123	0,0060
Lost time incidence rate	index	**0,35**	0,40	0,45[6]	0,37	0,45
Employee fatalities	number	**8**	10	19	5	11
Contractor fatalities	number	**18**	13	17	6	4
Public fatalities	number	**41**	34	40	27[3]	41[3]
CAPACITY EXPANSION						
Generation capacity installed and commissioned	MW	**1 360**	190	–	–	–
Transmission lines installed	km	**430**	237	397	262	(107)
Transmission transformer capacity installed	MVA	**1 000**	1 090	5 280	–	165
Distribution lines installed	km	**6 393**	5 656	10 537	10 998	8 778
Distribution transformer capacity installed	MVA	**2 967**	1 866	2 249	2 304	943
DEVELOPMENTAL INITIATIVES						
Black economic empowerment	Rm	**16 557**	11 681	10 334[3]	6 861[3]	4 891[3]
Electrification	number of homes connected	**152 125**	135 903	222 314	175 396	211 628
Corporate social investment	Rm	**74,70**	83,60[11]	159,80	158,60	64,90[10]

Definitions of ratios

- Return on total assets: net operating profit[7] expressed as a percentage of total assets.[8]
- Return on average equity: profit for the year divided by average equity.
- Operating expenditure/revenue: operating expenditure[9] divided by revenue.
- Net pre-tax interest coverage: profit before tax plus finance cost (interest and discount amortised portion) divided by finance cost (interest and discount amortised portion).
- EBITDA interest coverage: net operating profit[7] plus finance income, depreciation and amortisation expense, net impairment reversal/(loss), divided by finance cost (interest and discount amortised portion).
- Liquidity: current assets divided by current liabilities.
- Solvency: total assets divided by total liabilities.
- Funds from operations/average total debt: cash flows from operating activities divided by the average financial instrument liabilities.
- Funds from operations/capex: cash flows from operating activities divided by net cash used in investing activities.
- Funds from operations/net interest coverage: cash flows from operating activities divided by net finance cost plus capitalised interest.
- Debt: equity: net financial assets and liabilities[12] divided by total reserves[12].
- Debt: equity including long-term provisions: net financial assets and liabilities[12] plus non-current retirement benefit obligations and provisions, divided by total reserves.
- Interest cover: net operating profit[7] divided by net finance cost plus net fair value loss on other derivatives.
- Value created per employee: value created divided by number of employees as per value added statement.
- Average total cost of electricity sold: the sum of operating expenditure[9], net fair value loss on other derivatives, depreciation and amortisation expense, net impairment reversal/(loss) and net finance cost divided by GWh sold.

1. 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. Represents Eskom Holdings information only.
4. Volume of water consumed per unit of generated power sent out, excluding rain and mine water used.
5. Calculated figures based on coal characteristics and the power station design parameters.
6. Calculated for the period 1 April 2004 to 31 March 2005.
7. Operating profit before net finance cost excluding net fair value adjustments on embedded and other derivatives.
8. Total assets are reduced by financial instrument assets and derivative financial assets since Eskom's funding is managed in a single pool of financial market assets and liabilities.
9. Operating expenditure comprises primary energy, employee benefit expense, other operating expenses and other income.
10. Expenditure by the Eskom Development Foundation only.
11. Amounts spent on the Eskom public scholarship programme reported under skills development.
12. Excludes net effect of embedded derivatives.

Eskom

Chairman and chief executive

R16,6 billion

spent on
black economic empowerment

2006: R11,7 billion

> Two new peak-load plants employing open cycle gas turbine technology have been constructed in record time and will come into full operation in the winter of 2007. *Chairman*

> We have introduced an internal electricity saving programme designed to deliver savings of one billion kilowatt hours. *Chairman*

> Capacity will continue to expand as our build programme gathers momentum. *Chief executive*

> The targeted number of Eskom bursary-holders and trainees for the year was 4 000 in terms of our Asgisa commitment. The target was exceeded by 1 136, confirmation that we are responding energetically to the skills challenge. *Chief executive*

SECTION CONTENTS

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14 Board of directors
16 Message from the chief executive
22 Executive management committee
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25 Independent auditor's report to the Minister of Public Enterprises
27 Report of the audit committee
27 Statement by company secretary

Picture captions
1. *The Eskom/EWT partnership studies wattled crane flight patterns to mitigate powerline interactions.*
2. *The generator transformer at Ankerlig power station.*

Together we help provide quality service to an entire nation

Eskom continues to maintain and expand its infrastructure

Eskom

Message from the chairman

Valli Moosa Chairman

It is my privilege to deliver the second annual report under my chairmanship at perhaps the most exciting and challenging period of Eskom's history. This is also an exciting time for our democracy as the economy achieves its highest rate of growth in several decades and government's Accelerated and Shared Growth Initiative for South Africa (Asgisa) makes significant progress in the national drive to halve poverty and unemployment.

Eskom plays a central role as an enabler of the Asgisa vision. As the provider of 95% of South Africa's electricity, our contribution may be the most fundamental of all in supporting economic growth in South Africa – another reason for the exhilaration and heightened sense of mission that have characterised Eskom's activities over the past year.

UNPRECEDENTED SCALE

The scale of our response to the challenge of growth is unprecedented. Over the next five years Eskom will spend approximately R150 billion on capacity expansion. We have never in our history been called on to add to national infrastructure at this pace and scale, and will do so for the next 20 years.

We have made a promising beginning. Over the last two years we have met all our capital expenditure targets while the speed of delivery in key areas of our build programme have underlined Eskom's international position as an innovative and technically advanced solution finder.

POWER INTERRUPTIONS

Regrettably, our customers on occasion have had to put up with power interruptions. These outages have generally been of short duration but, after so many years of substantial over-capacity and low growth in demand, they have had a considerable shock effect.

We acknowledge that reserve capacity is below what we would wish and that outages may occur in the next few years until our expansion programme delivers the additional power and boosts reserves. This situation will remain until 2013 when some of the new coal-fired and peaking stations come online.

We have looked around the world to learn from other countries where similar difficulties have been experienced. In 2006 the Netherlands experienced eight major power failures. Large numbers of customers in France, Germany, Italy, Spain and Belgium lost power for 30 minutes last November. We are analysing these occurrences to learn from these experiences.

SPEEDY RESPONSE

The capacity challenge is at its most critical at periods of peak demand. High priority was therefore given over the past year to take urgent measures to increase our peaking supply capacity.

Two new peak load plants employing open cycle gas turbine technology (totalling 1 029MW) have been constructed in record time and will come into full operation by winter 2007. Fast-track

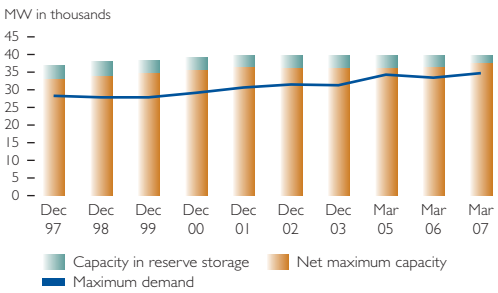
Picture caption
Bird interactions with power lines are monitored closely.

1,9%

improvement in productivity

2006: (2,1%)

Generation plant capacity and maximum demand



construction of installations with such high technology content is a major achievement and testimony to the professionalism, dedication and sheer hard work of Eskom people and our contractor partners. They also play a pivotal role in increasing the supply needed for the Western Cape – a very high priority for us.

Though our response to the capacity challenge has been prompt, this is no knee-jerk reaction. In our search for sustainable solutions we have refused to be prescriptive or limited in our thinking. The response we are developing will not be restricted to old, established technology and the quick and cheap options.

Planned economic growth of 6% a year implies an additional demand of 1 600MW a year on the national grid. It would be irresponsible to place one big bet on one particular technology in the face of such demand. We are therefore developing a well balanced and diversified response that looks to cleaner and more efficient generation technologies.

CUTTING-EDGE TECHNOLOGIES

Eskom is giving a world lead in the adoption of cutting-edge technologies. For example, we plan to develop the world's largest solar thermal power plant capable of generating 100MW, subject to technical and commercial feasibility. Furthermore, a pilot project to harness the power of underground coal gasification has already reached an advanced stage.

Our overall mix of energy solutions is intended to reduce our reliance on fossil fuels while emphasising the growing contribution of renewable energy sources and nuclear power. This brave strategic decision was one of the key achievements of the past year.

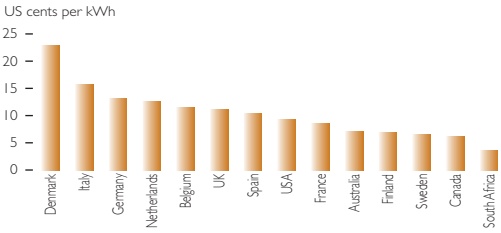
I say brave because the alternative was to hide behind South Africa's status as a developing nation seeking high growth to combat poverty and use this as an excuse to evade our global responsibility to contain greenhouse gas emissions. Instead, we have positioned ourselves as a key emerging market contributor to international efforts to address climate change.

In support of this, we have been instrumental in the Business Action for Energy. This business platform, which I have had the honour to chair, was created to provide international energy related business input into the United Nations Commission on Sustainable Development. Our role is to ensure that we are at the forefront of determining business input into the process of energy, industrial development, atmosphere and climate change. These issues are of primary importance to Eskom; in particular as we are starting to build new plant and therefore need to be aware of the long- and shorter-term risks and opportunities at international, regional and national levels.

It will be difficult, but we intend to act as an enabler of South Africa's economic growth and discharge our international duty to fight global warming. All leading-edge companies are factoring climate

Message from the chairman continued

World industrial electricity prices from a representative utility in each country



The survey is based on prices at 1 April 2007 for the supply of 1 000kW for an organisation with a monthly usage of 450 000kWh. All prices are in US cents per kilowatt hour and exclude VAT. Where there is more than a single supplier, an unweighted average of available prices was used. Where available in each country, deregulated or liberalised contract pricing was used. The percentage change is calculated using the local currency to eliminate currency movement distortion.

Source: Extract from © 2006 – 2007 NUS Consulting Group International Electricity Survey and Cost Comparison, April 2007

change into decision making and Eskom is no exception. We will be drawing on our wealth of experience and innovative capabilities to develop strategies that balance these drivers of our business.

COST CONSIDERATIONS

We acknowledge that for the foreseeable future coal will be by far the biggest contributor to our energy mix, though this reliance will slacken over time. On face value, coal remains our cheapest energy source, offering significant pricing advantages over nuclear power, for example.

However, it is short-sighted to remove from these calculations the wider impact of carbon dioxide emissions. The higher financial cost of nuclear power and renewables is offset by long-term benefits to health, air quality and the environment. These benefits will be energetically pursued.

KEEPING THE LIGHTS BURNING

Eskom's primary responsibility is to keep the lights on. This factor drove the board decision to increase infrastructure investment from R97 billion to R150 billion; another brave decision as the board was fully aware that this would mean doubling the size of the Eskom balance sheet in only five years.

Expansion of this magnitude is a challenge for any organisation, but the decision could not be deferred nor could the timeframe be extended in view of the crucial contribution made by Eskom to the national growth strategy.

To illustrate the scale of this step change, the original total cost of Eskom's current property, plant and equipment in commission is approximately R113 billion. The cost of building just one major base-load power station in our new expansion programme is about R80 billion.

TARIFF PRESSURES

The higher cost of building new capacity not only applies to South Africa, but worldwide. The cheap electricity era is coming to an end, here and in all other markets.

Over 20 years, we are expected to double the size of our capacity. This involves a significant increase in investment. These long-term financial demands can only be addressed in three ways: Eskom maximising its efficiencies, an injection of capital from government (our only shareholder) or through higher prices to the consumer, as determined by the regulator.

The challenges of the review period brought these realities into sharp focus.

DIVIDEND POLICY

It remains Eskom policy to fund its own capital expansion programme through its own resources and by a judicious level of borrowings via the domestic and international bond markets. It would therefore be inappropriate to declare a dividend during the capital expansion programme.

Picture caption
One of the exhaust stacks at Ankerlig power station.

SHAREHOLDER COMPACT

Eskom has met all but one of the targets set out in the shareholder compact with government and has benefited from this clear statement of objectives and expectations. The one target that was not met was the number of major incidents in terms of system minutes lost where we had two such incidents against a target of one. The compact's value as a strategic planning tool and guide to expected levels of performance was highlighted in the past year.

In addition, we should record the contribution made to strategy formulation by the Minister of Public Enterprises, Alec Erwin and his important role in ensuring strict adherence to national priorities. In addition, the overall support of the Department of Public Enterprises is gratefully acknowledged.

DEMAND-SIDE MANAGEMENT

The importance of strategic direction at the top should not detract attention from the crucial role that can be played by every business and every household in the country as we step up the national energy-saving campaign. Everyday actions such as putting a timer on a geyser and switching off lights are vital to efficient demand-side management (DSM).

In common with many consumer societies around the world, we have become used to the idea of instantly available electricity and continuous appliance usage, even when this is unnecessary and wasteful. Most countries now accept that this drain on resources cannot continue. All of us – ordinary families and entire industries – have to develop better habits, economise on power and reduce the drain on capacity.

Eskom, ready to face the challenges head-on, has accelerated its national DSM target to 8 000MW over the next 18 years. Savings on this scale will entail considerable discipline and significant behavioural change.

The effectiveness of DSM was demonstrated by the success of a special DSM campaign during the Western Cape power shortages in the winter of 2006. Savings of approximately 500MW a day were achieved. As it was a crisis-driven, short-term situation these savings are only partially sustainable.

ENERGY-SAVING INNOVATION

Thankfully, a start has been made, creating a platform for a much more intense energy-saving effort in the years to come. Eskom has taken the lead globally.

Recent energy-saving efforts in the Western Cape included the free distribution to householders of 5,3 million compact fluorescent lamps (CFLs) in return for standard incandescent light bulbs. We were handing out more expensive bulbs (with a longer rated life at lower power usage) for older, cheaper bulbs – an energy-efficient swap without precedent.

In the realm of energy saving Eskom has a responsibility to lead by example. As such, there is significant scope for internal energy

Picture caption
The fuel storage tanks at Gourikwa power station near Mossel Bay.

Message from the chairman continued

efficiency. We have therefore introduced an internal electricity-saving programme designed to deliver savings of one billion kilowatt hours, and have already achieved some 18 million kilowatt hours to date with initiatives since 2006.

PARTNERSHIPS

Eskom may lead, but it can never do it alone. Our fellow citizens and our business peers need to join us in the energy efficiency programme, this year and in years to come. We salute all our customers who made a major contribution to reducing the peak demand in the Western Cape last year.

Our capital expenditure programme cannot succeed at the required pace without the cooperation of numerous stakeholders, including communities, municipalities, regional authorities, suppliers and a wide array of official departments.

The prompt response to the capacity challenge has been made possible in no small measure by the contribution of partners such as these. We acknowledge as much and thank them all.

BOARD CHANGES

Eskom is fortunate that it continues to attract and harness considerable talent at board level. I thank my colleagues on the board for their wisdom, their time and their unstinting efforts. The long hours and dedication of the heads of sub-committees are particularly noteworthy.

The board was further strengthened during the year and I am delighted to welcome new members to the team. Errol Marshall, former CEO and chairman of Shell South Africa; was appointed to the board in October 2006.

I also welcome the following external people serving on the board committees:

- Sonja Sebotsa, executive director at Women Development Bank Investment Holdings, to the investment and finance committee
- Mohamed Husain, director of Knowles, Husain Linsay Inc Attorneys, who now sits on the tender committee
- Martin Matutu, managing director of Abuma Transport, on the sustainability committee
- Dr Bernard Fanaroff, managing director of Fanaroff Associates on the human resources, remuneration and ethics and sustainability committees
- Shauket Fakie, group executive of Business Risk Management, MTN Group Management Services on the audit committee

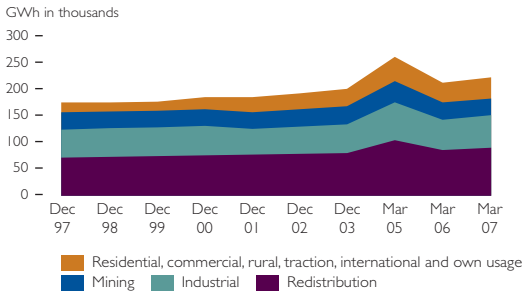
During the search for a successor to our chief executive, we benefited greatly from the *outside perspective* provided by Laurie Dippenaar. His insights and generosity with his valuable time were greatly appreciated.

SUCCESSION

Thulani S Gcabashe, Eskom's chief executive for the past seven years, ended his term at the end of April 2007. His contribution

Picture captions
1. The motor control centre at an open cycle gas turbine plant.
2. Two units and fuel storage tanks at Ankerlig power station.

Sales by category



The sharp peak in 2005 is a result of the 15-month reporting period.

to Eskom has been huge. His legacy will also be sizeable as Thulani has played a crucial role in laying the strategic foundations for Eskom's development over the next 25 years. I salute him for his work and vision, and wish him success in his future endeavours.

Chief executive designate Jacob Maroga took up the leadership mantle from 1 May 2007. He takes the helm at an exciting and stimulating juncture. I congratulate him on his appointment and look forward to working with the new leader of Eskom's energetic and dynamic executive team.

OUR PEOPLE

Growth is not only driven by new installations and higher levels of investment, but by people. Eskom is fortunate to have such dedicated and professional employees.

In recent years, they have coped with growing demands without significant additions to the staff complement. This will change in the years ahead. Such significant operational and organisational growth cannot be achieved without creating more jobs at Eskom. We foresee a gradual increase in employee numbers while still achieving efficiency and productivity gains.

It is with regret that I have to report that we were not able to reduce the number of public and contractor injuries and fatalities this year. A key problem was a substantial increase in the number of pedestrian incidents involving our vehicles. In an endeavour to reduce these incidents, there will be an intensification of our internal road safety campaign. We have also tightened our safety requirements of contractors right from the tendering stage, and have revamped the safety induction of new contractors. A more focused educational campaign on the dangers of electrical installations will also be flighted.

I thank all members of the Eskom team for their hard work and their contribution to our shared vision of *Together building the powerbase for sustainable growth and development.*

Valli Moosa

Chairman

Board of directors

at 31 March 2007

1 PM (Mpho) Makwana (37)
Non-executive director
BAdmin (Hons) (Pretoria), EDP (North Western)

Mpho was appointed in July 2002
Chairman: Epitome Investments
Director: Monitor Group

2 WE (Wendy) Lucas-Bull (53)
Non-executive director
BSc (Wits)

Wendy was appointed in July 2002
Director: Alexander Forbes, Dimension Data Holdings plc, Development Bank of Southern Africa

3 JRD (Jacob) Modise (40)
Non-executive director
BCom, BAcc, CA(SA), MBA (Wits), AMP (Harvard). AMP (Samford)

Jacob was appointed in July 2002
Director: Batsomi Group, Altron, Blue IQ Investments, Road Accident Fund, Independent Regulatory Board of Auditors
Trustee: Nelson Mandela Children's Fund

4 U (Uhuru) Nene (47)
Non-executive director
MSc (Structural Eng) (Patrice Lumumba, Moscow)

Uhuru was appointed in August 2005

5 ET (Errol) Marshall (61)
Non-executive director
BCom (Unisa)

Errol was appointed in October 2006
Chairman: NCP Biofuel, Project for the Upliftment of People and Pets
Director: Thebe Tourism Group, Nzalo Consulting

6 SA (Sintu) Mpambani (54)
Non-executive director
MSc (London)

Sintu was appointed in July 2002
Member: South African Public Administration, South African Economic Society

7 Dr BM (Brian) Count (56) (British)
Non-executive director
MA (Mathematics) (Cambridge), PhD (Physics) (Exeter, UK)

Brian was appointed in July 2002
Chairman: Progressive Energy
Director: Ceres Power

8 M (Mustafa) Bello (53) (Nigerian)
Non-executive director
BEng (Civil) (Ahmadu Bello, Zaria)

Mustafa was appointed in August 2005

Only major directorships included.

9 **MV (Valli) Moosa** (50)
Chairman
BSc (Durban-Westville)

Valli was appointed in August 2005
Executive chairman: Lereko Investments
Director: Sanlam, Imperial Holdings, Sun International
Member: Auditor-general's advisory board
President: World Conservation Union *(IUCN)*

10 **LCZ (Zee) Cele** (54)
Non-executive director
BCom (Fort Hare), PostGrad Dip Tax, MAcc (Natal), Executive Leadership Development Programme (Cambridge, USA)

Zee was appointed in August 2005
Director: Tsogo Sun, Ithala, Ushaka Management

11 **V (Versha) Mohanlal Rowjee** (36)
Non-executive director
BCom (Wits)

Versha was appointed in July 2002
Director: Disability Empowerment Concerns Trust

12 **TS (Thulani) Gcabashe**[1] (49)
Chief executive
BA (Botswana), MURP (Ball State, USA), Programme for Executive Development. (International Institute for Management Development, Lausanne, Switzerland)

Thulani was appointed in July 2002
Chairman: Eskom executive management committee, Eskom Enterprises
Director: Standard Bank Group, South African Energy Association, National Research Foundation
Trustee: Business Map Foundation, Freedom Park Trust

13 **LG (Lars) Josefsson** (57) (Swedish)
Non-executive director
MSc (Applied Physics) (Chalmers, Sweden), Professor, Cottbus University, Germany

Lars was appointed in July 2002
President and chief executive: Vattenfall, Sweden

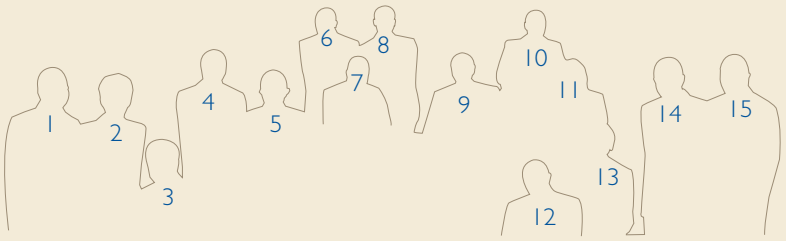
14 **AJ (Allen) Morgan** (59)
Non-executive director
BSc, BEng (Electr) (Stellenbosch)

Allen was appointed in July 2002
Director: Kumba Iron Ore

15 **B (Bongani) Nqwababa** (41)
Finance director
BAcc (Hons) (Zimbabwe), CA (Zimbabwe), MBA (Manchester and Wales, UK)

Bongani was appointed in September 2004
Chairman: Eskom Finance Company, Escap, South African Revenue Service audit committee
Director: Eskom Enterprises, Rotek Industries, Rosherville Properties, Roshcon, Old Mutual plc UK

1. *Resigned 30 April 2007. PJ Maroga appointed as chief executive from 1 May 2007.*



Eskom

Message from the chief executive

Jacob Maroga Chief Executive

This is my first report as chief executive of Eskom, and as such I am reporting on the period in which my predecessor, Thulani S Gcabashe, was at the helm of our organisation. His term saw the transformation of Eskom to a business on a full commercial footing in terms of the Companies Act in 2002. Eskom was recognised as a utility of global stature in 2001 when we received the Financial Times award for the Global Power Company of the Year.

Thulani also actively led other transformation initiatives – the major focus on racial and gender equity and the procurement shift towards black economic empowerment. He spearheaded the transformation of Eskom Enterprises into Enterprises division, with a revised mandate to project manage and build new capacity. As such he has laid a solid foundation for substantial expansion of the organisation.

LOOKING TO THE FUTURE

Power outages in 2006 and 2007 have brought into sharp focus the vulnerability of our power system. Several factors came into play – higher than expected demand, unplanned outages, and more importantly, a diminishing reserve capacity. In recent years our reserve margin for generation capacity has shrunk to between 8% and 10%. We aspire to a reserve margin of 15%. The margin is tight and will remain so until 2013 when new base-load stations start coming online. The next five to eight years will require a collaborative effort by all stakeholders to minimise the likelihood of power interruptions.

New capacity

At the turn of the century government planned to bring more independent power producers (IPPs) into the economy. To create space for the IPPs, Eskom, as the incumbent player, was required to put its capacity expansion plans on hold.

The investment in the local electricity market by international players did not materialise, and as such in 2004 government instructed Eskom to start building new generation capacity. By then there was a backlog given the higher than expected growth in the economy.

Key to managing the electricity demand is ensuring new capacity through our massive build programme. The Eskom board approval for a significantly increased build programme budget – now R150 billion for the five years to 2012 – was primarily driven by a change in the electricity demand growth assumption, from 2,3% to 4,0%. Generation projects will take up 70% of the budget, with transmission investment accounting for another 14%. The remainder of the budget will fund improvements to our distribution network and efforts to diversify the energy mix.

The expanded build programme aligns our planning with government's target of 6% GDP growth between 2010 and 2014. Under the revised plan, we will deliver an additional 22 000MW by 2017.

The first step taken early in 2003 was a decision to bring back to service our mothballed plants – Camden, Grootvlei and Komati. From August this year, 1 162MW will be available to us thanks to the return to service of five units at Camden and one unit at Grootvlei power station.

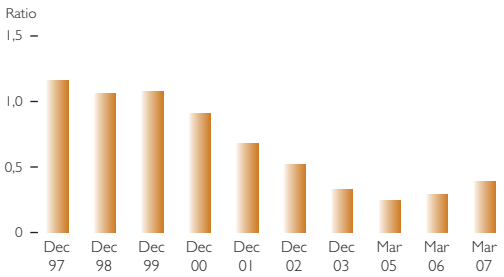
Picture caption
Liveline work is done by helicopter and involves high safety standards.

R9,7 billion

raised through bond issues

2006: R3,7 billion

Eskom (company) debt:equity, including long-term provisions



A further 1 029MW will be added from June this year by the open cycle gas turbines at Atlantis (Ankerlig power station) and Mossel Bay (Gourikwa power station). These new installations will help us address peak demand, especially in the western and southern parts of the national grid. Their contribution represents the first new megawatts to be added to the system in about 20 years.

For progress such as this, we must thank our staff and contractors for working tirelessly. Our ability to bring new capacity on stream is improving all the time.

Construction also started in May this year at Medupi power station, our new coal-fired base-load power station in Lephalale, Limpopo. The station will be capable of delivering at least 4 500MW. In addition, work has begun on the Ingula pumped storage scheme near Ladysmith, a peak-load plant that will deliver 1 332MW.

The contribution of our suppliers and subsidiaries, Rotek Industries and Roshcon, were key to these successes.

Numerous international markets are witnessing higher demand for electricity and are investing in more capacity. Higher demand results in cost escalation on almost all major items of equipment; and brings with it global competition in terms of equipment, suppliers and skilled people to run and build the new plant.

Financial sustainability

A crucial building block of the new build programme is the financial capacity to sustain the capacity expansion. Our current strategy is to fund up to R100 billion in borrowings (local and international) and the balance of R50 billion from our own operations.

This approach has worked well. In 2007, we raised R9,7 billion through highly successful bond issues in the local market including ES33 (bond maturing in 2033). Net interest-bearing debt increased by R4,1 billion. At the moment, the Eskom group's debt-to-equity ratio (including long-term provisions) is at 0,30 against 0,22 a year earlier in anticipation of the high build programme costs facing us. We see no reason to amend the existing funding strategy.

Revenue growth is of critical importance to retain a healthy balance sheet. As previously indicated under the Multi-Year Pricing Determination (MYPD), the regulator has permitted a 5,9% tariff increase for the period 1 April 2007 to 31 March 2008 (5,1% for the review period). However, higher primary energy costs, greater borrowing and bigger capital spending highlight a growing mismatch between currently agreed price increases and prudent forward planning.

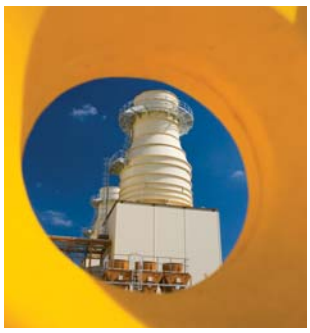
Other international markets are subject to similar pressures (including Australia and Canada, our closest competitor as a low-cost energy producer). We therefore believe a higher level of price increases is possible while retaining our international position as a competitive low-cost producer.

It is encouraging to note that many of our stakeholders have acknowledged the case for higher tariffs – the debate now centres around the extent of the increase and the timing.

Public confidence

While our overall technical performance was good, there were significant events in the Western Cape in 2006 and on

Message from the chief executive continued



18 January 2007, and these have certainly raised doubts in the public's minds in terms of our ability to provide a reliable electricity supply. Although not frequent, these events had a major impact on both households and businesses.

I have set myself the challenge to win back the confidence of our customers – and I will do this by being totally transparent and through pro-active communication about the status of our network at all times. We will educate the public about our emergency procedures and alert them if we foresee possible supply shortages.

It is a fact that South Africa has become accustomed to an affordable and extremely reliable power supply, thanks to an era of excess capacity. We now need to make a mind shift to an era in which we need to build new capacity and, with that, use electricity much more efficiently.

LOOKING BACK ON THE PREVIOUS YEAR

Safety remains a major concern for us. Our internal safety record continues to improve, but we can take no comfort in the decline in employee deaths when the number of contractor and public fatalities remains so high. We have a target of zero fatalities and, as such, every life lost is a tragedy.

This year we launched the *Safety Excellence Programme* – more initiatives are planned for introduction as the year progresses. Safety awareness has become a key part of our orientation process while our contractor monitoring now includes supervision of their safety performance.

We have introduced programmes to communicate the need for improved safety standards. We have set up more safety offices on sites. Transport to and from sites is a critical area; and all passengers must wear seatbelts, not only drivers. Safety harnesses and cages have also been designed for use in cases where personnel are transported by open trucks, but the ultimate aim is the transfer of all workers in vehicles intended for the safe transport of passengers.

We will continue to strive for an injury-free workplace and a safe operational environment.

Financial successes

Our organisation has had to manage higher sales and meet high expectations over the last year. Sales volume growth of 2,3% was projected; 4,9% growth was delivered. Qualitative improvements are also evident. Our customer service index (a broad measure of customer satisfaction and service perception) moved higher, from 86,26% (2006) to 87,09% – a creditable performance, given the supply challenges.

Eskom's financial performance has been satisfactory, driven by the high growth in sales and revenue. The profit for the group was R6 454 million, with R3 034 million (after tax) contributed from embedded derivatives.

One abiding issue is the volatile effect on our balance sheet of embedded derivatives. These instruments assist major customers by sharing risk on the long-term impact of commodity and currency movements and other shifts in rates and markets.

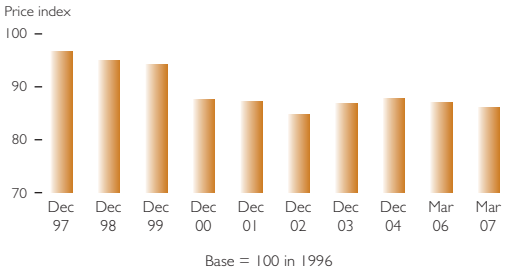
Picture captions
1. A power island building and exhaust stack at Gourikwa power station.
2. Contractors work on the fuel system inside the power island building.

4,9%

sales volume growth

projected 2,3%

Electricity price increase deflated by average consumer price index



In 2007 embedded derivatives made a positive contribution of R4,2 billion (R1,3 billion in 2006) to our income statement, and are reflected in our balance sheet at a net cumulative asset value of R5,6 billion, but the potential always exists for these long-term contracts to go negative. Such movements are beyond our control as they are not linked to operational factors.

Wider vision

Intense focus on generating capacity is understandable when South Africa's plans for more jobs and reduced poverty hinge on economic growth and a reliable power supply. Our determination to make a positive difference in the lives of customers, communities and among our workers and partners is reflected in our support for the United Nations Global Compact.

We are a signatory to the compact, the world's largest voluntary corporate responsibility initiative. Eskom supports and upholds the compact's 10 principles in the areas of labour standards, the environment and anti-corruption.

Our commitment is largely demonstrated through our sustainability index which is used to measure our sustainability performance. In 2007, our overall sustainability score was 3,0 (3,4 in 2006), indicating that our organisational performance across the technical, economic, environmental and social sectors is sustainable and that capacity growth is not being achieved at the expense of other areas of our business. The decline in performance was mostly related to a reduced reserve margin; generation availability and regrettable fatalities. We did see improvement in customer service, productivity and economic performance.

Social agenda

The electricity meters of 1 074 340 customers were reconfigured to receive free basic electricity (1 048 000 in 2006) and almost total coverage of municipalities has now been achieved, bringing relief to low-income households.

One of the key positives with our electrification performance in 2007 was the progress on infrastructure development, creating a platform for a better rate of connections from here on. Consequently, the Department of Minerals and Energy funded connections target has been raised to 100 000 households in the coming year.

The prospects for achieving the goal of universal access by 2012 are at risk, but it can still be done if adequate budget is allocated nationally to DME (who fund the programme). Eskom and municipalities roll out the electrification programme.

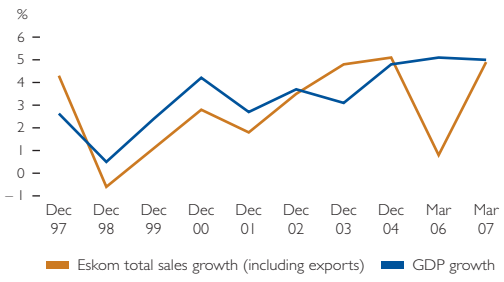
Empowerment

Procurement spend for the benefit of black economic empowered and black women-owned enterprises reached a new high of R16,56 billion (significantly up on the R14,57 billion target).

As the nation's principal source of energy, Eskom is a key contributor to the Accelerated and Shared Growth Initiative for South Africa (Asgisa). Growth as defined under the Asgisa strategy is a broad concept that challenges every business to promote the development of communities, small business and individuals.

Message from the chief executive continued

Real GDP growth versus Eskom sales (GWh) growth



The GDP growth rate is the yearly rate supplied by the South African Reserve Bank.

In 2007, our capital expenditure topped R17,7 billion. Thus we began exploring how best to channel these resources to benefit the local economy in areas close to our major projects. A major achievement in this regard is the incorporation of Asgisa compliance in our major tenders. We are using local contractors and suppliers more frequently than in the past. In fact, we have had some key successes with the communities around the new open cycle gas turbine plant in Atlantis and at Grootvlei power station.

Employment equity

In 2007, we exceeded all our racial and gender equity targets and progressed well in employment equity for people with disabilities. We must acknowledge, however, that in the area of skills and talent retention we continue to experience challenges.

In non-specialist categories we have average staff turnover, but in terms of critical engineering skills our turnover levels are higher than we would like.

The situation is challenging, but not unique. Internationally there is now a war for talent as major power companies are expanding their capacity at the same time.

We have examined some of the root causes of higher than average turnover, with particular focus on the needs of younger trainees. This included market-related remuneration, our culture and specific reasons for not meeting the expectations of the market.

In the last year, Eskom implemented a flexible benefits package for managerial and professional employees with effect from 1 October 2006. This gives employees choice in the structuring of their remuneration packages and will assist in attracting and retaining talent.

Our projects are often in remote areas and an influx of our staff puts pressure on local rentals, sometimes pushing them much higher. We may, therefore, have to take a new look at rent subsidies and staff housing at these sites.

Training and recruitment

Eskom has increased the trainee intake and is recruiting more widely. The targeted number of Eskom bursary-holders and trainees for the year was 4 000, in terms of our Asgisa commitment. The target was exceeded by 1 136; confirmation that we are responding energetically to the skills challenge.

For the first time, we organised both local and international job fairs. At these events in the USA and the UK, we recruited expatriate South Africans and other Africans. We shall maintain the recruitment effort while striving for higher retention rates. We see this as a key sustainability issue for the business.

Environmental challenges

Managing and mitigating environmental impacts is an Eskom imperative. We hope to reach a situation where all stations have visibly clear stacks. When we build new coal-fired stations, a key requirement is that emission reductions are integrated into the design. In the review period, particulate emissions were improved both against the target as well as the previous year's performance.

The bigger issues relate to climate change and what we are doing about it. The greatest immediate action we have taken is that of increasing efficiency in the use of electricity and in our internal operations. We plan to accelerate these efforts in the future.

Currently 88% of our generating mix is coal-fired and for this we use more than 100 million tons of coal every year. Numerous avenues are open to us to reduce the impact of our coal-fired stations, including clean coal technology, underground coal gasification, fluidised bed technology and use of super-critical (more efficient) boilers. Although coal is our primary energy source for bulk power generation and will remain for some time; over the next 20 years we plan to cut the coal component of our optimised portfolio to 70%.

Renewable energy production will increase to 2% of the generating mix or 1 600MW through biomass, solar, hydro and wind facilities. This includes potential imports of hydro energy. Furthermore, the nuclear energy contribution to the national grid will rise to between 13 000MW and 20 000MW over the next 20 years. This will enable us to significantly reduce greenhouse gas emissions.

Commissioning plant and pushing forward new projects is not simply a matter of implementing an executive decision. Wide-ranging consultation is necessary. Environmental impacts have to be assessed.

Partners

We work with many partners; from community groups to planning authorities, contractors and suppliers to concerned individuals. We thank them for their input and co-operation. Our vision – *Together building the powerbase for sustainable growth and development* – emphasises teamwork. The value of working together was powerfully demonstrated in the review period.

ACKNOWLEDGEMENTS

In this regard, I must thank the former chief executive – Thulani S Gcabashe – our chairman, the Eskom directors, my executive colleagues and senior officials in the Departments of Public Enterprises and Minerals and Energy as well as the regulators for their assistance.

Eskom employees faced many challenges over the past year and, as such, the teamwork across divisional boundaries has been exceptional. It would have been impossible to keep our system running smoothly without the dedication of all 32 674 members of our team. They have played an indispensable part in ensuring that we remain a world-class organisation.

Jacob Maroga
Chief Executive

Picture captions
1. Construction of the tarred road at Ingula pumped storage scheme.
2. A typical high-voltage yard next to a power station.

Executive management committee

at 31 March 2007

1 **BA (Brian) Dames** (41)
Managing director - Enterprises division
BSc (Hons) (Western Cape), MBA and Graduate Diploma in Utility Management (Stamford, USA)

Brian was appointed in September 2004
Chairman: Rotek Industries, Roshcon
Chief executive officer: Eskom Enterprises
Design, build and refurbish electricity assets, lead project development for the Eskom group, be the custodian of Eskom's non-regulated businesses and offer strategic and commercial lifecycle services to the divisions

2 **Dr SJ (Steve) Lennon** (48)
Managing director - Resources and Strategy division
MSc (Phys Metallurgy), PhD (Wits)

Steve was appointed in July 2002
Chairman: Board of trustees Fossil Fuel Foundation
Director: EDI Holdings, Electric Power Research Institute, Eskom Enterprises
Support growth, innovation and sustainability of Eskom group by influencing strategic direction, and ensuring strategy execution and optimal portfolio of assets

3 **PJ (Jacob) Maroga**[1] (47)
Managing director - Transmission division
Chief executive designate
BSc (Electrical Eng) (Wits), AMP (Harvard)

Jacob was appointed in July 2002
Director: EDI Holdings
Maintenance, refurbishment and expansion of high-voltage electricity network, system operation and control of transmission network

4 **B (Bongani) Nqwababa** (41)
Finance director
BAcc (Hons) (Zimbabwe), CA (Zimbabwe), MBA (Manchester and Wales, UK)

Bongani was appointed in September 2004
Chairman: Eskom Finance Company, Escap Limited, South African Revenue Service audit committee
Director: Eskom Enterprises, Rotek Industries, Rosherville Properties, Roshcon, Old Mutual plc UK
Provide financial and procurement strategy, policies, assurance and strategic services to the Eskom group

5 **TS (Thulani) Gcabashe**[2] (49)
Chief executive
BA (Botswana), MURP (Ball State, USA), Programme for Executive Development. (International Institute for Management Development, Lausanne, Switzerland)

Thulani was appointed in July 2002
Chairman: Eskom Enterprises
Director: Standard Bank Group, South African Energy Association, National Research Foundation
Trustee: Business Map Foundation, Freedom Park Trust

6 **EN (Ehud) Matya** (44)
Managing director - Generation division
BSc (Eng) (Wits), AMP (Harvard), PrEng

Ehud was appointed in July 2002
Operating and maintenance of all Eskom's generation assets throughout the plant lifecycle, nuclear operations and strategic primary energy sourcing

1. Appointed as chief executive from 1 May 2007.
2. Resigned 30 April 2007.

7 PD (Duncan) Mbonyana (52)

Managing director - Corporate division

MBA (Brunel, UK)

Duncan was appointed in August 2004

Chairman: Mountain Communications, Lesotho Telecom, Ezi-Cel

Director: Rotek Industries, Roshcon

Assure regulatory compliance, ensure effective governance, develop policies for compliance assurance and provide strategic services

8 ME (Mpho) Letlape (48)

Managing director - Human Resources division

BSc (Comp Sci, Psych) (Fort Hare)

Mpho was appointed in July 2002

Director: Nakatomi Corporation

Chairman: South African Business Coalition on HIV/Aids

Board member: Global Health Initiative

Advisory board member: Global Business Coalition on HIV/Aids

Provide human resources strategy, direction, policies and assurance, strategic services including health and wellness, industrial relations, learning, organisational effectiveness and remuneration and benefits. Drive culture change through effective change management and implementation and development of appropriate programmes

9 JA (Johnny) Dladla (44)

Managing director - Key Sales and Customer Service division

BA (Com) (Hons) (Fort Hare), CM (SA), AMP (Harvard)

Johnny was appointed in September 2003

Chairman: O'Brian Marketing

Director: Emerald Trading

Proactively manage contestable customer relationships and trade energy from Generation and international sources to contestable customers in SA (consumers of >100GWh) and international customers

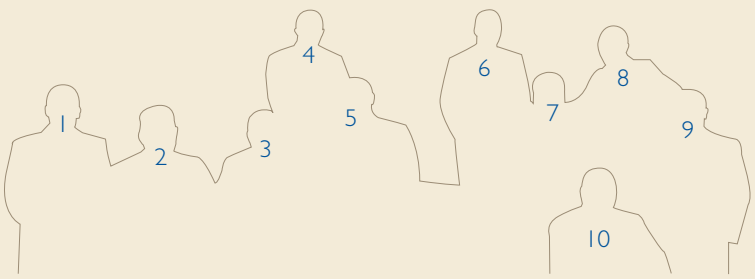
10 M (Mongezi) Ntsokolo (46)

Managing director - Distribution division

BSc (Electrical Eng) (Wits), HonsB (B&A) (Stellenbosch) MBA (Stellenbosch), Senior Executive Programme (Wits/Harvard), Fellow of SA Academy of Engineering (FSAAE), AMP (Harvard)

Mongezi was appointed in September 2003

Manage the retail business and optimally operate and maintain South Africa's distribution network, play active role in restructuring of the electricity distribution industry



Eskom

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 year in terms of International Financial Reporting Standards.

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 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 2008 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 mentioned 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.

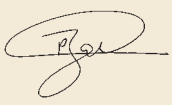
Based on the information and explanations given by management and the corporate audit department and discussions held with the independent external auditors on the result of their audits, the directors are of the opinion that the internal accounting controls are adequate to ensure that the financial 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 has occurred in the functioning of these controls, procedures and systems during the year 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 2007 and the results of its operations and cash flow information for the year.

The financial statements of Eskom and the group for the year ended 31 March 2007 have been approved by the board of directors and signed on its behalf on 14 June 2007 by

Valli Moosa
Chairman



Jacob Maroga
Chief Executive

Independent auditors' report to the Minister of Public Enterprises

REPORT ON THE FINANCIAL STATEMENTS

We have audited the annual financial statements and group annual financial statements of Eskom Holdings Limited (Eskom), which comprise pages 35 and 74 to 80 in the directors' report, the balance sheet and the consolidated balance sheet as at 31 March 2007, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity, the cash flow statement and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 92 to 171.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act,1999 (1 of 1999) and the Companies Act of South Africa.This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility for the financial statements

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group as of 31 March 2007, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act (1 of 1999) and the Companies Act of South Africa (61 of 1973).

REPORT ON SUSTAINABILITY PERFORMANCE INFORMATION

We have completed our reasonable assurance engagement on Eskom's sustainability performance information, and the information furnished as required by section 55(2)(a) of the Public Finance Management Act, 1999 (1 of 1999), for the year ended 31 March 2007, presented in the directors' report on pages 28 to 73 and 81 to 91. The scope of our engagement did not include any future projections or targets, and we do not report on this information.

Directors' responsibility for the sustainability performance information

The company's directors are responsible for the preparation and presentation of the sustainability performance information against predetermined objectives in accordance with Eskom's internal policies, procedures, business plan, shareholder's compact and other relevant documents which are available from Eskom on request. This responsibility includes: designing, implementing and maintaining appropriate internal control systems relevant to the preparation and presentation of sustainability performance information that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express our conclusion on the sustainability performance information based on our assurance engagement. We conducted our reasonable assurance engagement in accordance with International Standards on Assurance Engagements (ISAE) 3000, assurance engagements other than audits or reviews

Independent auditors' report to the Minister of Public Enterprises (continued)

of historical financial information. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance whether the sustainability performance information is free of material misstatement.

Criteria

Eskom's internal policies, procedures, business plan and shareholder's compact and other relevant documents were used as criteria to evaluate the preparation and presentation of the sustainability performance information.

Inherent limitations

Non-financial performance information is subject to more inherent limitations than financial performance information, given both its nature and the methods used for determining, calculating or estimating such data. We have not undertaken work to confirm that all relevant issues have been included in the sustainability performance information.

Summary of work performed

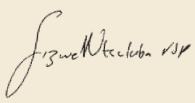
Our conclusion on our assurance engagement is based on a test of the reliability of the sustainability performance information by way of conducting interviews with management, key personnel and/or stakeholders of Eskom and assessing data trends as well as obtaining an understanding of the systems used to generate, aggregate and report the sustainability performance information. We conducted site visits on a sample basis to test systems and data. The engagement included assessing the completeness, accuracy, existence and validity of the sustainability performance information, as well as analysing information and effecting re-calculations where considered appropriate.

We believe that our work performed provides an appropriate basis for our conclusion set out below.

Conclusion

On the basis of our work performed, in our opinion, the sustainability performance information of Eskom and the information furnished in terms of section 55(2)(a) of the Public Finance Management Act, 1999 (1 of 1999), have been prepared and presented, in all material respects, in accordance with Eskom's internal policies, procedures, business plan, shareholder's compact and other relevant documents.

PricewaterhouseCoopers Inc
Director: Thomas Magill
Registered Auditor
Sunninghill
14 June 2007



SizweNtsaluba VSP
Director: Suleman Lockhat
Registered Auditor
Woodmead
14 June 2007

Report of the audit committee

Report of the audit committee in terms of regulation 27.1 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, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations
- the independence and objectivity of the external auditors

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, the audit committee is of the opinion 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. The audit committee is satisfied with the independence and objectivity of the external auditors.

Nothing significant, other than reported in the directors' report, 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 year under review.

The audit committee is satisfied that the financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates.

The audit committee has evaluated the financial statements of Eskom Holdings Limited and the group for the year ended 31 March 2007 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, and International Financial Reporting Standards. 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 recommended, at their meeting held on 30 May 2007, the adoption of the financial statements by the board of directors.

JRD Modise
Chairman
14 June 2007

Statement by company secretary

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

M Adam
Company Secretary
14 June 2007

Eskom

Directors' report

0,20kg/MWh

particulate emissions sent out

2006: 0,21kg/MWh

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HIGHLIGHTS

- Installed 1 360MW new generation capacity
- Achieved 169,8MW of savings over the evening peak
- Experienced peak demand of 34 807MW
- Supported 5 136 learners, students and graduates
- Capital expansion programme creates new opportunities for empowerment
- Electrified 152 125 homes

Picture caption
1. Highly visible saftey notices are a high priority.
2. Coal handling plant distributes coal from the coal mine to the power station.

Eskom

Together we are building a future with unlimited possibilities

In 2007 Eskom supplied more than 152 000 new homes with power

Eskom

Directors' report continued

INTRODUCTION

The directors are pleased to present their report for the year to 31 March 2007 at a turning point in Eskom's history. Our report includes a comprehensive view of operations and the audited financial statements for Eskom Holdings Limited and the group. An even fuller report is available on the Eskom website (www.eskom.co.za/annreport07).

Eskom already touches the lives of most South Africans and will continue to do so in support of government's objective of universal access to electricity by 2012.

This report explains how we run our business and gives the story of the key investments and the capacity expansion programmes that are necessary to ensure we are able to meet the growing demand for electricity.

Exciting innovations are outlined such as the growing use of new technology – putting Eskom at the leading edge of global developments – and our contribution to major national infrastructure projects. At the same time, we acknowledge the technical challenges and the power constraints we face as we strive to meet the needs of today's high-growth South Africa.

The directors are proud of the efforts being made by the organisation and the people of Eskom. Much more needs to be done in the years to come. The work up to 2007 has laid good foundations. We need to build on them with energy, urgency and creativity.

Performance

Eskom put in a sound financial and technical performance and delivered on its social commitments while taking due care to manage any environmental impact. Despite a significant effort, our safety performance remains a major area of concern especially with regard to the increase in contractor and public safety incidents. Refer to page 67.

The appraisal of key business risks was updated and mitigation strategies were put in place. Refer to page 31.

Scope

This report reflects the Eskom group performance as well as the company results and includes relevant statutory information, with particular reference to:

- the Public Finance Management Act, 1 of 1999 (PFMA), as amended
- the Companies Act, 61 of 1973, as amended

In the process of managing its business, Eskom balances technical, social and environmental factors. Our report applies good governance practice with transparent and relevant disclosure to all stakeholders. Refer to page 172.

Compliance with legislation

Eskom has complied in all material respects with the provisions of the PFMA, Companies Act and other applicable legislation.

SUSTAINABILITY

Eskom's sustainability strategy was developed in 2004 to integrate the organisation's economic, social and environmental goals and ensure the evolution of good practice. A new sustainability[1] vision was outlined in the 2006 annual report. Sustainability in the Eskom context emphasises the need to include economic development, environmental quality and social equity in our business practices.

1. *Eskom uses the term sustainability and sustainable development interchangeably.*

Picture caption
Manie Groenewald and Michael Madlopa at the switchgear room at Komati power station.

In addition to these three pillars of sustainable development, the strategy also covers cross-cutting issues such as:

- technical issues including plant performance and long-term health
- safety
- quality
- skills development
- integrated risk management
- research and development (an important component of the sustainability strategy as the research programme stretches across all areas)

The strategy is continually revised in line with changes in the environment and business circumstances. Our planning process models various scenarios with different environmental, sustainability and climate change implications to ensure robust decision making. Various Eskom strategies build on the sustainability strategy, including climate change, energy efficiency and renewable energy.

Meeting the sustainability challenge means maintaining a balance. Eskom subscribes to the principle of integrated decision making and conducts comparative evaluations to balance the trade-offs that characterise the sustainability challenge.

Energy diversification is a key challenge given South Africa's abundant coal resources. Over the next five years, Eskom has aspirations to reduce the amount of coal in the primary energy mix by 10% with further reductions after that.

Sustainability performance

A sustainability performance index is used to determine Eskom's long-term sustainability status.

The overall performance is considered sustainable if the score is equal to or greater than three on a five-point scale. Overall performance for the reporting period was 3,0 (2006: 3,4) with sector scores as follows:

> technical	3,5 (2006: 3,9)
> economic	3,2 (2006: 3,6)
> environmental	2,6 (2006: 3,0)
> social	2,6 (2006: 3,0)

Performance declined as a result of the reduced reserve margin and generation availability, lower energy efficiency and the unacceptably high number of fatalities. Areas that performed well included customer service, productivity and economic profit.

To ensure continual improvement, Eskom benchmarks its sustainability performance. In 2005, benchmarking against the JSE's Socially Responsible Investment (SRI) index indicated a score meriting SRI inclusion (had Eskom been a listed company) and one comparable to the top SRI performers in the high environmental impact category. The criteria establish a benchmark for integrating the triple bottom line into business activities and provide stakeholders with a unique tool to assess company performance.

We will continue to benchmark our sustainability performance against recognised indices.

Refer to www.eskom.co.za/annreport07/002 for further information regarding sustainability

INTEGRATED RISK MANAGEMENT

The integrated risk management (IRM) process is embedded in the organisation. Risks and opportunities are reviewed to clarify

Picture caption
Komati power station, commissioned in the 1960s, is now being brought back to service.

Directors' report continued

the potential impact on the business. Risk mitigation measures and controls are then designed to reduce the probability, frequency or impact of any event, while establishing accountability for specific areas of risk.

IRM expertise within Eskom is growing and internal training continues to enhance the process. Each division and main subsidiary has a risk coordinator. The IRM corporate office communicates down the line through the coordinators while operational feedback is channelled through the coordinators to the corporate office and the board.

Major risk values have been defined in terms of monetary costs, likelihood and impact. This helps Eskom decide which risks should receive priority. Risk tolerances have been assessed. Risk appetite parameters for each functional risk area are now being defined.

Risk reviews are conducted twice a year and are informed by input from line and functional areas. Risks identified and ranked by divisions and subsidiaries are reviewed and then assessed by Exco, the risk management committee and the board to determine the major risks.

Major risks and mitigation

Major risks – 2007	Risk mitigation	Page
1. **Short-term coal supply**	> constant interaction with stakeholders to reserve coal deposits for electricity generation > development of rail infrastructure to serve Tutuka and Majuba power stations > increasing mining efficiencies from existing coal mines and contracting supplementary coal resources	39 – 40
2. **Plant performance and network reliability**	> enhanced maintenance management, awareness of potential areas of system constraint and business continuity and emergency planning > technical audits and incident investigations to identify and assess the effectiveness of mitigating measures > focus on pro-active stakeholder communication	36 – 39
3. **Policy clarity in the energy sector is required to ensure alignment**	> participated in the formation of a forum of executives in energy in January 2007 with the main focus on collective responsibility for the provision of electricity and to put a mechanism in place to unblock bottlenecks > discussions on the integrated electricity plan held with the Department of Minerals and Energy, Department of Public Enterprises, National Energy Regulator of South Africa (Nersa), Department of Environmental Affairs and Tourism to clarify – accountability for the national energy plan – strategy to meet energy needs and develop it into a plan – fuel choices – processes to address bottlenecks specifically related to environmental impact assessments and mining authorisations	

Major risks – 2007	Risk mitigation	Page
4. Regulatory issues and in particular: > treatment of primary energy costs (pass-through) > multi-year-price-determination (MYPD) rules for the next period > clarity regarding MYPD rules and policies	> engaged key government stakeholders on Eskom's financial plan, highlighting the drivers for the significant price increases in the future > formal submission to Nersa including a request for a change in the rules of the current MYPD > established a focused team to develop a strategy around key principles on pass-through for primary energy and the reimbursement of accelerated capital expenditure	72 – 73
5. Capability of suppliers	> revised contracting strategies in light of the changing commercial and contracting market > changed the timing of land and servitude acquisition and the application of environmental impact assessments > identifying and integrating all key role players in the commercial process to improve effectiveness and efficiency	81
6. Availability of skills and staff turnover	> develop a comprehensive skills plan to clearly identify current and future skills requirements > assess and implement retention strategies for all critical skills > identify areas of vulnerability > develop short and long-term strategies which include national and international recruitment drives as well as scholarships and bursaries	62 – 64
7. Safety	> direct visible intervention by Exco members in safety campaign > established a safety committee which tracks all safety-related incidents, specific weaknesses and vulnerabilities > enhanced strategies in focus areas, which include contractors	67 – 70
8. Delays with record of decisions could impact capital expansion programme	> participated in the formation of a forum of executives in energy in January 2007 to take collective responsibility for the provision of electricity and to put a mechanism in place to unblock bottlenecks > developed a strategy to fast-track all processes related to the capital expansion programme (Refer to risks three and four above)	56
9. Negative perception of Eskom's ability to ensure security of supply	> focused communication on Eskom's operational performance > communicate pro-actively and transparently with Eskom's stakeholders on issues impacting them > established project Thekgo – a team to effectively coordinate and manage all emergency and business continuity matters	43 – 45, 181 – 184
10. Economic sustainability: > strength of balance sheet > credit rating of Eskom	> engaged key government stakeholders on Eskom's financial plan, highlighting the key drivers of the plan > formal submission to Nersa included a request to change the rules of the current MYPD > internal efficiency initiatives eg strategic sourcing in procurement and supply chain management (Refer to risks three and four above)	72 – 73, 34, 42 – 43, 81

Picture captions
1. A turbine component is being overhauled by Kobus Hoffman at Komati power station.
2. Safety is a major priority at every Eskom site.

Eskom

Directors' report continued

Mitigation strategies are reviewed regularly by senior management and presented to the board risk management committee for discussion.

Eskom is to widen its three-year risk window to a 10-year horizon and beyond. Eskom's IRM risk radar is already on the alert for global warming and sustainable development issues.

ELECTRICITY DISTRIBUTION INDUSTRY RESTRUCTURING

In October 2006 cabinet approved the proposal to create six regional electricity distributors (REDs). These REDs are to be established as public entities. The Electricity Distribution Industry Holdings (Pty) Limited is the project company responsible for implementing government's restructuring policy. The REDs will be accountable to the Department of Minerals and Energy.

The critical next steps include the finalisation of outstanding policy issues and the drafting of enabling legislation. Eskom continued its engagement with various stakeholders as part of this process.

PERFORMANCE IN TERMS OF THE SHAREHOLDER COMPACT

An overview of business performance against the shareholder compact key performance indicators is shown in the table on page 35. Refer to page 174 for more information on the shareholder compact.

ENSURING RELIABLE ELECTRICITY SUPPLY

RELIABILITY AND AVAILABILITY

A reliable electricity supply is a prerequisite for stability and prosperity and it is Eskom's task to ensure that it can supply sufficient power to meet rising demand. Government's plan for 6% economic growth includes investments by energy-intensive industries. Continued pressure on supply is therefore inevitable.

Ever-increasing demand for electricity in an expanding economy has brought the era of excess capacity to an end. Eskom's net generating reserve margin is lower than the internationally accepted range of 15% to 18%. Our power stations are aging. In many cases refurbishment is necessary to extend their economically useful lives. Continuing high load factors at the stations (required to meet demand) put severe stress on all parts of the plant as they are frequently required to operate outside initial design parameters. These loads require a high level of planned maintenance.

To meet these challenges, the previously approved R97 billion capacity expansion programme budget covering the five years to 2011 has now been revised. One year on, the budget has been increased to R150 billion and covers the five years to 2012.

The return to service of previously mothballed stations and the commissioning of two new open cycle gas turbines will increase generating capacity in the short term, enabling Eskom to keep pace with growing demand. However, Eskom will only be able to build up its reserve margins to acceptable levels when new base-load stations are completed. Construction of such large items of infrastructure requires a long lead time. Eskom will therefore have to manage a system with tight reserve margins for the next four to five years.

We have mobilised a team to drive mitigation and response actions in this environment. The team will work to a rolling 18-month plan, assessing risks to the system with special focus on seasonal peaks and the steps needed to manage deficits. They will consider both supply and demand-side options.

Why the countrywide power shortage in January 2007?

In January a combination of factors meant Eskom could not at times meet the electricity demand. High load factors and wear on aging plant made it necessary to take some generating units out

of service for essential maintenance. This increased the pressure on the remaining capacity. Countrywide load shedding became necessary to ensure the stability of the national electricity grid.

A peak demand of 30 277MW was forecast for the week of 15 January 2007, for which there was adequate available system capacity of 32 670MW, despite the large-scale planned maintenance of generation units that traditionally takes place in the summer.

That week, however, severe interruptions were experienced in many parts of South Africa through an unfortunate series of events: extraordinary levels of unplanned maintenance and repairs to 16 generating units at eight power stations were necessary, combined with the national electricity demand that exceeded anticipated levels.

Performance in terms of the shareholder compact

Key performance area	Key performance indicator	Unit of measure	**Target 2007**	**Actual 2007**	Actual 2006	Comment	Page
Maintain capital and financial efficiency	• economic operating profit	Rm	**≥ 7 173**	**9 834**	9 433	Exceeded	
Invest in infrastructure	• generation capital expenditure[1]	Rm	**≥ 6 058**	**7 056**	2 304	Exceeded	
	• transmission capital expenditure[2]	Rm	**≥ 1 000**	**1 170**	530	Exceeded	
	• generation capacity installed and commissioned	MW	**≥ 1 041**	**1 360[3]**	190	Exceeded	
	• transmission lines installed	km	**≥ 410**	**430[4]**	237	Exceeded	
	• transmission MVA installed	MVA	**≥ 500**	**1 000[5]**	1 090	Exceeded	
	• distribution capital expenditure	Rm	**≥ 2 888**	**3 430**	2 755	Exceeded	
Maintain operating efficiency and effectiveness	• major incidents (system minutes lost)	number	**≤ 1**	**2**	5	Not achieved	37
	– severity degree one (>1 but less than 10) – severity degree two (>10 but less than 100) – severity degree three (>100)	number number number	**≤ 1** **≤ 0** **≤ 0**	**1** **1** **0**	3 2 0		
	• system minutes lost (<1 system minute)	number	**≤ 3,90**	**3,67**	3,59	Exceeded	37
	• unplanned capability loss factor	%	**≤ 4,50**	**4,30**	4,60	Exceeded	
	• system average interruption duration index	hours per annum	**≤ 52,80**	**51,40**	48,50	Exceeded	38
	• operating cost per megawatt hour (before embedded derivatives)	R/MWh	**≤ 167,26**	**160,90**	142,50	Exceeded	
Focus on skills development	• Eskom trainees and bursars	number	**≥ 4 000**	**5 136**	2 163	Exceeded	62

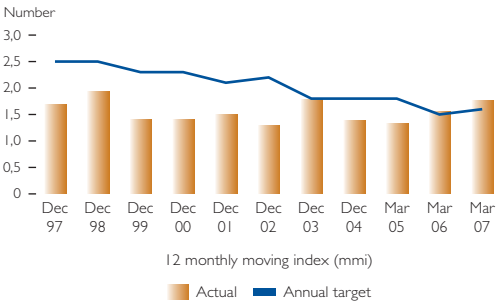
1. Spent by capital expansion department on behalf of Generation division.
2. Spent by capital expansion department on behalf of Transmission division.
3. Reflects the conservative nominal capacity installed which may differ from the official capacity.
4. Includes lines installed but not yet in commercial operation.
5. Includes transformers installed but not yet in commercial operation.

Picture captions
1. Many South Africans in rural areas are enjoying electricity for the first time.
2. The Johannesburg skyline is lit up by another form of energy.

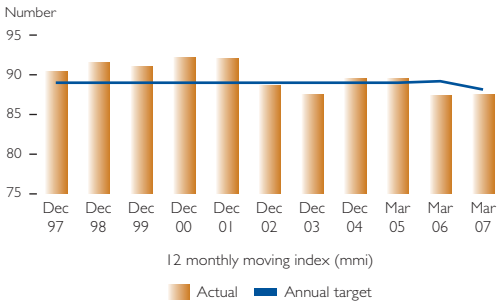
Eskom

Directors' report continued

Unplanned automatic grid separations per 7 000 operating hours – generating systems



Energy availability factor – generating systems



Common ground

There is an umbilical cord that binds Eskom with virtually every South African to whom it is accountable and responsible. Its fine commitment to go beyond compliance in its activities must be reflected in its engagement with its stakeholders. It has much ground to make up to overcome the stakeholder doubt and mistrust that has been created in the past few years.

David Shandler

Director, Common Ground, a stakeholder engagement consultancy

After implementing various contingency measures, there was still a shortfall and national control had no option but to instruct distribution control centres to implement manual load shedding.

Power interruptions began at 08:00 on 18 January 2007 and peaked at 11:00. Eskom restored bulk supplies by 16:40 as generation units returned to service. Eskom systems allow power interruptions to be spread among customers, resulting in downtime of only two hours each. Many of Eskom's municipal customers do not have such systems and therefore switch off their entire network, which resulted in longer power outages.

The quality of supply was maintained during this period with a system frequency of 49,8Hz.

Many customers were inconvenienced. Eskom apologises for the disruption and assures South Africa that steps are being taken over the short, medium and longer terms to maintain the supply of reliable electricity.

Refer to www.eskom.co.za/annreport07/003 for more information regarding the power shortages.

Technical performance

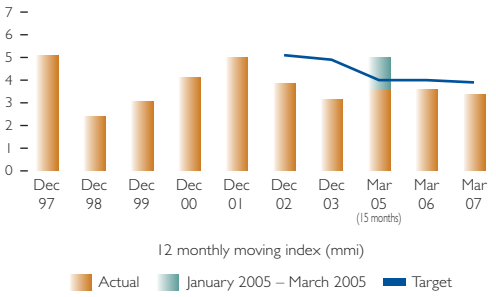
Operational sustainability index

The operational sustainability index reflects overall technical performance, balancing low-cost production of electricity with sustainable long-term reliability. The index helps management to optimise Eskom's long-term technical operations in a smooth and sustainable manner.

The index, a 12-month moving average, combines 21 (2006: 20) weighted indicators. The number was increased to include a forecasting accuracy measure for the Distribution and the Key Sales and Customer Service divisions.

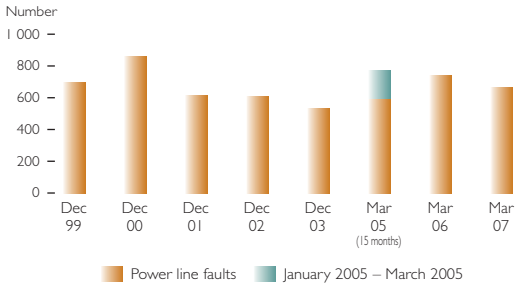
The operational sustainability index score was 86,0% in 2007 (2006: 87,5%) against a minimum threshold of 80,0%. The decline in plant health and nuclear performance in the Generation division, the number of major incidents and voltage regulation in the Transmission division and Eskom's safety performance were reasons for not achieving a higher score.

System minutes for incidents with a severity of less than one system minute



No targets were set for system minutes <1 before 2002. Large interruption events (all individual events ≥1 system minute) are reported separately from 2002 to ensure that trends in the underlying performance of the system are understood.

Power line faults



Divisional plant performance

Indicator	Description of indicator	Unit of measure	**Target 2007**	**Actual 2007**	Actual 2006	Comments
Generation plant performance						
Unit capability factor (UCF)	Plant availability provides an indication of how well the plant is operated and maintained	%	**≥ 89,20**	**88,60**	88,70	Not achieved due to a higher number of planned and unplanned outages
Energy availability factor	Plant availability (UCF above), plus energy losses not under the control of plant management (external), and internal non-engineering constraints	%	**≥ 88,20**	**87,50**	87,40	Not achieved primarily due to the low UCF (see above) and the operation of Koeberg power station at low power for an extended period, as the refuelling outage of unit 2 was delayed until the damaged unit 1 was recommissioned in June 2006
Unplanned automatic grid separations	Reliability of service provided to the electrical grid, and the number of supply interruptions per operating period (7 000 hours on average)	number	**≤ 1,60**	**1,76**	1,55	Not achieved – influenced by the mid-life refurbishments at power stations and interruptions from Camden while recommissioning the previously mothballed power station
Transmission system performance						
Number of interruptions	Interruptions affecting the continuity of supply	number	**≤ 40**	**28**	38	Exceeded – this represents the best performance since 1998
System minutes lost	Total number of system minutes lost (for incidents less than one system minute)	number of system minutes	**≤ 3,90**	**3,67**	3,59	Exceeded – an improved last quarter enabled system minutes less than one minute to come in under target
Major incidents	Records major incidents with a severity greater than one system minute	number	**≤ 1**	**2**	5	Not achieved – two major incidents recorded: > 1,24 system minutes lost due to a sustained line fault > 40,48 system minutes on 18 January 2007 as a result of generation shortages and a higher than expected demand for electricity
Number of line faults per 100km	Total number of line faults per 100km of transmission line	number	**≤ 606**	**671**	740[1]	Not achieved – an improvement in the number of line faults when compared to 2006

1. The number of line faults for 2006 changed from 748 to 740 after investigations revealed that faults experienced within a week of year-end were due to other equipment failure.

Directors' report continued

Divisional plant performance

Indicator	Description of indicator	Unit of measure	**Target 2007**	**Actual 2007**	Actual 2006	Comments
Distribution system performance						
Quality of supply measures:						
Regulation[1]	Waveform quality of supply index	%	**≥ 97,00**	**99,00**	99,00	Exceeded – deviations from normal supply voltage and frequencies are under control
Unbalance[2]		%	**≥ 97,00**	**99,50**	99,50	
Harmonics[3]		%	**≥ 98,00**	**98,90**	100,00	
Type X dips[4]	Disturbance quality of supply index	%	**≤ 54,00**	**30,50**	38,00	Exceeded – faults and breaker operations at the various voltage levels are under control
Type S dips[4]		%	**≤ 52,00**	**18,90**	27,60	
Type T dips[4]		%	**≤ 52,00**	**28,70**	27,00	
Type Z dips[4]		%	**≤ 52,00**	**24,40**	30,10	
Network interruption measures:						
Distribution supply loss index (DSLI)	Transformer unavailability index	minutes per month	**≤ 5,10**	**9,10**	9,66	Not achieved – reflective of load-shedding interruptions
Reticulation supply loss index (RSLI)	Transformer unavailability index	hours per annum	**≤ 1,60**	**1,95**	1,73	Not achieved – reflective of load-shedding interruptions
SAIFI (system average interruption frequency index)	Reliability of supply index	number per annum	**≤ 27,30**	**25,20**	28,40	Exceeded – inclusive of load-shedding interruptions
SAIDI (system average interruption duration index)	Availability of supply index	hours per annum	**≤ 52,80**	**51,40**	48,50	Exceeded – inclusive of load-shedding interruptions

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

Refer to www.eskom.co.za/annreport07/004 for more information on the distribution performance measures.

MAINTENANCE AND REFURBISHMENT

Timely maintenance and refurbishment are critical at Eskom. Events during the year demonstrated that when over-extended plant fails, the pressure on remaining capacity intensifies and increases the risk of power outages in the short term.

Generation

Maintenance and refurbishment strategies are translated into annually reviewed life-of-plant plans for each power station. These short- to long-term plans focus on sustaining and improving current and future reliability and availability of plant and incorporate specific strategies to address the challenges posed by obsolescence and aging of critical plant items.

Increasing electricity demand and reduced generating capacity margins have resulted in Eskom's generating units experiencing dramatically increasing load factors. The consequential effects of higher load factors are continually reviewed and appropriate responses built into revised life-of-plant plans.

Technical failures are analysed in detail by specialists with assistance from original equipment manufacturers and maintenance partners to highlight and mitigate technical, human and organisational factors while simultaneously sharpening the focus on quality assurance.

Transmission

The transmission grid is being expanded and strengthened to address growth in demand, to integrate new power stations into the network and to establish or strengthen infrastructure to cater for new customers.

Transmission completed 95,6% of all planned and unplanned maintenance work for the year (2006: 97,0%). Maintenance work is sometimes delayed when it is not practical to take plant out of service due to network constraints, mostly in the Western Cape and Mpumalanga provinces. In some cases maintenance had to be postponed due to limited availability of specialised high-voltage maintenance skills.

Re-insulation projects are continuing in the Western Cape to counteract the effects of conductive fog conditions, where abnormal pollution conditions from veld fires combine with fog, leading to insulator flashovers on lines and at substations. This project will span some years as re-insulation is only performed in conjunction with other maintenance when plant has been taken out of service.

Distribution

Operational network maintenance projects focus on maintaining or improving network availability and reliability. Refurbishment projects focus on older networks to extend their life cycle and optimise operating costs. In addition, strengthening projects focus on network capacity expansion to address growth in demand.

USE OF PRIMARY RESOURCES

Eskom continues to review its fuel supply options and plant operating methodology to reduce costs and improve efficiency and flexibility.

Coal

Eskom has long-term coal supply contracts with mines to ensure a continuous supply of coal to power stations. Short- and medium-term coal supply contracts are entered into to meet production requirements above that which can be provided for by the long-term contracts. Coal procurement has continued to be problematic

Picture captions
1. The power line networks span some 359 854km across the country.
2. Drilling machines are used to drill holes for blasting on the Medupi power station site near Lephalale.

Directors' report continued

due to under-production at the tied[1] collieries, availability of coal of the correct quality from short-term supplies and transportation of increased quantities of coal by road. This has led to a significant increase in the cost of coal compared to budget, and the previous year.

The cost of coal varies, depending on its quality (calorific value, moisture and ash content), the complexities of mining the coal and the related transport costs. The production costs of power stations vary according to the cost of the coal they burn. To contain costs, Eskom tries where possible to limit the use of the more expensive power stations. The production mix is also impacted by those power station units that are out of service for planned and unplanned maintenance.

Technical problems at Koeberg and other power stations, combined with an increase in the demand for electricity, affected the production mix, resulting in an increase in electricity production by the more expensive power stations.

Eskom continues to support black economic empowerment (BEE) coal-mining initiatives when buying coal and uses BEE hauliers for the transport of coal.

Coal purchases from most of the long-term supply agreements were below target due to technical constraints and under-performance by some collieries. Purchases under short- and medium-term coal contracts were below target due to the shortage of coal suppliers caused by the delay in the issuing of mining licences. The high electricity demand and lower-than-budgeted coal deliveries resulted in a fall in coal stocks to well below target levels.

Transport of coal by rail improved significantly compared with 2006, while transport by road remained problematic. Road and rail transport are used to move coal from sources other than tied collieries.

The construction of the Ermelo-Majuba railway line has been approved by the Minister of Public Enterprises, with completion expected by the end of 2011. Until then, coal will continue to be transported by road and the general freight railway line.

The condition of provincial and national roads used by trucks transporting coal to Eskom power stations continued to deteriorate during the period. Where necessary, Eskom has repaired damaged roads to maintain coal supplies. A study of the impact of coal trucks on the strategic coal transportation routes will be shared with the appropriate road authorities.

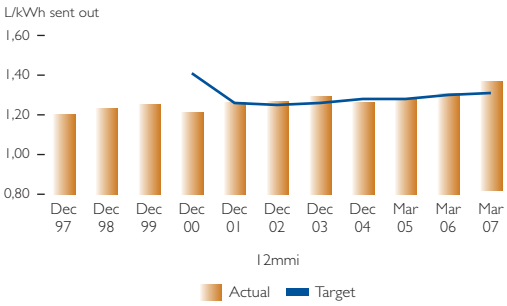
Coal burnt and coal purchased

	Target 2007 Mt	Actual 2007 Mt	Actual 2006 Mt
Coal burnt	**115,30**	**119,11**	112,10
Coal purchased	**120,10**	**117,40**	111,70
Black economic empowerment coal purchases	**n/a[2]**	**29,20**	26,20

1. Collieries with a long-term continuous supply contract with a power station.
2. BEE is monitored with a monetary target.

Picture captions
1. The coal conveyor that runs to Kendal power station.
2. A typical smoke stack is usually more than 200 metres high.

Specific water consumption



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

Water

Eskom is a large consumer of fresh water, accounting for about 1,9% of South Africa's annual water consumption. Power stations use raw water from government water schemes, although mine water accounts for some of the intake at the Lethabo and Tutuka power stations.

The overall target for water use in litres per kilowatt hour sent out is determined from a weighted average of individual power station targets based on the budgeted production plan. Each station sets its targets against historical performance and theoretical water consumption rates.

In the review period, water consumption rose due to:

> the outage at Koeberg power station, resulting in longer, more intensive operations at coal-fired stations
> lower than expected performance efficiency at some stations, partly due to their bigger workload

Eskom remains committed to the improved management of South Africa's scarce water resources.

Increased demand for electricity is expected to result in higher water consumption over the next five years. The new base-load thermal power stations are to use dry-cooled, water-efficient technology.

The assurance of an adequate water supply to power stations on the Mpumalanga highveld has been identified as a risk, as water demand (by Eskom and other consumers) is increasing and droughts may occur. In addition, the effect of climate change on the water balance poses a particular threat to water availability for power station operation (see climate change section on page 51).

The Vaal River eastern sub-system augmentation project by the Department of Water Affairs and Forestry (DWAF) should be completed by September 2008. This should provide long-term assurance of water supply to power stations on the Mpumalanga highveld. Eskom signed a 20-year water-supply agreement with DWAF to facilitate this scheme.

Eskom has initiated discussions with DWAF to augment the water supply from the Crocodile West-Marico Water Management Area to the Limpopo Water Management Area to provide water security to existing and future power stations in the Limpopo Province.

Eskom has been actively involved in the development of catchment management agencies and to date has participated in the development of the Inkomati, Usuthu to Mhlatuze, Breede and Limpopo agencies.

Refer to www.eskom.co.za/annreport07/005 for more information regarding water usage.

Water used in the production of electricity

	Unit of measure	**Actual 2007**	Actual 2006
Water used at Eskom power stations (including Koeberg)	ML	**313 064**	291 516
Electricity produced (including hydro and nuclear)	GWh	**232 443**	221 985
Specific water consumption	L/kWh sent out	**1,35**	1,32

Directors' report continued

169,8MW

verified sustainable DSM savings achieved

2006: 72,3MW

Nuclear fuel

Two government-authorised contracts for the supply of enriched uranium product were negotiated and signed in 2004. These contracts, along with fuel fabrication contracts concluded in 2002, ensure Koeberg power station's nuclear fuel supplies at competitive prices until the end of 2010.

ENERGY EFFICIENCY

On their own, currently planned capacity expansion initiatives are not expected to meet demand requirements in an optimal manner within the required timeframe. To get on top of the demand challenge, a comprehensive strategy is needed that incorporates both supply *and* demand management solutions.

To this end, an aggressive national demand-side management (DSM) programme will be undertaken that is intended to effect permanent reductions in demand by approximately 3 000MW by 2012 and a further 5 000MW in the subsequent 13 years to 2025. The programme's objective is to alleviate imminent supply constraints and obviate the need for more costly supply options that are currently under consideration. Eskom, ready to face the challenges head-on, will pursue energy-saving measures nationally.

South Africa is one of the few countries to set comprehensive targets for energy efficiency improvements. The Department of Minerals and Energy's energy efficiency strategy targets a final energy demand reduction of 12% by 2015, with the following proposed sectoral targets:

- 15% for industrial and mining
- 15% for power generation
- 15% for commercial and public buildings
- 10% for the residential sector
- 9% for the transport sector

In the global battle to preserve energy resources, DSM is an effective and cost-beneficial mechanism. As a provider of energy, Eskom commits itself to sustainable development through cost-effective resource use and efficient production, distribution and use of energy. In support of this commitment, we follow an integrated process to promote internal and external energy efficiency. Key elements are the externally focused DSM programme and our internal *Billion Kilowatt Hour Saving* project.

Energy efficiency rollout in the Western Cape

At the beginning of 2006, technical problems at Koeberg power station created severe capacity constraints and led to blackouts in the Western Cape. A key component in Eskom's response was to step up our demand-side management target to 400MW a day as efficient use of electricity was the best way to reduce local peak demand.

Eskom, in partnership with consumers, industry and key players in the Western Cape, achieved a phenomenal 500MW per day by June 2006 – a performance that can now be used as an international benchmark.

Eskom would like to thank all customers in the Western Cape for becoming part of the solution – and actively participating in the DSM programme. Refer to www.eskom.co.za/annreport07/006 for details of how the 500MW saving was achieved.

We have signed the National Business Initiative's Energy Efficiency Accord which requires a final energy demand reduction target for

Picture caption
The city of Cape Town is one of Eskom's key customers.

the industrial and mining sector as a whole of 15% by 2015 – this is in line with the above energy efficiency strategy for the same sector.

Demand-side management

The national DSM project funded by Nersa aims to obtain sustainable reductions of electricity demand at peak periods (07:00 – 10:00 and 18:00 – 21:00) by shifting load to off-peak periods and cutting overall electricity consumption through the installation of energy-efficient equipment and by optimising industrial processes. Sustainable DSM projects often combine both methods.

Nersa sets an annual target of 152,0MW sustainable savings for the evening peak. Eskom's DSM project achieved verified sustainable savings of 169,8MW (2006: 72,3MW) over the evening peak. A big contributor to these savings was the 100,2MW from compact fluorescent lamp lighting projects.

Western Cape power shortage

The effectiveness of demand-side management was demonstrated by the success of a special DSM campaign during the Western Cape power shortages in the winter of 2006. Savings of approximately 500MW a day were achieved. As it was a crisis-driven, short-term situation these savings are only partially sustainable.

Our internal energy efficiency drive

The objective of our *Billion Kilowatt Hour Saving Project* speaks for itself. We plan big savings through internal energy efficiency initiatives.

The project, driven by an extensive awareness and communications campaign, was launched in September 2006. We will carry out energy audits in our own facilities and power stations and identify opportunities to build energy efficiency into Eskom's operations.

The initial focus is non-technical; changing attitudes, perceptions and behaviour. At the same time we are investigating technically related savings; for example, designing new energy-efficient plant and equipment or retrofitting existing plant where it is economically feasible.

To date, 17,8 million kWh have been saved through three initiatives: Lethabo power station (lighting), Braamfontein offices (lighting) and our research building (lighting and air conditioning).

A regional energy efficiency programme has also been launched through the Southern African Power Pool.

Refer to www.eskom.co.za/annreport07/007 for more information on energy efficiency.

CUSTOMER SATISFACTION

Eskom's efficiency is important to South Africa's economic prosperity, transformation and sustainable development. By monitoring customer satisfaction, Eskom can plan pro-actively to ensure that it delivers the required quality of service at the appropriate time and price. Eskom uses a range of statistical perception surveys, conducted by an independent organisation, to measure customer satisfaction with service delivered.

Customer service index

The customer service index combines the results of two customer service perception surveys (Enhanced MaxiCare and CustomerCare) and four internal customer service measures. The index score at March 2007 was 87,09% (2006: 86,26%)[1] against a target of 83,29%.

1. Comparative years have been adjusted to the same weights and scales as targeted in the current year.

Picture caption
Eskom's demand-side management programme includes an intensive schools information campaign.

Directors' report continued

Customer service index	Target 2007 %	Actual 2007 %	Actual 2006[1] %
External customer perception surveys:			
– Enhanced MaxiCare	**≥ 87,55**	**93,85**	96,50
– CustomerCare	**≥ 79,00**	**83,47**	75,90
Internal performance measures:			
– Restoration time	**≥ 80,00**	**80,65**	81,02
– Minor projects quotations	**≥ 87,00**	**88,00**	90,00
– Minor projects connections	**≥ 87,00**	**91,00**	89,00
– Contact centre service level	**≥ 80,00**	**82,00**	81,50
Weighted customer service index	**≥ 83,29**	**87,09**	86,26

The weights and scales applied are reviewed annually and, where required, aligned to emphasise management priorities and decisions aimed at maintaining or improving customer satisfaction.

Enhanced MaxiCare[2] – total quality index

The total quality index summarises the Enhanced MaxiCare results and gives a broad indication of the quality of service delivered (sampled from all customers). The importance and perceived performance of individual service aspects measured are taken into account. The average index for Enhanced MaxiCare for all customer categories at March 2007 was 93,85% (2006: 96,50%)[1] against a target of 87,55%.

CustomerCare[3]

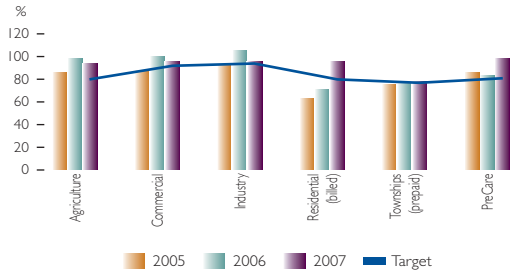
The CustomerCare survey measures the satisfaction of customers who phoned the contact centre during the previous week on a scale of 1 to 10, where 10 is excellent and 1 is very poor.

CustomerCare performance	Target 2007 %	Actual 2007 %	Actual 2006[1] %
Contact centre service delivery	**≥ 80,00**	**86,50**	82,70
Follow-up service delivery	**≥ 78,00**	**76,80**	64,90
Overall service delivery	**≥ 79,00**	**87,10**	80,10
CustomerCare	**≥ 79,00**	**83,47**	75,90

1. Comparative years have been adjusted to the same weights and scales as targeted in the current year.
2. Monthly survey where retail and newly electrified residential customers rate both importance and perceived performance on detailed service aspects where results are the total quality index percentage against importance.
3. Monthly survey where customers who have 'phoned the Eskom contact centre are asked to rate the various aspects of their experience on a scale of 1 to 10.

Picture caption
Construction started on the new coal-fired Medupi power station at Lephalale in May 2007.

Enhanced MaxiCare total quality index[1]



Eskom's customer relationship management system tracks and escalates customer queries for resolution. Key improvements were also achieved as a result of management focus and the training and motivation of front-line staff.

Call volumes answered by contact centres during the 12-month window increased to 3,21 million (2006: 2,83 million).

Restoration time

Restoration time is the percentage of customer outages that were restored within 7,5 hours of being reported. This is measured from the time the power outage is logged on the system until power is restored.

Unplanned outage restoration times influence the customer's perception of the technical response from Eskom. This indicator is a good measure of the commitment to customer service from the technical side of the business.

Minor project quotation and connection times

Minor describes the process followed by the project and does not reflect the amounts spent or the business impact. Under this process, Eskom connects about 25 000 billed and prepaid customers a year (excluding electrification projects and major customer projects).

The quotation indicator measures the percentage of quotations received by customers less than 30 days from the time of request.

The connection indicator measures the percentage of connections made less than 90 days from the time of quote acceptance.

Minor project quotation and connections are key areas as they are often the first impression the customer receives of Eskom.

Contact centre service level

This is the percentage of calls answered (by an agent) within 30 seconds. The world benchmark for the first quartile[2] is currently 80,00%.

Key customers and KeyCare[3]

The Key Sales and Customer Services division is the interface with major key customers and the division's regional trading partners. A key customer is any customer who uses a minimum of 100GWh of energy a year.

The KeyCare total quality index measures the satisfaction of approximately 120 key customers. An independent organisation conducts interviews with the general manager, and the engineering and accounting interfaces in the companies.

The KeyCare index performance was 105% (2006: 109%) against a target of 108%.

Refer to www.eskom.co.za/annreport07/008 for more detailed explanations of customer satisfaction measures.

1. Comparative years on the graph not adjusted for changes in weights and scales used in the current year.
2. The first quartile is a measure which represents the 12-month moving average for customer service level performance of comparable top-performing international utilities.
3. Monthly survey where key customers rate both importance and perceived performance on detailed service issues where results are the total quality index percentage against importance.

Directors' report continued

IMPACT ON THE ENVIRONMENT AND CLIMATE CHANGE

ENVIRONMENT

Our commitment is based on maximising the use of resources while managing our impact on the broader environment. Environmental management is an issue that cuts across all of Eskom's operations, and is integrated into our decision-making processes. The impact on the biophysical and social environment is managed through the application of policies, best practices and constant innovation with the objective of continual improvement. We measure our impact on a continual basis and have exceeded our targets in key areas such as particulate emissions.

The challenges we face include climate change and diversification of our energy mix, air quality, water usage, polychlorinated biphenyls (PCB) phase-out and land management.

Environmental performance

Environmental performance is assessed and measured through our four equally-weighted key performance indicators, reflected in the table below. These are used together with other environmental performance indicators within Eskom and relate to specific operational activities.

Our specific water consumption performance did not meet the target we set and was worse than in the previous year. This was

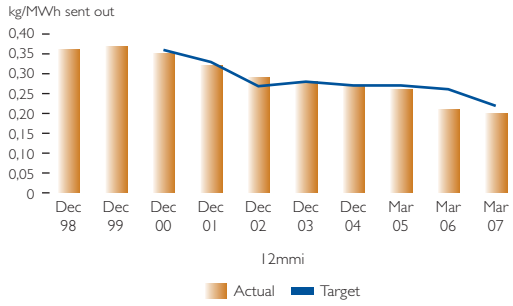
Environmental performance indicators

	Unit of measure	**Target 2007**	**Actual 2007**	Actual 2006	Comment
Relative particulate emissions[1,2]	kg/MWh sent out	**≤ 0,22**	**0,20**	0,21	Exceeded
Specific water consumption[3]	L/kWh sent out	**≤ 1,31**	**1,35**	1,32	Not achieved
Enhanced PreCare/MaxiCare – environmental component	score	**≥ 80,00**	**100,80**	101,06	Exceeded
Reported legal contraventions per the operational sustainability index[4]	number	**0**	**0**	1	Achieved
Other performance indicators:					
Radiation exposure, per annum	millisieverts	**≤ 0,25[5]**	**0,0034**	0,0049	Exceeded
Net raw water consumption	ML	**n/a**	**313 064**	291 516	Increased

1. Figures are calculated as a 12-month moving index.
2. Amount of ash emitted per unit of power sent out (excluding Camden power station).
3. Volume of water consumed per unit of power sent out by all generating stations.
4. Under certain conditions, contraventions of environmental legislation are classified in terms of the operational sustainability index. These include instances of censure by authorities, legal contraventions not reported to government, or where the contravention was not quickly rectified. Managing directors can escalate any significant contravention to Exco if deemed appropriate.
5. National Nuclear Regulator limit.

Picture caption
Thulani S Gcabashe, former chief executive, and Mark Read, chairman of the WWF, sign a memorandum of understanding to launch the Eskom/WWF Renewable Energy Research Fund in 2006.

Relative particulate emissions



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

mainly as a result of the outage at Koeberg nuclear power station (sea water used for cooling), resulting in increased demands on the coal-fired stations, together with poorer than expected performance efficiency at some power stations. Overall performance against the other environmental indicators was satisfactory.

Air quality

Eskom ensures that air quality issues are managed so that operational sustainability and growth are not compromised. The organisation must serve its mandate as a bulk electricity supplier within the ambit of air quality legislation and South Africa's commitment to multi-lateral environmental agreements.

Changes in South African law may lead to new gaseous emission limits being imposed on power stations. Eskom is reviewing its long-term air quality strategy to meet these challenges and taking measures to achieve ongoing improvements.

Refer to www.eskom.co.za/annreport07/009 for air quality performance graph.

Particulate emissions

Over the years, we have been criticised as a significant contributor to air quality degradation in South Africa. Some of this criticism is based on the sight of smoke coming out of Eskom's power stations.

The electrostatic precipitator designs that were deemed appropriate at the time of construction in the 1960s and 1970s are no longer considered to be sufficiently effective. After major improvement programmes, most stations now achieve clear[1] stack emissions.

The particulates emitted from coal-fired power plants, measured per unit of electricity sent out, show an improved performance of 0,20kg/MWh sent out (2006: 0,21kg/MWh sent out).

Arnot and Kriel power stations contributed most to the reduction. The Arnot bag-filter plant is performing well, though leaking bags occasionally lead to an increase in emissions. At Kriel, the rewiring of precipitators on three units has reduced emissions.

Eskom continually investigates new particulate control technologies and maintenance regimes to ensure the most practicable and cost-effective methods of emission control.

Refer to www.eskom.co.za/annreport07/010 for more detail on particulate emissions.

Gaseous emissions

Eskom calculates the annual amounts of oxides of nitrogen (NO_x), sulphur dioxide (SO_2) and carbon dioxide (CO_2) emitted from power stations based on the coal characteristics and power station design parameters.

Gaseous emissions

	Unit of measure	**2007**	2006
Nitrous oxide (N_2O)	kt	**2,73**	3,13
Carbon dioxide (CO_2)	Mt	**208,90**	203,70
Sulphur dioxide (SO_2)	kt	**1 875,70**	1 763,00
Nitrogen oxide (NO_x) as NO_2	kt	**929,90**	877,00

1. Particulate emissions of 50g/Sm³ or below.

Directors' report continued

Atmospheric pollution by industry, including the power-generating sector, is a major concern. Only by covering all possible air pollution sources can regional planning be carried out to promote better air quality. Data from continued monitoring are vital for future strategic planning.

Eskom runs an ambient air quality monitoring and modelling programme at sites around the country to define general air quality and emissions associated with Eskom. Ambient air quality data gathered over 20 years have enabled extensive modelling of the dispersion of air emissions. Impact studies have also been undertaken, including a wet and dry deposition monitoring programme, both within South Africa and in neighbouring countries.

The installation of emission control technologies such as flue-gas desulphurisation is now being considered for new power plants. Such decisions will be based on legislative requirements and scientific studies and recommendations.

Refer to www.eskom.co.za/annreport07/011 for more detail on gaseous emissions.

Waste

Eskom supports the government's plan to reform existing waste management legislation and we commented on the draft National Environment Management: Waste Management Bill in 2006.

We report on various waste streams, ranging from domestic waste, garden refuse, building rubble, metals, fluorescent tubes, and healthcare waste. Metals, paper and printer cartridges are recycled where feasible. For example, at Eskom head office, 198 tons (2006: 182 tons) of paper were recycled.

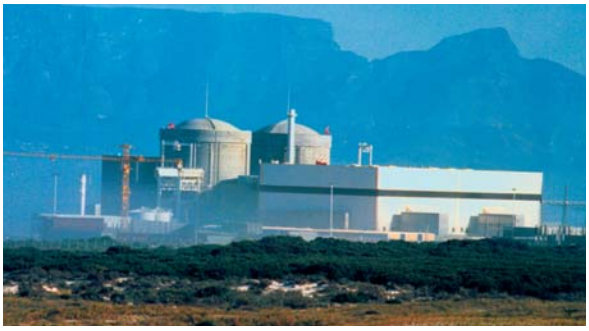
Polychlorinated biphenyls (PCB)

In line with the Stockholm Convention, Eskom is committed to the phasing out of PCBs by 2025. Over the past 12 years, Eskom has implemented stringent management practices relating to PCBs. These cover the handling, storage, testing and labelling of PCB-contaminated equipment, the compilation of inventories and the development of phase-out plans that meet the requirements of the Stockholm Convention.

PCB research on an alternative non-thermal destruction method aims to establish the most cost-effective and technically viable PCB de-chlorination technology.

Waste disposal

	Unit of measure	**2007**	2006
Materials containing asbestos	t	**6 060**	6 655
Polychlorinated biphenyls	t	**10**	243
Low-level radioactive waste (Koeberg), steel drums	m^3	**79**	91
Intermediate-level radioactive waste (Koeberg), concrete drums	m^3	**36**	52
Ash (approximate)	Mt	**34**	33



Ash

Of the approximately 34 million tons of coal ash produced at Eskom's coal-fired power stations over the 12-month period, 6,3% (2006: 5,4%) was recycled. Ash from Lethabo, Matla, Kendal and Majuba power stations is used in the production of cement. It is anticipated that the demand for ash may continue to increase as Eskom continues to receive requests to supply ash to industry as a raw material for manufacturing purposes.

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.

Nuclear

The year-on-year change in the quantities of radioactive waste (Koeberg) is dependent on the number of outages and refuelling during the period. Low- and intermediate-level radioactive waste from Koeberg power station is sealed in steel drums and concrete containers, respectively. Low-level and intermediate-level radioactive waste is disposed of at the Vaalputs National Radioactive Waste Repository – a near-surface disposal site for radioactive waste, licensed by the National Nuclear Regulator and operated by the South African Nuclear Energy Corporation (Necsa). All spent fuel (high-level waste) is stored within the power station.

Land and biodiversity

Eskom is committed to the sustainable use and maintenance of land and to the management of tracts of land to off-set land impacted by our activities. In the case of the Ingula pumped storage scheme, this is achieved through a partnership.

Every effort is made to reduce the impact of power lines and other infrastructure on biodiversity, especially on birds. This is partially achieved through the strategic partnership between Eskom and the Endangered Wildlife Trust (EWT). Wildlife interactions are a key performance indicator in the distribution area.

Working with partners

For more than a decade Eskom has entered into partnerships with non-governmental organisations (NGOs) to develop and implement programmes that promote sustainable development, especially in the field of environmental management and conservation.

Eskom and Endangered Wildlife Trust strategic partnership

The strategic partnership between Eskom and the EWT, a non-governmental organisation committed to the conservation of endangered species was established in 1996 to manage wildlife interactions.

The Braamhoek partnership

A partnership was established between Eskom, BirdLife South Africa and the Middelpunt Wetland Trust to rehabilitate and conserve a sensitive wetland and associated biodiversity adjacent to the site where the new Ingula pumped storage scheme is being built in the Drakensberg.

Ekangala Grassland Project

The Ekangala Grassland Project, a partnership between Eskom and the World Wildlife Fund, aims to conserve a million hectares of high-altitude grassland that transcends Mpumalanga, KwaZulu-Natal and the Free State provinces. It is an important water catchment area for Eskom, and is home to more than 100 plant, 12 bird, six

Picture captions
1. A view of Ankerlig power station from the high voltage yard.
2. Koeberg is currently Africa's only nuclear power station.

Directors' report continued

mammal and two butterfly species unique to the area. The project also receives operational support from other organisations.

Refer to www.eskom.co.za/annreport07/012 for more detail on partnerships.

Environmental legislation

Eskom is subject to environmental laws and regulations. Compliance with environmental legislation is monitored, audited and reported as an Eskom performance indicator. A key control is the need for authorisations, permits and licences for construction of facilities, particulate-emission releases and water usage.

Compliance with legislation is built into Eskom policies, procedures and standards. Legal compliance audits are conducted by operational divisions.

Environmental performance, including contraventions of environmental legislation, is reported monthly to the Eskom environmental liaison committee. In 2007, 52 (2006: 55) legal contraventions were reported. These are investigated to determine the environmental impact and the need for mitigation. Thereafter corrective and preventative action is taken and lessons learnt communicated to other relevant parts of the business.

Refer to www.eskom.co.za/annreport07/013 for more information about environmental contraventions.

Environmental expenditure

During the period, R616 million (2006: R339 million) was spent on capital projects and R362 million (2006: R354 million) on operational environmental activities. The significant increase in capital expenditure is related to our capital expansion programme.

Endangered Wildlife Trust

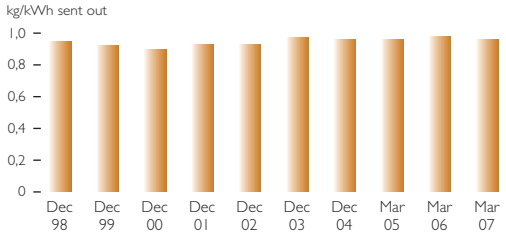
The Endangered Wildlife Trust believes in the power of partnerships as the basis on which problems can be turned into challenges and obstacles into opportunities. Our partnership with Eskom epitomises this thinking and, throughout the years, our collaborative efforts have achieved significant environmental, economic and social returns for both parties. The unique partnership developed by Eskom and the EWT is particularly suited to an African environment, where economic resources are scarce, social pressures are significant and the potential for negative interactions between wildlife and powerline infrastructures are vast, with severe economic and environmental consequences. The EWT is therefore proud to be working with Eskom to reduce these impacts and to be continually working towards developing innovative methodologies which support reduced impact, harmonious co-existence and sustainable living for all.

Yolan Friedmann
CEO: Endangered Wildlife Trust
Programme Manager: Conservation Breeding Specialist Group (SSC/IUCN)

Most expenditure in the Generation division was on air quality management at coal-fired power stations, water management, rehabilitation at coal mines and expenditure on the Eskom capacity expansion programme. Expenditure by the Distribution and Transmission divisions focused on environmental impact assessments for power line and substation construction projects, sewage management, rehabilitation of land and control of vegetation.

Picture caption
Martial eagles use the Eskom power lines for breeding. (Courtesy of Chris van Rooyen, EWT).

Relative carbon dioxide (CO_2) emissions



Environmental management systems

Eskom's safety, health and environmental policy commits the organisation to excellence in all these areas and assures employees, contractors, visitors, stakeholders and the public that we will conduct our business in a caring and responsible manner. An environmental management system is in place to ensure legal compliance, reduce risk, demonstrate due diligence and monitor environmental performance. The objective is continual improvement.

During the reporting period, internal audits were undertaken in several areas related to environmental management. These included: management of hazardous materials, vegetation management, environmental management system ISO 14001: 2004 standard, environmental legal compliance, and environmental impact assessments. Good practices were noted in vegetation management. A number of findings was made related to compliance with environmental conditions at project sites, the management of hazardous materials and the implementation of environmental management systems that conform to the ISO 14000: 2004 standard.

Certification to the ISO 14001 standard continues to be implemented in Eskom, with the following divisions and subsidiaries certified:

- Corporate divisions – corporate sustainability
- Transmission division
- Eskom Enterprises (Pty) Limited
  - Rotek Industries (Pty) Limited
  - Roshcon (Pty) Limited
  - PTM division

Corporate technical audit was restructured, resulting in a change in scope of their management system. This now requires re-certification.

Internal and external management system audits indicate that most power stations and distribution regions were found to be conforming to the ISO 14001:2004 standard.

Refer to www.eskom.co.za/annreport07/014 for details of Eskom's occupational hygiene, safety and environmental policy.

CLIMATE CHANGE

Climate change is no longer regarded as a theory, but a fact. Producing and distributing electricity has environmental consequences that must be managed to ensure sustainable development. Urgent action is required and Eskom is determined to play its part and is committed to accelerating efforts to address these challenges.

Eskom's response to climate change is multifaceted and encompasses strategies to reduce emissions as well as adapt to the impacts of a changing climate, including:

- short- to medium-term initiatives focused on *energy efficiency*. Eskom has led the way with our internal energy efficiency programme, together with working with our consumers to reduce their demand and thus reduce all emissions, including carbon emissions. This programme will build on existing successes to significantly reduce future emissions through a nation-wide deployment
- *adaptation measures* including the consideration of dry cooling on our new power stations thus reducing water consumption by approximately 90%

Directors' report continued

289kt

CO_2 emissions savings achieved from DSM programme

2006: 271kt

> the *diversification of our energy mix* is a medium- to long-term initiative, which will result in significant cuts in emissions. An increase in the nuclear component together with more extensive deployment of renewable energy resources will form the basis for long-term cuts in our greenhouse gas emissions

Carbon dioxide (CO_2) emissions

Eskom tracks and monitors our greenhouse gas emissions and we will continue to improve the accuracy and reporting of our greenhouse gas footprint.

Emissions have been increasing over the last decade due to the dominance of coal in our energy mix and increasing demand for electricity. In the last year measures to reduce emissions have included the demand-side management programme (refer to page 43). The programme has achieved a CO_2 emissions saving of 289kt (2006: 271kt). The climate change strategy has, and will further mobilise, CO_2 reduction mechanisms to combat climate change.

Our climate change strategy

Although no current restrictions apply to Eskom's greenhouse gas emissions, a comprehensive range of voluntary climate change initiatives has been pro-actively developed. Our climate change strategy, as approved by the board, proposes immediate and longer term (post-2012) action to reduce these emissions and adapt to the negative impacts of climate change. The strategy ensures that climate change considerations are included in investment decisions; for example, taking into account future carbon prices.

Our strategy was peer-reviewed in 2006 by an internationally respected company and was judged to be an above-average plan for addressing climate change, even when compared to utilities in developed countries. As the dynamics of the climate change debate is constantly evolving, continual update and revision of our strategy will take place.

Adaptation strategy

Adaptation is the process by which countries and industries cope with the consequences of climate change. Coping mechanisms are of special importance to Eskom as extreme weather events severely affect the performance of wet-cooled power stations, transmission and distribution infrastructure, line and thermal efficiency and the operation of hydro-electric plant. The effect of changing rainfall patterns poses a particular threat to water availability for power station operation.

Adaptation issues such as water availability often involve trade-offs. For example, technology to deal with reducing water use for power generation, such as dry-cooling technology, results in a loss of the plant's efficiency which in turn leads to higher greenhouse gas emissions.

Mitigation and diversification

We have begun this process by seeking efficiency improvements in the use of electricity. Savings will grow as the accelerated demand-side management programme is rolled out in the years ahead and the aims of the internal Eskom energy efficiency programme are realised.

We are committed to diversifying our energy mix, though we recognise that South Africa will be dependent on coal for the foreseeable future. Diversification therefore entails a long-term effort to harness a variety of new and existing technologies. To remain alert to opportunity, Eskom is developing technology

Picture caption
An historic grave will be preserved on the site of the new Ingula pumped storage scheme.

roadmaps that identify new technologies and predict when they will be ready for implementation. The coal technology roadmap was the first of the roadmaps to be initiated.

Diversification of the primary energy mix is especially challenging when the existing energy mix is 88% coal. South Africa has an abundance of low-cost coal, which means reliable and inexpensive supplies are at hand. On the face of it, this facilitates Eskom's mandate of providing South Africa with affordable and reliable electricity. Yet Eskom also has a duty to manage environmental impacts and a responsibility to combat climate change.

We announced our intention to begin diversifying our primary energy mix (using less coal) five years ago. In this regard, we are in the process of constructing open cycle gas turbines at Atlantis and Mossel Bay, of which 1 029MW will be commissioned by mid-2007. In addition, we plan to build a 100MW wind facility in the near future, pending licensing approvals, and we will soon upgrade the Gariep hydro-electric power station (80MW). Feasibility studies continue with regard to other renewable energy and gas plant initiatives.

Gas-fired generation and renewable energy options make important contributions to the reduction of CO_2 emissions, especially at peak periods, but these options cannot meet the base-load demand that is currently met by coal. This does not mean we are shackled to the status quo. In the next 10 years, Eskom intends to significantly increase the nuclear component of the energy mix as well as accelerate the deployment of renewable energy technologies and progressively harness cleaner coal technologies. Our nuclear technologies will also play an important role in achieving diversification of our energy mix away from coal, which will positively contribute to the reduction of greenhouse gas emissions. We envisage the commissioning of approximately 1 600MW of renewable energy (refer to page 58). Our new base-load coal-fired power station, Medupi, will have super-critical boilers with higher thermal efficiencies than our current plants.

Refer to www.eskom.co.za/annreport07/015 for new developments and climate change scenarios.

Participation in policy development

We have been active in the climate change policy arena for over a decade. Progress has admittedly been slow, but momentum is building. Eskom actively participates in various national and international initiatives, including the Combat Climate Change (3C) initiative. This business leaders' initiative aims to form a global opinion group consisting of companies that demonstrate leadership by demanding an integration of climate issues into the world of markets and trade.

We also actively participate in the World Business Council for Sustainable Development (WBCSD) and the International Emissions Trading Association (IETA). Eskom is the co-chairman of the Electricity Utilities workgroup under the WBCSD, an important platform that allows Eskom to talk to its industry peers.

In South Africa, we are members of the National Committee on Climate Change and also participate in various business initiatives.

Market-based mechanisms

We remain optimistic about the role of market-based mechanisms in stimulating much-needed investment and technology transfer in developing countries. For this reason, Eskom continues to support the clean development mechanism (CDM). However, an

Picture caption
The Klipheuwel wind farm near Cape Town forms part of Eskom's renewable energy mix.

Directors' report continued

important aspect for business is more certainty in the carbon-trading market after 2012.

We continually appraise projects for CDM potential and last year we determined the emission factor for our electricity grid, using the methodologies specified by the CDM's executive board. Eskom has undertaken to give project developers information relevant to this calculation. In accordance with the CDM-approved consolidated methodology we have calculated the carbon emission factor. This information[1] can be found in the sustainable development section of our website (www.eskom.co.za).

Partnerships and engagement

Our engagement in numerous climate change initiatives shows our determination to shape the agenda for a future climate change regime that is pragmatic and at the same time results in sustainable communities. These include the partnership with the World Wildlife Fund of South Africa to stimulate research into the renewable energy industry (refer page 58) and the partnership to stimulate energy efficiency through the signing of the South African National Business Initiative's energy efficiency accord.

PROVIDING ELECTRICITY FOR GROWTH

THE SUPPLY CHALLENGE

Additional generating and transmission capacity has to be urgently constructed to meet rising electricity demand across South Africa's growing economy. The previously approved R97 billion capacity expansion programme budget until 2011 has now been revised. One year on, the budget has been increased to R150 billion and covers the five years to 2012.

The new budget, approved by the board and our shareholder, is designed to meet the challenges of electricity reliability and availability and is now aligned with government's target of a 6% GDP growth between 2010 and 2014. In terms of the revised plan, Eskom will now deliver an additional 22 000MW by 2017.

What led to the current shortfall?

It was envisaged in terms of the DME White Paper on Energy Policy of South Africa that independent power producers would build new power stations. In line with this strategy, Eskom put on hold plans to construct any new generating plant between 2000 and 2004. However, no private sector investment in generating plant took place. In 2004 the issue was reviewed by cabinet and Eskom was then given the go-ahead to expand its capacity. We acted swiftly; returning a number of mothballed power stations to service, building new transmission lines and accelerating the development of pumped storage schemes. Construction started immediately on a number of open cycle gas turbines. As a result of these efforts, 1 991MW of capacity is being added to the grid to meet peak demand in the winter of 2007.

The process of deciding what needs to be built, when and where is described below.

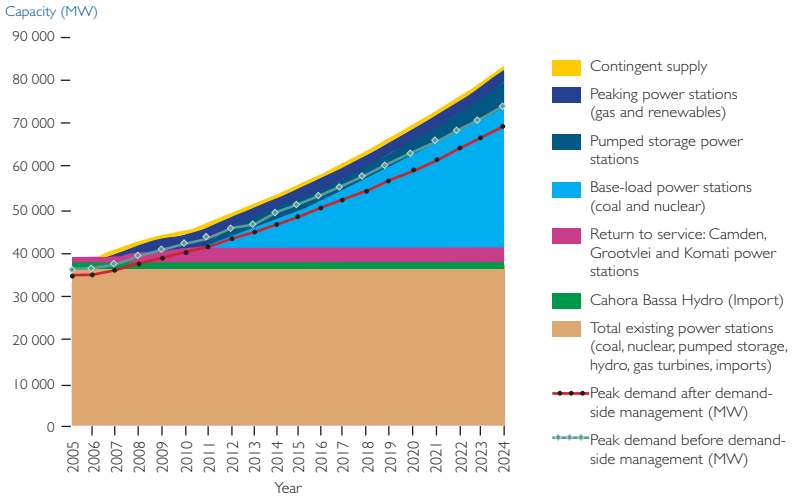
Mandate for new generating capacity

Eskom's electricity planning and decision making supports government policy and planning and conforms to legislative requirements.

With energy planning and control falling within the mandate of the Department of Minerals and Energy (DME), the Minister of Minerals

1. There is a difference between the CDM carbon emission factor and the figures we reported. Our annual figure reflects carbon dioxide emissions calculated from the tons of coal burnt indexed to energy sold for the total Eskom system. The CDM calculation excludes certain plants such as hydro-electric stations.

Timeframe for new capacity outlook



and Energy is responsible for the governance of the energy industry. This, however, is subject to the requirements of, among others, the Department of Environmental Affairs and Tourism and the provisions of the National Environmental Management Act (Nema).

Refer to www.eskom.co.za/annreport07/017 for further information about the DME Energy White Paper.

Integrated Strategic Electricity Planning

Integrated Strategic Electricity Planning (Isep) is the process by which Eskom forecasts the scenarios for growth in electricity demand over the next 20 years and evaluates the alternative means to meet and manage that demand. The planning provides economically and environmentally acceptable options for flexible and timely decision making, considering Eskom's and our shareholder's objectives and taking into account available energy reserves and renewable energy potential.

While the major energy source will remain coal, Eskom plans to reduce coal's current 88% share of the primary energy mix by 10% by 2012, and hopes to reduce coal's share to 70% by 2025. A much higher proportion of nuclear is envisaged (17% – 28%) by 2025, while additional renewable energy options will be pursued. Pumped storage and gas-fired stations (open cycle and combined cycle) will be established to the extent required for peak supply considerations, while electricity imports from neighbouring countries (to a maximum of the reserve margin) will also be negotiated.

Capital investment decisions

Investment decisions need to consider the impact of a project (both positive and negative) on economic development, environmental quality and social equity. Eskom has adopted a multi-criteria, decision-making approach which quantifies all financial and non-financial elements at every step in the lifecycle of a project. As the project progresses, the assessments become more rigorous and complex.

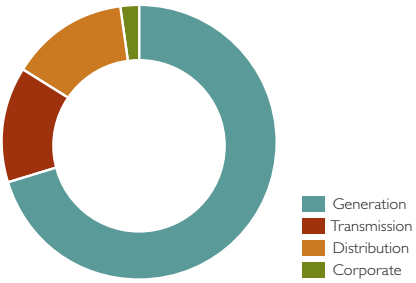
The following sustainable development challenges are considered in these decisions:

- supply chain management needs to secure supply while competing globally for skills, supplier capacity, materials and finance taking into account the global expansion in infrastructure projects – this while realising objectives in respect of cost, quality and capability development
- the escalating cost of primary energy such as coal, oil and gas
- the availability and quality of water (a limited resource in South Africa)
- the need for Eskom to contribute to the Accelerated and Shared Growth Initiative for South Africa (Asgisa) by enabling an accelerated economic growth rate and promoting second economy development
- increasing environmental performance expectations, including climate change response strategies, energy efficiency, air quality and water management
- environmental impact assessments and their uncertain timelines
- optimising the energy mix – the move towards energy diversification, particularly nuclear and renewables
- access to capital and the ability to raise sufficient funds at favourable rates
- regulatory approval of cost-reflective tariffs
- intensified demand-side management and energy efficiency, including the encouragement of self-generation initiatives by industry, and the purchase of surplus electricity from these schemes

Refer to www.eskom.co.za/annreport07/018 for information regarding the state of the global electricity industry.

Directors' report continued

Capital expenditure allocation



Environmental impact assessment process

Eskom has always prided itself on its environmental planning and management and initiated environmental impact assessments (EIAs) before they were legislated in South Africa; using them as an essential tool in the design of projects and informing long-term environmental management plans.

EIAs continue to play a critical role in providing information to inform investment decisions. Eskom and South Africa still benefit from the EIA work undertaken for plants such as the Matimba coal-fired power station, the Drakensberg pumped storage scheme and the Koeberg nuclear power station.

Eskom is involved in many EIAs for a range of developments. Each of these requires exhaustive public participation processes and close liaison with provincial and national environmental authorities. The EIA process introduces uncertainty to project lead times, as public appeals, the review of decisions and other legal challenges can stretch EIA timelines.

Refer to www.eskom.co.za/annreport07/019 for information on environmental impact assessments.

How the R150 billion will be spent

The allocation of the R150 billion is detailed below:

Generation projects

> the previously mothballed Camden, Komati and Grootvlei power stations (combined total of 3 800MW)
- Camden 1 580MW[1] – one unit commissioned in 2006 (190MW) and four units in 2007 (772MW). The remaining 600MW is planned to be commissioned by March 2008
- Grootvlei 1 200MW – the first unit (200MW) to be commissioned at the end of 2007, with the balance to be commissioned by October 2009
- Komati 961MW – due to be fully commissioned by 2011

Eskom Holdings capital expenditure – real 2006 (Rm)

	2008	2009	2010	2011	2012	Total	%
Generation	15 753	19 819	23 572	23 476	22 981	105 601	70
Transmission	3 228	6 130	5 273	3 803	1 954	20 388	14
Distribution	3 806	4 340	4 582	4 096	4 229	21 053	14
Corporate	813	699	753	460	480	3 205	2
Total	23 600	30 988	34 180	31 835	29 644	150 247	100

Electrification costs funded by the DME are excluded from this capital expenditure plan.

1. The capacity of certain units at Camden power station has been downrated in April 2007.

- construction of two open cycle gas turbine stations:
  - Ankerlig at Atlantis near Cape Town (nine units)
  - Gourikwa at Mossel Bay, south of Port Elizabeth (five units)

  The two stations have a combined total of 2 053MW (14 units), to be completed in two phases. Of these, three units (441MW) were commissioned at Ankerlig and one unit (146MW) at Gourikwa in 2007, with full capacity expected to be commissioned by 2008
- upgrade and refurbishment of the Arnot power station (300MW by 2010)
- construction of Medupi power station, a dry-cooled thermal base-load power station in Lephalale, Limpopo Province (six units totalling 4 500MW by 2015)
- construction of the Ingula pumped storage power station near Ladysmith in KwaZulu-Natal (four units totalling 1 332MW by 2012)
- commenced planning for another base-load station and a pumped storage scheme – business cases have to be presented for board approval
- commenced planning and approval process for the next nuclear power station, wind facility and concentrating solar plant

Transmission projects

- continue the strengthening of the transmission system into the Cape (expected completion in 2007)
- strengthening the Cape 765kV network – approximately 1 500km of 765kV line and various new substations and substation extensions (expected completion in 2009)
- strengthening the transmission network to the Coega industrial development zone near Port Elizabeth (expected completion in 2009)

Middelpunt Wetland Trust

Middelpunt Wetland Trust (MWT) exists to conserve one of Africa's least understood and most threatened birds, the White-winged flufftail. As a partner of the Braamhoek Partnership from inception, MWT feels privileged to have been able to participate in what has proved to be a wonderful example of what can be achieved through co-operation between a massive organisation such as Eskom, a leading conservation NGO, BirdLife South Africa and a tiny, voluntary trust such as MWT. We have seen that resources, skills, experience and commitment from all three organisations can be leveraged effectively to the benefit of the environment in the immediate locality of Braamhoek, nationally in South Africa and even as far afield as Ethiopia. We would hope that this partnership will serve as a role model for other projects where such dissimilar groups can work together for the benefit of the environment.

Malcolm Drummond
Director Middelpunt Wetland Trust

- the construction of a 765kV line (200km) from Majuba power station near Volksrust to KwaZulu-Natal (expected completion in 2009)

Picture captions
1. *The National Control staff ensure that enough electricity is distributed countrywide to meet the demand.*
2. *Palmiet Visitor Centre near Grabouw in the Western Cape.*

Directors' report continued

R203 million

invested in research programmes

2006: R174 million

> strengthening Johannesburg north to cater for load growth including the high-speed Gautrain (expected completion in 2009)
> integrating the new power stations with the transmission network

Refer to www.eskom.co.za/annreport07/020 for more information on transmission projects.

Distribution projects

Eskom continues to invest in its distribution network in all six regions to cater for the growth in demand and to ensure reliability and availability of the network.

RENEWABLE ENERGY

Our commitment, through the Eskom renewable energy strategy, is to increase the share of renewable energy in Eskom's energy mix. Our aspiration is to include 1 600MW of renewable energy in the mix by 2025.

Wind power

Pending the approvals and licensing processes, a decision has been taken to build a 100MW wind facility in the near future. The choice of location and technology to be used is based on information obtained from the pilot wind project run at Klipheuwel in the Western Cape from 2003 to 2006.

During that time, Klipheuwel pilot wind farm generated more than 12GWh of electricity, contributing to an avoidance of 11 000 tons of carbon dioxide. The three wind turbines operated at an average availability of 90%. The research phase of the project has been completed and this pilot wind farm is now commercially operated for its anticipated 20 year lifespan from 2006.

Klipheuwel wind energy demonstration facility

Eskom's wind energy pilot study was undertaken over the past three years at the Klipheuwel wind energy demonstration facility north of Cape Town. The objectives of this pilot programme were to measure the performance of the installed plant, identify issues that impact on the performance of the plant, and suggest mechanisms that could be applied to address these issues and to assess the techno-economic feasibility of various options – ultimately in an effort to optimise wind generation in South African conditions.

We found that the best production occurs during the *windy* summer months. The facility operates between 10% (winter) and up to 35% (summer) depending on wind availability. Most of the start-up problems were resolved and wind turbine availability has increased on average to around 90%, which is comparable to international levels. To date more than 12GWh of wind-powered electricity has been generated by the facility, injected at Klipheuwel substation. The pilot project provided Eskom with valuable information to assist in long-term decision making regarding renewable energy. The decision to build a 100MW wind facility was informed by this successful pilot demonstration. Refer to www.eskom.co.za/annreport07/021 for further information on the wind energy demonstration facility.

Solar energy

We are investigating the feasibility of a 100MW concentrating solar power plant in the Northern Cape. This technology enables

the storage of renewable energy for use during the evening peak demand. The prefeasibility study has been completed and a prototype heliostat, one of the key plant components, has been installed at our research and development facility. The EIA nears completion with all detailed studies and public participation completed. Discussions with technology partners have been initiated and a draft project plan has been completed.

Refer to www.eskom.co.za/annreport07/022 for more information on the concentrating solar power plant.

RESEARCH AND DEVELOPMENT

Research and development provides short-term consulting solutions to operational issues and longer-term answers to matters of a strategic nature. It provides strategic technical-planning input and direction to Eskom activities, detailed design, analysis and scientific and technical advice.

In the past financial year R203 million (2006: R174 million) was invested in research programmes with a projected return on investment of 4:1.

Our research programme is under constant review and the research programme for 2008 has been set out in the table below:

The allocation shows an increased focus on sustainable development and renewable resources while retaining a strong focus on generation performance and a reliable power delivery system, as well as demand-side management and energy-saving technologies.

Demonstration plants

Refer to www.eskom.co.za/annreport07/023 for more information on the demonstration plants.

Underground coal gasification

Eskom has successfully commissioned an underground coal gasification pilot plant next to Majuba power station, following extensive studies and test work that started in 2001. The underground coal gasification process uses a matrix of wells drilled into the coal bed. Air is injected and the coal is ignited underground, producing a synthetic gas, which is harvested and then used as a fuel for either boilers or turbines. Gas from the pilot plant was successfully flared in January 2007, demonstrating that the process works.

The technology promises a commercially competitive combustible gas, and has synergies with conventional mining, enabling mines to exploit coal reserves that could not normally be mined. This application is a first for Africa and the front-runner in terms of Eskom's research into clean coal technologies.

Percentage allocation of research funds

Area of research	Unit of measure	**2007 Actual**	2008 Planned
Ensuring reliable electricity	%	**34**	34
Impact on environment and climate change	%	**22**	27
Providing electricity for growth	%	**44**	39

Picture caption
Dr Steve Lennon, Managing director Resources and Strategy division, Mr Alec Erwin, Minister of Public Enterprises and Chief Executive Jacob Maroga launched the underground coal gasification project next to Majuba power station.

Directors' report continued

Plant monitor

The successful pilot test of the plant monitor will enable power station engineers to gain real-time critical information regarding the state of the generators and take pro-active steps to prevent unplanned supply interruptions to customers. Eskom has initiated a commercial process to purchase and install the system on all its generators.

Pebble bed modular reactor (PBMR)

Eskom remains on track to host the pilot for the PBMR subject to risk and cost limitations. Over the last year Eskom's focus has been on environmental and regulatory approvals for the demonstration plant. Discussions between Eskom and the PBMR company regarding the parameters that will apply at the demonstration plant are ongoing.

Research

Refer to www.eskom.co.za/annreport07/024 for more information on research projects.

Electro-catalytic research

Eskom anticipates that catalysis, nanotechnology, fuel cells and fuel conversion will play an important role in future power plant design and power-generating options. The development of the National Centre for Electrochemistry at the University of the Western Cape is a partnership success story.

The research conducted in the areas of gas-to-liquid conversion, proton conductors, electrocatalysis, electro-conductive membranes and nano-structures will assist greatly in the development of cleaner production technologies today and in the future.

Thermal efficiency – cooling water from deep ocean intakes

This application involves cooling water intake from 50m to 100m below the surface in the ocean, which offers thermal efficiency benefits for coastal power stations.

Renewable energy research

Eskom continues to invest considerable effort into research and development of renewable energy sources.

Ocean energy

The Agulhas current on the east coast of South Africa is one of the swiftest and most powerful in the world. Eskom, in partnership with Marine and Coastal Management, and Bayworld Centre for Research and Education, has continued with resource surveys on this current, as well as on wave energy. Results to date have proven the technical feasibility of extracting significant large-scale renewable energy from the current.

Rural energy solutions

Eskom's research programme continues to focus on developing energy solutions for rural communities. We are continuing to research biomass potential as feedstock for generation and rural energy solutions. Biomass power is energy contained in products such as sugar cane waste, wood waste and residues from short-rotation crops, such as straw.

OUR PEOPLE

HUMAN RESOURCES

The importance of talented, motivated and skilled people was highlighted as we experience growing pressures on capacity and a heightened customer service challenge. The pace of work on

Picture captions

1. *The Eskom-EWT partnership educates the public about their work to minimise bird and powerline interactions.*
2. *This is an example of the 10MW central receiver solar plant built in the USA (image courtesy of NREL).*

83,4%

scored on sustainability index (target 80,0%)

2006: 86,3%

the capacity expansion programme imposed great physical and planning challenges. In all cases, our people put in a tremendous performance and showed great ingenuity and fortitude.

We are becoming increasingly pro-active and innovative in placing even greater focus on talent acquisition, development and retention. Bold initiatives – such as our plan for an Eskom university – are being fast-tracked and the deployment of the human resources action centre fosters speedy decision making and consistency of implementation, while driving organisational change.

We are making the necessary human resources investments. Spending on training rose to R748 million (2006: R543 million) in the year to March 2007. The number of bursaries, learnerships and apprenticeships increased to 5 136 (2006: 2 163) and can be expected to continue increasing in the new year.

Improved communication and a spirit of cooperation continue to characterise our industrial relations environment and it is a point of pride that no man-hours were lost to strike action at Eskom in the period under review.

Human resources sustainability index

Human resources activities are measured against the human resources sustainability index (HRSI), which summarises performance across 17 human resources factors grouped into employee satisfaction, employee competence, equity and employee health and wellness categories. The HRSI is reviewed annually to ensure that all benchmarks are still relevant in a fast-changing industry.

In the period under review we scored 83,4% (2006: 86,3%) against a target of 80,0%. This is a satisfactory performance, indicating that our human resources interventions are largely relevant and generally meet the needs of our people and our organisation and that we, as an organisation, have a sustainable human resources model.

HR Action Centre

The HR Action Centre is a virtual body of experts accessible to executives in all divisions and regions. The aim of the action centre is to develop, coordinate and integrate specific short-term people management strategies and practices for the business.

The action centre focuses on leadership, resourcing, people management, reward and measurement. It drives a high-performance culture supported by appropriate rewards while emphasising the need to ensure the organisation has the right skills, at the right place, at the right time.

The HR Action Centre performed well in its first year of operation.

Refer to www.eskom.co.za/annreport07/025 for further information on the HR Action Centre and change management.

Change management (organisational effectiveness)

Cultural transformation is work in progress at Eskom. Broad buy-in has been achieved for the vision of Eskom as a high-performance organisation that is customer-driven, open and responsive and meets the needs and expectations of the communities it serves. The organisational effectiveness unit makes the management of change a day-by-day reality in every part of the business.

Directors' report continued

Skills and development

Skills acquisition

Significant growth in jobs is expected as Eskom embarks on its capital expansion programme. Critical to the success of Eskom's mission is its ability to attract and retain people with the requisite skills and experience.

Alignment of the Eskom business plan with its skills requirements is key. Demand and supply within each skill category are assessed, skills levels defined and timelines determined. This information is then fed into Eskom's resourcing strategy and workplace skills plan. Skills are prioritised into core, critical and scarce skills categories.

A combination of internal development, internal promotions, external pipelining (bursars), external recruitment and contracting forms part of Eskom's skills resourcing strategy. National and international recruitment drivers were conducted during the year. The primary international focus has been on South Africans living abroad.

The management of talent

Every Eskom activity is influenced by the organisation's talent strategy, talent management process and talent philosophy. The strategy states that as a world-class organisation Eskom seeks and demands the best. It has made a commitment to a culture of excellence and supports this with processes to attract, develop and retain talent.

Retention strategies are all-encompassing, ensuring all individuals have meaningful work and formalised development plans; that mentorship and coaching programmes are in place to effect skills transfer, and that the workplace environment is conducive to high performance.

Flexible benefits

A flexible benefits package was implemented for managerial and professional employees with effect from 1 May 2006. This approach gives employees choice in the structuring of their remuneration packages and will assist in attracting and retaining talent by giving employees flexibility.

Training and development

Eskom's expenditure on training rose significantly in support of its strategy of developing all employees while also contributing to skills transfer into the broader community through learnerships and apprenticeship programmes and further study grants. Skills development is driven by personal development plans that systematically enhance the competency of each staff member.

Learner pipeline in support of Asgisa

Eskom's development pipeline covers all categories of learners and they all form part of Eskom's skills development contribution to the Accelerated and Shared Growth Initiative for South Africa (Asgisa). Refer to page 84.

Projected additional core, critical and scarce skills requirements

	2008	2009	2010	2011	2012
Skills required (number)	1 431	1 240	1 111	1 042	1 369

Eskom training and learnerships

	Unit of measure	**Actual 2007**	Actual 2006
Total training costs	Rm	**747,7**	542,6
Learnerships:			
Bursaries and scholarships	number	**1 722**	872
Learnerships	number	**1 738**	757
Graduates and learners-in-training	number	**1 676**	534
Total learnerships	number	**5 136**	2 163

Learners include people not employed by Eskom, who are engaged in full-time learning, and incudes university bursars, bridging students, and unemployed people on learnerships, as well as Eskom employees on learnerships, engineers and graduates-in-training at Eskom.

Learnerships

Learnerships (structured learning programmes combined with practical work experience) enable learners to improve their skills for their own benefit and that of the organisation. This mechanism is used to develop our employees and also to provide opportunities for unemployed individuals with the potential to become Eskom employees or to be employed in the broader industry.

Bursaries and scholarships

Eskom is experiencing skills shortages in a number of categories, particularly artisans engineering, commercial and financial staff. Bursaries to support studies at universities and universities of technology are offered to talented young South Africans who would become future employees. In addition, scholarships are awarded to dependants of Eskom employees.

An additional 800 bursaries will be awarded in 2008. It is anticipated that this (in combination with other aspects of the skills acquisition strategy) will be sufficient to meet our skills supply needs over the next 10 years.

Learning@Eskom

Eskom's learning strategy is intended to develop employees to perform optimally in their current position, build an internal pipeline for future skills requirements and create career opportunities. This may include acquiring new skills as these evolve with the advancement of technology and changes in environmental factors. Succession management programmes have been established for critical and scarce skills categories. All focus areas are managed to promote a high-performing business culture.

Each employee is expected to have an individual development plan which is reviewed within the workplace skills planning cycle.

One Eskom university

In March 2007 Exco approved the concept of an Eskom university as an integrated approach to all Eskom learning activities to ensure

Picture captions
1. Grootvlei power station is covered in snow during the cold snap in June this year.
2. Precious Motha, coal contract supervisor at Majuba power station.

Eskom

Directors' report continued

that our skills requirements are met. This is aimed at improving the efficiency and effectiveness of learning initiatives and processes across the organisation. This university concept is now being urgently developed for rapid implementation. A learning council consisting of Eskom senior executives will oversee the university.

Vision E

Vision E is a transformational leadership development programme that explores Eskom's leadership culture, the competencies and behaviour that distinguish Eskom leaders. It is the first time *blended learning* (web-based delivery backed by classroom instruction) has

Eskom HIV and Aids supply chain programme

We are taking our comprehensive HIV and Aids strategy to the next level by reaching out to our suppliers. We have more than a thousand suppliers, some of whom have begun approaching us for support with HIV and Aids programmes.

In partnership with SABCOHA (South African Business Coalition on HIV and Aids), Eskom is implementing workplace programmes for all suppliers, using the SABCOHA HIV and Aids toolkit. The pilot project initially focuses on 40 Generation division suppliers.

We have committed to buying a thousand toolkits over three years. The first 400 were procured in 2005 at a cost of R1 300 per toolkit. The price includes the cost of coordination and service provision from SABCOHA.

The first phase was completed in May 2006. At that stage, most suppliers in the pilot project had the following in place:

> a policy or draft policy for an HIV and Aids workplace programme
> management that had undergone programme orientation and training
> HIV and Aids champions and a steering committee
> a workplace action plan for 2006 for HIV and Aids champions

Pilot key success factors

Suppliers have thanked Eskom for providing support for implementation of the toolkit, rather than simply buying the toolkits. Eskom's purchasing department – gatekeepers to the suppliers – was part of the process, ensuring future sustainability. Ongoing SABCOHA events provide a forum for suppliers to exchange experiences and follow new developments in the field of HIV and Aids.

Inclusion in the programme of the remaining suppliers will be based on learning from the pilot project. Eskom plans to include a thousand suppliers by the end of 2008.

Picture caption
Members of the Endangered Wildlife Trust rehabilitate an eagle's nest. (Courtesy of Chris van Rooyen, EWT).

50,5%

Voluntary counselling and testing (VCT) achieved

2006: 50,3%

been used by Eskom to assist in the development of its employees. The concept was initially developed in 2003 and by March 2007, 93% of all Eskom managers had completed the programme.

Refer to www.eskom.co.za/annreport07/026 for details of the Eskom learning institution, performance management and the employee assistance programme.

e-HR

The e-HR department was established in late 2006 to explore additional ways of applying appropriate technology to human resources processes. The initial focus has been on measurement of value realisation, alignment with business applications, selection and implementation of technology, controls and protocols.

Human resources shared services

By channelling human resources issues through one central point, line operations are freed to concentrate on their core function and competence.

All divisions except the Distribution division have now been integrated into the human resources shared services unit. The unit is responsible for all transactional human resources work and handles queries relating to pay, leave, sickness and employee benefits, to mention but a few.

Employee relations

No man-hours were lost to industrial action at Eskom during the period under review.

Good communication is a feature of the industrial relations environment, with direct employee communication with managers and professionals, and consultation in the bargaining unit through the Eskom recognised trade unions.

Various actions to spotlight unemployment and job losses were organised at regional level by the trade union federation Cosatu. Eskom concluded a two-year salary and conditions of service agreement with trade unions in 2005. The next round of negotiations began in May 2007.

Health and wellness

Eskom's comprehensive health and wellness programme encompasses HIV and Aids response strategies, psychosocial support, sports and recreation, biokinetics, spiritual wellness, occupational health and medicine, employee assistance, travel medicine and expatriate health (to support Eskom employees on international assignments) and health education and promotion.

Managing the impact of HIV and Aids

Eskom manages the impact of HIV and Aids through integrated response strategies to empower employees through knowledge, awareness and support while enhancing business sustainability. Special attention is given to voluntary counselling and testing (VCT), access to employee assistance programmes and to methods of prevention including male and female condoms. The HRSI standard is 50% of Eskom staff to have undergone voluntary counselling and testing for the review perod. This was achieved with a VCT level of 50,5% (50,3% in 2006).

Last year also saw the launch and formalisation of a support group run by Eskom employees living with HIV and Aids (ELWHA).

Directors' report continued

Employment equity

Eskom continues to be a leader in driving employment equity which has enabled us to achieve a staff complement that reflects South African diversity.

Employment equity

	Unit of measure	Target 2007	Actual 2007	Actual 2006
Company				
Race:				
– Black[1] staff at managerial[2] level	%	**61,1**	**63,0**	60,1
– Black staff at all levels	%	**n/a**	**71,8**	70,0
Gender:				
– Women at managerial level	%	**32,8**	**33,3**	31,8
– Women at all levels	%	**n/a**	**26,5**	24,7
People with disabilities	%	**2,9**	**2,8**	2,5
Internal promotions				
– Black staff at all levels	%	**n/a**	**76,5**	78,1
– Women at all levels	%	**n/a**	**36,8**	39,7
Eskom group[3]				
Race:				
– Black[1] staff at managerial[2] level	%	**61,1**	**62,5**	59,7
– Black staff at all levels	%	**n/a**	**71,0**	69,2
Gender:				
– Women at managerial level	%	**32,8**	**32,7**	31,2
– Women at all levels	%	**n/a**	**26,0**	24,5
People with disabilities	%	**2,9**	**2,7**	2,3
Internal promotions				
– Black staff at all levels	%	**n/a**	**75,9**	76,8
– Women at all levels	%	**n/a**	**35,9**	39,2

Refer to www.eskom.co.za/annreport07/027 for further information about employment equity and employee statistics.

1. Black, Asian and coloured South Africans.
2. Managers, professionals and supervisors – CU to F band on the Paterson grading.
3. Excludes subsidiaries classified as held-for-sale and the African subsidiaries.

SAFETY

Safety performance

We are committed to providing and maintaining a safe and healthy working environment for all our employees and contractors. Despite a significant effort, our occupational health and safety performance remains poor. Accidents are still happening and these not only affect our employees, but also contractors and members of the public. We deeply regret the tragic loss of lives.

Safety statistics

	Unit of measure	**Actual 2007**	Actual 2006
Work-related safety			
Total fatalities	number	**8**	10
Electrical contact fatalities	number	**4**	3
Vehicle accident fatalities	number	**3**	2
Other fatalities	number	**1**	5
Lost time incident rate including occupational diseases	index	**0,35**	0,40
Electrical contact injuries	number	**30**	25
Contractor safety			
Total contractor fatalities	number	**18**	13[1]
Electrical contact fatalities	number	**1**	5
Other fatalities	number	**17**	8[1]
Public safety			
Total public fatalities	number	**41**	34
Electrical contact fatalities	number	**27**	20
Other fatalities	number	**14**	14

Fatalities

There were eight employee fatalities during this financial year compared with 10 in 2006. Of the eight fatalities, four were attributed to electrical contact incidents, three to motor vehicle accidents and one to the effects of bee stings.

There were 18 contractor fatalities during this financial year compared with 13[1] in 2006. Six of these fatalities were attributed to vehicle accidents, three to falls, one to a falling object, four to burns, three to aircraft crashes and one to an electrical contact incident.

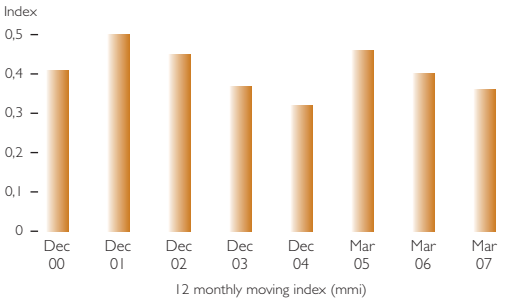
Public fatalities increased to 41 (2006: 34). These deaths were due to electrical contact incidents and vehicle accidents.

1. Adjusted to include a contractor fatality that was reported after finalisation of the 2006 annual report.

Picture captions
1. Ms Lindiwe Hendricks, former Minister of Minerals and Energy, and the winners from Ntokozweni Primary, at the 2006 eta Awards.
2. John Dean, project manager of Ankerlig power station.

Directors' report continued

Eskom lost-time incident rate



Lost-time incident rate (LTIR)

The progressive LTIR (previously called disabling injury incidence rate) is a proportional representation of the occurrence of lost-time incidents over 12 months. Eskom achieved a score of 0,35 (2006: 0,40) against a target of less than 0,39.

The downward LTIR trend is as a result of increased leadership visibility, learning from previous incidents, increased training of staff, the introduction of specific protective clothing and tools to reduce high-risk incidents, senior management safety walkabouts and more extensive reporting.

Safety focus areas

Switched on to safety excellence

In 2006 Eskom appointed DuPont Safety Resources, an internationally recognised safety consultancy, to perform a comprehensive safety review of its operations. The review process included site visits, document reviews and interviews with management and employees.

The focus of the review was on leadership in safety performance and a benchmarking of Eskom's current safety management systems and processes against global best practices. The results of the review highlighted the need to address Eskom's current safety culture; where gaps were identified regarding leadership, safety communications, line management commitment, and operational discipline.

We have completed a revision of our safety policy; constituted a central safety committee (chaired by the chief executive) conducted individual coaching sessions with senior leadership and held awareness workshops with line management across all divisions.

Eskom has formulated a plan to address the identified gaps and lay the foundation for the achievement of our goal of excellence in safety performance, which will be rolled out in due course.

DuPont safety resources

We are excited about our partnership with Eskom in their journey towards safety excellence. Although the safety challenges are many, given the scope of Eskom's operations, we believe that Eskom will improve their safety performance thanks to committed leaders, focused efforts and the will to protect each other.

DuPont Team

Exco commitment

The newly constituted Exco sustainability and safety subcommittee is a key mechanism for ensuring a more rigorous safety culture. The chief executive and managing directors visibly commit to safety management through site visits, the approval of plans to address overall safety performance and by adopting a policy of zero tolerance to any at-risk behaviour at Eskom sites.

Contractor forums have been established where managing directors clearly define Eskom's expectations to contractors regarding safety performance and management while working on Eskom sites.

Refer to www.eskom.co.za/annreport07/028 to see the safety, health and environment (SHE) policy and the safety cardinal rules.

Behavioural safety

A key element in addressing safety is the creation of an interdependent culture among employees, entrenching the belief that all injuries are preventable and that each one of us needs to take ownership of our own safety as well as that of our colleagues. In approaching this aspect we look at how our individual behaviours contribute to the safety performance of the organisation.

It is vital that leadership be visible in driving health and safety performance. Our current state of safety maturity relies heavily on the leadership role in delivering improved performance. Lead indicators were introduced to pro-actively measure the performance of the organisation. These indicators, when measured and monitored effectively, provide data to enable intervention to address negative trends before they result in injuries, damage or loss.

Refer to www.eskom.co.za/annreport07/029 for further information about behavioural safety, contractor and construction management, vehicle safety and emergency preparedness.

Safety communication

Eskom has embarked on a safety campaign that focuses on lessons learnt from incidents comprising both on-the-job and off-the-job safety. Monthly themes focus on the key risks that the organisation faces in terms of safety incidents. Various topics were chosen based on Eskom's major risks and information on these topics was shared with employees monthly in the form of presentations and safety tips.

A set of cardinal rules was developed around those activities which have caused fatalities and disabling injuries in Eskom. If employees break these rules disciplinary action may be taken against them. These cardinal rules have already been launched in some of the divisions. Divisions may include additional rules that address specific divisional safety risks.

Contractor and construction management

In terms of contractor management, Eskom's position is that all contractors on an Eskom site will be viewed in the same light as employees. In essence, this means that contractors working on our sites will adhere to all our occupational health, safety and environmental specifications and will be familiarised with our requirements via induction processes to ensure an injury- and incident-free environment.

Electrical and plant safety

Electrical contact incidents constitute one of the highest risks faced by the organisation. Injuries still occur even though our procedures are robust and in line with best practice. A project has been launched to capture in our training material the lessons learnt and to align these learnings with construction regulations. Electrical incidents can be prevented by assuming that all equipment is live and should be treated as such before any work is undertaken. The principle of *test before touch* has to be applied universally.

Occupational hygiene

An Eskom-approved inspection authority provides support for the asbestos management programmes at the *return to service* stations. The occupational hygiene laboratory service was established at Eskom's-research and innovation department as part of the Eskom-approved inspection authority function.

Occupational hygiene verifications are conducted at certain business units to evaluate whether the occupational hygiene

Picture caption
Excavation of the new tunnel at Ingula pumped storage scheme.

Directors' report continued

We will fund up to

R100 billion

in borrowings and R50 billion from own operations

programmes and personnel running these programmes are in compliance with the requirements of the Occupational Health and Safety Act. Occupational hygiene-specific audits were also conducted by Eskom's corporate technical audit department at most sites to identify areas of improvement or focus areas.

Vehicle safety

In view of the high number of accidents which occur annually, vehicle safety is an important focus area. Vehicle safety campaigns were conducted throughout the year, with greater emphasis around the Easter and December holidays. Eskom has decided that the hired and Eskom fleet vehicles its employees drive must be safe in all respects, having ABS brakes, airbags and air conditioners. All Eskom drivers are also required to undergo an evaluation of their driving ability. Advanced-driver training is encouraged.

Fire-risk management and emergency planning

Eskom takes a pro-active approach towards fire-risk management. The few fire-related incidents during the year were minor.

Ongoing maintenance of existing fire-risk management programmes at business units continued throughout the year. Evaluations were conducted at fire-fighting training facilities (Majuba and Koeberg power stations) and at an external service provider. Evaluations conducted by a third-party organisation relating to adequacy and best practice of fire protection systems and programmes within the Generation division also continued throughout the year.

Public safety

Public safety is another Eskom focus area. Most of the incidents in this area involve electrical contact and vehicle incidents. Safety campaigns to increase public awareness of safety used various media (television, radio, advertisements and billboards) and included school visits and the hand-out of safety-related items. The primary thrust was the need for improved awareness of electrical safety.

Nuclear safety

Overall nuclear safety performance as measured by the Institute of Nuclear Power Operators (Inpo) index, a composite index measuring both safety and performance, has shown improvement over the past year and is recovering from below-median performance. A World Association of Nuclear Operators peer review in November 2006 highlighted a number of strengths and areas for improvement. These areas as well as issues raised in reports by Eskom's nuclear safety inspectorate are being addressed through programmes to further improve Koeberg's safety performance. Periodic reviews will monitor the progress of these initiatives.

Refer to www.eskom.co.za/annreport07/030 for further information about nuclear safety.

OUR FINANCES

New capacity will cost significantly more than the combined book (depreciated) value of all Eskom's current power stations. It costs approximately R80 billion to build a new thermal base-load station with an output of about 4 500MW. Such a station will add about 10% to our installed capacity.

FUNDING

We will fund up to R100 billion of the five-year capital expenditure requirements by raising debt in the financial markets, both locally and internationally.

This was the first time in many years that Eskom had a significant funding requirement. In 2007, we issued R9,7 billion in various bonds to the local market. Most of these bonds were issued through the R65 billion domestic multi-term note programme which was listed with the Bond Exchange of South Africa (Besa) in March 2006.

To smooth the funding process, regular auctions were held. Where funds received were not immediately required, they were invested.

The ES33 (a 27,5-year bond first issued in March 2006) has reached critical mass and is now part of the Besa bond index. All ES33 auctions were over-subscribed and Eskom was able to reduce the spread from 33 to 13 basis points against the government benchmark R186.

In the last week of March 2007, Eskom issued its debut ES26 bond (R500 million). It has a 19-year maturity at inception. In the course of the next financial year, we expect to fund most of our needs with this bond. Together, the ES33 and ES26 have an authorised ceiling of R10 billion and a bullet payment on maturity. The focus has been on lengthening the duration of our debt profile to align with the long-term nature of our capital assets ie asset lives of up to 50 years. Net interest-bearing debt, of which new local issuance contributed R9,7 billion, increased by R4,1 billion during the course of the year. Eskom's bond turnover and issuance are the highest of all state-owned enterprises after government itself.

The offshore financing highlight of the year was the finalisation of a €114 million Euler Hermes Export Credit Agency – funding for German imported goods. This transaction, arranged by Deutsche Bank, was voted Global Trade Review Trade Finance deal of the year.

In addition, facilities with the European Investment Bank (€80 million) and Japanese Import Export Bank (¥30 billion) were negotiated.

Because of our growing investor base, it was decided to re-introduce an investor relationships team within the Treasury department to ensure that investors are kept informed of company activities.

Treasury risk management

As the build programme gains momentum, currency, liquidity and interest-rate risk become increasingly significant. Our debt profile in terms of capacity, tenor, pricing and hedging has become an area of intense focus.

The Treasury department reviews its board-approved mandate every year to ensure the parameters remain appropriate and do not exceed Eskom's appetite for risk. In determining the mandate, international best practice is observed and the increased risks arising from the build programme are evaluated.

The mandate defines exposure, interest rate sensitivity and duration limits. The Treasury department complied with all benchmarks during the financial year.

In addition to managing the credit quality of Eskom investments, the Treasury department is also the custodian of Eskom's own credit health. Eskom is committed to maintaining existing credit ratings. (These remained stable during the financial year.) To this end, Eskom models future investment scenarios and engages

Directors' report continued

stakeholders to ensure full commitment to Eskom's long-term financial health.

PRICING

Price regulation

Government's target of 6% GDP growth between 2012 and 2014 implies a 4% growth in electricity demand. To meet the company's future generating and infrastructure requirements, electricity prices will have to significantly exceed general inflation. Upward pressure on prices is caused primarily by the cost of new generating capacity and the increasing cost of primary energy (coal).

Present electricity prices are unsustainably low as they are based on Eskom's low depreciated asset base, which is valued at historical cost. There is a real need for Eskom's average electricity price to increase in the short term to reflect the increasing cost of supply as new generating capacity makes a bigger contribution to the overall energy mix. South Africa continues to remain the lowest industrial cost producer of electricity – some 74% lower than the nearest country, Canada[1], as disclosed in the NUS survey for April 2007.

Nersa pricing approval

In 2006, a multi-year, incentive-based method of adjusting prices was introduced by the National Energy Regulator of South Africa (Nersa), replacing the old annual rate-of-return methodology. The first multi-year price determination (MYPD) applies from 1 April 2006 to 31 March 2009, with prices to rise by CPIX[2] +1% (including an electricity distribution industry restructuring levy).

Eskom has completed the first year of the three-year MYPD. However, in the current financial year, Eskom updated its financial plan to reflect the step change in capital expenditure from R97 billion to R150 billion as well as significant increases in primary energy costs. As the MYPD restricts the rate of Eskom price rises until March 2009, we would not be able to recover prudent costs and earn a fair return during this period. The result would be a massive price increase in 2010 (the first year of the next MYPD cycle) as Eskom would be forced to make up the under-recovery under the first MYPD. Unfortunately, every year we delay a significant price increase, we make it inevitable that even steeper increases will have to be introduced in the years to come.

To cushion the impact of a major price increase in 2010, Eskom proposes to spread this increase over two years, beginning with the last year of the current MYPD. It proposes an increase of 18,0% in 2009 (CPIX[3] +13,5%) followed by a further rise of 17,0% in 2010 (CPIX+12,5%). Only Nersa can decide the price of electricity. Eskom is therefore engaging Nersa and other stakeholders on this issue. To approve our proposal, Nersa would have to change certain rules for the third year of the current MYPD. Eskom's formal submission for

Approved and proposed price increases:

Description	2006	**2007**	2008	2009	2010
Nersa-approved price increases	4,1%	**5,1%**	5,9%	6,2%	
Eskom-proposed increases				18,0%	17,0%

1. Disclosed in the NUS survey for April 2007. Refer page 10.
2. CPIX excludes mortgage bond interest rates from the basket of goods and services used to compile the consumer price index (CPI).
3. CPIX assumed at 4,5% in 2009 and 2010.

rule changes was made to Nersa on 30 April 2007. The rule change addresses primary energy as a pass-through cost and allowance is made for accelerated capital expenditure incurred in the year and not deferred to the next MYPD cycle. Nersa indicated that they intend to announce their decision on 20 December 2007.

Nersa clawback

Through the MYPD, Nersa predetermines revenue limits based on its fair rate-of-return calculations. In the 2007 financial year, Eskom over-recovered revenue from customers as it exceeded Nersa-sanctioned revenue levels for various reasons, including better-than-expected economic growth. Nersa will use these over-recoveries to reduce future price increases.

In terms of International Financial Reporting Standards, the clawback cannot be recognised as a charge to the income statement nor can the corresponding liability be raised. In terms of the MYPD rules Eskom has over-recovered R1,2 billion revenue from tariffs for the year to March 2007.

Stakeholders will obviously be concerned about the impact of higher electricity prices. However, if true economic costs are not passed on to consumers, alternative funding mechanisms will have to be pursued. The options are additional loan funding (which increases our gearing, thus making it more difficult to raise funds and increases the cost of borrowings) or an equity injection from government (funded by taxpayers).

An electricity tariff below the cost of supply could send the wrong signal to customers and undermine demand-side management efforts. This could result in a further increase in electricity demand, requiring the installation of further generation capacity at an even higher capital outlay.

We believe the needs of the poor are best addressed through specifically targeted subsidy mechanisms. This improves industry viability yet still helps those who need it.

Tariff restructuring

Eskom tariffs aim to be cost-reflective and transparent to support economic efficiency and sustainability while providing adequate revenue for reliable energy supply. We also consider customer needs which influence fair and equitable tariffs. These objectives were tested and aligned with international utility best practice that:

- ensure an unbundled and cost-based tariff structure
- provide incentives for efficient customer behaviour
- reduce costs through efficient investment

Eskom tariffs support both energy and capacity efficiency through time and seasonally differentiated energy rates. In addition, our cost-reflective network charges are intended to optimise the utilisation of networks. These principles will also support our demand-side management initiatives.

Where technology is available, and also through media awareness initiatives, customers are encouraged to promote energy efficiency by:

- consuming electricity during off-peak periods
- making efficient use of Eskom tariff signals that reward load shifting
- choosing optimal supply capacity
- efficient management of their operations

Eskom is in a process of finalising a residential time-of-use tariff called Homeflex which may soon be available to medium- and high-consumption residential customers (for example, households with geysers).

Refer to www.eskom.co.za/annreport07/031 for further information on tariff restructuring.

Picture caption
Oupa Tolo and Thandiswa Diko at the condition monitoring desk of National Control.

Directors' report continued

FINANCIAL PERFORMANCE

Income statement

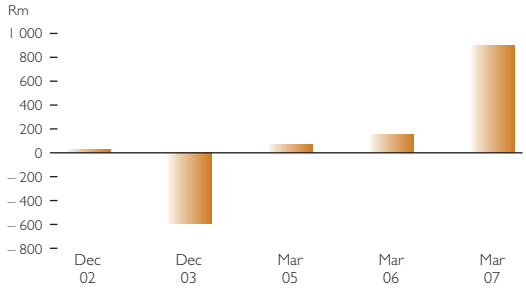
Group business performance for the year ended 31 March 2007:

	Eskom Holdings Rm	Eskom Enterprises Rm	Escap Rm	Gallium Rm	Inter-company Rm	Consoli-dated Rm
2007						
Revenue	**39 399**	**4 457**	**838**	**10**	**(4 636)**	**40 068**
Other income	1 418	16	159	–	(1 092)	501
Net fair value gain on embedded derivatives	4 101	174	–	–	–	4 275
Net fair value loss on other derivatives	(613)	–	–	–	–	(613)
Operating expenditure	(34 151)	(3 635)	(828)	97	5 251	(33 266)
Operating profit before net finance cost	**10 154**	**1 012**	**169**	**107**	**(477)**	**10 965**
Finance income	2 640	88	113	92	(185)	2 748
Finance cost	(4 387)	(9)	(15)	–	115	(4 296)
Share of profit of associates and joint ventures	–	25	–	–	16[1]	41
Profit before tax	**8 407**	**1 116**	**267**	**199**	**(531)**	**9 458**
Income tax expense	(2 399)	(219)	(81)	–	195	(2 504)
Profit for the year from continuing operations	**6 008**	**897**	**186**	**199**	**(336)**	**6 954**
Loss from discontinued operations	–	(57)	–	–	(443)	(500)
Profit for the year	**6 008**	**840**	**186**	**199**	**(779)**	**6 454**
2006						
Operating profit before net finance cost	8 964	145	77	256	(1 092)	8 350
Included in above is:						
Net fair value gain on embedded derivatives	1 417	(99)	–	–	–	1 318
Profit for the year	**5 070**	**180**	**116**	**341**	**(1 066)**	**4 641**

1. Represents since-acquisition profit for the year accounted for on consolidation.

Picture caption
The motor driving the turbine at Palmiet pumped storage scheme.

Eskom Enterprises net profit after tax



Other key information – income statement

	Target 2007	Actual 2007	Actual 2006
Sales			
Eskom electricity sales (GWh)	**212 644**	**218 120**	207 921
Eskom electricity sales growth (GWh %)	**2,30**	**4,90**	0,80
Eskom electricity sales growth (Rm %)	**6,30**	**11,30**	4,40
Interest cover			
Eskom	**≥ 2,32**	**3,38**	3,76

Eskom Holdings Limited

The company delivered a sound financial performance with a profit for the year of R6 008 million. Contributing to this performance was high growth in sales volumes of 4,9% compared to the target of 2,3%. Operating costs were once again well contained, and savings compensated for the increase in primary energy costs. Embedded derivatives added R4 101 million to our profit, a significant impact that highlights the volatility associated with the fair value of these instruments.

Eskom is in a tax paying position and the current tax charge to the income statement was R2 399 million (2006: R2 097 million). Tax of R1 377 million (2006: R855 million) was paid to the South African Revenue Service during the review period.

Eskom Enterprises (Pty) Limited

The operating performance of the Eskom Enterprises (Pty) Limited group was better than expected. Ariviakom (Pty) Limited performed substantially below target, mainly due to lower than expected revenue and a high cost base. However, the excellent performance of Rotek Industries and Roshcon made up for this shortfall. The Rotek and Roshcon group benefited from increased activity relating to the capital expansion programme, and additional maintenance work from the unplanned electricity outages.

Following the decision to focus on supporting the Eskom business, a number of non-core businesses is in the process of being disposed of and have been classified as assets held-for-sale. As a result, the arivia.kom and MKC businesses have been treated as discontinued operations.

Ariviakom (Pty) Limited sale and outsource programme

Eskom holds a 58,5% shareholding in Ariviakom (Pty) Limited (arivia.kom). Eskom has embarked on a strategic restructuring process with the objective of outsourcing its information technology infrastructure service requirements and disposing of its shareholding in arivia.kom. To ensure continuity of information technology services, the new contract will define a set of stringent service delivery conditions to govern the contractual arrangements. The process is expected to be completed during the 2008 financial year.

Eskom Finance Company (Pty) Limited

The Eskom Finance Company makes home loans available to group employees at competitive interest rates.

Directors' report continued

Eskom, the shareholder of Eskom Finance Company, has decided – in line with the Department of Public Enterprises' strategy – to dispose of the company as a going concern, subject to the continuation of its current services to Eskom employees. The disposal process should be concluded by December 2007.

The company was launched to give expression to Eskom's commitment to employee access to accommodation. The disposal process will respect this strategic intent and address the concerns of all major stakeholders.

Escap Limited

Escap was established in 1993 to reduce Eskom's overall cost of risk management and insurance. Its formation is in line with our risk-financing strategy of putting in place an insurance function capable of building reserves and providing additional insurance capacity.

Eskom reviewed its insurance portfolio in 2007. As a result, it has been decided:

- to improve the use of captive reserves after total asset class risk retention was increased by 100% with various increases in other classes
- to use Escap as the main insurer of Eskom risks
- to reduce the recourse to Gallium
- to increase each division's deductible costs based on their loss profiles
- to increase the level of self-insurance at each division

The results show an underwriting profit of R86 million. In the main, net profit after tax of R186 million reflects the effect of investment returns of R182 million.

Gallium Insurance Company Limited

Gallium, a captive insurance subsidiary of Eskom registered in the Isle of Man, provided cover for less predictable risks and for those risks where outside insurance cover is generally not available. During 2007, Gallium negotiated a novation and commutation insurance agreement with Escap whereby it relieved Gallium of all insurance liabilities for the period from 1995 to 2006. A premium of R330 million was paid by Gallium to Escap and the transaction was completed before the end of the financial year.

Gallium made an underwriting profit of R107 million, mainly as a result of lower claim liabilities. The net profit of R199 million included investment returns of R92 million for the period.

A dividend of R200 million was paid to Eskom, which was re-invested in Escap.

Following a review of the need for two captive insurance companies, it was agreed that Gallium should be wound down in the most cost-effective manner.

Balance sheet

Eskom group

The group balance sheet strengthened again this year with total assets increasing by almost R16 billion to R144 billion. The group debt to equity ratio (including long-term liabilities) of 0,30 places us in a strong position as we embark on our asset expansion programme.

Valuation of assets

There is cross-subsidisation between certain customer categories (depending on electricity consumption, geographical location and voltage supply). However, Eskom recovers all the costs of supplying

Balance sheet – Key ratios

	Unit of measure	Target 2007	Actual 2007	Actual 2006
Return on assets				
Eskom	%	≥ 5,30	7,28	9,77
Group	%	n/a[1]	7,80	9,06
Average total cost of electricity				
Eskom	R/MWh	165,83	160,90	142,50
Solvency ratios				
Escap	%	≥ 50[2]	> 100	74
Gallium	%	≥ 100[3]	> 100	> 100
Debt:equity ratio				
Eskom (excluding long-term provisions)		≤ 0,05[4]	0,16	0,08
Eskom (including long-term provisions)		≤ 0,26[4]	0,39	0,29
Group (including long-term provisions)		n/a[1]	0,30	0,22

electricity to its overall customer base and earns a positive return on assets. On this basis, the directors believe no adjustment is required to the value of assets relating to any particular customer category.

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. It might, however, be necessary for Eskom to raise a provision for impairment in respect of certain classes of assets in future years, depending on the nature of the planned restructuring of the electricity distribution industry.

Impairments

Investment in Eskom Enterprises

Eskom's investment in Eskom Enterprises has been reviewed. The remaining impairment provision of R140 million was reversed as the performance of the Eskom Enterprises group has improved significantly and its balance sheet has benefited from a significant reversal of impairment provisions.

Full services network and second network operator

Eskom Enterprises invested R760 million in the full services network, ahead of the introduction of a second telecommunications network operator in South Africa. Initially scheduled for May 2002, the licence to the second network operator was issued by the Independent Communications Authority of South Africa on 9 December 2005.

An impairment provision of R760 million was raised in prior years. Eskom Enterprises is now in the process of selling its fibre optic network to Broadband Infraco (Pty) Limited for R377 million. Broadband Infraco is to provide infrastructure to the second

1. Targets are not set for the group.
2. Regulatory target 15,0%.
3. Regulatory target 5,3%.
4. Includes net effect of embedded and other derivates.

Picture captions
1. Insulators on a power line.
2. This liveline team worked around the clock in 2006 to clean insulators on power lines in the Cape.

Eskom

Directors' report continued

network operator, Neotel (Pty) Limited. As a result, an impairment reversal of R377 million was recognised.

Mountain Communications (Pty) Ltd (MKC)

The board of Telecom Lesotho, a subsidiary of MKC, decided to raise an impairment provision for the wireless local loop, a standalone network which serves 7 121 prepaid and contract customers. The impairment of R121 million was raised because the expected future cash flows from the network are lower than the net book value of the asset. This provision did not affect the group as an impairment charge had been recognised at group level a year earlier.

Embedded derivatives

Eskom supplies electricity to electricity-intensive industries under agreements that link contract revenue to commodity prices and foreign currency rates and/or foreign production price indices that give rise to embedded derivatives.

At 31 March 2007 the value of the embedded derivatives was R5 592 million (2006: R1 319 million) for the group. The value depends among other things on the expected forward electricity curve. The electricity forward curve is based on the MYPD price increase of 5,90% (CPI+1) and 6,20% (CPI+1) for the two years ending 31 March 2009 and the consumer price index plus 2% for subsequent years.

The existing price determination by Nersa is taken by the market as an indication of future electricity price expectations.

The board has approved a new forward electricity price curve that moves significantly higher. However, these higher prices have yet to

Sensitivity analysis for new forward electricity price

Variable	Description	Change %	Increase in unrealised profit Rm	Decrease in unrealised profit Rm
Aluminium	Increase in price	10	2 571	
Aluminium	Decrease in price	10		(2 571)
Rand/USD	Weakening of rand	10	3 449	
Rand/USD	Appreciation of rand	10		(3 561)
Rand interest rates	Parallel shift up	1	2 346	
Rand interest rates	Parallel shift down	1		(2 639)
USD interest rates	Parallel shift up	1		(1 741)
USD interest rates	Parallel shift down	1	1 930	
Consumer price indices	Parallel shift up	1		(2 304)
Consumer price indices	Parallel shift down	1	2 064	
US PPI	Parallel shift up	1	491	
US PPI	Parallel shift down	1		(495)

Picture captions
1. The high-voltage yard at Ankerlig power station.
2. A typical solar heliostat in a concentrating solar plant.

be considered by Nersa. In the interim, the existing forward curve as adjusted for the MYPD must remain the basis for the valuation of embedded derivatives for financial statement purposes in terms of International Financial Reporting Standards. If embedded derivatives were calculated according to the board's new forward electricity price curve, their value would change markedly – from a net asset of R5 592 million to a net liability of R1 281 million. This would impact the current year profit (before tax) negatively by R6 873 million.

Provisions

The provision for decommissioning of power station-related environmental activities (such as restoration) at 31 March 2007 was R4 472 million (2006: R3 907 million). The provision for mine-related closure, pollution control and rehabilitation was R1 088 million (2006: R968 million). The discount rate for these provisions, which is reviewed annually, was changed from 4,2% to 4,6% in line with changing interest rates. Refer to note 22 in the annual financial statements, page 150 and accounting policy note on page 113.

Revenue management

Eskom is responsible for maintaining systems, procedures, processes and training programmes to ensure efficient and effective revenue management. In addition adequate cash collection and investment management processes and procedures were in place throughout the period under review.

Trade debtors and other receivables

	Group		Company	
	Actual 2007 Rm	Actual 2006 Rm	**Actual 2007 Rm**	Actual 2006 Rm
Trade debtors and other receivables	**7 031**	6 354	**6 525**	5 729
Soweto, takeovers and suspense accounts	**1 293**	1 101	**1 293**	1 101
Other trade debtors	**3 610**	3 344	**3 491**	3 088
International debtors	**679**	380	**252**	242
Trade debtors	**5 582**	4 825	**5 036**	4 431
Other receivables (including interest receivable)	**1 449**	1 529	**1 489**	1 298
Provision for doubtful debt, including interest	**(1 533)**	(1 458)	**(1 418)**	(1 306)
Local trade debtors	**(1 443)**	(1 320)	**(1 330)**	(1 192)
International trade debtors	**(2)**	(24)	**–**	–
Other receivables	**(88)**	(114)	**(88)**	(114)
Movement in bad and doubtful debt				
Bad and doubtful debt	**(219)**	(163)	**(225)**	(174)
Local trade debtors	**(189)**	(141)	**(195)**	(152)
International trade debtors	**–**	–	**–**	–
Other receivables	**(30)**	(22)	**(30)**	(22)

Directors' report continued

R716 million

strategic sourcing saving
(target: R490 million)

2006: R14 million

Management of credit risk

Credit risk is part of the integrated risk management process that tracks major risks and continually monitors their status.

The collection of revenue from small power users in Soweto remains a challenge. The enhancement of credit control strategies and monitoring of payment levels in Soweto continue to receive constant management attention. The payment levels from these customers, expressed as a percentage of billed revenue, decreased to 24% (2006: 34%).

Capital expenditure

Over R17 billion was spent on capital projects during the review period as follows:

Description	2007 Rm	2006 Rm
Generation division	**10 439**	5 023
New capacity	**6 709**	2 370
Technical plan projects	**2 942**	2 382
Asset purchase and other	**788**	271
Transmission division	**1 993**	1 263
New strengthening projects	**1 620**	1 030
Land and rights	**65**	18
Production equipment	**70**	55
Capital spares	**150**	110
Asset purchase and other	**88**	50
Distribution division	**4 695**	4 027
Direct customers	**1 172**	949
Strengthening	**1 259**	873
Refurbishment	**715**	760
Electrification	**749**	496
Continual improvement	**144**	184
Asset purchase and other	**656**	765
Other	**303**	187
Subsidiaries	**277**	116
Total	**17 707**	10 616

Value-based management

Financial sustainability over the long term is measured by the value-based management approach, implemented in 2003. By measuring economic performance, management can identify focus areas for value creation and areas where value is not being added. The major factors influencing Eskom's economic performance are cost of capital used by the business and reported asset lives. Based on the approved targeted weighted average cost of capital, Eskom's short-term economic performance for the 12 months ended 31 March 2007 reflected a marginal increase in value, mainly due to higher sales growth, and savings in operational expenditure. These were offset by an increase in primary energy costs. Certain economic measures were used as performance indicators in the short-term incentive scheme for employees in 2007.

Supply chain management

The supply chain environment is influenced by the substantial capital expansion programme. Worldwide increases in energy demand are placing a strain on suppliers, with demand outstripping supply. Consequently, delivery lead times are lengthening and prices are increasing. Effective procurement and supply chain management become increasingly crucial, given the challenges of securing supply, ensuring competitive prices, and improving customer service.

A strategic sourcing initiative, project Sisonke, was launched in 2006, where cross-functional and cross-divisional teams develop appropriate sourcing strategies for complex and costly commodities to secure supply for the business. Procurement savings have to be balanced with the quality and the timing of supply and meeting Asgisa objectives (including reaching broad-based black economic empowerment targets and the initiation of competitive supplier development programmes).

Eskom achieved savings of R716 million against a 2007 target of R490 million, with a cumulative total since inception of the initiative in 2006 of R730 million. A savings target for 2008 has been set at R1 515 million. Savings targets from the inception of the initiative to March 2010 have been set at R7,8 billion.

PRODUCTIVITY PERFORMANCE

Productivity measurement improves the understanding of the drivers of business performance. The change in net profit between two accounting periods is analysed according to productivity, price recovery (inflation impact) and growth. Productivity improvements result from the more efficient and effective use of all resources which creates wealth while driving sustainable business performance.

The impact of inflation is measured by price recovery and is the difference between the price increases passed on to customers and the inflationary impact on the cost of resources to Eskom. Growth represents the chang e in net profit when resource quantities and prices change at the same rate as electricity sales quantities and prices.

Productivity and price recovery

The productivity gain for Eskom was 1,9% or R667 million. This was underpinned by a substantial sales quantity growth of 5,2% (weighted growth) against 1,0% last year, in comparison with the resource quantity increase of 3,2% (2006: 3,2%).

The price under-recovery was 3,2% or R1 139 million and resulted from a weighted tariff increase that was well below the inflation to which Eskom was subjected in terms of the price of resources. The result benefited certain stakeholders, mainly our customers.

Picture captions
1. Two cooling towers and smoke stacks at Majuba power station.
2. This control room at Majuba power station is responsible for coal stock control.

Directors' report continued

Overall productivity performance for the year

	Company	
	March 2007 Rm	March 2006 Rm
Net profit before tax	**8 407**	7 167
Net profit before tax for the previous period	**7 167**	6 075[1]
Change in net profit before tax	**1 240**	1 092
Adjustments not impacting on overall performance[2]	**(1 176)**	(2 701)
Change in adjusted net profit before tax	**64**	(1 609)
This is attributable to:		
Net productivity gain/(decline)	**667**	(645)
Price under-recovery	**(1 139)**	(1 265)
Growth	**536**	301
Total	**64**	(1 609)

To some extent, the Sisonke project mitigated the impact of inflation by optimising the price of resources purchased by Eskom. The Sisonke project is expected to have significant future benefits for Eskom.

The contribution to productivity performance from the major resource categories is set out overleaf and is split between capacity utilisation and efficiency.

Primary energy

Primary energy reflects a productivity decline of 1,2% amounting to R162 million. This resulted from an increase in external electricity purchases and from an increase in the volume of generation fuel required to meet higher sales growth.

Manpower

Manpower costs recorded a productivity decline of 2,9% amounting to R273 million. Staffing-up to cater for the return to service of previously mothballed stations contributed to lower manpower productivity. However, these costs are capitalised and reflected under other operating expenses as a credit or favourable productivity impact.

Other operating expenses

Other operating costs reflect a productivity gain of R906 million or 14,2%. This was achieved by capitalising manpower costs to projects and through stringent cost control.

1. Profit before tax for the 12 months to 31 March 2005.
2. Fair value gains/losses on financial instruments, asset impairments, insurance proceeds, depreciation restatement in compliance with IFRS and other adjustments are specifically excluded because they do not impact productivity.

Picture caption
Workshops at Rotek, an Eskom subsidiary, that focuses on refurbishment and maintenance.

Productivity performance contribution

	March 2007		March 2006	
	Rm	**%**	Rm	%
Total productivity	**667**	**1,9**	(645)	(2,1)
Primary energy (including electricity purchases)	**(162)**	**(1,2)**	(152)	(1,4)
Manpower	**(273)**	**(2,9)**	(379)	(4,5)
Operating expenses	**906**	**14,2**	568	9,0
Capital	**196**	**3,2**	(682)	(11,7)
Total productivity	**667**	**1,9**	(645)	(2,1)
Capacity utilisation	**1 029**	**2,9**	189	0,7
Efficiency	**(362)**	**(1,0)**	(834)	(2,9)

Capital

Capital reflects a net 3,2% productivity gain amounting to R196 million which can be attributed primarily to the increased sales growth experienced by the business, and also to the income from the re-investment of prefunded borrowings. This gain will be dissipated over time as the new capacity created by the capital expansion programme is taken up.

Efficiency

The unfavourable efficiency of R362 million reflects the short-term impact of bringing back to service the previously mothballed power stations, as well as the impact of having to meet the increased demand, given the constraints of the mix of generating stations.

Long-term Eskom competitive position

Cumulative benefits through productivity improvements have benefited consumers and other stakeholders by R3,05 billion (in 2007 rand) over the past 10 years. Productivity improvements have helped Eskom absorb the impact of inflation and remain a focus area for sustainable business performance.

Refer to www.eskom.co.za/annreport07/032 for a graph of Eskom's competitiveness over ten years.

The productivity results have been reviewed by the National Productivity Institute (NPI). 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 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 March 2007.

VALUE CREATION AND DISTRIBUTION

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,

Directors' report continued

comprising raw materials and consumables used, 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 the business.

Value added statement

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
Value created				
Revenue	**40 068**	36 052	**39 399**	35 384
Less: primary energy and other operating expenses	**(14 535)**	(14 690)	**(14 784)**	(14 260)
	25 533	21 362	**24 615**	21 124
Value distributed	**14 370**	13 802	**14 010**	13 324
Salaries, wages and other benefits	**10 243**	8 215	**9 789**	7 703
Social spending	**75**	84	**75**	84
Net interest expense	**1 548**	1 738	**1 747**	1 797
Dividend paid	**–**	1 643	**–**	1 643
Taxation	**2 504**	2 122	**2 399**	2 097
Value reinvested to maintain and develop operations	**11 163**	7 560	**10 605**	7 800
Depreciation and amortisation of property, plant and equipment and intangible assets	**4 709**	4 562	**4 597**	4 373
Net profit after dividend	**6 454**	2 998	**6 008**	3 427
	25 533	21 362	**24 615**	21 124
Value created per employee (R)	**781**	679	**801**	711

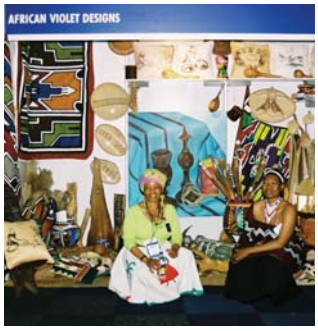
CONTRIBUTION TO SOCIETY

Eskom strives to be a good corporate citizen in all spheres of its activities. We try to demonstrate this commitment in everything we do – the electrification programme, corporate transformation, employment equity, black economic empowerment procurement policies, environmental reporting and many other activities.

ACCELERATED AND SHARED GROWTH INITIATIVE FOR SOUTH AFRICA

Eskom is committed to the Accelerated and Shared Growth Initiative for South Africa (Asgisa) and its prime objectives of higher growth, more jobs and less poverty.

Eskom's most significant contribution is through its core business of supplying competitively priced electricity. The capacity expansion



programme and our focus on operating efficiency are central to our effort to provide the power that will drive accelerated growth. These themes are reflected throughout this report.

Asgisa is not only about economic growth, but ensuring the growth is shared. To contribute to this objective, Eskom will leverage its build programme and associated activities for optimum developmental impact.

Optimising local content in procurement will help to grow local industry and thereby create job opportunities locally. We will promote skills development and encourage entrepreneurship by contracting with BEE, SME and BWO organisations. These criteria have been integrated into our procurement process. Refer page 86 for additional information on Eskom's BEE procurement and page 54 for progress with the build programme.

Asgisa project at Grootvlei power station

The return to service of Grootvlei power station near Balfour began in 2004. From the outset, the project team was mindful of its responsibilities towards the local community.

As a first step, the project manager contacted the mayor of Dipaleseng Municipality and the Department of Labour to set up a system to ensure local people benefited from job opportunities. Volunteer community representatives were appointed to inform the community on a weekly basis of possible job opportunities.

The Grootvlei team has met with great success. Over a thousand of the contractors employed on site, including some in semi-skilled categories, are from a local community that is predominantly agricultural in nature. A number of the local residents was subsequently hired by contractors and have moved on to other projects.

A team of 15 locals was employed to assemble splash grid supports on site, rather than have these items assembled in Gauteng. They were each paid for every unit they produced, earning R180 000 in total.

In addition to supporting the local economy through wages paid to local people, Eskom sourced services and goods with an estimated value of R62 million from companies within the Dipaleseng Municipality. Some members of the project team are tutoring at local schools and organise clothing and food for the children through personal donations.

Picture caption
1. *The Eskom Development Foundation supports small business in terms of funding and training.*
2. *The Eskom Small Business Development Expo invites black SMMEs to interface with procurement managers from big companies.*

Directors' report continued

Through its learnership programme, Eskom will optimise skills development. We have committed to registering 4 000 learners on our learnership programme by April 2007. For more information, refer to page 62.

Eskom has a proud history of achieving electrification programme targets. However, to reach the goal of universal access to electricity by 2012, the current programme requires significant acceleration. Refer to page 88 for more details on electrification and the free basic electricity programme.

Corporate social investment (CSI) continues to be an important part of our corporate citizenship. A prime goal is to develop the communities in which we operate, focusing on the previously disadvantaged. CSI programmes will continue to emphasise skills development, job creation and poverty alleviation.

Black economic empowerment

Eskom makes a significant contribution to black economic empowerment (BEE) by supporting black businesses with a procurement spend of R15,43 billion in 2007 against a target of R13,95 billion.

The BEE target for 2007 was 67% of all discretionary expenditure. Discretionary expenditure excludes procurement from Eskom group businesses, the public enterprises and state departments and costs relating to human resources, but includes expenditure on coal (refer to page 40) and demand-side management.

Eskom continues to foster the empowerment of black women entrepreneurs to accelerate their participation in the mainstream economy. Expenditure on black women-owned businesses almost doubled in the last financial year.

BEE procurement is seen as a business imperative rather than a social investment. Supplier businesses are selected on merit and every effort is made to ensure they are not dependent on Eskom for sustainability. The increase in procurement value over time indicates that Eskom's BEE activities are contributing to an empowered economy that is growing and sustainable.

BEE expenditure	Target 2007 Rm	Actual 2007 Rm	Actual 2006 Rm
Eskom company			
Total BEE expenditure	**13 945**	**15 429**	11 069
Black women-owned businesses (included in total BEE expenditure)	**1 822**	**2 039**	1 287
Eskom group[1]			
Total BEE expenditure	**14 567**	**16 557**	11 681
Black women-owned businesses (included in total BEE expenditure)	**1 931**	**2 096**	1 301

1. Excludes subsidiaries classified as held-for-sale and the African subsidiaries.

Picture caption
1. Eskom teams and contractors are working hard to electrify new homes.
2. An insulator on a high-voltage power line.

We have updated our BEE strategy. Following the publication of the Codes of Good Practice for Broad-based Black Economic Empowerment, procurement systems, policies and procedures are being optimised to accommodate changes in BEE recognition and reporting. We continue to meet or exceed our empowerment targets.

The capacity expansion programme creates new opportunities for empowerment. These are being carefully managed to ensure the maximum benefit is derived despite the inevitable importation of equipment and use of international contractors.

Electrification and free basic electricity

Electrification

The DME began funding the Integrated National Electrification Programme (Inep) in April 2001. Eskom is responsible for implementing the programme in its licensed areas of supply on the DME's behalf.

Houses built on stands that were unoccupied during the electrification of a town/area are subsequently connected as in-fills and are planned to be funded through the National Electrification Fund. In 2004, Eskom made available R150 million to be spent over three years in order to relieve some of the backlog in-fill connections.

Operating costs relating to this electrification programme are met by Eskom as the licensed electricity distributor supplying electricity to the consumers.

Since the inception of the electrification programme in 1991, 3 469 650 homes have been electrified, including subsequent in-fill connections.

Currently funding is made available for projects identified as part of the Inep for new connections and infrastructure development. The average cost of infrastructure development and the cost per connection will increase as we electrify communities in more remote rural areas. In addition, technical specifications for network design have been enhanced to better accommodate future growth in electricity demand and to further enhance the quality and reliability of the electricity supply in these areas.

Electrification programme

	Unit of measure	**Target 2007**	**Actual 2007**	Actual 2006
Total connections	number	**141 578**	**152 125**	135 903[1]
– Direct connections, excluding farm workers	number	**140 134**	**151 088**	134 798
– Farm worker connections	number	**1 444**	**1 037**	1 105
Total capital investment	Rm	**754**	**765**	582[1]
– Reticulation and connections	Rm	**616**	**626**	127
– Sub-transmission infrastructure development	Rm	**120**	**123**	409
– Farm worker connections incentives paid	Rm	**4**	**2**	2
– Special projects	Rm	**14**	**14**	44

1. Includes in-fill connections.

Directors' report continued

Electrification of grid schools and clinics

	Target 2007		Actual 2007		Actual 2006	
	Number	Rm	Number	Rm	Number	Rm
Department of Minerals and Energy	**398**	**34**	**272**	**17**	473	37

The stated government objective is to achieve universal access to electricity by 2012. Meeting the future universal access programme requirements is dependent on availability of funding from DME via the Inep. Eskom is in discussion with DME and other key stakeholders regarding the planning, funding and other requirements needed to achieve universal access.

Electrification of schools and clinics

The electrification of schools and clinics is funded by the DME through the National Electrification Fund. This programme is focused on electrifying specifically identified schools and clinics.

Free basic electricity

Government aims to bring relief to low-income households through the national electricity basic services support tariff, thereby ensuring optimal socio-economic benefits from the national electrification programme. Qualifying customers are eligible for 50kWh of free electricity a month.

Two categories of customers receive free basic electricity (FBE):

- customers who receive a monthly electricity bill, adjusted to allow for their free electricity entitlement
- customers who buy prepaid electricity tokens and collect their free basic electricity token from an electricity vendor

Eskom provides FBE in its supply areas which is recoverable from municipalities at a standard tariff. Any under-recoveries from differences between the customer tariff and the applied free basic electricity standard tariff, implementation costs or other costs are recoverable from government. Eskom engages with various inter-governmental stakeholders to find a sustainable solution for any under-recoveries that arise as a result of providing FBE under the current policy and guidelines.

Free basic electricity programme

Description	Unit of measure	2007	2006
Municipalities contracted to provide FBE	number	**240**	228[2]
Municipalities providing FBE (rolled-out)	%	**97**	98
Customers approved by municipalities for FBE	number	**1 181 823**	1 254 199
Customers' meters reconfigured to receive FBE	number	**1 074 340**	1 048 000
Reconfigured customers consuming FBE in the year	average %	**65**	55
Amount invoiced to contracted municipalities	Rm	**172**	107
Cumulative tariff differential and cost under-recoveries[1]	Rm	**60**	27

1. Tariff differentials and cost under-recoveries are cumulative since 2006.
2. Previously included municipalities which had received but not signed their contracts.

Corporate social investment

In total R74,7 million has been invested in corporate social investment (CSI) initiatives related to skills development, job creation, poverty alleviation and health.

Analysis of corporate social investment

	Target 2007 Rm	Actual 2007 Rm	Actual 2006 Rm
Eskom small business expo	1,80	1,60	1,50
Economic development	26,70	2,00	11,70
Social development	10,80	2,00	12,10
Eskom maths and science education programme	–	–	3,90
Donations (including Chairman's Fund)	5,20	2,10	6,90
Legacy projects[1]			
– South African Aids vaccine initiative	15,00	30,00	–
– Business Trust (Business Against Crime)	4,00	6,00	1,00
– Other	–	–	6,00
Total Eskom Development Foundation	63,50	43,70	43,10
Rural development	20,00	11,40[2]	13,60
Schools programmes	8,20	10,20	11,60
University support	9,10	9,10	15,00
National science and technology forum awards	0,30	0,30	0,30
Total	101,10	74,70	83,60[3]

Eskom Development Foundation

CSI is largely channelled through the Eskom Development Foundation, a non-profit company. Its mission is to help improve the lives of the disadvantaged through integrated, efficient and effective development programmes. In 2007, the Development Foundation approved grants and donations totalling R43,7 million for the benefit of 77 415 people, with particular emphasis on support for women, youth and people with disabilities. Since inception in 1999, the Foundation has invested R414,5 million in development.

1. Legacy projects support priorities that are of strategic importance to Eskom and the community.
2. The under-spending is due to logistical challenges which are currently being resolved.
3. Amounts spent on the Eskom public scholarship programme are now reported under skills development.

Picture caption
Food gardening ensures sustainability in communities, thereby alleviating poverty – an Asgisa objective.

Directors' report continued

R74,7 million

invested in CSI initiatives

2006: R83,6 million

The Development Foundation is informed by the strategic direction pursued by Eskom and the communities in which it operates. The Foundation revised its grant-making and donations strategies, policy, and procedures to align with Eskom's strategic direction. As a result of these changes the Development Foundation was unable to spend its full 2007 budget allocation.

Refer to www.eskom.co.za/annreport07/033 for more information about Eskom's corporate social investment activities.

SUPPORTING THE NEW PARTNERSHIP FOR AFRICA'S DEVELOPMENT

Eskom supports the New Partnership for Africa's Development (Nepad) by fostering cooperation between African utilities. As a member of the Southern African Power Pool (Sapp), Eskom supports development, studies and energy trading within the sub-region.

In 2007, inter-utility cooperation included:

- meetings with power utilities in Algeria, Angola, Botswana, Democratic Republic of Congo, Egypt, Guinea (Conakry), Lesotho, Mauritius, Mozambique, Namibia, Niger, Nigeria, Zambia and Zimbabwe (in some cases general cooperation was complemented by work on project development)
- study of a four-party power system involving Sapp members South Africa, Botswana, Zambia and Zimbabwe with the aim of enhancing the efficiency of the interconnected transmission network joining these countries
- support for the development of the western power corridor project in the Democratic Republic of Congo, Angola and Namibia
- leading inter-utility cooperation support projects in response to specific requests and needs, including technical visits to Egypt, Guinea (Conakry), Mauritius and Niger
- installation and commissioning by Rotek Industries of a diesel-fired power plant in Sierra Leone on behalf of the South African government

REQUIRED STATUTORY INFORMATION

PUBLIC FINANCE MANAGEMENT ACT

Losses through criminal conduct and irregular or fruitless and wasteful expenditure

Irregular or fruitless and wasteful expenditure

In agreement with the Ministry of Public Enterprises, the reporting threshold in accordance with regulation 28.3.1 of the Public Finance Management Act is set at R10 million per item or class of closely-related items.

No reportable irregular or fruitless and wasteful expenditure was incurred.

Criminal conduct

Revenue losses

Revenue losses due to fraud and illegal connections continue to be a focus area. Actions to curtail these losses are tracked to ensure strategies are continually realigned for relevance and effectiveness. Steps include:

- focus on customer education through the media
- visibility of Eskom's personnel in the supply areas
- focus on the successful conviction of culprits
- field revenue protection audits
- removal of illegal connections
- risk mitigation through upfront cash vending for prepaid customers
- implementation of online vending and new technologies

The quantification of technical losses from total revenue losses is currently under review.

Conductor theft

Conductor theft losses fell to R14,9 million (2006: R16,0 million) and involved 1 142 incidents (2006: 449 incidents).

Actions to combat conductor theft are managed by the Eskom conductor theft committee in collaboration with other affected state enterprises and the police. This combined effort resulted in 372 arrests and R2,7 million was recovered.

Fraud

Investigations were completed into nine incidents of fraud involving R10,7 million (2006: R21,0 million). Internal controls have been reviewed and stepped up. Disciplinary, criminal and civil proceedings have been instituted.

SCHEDULE 4 OF THE COMPANIES ACT

Directorate and secretariat

The names of the directors appear on page 14 and the address of Eskom's secretariat on inside back cover.

Changes in the composition of directors appear on page 175.

Picture caption
Majuba power station near Volksrust.

Consolidated financial statements

32 674

employees

2006: 31 458

HIGHLIGHTS

- Total assets increased to R143 754 million
- Revenue was R40 068 million
- Profit for the year was R6 454 million
- Capital expenditure increased from R10 616 million to R17 707 million
- Net cash from operating activities was R13 281 million

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(detailed list on page 94)

Picture captions
1. A fuel tank at Gourikwa power station.
2. A view of a liveline team from the helicopter that lowers them to the lines.

Together we are climbing higher and reaching further

Eskom's capacity expansion budget for the period to 2012 has been increased to R150 billion

Eskom

Consolidated financial statements

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CURRENCY OF FINANCIAL STATEMENTS

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

	March 2007	March 2006
The following are approximate values of R1,00 for selected currencies at:		
US dollar	**0,14**	0,16
Pound sterling	**0,07**	0,09
Euro	**0,10**	0,13
Swiss franc	**0,17**	0,21
Japanese yen	**16,14**	19,07
The following are approximate values of 1 unit of the selected currencies to the rand:		
US dollar	**7,14**	6,25
Pound sterling	**14,28**	11,11
Euro	**9,75**	7,69
Swiss franc	**5,88**	4,76
Japanese yen	**0,06**	0,05

Balance sheets

at 31 March 2007

	Note	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
ASSETS					
Non-current assets		**102 712**	90 075	**104 132**	90 575
Property, plant and equipment	6	**76 962**	64 586	**76 211**	63 410
Intangible assets	7	**412**	442	**410**	421
Investment in associates	8	**12**	72	**1**	5
Investment in joint ventures	9	**159**	142	**95**	95
Investment in subsidiaries	10	**–**	–	**2 358**	2 014
Future fuel supplies	11	**2 557**	2 657	**2 557**	2 657
Deferred income tax	12	**5**	140	**–**	–
Available-for-sale financial assets	13.1	**11 121**	9 509	**11 121**	9 509
Financial assets at amortised cost	13.2	**2 702**	6 540	**2 702**	6 540
Derivative financial assets – embedded derivatives	14.1.1	**6 940**	5 378	**6 940**	5 376
Derivative financial assets – other derivatives	14.2.1	**1 196**	7	**1 196**	7
Finance lease receivables	15	**536**	590	**536**	529
Trade and other receivables	16	**110**	12	**5**	12
Current assets		**37 217**	35 809	**34 163**	33 883
Loans to subsidiaries	10.1	**–**	–	**740**	2 311
Inventories	17	**3 637**	3 681	**3 499**	3 259
Finance lease receivables	15	**17**	58	**15**	14
Trade and other receivables	16	**5 388**	4 884	**5 102**	4 411
Available-for-sale financial assets	13.3	**4 846**	566	**4 846**	566
Other financial assets at fair value through profit or loss	13.4	**3 392**	10 698	**2 903**	10 565
Financial assets at amortised cost	13.5	**6 918**	3 610	**6 918**	3 610
Cash and cash equivalents	13.6	**10 534**	10 229	**7 656**	7 065
Derivative financial assets – embedded derivatives	14.1.1	**1 584**	1 042	**1 583**	1 041
Derivative financial assets – other derivatives	14.2.1	**901**	1 041	**901**	1 041
Non-current assets held for sale	19	**3 825**	2 402	**–**	–
Total assets		**143 754**	128 286	**138 295**	124 458
EQUITY					
Capital and reserves attributable to equity holder of the company		**56 644**	50 199	**54 033**	48 049
Minority interest		**165**	172	**–**	–
Total equity		**56 809**	50 371	**54 033**	48 049
LIABILITIES					
Non-current liabilities		**59 882**	49 935	**59 677**	49 185
Borrowings	13.8	**33 060**	24 255	**32 929**	24 030
Derivative financial liabilities – embedded derivatives	14.1.2	**2 619**	4 752	**2 619**	4 622
Deferred income tax	12	**8 730**	7 360	**8 662**	7 098
Deferred income	20	**3 863**	2 946	**3 863**	2 946
Retirement benefit obligations	21	**5 035**	4 708	**4 922**	4 582
Provisions	22	**6 029**	5 363	**6 026**	5 295
Finance lease liabilities	23	**546**	551	**656**	612
Current liabilities		**24 951**	27 956	**24 585**	27 224
Amounts owing to subsidiaries	10.2	**–**	–	**993**	928
Trade and other payables	24	**9 653**	6 930	**8 596**	5 659
Finance lease liabilities	23	**4**	3	**28**	20
Taxation		**515**	644	**437**	635
Borrowings	13.9	**7 395**	5 947	**7 380**	5 928
Other financial liabilities at fair value through profit or loss	13.10	**3 707**	11 002	**3 707**	11 002
Derivative financial liabilities – embedded derivatives	14.1.2	**313**	349	**312**	305
Derivative financial liabilities – other derivatives	14.2.2	**1 962**	1 644	**1 962**	1 644
Retirement benefit obligations	21	**144**	140	**144**	136
Provisions	22	**1 258**	1 297	**1 026**	967
Non-current liabilities held for sale	19	**2 112**	24	**–**	–
Total liabilities		**86 945**	77 915	**84 262**	76 409
Total equity and liabilities		**143 754**	128 286	**138 295**	124 458

Income statements

for the year ended 31 March 2007

	Note	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
CONTINUING OPERATIONS					
Revenue	25	**40 068**	36 052	**39 399**	35 384
Other income	26	**501**	173	**1 418**	1 130
Net fair value gain on embedded derivatives		**4 275**	1 318	**4 101**	1 417
Net fair value loss on other derivatives		**(613)**	(182)	**(613)**	(182)
Primary energy[1]		**(13 040)**	(10 854)	**(13 040)**	(10 854)
Employee benefit expense	27	**(9 451)**	(7 608)	**(8 997)**	(7 110)
Depreciation and amortisation expense	28	**(4 709)**	(4 562)	**(4 597)**	(4 373)
Net impairment reversal/(loss)	29	**198**	(67)	**(50)**	724
Other operating expenses	30	**(6 264)**	(5 920)	**(7 467)**	(7 172)
Operating profit before net finance cost		**10 965**	8 350	**10 154**	8 964
Net finance cost		**(1 548)**	(1 738)	**(1 747)**	(1 797)
– Finance income	31	**2 748**	2 783	**2 640**	2 775
– Finance cost	32	**(4 296)**	(4 521)	**(4 387)**	(4 572)
Share of profit of associates and joint ventures	8,9	**41**	35	**–**	–
Profit before tax		**9 458**	6 647	**8 407**	7 167
Income tax expense	33	**(2 504)**	(2 122)	**(2 399)**	(2 097)
Profit for the year from continuing operations		**6 954**	4 525	**6 008**	5 070
DISCONTINUED OPERATIONS					
(Loss)/profit for the year from discontinued operations	19	**(500)**	116	**–**	–
Profit for the year		**6 454**	4 641	**6 008**	5 070
Attributable to:					
Equity holder of the company		**6 459**	4 663	**6 008**	5 070
Minority interest		**(5)**	(22)	**–**	–
		6 454	4 641	**6 008**	5 070

1. Primary energy relates to the acquisition of coal, uranium, water and gas that are used in the generation of electricity.

Cash flow statements

for the year ended 31 March 2007

	Note	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
Cash flows from operating activities					
Cash generated from operations	34	**14 804**	13 292	**14 763**	12 572
Income taxes paid		**(1 523)**	(946)	**(1 377)**	(855)
Net cash from operating activities		**13 281**	12 346	**13 386**	11 717
Cash flows from investing activities					
Proceeds from disposal of property, plant and equipment		**188**	310	**151**	295
Proceeds from disposal of investment in associate		**9**	–	**–**	–
Expenditure on property, plant and equipment		**(17 536)**	(10 384)	**(17 262)**	(10 281)
Expenditure on intangible assets		**(171)**	(232)	**(168)**	(219)
Expenditure on future fuel supplies		**(382)**	(844)	**(382)**	(844)
Investment in associates, joint ventures and subsidiary companies		**(6)**	(3)	**(200)**	15
Cash inflow on acquisition of subsidiary		**26**	63	**–**	–
Non-current trade and other receivables		**(60)**	85	**7**	4
Decrease/(increase) in finance lease receivables		**95**	(97)	**(8)**	(2)
Loans granted to related parties – subsidiaries		**–**	–	**1 571**	40
Non-current assets held for sale		**1 716**	(10)	**–**	–
Interest received		**2 017**	2 109	**1 909**	2 110
Net cash used in investing activities		**(14 104)**	(9 003)	**(14 382)**	(8 882)
Cash flows from financing activities					
Debt raised		**15 334**	19 179	**15 334**	19 230
Debt repaid		**(6 903)**	(9 382)	**(6 804)**	(9 060)
Increase in financial market investments		**(5 492)**	(7 258)	**(5 164)**	(7 031)
Increase in amounts owing to subsidiaries		**–**	–	**65**	148
(Decrease)/increase in finance lease liabilities		**(4)**	(54)	**52**	24
Interest paid		**(1 807)**	(2 210)	**(1 896)**	(2 302)
Dividends paid		**–**	(1 643)	**–**	(1 643)
Net cash from/(used in) financing activities		**1 128**	(1 368)	**1 587**	(634)
Net increase in cash and cash equivalents		**305**	1 975	**591**	2 201
Cash and cash equivalents at beginning of the year		**10 229**	8 254	**7 065**	4 864
Cash and cash equivalents at end of the year	13.6	**10 534**	10 229	**7 656**	7 065

Statements of changes in equity

for the year ended 31 March 2007

		Attributable to equity holder of the company							
	Note	Issued capital[1] Rm	Foreign revaluation reserve[2] Rm	Local revaluation reserve[3] Rm	Insurance reserve[4] Rm	Accumulated profit[5] Rm	Total Rm	Minority interest Rm	Total equity Rm
Group									
Balance at 1 April 2005									
– Previously reported		–	20	100	77	47 163	47 360	11	47 371
– Effect of prior year adjustments	39	–	–	–	–	(277)	(277)	–	(277)
– Effect of deferred tax on prior year adjustments	39	–	–	–	–	68	68	–	68
Restated balance		–	20	100	77	46 954	47 151	11	47 162
Available-for-sale assets and other movements									
– Fair value gains		–	–	77	–	–	77	–	77
Cash flow hedges									
– Fair value losses		–	(96)	–	–	–	(96)	–	(96)
– Deferred tax thereon		–	32	–	–	–	32	–	32
Profit for the year		–	–	–	–	4 663	4 663	(22)	4 641
Revaluation of interest in arivia.kom prior to becoming a subsidiary		–	–	12	–	3	15	–	15
Dividends paid		–	–	–	–	(1 643)	(1 643)	–	(1 643)
Minority interest in subsidiary acquired		–	–	–	–	–	–	187	187
Other movements in minority interest		–	–	–	–	–	–	(4)	(4)
Transfer of net unrealised revaluation gains net of deferred tax from non-distributable reserves to accumulated profit		–	(355)	141	–	214	–	–	–
Transfer of net unrealised revaluation gains net of deferred tax from accumulated profit to non-distributable reserve		–	–	6	–	(6)	–	–	–
Transfer from insurance reserve to accumulated profit		–	–	–	(11)	11	–	–	–
Balance at 31 March 2006		**–**	**(399)**	**336**	**66**	**50 196**	**50 199**	**172**	**50 371**
Available-for-sale assets and other movements									
– Fair value adjustments		**–**	**10**	**(144)**	**–**	**–**	**(134)**	**(6)**	**(140)**
Cash flow hedges									
– Fair value gains		**–**	**522**[6]	**–**	**–**	**–**	**522**	**–**	**522**
– Deferred tax thereon		**–**	**(402)**	**–**	**–**	**–**	**(402)**	**–**	**(402)**
Profit for the year		**–**	**–**	**–**	**–**	**6 459**	**6 459**	**(5)**	**6 454**
Other movements in minority interest		**–**	**–**	**–**	**–**	**–**	**–**	**4**	**4**
Transfer of net unrealised revaluation gains net of deferred tax from non-distributable reserves to accumulated profit		**–**	**(485)**	**(77)**	**–**	**562**	**–**	**–**	**–**
Balance at 31 March 2007		**–**	**(754)**	**115**	**66**	**57 217**	**56 644**	**165**	**56 809**

	Note	Attributable to equity holder of the company					
		Issued capital[1] Rm	Foreign revaluation reserve[2] Rm	Local revaluation reserve[3] Rm	Insurance reserve[4] Rm	Accumulated profit[5] Rm	Total equity Rm
Company							
Balance at 1 April 2005							
– Previously reported		–	38	96	–	44 706	44 840
– Effect of prior year adjustments	39	–	–	–	–	(297)	(297)
– Effect of deferred tax on prior year adjustments	39	–	–	–	–	77	77
Restated balance		–	38	96	–	44 486	44 620
Available-for-sale asset movements							
– Fair value gains		–	–	77	–	–	77
Cash flow hedges							
– Fair value losses		–	(107)	–	–	–	(107)
– Deferred tax thereon		–	32	–	–	–	32
Profit for the year		–	–	–	–	5 070	5 070
Dividends paid		–	–	–	–	(1 643)	(1 643)
Transfer of net unrealised revaluation gains net of deferred tax from non-distributable reserves to accumulated profit		–	(355)	141	–	214	–
Balance at 31 March 2006		**–**	**(392)**	**314**	**–**	**48 127**	**48 049**
Available-for-sale asset movements							
– Fair value losses		**–**	**–**	**(144)**	**–**	**–**	**(144)**
Cash flow hedges							
– Fair value gain		**–**	**522[6]**	**–**	**–**	**–**	**522**
– Deferred tax thereon		**–**	**(402)**	**–**	**–**	**–**	**(402)**
Profit for the year		**–**	**–**	**–**	**–**	**6 008**	**6 008**
Transfer of net unrealised revaluation gains net of deferred tax from non-distributable reserves to accumulated profit		**–**	**(484)**	**(91)**	**–**	**575**	**–**
Balance at 31 March 2007		**–**	**(756)**	**79**	**–**	**54 710**	**54 033**

Dividends proposed

No dividend has been proposed.

1. *Nominal amount.*
2. ***Foreign revaluation reserve***
   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 which coincides with the maturity of the underlying obligation.
3. ***Local revaluation reserve***
   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.
4. ***Insurance reserve***
   The insurance reserve is a contingency reserve created in terms of the Short-term Insurance Act, 1998.
5. ***Accumulated profit***
   Accumulated profit is the amount of profit retained in the business after tax.
6. *Included is an amount of R19 million (2006: R5 million) relating to transfers to future fuel (refer to note 11).*

Accounting policies

for the year ended 31 March 2007

1. GENERAL INFORMATION

Eskom Holdings Limited (Eskom), a public company and holding company of the group, is incorporated and domiciled in the Republic of South Africa. Eskom is a vertically integrated operation that generates, transmits and distributes electricity to industrial, mining, commercial, agricultural, redistributors and residential customers locally, and to international customers in southern Africa. The nature of the businesses of the significant operating subsidiaries is set out in note 10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of Eskom (the company) and its subsidiaries (together the group) are prepared in accordance with the Companies Act, 61 of 1973, and comply with International Financial Reporting Standards (IFRS).

The group financial statements are prepared on the historical cost basis except for certain financial instruments, such as foreign loans, derivative financial instruments, available-for-sale financial assets and trading assets and liabilities that are stated at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

Changes in accounting policies and comparability

The group has adopted certain new and amended International Financial Reporting Standards which were effective for the group for financial years beginning on or after 1 April 2006. The effects of adopting these standards are discussed in note 39.

Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, amendments and interpretations to existing standards have been published that are applicable in future accounting periods but have not been adopted early by the group:

IFRS 7, Financial instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of financial statements – capital disclosures (effective from 1 January 2007)

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the financial statements of banks and similar financial institutions, and disclosure requirements in IAS 32, Financial instruments: Disclosure and presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The group is currently assessing the impact of IFRS 7 and the amendment of IAS 1. The group will apply IFRS 7 and the amendment to IAS 1 for financial years beginning 1 April 2007.

IFRS 8, Operating Segments (effective from 1 January 2009)

IFRS 8 specifies how an entity should report information about its operating segments in the annual financial statements. It also sets out requirements for related disclosures about products and services, geographical areas and major customers. The group is still determining the impact of the statement and has not decided on the implementation date.

IFRIC 8, Scope of IFRS 2 (effective from 1 May 2006)

IFRIC 8 requires consideration of transactions involving the issuance of equity instruments where the identifiable consideration received is less than the fair value of the equity instruments issued to establish whether or not they fall within the scope of IFRS 2. The group will apply IFRIC 8 from 1 April 2007, but it is not expected to have any impact on the group's financial statements.

IFRIC 9, Reassessment of Embedded Derivatives (effective from 1 June 2006)

This interpretation requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. Future changes to contracts will need to consider the implications of this interpretation.

IFRIC 10, Interim Financial Reporting and Impairment (effective from 1 November 2006)

IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The group will apply IFRIC 10 from 1 April 2007, but it is not expected to have any impact on the group.

IFRIC 11, Group and Treasury Share Transactions (effective from 1 March 2007)

IFRIC 11 requires certain share-based payment transactions in which an entity receives services as consideration for its own equity instruments to be accounted as equity settled. The group will apply IFRIC 11 from 1 April 2007, but it is not expected to have any impact on the group.

IFRIC 12, Service Concession Arrangements (effective from 1 January 2008)

IFRIC 12 gives guidance on the accounting by operators for public-to-private concession arrangements. This interpretation is relevant to Eskom subsidiaries outside of South Africa. The group will implement this interpretation from 1 April 2007. The impact of this interpretation is being determined.

The following standards, amendments and interpretations were effective in the year ended 31 March 2007, but not relevant to the group's operations:

> IFRIC 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
> IFRIC 6, Liabilities arising from participating in a specific market – waste electrical and electronic equipment

2.2 Consolidation

Investment in subsidiary companies

Subsidiaries are all entities (including special-purpose entities) over which the group has the power to govern in terms of 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. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated, but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Transactions and minority interests

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Accounting policies continued

for the year ended 31 March 2007

2.2 Consolidation *(continued)*

Associates and joint ventures

Associates are all entities over which the group has significant influence but no 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.

Investments in associates and joint ventures are accounted for at cost in the financial statements of Eskom. These investments are accounted for using 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.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing, within a particular economic environment, products or services that are subject to risks and returns that are different from those segments operating in other economic environments.

Primary reporting format – business segments

The group is organised into the following business areas:

- Generation division
- Transmission division
- Distribution division
- Key Sales and Customer Services (Ksacs) division
- Other

Secondary reporting format – geographical segments

The group's business segments operate in two geographical areas, local and international.

Liabilities outside South Africa comprise 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.

2.4 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in rands, which is the company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences relating to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve (local revaluation reserve) in equity.

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency, as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate on the date of that balance sheet
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions)
- all resulting exchange differences are recognised as a separate component of equity

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholder's equity. When a foreign operation is partially disposed of or is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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 closing rate.

2.5 Property, plant and equipment

Owned assets

Land and buildings comprise mainly office, power station, substation, workshop and related buildings.

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes:

- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period

Costs may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Accounting policies continued

for the year ended 31 March 2007

2.5 Property, plant and equipment *(continued)*

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

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings and facilities	10 to 40
Plant – Generation	6 to 50
– Transmission	5 to 40
– Distribution	10 to 35
– Test, telecommunication and other plant	3 to 20
Equipment and vehicles	1 to 10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement within *other income*.

2.6 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate/joint venture at the date of acquisition. Goodwill on acquisition of subsidiaries is included in *intangible assets*. Goodwill on acquisition of associates is included in *investment in associates and joint ventures* and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The group allocates goodwill to each business segment in each country in which it operates.

Licences

Licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful life of three years.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the group and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

Rights

Rights consist mainly of servitudes and rights of way under power lines. Rights are not depreciated as they have an indefinite useful life. A servitude right is granted to Eskom for an indefinite period. The life of the servitude will remain in force as long as the transmission or distribution line is used to transmit electricity.

A servitude will only become impaired if the line to which the servitude is linked is derecognised. In practice a derecognised line will be refurbished or replaced by a new line. The likelihood of the impairment of a servitude right is remote.

Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale
- management intends to complete the intangible asset and use or sell it
- there is an ability to use or sell the intangible asset
- it can be demonstrated how the intangible asset will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available
- the expenditure attributable to the intangible asset during its development can be reliably measured

Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

Development assets are tested for impairment annually, in accordance with IAS 36.

2.7 Leases

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

Finance leases – where the group is the lessee

The group leases certain property, plant and equipment or other assets. Leases of property, plant and equipment or other assets where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment or other assets acquired under finance leases are depreciated or amortised over the shorter of the useful life of the asset and the lease term.

An arrangement that contains a lease in terms of IFRIC 4 is accounted for in terms of IAS 17. In terms of this interpretation, cost plus coal contracts are treated as finance leases where the group is the lessee.

Finance leases – where the group is the lessor

When property, plant and equipment or other assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

An arrangement that contains a lease in terms of IFRIC 4 is accounted for in terms of IAS 17. In terms of this interpretation, premium power supplies are treated as finance leases where the group is the lessor.

Accounting policies continued

for the year ended 31 March 2007

2.7 Leases *(continued)*

Operating leases

Leases where substantially all of the risks and rewards of ownership are not transferred to the group are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 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 or the contractual rights to receive cash flows expire. Realised gains and losses on disposal are determined using the weighted average method.

The appropriate classification of the financial asset is determined at the time of the purchase.

Held-to-maturity

Short-term negotiable instruments with fixed maturity, where management has both the intent and ability to hold the security to maturity, are classified as held-to-maturity and are carried at amortised cost, using the effective interest-rate method.

Financial assets at fair value through profit or loss

A financial asset is classified as held-for-trading if it is: (a) acquired or incurred principally for the purpose of selling or repurchasing it in the short term, (b) part of a portfolio of identified financial instruments that is managed together and for which there is evidence of a recent pattern of short-term profit-taking, or (c) a derivative instrument.

All related realised and unrealised gains and losses arising from the changes in fair value are recognised in the income statement.

Available-for-sale assets

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.

Interest on available-for-sale assets calculated using the effective interest rate method is recognised in the income statement as part of *finance income*. Dividends on available-for-sale equity instruments are recognised in the income statement as part of *other income* when the group's right to receive payment is established.

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.

Fair value

The fair value of trading assets and available-for-sale assets is 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.

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.

At each balance sheet date the group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in note 2.11.

Derivative financial instruments and hedging activities

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 and have been designated for purposes of applying hedge accounting. Derivatives are initially recognised at cost and subsequently re-measured at fair value. Fair values are obtained from quoted market prices, discounted cash flow 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 there is no offsetting. Realised and unrealised gains and losses are recognised in the income statement.

Hedge accounting

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The group designates certain derivatives as either:

- hedges of the fair value of recognised liabilities (fair value hedge)
- hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedge) or
- hedges of a net investment in a foreign operation (net investment hedge)

The group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Accounting policies continued

for the year ended 31 March 2007

2.9 Financial instruments *(continued)*

Derivative financial instruments and hedging activities *(continued)*

Hedge accounting *(continued)*

The fair values of various derivative instruments used for hedging purposes are disclosed in note 14.2. Movements on the hedging reserve in shareholder's equity are shown in the statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The group applies only fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within *finance cost*. The gain or loss relating to the ineffective portion is recognised in the income statement within *net fair value loss on other derivatives*. Changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognised in the income statement within *finance cost*.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest-rate method is used is amortised to profit or loss over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that is designated and qualifies as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within *net fair value loss on other derivatives*.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within *finance cost*. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within *revenue*. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in *primary energy* in the case of inventory, or in *depreciation and amortisation expense* in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within *net fair value loss on other derivatives*.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within *net fair value loss on other derivatives*.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

Derivatives at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within *net fair value loss on other derivatives*.

Repurchase and resale agreements

Securities sold subject to linked repurchase agreements are retained in the financial statements as trading assets. The liability to the counterparty is included under bank overdrafts and other short-term loans within *borrowings* in current liabilities.

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

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

Bank overdrafts with local banks, any liability as a result of unsettled transactions and other short-term liabilities with original maturity of less than 90 days, are shown within *borrowings* in current liabilities on the balance sheet.

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 the obligation is discharged, cancelled or expires. Realised gains and losses on disposal are determined using the weighted average method.

Financial liabilities at fair value through profit or loss

A financial liability is classified as held for trading if it is: (a) acquired or incurred principally for the purpose of selling or repurchasing it in the near term, (b) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking or (c) a derivative instrument. All related realised and unrealised gains and losses arising from the change in fair value are recognised in the income statement.

Financial liabilities held in the trading portfolio 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.

Liabilities held at amortised cost

Other 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.

Foreign loans

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.

Accounting policies continued

for the year ended 31 March 2007

2.9 Financial instruments *(continued)*

Short-term securities issued, trading liabilities and long-term securities issued *(continued)*

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 (foreign revaluation reserve).

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 those of a standalone 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
> 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 is the net present value of the cash flows 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 their fair values. 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 price indices or interest rates. The Monte Carlo simulation technique is used to produce various cap and floor strike prices

The more important assumptions, which include the following, are obtained either with reference to the contractual provisions of the relevant contracts or from independent market sources where appropriate:

- spot and forward commodity prices
- spot and forward foreign currency exchange rates
- spot and forward interest rates
- forecast sales volumes
- spot and forward consumer and foreign production price indices
- spot and forward electricity prices

Disclosure

Embedded derivatives are disclosed as derivative financial assets or liabilities. The changes in fair value are included in *net fair value gain on embedded derivatives* in the income statement. The impact of the fair value gains or losses is taken into account in the calculation of current and deferred taxation.

2.10 Inventories

Coal, maintenance spares and consumables

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

Nuclear fuel

Nuclear fuel is stated 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.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

2.11 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest-rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. The movement in the provision is recognised in the income statement within *net impairment reversal/(loss)*.

2.12 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest-rate method.

2.13 Cash and cash equivalents

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

Cash equivalents are defined as money market assets with an original maturity of less than 90 days.

Accounting policies continued

for the year ended 31 March 2007

2.14 Share capital

Ordinary shares are classified as equity.

2.15 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 borrowings. The capitalisation rate applied is the weighted average of the borrowing costs applicable to the borrowings of the group.

2.16 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. However, deferred income tax is provided in respect of the temporary differences arising on the assets and provisions created in respect of decommissioning and nuclear waste management and closure, pollution control and rehabilitation. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 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 stated 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.

2.18 Loans receivable

Loans receivable consist of finance provided to employees of the group, mainly for the purchase of immovable property.

2.19 Deferred income

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.

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 (with a standard supply) and transmission assets is credited to the income statement on a straight-line basis over the expected useful lives of related assets.

2.20 Insurance reserve

A full contingency reserve of ten percent of net premium income is maintained in Escap Limited in terms of the Short-term Insurance Act, 53 of 1998.

2.21 Employee benefits

Leave

The group recognises a liability and an expense for leave as the leave is of a long-term nature. An actuarial valuation is done on an annual basis for occasional and service leave. The accrued liabilities are determined by valuing all future leave taken and payments expected to be made in respect of benefits up to the valuation date. Allowance has been made in the calculations for the assumed benefit options employees will exercise, as well as salary increases and investment returns up to the date the benefit is received. All actuarial gains and losses and past service costs are recognised immediately in the income statement. The present values of the benefit are determined by using the yield of long-dated corporate bonds (or government bonds where high quality corporate bonds are not available).

Pension obligations

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.

Other post-retirement obligations

The liability for post-retirement medical aid is the present value of the obligation by using long-dated corporate bonds (or government bonds if high-quality corporate bonds are not available) which have maturities similar to the liability. Provision is made 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 are expensed to the income statement immediately. No deferred recognition mechanism is applied.

The entitlement to these benefits is usually conditional on the employee remaining in the service up to retirement. All employees qualify for post-retirement medical aid, except for external employees appointed on or after 1 June 2003 at a managerial level.

Share-based compensation

Eskom has granted cash-settled share-based instruments to eligible employees. The liability for the services received from the employees in exchange for the share-based (phantom shares) payments is recognised at fair value over the vesting period of the instruments. In compliance with IFRS 2, the liability for the service is remeasured at each balance sheet date to its fair value and all changes are recognised in the income statement. The fair value of the liability is determined using the residual-valuation model.

Annual and performance bonus

The group recognises a liability and expenses for annual and performance bonuses. Annual bonuses are accrued on a proportionate basis. A provision for performance bonus is raised on the estimated amount payable in terms of the incentive scheme which is based on the employee's performance in the applicable year.

2.22 Provisions

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

Accounting policies continued

for the year ended 31 March 2007

2.22 Provisions *(continued)*

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.

The provisions below are restated on an annual basis to reflect changes in measurement that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in discount rate, which shall be accounted for as follows:

- changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period
- the amount deducted from the cost of the asset shall not exceed its carrying amount. The excess shall be recognised in profit or loss
- any additions to the cost of an asset shall be reviewed in terms of the normal impairment principles

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

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 costs 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.

Spent nuclear fuel

A provision is created, 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 *primary energy.*

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

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown, net of value added tax, estimated returns, rebates and discounts and after eliminating sales within the group.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

Sale of goods

Sale of goods is recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

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

Sale of services

Sale of services is recognised in the accounting period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Other revenue

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

2.24 Finance income

Finance 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 the group. Finance income is recognised on a time-proportionate basis that takes into account the effective yield on assets. Finance income on impaired loans is recognised using the original effective interest rate.

2.25 Finance cost

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

2.26 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.27 Dividend distribution

Dividend distribution to the company's shareholder is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholder.

2.28 Non-current assets and liabilities held-for-sale

Assets and liabilities falling within the scope of the measurement requirements of IFRS 5 are classified as held-for-sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

Notes to the financial statements

for the year ended 31 March 2007

3. FINANCIAL RISK MANAGEMENT

Eskom has an integrated risk management framework. For more information on risk, refer to page 179 in the corporate governance report and page 31 in the directors' report.

The management of 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.

3.1 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.

3.2 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).

3.3 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).

3.4 Risk identification, measurement and reporting

Risk identification, measurement and reporting are done 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
- monitoring, assessing and supporting risk management practices
- reporting on the state of risk and risk practices to executive management

3.5 Major risks

Eskom has identified the following major risks that the organisation is exposed to:

Credit risk – arising from default of a counterparty.

Market risk – the risk of a decrease in the market value of a portfolio of financial assets or an increase in the market value of financial liabilities 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 of all of the above.

Liquidity risk – the risk that Eskom has insufficient funds or marketable securities available to fulfill its cash flow obligations on time.

Compliance risk – the risk of non-compliance with any statutory requirement of central or local government, including the South African Reserve Bank, the Financial Services Board and various financial exchanges.

3.5.1 *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 Derivatives 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, which are managed by the credit and Alco committees:

- 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 countervalue
- pre-settlement risk – the risk arises from the potential non-performance by a counterparty to a derivative obligation. The group is exposed to the loss of value through the cost of replacing the transaction at current market rates
- 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 are fully secured. The mark-to-market and capital-at-risk exposures are as follows:

	Mark-to-market exposure		Capital-at-risk exposure	
	2007	2006	**2007**	2006
	Rm	Rm	**Rm**	Rm
Customers	**3 154**	2 657	**37**	34
Financial market participants	**35 009**	36 905	**4**	5
	38 163	39 562	**41**	39

Counterparty risk

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

	Mark-to-market exposure		Capital-at-risk exposure	
	2007	2006	**2007**	2006
	Rm	Rm	**Rm**	Rm
Customers	**1 067**	938	**36**	34
Local banks	**20 338**	18 751	**2**	1
Other local institutions	**1 088**	5 075	**–**	–
Foreign banks	**8 917**	5 254	**1**	1
	31 410	30 018	**39**	36
Percentage of grand total (%)	**82,30**	75,88	**95,12**	92,31

3.5.2 *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 predetermined loss levels. Other risk management techniques involve measures which include permissible 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 14.2 for disclosure on forward exchange contracts.

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 price risk, as the fair value of these instruments does 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.

Notes to the financial statements continued

for the year ended 31 March 2007

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.5.2 *Market risk (continued)*

Repricing analysis of assets and liabilities at 31 March 2007

	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	**18 901**	**16 023**	**15 209**	**15 534**	**16 023**	**15 209**
Total liabilities	**(8 651)**	**(1 599)**	**(38 807)**	**(8 646)**	**(1 475)**	**(38 788)**
Interest rate sensitivity gap	**10 250**	**14 424**	**(23 598)**	**6 888**	**14 548**	**(23 579)**
Cumulative interest rate sensitivity gap	**10 250**	**24 674**	**1 076**	**6 888**	**21 436**	**(2 143)**

Repricing analysis of assets and liabilities at 31 March 2006

	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	14 015	11 690	22 915	13 126	11 688	20 506
Total liabilities	(15 164)	(3 609)	(29 176)	(15 114)	(3 268)	(29 149)
Interest rate sensitivity gap	(1 149)	8 081	(6 261)	(1 988)	8 420	(8 643)
Cumulative interest rate sensitivity gap	(1 149)	6 932	671	(1 988)	6 432	(2 211)

Refer to note 14.2 for disclosure on interest rate swaps.

3.5.3 *Liquidity risk*

Liquidity risk arises primarily from variation in revenue flows, Eskom's commitment to act as a market maker in its own debt instruments and to repay principal debt and interest. Eskom's approach to liquidity management includes:

- maintenance of an adequate level of short-term marketable securities, including optimal 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
- formal early warning procedures to relevant management, enabling a pro-active rather than a reactive liquidity management approach

Liquid assets under management amounted to R19 200 million for 2007 (2006: R14 800 million).

During the year under review Eskom raised net debt of R4 100 million (2006: R1 905 million). Eskom will continue to raise debt, both locally and internationally, to fund the capital expansion programme.

3.5.4 *Compliance risk*

The Eskom treasury department is subject to supervisory and regulatory legislations which include the Public Finance Management Act, Financial Intelligence Centre Act, as well as the requirements of the Financial Services Board and the South African Reserve Bank. Ultimate 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 in achieving adherence to the legislative requirements
- effective monitoring and reporting mechanism to ensure compliance

3.5.5 *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
- 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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Embedded derivatives

Eskom has entered into a number of agreements to supply electricity to electricity intensive industries where the revenue from these contracts is linked to commodity prices and foreign currency rates (mainly dollar) or foreign production price indices that give rise to embedded derivatives. 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.

At 31 March 2007 the value of the embedded derivatives was R5 592 million (2006: R1 319 million) for the group. The value depends, among other things, on the expected forward electricity curve. The electricity forward curve is based on the MYPD price increase of 5,90% (CPI+1) and 6,20% (CPI+1) for the two years ending 31 March 2009 and the consumer price index plus 2% for subsequent years.

A change in the valuation assumptions as detailed in note 14.1 will result in a change in the value of the embedded derivatives.

The following is the sensitivity analysis of the change in the value of the embedded derivatives if one of the following inputs is changed:

Variable	Description of change	Percentage change %	Increase in unrealised profit Rm	Decrease in unrealised profit Rm
Eskom				
Aluminium	Increase in price	10	2 571	
Aluminium	Decrease in price	10		(2 571)
Rand/USD	Weakening of rand	10	3 449	
Rand/USD	Appreciation of rand	10		(3 561)
Rand interest rates	Parallel shift up	1	1 676	
Rand interest rates	Parallel shift down	1		(1 884)
Dollar interest rates	Parallel shift up	1		(1 741)
Dollar interest rates	Parallel shift down	1	1 930	
Consumer price indices	Parallel shift up	1		(1 760)
Consumer price indices	Parallel shift down	1	1 564	
US PPI	Parallel shift up	1	491	
US PPI	Parallel shift down	1		(495)

The board has approved a new forward electricity price curve that moves significantly higher. However, these higher prices have yet to be considered by Nersa. In the interim, the existing forward curve as adjusted for the MYPD must remain the basis for the valuation of embedded derivatives for financial statement purposes in terms of International Financial Reporting Standards.

If embedded derivatives were calculated according to the board's new forward electricity price curve, their value would change markedly – from a net asset of R5 592 million to a net liability of R1 281 million. This would impact the profit before tax negatively by R6 873 million.

(b) Post-retirement medical benefits

The group is providing for the cost of post-retirement medical benefits.

The carrying amount of the provision would be an estimated R734 million lower (2006: R694 million) had the 6,5% medical inflation rate used in the valuation decreased by 1% and R922 million higher (2006: R875 million) had the medical inflation rate increased by 1%.

(c) Occasional leave

Based on the current experience, only 5% of the leave is utilised. If the rate at which leave is taken is 10%, then the liability will increase by R22 million (2006: R21 million).

(d) Decommissioning, mine closure and rehabilitation

The carrying amount of the provision would be an estimated R1 457 million higher (2006: R1 336 million) had the 4,6% real discount rate used in the calculation of the provision decreased by 1% and R1 081 million lower (2006: R983 million) had the 4,6% real discount rate increased by 1%.

Notes to the financial statements continued

for the year ended 31 March 2007

Business segmentation	Generation Rm	Transmission Rm	Distribution Rm	Ksacs Rm	Other Rm	Total Rm	Elimination Rm	Consolidation Rm
5. SEGMENT INFORMATION								
Continuing operations								
Revenue								
External sales	–	–	23 585	15 859	5 260	44 704	(4 636)	40 068
Inter-segment sales	23 816	2 557	(11 987)	(14 386)	–	–	–	–
Total revenue	23 816	2 557	11 598	1 473	5 260	44 704	(4 636)	40 068
Result								
Segment results/operating profit	2 979	954	2 376	4 038	1 095	11 442	(477)	10 965
Finance income						2 933	(185)	2 748
Finance cost						(4 411)	115	(4 296)
Share of profit of associates and joint ventures						25	16	41
Income tax expense						(2 699)	195	(2 504)
Profit for the year from continuing operations						7 290	(336)	6 954
Discontinued operations								
Loss for the year from discontinued operations						(36)	(464)	(500)
Profit for the year						7 254	(800)	6 454
Other information								
Segment assets	45 827	10 335	28 565	2 321	8 291	95 339	(5 689)	89 650
Investment in equity method associates and joint ventures	–	–	–	–	119	119	52	171
Non-current assets held-for-sale	–	–	–	–	4 016	4 016	(191)	3 825
Unallocated assets	–	–	–	–	–	50 108	–	50 108
Total assets	45 827	10 335	28 565	2 321	12 426	149 582	(5 828)	143 754
Segment liabilities	(10 065)	(647)	(9 008)	(402)	(9 466)	(29 588)	3 045	(26 543)
Non-current liabilities held-for-sale	–	–	–	–	(2 862)	(2 862)	750	(2 112)
Unallocated liabilities	–	–	–	–	–	(58 293)	3	(58 290)
Total liabilities	(10 065)	(647)	(9 008)	(402)	(12 328)	(90 743)	3 798	(86 945)
Capital expenditure	10 439	1 993	4 695	3	577	17 707	–	17 707
Depreciation and amortisation	2 047	487	2 021	1	184	4 740	(17)	4 723
Impairment losses	–	4	153	–	9	166	–	166
Reversal of impairment losses	(7)	(2)	–	(7)	(632)	(648)	140	(508)
Other non-cash expenses	801	7	1 279	(4 082)	763	(1 232)	–	(1 232)

for the year ended 31 March 2006

Business segmentation	Generation Rm	Transmission Rm	Distribution Rm	Ksacs Rm	Other Rm	Total Rm	Elimination Rm	Consolidation Rm
Continuing operations								
Revenue								
External sales	3	–	21 252	14 129	4 220	39 604	(3 552)	36 052
Inter-segment sales	21 668	2 444	(10 701)	(13 411)	–	–	–	–
Total revenue	21 671	2 444	10 551	718	4 220	39 604	(3 552)	36 052
Result								
Segment result/operating profit	3 785	1 001	2 606	1 192	858	9 442	(1 092)	8 350
Finance income						3 042	(259)	2 783
Finance cost						(4 630)	109	(4 521)
Share of profit of associates and joint ventures						20	15	35
Income tax expense						(2 192)	70	(2 122)
Profit for the year from continuing operations						5 682	(1 157)	4 525
Discontinued operations								
Profit for the year from discontinued operations						40	76	116
Profit for the year						5 722	(1 081)	4 641
Other information								
Segment assets	37 232	8 831	25 818	1 920	9 809	83 610	(6 700)	76 910
Investment in equity method associates and joint ventures	–	–	4	–	150	154	60	214
Non-current assets held-for-sale	–	–	–	–	2 442	2 442	(40)	2 402
Unallocated assets	–	–	–	–	–	49 113	(353)	48 760
Total assets	37 232	8 831	25 822	1 920	12 401	135 319	(7 033)	128 286
Segment liabilities	(8 551)	(494)	(6 799)	(177)	(9 644)	(25 665)	3 727	(21 938)
Non-current liabilities held-for-sale	–	–	–	–	(2 304)	(2 304)	2 280	(24)
Unallocated liabilities	–	–	–	–	–	(55 746)	(207)	(55 953)
Total liabilities	(8 551)	(494)	(6 799)	(177)	(11 948)	(83 715)	5 800	(77 915)
Capital expenditure	5 023	1 263	4 027	–	450	10 763	(147)	10 616
Depreciation and amortisation	2 047	463	1 837	1	246	4 594	(18)	4 576
Impairment losses	37	(4)	113	1	(3)	144	–	144
Reversal of impairment losses	(13)	(4)	(87)	–	(869)	(973)	828	(145)
Other non-cash expenses	801	(40)	672	(1 421)	1 150	1 162	–	1 162

Nature of business of segments

Generation – generation of electricity.
Transmission – provide, operate and maintain a transmission network for transmitting bulk electricity.
Distribution – distribution of electricity to redistributors, small and large customers.
Ksacs – manage contestable customer relationships and trading of energy from Generation division and international sources to contestable customers in South Africa.
Other – comprises Corporate divisions and subsidiaries.

Inter-segment electricity transfers

The inter-divisional electricity related transactions are linked to the regulatory approved time-of-use wholesale electricity pricing structure (WEPS) rates.

Notes to the financial statements continued

for the year ended 31 March 2007

	Geographical segmentation	Group 2007 Rm	Group 2006 Rm
5.	**SEGMENT INFORMATION** (continued)		
	The group's business segments operate in two main geographical areas, South Africa and outside South Africa. The home country of Eskom, which is the main operating company, is South Africa.		
	The group's revenue is mainly within South Africa.		
	Revenue		
	South Africa	**38 303**	34 269
	Outside South Africa	**1 765**	1 783
	Total revenue	**40 068**	36 052
	Revenue is allocated based on the country in which the customer is located.		
	Analysis of revenue by category		
	Sales of goods	**39 344**	35 361
	Revenue from services	**669**	668
	Other revenue	**55**	23
		40 068	36 052
	Capital expenditure		
	South Africa	**(17 673)**	(10 599)
	Outside South Africa	**(34)**	(17)
		(17 707)	(10 616)
	Capital expenditure is allocated based on where the assets are located.		
	Total assets		
	South Africa	**142 509**	127 184
	Outside South Africa	**1 074**	888
		143 583	128 072
	Associates and joint ventures	**171**	214
		143 754	128 286
	Assets are allocated based on where the assets are located.		

	Group			Company		
	Cost Rm	Accumulated depreciation Rm	Carrying value Rm	Cost Rm	Accumulated depreciation Rm	Carrying value Rm
6. PROPERTY, PLANT AND EQUIPMENT						
March 2007						
Owned assets						
Land	312	–	312	281	–	281
Buildings and facilities	2 969	(1 287)	1 682	2 831	(1 225)	1 606
Plant – Generation	56 732	(26 779)	29 953	56 732	(26 779)	29 953
– Transmission	12 520	(5 222)	7 298	12 520	(5 222)	7 298
– Distribution	35 048	(14 309)	20 739	35 048	(14 309)	20 739
Regular distribution	23 271	(8 614)	14 657	23 271	(8 614)	14 657
Electrification	11 777	(5 695)	6 082	11 777	(5 695)	6 082
– Test, telecommunication and other plant	2 191	(1 370)	821	437	(284)	153
Equipment and vehicles	5 048	(2 966)	2 082	4 664	(2 786)	1 878
Total in commission	114 820	(51 933)	62 887	112 513	(50 605)	61 908
Plant at mothballed power stations	–	–	–	–	–	–
Works under construction	13 428	–	13 428	13 562	–	13 562
Construction materials	331	–	331	331	–	331
	128 579	(51 933)	76 646	126 406	(50 605)	75 801
Leased assets						
Mining assets	573	(281)	292	573	(281)	292
Plant	42	(32)	10	12	(2)	10
Equipment and vehicles	27	(13)	14	197	(89)	108
	642	(326)	316	782	(372)	410
Total property, plant and equipment	129 221	(52 259)	76 962	127 188	(50 977)	76 211
March 2006						
Owned assets						
Land	295	–	295	258	–	258
Buildings and facilities	2 926	(1 228)	1 698	2 761	(1 193)	1 568
Plant – Generation	51 265	(24 879)	26 386	51 265	(24 879)	26 386
– Transmission	11 738	(4 778)	6 960	11 738	(4 778)	6 960
– Distribution	31 832	(12 589)	19 243	31 832	(12 589)	19 243
Regular distribution	20 698	(7 283)	13 415	20 698	(7 283)	13 415
Electrification	11 134	(5 306)	5 828	11 134	(5 306)	5 828
– Test, telecommunication and other plant	2 591	(1 568)	1 023	447	(277)	170
Equipment and vehicles	5 145	(3 110)	2 035	4 245	(2 495)	1 750
Total in commission	105 792	(48 152)	57 640	102 546	(46 211)	56 335
Plant at mothballed power stations	446	(446)	–	446	(446)	–
Works under construction	6 440	–	6 440	6 513	–	6 513
Construction materials	195	–	195	195	–	195
	112 873	(48 598)	64 275	109 700	(46 657)	63 043
Leased assets						
Mining assets	573	(267)	306	573	(267)	306
Plant	–	–	–	12	(1)	11
Equipment and vehicles	15	(10)	5	119	(69)	50
	588	(277)	311	704	(337)	367
Total property, plant and equipment	113 461	(48 875)	64 586	110 404	(46 994)	63 410

Notes to the financial statements continued

for the year ended 31 March 2007

	Carrying value beginning of year Rm	Additions and transfers Rm	Transfer to non-current assets held-for-sale Rm	Change in rate of decommissioning provision and cost estimate Rm	Disposals Rm	Impairment losses Rm	Reversal of impairment losses Rm	Depreciation Rm	Carrying value end of year Rm
6. PROPERTY, PLANT AND EQUIPMENT (continued)									
2007 Group									
Owned assets									
Land	295	30	(1)	–	(12)	–	–	–	312
Buildings and facilities	1 698	75	(27)	–	(7)	–	31	(88)	1 682
Plant	53 612	9 490	(689)	214	(94)	(4)	385[1]	(4 103)	58 811
Equipment and vehicles	2 035	763	(187)	–	(28)	–	–	(501)	2 082
Plant at mothballed power stations	–	–	–	–	–	–	–	–	–
Works under construction	6 440	7 012	(19)	–	(5)	–	–	–	13 428
Construction materials	195	136	–	–	–	–	–	–	331
	64 275	17 506	(923)	214	(146)	(4)	416	(4 692)	76 646
Leased assets									
Mining assets	306	–	–	–	–	–	–	(14)	292
Plant	–	16	–	–	–	–	–	(6)	10
Equipment and vehicles	5	14	–	–	–	–	–	(5)	14
	311	30	–	–	–	–	–	(25)	316
Total property, plant and equipment	64 586	17 536	(923)	214	(146)	(4)	416	(4 717)	76 962

1. *Included is an amount of R377 million which relates to the reversal of impairment of the investment in the Full Service Network. Eskom Enterprises invested R760 million in the Full Service Network ahead of the introduction of a second telecommunication network operator in South Africa. An impairment provision of R760 million was recognised in prior years by Eskom Enterprises as the licence, initially scheduled for May 2002, was only issued by the Independent Communications Authority of South Africa on 9 December 2005. The company is in the process of concluding an agreement with Broadband Infraco (Pty) Limited to sell the fibre optic network for R377 million. As a result, reversal of the impairment provision was recognised.*

	Carrying value beginning of year Rm	Additions and transfers Rm	Change in rate of decommissioning provision and cost estimate Rm	Disposals Rm	Impairment losses Rm	Reversal of impairment losses Rm	Depreciation Rm	Carrying value end of year Rm
2007 Company								
Owned assets								
Land	258	35	–	(12)	–	–	–	281
Buildings and facilities	1 568	101	–	(7)	–	31	(87)	1 606
Plant	52 759	9 236	214	(65)	(4)	8	(4 005)	58 143
Equipment and vehicles	1 750	627	–	(20)	–	–	(479)	1 878
Plant at mothballed power stations	–	–	–	–	–	–	–	–
Works under construction	6 513	7 049	–	–	–	–	–	13 562
Construction materials	195	136	–	–	–	–	–	331
	63 043	17 184	214	(104)	(4)	39	(4 571)	75 801
Leased assets								
Mining assets	306	–	–	–	–	–	(14)	292
Plant	11	–	–	–	–	–	(1)	10
Equipment and vehicles	50	78	–	–	–	–	(20)	108
	367	78	–	–	–	–	(35)	410
Total property, plant and equipment	63 410	17 262	214	(104)	(4)	39	(4 606)	76 211

Notes to the financial statements continued

for the year ended 31 March 2007

	Note	Group		Company	
		March 2007 Rm	March 2006 Rm	**March 2007 Rm**	March 2006 Rm
6. PROPERTY, PLANT AND EQUIPMENT (continued)					
Borrowing costs are capitalised at a weighted average rate of 8% (2006: 11%).					
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 carrying value of		**4 098**	3 546	**4 098**	3 546
The cross-border lease transactions comprise primary lease terms of 17,8 and 21 years as well as renewable lease terms of 14,8 and 12 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. These assets are included in the category *owned assets*.					
Leased assets include arrangements that contain finance leases in terms of IFRIC 4.					
The carrying values of assets no longer accounted for as property, plant and equipment in terms of the application of IFRIC 4 are		**733**	813	**649**	663
The total depreciation charge for property, plant and equipment for the group of R4 717 million (2006: R4 468 million) and the company of R4 606 million (2006: R4 279 million) is disclosed in the income statement in the following categories:					
Depreciation and amortisation expense	28	**4 703**	4 454	**4 592**	4 265
Primary energy		**14**	14	**14**	14
		4 717	4 468	**4 606**	4 279

	Group			Company		
	Cost Rm	Accumulated amortisation/ impairment Rm	Carrying value Rm	Cost Rm	Accumulated amortisation/ impairment Rm	Carrying value Rm
7. INTANGIBLE ASSETS						
March 2007						
Rights	**404**	**(221)**	**183**	**404**	**(221)**	**183**
Computer software	**1 635**	**(1 406)**	**229**	**1 626**	**(1 399)**	**227**
Total	**2 039**	**(1 627)**	**412**	**2 030**	**(1 620)**	**410**
March 2006						
Rights	324	(221)	103	324	(221)	103
Computer software	1 624	(1 295)	329	1 532	(1 214)	318
Goodwill	10	–	10	–	–	–
Total	1 958	(1 516)	442	1 856	(1 435)	421

Reconciliation of movements	Carrying value beginning of year Rm	Additions and transfers Rm	Transfer to non-current assets held-for-sale Rm	Amortisation Rm	Carrying value end of year Rm
March 2007					
Group					
Rights[1]	**103**	**80**	**–**	**–**	**183**
Computer software[2]	**329**	**91**	**(11)**	**(180)**	**229**
Goodwill[3]	**10**	**–**	**(10)**	**–**	**–**
Total	**442**	**171**	**(21)**	**(180)**	**412**
Company					
Rights[1]	**103**	**80**	**–**	**–**	**183**
Computer software[2]	**318**	**88**	**–**	**(179)**	**227**
Total	**421**	**168**	**–**	**(179)**	**410**

Amortisation of intangible assets in the group of R180 million (2006: R260 million) and the company of R179 million (2006: R260 million) is included in note 28 in the income statement.

Impairment test for rights

Rights consist mainly of servitudes and rights of way under power lines. Rights are not depreciated as they have an indefinite life. A servitude right is granted to Eskom for an indefinite period. The life of the servitude will remain in force as long as the transmission or distribution line is used to transmit electricity.

A servitude will only become impaired if the line to which the servitude is linked is derecognised. In practice a derecognised line will be refurbished or replaced with a new line. The likelihood of the impairment of a servitude right is remote.

Impairment test for goodwill

Impairment testing of goodwill is carried out as disclosed in the accounting policy note 2.6.

1. Rights are disclosed at cost of purchase.
2. Computer software is disclosed at cost of purchase, including costs incurred in modifying the software.
3. Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition.

Notes to the financial statements continued

for the year ended 31 March 2007

	Note	Group		Company	
		March 2007 Rm	March 2006 Rm	**March 2007 Rm**	March 2006 Rm
8. INVESTMENT IN ASSOCIATES					
Balance at beginning of the year		**72**	245	**5**	4
Share of profit[1]		**25**	21	**–**	–
Provision for impairment		**–**	(2)	**–**	–
Reversal of impairment	29	**–**	84	**–**	84
Transfer to subsidiary		**(29)**	–	**(4)**	–
Transfer to non-current assets held-for-sale		**(47)**	–	**–**	–
Disposal of investment		**(9)**	–	**–**	–
Other movements		**–**	(276)	**–**	(83)
Balance at end of the year		**12**	72	**1**	5
Directors' valuation[2]		**59**	73	**12**	35

Investments in the company are accounted for at cost, while the share of profits since acquisition are accounted for in the group.

The group's share of the results of its principal associates, all of which are unlisted, and its share of the assets (including goodwill and liabilities) are as follows:

Name	Country of incorporation	Assets Rm	Liabilities Rm	Revenues Rm	Profit Rm	% interest held
Group						
2007						
Directly held						
PN Energy Services (Pty) Limited[3]	South Africa	**–**	**–**	**–**	**6**	**50**
Uitenhage Electricity Supply Company (Pty) Limited[4]	South Africa	**22**	**(11)**	**51**	**–**	**33**
Western Power Corridor (Pty) Limited	Botswana	**1**	**–**	**–**	**–**	**20**
Indirectly held						
Elgas SARL[5]	Mozambique	**4**	**(4)**	**–**	**–**	**25**
Global Electricity Services Company[5]	Libya	**–**	**–**	**–**	**–**	**49**
Ash Resources (Pty) Limited[5,6]	South Africa	**–**	**–**	**–**	**10**	**25**
Umeme Limited[5,7]	Uganda	**–**	**–**	**–**	**9**	**–**
		27	**(15)**	**51**	**25**	
2006						
Directly held						
PN Energy Services (Pty) Limited[5]	South Africa	19	(2)	14	4	50
Transitional Electricity Distributor (Pty) Limited[5]	South Africa	–	–	–	–	50
Uitenhage Electricity Supply Company (Pty) Limited[4]	South Africa	20	(13)	71	2	33
Western Power Corridor (Pty) Limited	Botswana	1	–	–	–	20
Indirectly held						
Ariviakom (Pty) Limited[8]	South Africa	–	–	611	7	–
Elgas SARL[5]	Mozambique	–	–	–	–	25
Global Electricity Services Company[5]	Libya	–	–	–	–	49
Ash Resources (Pty) Limited[5]	South Africa	22	(8)	50	6	25
Clinker Supplies (Pty) Limited	South Africa	4	(2)	11	2	50
Umeme Limited[5]	Uganda	–	–	–	–	44
		66	(25)	757	21	

Where the above entities' financial year ends differ with that of Eskom, financial information has been obtained from published information or management accounts as appropriate.

1. *Share of profit is after tax.*
2. *Includes investments classified as non-current assets held-for-sale.*
3. *PN Energy Services (Pty) Limited was an associate for the period 1 April 2006 to 16 March 2007 and became a subsidiary on 17 March 2007. The fair value of assets and liabilities arising from this acquisition were: trade and other receivables R1 million, cash and cash equivalents R26 million and trade and other payables of R4 million.*
4. *Year end is 30 June. The financial results are immaterial.*
5. *Year end is 31 December.*
6. *Transferred to non-current assets held-for-sale.*
7. *Umeme Limited was sold during the 2007 financial year.*
8. *Ariviakom (Pty) Limited was an associate for the period 1 April 2005 to 28 February 2006 and became a subsidiary on 1 March 2006.*

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
9. INVESTMENT IN JOINT VENTURES				
Balance at beginning of the year	**142**	125	**95**	95
Share of profit[1]	**16**	14	**–**	–
Acquisition	**6**	–	**–**	–
Provision for impairment	**(1)**	–	**–**	–
Dividends received	**1**	–	**–**	–
Transferred to non-current assets held-for-sale	**(9)**	–	**–**	–
Other movements	**4**	3	**–**	–
Balance at end of the year	**159**	142	**95**	95
Directors' valuation[2]	**168**	142	**136**	125

Goodwill of Rnil (2006: R10 million) arising from investment in joint ventures is disclosed in note 7 *Intangible assets*. This arose through the acquisition of arivia.kom (Pty) Limited. This investment has been transferred to non-current assets held-for-sale.

Investments in the company are accounted for at cost, while the share of profits since acquisition are accounted for in the group.

The group's share of the results of its principal joint ventures, all of which are unlisted, and its share of the assets (including goodwill and liabilities) are as follows:

Name	Non-current assets Rm	Current assets Rm	Non-current liabilities Rm	Current liabilities Rm	Profit Rm	% interest held
Group						
2007						
Directly held						
Motraco – Mozambique Transmission Company SARL	**237**	**91**	**(156)**	**(36)**	**10**	**33**
Indirectly held						
Trans Africa Projects (Pty) Limited[3]	**1**	**38**	**–**	**(28)**	**2**	**50**
Trans Africa Projects Limited (Mauritius)[3]	**–**	**–**	**–**	**–**	**–**	**50**
EON~Solutions Africa (Pty) Limited[4]	**–**	**–**	**–**	**–**	**3**	**50**
Transpoint (Pty) Ltd	**–**	**–**	**–**	**–**	**–**	**50**
Clinker Supplies (Pty) Limited[4]	**–**	**–**	**–**	**–**	**1**	**50**
	238	**129**	**(156)**	**(64)**	**16**	
2006						
Directly held						
Motraco – Mozambique Transmission Company SARL	238	47	(144)	(37)	7	33
Indirectly held						
Trans Africa Projects (Pty) Limited[3]	1	24	–	(16)	4	50
Trans Africa Projects Limited (Mauritius)[3]	–	–	–	–	–	50
Hem~Kom Live Line Engineering (Pty) Limited	–	–	–	–	–	50
EON~Solutions Africa (Pty) Limited	–	6	–	(4)	3	50
South Dunes Coal Terminal (Pty) Limited[5]	–	–	–	–	–	50
	239	77	(144)	(57)	14	

1. Share of profit is after tax.
2. Includes investments classified as non-current assets held-for-sale.
3. Year end is 31 December.
4. Transferred to non-current assets held-for-sale.
5. South Dunes became a subsidiary on 1 April 2006.

Notes to the financial statements continued

for the year ended 31 March 2007

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
10. INVESTMENT IN SUBSIDIARIES				
Shares at cost			**388**	184
Indebtedness			**1 970**	1 970
Provision for impairment			**–**	(140)
Total interest in subsidiaries			**2 358**	2 014
Directors' valuation[1]			**4 665**	3 371
Aggregate attributable after tax profits of subsidiary companies	**1 251**	674		

Name	Main business	Country of incorp-oration	Issued/ stated share capital R	Interest held %	Invest-ment at cost Rm	Indebted-ness Rm	Provision for impair-ment Rm
2007							
Directly held							
Eskom Finance Company (Pty) Limited	Finance (employee housing loans)	South Africa	**4 000**	**100**	[9]	**–**	**–**
Escap Limited	Insurance	South Africa	**379 500 000**	**100**	**380**	**–**	**–**
Gallium Insurance Company Limited[2]	Insurance	Isle of Man	**4 000 000**	**100**	**4**	**–**	**–**
Eskom Enterprises (Pty) Limited	Non-regulated electricity supply industry activities and electricity supply and related services outside South Africa	South Africa	**99 000**	**100**	[9]	**1 970**[10]	**–**
PN Energy Services (Pty) Limited	Maintenance of electrical and telecommunication distribution network	South Africa	**1 500 000**	**100**	**4**	**–**	**–**
The Natal Navigation Colliers & Estate Company Limited	Property rental	South Africa	**1 542 850**	**100**	[9]	**–**	**–**
Indirectly held							
Golang Coal (Pty) Limited	Coal exports	South Africa	**1 000**	**67**	**–**	**–**	**–**
Eskom Enterprises Global West Africa[2,3]	Operations management	Nigeria	**100**	**100**	**–**	**–**	**–**
Eskom Energie Manantali SA[2,3]	Energy supply	Mali	**1 000**	**100**	**–**	**–**	**–**
Eskom Uganda Limited[2,3]	Operations management	Uganda	**100**	**100**	**–**	**–**	**–**
Pebble Bed Modular Reactor (Pty) Limited[4]	Reactor driven generation project	South Africa	**100**	**100**	**–**	**–**	**–**
Technology Services International (Pty) Limited	Technical consulting	South Africa	**100**	**100**	**–**	**–**	**–**
Rotek Industries (Pty) Limited	Maintenance and services	South Africa	**4 000**	**100**	**–**	**–**	**–**
Rosherville Properties (Pty) Limited	Properties	South Africa	**1**	**100**	**–**	**–**	**–**
Broadband Infraco (Pty) Limited[4,5]	Broadband services	South Africa	**1**	**100**	**–**	**–**	**–**
Roshcon (Pty) Limited	Construction	South Africa	**1**	**100**	**–**	**–**	**–**
Airborne Laser Solutions (Pty) Limited	Aerial surveying technologies	South Africa	**1**	**100**	**–**	**–**	**–**
Amazing Amanzi (Pty) Limited	Low-energy utility devices	South Africa	**100**	**70**	**–**	**–**	**–**
Mountain Communications (Pty) Limited[2,6,7]	Telecommunication	Lesotho	**1 646**	**71**	**–**	**–**	**–**
Lunsemfwa Hydro Power Company[2,3]	Operations and maintenance services	Zambia	**1 825**	**51**	**–**	**–**	**–**
Ariviakom (Pty) Limited[6,7]	Information technology services	South Africa	**1 709 616**	**59**	**–**	**–**	**–**
South Dunes Coal Terminal (Pty) Limited[8]	Coal exports	South Africa	**4 000**	**50**	**–**	**–**	**–**
					388	**1 970**	**–**

Name	Main business	Country of incorp-oration	Issued/ stated share capital R	Interest held %	Investment at cost Rm	Indebted-ness Rm	Provision for impair-ment Rm
2006							
Directly held							
Eskom Finance Company (Pty) Limited	Finance (employee housing loans)	South Africa	4 000	100	[9]	–	–
Escap Limited	Insurance	South Africa	179 500 000	100	180	–	–
Gallium Insurance Company Limited[2]	Insurance	Isle of Man	4 000 000	100	4	–	–
Eskom Enterprises (Pty) Limited	Non-regulated electricity supply industry activities and electricity supply and related services outside South Africa	South Africa	100	100	[9]	1 970[10]	(140)
The Natal Navigation Colliers and Estate Company Limited	Property Limited	South Africa	1 542 850	100	[9]	–	–
Indirectly held							
Golang Coal (Pty) Limited	Coal exports	South Africa	1 000	67	–	–	–
Eskom Enterprises Global West Africa[2,3]	Operations management	Nigeria	100	100	–	–	–
Eskom Energie Manantali SA[2,3]	Energy supply	Mali	1 000	100	–	–	–
Eskom Uganda Limited[2,3]	Operations management	Uganda	100	100	–	–	–
Pebble Bed Modular Reactor (Pty) Limited	Reactor driven generation project	South Africa	100	100	–	–	–
Technology Services International (Pty) Limited	Technical consulting	South Africa	100	100	–	–	–
Rotek Industries (Pty) Limited	Maintenance and services	South Africa	4 000	100	–	–	–
Rosherville Properties (Pty) Limited	Properties	South Africa	1	100	–	–	–
Rosherville Vehicle Services (Pty) Limited	Transport	South Africa	1	100	–	–	–
Roshcon (Pty) Limited	Construction	South Africa	1	100	–	–	–
Airborne Laser Solutions (Pty) Limited	Aerial surveying technologies	South Africa	1	100	–	–	–
Amazing Amanzi (Pty) Limited	Low-energy utility devices	South Africa	100	70	–	–	–
Mountain Communications (Pty) Limited[2,6]	Telecommunication	Lesotho	1 646	71	–	–	–
Lunsemfwa Hydro Power Company[2,3]	Operations and maintenance services	Zambia	1 825	51	–	–	–
Ariviakom (Pty) Ltd[6]	Information technology services	South Africa	1 709 616	59	–	–	–
					184	1 970	(140)

1. *Includes investments classified as non-current assets held-for-sale.*
2. *Issued/stated capital in foreign currency.*
3. *Year end is 31 December.*
4. *Pebble Bed Modular Reactor (Pty) Limited and Broadband Infraco (Pty) Limited are not considered to be controlled by Eskom Enterprises and therefore no longer consolidated.*
5. *Broadband Infraco (Pty) Limited was previously Rosherville Vehicle Services (Pty) Limited.*
6. *The subsidiaries of Mountain Communications (Pty) Limited and Ariviakom (Pty) Limited have not been disclosed in this schedule.*
7. *Ariviakom (Pty) Limited and Mountain Communications (Pty) Limited are classified as non-current assets and liabilities held-for-sale (refer to note 19).*
8. *South Dunes Coal Terminal (Pty) Limited was previously a joint venture and became a subsidiary on 1 April 2006.*
9. *Nominal value.*
10. *The equity loan to Eskom Enterprises (Pty) Limited of R1 970 million (2006: R1 970 million) has been subordinated to the extent of R258 million (2006: R834 million). The loan is interest free.*

Notes to the financial statements continued

for the year ended 31 March 2007

	Company	
	2007 Rm	2006 Rm
10. INVESTMENT IN SUBSIDIARIES (continued)		
10.1 Loans to subsidiaries		
Eskom Finance Company (Pty) Limited	**740**	2 273
Eskom Enterprises (Pty) Limited	**–**	38
	740	2 311
Loans to subsidiaries accrue interest at an average rate of 9% (2006: 7%) with a maturity of two months from balance sheet date.		
10.2 Amounts owing to subsidiaries		
Eskom Finance Company (Pty) Limited	**43**	39
Eskom Enterprises (Pty) Limited	**763**	522
Escap (Pty) Ltd	**187**	367
	993	928
Amounts owing to subsidiaries accrue interest at an average rate of 9% (2006: 7%) with a maturity between one and eight months from balance sheet date. Included are current accounts totalling R296 million (2006: R75 million) that accrue interest at variable rates.		

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
11. FUTURE FUEL SUPPLIES				
Coal	**2 513**	2 613	**2 513**	2 613
Balance at beginning of the year	**2 613**	2 285	**2 613**	2 285
Additions	**134**	565	**134**	565
Amortised during the year[1]	**(234)**	(237)	**(234)**	(237)
Nuclear	**44**	44	**44**	44
Balance at beginning of the year	**44**	186	**44**	186
Additions	**248**	279	**248**	279
Amortised during the year[1]	**(3)**	(3)	**(3)**	(3)
Transfer from equity	**19**	5	**19**	5
Transfer to inventories	**(264)**	(423)	**(264)**	(423)
Total	**2 557**	2 657	**2 557**	2 657

1. *Amortisation of future fuel is included in primary energy in the income statement.*

	Note	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
12. DEFERRED INCOME TAX					
Deferred tax assets					
Balance at beginning of the year		**140**	127	**–**	–
Transfer to non-current assets held-for-sale		**(51)**	–	**–**	–
Transfer to income statement	33	**(70)**	(1)	**–**	–
Other		**(14)**	14	**–**	–
		5	140	**–**	–
Recoverable within 12 months		**3**	84	**–**	–
Recoverable after more than 12 months		**2**	56	**–**	–
		5	140	**–**	–
Deferred tax liabilities					
Balance at beginning of the year		**(7 360)**	(6 820)	**(7 098)**	(6 492)
Transfer to non-current liabilities held-for-sale		**–**	(7)	**–**	–
		(7 360)	(6 827)	**(7 098)**	(6 492)
Transfer from income statement	33	**(1 040)**	(527)	**(1 221)**	(607)
Transfer (from)/to statement of changes in equity		**(344)**	1	**(343)**	1
Other		**14**	(7)	**–**	–
		(8 730)	(7 360)	**(8 662)**	(7 098)
To be settled within 12 months		**(873)**	(736)	**(896)**	(737)
To be settled after more than 12 months		**(7 857)**	(6 624)	**(7 766)**	(6 361)
		(8 730)	(7 360)	**(8 662)**	(7 098)
Comprising:					
Deferred tax assets					
Property, plant and equipment		**(18)**	4	**–**	–
Provisions		**8**	34	**–**	–
Tax losses		**–**	12	**–**	–
Other		**15**	90	**–**	–
		5	140	**–**	–
Deferred tax liabilities					
Property, plant and equipment		**(11 274)**	(10 604)	**(11 153)**	(10 483)
Inventories		**(262)**	(251)	**(262)**	(251)
Provisions		**3 605**	3 321	**3 536**	3 230
Tax losses		**–**	1	**–**	–
Other		**(799)**	173	**(783)**	406
		(8 730)	(7 360)	**(8 662)**	(7 098)
Computed tax losses not used, but available for set-off against future taxable income		**–**	–	**–**	–
Unused tax losses available for set-off against future income		**–**	–	**–**	–

Notes to the financial statements continued

for the year ended 31 March 2007

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
13. FINANCIAL INSTRUMENTS				
Non-current assets				
13.1 Available-for-sale financial assets				
Listed marketable securities				
– Due between one and five years	**9 553**	7 880	**9 553**	7 880
– Due after five years	**1 568**	1 629	**1 568**	1 629
	11 121	9 509	**11 121**	9 509
13.2 Financial assets at amortised cost				
13.2.1 *Loans and receivables – unlisted securities*	**1 852**	3 140	**1 852**	3 140
– Due between one and five years	**599**	1 069	**599**	1 069
– Due after five years	**1 253**	2 071	**1 253**	2 071
The fair value of loans and receivables for the group and the company amounted to R1 976 million at 31 March 2007 (2006: R3 266 million).				
13.2.2 *Assets held-to-maturity – unlisted securities*	**850**	3 400	**850**	3 400
– Due between one and five years	**750**	3 300	**750**	3 300
– Due after five years	**100**	100	**100**	100
The fair value of assets held-to-maturity for the group and the company amounted to R846 million at 31 March 2007 (2006: R3 419 million).				
Total financial assets at amortised cost	**2 702**	6 540	**2 702**	6 540
Current assets				
13.3 Available-for-sale financial assets				
Short-term unlisted securities	**4 846**	566	**4 846**	566
13.4 Other financial assets at fair value through profit or loss				
Trading assets – unlisted securities of, or guaranteed by the South African government	**2 903**	10 565	**2 903**	10 565
Listed shares held at market value	**489**	133	**–**	–
	3 392	10 698	**2 903**	10 565
Trading assets for the group and company include securities that are repurchase agreements amounting to R1 200 million (2006: R4 400 million).				
13.5 Financial assets at amortised cost				
13.5.1 *Loans and receivables*				
– Short-term unlisted securities	**4 326**	2 343	**4 326**	2 343
The fair value of loans and receivables for the group and company amounted to R4 353 million at 31 March 2007 (2006: R2 364 million).				
13.5.2 *Assets held-to-maturity*				
– Short-term unlisted securities	**2 592**	1 267	**2 592**	1 267
The fair value of assets held-to-maturity for the group and company amounted to R2 595 million at 31 March 2007 (2006: R1 267 million).				
Total financial assets at amortised cost	**6 918**	3 610	**6 918**	3 610

		Group		Company	
		2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
13.6	**Cash and cash equivalents**				
	Bank balances	**2 569**	2 860	**687**	760
	Unsettled deals	**477**	104	**477**	104
	Other financial assets at fair value through profit or loss	**1 773**	615	**1 773**	615
	Available-for-sale financial assets	**1 176**	1 064	**180**	–
	Financial assets at amortised cost	**4 539**	5 586	**4 539**	5 586
		10 534	10 229	**7 656**	7 065
	Included in unsettled deals are assets under resale agreements as well as trades to be settled under normal market settlement conventions.				
13.7	**Effective interest rates**				
	The average effective interest rates for financial assets were as follows:				
	Available-for-sale financial assets (%)				
	– Rand	**9,42**	10,77	**9,42**	10,77
	Other financial assets at fair value through profit or loss (%)				
	– Rand	**9,11**	7,12	**9,11**	7,12
	Financial assets at cost (%)				
	– Rand	**9,30**	7,50	**9,30**	7,50
	– Euro	**3,75**	–	**3,75**	–
	Non-current liabilities				
13.8	**Borrowings**				
13.8.1	*Liabilities held at fair value – unsettled deals*	**–**	1 233	**–**	1 233
13.8.2	*Long-term securities issued at amortised cost*	**33 060**	23 022	**32 929**	22 797
	Euro rand zero coupon bonds issued	**1 471**	1 300	**1 471**	1 300
	Rand loans	**85**	291	**–**	123
	Electrification participation notes	**1 439**	1 471	**1 439**	1 471
	Promissory notes	**100**	86	**100**	86
	Foreign loans – Euro	**5 885**	3 797	**5 885**	3 740
	Foreign loans – Other	**46**	–	**–**	–
	Eskom bonds issued	**24 034**	16 077	**24 034**	16 077
	Total borrowings	**33 060**	24 255	**32 929**	24 030

The fair value of long-term securities issued at amortised cost for the group amounted to R38 076 million at 31 March 2007 (2006: R29 175 million). The fair value of long-term securities issued at amortised cost for the company amounted to R37 945 million at 31 March 2007 (2006: R28 950 million).

Included in total borrowings is an amount of R1 338 million (2006: R624 million) that relates to bonds held by related parties in the form of state entities. Bonds are bearer instruments and it is therefore unknown if the counterparty still holds the bond at year end.

Notes to the financial statements continued

for the year ended 31 March 2007

		Group		Company	
		2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
13.	**FINANCIAL INSTRUMENTS** (continued)				
13.8	**Borrowings** (continued)				
	Maturity analysis				
	Due between one and five years				
	– Liabilities held at fair value	**–**	1 233	**–**	1 233
	– Long-term securities issued at amortised cost	**7 805**	10 822	**7 674**	10 597
		7 805	12 055	**7 674**	11 830
	Due after five years				
	– Long-term securities issued at amortised cost	**25 255**	12 200	**25 255**	12 200
		33 060	24 255	**32 929**	24 030
	Current liabilities				
13.9	**Borrowings**				
13.9.1	*Bank*	**3 008**	3 220	**3 008**	3 220
	Borrowings	**36**	10	**36**	10
	Unsettled deals	**2 972**	3 210	**2 972**	3 210
13.9.2	*Short-term liabilities held at amortised cost*	**4 387**	2 727	**4 372**	2 708
	Commercial paper bills issued	**837**	2 063	**837**	2 063
	Electrification participation notes	**27**	27	**27**	27
	Rand loans	**133**	19	**133**	11
	Foreign loans	**80**	53	**65**	42
	– Euro	**65**	32	**65**	32
	– Other	**15**	11	**–**	–
	– Pound sterling	**–**	10	**–**	10
	Eskom bonds issued	**3 310**	565	**3 310**	565
	Total borrowings	**7 395**	5 947	**7 380**	5 928
	The fair value of short-term liabilities held at amortised cost for the group amounted to R4 404 million at 31 March 2007 (2006: R2 227 million). The fair value of short-term liabilities held at amortised cost for the company amounted to R4 389 million at 31 March 2007 (2006: R2 676 million).				
13.10	**Other financial liabilities at fair value through profit or loss**				
	Liabilities held at fair value				
	– Commercial paper issued in trading portfolios	**3 181**	8 587	**3 181**	8 587
	– Eskom bonds issued in trading portfolios	**526**	2 415	**526**	2 415
		3 707	11 002	**3 707**	11 002
13.11	**Effective interest rates**				
	The average effective interest rates for financial liabilities are as follows:				
	Liabilities at cost (%)				
	– Euro	**4,03**	4,83	**4,03**	4,83
	– Pound sterling	**–**	8,52	**–**	8,52
	– Rand	**11,89**	13,06	**11,89**	13,06
	Other financial liabilities at fair value through profit or loss (%)				
	– Rand	**9,36**	7,02	**9,36**	7,02

14. DERIVATIVE FINANCIAL INSTRUMENTS

14.1 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 USD 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 from one year up to a maximum of 25 years.

The valuations have been based on the assumptions stated below. The electricity price used in determining the fair value of the host contract is based on a recent arm's 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 a price increase of 5,90% (CPI+1) and 6,20% (CPI+1) in terms of the multi-year price determination by Nersa (previously NER) for the following two years ending 31 March 2009 and the consumer price index plus 2% (CPI+2) for subsequent years.

The net impact on the income statement for the change in the value of the embedded derivatives of the company is a fair value gain of R4 101 million (2006: R1 417 million) and a fair value gain of R4 275 million (2006: R1 318 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 R8 524 million (2006: R6 420 million) and embedded derivative liabilities is R2 932 million (2006: R5 101 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 linked to the spot price of electricity, the announced increases for the next two years and the change in the local consumer price index (CPI) plus 2% thereafter. An electricity tariff increase of CPI+2 (on average) over the long term is in line with the latest price determination by Nersa. Due to the lack of observable market information on electricity prices over the long term and the uncertainty as a result thereof, the price determination by Nersa is taken as an indication of future electricity price expectations by the market.

Future price determinations by Nersa will only be taken into account in the valuation of embedded derivatives when they have been communicated by the regulator.

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.

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

Management of risks associated with 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 of default by a counterparty
> 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 and commodity risk up to a maximum of five years with a foreign or local counterparty.

Valuation assumptions

The following valuation assumptions for the forward electricity curve of CPI+1 for two years and CPI+2 thereafter used for the valuation of the embedded derivatives at 31 March 2007 are regarded as the best estimates by the board:

Input	Unit	Year ending 31 March				
		2007	2008[1]	2009[1]	2010[1]	2011[1]
Aluminium	US dollar/tons	**2 752**	2 680	2 512	2 307	2 134
Rand/dollar	US dollar per rand	**0,14**	–	–	–	–
Rand interest rates	Continuous actual/365 days (%)	**8,55**	9,12	8,89	8,68	8,52
Dollar interest rates	ANNU actual/360 days (%)	**5,86**	5,31	4,99	4,95	4,95
United States production price indices	Year on year (%)	**(2,53)**	1,10	1,70	2,63	2,63
South African consumer price indices	Year on year (%)	**5,70**	4,99	4,39	4,46	5,95

Sensitivity analysis

The approximate change in the value of the embedded derivatives if one of the inputs is changed is disclosed in note 4.1 (a) under *critical accounting estimates and assumptions*.

1. Forward curve based on financial years.

Notes to the financial statements continued

for the year ended 31 March 2007

	Current 1 year Rm	Non-current 1-5 years Rm	Non-current After 5 years Rm	Total non-current Rm	Total derivative assets Rm
14. DERIVATIVE FINANCIAL INSTRUMENTS (continued)					
14.1 Embedded derivatives (continued)					
14.1.1 *Embedded derivative assets*					
2007 Group					
Commodity and/or foreign currency	**1 578**	**4 149**	**2 787**	**6 936**	**8 514**
Foreign currency or interest rate	**1**	**–**	**–**	**–**	**1**
Production price indices and foreign currency	**5**	**4**	**–**	**4**	**9**
	1 584	**4 153**	**2 787**	**6 940**	**8 524**
2007 Company					
Commodity and/or foreign currency	**1 578**	**4 149**	**2 787**	**6 936**	**8 514**
Production price indices and foreign currency	**5**	**4**	**–**	**4**	**9**
	1 583	**4 153**	**2 787**	**6 940**	**8 523**
2006 Group					
Commodity and/or foreign currency	1 032	2 871	2 485	5 356	6 388
Foreign currency or interest rate	1	2	–	2	3
Production price indices and foreign currency	9	20	–	20	29
	1 042	2 893	2 485	5 378	6 420
2006 Company					
Commodity and/or foreign currency	1 032	2 871	2 485	5 356	6 388
Production price indices and foreign currency	9	20	–	20	29
	1 041	2 891	2 485	5 376	6 417

	Current 1 year Rm	Non-current 1-5 years Rm	Non-current After 5 years Rm	Total non-current Rm	Total derivative liabilities Rm
14.1.2 *Embedded derivatives liabilities*					
2007 Group					
Commodity and/or foreign currency	**(288)**	**(1 302)**	**(732)**	**(2 034)**	**(2 322)**
Foreign currency or interest rate	**(1)**	**–**	**–**	**–**	**(1)**
Production price indices and foreign currency	**(24)**	**(173)**	**(412)**	**(585)**	**(609)**
	(313)	**(1 475)**	**(1 144)**	**(2 619)**	**(2 932)**
2007 Company					
Commodity and/or foreign currency	**(288)**	**(1 302)**	**(732)**	**(2 034)**	**(2 322)**
Production price indices and foreign currency	**(24)**	**(173)**	**(412)**	**(585)**	**(609)**
	(312)	**(1 475)**	**(1 144)**	**(2 619)**	**(2 931)**
2006 Group					
Commodity and/or foreign currency	(235)	(1 493)	(620)	(2 113)	(2 348)
Production price indices and foreign currency	(114)	(585)	(2 054)	(2 639)	(2 753)
	(349)	(2 078)	(2 674)	(4 752)	(5 101)
2006 Company					
Commodity and/or foreign currency	(235)	(1 493)	(620)	(2 113)	(2 348)
Production price indices and foreign currency	(70)	(455)	(2 054)	(2 509)	(2 579)
	(305)	(1 948)	(2 674)	(4 622)	(4 927)

14.2 Other derivatives

Fair values

The fair value of a derivative financial instrument represents the value of the cash flows (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 utilises a variety of derivative instruments to hedge foreign exchange and interest rate exposure, and to a lesser degree for trading purposes. However, as Eskom does not apply hedge accounting to 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 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 the 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, to either 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.

Notes to the financial statements continued

for the year ended 31 March 2007

	Note	Assets Rm	Liabilities Rm	Notional amount Rm
14. DERIVATIVE FINANCIAL INSTRUMENTS (continued)				
14.2 Other derivatives (continued)				
2007 Group and company				
Derivatives held for trading		**863**	**(1 962)**	**38 033**
Foreign exchange derivatives		**148**	**(69)**	**6 273**
– Swaps		**–**	**(13)**	**546**
– Foreign exchange contracts		**148**	**(56)**	**5 727**
Interest rate derivatives		**506**	**(771)**	**19 640**
– Swaps		**500**	**(704)**	**15 190**
– Options		**–**	**(56)**	**1 700**
– Forwards		**6**	**(11)**	**2 750**
Commodity derivatives – aluminium options		**209**	**(1 122)**	**12 120**
Derivatives held for hedging				
Derivatives designated as cash flow hedges		**1 234**	**–**	**5 465**
Total other derivatives	14.2.1, 14.2.2	**2 097**	**(1 962)**	
2006 Group and company				
Derivatives held for trading		1 035	(1 435)	24 808
Foreign exchange derivatives		181	(285)	2 424
– Swaps		2	(14)	468
– Foreign exchange contracts		179	(271)	1 956
Interest rate derivatives		834	(925)	18 979
– Swaps		832	(925)	16 091
– Forward rate agreements		2	–	2 888
Commodity derivatives – aluminium options		20	(225)	3 405
Derivatives held for hedging		13	(209)	6 342
Derivatives designated as fair value hedges		–	(13)	17
Derivatives designated as cash flow hedges		13	(196)	6 325
Total other derivatives	14.2.1, 14.2.2	1 048	(1 644)	

	Maturity analysis				
	1 year	1-5 years	After 5 years	Sub-total	Total derivative assets
	Rm	Rm	Rm	Rm	Rm
14.2.1 *Other derivative financial assets*					
2007 Group and company					
Derivatives held for trading	**173**	**249**	**441**	**690**	**863**
Foreign exchange derivatives					
– Foreign exchange contracts	**148**	**–**	**–**	**–**	**148**
Interest rate derivatives	**21**	**44**	**441**	**485**	**506**
– Swaps	**15**	**44**	**441**	**485**	**500**
– Forwards	**6**	**–**	**–**	**–**	**6**
Commodity derivatives					
– Aluminium options	**4**	**205**	**–**	**205**	**209**
Derivatives held for hedging					
Derivatives designated as cash flow hedges	**38**	**–**	**1 196**	**1 196**	**1 234**
Total other derivatives	**211**	**249**	**1 637**	**1 886**	**2 097**

Disclosed as follows:	Current	Non-current	Total
Derivatives held for trading	**863**	**–**	**863**
Derivatives held for hedging	**38**	**1 196**	**1 234**
	901	**1 196**	**2 097**

2006 Group and company					
Derivatives held for trading	203	217	615	832	1 035
Foreign exchange derivatives	179	2	–	2	181
– Swaps	–	2	–	2	2
– Foreign exchange contracts	179	–	–	–	179
Interest rate derivatives	8	211	615	826	834
– Swaps	6	211	615	826	832
– Forwards	2	–	–	–	2
Commodity derivatives					
– Aluminium options	16	4	–	4	20
Derivatives held for hedging					
Derivatives designated as cash flow hedges	6	7	–	7	13
Total other derivatives	209	224	615	839	1 048

Disclosed as follows:	Current	Non-current	Total
Derivatives held for trading	1 035	–	1 035
Derivatives held for hedging	6	7	13
	1 041	7	1 048

Notes to the financial statements continued

for the year ended 31 March 2007

		Maturity analysis				
		1 year	1-5 years	After 5 years	Sub-total	Total derivative liabilities
		Rm	Rm	Rm	Rm	Rm
14.	**DERIVATIVE FINANCIAL INSTRUMENTS** (continued)					
14.2	**Other derivatives** (continued)					
14.2.2	***Other derivative financial liabilities***					
	2007 Group and company					
	Derivatives held for trading	**(587)**	**(813)**	**(562)**	**(1 375)**	**(1 962)**
	Foreign exchange derivatives	**(56)**	**(13)**	**–**	**(13)**	**(69)**
	– Swaps	**–**	**(13)**	**–**	**(13)**	**(13)**
	– Foreign exchange contracts	**(56)**	**–**	**–**	**–**	**(56)**
	Interest rate derivatives	**(94)**	**(115)**	**(562)**	**(677)**	**(771)**
	– Swaps	**(27)**	**(115)**	**(562)**	**(677)**	**(704)**
	– Options	**(56)**	**–**	**–**	**–**	**(56)**
	– Forwards	**(11)**	**–**	**–**	**–**	**(11)**
	Commodity derivatives					
	– Aluminium options	**(437)**	**(685)**	**–**	**(685)**	**(1 122)**
	Total other derivatives	**(587)**	**(813)**	**(562)**	**(1 375)**	**(1 962)**

Disclosed as follows:	Current	Non-current	Total
Derivatives held for trading	**(1 962)**	**–**	**(1 962)**

	2006 Group and company					
	Derivatives held for trading	(480)	(261)	(694)	(955)	(1 435)
	Foreign exchange derivatives	(271)	(14)	–	(14)	(285)
	– Swaps	–	(14)	–	(14)	(14)
	– Foreign exchange contracts	(271)	–	–	–	(271)
	Interest rate derivatives					
	– Swaps	(3)	(228)	(694)	(922)	(925)
	Commodity derivatives					
	– Aluminium options	(206)	(19)	–	(19)	(225)
	Derivatives held for hedging	(209)	–	–	–	(209)
	Derivatives designated as fair value hedges	(13)	–	–	–	(13)
	Derivatives designated as cash flow hedges	(196)	–	–	–	(196)
	Total other derivatives	(689)	(261)	(694)	(955)	(1 644)

Disclosed as follows:	Current	Non-current	Total
Derivatives held for trading	(1 435)	–	(1 435)
Derivatives held for hedging	(209)	–	(209)
	(1 644)	–	(1 644)

	Note	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
15. FINANCE LEASE RECEIVABLES					
Gross receivables from related parties		–	–	–	–
Other gross receivables		**1 513**	1 659	**1 493**	1 531
Total gross receivables		**1 513**	1 659	**1 493**	1 531
Unearned finance income		**(951)**	(1 011)	**(942)**	(988)
Impairment		**(9)**	–	**–**	–
Present value of minimum lease payments		**553**	648	**551**	543
Maturity analysis of gross receivables from finance leases					
– Due within one year		**93**	141	**90**	89
– Due between one and five years		**346**	395	**337**	330
– Due after five years		**1 074**	1 123	**1 066**	1 112
		1 513	1 659	**1 493**	1 531
Future finance charges		**(951)**	(1 011)	**(942)**	(988)
Provision for impairment		**(9)**	–	**–**	–
		553	648	**551**	543
Maturity analysis of net investment in finance leases					
Current					
– Due within one year		**17**	58	**15**	14
Non-current		**536**	590	**536**	529
– Due between one and five years		**55**	99	**52**	45
– Due after five years		**490**	491	**484**	484
– Provision for impairment		**(9)**	–	**–**	–
		553	648	**551**	543
The above finance lease receivables relate to the implementation of IFRIC 4.					
Average implicit rate (%)		**13**	13	**13**	13
16. TRADE AND OTHER RECEIVABLES					
Trade and other receivables		**5 298**	4 332	**5 269**	4 431
Other receivables		**1 110**	1 683	**726**	1 045
Prepayments		**597**	320	**524**	249
Interest receivable		**26**	19	**6**	4
		7 031	6 354	**6 525**	5 729
Provision for impairment of trade and other receivables		**(1 533)**	(1 458)	**(1 418)**	(1 306)
		5 498	4 896	**5 107**	4 423
Non-current portion		**(110)**	(12)	**(5)**	(12)
– Other receivables		**(82)**	(11)	**(4)**	(11)
– Other investments		**(28)**	(1)	**(1)**	(1)
Current portion		**5 388**	4 884	**5 102**	4 411
The fair values of trade and other receivables are as follows:					
Trade receivables		**3 967**	3 140	**3 938**	3 239
Other receivables		**908**	1 417	**639**	931
Prepayments		**597**	320	**524**	249
Interest receivable		**26**	19	**6**	4
		5 498	4 896	**5 107**	4 423
Maturity analysis					
All non-current receivables are due as follows:					
Due between one and five years		**2**	9	**2**	9
Due after five years		**108**	3	**3**	3
		110	12	**5**	12
17. INVENTORIES					
Coal		**1 039**	983	**1 039**	983
Nuclear fuel		**951**	995	**951**	995
Maintenance spares and consumables		**1 654**	1 725	**1 510**	1 303
		3 644	3 703	**3 500**	3 281
Write-down of inventories	29	**(7)**	(39)	**(1)**	(39)
Reversal of write-down of inventories	29	**–**	17	**–**	17
		3 637	3 681	**3 499**	3 259
The group reversed Rnil of a previous inventory write-down (2006: R17 million). The amount reversed has been included in *net impairment reversal/(loss)* in the income statement.					

Notes to the financial statements continued

for the year ended 31 March 2007

	Note	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
18. SHARE 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 government of the Republic of South Africa, represented by the Department of Public Enterprises, as the sole shareholder.

19. NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

A discontinued operation is a component which has been disposed of or is classified as held-for-sale and it represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.

Directly held subsidiary – Eskom Finance Company (Pty) Limited

The assets and liabilities of Eskom Finance Company (Pty) Limited have been presented as held-for-sale following the approval of the Eskom board of directors on 16 September 2004 to sell Eskom Finance Company (Pty) Limited. The transaction was expected to be completed by 31 March 2007 and was included under non-current assets and liabilities held for sale in the 2007 financial year.

However, owing to events and circumstances beyond Eskom's control, the sale transaction has been delayed. The transaction is now expected to be completed by 31 March 2008.

Indirectly held subsidiaries, associates and joint ventures

The investments in Ariviakom (Pty) Limited (arivia), Mountain Communications (Pty) Limited (MKC), TAS (a division of Roshcon (Pty) Limited), EON Solutions (Pty) Limited, Ash Resources (Pty) Limited, Clinker Supplies (Pty) Limited and the assets to be sold to Broadband Infraco (Pty) Limited, meet the requirements of IFRS 5 to be classified as non-current assets held for sale, as pre-emptive rights by the other shareholders are expected to be exercised in most instances, while a tender process is considered to be at an advanced stage for the remaining instances. The sale transactions are all expected to be concluded prior to 31 March 2008.

A consolidated analysis of the results of these discontinued operations, and the result recognised on the remeasurement of assets is as follows:

	Group 2007 Rm	Group 2006 Rm
Income statement		
Revenue	**1 633**	476
Other income	**59**	1
Employee benefit expense	**(727)**	(131)
Net impairment loss reversed	**3**	–
Depreciation and amortisation expense	**(85)**	(62)
Other operating expenses	**(1 020)**	(267)
Less: inter-company eliminations	**(533)**	(91)
Operating profit before net finance costs	**(670)**	(74)
Net finance costs	**158**	235
– Finance income	**293**	251
– Finance costs	**(205)**	(184)
– *Less:* inter-company eliminations	**70**	168
(Loss)/profit before tax	**(512)**	161
Income tax expense	**12**	(45)
(Loss)/profit for the year from discontinued operations	**(500)**	116

	Note	Eskom Finance Company Rm	Mountain Communi-cations Rm	arivia.kom Rm	Other Rm	Inter-company eliminations Rm	**2007 Total** Rm	2006 Total Rm
Balance sheet								
Assets								
Non-current assets		2 351	264	204	413	3	3 235	2 388
Property, plant and equipment		–	214	73	379	42	708	–
Intangible assets		1	–	21	–	–	22	–
Investments		–	–	9	34	–	43	–
Loans receivable	19.1	2 346	–	–	–	–	2 346	2 383
Finance lease receivables	19.2	–	–	65	–	(39)	26	–
Deferred tax		4	50	36	–	–	90	5
Current assets		152	80	487	65	(194)	590	14
Loans to holding company		43	–	–	–	(43)	–	–
Trade and other receivables		7	35	369	57	(131)	337	3
Cash and cash equivalents		92	45	69	8	–	214	3
Finance lease receivables	19.2	–	–	49	–	(20)	29	–
Non-current assets held for sale		10	–	–	–	–	10	8
Total assets		2 503	344	691	478	(191)	3 825	2 402
Liabilities								
Non-current liabilities		1 584	15	69	–	–	1 668	–
Borrowings		1 583	–	19	–	–	1 602	–
Provisions		1	15	50	–	–	66	–
Current liabilities		759	181	216	38	(750)	444	24
Loans from holding company		740	–	–	–	(740)	–	–
Trade and other payables		15	47	123	37	(10)	212	6
Borrowings		–	134	21	–	–	155	–
Provisions		4	–	72	1	–	77	18
Total liabilities		2 343	196	285	38	(750)	2 112	24
Cash flow statement								
Operating cash flows		180	10	(137)	–	7	60	(11)
Investing cash flows		48	(37)	179	–	(166)	24	85
Financing cash flows		(139)	52	(114)	–	(1 533)	(1 734)	(78)
Total cash flows		89	25	(72)	–	(1 692)	(1 650)	(4)

1. Nominal value.

Notes to the financial statements continued

for the year ended 31 March 2007

		Group	
		2007 Rm	2006 Rm
19	**NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE** (continued)		
19.1	**Loans receivable**		
	Maturity analysis disclosed as follows:		
	Due less than three months	**3**	1
	Due more than three months but less than one year	**6**	14
	Due between one and five years	**6**	55
	Due after five years	**2 342**	2 328
		2 357	2 398
	Less: Provision for impairment losses	**(11)**	(15)
		2 346	2 383
19.2	**Finance lease receivables**		
	Gross receivables from related parties	**–**	
	Other gross receivables	**62**	
	Total gross receivables	**62**	
	Unearned finance income	**(7)**	
	Present value of minimum lease payments	**55**	
	Maturity analysis of gross receivables from finance leases		
	– Due within one year	**34**	
	– Due between one and five years	**28**	
		62	
	Future finance charges	**(7)**	
		55	
	Maturity analysis of net investment in finance leases		
	Current		
	– Due within one year	**29**	
	Non-current		
	– Due between one and five years	**26**	
		55	

	Note	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
20. DEFERRED INCOME					
Cross-border lease		**69**	97	**69**	97
Government grant		**3 116**	2 630	**3 116**	2 630
Capital contributions received from customers		**871**	374	**871**	374
		4 056	3 101	**4 056**	3 101
Reconciliation of movement					
Balance at the beginning of the year		**3 101**	2 522	**3 101**	2 522
Additions during the year		**1 177**	766	**1 177**	766
Income recognised during the year		**(222)**	(187)	**(222)**	(187)
Balance at end of the year		**4 056**	3 101	**4 056**	3 101
Less: current portion	24	**(193)**	(155)	**(193)**	(155)
Non-current portion		**3 863**	2 946	**3 863**	2 946
The total charge for the group and company of R222 million (2006: R187 million) is disclosed in the income statement in the following categories:					
Depreciation and amortisation expense	28	**(174)**	(152)	**(174)**	(152)
Other income	26	**(28)**	(28)	**(28)**	(28)
Other revenue		**(20)**	(7)	**(20)**	(7)
		(222)	(187)	**(222)**	(187)

Cross-border lease
The deferred income arises from benefits realised through cross-border lease transactions over certain generating plant (refer to note 6). 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 of, and responsibility for, the electrification assets created upon conclusion of the agreement.

Capital contributions received from customers
Contributions are 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.

	Note	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
21. RETIREMENT BENEFIT OBLIGATIONS					
Balance sheet obligation for:					
Post-retirement medical benefits	21.2	**5 173**	4 825	**5 065**	4 716
Gratuities	21.3	**6**	23	**1**	2
		5 179	4 848	**5 066**	4 718
Less: current portion		**(144)**	(140)	**(144)**	(136)
Non-current portion		**5 035**	4 708	**4 922**	4 582
Net income statement charge for:					
Pension benefits	21.1	**640**	580	**609**	577
Post-retirement medical benefits	21.2	**498**	66	**488**	53
Gratuities	21.3	**2**	5	**–**	(1)
		1 140	651	**1 097**	629

Notes to the financial statements continued

for the year ended 31 March 2007

	Note	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
21. RETIREMENT BENEFIT OBLIGATIONS (continued)					
21.1 Pension benefits					
The amounts recognised in the income statement are:					
Contributions	27	**640**	580	**609**	577

The total charge for the group of R640 million (2006: R580 million) and for the company of R609 million (2006: R577 million) is included in *employee benefit expense* in the income statement.

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 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 2007 (previous valuation at 31 March 2006). The actuarial present value of retirement benefits at 31 March 2007 was R42 267 million (2006: R38 584 million), while the fair value of the fund's assets was R49 970 million (2006: R39 982 million).

The principal actuarial assumptions used were:					
Long-term interest rate before tax (%)		**8,0**	7,8	**8,0**	7,8
Future salary increases (%)		**5,5**	5,5	**5,5**	5,5
Future pension increases (%)		**4,0**	4,0	**4,0**	4,0
Pensioner mortality		**PA (90) less 1 year**	PA (90) adjusted	**PA (90) less 1 year**	PA (90) adjusted
21.2 Post-retirement medical benefits					
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 retired members was calculated by independent actuaries at 31 March 2007. An independent actuarial valuation is performed annually.					
Present value of unfunded obligations		**5 173**	4 825	**5 065**	4 716
Unrecognised acturial losses		**–**	–	**–**	–
Liability in the balance sheet		**5 173**	4 825	**5 065**	4 716
The amounts recognised in the income statement are:					
Current service cost		**216**	172	**206**	172
Finance cost		**368**	435	**368**	422
Net actuarial gain recognised for the year		**(86)**	(541)	**(86)**	(541)
		498	66	**488**	53

	Note	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
21. RETIREMENT BENEFIT OBLIGATIONS (continued)					
21.2 Post-retirement medical benefits (continued)					
With effect from 1 January 2006 the medical aid, to which most of the Eskom employees belong, implemented a substantial restructuring of their benefits. This resulted in a significant actuarial gain for the year.					
The total charge for the group of R498 million (2006: R66 million) and for the company of R488 million (2006: R53 million) is disclosed in the income statement in the following categories:					
Employee benefit expense	27	**130**	(369)	**120**	(369)
Finance cost	32	**368**	435	**368**	422
		498	66	**488**	53
Movement in the liability recognised in the balance sheet					
Balance at beginning of the year		**4 825**	4 962	**4 716**	4 797
Total expense charged in the income statement		**498**	66	**488**	53
Contributions paid		**(150)**	(203)	**(139)**	(134)
Balance at end of the year		**5 173**	4 825	**5 065**	4 716
The principal actuarial assumptions used for actuarial valuation purposes were:					
Long-term interest rate before tax (%)		**8,00**	7,80	**8,00**	7,80
Long-term medical aid inflation (%)		**6,50**	6,50	**6,50**	6,50
Refer to note 4.1(b) for the sensitivity analysis.					
21.3 Gratuities					
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.					
The amounts recognised in the income statement are:					
Current service cost		**2**	4	**–**	(1)
Finance cost		**–**	1	**–**	–
		2	5	**–**	(1)
The total charge/(recovery) for the group of R2 million (2006: R5 million) and for the company of Rnil (2006: R(1) million) is disclosed in the income statement in the following categories:					
Employee benefit expense	27	**2**	4	**–**	(1)
Finance cost	32	**–**	1	**–**	–
		2	5	**–**	(1)
Movement in the liability recognised in the balance sheet					
Balance at beginning of the year		**23**	18	**2**	3
Total expense charged to the income statement		**(2)**	5	**–**	(1)
Payments/transfer to non-current liabilities held for sale		**(15)**	–	**(1)**	–
Balance at end of the year		**6**	23	**1**	2

Notes to the financial statements continued

for the year ended 31 March 2007

	Power station-related environmental restoration Rm	Mine-related closure, pollution control and rehabilitation Rm	Leave pay Rm	Annual and performance bonus Rm	Other Rm	Total Rm
22. PROVISIONS						
Group						
Balance at 1 April 2006	3 907	968	471	863	451	6 660
Provision for the year	365	31	2 581	2 425	730	6 132
Interest cost	357	89	–	–	–	446
Write back of provision	(137)	–	(2 225)	(1 618)	(597)	(4 577)
Expenditure incurred	(16)	–	(334)	(817)	(207)	(1 374)
Balance at 31 March 2007	**4 476**	**1 088**	**493**	**853**	**377**	**7 287**
Less: short-term portion	**(4)**	**–**	**(30)**	**(853)**	**(371)**	**(1 258)**
Non-current portion	**4 472**	**1 088**	**463**	**–**	**6**	**6 029**
Company						
Balance at 1 April 2006	3 907	968	423	815	149	6 262
Provision for the year	365	28	2 579	2 402	584	5 958
Interest cost	357	89	–	–	–	446
Write back of provision	(137)	–	(2 207)	(1 608)	(309)	(4 261)
Expenditure incurred	(16)	–	(334)	(796)	(207)	(1 353)
Balance at 31 March 2007	**4 476**	**1 085**	**461**	**813**	**217**	**7 052**
Less: short-term portion	**(4)**	**–**	**–**	**(813)**	**(209)**	**(1 026)**
Non-current portion	**4 472**	**1 085**	**461**	**–**	**8**	**6 026**

Power station-related environmental restoration

Provision is made for the estimated decommissioning cost of nuclear and other generation plant and for the management of nuclear fuel assemblies and radioactive waste.

The payment dates of total expected future decommissioning costs are uncertain, but are currently expected to be between 2010 and 2047 (coal stations) and 2021 and 2035 (nuclear).

The provisions for the estimated decommissioning and waste management cost of nuclear plant have been discounted at 4,6% (2006: 4,2%).

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 2021 and 2030. The provision for the estimated spent-fuel cost has been discounted at 4,6% (2006: 4,2%).

Refer to note 4.1(d) for the sensitivity analysis.

Mine-related 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 2007 and 2067. The provision has been discounted at 4,6% (2006: 4,2%).

Leave provision

The leave provision includes occasional and service leave and is valued at remuneration rate for leave taken and basic rate of pay for leave sold. The remuneration and basic rate are based on current salaries and take into account the probability of leave sold and other factors. Refer to note 4.1(c) for the sensitivity analysis.

The principal actuarial assumptions used were:	Group		Company	
	2007	2006	**2007**	2006
Long-term investment returns (%)	**8,0**	7,8	**8,0**	7,8
Long-term general price inflation (%)	**4,0**	4,0	**4,0**	4,0
Salary increases (%)	**5,5**	5,5	**5,5**	5,5

The assumptions made in respect of resignation, death and retirement rates are the same as for the post-retirement medical aid liability.

Annual and performance bonus

The annual bonus is paid in November and equals one month's salary. The performance bonus is based on the performance of the company and employees.

		Group		Company	
	Note	**2007 Rm**	2006 Rm	**2007 Rm**	2006 Rm
23. FINANCE LEASE LIABILITIES					
Gross finance lease liabilities to subsidiaries		**–**	–	**191**	110
Other gross finance lease liabilities		**2 072**	2 174	**2 072**	2 174
Gross finance lease liabilities		**2 072**	2 174	**2 263**	2 284
Future finance charges on finance leases		**(1 522)**	(1 620)	**(1 579)**	(1 652)
Present value of finance lease liabilities		**550**	554	**684**	632
Maturity analysis of gross lease liability					
– Due within one year		**102**	102	**139**	127
– Due between one and five years		**404**	405	**501**	464
– Due after five years		**1 566**	1 667	**1 623**	1 693
		2 072	2 174	**2 263**	2 284
Future finance charges		**(1 522)**	(1 620)	**(1 579)**	(1 652)
		550	554	**684**	632
Maturity analysis of net lease liability					
Current					
– Due within one year		**4**	3	**28**	20
Non-current		**546**	551	**656**	612
– Due between one and five years		**25**	23	**91**	65
– Due after five years		**521**	528	**565**	547
		550	554	**684**	632
The above finance lease liabilities relate to the implementation of IFRIC 4.					
Average implicit interest rate or incremental borrowing rate (%)		**19**	19	**18**	18
24. TRADE AND OTHER PAYABLES					
Trade and other payables		**5 993**	4 239	**5 350**	3 511
Accruals		**1 957**	1 293	**1 565**	1 041
Payments received in advance		**823**	666	**787**	371
Deposits		**687**	577	**687**	577
Deferred income	20	**193**	155	**193**	155
Interest accrued		**–**	–	**14**	4
		9 653	6 930	**8 596**	5 659
25. REVENUE					
Electricity revenue		**39 344**	35 361	**39 344**	35 361
Other revenue		**724**	691	**55**	23
		40 068	36 052	**39 399**	35 384
26. OTHER INCOME					
Insurance proceeds		**207**	–	**599**	519
Management fee income		**–**	–	**391**	451
Deferred income recognised	20	**28**	28	**28**	28
Net surplus on disposal of property, plant and equipment		**42**	40	**47**	75
Net profit on disposal of shares		**32**	23	**–**	–
Operating lease income		**33**	56	**48**	56
Dividend income		**17**	4	**202**	–
Other income		**142**	22	**103**	1
		501	173	**1 418**	1 130

Notes to the financial statements continued

for the year ended 31 March 2007

		Group		Company	
	Note	**2007 Rm**	2006 Rm	**2007 Rm**	2006 Rm
27. EMPLOYEE BENEFIT EXPENSE					
Salaries and other staff costs		**8 506**	7 263	**8 104**	6 775
Share-based payments	40	**6**	3	**6**	3
Pension benefits	21.1	**640**	580	**609**	577
Post-retirement medical aid benefits	21.2	**130**	(369)	**120**	(369)
Gratuities	21.3	**2**	4	**–**	(1)
Direct training and development		**167**	127	**158**	125
		9 451	7 608	**8 997**	7 110
Number of employees		**32 674**	31 458	**30 746**	29 697
28. DEPRECIATION AND AMORTISATION EXPENSE					
Depreciation of property, plant and equipment	6	**4 703**	4 454	**4 592**	4 265
Amortisation of intangible assets	7	**180**	260	**179**	260
Deferred income recognised (government grant on electrification)	20	**(174)**	(152)	**(174)**	(152)
		4 709	4 562	**4 597**	4 373
29. NET IMPAIRMENT REVERSAL/(LOSS)					
Impairment of property, plant and equipment	6	**(4)**	(8)	**(4)**	(8)
Reversal of impairment of property, plant and equipment	6	**416**	42	**39**	15
Reversal of impairment of investment in subsidiaries		**–**	–	**140**	828
Impairment of investment in associates and joint ventures		**1**	(1)	**–**	–
Reversal of impairment of investment in associates	8	**–**	84	**–**	84
Reversal of write-down of inventory	17	**–**	17	**–**	17
Write-down of inventory	17	**(7)**	(39)	**(1)**	(39)
Impairment of trade and other receivables		**(219)**	(163)	**(225)**	(174)
Reversal of impairment of housing and other loans		**11**	1	**1**	1
		198	(67)	**(50)**	724
30. OTHER OPERATING EXPENSES					
Managerial, technical and other fees		**839**	807	**895**	807
Research and development		**226**	174	**203**	174
Operating lease expense		**153**	99	**151**	79
Auditors remuneration		**39**	33	**33**	22
Repairs and maintenance, transport and other expenses		**5 007**	4 807	**6 185**	6 090
		6 264	5 920	**7 467**	7 172
31. FINANCE INCOME[1]					
Interest and discount amortised on financial market investments		**2 637**	2 706	**2 450**	2 541
Interest income on foreign deposits		**13**	–	**13**	–
Exchange differences		**22**	–	**22**	–
Interest received from subsidiary and associate companies		**–**	–	**79**	159
Interest earned on finance leases		**76**	77	**76**	75
		2 748	2 783	**2 640**	2 775

1. *Interest income includes preference dividends of R181 million (2006: R164 million) for both the group and company.*

	Note	Group 2007 Rm	Group 2006 Rm	Company 2007 Rm	Company 2006 Rm
32. FINANCE COST					
Interest and discount amortised		**3 529**	3 665	**3 520**	3 721
– Locally issued bonds		**2 803**	2 252	**2 803**	2 252
– Other local debt		**498**	827	**489**	883
– Foreign debt		**228**	586	**228**	586
Other net financial profits and losses – exchange differences		**29**	53	**29**	53
Amounts capitalised		**(174)**	(85)	**(174)**	(84)
Unwinding of discount on provisions		**814**	789	**814**	775
– Post-retirement medical benefit	21.2	**368**	435	**368**	422
– Gratuities	21.3	**–**	1	**–**	–
– Provisions	22	**446**	353	**446**	353
Interest paid to subsidiaries and associate companies		**–**	–	**86**	–
Interest paid on finance leases		**98**	99	**112**	107
		4 296	4 521	**4 387**	4 572
33. INCOME TAX EXPENSE					
Current tax		**1 394**	1 421	**1 178**	1 317
– Current year		**1 244**	1 419	**1 044**	1 317
– Underprovision in prior years		**150**	2	**134**	–
Secondary tax on companies		**–**	173	**–**	173
Deferred tax	12	**1 110**	528	**1 221**	607
– Originating and reversal of temporary differences for the current year		**1 275**	568	**1 385**	641
– Overprovision in prior years		**(165)**	(40)	**(164)**	(34)
Total income tax expense in income statement		**2 504**	2 122	**2 399**	2 097
Computed tax losses		**–**	–	**–**	–
Unused tax losses available for set-off against future income		**–**	–	**–**	–
Reconciliation of effective tax rate		**%**	%	**%**	%
Taxation as a percentage of profit before tax		**26,46**	31,93	**28,53**	29,29
Taxation effect of					
Exempt income		**3,86**	4,90	**2,61**	4,13
Expenses not deductible for tax purposes		**(3,65)**	(6,34)	**(2,70)**	(2,17)
Other		**1,94**	(0,21)	**0,67**	0,02
Controlled foreign operations income		**0,19**	0,76	**(0,48)**	(0,32)
Secondary tax on companies		**–**	(2,61)	**–**	(2,42)
Foreign tax rate differential		**(0,01)**	–	**–**	–
Overprovision in prior years		**0,21**	0,57	**0,37**	0,47
Standard tax rate		**29**	29	**29**	29
Deferred tax rate		**29**	29	**29**	29

Notes to the financial statements continued

for the year ended 31 March 2007

		Group		Company	
		2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
34.	**CASH GENERATED FROM OPERATIONS**				
	Profit before taxation	**9 458**	6 647	**8 407**	7 167
	Adjustments for:	**2 939**	5 838	**4 271**	4 586
	Depreciation and amortisation expense	**4 723**	4 576	**4 611**	4 387
	Net impairment losses	**(342)**	(1)	**(28)**	(810)
	Net surplus on disposal of property, plant and equipment	**(42)**	(40)	**(47)**	(75)
	Net movement in provisions	**146**	(580)	**324**	(533)
	Increase in deferred income	**1 177**	766	**1 177**	766
	Amortisation of future fuel	**237**	240	**237**	240
	Other non-cash items (refer below)	**(591)**	310	**(48)**	49
	Finance income	**(2 748)**	(2 783)	**(2 640)**	(2 775)
	Finance cost	**4 296**	4 521	**4 387**	4 572
	Net fair value gain on financial instruments	**(3 662)**	(1 136)	**(3 488)**	(1 235)
	Share of profit of associates and joint ventures	**(41)**	(35)	**–**	–
	Change in decommissioning interest rate	**(214)**	–	**(214)**	–
		12 397	12 485	**12 678**	11 753
	Changes in working capital	**2 407**	807	**2 085**	819
	Inventories	**301**	(380)	**23**	(58)
	Trade and other receivables	**(579)**	12	**(837)**	51
	Trade and other payables	**2 685**	1 175	**2 899**	826
		14 804	13 292	**14 763**	12 572
	Analysis of other non-cash movements				
	Discontinued operations	**(500)**	116	**–**	–
	Movement in minority interest	**10**	31	**–**	–
	Movement in deferred income	**(48)**	(35)	**(48)**	(35)
	Fair value movement in other financial assets	**(27)**	(22)	**–**	–
	Movement in investments	**(23)**	205	**–**	84
	Other	**(3)**	15	**–**	–
		(591)	310	**(48)**	49

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm

35. GUARANTEES AND CONTINGENT LIABILITIES

35.1 Eskom issues guarantees for strategic and business purposes to facilitate other business transactions.

Contractual guarantees are valued by taking into account discounted future cash flows adjusted according to the probability of occurrence of the trigger event. The resultant guarantee is raised as a liability, with the costs being charged to the income statement. The unprovided portion is disclosed as a contingent liability. As a result of using discounted cash flows, interest rate risk may arise due to the possibility of the actual yields on assets being different from the rates assumed in the discounting process.

Eskom has an established corporate governance structure and process for managing the risks regarding guarantees and contingent liabilities. All significant guarantees issued by Eskom are approved by the board, and are managed on an ongoing basis through the quarterly treasury credit committee, and by the risk management committee of the board, which meets every second month.

The guarantees are administratively managed by the treasury department. Updated guarantee schedules are compiled every month, taking cognisance of any changed risk factors, and are submitted to each of the committees for consideration and action if necessary. Risk factors and assumptions affecting probability calculations are reassessed twice a year and presented to the above committees.

35.2 The concentration of risk and liquidity risk are assessed on an ongoing basis by the treasury credit committee.

The concentration of risk is within acceptable limits. Eskom's guarantees are diverse and unlinked, such that a trigger event for any one guarantee is unlikely to precipitate a trigger event in respect of other guarantees.

35.3 Eskom's liquidity risk is within acceptable limits and would be funded by a variety of financial assets as disclosed in note 13.

In terms of the cross-border lease (see 35.5 below), Eskom's potential liability of USD 283 million has been fully collateralised, with USD 419 million having been deposited with the providers of letters of credit.

Given that there would be forewarning of payments required in terms of the other guarantees, and considering the amounts of the guarantees, it is expected that Eskom will be able to raise the required liquidity to effect any required payments.

35.4 Mozambique Transmission Company SARL (Motraco), a private joint venture company between Eskom, Electricidade de Mocambique and Swaziland Electricity Board, owns transmission lines connecting the South African, Mozambican and Swaziland national grids to establish a secure source of electrical power for the Mozal aluminium smelter in Maputo, Mozambique.

Eskom has guaranteed the long-term debt raised by Motraco. As at 31 March 2007, the outstanding amount was USD 47 million (2006: USD 78 million), which translates into R341 million (2006: R481 million). The guarantee would be triggered if Motraco were unable to meet its obligations in terms of the long-term debt.

The risk of default resulting from the political risk in Mozambique is mitigated through a guarantee arranged with an established international insurance company, which specialises in facilitating investments in high-risk, low-income countries.

Notes to the financial statements continued

for the year ended 31 March 2007

		Group		Company	
		2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
35.	**GUARANTEES AND CONTINGENT LIABILITIES** (continued)				
35.4	The risk-adjusted credit exposure of Motraco is calculated by applying a rating agency's annual default probabilities. Applying the default probability of 0,25%, the combined financial liability in respect of these guarantees is calculated as R1 million at 31 March 2007. This amount has been raised as a provision in the current year, and is included in the *other provisions* as disclosed in note 22.				
	The default probability trend into the future is seen to be positive, and changes in variables will not have a significant impact on the income statement.				
	No payments have been made in terms of these guarantees since their inception in 1999.				
	A contingent liability is disclosed for the unprovided portion of the guarantee.	**340**	480	**340**	480
35.5	Eskom has provided collateral security in the form of letters of credit from banks in respect of the cross-border lease transactions (refer to note 6). 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 to the banks that may arise 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 2007, the amount guaranteed was USD 283 million (2006: USD 297 million) which at the year end exchange rate, translates to	**2 068**	1 835	**2 068**	1 835
35.6	The Department of Minerals and Energy (DME) requires of Eskom to guarantee that it will stand good for the pollution control costs and part of the estimated closure and rehabilitation costs for the collieries with which Eskom has cost plus coal supply contracts. The guarantee amount is calculated as if the collieries were to close immediately. The guarantee required by the DME is R443 million (2006: R389 million).				
	At the same time, Eskom has raised its provision for estimated pollution control, closure and rehabilitation costs at the end of the life of the collieries, discounted back to 2007. Details of such provisions are included in note 22.				
	A contingent liability, disclosed for the unprovided portion of the required DME guarantees at the end of the year, amounted to	**69**	31	**69**	31
35.7	Eskom has indemnified the Eskom Pension and Provident Fund against any loss resulting from negligence, dishonesty or fraud by the fund's officers or trustees.				

		Group		Company	
		2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
35.8	Eskom Finance Company (Pty) Limited (EFC) has granted loans (secured by mortgage bonds on the properties) to employees of the Eskom Group. Eskom Group companies have issued guarantees to EFC to the extent to which the loan values of employees exceed the current value of the mortgage security. At 31 March 2007 the guaranteed amounts were R135 million (2006: R170 million) for the group and R123 million (2006: R164 million) for the company.				
	Appropriate processes are in place in EFC to manage the timeous collection of loan payments and this is monitored by Eskom.				
	Historically EFC has absorbed any losses incurred, and has not called up any guarantee payments. Eskom's guarantee exposure is thus governed by the default probability of EFC, which is influenced by the risk of significant fluctuations in interest rates that might cause employees to default on their repayments.				
	The risk-adjusted credit exposure of EFC is calculated by applying a rating agency's annual default probabilities. The default probability for the unsecured portion of the EFC loan book (representing 12% of the loan book) is calculated at 26%, while the secured portion of the loan book (88% of the loan book) is calculated at 0,54%. Applying the combined default probability, the financial liability in respect of this guarantee is calculated at R6 million at 31 March 2007. This amount has been raised as a provision in Eskom in the current year, and is included in *other provisions* as disclosed in note 22.				
	Changes in variables will not have a significant impact on the income statement.				
	The unprovided portion, disclosed as a contingent liability for the company and the group amounted to	**129**	164	**117**	158
35.9	Eskom Enterprises (Pty) Limited has performance bonds totalling R69 million (2006: R44 million) with respect to various contracts. The probability of having to pay out in terms of the performance bonds is calculated after assessing the likelihood of meeting the contract deliverables. Probable future payments are then discounted and the amount raised as a liability.				
	The project management processes in place confirm that all but three of the contracts should meet the project deliverables. As a result of contractual disputes, R37 million (2006: R7 million) performance bonds for two contracts have a high probability of being called up. The full amount has been raised as a provision in the current year and is included in *other provisions* as disclosed in note 22.				
	Eskom Enterprises (Pty) Ltd has not been required to make any previous performance bond payments.				
	The balance disclosed as a contingent liability amounted to	**32**	37	**–**	–
35.10	Guarantees and suretyships, issued on behalf of group companies and third parties, amounted to	**63**	76	**–**	–
35.11	Eskom Enterprises issued letters of support amounting to a total of R157 million (2006: 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 2007.				
	The bank overdraft is included in note 19.				
	The probability of the guarantee being called up is low, as the net present value of future cash flows, including the loan repayment, is positive.				

Notes to the financial statements continued

for the year ended 31 March 2007

		Group		Company	
		2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
35.	**GUARANTEES AND CONTINGENT LIABILITIES** (continued)				
35.12	Legal claims are in process against Eskom as result of contractual disputes with various procurement parties. On the basis of the evidence available it appears that no obligation is present and the claims are therefore disclosed as a contingent liability.	**80**	–	**80**	–
35.13	South Dunes Coal Terminal (Pty) Ltd signed a loan agreement with Investec Bank for the funding of the Richards Bay Coal Terminal Phase V expansion project. All rights, title and interest in and to the loan to Richards Bay Coal Terminal, the South Dunes Coal Terminal (Pty) Ltd Throughput Agreement Rights and Entitlement and certain other accounts are pledged as security for the loan. The loan facility, disclosed as a contingent liability, amounts to	**475**	–	–	–
35.14	The loan from Eskom Enterprises (Pty) Limited to Transpoint (Pty) Limited has been subordinated to creditors of the company.	**17**	–	–	–
36.	**COMMITMENTS**				
36.1	**Capital expenditure**				
	Estimated capital expenditure	**217 034**	79 217	**215 327**	78 137
	Contracted	**12 869**	5 634	**12 513**	4 594
	Approved, not yet contracted for	**204 165**	73 583	**202 814**	73 543
	This expenditure will be financed from debt and internally generated funds and is expected to be incurred:	**217 034**	79 217	**215 327**	78 137
	Due within one year	**20 141**	17 068	**19 457**	16 425
	Due between one and five years	**149 326**	58 892	**148 303**	58 455
	Due after five years	**47 567**	3 257	**47 567**	3 257
36.2	**Operating leases**				
	Group as lessee				
	The future minimum lease payments payable under non-cancellable operating leases are:	**173**	292	**144**	156
	Due within one year	**74**	93	**59**	55
	Due between one and five years	**99**	188	**85**	90
	Due after five years	**–**	11	**–**	11
	Group as lessor				
	The future minimum lease payments receivable under non-cancellable operating leases are:	**607**	623	**607**	623
	Due within one year	**39**	29	**39**	29
	Due between one and five years	**158**	141	**158**	141
	Due after five years	**410**	453	**410**	453
36.3	**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.				
36.4	**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 *primary energy* in the income statement.				
36.5	**Coal**				
	Eskom has entered into long-term agreements with suppliers for coal purchases. The annual cost of coal is regarded as part of *primary energy* in the income statement.				

		Group		Company	
		March 2007 Rm	March 2006 Rm	**March 2007 Rm**	March 2006 Rm
37.	**RELATED-PARTY TRANSACTIONS**				
	The group is 100% controlled by its shareholder, the government, represented by the Department of Public Enterprises.				
	Eskom and its subsidiaries constitute a Schedule 2 public entity in terms of the Public Finance Management Act. The related party disclosure is required in terms of IAS 24, Related Parties Disclosures and the specific guidance given by the South African Institute of Chartered Accountants.				
	The related parties of Eskom consist mainly of government departments, state-owned enterprises, subsidiaries of Eskom and other public entities in the national sphere of government, as well as key management personnel of Eskom or its shareholder and close family members of these related parties. The list of public entities in the national sphere of government was provided by National Treasury on its website www.treasury.gov.za. It also provided the names of subsidiaries of public entities.				
	The comparative information has been based on the list of public entities and their subsidiaries effective at 31 March 2006.				
	In addition related parties comprise associate and joint venture companies of the group and post-retirement benefit plans for the benefit of employees.				
	The following transactions were carried out with related parties:				
37.1	**Sales of goods and services**				
	Shareholder, including government departments	**251**	258	**196**	195
	State-owned enterprises in the national government sphere	**925**	967	**914**	959
	Eskom subsidiaries	**–**	–	**1 212**	1 160
	Eskom associates	**6**	4	**6**	2
	Joint ventures in which Eskom is a partner	**744**	574	**744**	574
	Eskom Pension Fund	**–**	1	**–**	–
		1 926	1 804	**3 072**	2 890
	Goods and services are sold to related parties on an arm's length basis at market-related prices.				
37.2	**Government grant funding for electrification**				
	Department of Minerals and Energy	**789**	694	**789**	694
37.3	**Dividend payment before secondary tax on companies**				
	Shareholder	**–**	(1 643)	**–**	(1 643)
37.4	**Purchases of goods and services**				
	Shareholder, including government departments	**(358)**	(912)	**(358)**	(912)
	State-owned enterprises in the national government sphere	**(285)**	(298)	**(259)**	(293)
	Eskom subsidiaries	**–**	–	**(5 622)**	(3 569)
	Eskom associates	**(50)**	(628)	**(50)**	(627)
	Joint ventures in which Eskom is a partner	**(109)**	(90)	**(109)**	(90)
	Eskom Pension Fund (contributions)	**(640)**	(580)	**(609)**	(577)
		(1 442)	(2 508)	**(7 007)**	(6 068)
	Goods and services are bought from related parties on an arm's length basis at market-related prices.				

Notes to the financial statements continued

for the year ended 31 March 2007

		Group		Company	
		2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
37.	**RELATED-PARTY TRANSACTIONS** (continued)				
37.5	**Sale of property/other assets**				
	State-owned enterprises in the national government sphere	–	21	–	–
	Assets are sold to related parties on an arm's length basis at market-related prices.				
37.6	**Purchases of property/other assets**				
	Eskom subsidiaries	–	–	**(11)**	–
	Assets are purchased from related parties on an arm's length basis at market-related prices.				
37.7	**Interest received**				
	Shareholder, including government departments	**1**	20	**1**	20
	State-owned enterprises in the national government sphere	**8**	–	**8**	–
	Eskom subsidiaries	–	–	**129**	164
		9	20	**138**	184
37.8	**Interest expense**				
	Shareholder, including government departments	–	(25)	–	(25)
	State-owned enterprises in the national government sphere	**(55)**	–	**(55)**	–
	Eskom subsidiaries	–	–	**(86)**	(75)
		(55)	(25)	**(141)**	(100)
37.9	**Lease income**				
	State-owned enterprises in the national government sphere	**26**	27	**26**	27
	Eskom subsidiaries	–	–	**14**	–
		26	27	**40**	27
37.10	**Lease expenses**				
	Eskom subsidiaries	–	–	**(19)**	–
37.11	**Finance lease interest expense**				
	Eskom subsidiaries	–	–	**(5)**	–
37.12	**Year-end balances arising from transactions**				
	Receivables from related parties				
	Shareholder, including government departments	**30**	290	**14**	290
	State-owned enterprises in the national government sphere	**75**	65	**74**	62
	Eskom subsidiaries	–	–	**1 114**	2 756
	Eskom associates	**1**	28	**1**	–
	Joint ventures in which Eskom is a partner	**164**	109	**164**	103
		270	492	**1 367**	3 211

Electricity sales income is normally receivable within 15 or 30 days of invoice date. In most cases, electricity customers have provided Eskom with a guarantee or a cash deposit which approximates three months of electricity sales. All other sales income is receivable within 30 days of invoice date.

Interest receivable on financial market instruments is in accordance with normal market practice.

		Group		Company	
		2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
37.13	**Provision for doubtful debts for related parties**				
	Shareholder, including government departments	**–**	–	**–**	–
	State-owned enterprises in the national government sphere	**(60)**	(27)	**(60)**	(26)
	Eskom associates	**–**	(27)	**–**	–
	Joint ventures in which Eskom is a partner	**–**	(5)	**–**	–
		(60)	(59)	**(60)**	(26)
37.14	**Guarantees**				
	State-owned enterprises in the national government sphere	**5**	–	**5**	–
	The guarantees are in favour of Eskom for future or unpaid electricity consumption accounts.				
37.15	**Payables to related parties:**				
	Shareholder, including government departments	**(701)**	(683)	**(63)**	(683)
	State-owned enterprises in the national government sphere	**(94)**	(11)	**(93)**	(11)
	Eskom subsidiaries	**–**	–	**(2 094)**	(1 564)
	Eskom associates	**–**	(5)	**–**	(5)
	Eskom Pension Fund	**–**	(8)	**–**	(8)
		(795)	(707)	**(2 250)**	(2 271)
	Purchase transactions with related parties are at arm's length with payment terms of 30 days from invoice date.				
37.16	**Advance payment**				
	Eskom subsidiaries	**–**	–	**(21)**	–
	The advance payments relate to a building that has been purchased and not transferred to a subsidiary company in the group.				
37.17	**Indirect transactions – Balance sheet assets at nominal value**				
	Government bonds	**1 766**	5 169	**1 766**	5 169
	Interest payable on financial market instruments is in accordance with normal market practice.				

38. EVENTS AFTER THE BALANCE SHEET DATE

There were no material events after balance sheet date.

Notes to the financial statements continued

for the year ended 31 March 2007

39. RESTATEMENT OF COMPARATIVES

Eskom has implemented the following new and revised statements and interpretations:

IAS 39	Financial Instruments: Recognition and Measurement (amendments of cash flow hedge accounting and fair value option)
IAS 39 and IFRS 4	Financial Instruments: Recognition and Measurement (amendments to financial guarantee contracts)
IAS 21	The Effects of Changes in Foreign Exchange Rates (amendment of net investment in a foreign operation)
IFRIC 4	Determining whether an arrangement contains a lease

The implementation of the above statements and interpretations and impact thereof on the financial statements are indicated below.

The implementation of IFRIC 4 resulted in a change in accounting policy. It was determined that certain arrangements did contain a lease in terms of IFRIC 4. The arrangements contained deemed finance leases where the Group is either a lessor or a lessee. The property, plant and equipment, the accumulated depreciation and deferred income were restated retrospectively.

The above implementation impacted mainly premium power supplies to customers and the purchase of coal under cost plus contracts.

Premium power supplies

The supply of electricity to customers may be either a standard or a premium supply.

A standard supply is the least-cost technically acceptable solution as stipulated by the regulator whereas a premium power supply is a power quality product that enables customers to negotiate quality that is superior to standard quality power. Premium supply contracts already have a standard supply from Eskom but wish to reserve capacity, network utilisation or back-ups according to their own specific requirements. This is achieved through the installation of dedicated equipment where the customer is required to pay the full costs of the equipment. Premium supply assets are specifically identified in the contracts with customers and are not part of regulated assets from a regulatory perspective. Refurbishment costs of dedicated equipment are for the account of the customer.

The premium supply contracts have been identified as arrangements that contain a lease in terms of IFRIC 4. These contracts have been classified retrospectively as a finance lease where Eskom is the lessor.

Cost plus coal contracts

Eskom has entered into long-term coal contracts with mining companies where Eskom purchases all of the coal from specified mines. These power stations are typically located next to, or in close proximity of, the mines. Eskom pays a fixed standing charge to cover the capital cost and a variable charge based on the quantity of coal purchased, designed to cover the production cost plus any maintenance costs. Eskom is the sole purchaser of the output from the colliery and reference is made specifically to the capital portion in the contract. The price is not market-related and right of use of the asset can be demonstrated. These assets have been classified retrospectively as finance leases where Eskom is the lessee.

Arrangements other than premium power supplies and cost plus coal contracts that contained leases were transport equipment and computers, but were not material from a group perspective.

	Group			Company		
	Previously reported Rm	Adjustment Rm	Restated Rm	Previously reported Rm	Adjustment Rm	Restated Rm
Restatement as a result of IFRIC 4						
Balance sheet						
Non-current assets	65 238	78	65 316	63 707	232	63 939
Property, plant and equipment[1]	65 033	(447)	64 586	63 707	(297)	63 410
Finance lease receivables[1]		590	590	–	529	529
Deferred income tax[1]	205	(65)	140	–	–	–
Current assets						
Finance lease receivables[1]	–	58	58	–	14	14
Total assets	65 238	136	65 374	63 707	246	63 953
Equity	50 562	(191)	50 371	48 263	(214)	48 049
Capital and reserves[1]	50 399	(200)	50 199	48 263	(214)	48 049
Minority interest	163	9	172	–	–	–
Non-current liabilities	10 533	324	10 857	10 216	440	10 656
Deferred income tax[1]	7 490	(130)	7 360	7 173	(75)	7 098
Deferred income[1]	3 043	(97)	2 946	3 043	(97)	2 946
Finance lease liability[1]	–	551	551	–	612	612
Current liabilities						
Finance lease liability[1]	–	3	3	–	20	20
Total equity and liabilities	61 095	136	61 231	58 479	246	58 725
Statement of changes in equity						
Accumulated profit	50 396	(200)	50 196	48 341	(214)	48 127
– Balance at 1 April 2005[1]	47 163	(277)	46 886	44 706	(297)	44 409
– Effect of deferred tax on prior year adjustment[1]	–	68	68	–	77	77
– Profit for the year[1]	4 657	6	4 663	5 064	6	5 070
– Dividends paid	(1 643)	–	(1 643)	(1 643)	–	(1 643)
– Revaluation of interest in arivia.kom prior to becoming a subsidiary[1]	–	3	3	–	–	–
– Transfer of net unrealised revaluation gains net of deferred tax from non-distributable reserves to accumulated profit	214	–	214	214	–	214
– Transfer of net unrealised revaluation gains net of deferred tax from accumulated profit to non-distributable reserve	(6)	–	(6)	–	–	–
– Transfer of insurance reserve to accumulated profit	11	–	11	–	–	–
Minority interest	163	9	172	–	–	–
– Balance at 1 April 2005	11	–	11	–	–	–
– Profit for the year	(22)	–	(22)	–	–	–
– Other movements[1]	–	(4)	(4)	–	–	–
– Minorities in subsidiaries acquired[1]	174	13	187	–	–	–
	50 559	(191)	50 368	48 341	(214)	48 127

Notes to the financial statements continued

for the year ended 31 March 2007

	Group			Company		
	Previously reported Rm	Adjustment Rm	Restated Rm	Previously reported Rm	Adjustment Rm	Restated Rm
39. RESTATEMENT OF COMPARATIVES (continued)						
Restatement as a result of other changes						
Balance sheet						
Non-current assets	11 834	103	11 937	11 833	102	11 935
Financial assets at cost[2,4]	6 414	126	6 540	6 414	126	6 540
Derivative financial assets[10]	5 377	(5 377)	–	5 376	(5 376)	–
Derivative financial assets – embedded derivatives[10]	–	5 378	5 378	–	5 376	5 376
Derivative financial assets – other derivatives[3]	–	7	7	–	7	7
Trade and other receivables[4]	43	(31)	12	43	(31)	12
Current assets	32 175	(105)	32 070	28 403	(104)	28 299
Trade and other receivables[2]	5 315	(431)	4 884	4 841	(430)	4 411
Available-for-sale financial assets[2]	500	66	566	500	66	566
Other financial assets at fair value through profit and loss[2]	10 549	149	10 698	10 416	149	10 565
Financial assets at cost[2]	3 493	117	3 610	3 493	117	3 610
Cash and cash equivalents[2]	10 226	3	10 229	7 062	3	7 065
Derivative financial assets[3]	2 092	(2 092)	–	2 091	(2 091)	–
Derivative financial assets – embedded derivatives[10]	–	1 042	1 042	–	1 041	1 041
Derivative financial assets – other derivatives[3]	–	1 041	1 041	–	1 041	1 041
Total assets	44 009	(2)	44 007	40 236	(2)	40 234
Non-current liabilities	4 753	(1)	4 752	4 623	(1)	4 622
Derivative financial liabilities[3]	4 753	(4 753)	–	4 623	(4 623)	–
Derivative financial liabilities – embedded derivatives[10]	–	4 752	4 752	–	4 622	4 622
Current liabilities	25 873	(1)	25 872	25 467	(1)	25 466
Amounts owing to subsidiaries[5]	–	–	–	561	367	928
Trade and other payables[2]	7 452	(522)	6 930	6 181	(522)	5 659
Borrowings[2]	5 428	519	5 947	5 409	519	5 928
Other financial liabilities at fair value through profit and loss[2,5]	11 001	1	11 002	11 368	(366)	11 002
Derivative financial liabilities[3]	1 992	(1 992)	–	1 948	(1 948)	–
Derivative financial liabilities – embedded derivatives[10]	–	349	349	–	305	305
Derivative financial liabilities – other derivatives[10]	–	1 644	1 644	–	1 644	1 644
Total liabilities	30 626	(2)	30 624	30 090	(2)	30 088

	Group				Company			
	Previously reported Rm	IFRIC 4 adjustment Rm	Other adjustment Rm	Restated Rm	Previously reported Rm	IFRIC 4 adjustment	Other adjustment Rm	Restated Rm
Income statement								
Continuing operations								
Revenue[1,10]	36 607	(86)	(469)	36 052	35 558	(86)	(88)	35 384
Other income[7]	–	–	173	173	–	–	1 130	1 130
Other net gains[7]	4 236	–	(4 236)	–	5 279	–	(5 279)	–
Net fair value gain on embedded derivatives[7]	–	–	1 318	1 318	–	–	1 417	1 417
Net fair value loss on other derivatives[6,7]	–	–	(182)	(182)	–	–	(182)	(182)
Changes in inventories of finished goods and work in progress[10]	813	–	(813)	–	459	–	(459)	–
Work performed by the entity and capitalised[8]	9 650	–	(9 650)	–	9 572	–	(9 572)	–
Raw materials and consumables used[9,10]	(15 705)	–	15 705	–	(14 189)	–	14 189	–
Primary energy[1,8,9]	–	88	(10 942)	(10 854)	–	88	(10 942)	(10 854)
Employee benefit expense[8]	(7 907)	–	299	(7 608)	(7 285)	–	175	(7 110)
Depreciation and amortisation expense[1,10]	(4 903)	33	308	(4 562)	(4 626)	13	240	(4 373)
Net impairment reversal/(loss)[10]	96	–	(163)	(67)	898	–	(174)	724
Other operating expenses[6,8,10]	(11 491)	(5)	5 576	(5 920)	(13 666)	25	6 469	(7 172)
Operating profit before finance income and finance costs	11 396	30	(3 076)	8 350	12 000	40	(3 076)	8 964
Net finance costs	(4 656)	(22)	2 940	(1 738)	(4 841)	(32)	3 076	(1 797)
– Finance income[1,6,7]	–	77	2 706	2 783	–	75	2 700	2 775
– Finance costs[1,6,8]	(4 656)	(99)	234	(4 521)	(4 841)	(107)	376	(4 572)
Share of profit of associates and joint ventures	35	–	–	35	–	–	–	–
Profit before tax	6 775	8	(136)	6 647	7 159	8	–	7 167
Income tax expense[1]	(2 154)	(2)	34	(2 122)	(2 095)	(2)	–	(2 097)
Profit for the year from continuing operations	4 621	6	(102)	4 525	5 064	6	–	5 070
Discontinued operations								
Profit for the year from discontinued operations	14	–	102	116	–	–	–	–
Profit for the year	4 635	6	–	4 641	5 064	6	–	5 070
Effect of IFRIC 4 on profit for the year ended 31 March 2007		5				8		

Notes to the financial statements continued

for the year ended 31 March 2007

	Group			Company		
	Previously reported Rm	Adjustment Rm	Restated Rm	Previously reported Rm	Adjustment Rm	Restated Rm
39. RESTATEMENT OF COMPARATIVES (continued)						
Cash flow statement						
Cash flows from operating activities						
Cash generated from operations	13 074	218	13 292	12 603	(31)	12 572
Income taxes paid	(978)	32	(946)	–	–	–
	12 096	250	12 346	12 603	(31)	12 572
Cash flows from investing activities						
Proceeds from disposal of property, plant and equipment	300	10	310	285	10	295
Expenditure on property, plant and equipment	(10 374)	(10)	(10 384)	(10 236)	(45)	(10 281)
Increase in finance lease receivables	–	(97)	(97)	–	(2)	(2)
Dividends received	4	(4)	–	–	–	–
Interest received	2 451	(342)	2 109	2 318	(208)	2 110
	(7 619)	(443)	(8 062)	(7 633)	(245)	(7 878)
Cash flows from financing activities						
Debt raised	–	–	–	19 281	(51)	19 230
Increase in amounts owing to subsidiaries	–	–	–	96	52	148
(Decrease)/increase in finance lease liabilities	–	(54)	(54)	–	24	24
Interest paid	(2 460)	250	(2 210)	(2 556)	254	(2 302)
	(2 460)	196	(2 264)	16 821	279	17 100
Cash and cash equivalents at the end of the year	10 226	3	10 229	7 062	3	7 065

The restatements in the balance sheets, income statements and cash flow statements are mainly due to:

1. Implementation of IFRIC 4 where certain arrangements contain finance leases.

The following notes refer solely to reallocations that were made to improve the disclosure and transparency of the annual financial statements for the benefit of the user.

2. Accrued interest receivable and payable was previously included in the balance sheet in the categories *trade and other receivables* and *trade and other payables*, respectively. Accrued interest is now included in the appropriate carrying values of financial assets and liabilities consistent with the measurement requirements of amortised cost and fair value classification.
3. Reclassification of derivative assets from current to non-current to reflect the maturity of the underlying hedged risk.
4. Reclassification of financial assets from non-current *trade and other receivables* to *financial assets at amortised cost*.
5. Reclassification of Escap commercial paper bills from *other financial liabilities through profit and loss* to *amounts owing to subsidiaries*.
6. Accrued interest on interest rate derivatives was previously included in the income statement in the categories *other net gains* and *interest expense* and has been reallocated to *net fair value losses on other derivatives* to ensure consistency with the balance sheet classification.
7. The category *other net gains* as previously disclosed in the income statement has been reclassified into the following categories for improved disclosure: *other income*, *net fair value gain on embedded derivatives*, *net fair value loss on other derivatives* and *finance income*.
8. Previously, the income statement reflected the gross expenditure and amounts capitalised to the balance sheet were disclosed as a separate category *work performed by the entity and capitalised*. The income statement now reflects the net expenditure, ie after deducting the costs capitalised to the balance sheet.
9. Primary energy, the cost of generating electricity, which was previously included in the income statement in the category *raw materials and consumables used* has been reclassified as a separate line item.
10. Other reclassification between categories for improved and more appropriate disclosure.

40. DIRECTORS' REMUNERATION[1]

Remuneration philosophy

Eskom links management remuneration to the performance of the organisation and an individual's contribution. Market factors are also crucial as reward and remuneration must be kept at levels that will assist us in retaining key leadership skills. Basic salary is augmented by short- and long-term incentives.

International and South African benchmarks are considered to ensure executive packages are aligned with those offered by companies of similar stature to Eskom. We aim to remunerate in line with the median of the market with the objective of recruiting and retaining the best management team to lead our business.

Remuneration committee

The human resources, remuneration and ethics committee helps the board to apply policy relating to the remuneration of directors and executives as set by our shareholder. The policy also covers the nomination of executives for senior positions and conditions of service. Refer to page 78.

The committee enhances business performance by:

- approving, guiding and influencing key human resources policies and strategies
- monitoring compliance with the Employment Equity Act
- guiding strategies to achieve equity in Eskom
- approving the principles governing reward and incentive schemes

Non-executive directors

Remuneration of non-executive directors is benchmarked against the norms for companies of similar size and is in line with guidelines issued by the shareholder. Remuneration proposals from the human resources, remuneration and ethics committee are forwarded to the board. The board then makes recommendations to the shareholder.

Non-executive directors received an honorarium and fee per meeting until November 2006. This was changed to a fixed monthly fee following a review under guidelines issued by the shareholder. They are reimbursed for out-of-pocket expenses incurred in fulfilling their duties.

Chief executive, finance director and divisional managing directors

The committee makes recommendations to the board concerning the remuneration of the chief executive, and approves the remuneration of the finance director and divisional managing directors. The remuneration of divisional managing directors is considered in accordance with a framework approved by the shareholder. The board recommendation on the remuneration of the chief executive has to be approved by the shareholder.

Factors influencing the remuneration of the chief executive, finance director and divisional managing directors include level of skill, experience, contribution to organisational performance and success of the group. Remuneration includes a basic package and short- and long-term incentives.

Every year, the human resources, remuneration and ethics committee reviews the structure of these packages to ensure an appropriate balance between fixed and variable remuneration and short- and long-term incentives and rewards.

The finance director and divisional managing directors have permanent employment contracts based on Eskom's standard conditions of service. Six months' notice is required.

The chief executive is on a fixed-term contract approved by the board and the shareholder.

Remuneration structure

The remuneration of the chief executive, finance director and divisional managing directors includes the following components:

Guaranteed amount

They receive a guaranteed pay package with remuneration based on cost-to-company. This comprises a fixed cash portion, compulsory benefits (medical aid, life cover and pension) and optional benefits (motor vehicle benefits). The guaranteed amount is increased annually to keep remuneration in line with the market.

1. Includes the remuneration of divisional managing directors who are senior executives (managers) and not directors of Eskom in terms of the PFMA.

Notes to the financial statements continued

for the year ended 31 March 2007

40. DIRECTORS' REMUNERATION[1] (continued)

Short-term incentives

These reward the achievement of individual pre-determined performance objectives and targets as set by the chief executive in performance contracts with the finance director and each divisional managing director. The human resources, remuneration and ethics committee approves the targets set for the chief executive.

The short-term incentive scheme is calculated as a percentage of pensionable earnings.

Long-term incentives

These are designed to attract, retain and reward the chief executive, finance director and divisional managing directors for meeting the organisational objectives set by the shareholder. A market-benchmarked long-term incentive scheme and a deferred bonus scheme, effective 1 April 2005, have been approved.

Long-term incentive scheme

A number of notional performance shares (award performance shares) were awarded to the chief executive, finance director and divisional managing directors on 1 April 2006. Performance shares are given a value at the date of grant, based on the fair value of Eskom Holdings Limited at that date.

The board has set performance conditions in line with the Eskom business plan and shareholder compact over a three-year performance period. Performance covers financial and non-financial targets in areas such as capacity, cost of electricity, people, environmental factors, customer service and quality of supply, with an agreed weighting in each category.

Awards only vest if, and to the extent that, these targets are met. Potential vesting percentages range from 30% to 100%. A threshold and a stretch target are set for each measure, with an expected (on-target) vesting of 50%.

Performance parameters are complemented by a set of 'gatekeeper conditions'. If gatekeeper requirements are not met, the board, at its discretion, may adjust the vesting percentages even though targets have been met.

The following gatekeeper conditions trigger a review of vesting percentages:

- the level of disabling injury incident rate is greater than 0,45
- the sustainability committee gives an unfavourable safety report
- Eskom's audited annual financial statements show a trading loss
- the auditors qualify Eskom's annual financial statements
- a significant PFMA contravention occurs

The vesting period for award performance shares is three years from the date of grant. At the end of that period, the human resources, remuneration and ethics committee decides the amounts to be paid in line with:

- the percentage of award performance shares that vest, based on the performance conditions achieved
- the value of the award performance shares based on the fair value of Eskom at the end of the vesting period

In addition to the performance conditions, vesting of award performance shares is dependent on the scheme participant remaining in Eskom's employ throughout the vesting period. The award lapses if employment ceases during the vesting period (other than for permitted reasons).

Deferred bonus scheme

Each year, Eskom offers bonus shares to the chief executive, finance director and divisional managing directors. These notional shares are given a value in line with Eskom's fair value at grant date. Participants have the right to accept a certain number of bonus shares in lieu of payment of a percentage of their annual bonus after tax. Eskom determines the value of the bonus shares (again based on the fair value of Eskom) at the end of the three-year performance period. Participants then receive a matching amount equal to the value of the bonus shares at the end of the performance period in addition to the value of the accepted bonus shares.

If employment ceases (other than for permitted reasons) during the performance period, only the value (without any matching award) of the bonus shares which were originally accepted by the participant will be paid. Payment is made on termination of employment.

Current estimated values of the award performance shares are R0,38 and R0,26 per share for the 2005 (vesting 31 March 2008) and 2006 (vesting 31 March 2009) awards, respectively. The performance share value includes the impact of performance conditions over the applicable three-year performance periods. The values estimated for the 2005 and 2006 bonus shares are R1,05 and R0,64 per share, respectively.

Name	Award performance shares vesting on 31 March 2009 Number	Deferred bonus scheme shares vesting on 31 March 2009[1] Number	Award performance shares vesting on 31 March 2008 Number	Deferred bonus scheme shares vesting on 31 March 2008[1] Number
Schedules of long-term incentive awards				
TS Gcabashe	4 764 776	–	3 920 000	–
BA Dames	2 307 513	–	1 423 800	44 135
JA Dladla	2 298 044	115 060	1 277 438	–
SJ Lennon	2 395 441	126 319	1 368 568	177 914
ME Letlape	2 284 488	100 000	1 293 204	150 000
PJ Maroga	2 548 617	130 610	1 456 081	–
EN Matya	2 790 076	–	1 579 408	200 000
PD Mbonyana	2 272 296	118 288	1 286 303	164 004
B Nqwababa	2 609 782	–	1 450 728	–
M Ntsokolo	2 553 784	142 279	1 419 600	188 097
Other[2]	8 634 986	371 547	4 030 039	260 113
	35 459 803	1 104 103	20 505 169	1 184 263

The long-term incentive and deferred bonus schemes are share-based payments in terms of IFRS 2.
The discounted cash flow methodology has been adopted in valuing Eskom. This methodology is based on the anticipated future cash flows of the business. These projected future cash flows are discounted together with the value of the company in perpetuity at the company's weighted average cost of capital taking into account the risks associated with the business. In 2007, Eskom applied a real rate of return in the model as advised by, and agreed with, Nersa, whereas in the previous financial year a nominal rate was used.
The future forecast cash flows to be discounted are the *free cash flows* (the cash available from the business after all internal funding requirements to maintain the required rate of growth have been met). Free cash flows are defined as the cash available to all providers of finance (shareholders and lenders to the company) and are discounted at the weighted average cost of capital to determine the present value of the future forecast free cash flows.
The details of the schemes were as follows:

Details	Long-term incentive plan	Deferred bonus plan	Long-term incentive plan	Deferred bonus plan
Date of grant	1 April 2006	1 April 2006	1 April 2005	1 April 2005
Number granted	35 459 803	1 104 103	20 505 169	1 184 263
Contractual life	3 years	3 years	3 years	3 years
Vesting conditions	Variable vesting depending on the achievement of non-market performance conditions	Three-year service period	Variable vesting depending on the achievement of non-market performance conditions	Three-year service period
Method of settlement	Cash	Cash	Cash	Cash
Estimated fair value of instruments granted (R)	0,64	0,64	1,05	1,05
Expected attrition of employees (%)	0	0	0	0
Expected outcome of performance conditions (%)	41,11	Not applicable	35,61	Not applicable
Valuation model	Residual value model	Residual value model	Residual value model	Residual value model

Reconciliation of share movements	**31 March 2007 Number**	**31 March 2007 Number**	31 March 2006 Number	31 March 2006 Number
Outstanding at beginning of year	**20 505 169**	**1 184 263**	–	–
Granted during the year	**35 459 803**	**1 104 103**	20 505 169	1 184 263
Forfeited during the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	–	–
Expired during the year	**–**	**–**	–	–
Outstanding at end of year	**55 964 972**	**2 288 366**	20 505 169	1 184 263
Carrying amount of liability, R'000	**8 250**	**1 122**	2 924	371
Intrinsic value of liabilities relating to vested rights, R'000	**8 250**	**1 122**	2 924	371

1. Number of shares purchased by the individual as an investment in the deferred bonus scheme.
2. Relates to senior general managers.

Notes to the financial statements continued

for the year ended 31 March 2007

40. DIRECTORS' REMUNERATION (continued)

Directors' emoluments

The following payments were made to the directors of Eskom during the year.

Name	Salary/fees[1]	Bonus and related payments[2]	**Total March 2007**	Total March 2006
	R000	R000	**R000**	R000
Eskom Holdings Limited				
Non-executive directors				
MV Moosa	1 084	–	**1 084**	700
RJ Khoza[3]	–	–	**–**	1 131
FM Baleni[4]	62	–	**62**	223
M Bello[5]	206	–	**206**	89
LCZ Cele[5]	285	–	**285**	124
BM Count	529	–	**529**	458
SE Funde[6]	–	–	**–**	48
LG Josefsson	486	–	**486**	425
WE Lucas-Bull	298	–	**298**	185
PM Makwana	269	–	**269**	147
ET Marshall[7]	153	–	**153**	–
JRD Modise	300	–	**300**	232
AJ Morgan	326	–	**326**	255
SA Mpambani	263	–	**263**	186
U Nene[5]	263	–	**263**	111
V Mohanlal Rowjee	237	–	**237**	181
SV Zilwa[6]	–	–	**–**	27
Executive directors				
TS Gcabashe	4 621	1 544	**6 165**	5 202
B Nqwababa	2 031	856	**2 887**	2 268
Total directors	11 413	2 400	**13 813**	11 992
Divisional managing directors[8]				
NL Angel[4]	370	–	**370**	1 254
BA Dames	1 782	752	**2 534**	1 903
JA Dladla	1 772	675	**2 447**	1 988
SJ Lennon	1 807	682	**2 489**	2 115
ME Letlape	1 720	654	**2 374**	2 009
PJ Maroga	2 096	1 103	**3 199**	2 238
EN Matya	2 105	749	**2 854**	2 433
PD Mbonyana	1 711	577	**2 288**	1 994
M Ntsokolo	1 959	672	**2 631**	2 257
Total divisional managing directors	15 322	5 864	**21 186**	18 191

1. Includes reimbursements for non-executive directors.
2. Bonus and related payments include only short-term incentive payments.
3. Resigned as chairman in September 2005.
4. Resigned June 2006.
5. Appointed in July 2005.
6. Resigned in June 2005.
7. Appointed October 2006.
8. Disclosure in terms of regulation 28.1 of the Public Finance Management Act.

	Company	
	March 2007 R000	March 2006 R000
Housing loans to executive directors		
TS Gcabashe	**689**	–
B Nqwababa	**3 346**	3 110
Housing loans to divisional managing directors		
BA Dames	**3 118**	2 754
JA Dladla	**223**	300
PJ Maroga	**3 131**	3 201
PD Mbonyana	**1 201**	665
M Ntsokolo	**3 533**	2 908

The interest rate on the loan from Eskom Finance Company (Pty) Limited at 31 March 2007 was 10,5% (31 March 2006: 8,5%). The loans are repayable over a maximum period of 30 years. On resignation, the loan is repayable in full within 90 days from date of resignation. After resignation date, the interest rate increases to 2% above the prime lending rate.

The following board and Exco members were directors of Eskom subsidiary companies. All fees paid for attendance of meetings were paid to Eskom Holdings.

Name	**2007 R000**	2006 R000
Eskom Enterprises (Pty) Limited[1]		
TS Gcabashe	–	–
B Nqwababa	–	–
SJ Lennon	–	–
BA Dames	–	–
Eskom Finance Company (Pty) Limited[2]		
B Nqwababa	**15**	15
Escap Limited[2]		
B Nqwababa	**32**	31
Eskom Development Foundation[1]		
PD Mbonyana	–	–

1. Paid by Eskom.
2. Fees paid to Eskom.

Corporate governance and tables

HIGHLIGHTS

- Jacob Maroga appointed chief executive on 1 May 2007. Previous chief executive (Thulani Gcabashe) ended his term of office on 30 April 2007.
- Awarded the BusinessMap Top Public Sector Transformer Award on 13 March 2007. Also awarded the ESI Africa excellence award for best service provider in the year 2006.
- New conflict-of-interest policy implemented.

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Picture captions
1. *Water released at Gariep hydroelectric station.*
2. *Apollo substation is the first and biggest high voltage, direct current substation in the world.*

Together we are striving towards a common objective

Eskom plays a central role as an enabler of the Asgisa vision

Eskom

Corporate governance

INTRODUCTION

The challenges facing any business in a rapidly changing environment are becoming increasingly complex. Eskom is no exception as it implements its capacity expansion programme while focusing on excellent operational performance to ensure and enhance security of supply in South Africa. Eskom views good corporate governance practices as an integral part of good performance. It is therefore essential for Eskom to fulfil its mandate in a manner that is in keeping with governance best practices and, in particular, with regard to accountability, transparency, fairness and responsibility.

We have to adhere to the statutory duties and responsibilities imposed by the Companies Act as augmented by the Public Finance Management Act (PFMA). Eskom's systems and processes are regularly reviewed to ensure that they monitor compliance in this regard. In addition, Eskom is guided on best practices by international developments as well as the King Report on Corporate Governance for South Africa – 2002 (King II) and the Protocol on Corporate Governance in the Public Sector – 2002.

We are aware that Eskom's massive capacity expansion programme will result in particular challenges for the governance processes. Eskom needs to ensure that there are adequate resources and expertise, and that our processes are beyond reproach. Consequently, a number of initiatives has been implemented to strengthen our resources.

In particular, additional external experts have been appointed to various board committees. More recently Eskom has worked with the Department of Public Enterprises to implement additional mechanisms to assist with better governance practices.

Key initiatives in this vein include an annual review of delegation of authority, a special focus on procurement processes, including training for board committee members, and a review of director remuneration.

SHAREHOLDING

The government of the Republic of South Africa is Eskom's sole shareholder. The shareholder representative is the Minister of Public Enterprises.

SHAREHOLDER'S COMPACT

Each year, Eskom, in consultation with the Minister of Public Enterprises, has to agree its key performance objectives, measures and indicators in line with treasury regulations under the PFMA. These annual targets are annexed to a list of principles agreed between Eskom and its shareholder (the shareholder compact). To compare the annexure to actual performance, refer to page 34.

The compact does not interfere with the normal principles of company law. The relationship between shareholder and board is preserved. The board is responsible for ensuring that proper internal controls are in place and that Eskom is effectively managed. The compact promotes good governance by helping to clarify the roles and responsibilities of board and shareholder and ensures consensus on Eskom's mandate and key objectives.

GOVERNING BODIES

Board of directors

Composition of the board

The details of directors appear on pages 14 to 15.

Picture caption
A coal truck, with Majuba power station in the background near Volksrust.

Eskom has a unitary board structure with 13 non-executive directors and two executive directors. The majority of the non-executive directors is independent. Directors, appointed by the Minister of Public Enterprises, are drawn from diverse backgrounds (local and international) and reflect South Africa's demographics. They bring a wide range of experience and professional skills to the board.

Eskom's articles of association stipulate that the shareholder will, after consulting the board, appoint a chairman, chief executive and non-executive directors. The remaining executive directors are appointed by the board after obtaining shareholder approval.

Non-executive directors serve for a maximum of three years. They retire by rotation and are eligible for re-election. Appointments are reviewed at the annual general meeting.

Mr FM Baleni resigned in June 2006 and Mr ET Marshall was appointed in his stead in October 2006. Other directors are still within their three-year terms. No directors retired.

Executive directors are full-time employees and as such are subject to Eskom's conditions of service. The previous chief executive ended his term of office at the end of April 2007. The chief executive designate, Mr PJ Maroga, was subsequently appointed as chief executive with effect from 1 May 2007.

Board meetings are scheduled annually in advance. Special meetings are convened as necessary to address specific issues. Directors or committee members unable to attend meetings may use teleconferencing facilities. The attendance of members at the nine board meetings during the reporting period is reflected on page 176.

Delegation of authority

The board has the authority to lead, control, manage and conduct the business of Eskom, including the authority to delegate. Its aim is to ensure Eskom remains a sustainable and viable business of global stature. The board retains full control over operations. Its responsibilities are facilitated by a well-developed governance structure that includes board committees, subcommittees of the executive management committee (Exco) and a comprehensive delegation-of-authority framework. This framework assists decision making without diluting directorial accountability and responsibility. The board reviews the framework regularly. It was last reviewed in December 2006.

Board evaluation and performance

A performance evaluation of the board and individual directors is conducted at the end of the financial year. Any shortcomings are addressed and areas of strength consolidated.

The performance of board committees is evaluated against their terms of reference. The human resources, remuneration and ethics committee facilitates the evaluation of senior management.

Director induction and orientation

New directors and external committee members are taken through an induction programme to improve their understanding of Eskom's legislative framework, governance processes and business operations.

Picture caption
The distribution network needs to be maintained regularly.

Corporate governance continued

Board and board committees

	Board	Audit	Investment and finance	Tender	Sustain-ability	Human resources, remuner-ation and ethics	Risk manage-ment	Ad hoc electricity distribution industry	Exco
Number of meetings	9	7	9	9	4	5	4	1	25
Board members									
MV Moosa	9[1]	–	–	–	3	1[2]	–	–	–
FM Baleni[3]	1	–	–	2	–	–	–	0	–
M Bello	3	–	2[4]	–	–	–	0[4]	–	–
LCZ Cele	9	7	–	9[1]	–	–	–	–	–
BM Count	8	–	9	–	–	5	–	–	–
TS Gcabashe	9	–	8	–	4	5	–	1	24[1]
LG Josefsson	9	4	–	–	2	–	–	–	–
WE Lucas-Bull	8	–	9[1]	–	4	–	–	–	–
PM Makwana	7	5	–	–	–	5[1]	–	–	–
ET Marshall[5]	4	–	–	3	–	–	2	–	–
JRD Modise	9	7[1]	–	–	–	–	4	1	–
V Mohanlal Rowjee	7	–	–	9	–	5	–	–	–
AJ Morgan	8	–	8	7	–	–	4[1]	1[1]	–
SA Mpambani	9	7	–	9	–	–	–	–	–
U Nene	9	–	6	–	4[1]	–	–	–	–
B Nqwababa	9	6[6]	8	–	–	–	4	1	24
External committee member									
S Sebotsa[7]	–	–	2	–	–	–	–	–	–
Divisional managing directors									
NL Angel[3]	–	–	–	–	–	–	–	–	4
BA Dames	–	–	–	–	–	–	–	–	24
JA Dladla	–	–	–	–	–	–	–	–	23
SJ Lennon	–	–	–	–	–	–	–	–	24
ME Letlape	–	–	–	–	–	–	–	–	23
PJ Maroga	–	–	–	–	–	–	–	–	22
EN Matya	–	–	–	–	–	–	2	–	21
PD Mbonyana	–	–	–	–	–	–	–	–	23
M Ntsokolo	–	–	–	–	–	–	–	–	18

1. Chairman.
2. Attended by invitiation.
3. Resigned June 2006.
4. Resigned from committee during the year.
5. Appointed October 2006.
6. Not a member, but an official.
7. Appointed in March 2007.

Eskom

Continual training addresses the needs of each director or group of directors. Directors are briefed on new legislation and regulations.

Directors' remuneration

The rewards and remuneration of executive directors are determined by the human resources, remuneration and ethics committee. More information on remuneration appears on pages 167 to 171.

Company secretarial function

Directors have unrestricted access to the advice and services of the company secretary and those of the secretariat department. Directors may seek independent professional advice, at Eskom's expense, should they deem this necessary.

The company secretary and those responsible for the assurance functions in the Corporate division monitor Eskom's compliance with the PFMA, Companies Act and other relevant legislation and report to the board on this issue.

Board committees

Several committees assist the board in carrying out its responsibilities. Their recommendations and reports to the board ensure transparency and full disclosure of committee activities. Each committee operates within terms of reference that set out the composition, role, responsibilities, delegated authority and requirements for convening meetings. The board from time to time sets up committees for specific (ad hoc) purposes. All committees, except Exco, comprise a majority of non-executive directors. An independent non-executive director serves as chairman in each case. Committee meeting attendance is reflected on page 176.

Audit committee

The committee comprises five non-executive directors. The chairman of the committee is not the chairman of the board. The committee monitors compliance with legislation and ensures internal control is maintained to protect Eskom's interests and assets. The committee reviews the activities and effectiveness of the corporate audit department (internal audit), evaluates the independence, objectivity and effectiveness of the external auditors and reviews any accounting and auditing concerns raised by internal and external audit. The head of the corporate audit department and the external auditors have unrestricted access to the chairman of the committee and to Eskom's chairman. The committee reviews the accuracy, reliability and credibility of statutory financial reporting. It also recommends the annual financial statements and the Eskom group annual report, as presented by management, for board approval.

Seven committee meetings were held during the review period. They were attended by the external auditors, the finance director, the head of the corporate audit department and relevant company officials.

Risk management committee

The committee comprises three non-executive directors, the finance director and the divisional managing director (Generation division). It ensures that the company's risk management strategies and processes are aligned with best practices.

The audit committee chairman also sits on the risk management committee to ensure common issues are addressed adequately.

Picture caption
The Eskom College in Midrand, Johannesburg is Eskom's main training hub.

Corporate governance continued

Four meetings were held during the year, covering the integrated risk management strategy and processes, risk tolerance and appetite, risk accountabilities, major risk exposures and emerging risks.

Investment and finance committee

The committee, comprising four non-executive directors, the chief executive and finance director, reviews investment strategy and makes recommendations to the board. It evaluates and approves business cases for new ventures or projects, approves criteria and guidelines for investments, and approves investments within its delegated authority.

The committee monitors and oversees the financial health of Eskom, including the review of budgets and financial and business plans. Nine committee meetings were held.

Tender committee

The committee of five non-executive directors assists the board with procurement decisions, and approves procurement policies, tenders and contracts within its delegated authority. It ensures that Eskom's procurement system is fair, transparent, competitive and cost-effective. If the value of the contracts to be approved exceeds the committee's mandated ceiling, the contracts are referred to the board for approval.

Nine committee meetings were held.

Human resources, remuneration and ethics committee

This committee comprises three non-executive directors and the chief executive (who recuses himself when his remuneration is considered).

The committee:

- > influences and approves human resources policies and strategies and monitors compliance with the Employment Equity Act, 55 of 1998
- > makes recommendations on remuneration policy for directors
- > makes recommendations to the board on the appointment and replacement of directors and senior management
- > ensures Eskom demonstrates its commitment to organisational integrity
- > monitors the ethical conduct of the company, its management, employees and suppliers

The chairman ensures sufficient time is allocated to each of the areas covered by the committee's terms of reference. There are dedicated slots for ethics, human resources policies, executive remuneration and succession planning.

Five meetings were held. The chairman of the board was invited to attend one meeting.

Sustainability committee

The committee of four non-executive directors and the chief executive deals with integrated sustainability issues and approves or recommends policies, strategies and guidelines, particularly for safety, health, environmental, quality and nuclear issues.

The committee also scrutinises nuclear safety at Eskom facilities to ensure standards exceed all regulatory and internal requirements, while remaining consistent with international best practice.

Four meetings were held.

Ad hoc electricity distribution industry restructuring committee (EDI committee)

The EDI committee of two non-executive directors, the chief executive and finance director was set up to help the board to develop strategic positions regarding the restructuring of the electricity distribution industry.

One meeting was held.

Executive management committee (Exco)

Exco, comprising the chief executive, finance director and the divisional managing directors[1] of Eskom divisions, is chaired by the chief executive. Details of Exco members appear on pages 22 to 23.

The committee assists the chief executive in guiding the overall direction of the business and in exercising executive control. Its job is to ensure the effective management of the day-to-day operations of the business.

Exco is assisted by its procurement, operations, investment, nuclear management and sustainability subcommittees.

Twenty-five Exco meetings were held. Two were strategic workshops. Attendance is reflected on page 176.

PUBLIC FINANCE MANAGEMENT ACT

The board is the accounting authority in terms of this Act, in which Eskom is listed as a Schedule 2 public entity. This Act also applies to subsidiaries and entities owned or controlled by Eskom. (They are also classified as Schedule 2 public entities.)

The Act governs financial management and governance. Eskom ensures that all directors and employees are aware of the provisions of the PFMA through regular training programmes.

Directors comply with their fiduciary duties as set out in the PFMA. Board responsibilities under the Act include:

- putting in place efficient, effective and transparent systems of financial and risk management and internal control
- maintaining a system for properly evaluating all major capital projects prior to a final decision on each project
- implementing appropriate and effective measures to prevent irregular or fruitless and wasteful expenditure, expenditure in contravention of legislation or losses from criminal conduct
- ensuring that all revenue due to Eskom is collected
- ensuring economic and efficient management of working capital
- defining objectives and allocation of resources in an economic, efficient, effective and transparent manner

INTEGRATED RISK MANAGEMENT (IRM)

Eskom's integrated risk strategy and process is a priority. Organisation-wide assessments consider risks and opportunities against business objectives. Risk integration between divisions and subsidiaries is reviewed by various committees to ensure a coordinated approach to risk mitigation.

1. These are divisional managing directors and not directors on the board.

Picture caption
A typical rotor used in a coal-fired power station.

Corporate governance continued

The process of risk management, including a related system of internal control, is a board responsibility. Management is accountable to the board for process design, implementation and monitoring while integrating risk awareness and mitigation into the organisation's day-to-day activities.

Risk accountability is defined within a matrix which is updated from time-to-time to ensure continuing relevance to the business.

Eskom has adopted the code of practice of the Institute of Risk Management South Africa and its integrated risk management process follows the King II guidelines on corporate governance.

ETHICAL BUSINESS CONDUCT

Eskom commits itself to the highest standard of ethical conduct, underpinning its key value of integrity. It strives at all times to foster trust, dependability and honesty.

The ethics office assists the chief executive in setting the framework, rules, standards and boundaries for ethical behaviour, and provides guidance to the Eskom group on ethical conduct. The ethics management programme is based on best-practice initiatives.

An independent ethics climate survey was conducted in 2006, across a sample of stakeholders (directors, employees, labour unions, customers and suppliers) to review the Eskom business conduct policy and identify areas of priority and concern.

The report prompted several developments:

- a new conflict-of-interest policy was implemented containing detailed guidelines that explain all aspects of conflicts of interest. The policy requires all staff to declare conflicts of interests as they occur and to submit electronically an annual conflict-of-interest declaration
- a new code of ethics was drafted based on the shared ethical values identified in the climate survey. The draft code has been submitted to Exco for input and will be shared with employees through Eskom's strategic dialogue sessions before being sent to the board for approval

Ongoing ethics awareness includes:

- implementation of formal ethics structures in each division
- an ethics advisory service provided by the ethics office for employees, suppliers and customers
- the ethics website, covering key ethical issues, frequently asked questions and training material
- an externally managed toll-free crime line, enabling employees, suppliers and customers to report crime and irregularities confidentially

INTERNAL CONTROL

The board is responsible for establishing a framework for internal control. Eskom controls focus on critical risk areas identified by operational risk management and confirmed by management. Controls provide cost-effective assurance that assets are safeguarded and liabilities and working capital are efficiently managed. Organisational policies, procedures, structures and approval frameworks provide direction, establish accountability and separate responsibilities. They each contain self-monitoring mechanisms. Management and the corporate audit department monitor controls and corrective action.

AUDIT

In line with the requirements of the PFMA and good governance, corporate audit (Eskom's internal audit function) provides the

audit committee and management with information on the appropriateness and effectiveness of internal controls. Information is derived from an independent evaluation of risk management and governance processes and internal controls. Corrective action is identified and improved controls are suggested.

The audit plan covers major financial and commercial risks and responds to any changes in Eskom's risk profile.

Corporate audit is supported by the board and audit committee and has unrestricted access to all organisational activities, records, property and personnel.

External auditors are responsible for independently auditing and reporting on the financial statements. The statements comply with International Financial Reporting Standards.

TECHNICAL AUDIT

The corporate technical audit department provides reports to management on technical, environmental, quality and safety performance. It also carries out incident investigations and monitors technical performance. In addition, the department measures and verifies energy efficiency and load-shifting projects. Safety, health, environmental, quality and technical risk audits, reviews and assessments are also conducted.

Audit programmes are based on one- and three-year cycles.

SECURITY RISK MANAGEMENT

The board is responsible for ensuring an integrated crime-prevention plan is implemented to minimise exposure to criminal acts, particularly fraud. The security risk management department addresses these threats. Its work covers crime prevention, detection, response and investigation.

Where serious fraud, corruption and irregularities are suspected, forensic investigations (a division of security risk management) establish the facts to enable management to deal appropriately with the matter and prevent a recurrence.

STAKEHOLDER ENGAGEMENT

Eskom recognises the importance of effective stakeholder engagement for its long-term business success. Central to the role of stakeholder engagement is its work to engage, inform and influence key stakeholders in a meaningful way while looking for opportunities to cooperate for mutual benefit.

Stakeholder engagement is one of Eskom's top ten business priorities. An overarching stakeholder management framework is being developed to integrate divisional and regional stakeholder engagement activities as this was identified as an area for improvement.

Last year's power outages in the Western Cape revealed that our stakeholder relations function was not as robust as it should have been. As a result, this function was restructured to ensure greater stakeholder consideration in our business activities, and foster partnerships.

The stakeholder centre is one of three centres that form the core structure of the group communications department. The centre is the custodian of all internal and external relationships.

Picture caption
A cleared servitude on the Matimba – Witkop transmission line route.

Corporate governance continued

Its key responsibilities include identification and prioritisation of relevant stakeholders, building relationships with key stakeholders through programmes of engagement, and building a database of stakeholder information.

Stakeholders

Stakeholders are all people or groups who are important to Eskom, who have an interest in our operations and who are influenced by what we do. Clearly as the national electricity utility, we touch the lives of all South Africans, whether as customers or as players in the economy.

Eskom regularly reviews the effectiveness of its stakeholder programme. This includes surveys of stakeholders to improve our understanding of shifts in perceptions and needs. During the review period, Eskom commissioned an independent research consultancy to facilitate three formal sessions with stakeholders for feedback on the 2006 Eskom annual report and the general process of reporting to stakeholders. Many of the issues raised (see next page), are addressed in this report. Eskom also sends a formal response to those who attended our stakeholder sessions.

Eskom engages with stakeholders in a variety of ways, for example:

Stakeholder	Intervention
Government and regulatory bodies	Regular one-on-one engagements, joint working groups, shareholder compact, presentations to portfolio committees and written communication
Customers	One-on-one engagements with key customers, call centres, customer satisfaction surveys, newsletters, joint working groups, conferences and dedicated account managers. Special interventions during the outages in the Western Cape in 2006 included the formation of a multi-stakeholder crisis committee, special website communication, the power alert on national television and regular stakeholder updates
Employees	Eskom plasma and touch screens, intranet, electronic communication, Internal newsletters, conferences, team talks, SMS communication, annual road shows by executive management throughout the country and employee satisfaction surveys
Unions	One-on-one engagement, joint working groups, consultative forums, negotiating councils and structures
Financial community (investors, financiers and rating agencies)	Road shows, Internet, Eskom publications, regular interaction and presentations
Media	Regular press conferences and briefings, one-on-one interviews, Internet, site visits
Suppliers	Supplier forums, one-on-one engagements and Internet bulletins
Learners and educators	Groups educated at Eskom visitor centres, school campaigns (such as energy efficiency rollouts), awards (*eta* Awards), education material rolled out to schools
Communities	The Eskom Development Foundation actively works in communities. Other interventions include work by new build project managers, environmental impact assessment sessions, awareness campaigns (such as the community around Koeberg)

Picture caption
Koeberg nuclear power station makes use of sea water for cooling.

Some constructive criticism of the 2006 annual report was received at the workshops. Eskom considered these inputs and as a result we believe improvements have been made to our 2007 report. The reader will see that many of these comments have influenced the content and layout. For example, a great deal of forward-looking information has been included. This process of engaging stakeholders will continue to ensure further improvements in Eskom's reporting.

Stakeholder issues

The high-level issues that our main stakeholders bring to our attention during the various engagements throughout the year are included in the table. The response strategies vary from communication interventions to business processes instituted to address the issues.

Issue	Response strategy	Page
Reliable electricity supply	> embarked on build and return-to-service programme to increase capacity > refurbishment and network-strengthening projects under way to enhance quality of supply > Western Cape recovery plan implemented	8-10, 16-17, 34-43 54-60
Capacity planning	> a robust planning process is in place that is reviewed annually and updated to accommodate expected changes in supply and demand > Eskom's planning process is aligned to that of the Department of Minerals and Energy and Nersa	8-10, 16-17, 54-60
Management and retention of critical skills	> consolidating and optimising existing skills and resources > attracting critical skills from multiple sources, with a focus on racial and gender equity > internal training and development programmes and recruitment practices focused on building skills base > Eskom learning institutions increased intake of students	20, 60-66
Safety performance	> visible 'felt leadership' programme > electrical safety awareness initiatives implemented to educate the public about the dangers of electricity inside and outside the home > major internal communication campaign rolled out to staff and contractors – *switch on to safety* > safe working procedures improved	67-70
Plant maintenance	> pipelining of sufficient critical staff for the future has been accelerated through recruitment and training initiatives > large maintenance partners included to ensure skills are focused on priorities such as quality assurance	39
Minimising environmental impact	> environmental management system implemented to ensure continual improvement in managing impacts > making environmental management an integral part of decision and business processes > environmental impact assessments and associated public participation are integral to all new build projects	20-21, 46-54

Picture caption
The construction site office at the Medupi power station site near Lephalale.

Eskom

Corporate governance continued

Issue	Response strategy	Page
Future tariffs	> Eskom is committed to remaining one of the lowest cost producers of electricity globally > Eskom's price increases are fixed in terms of the multi-year pricing determination > increased capital expenditure and primary energy price hikes necessitate increased tariffs	72-73
Funding of the new build programme	> Eskom funds a large portion of the new build programme itself and the rest from national and foreign financing > Eskom has an excellent national and global credit rating	4-5, 17, 70-72
Climate change	> climate change is included in Eskom's decision-making criteria in the new build programme > Eskom participates in national and international climate change and sustainable development activities	51-54

SUSTAINABILITY, OCCUPATIONAL HEALTH, SAFETY AND ENVIRONMENTAL MANAGEMENT

This committee guides Eskom strategy on sustainability and environmental and occupational health and safety matters. The chief executive, as chief safety officer and chairman of Exco's sustainability and safety subcommittee, is accountable for overall sustainability and safety performance. Strategies are reviewed and approved by the sustainability committee of the board.

Eskom's safety, health and environmental policy, the National Environmental Management Act, 107 of 1998, as amended and the Occupational Health and Safety Act, 85 of 1993, as amended, guide the group's strategy and performance targets in these areas. Exco's operations subcommittee assesses occupational health, safety and environmental performance and reviews major incidents to ensure corrective action is taken.

Refer to www.eskom.co.za/annreport07/034 for information on subcommittees

Nuclear safety

The nuclear safety assurance function is kept independent from the electricity production function by dividing Eskom's nuclear infrastructure into two. The nuclear business arena is directly accountable to the managing director of the Generation division for all aspects of electricity production at Koeberg power station, including safety. The nuclear safety and assurance section, a separate department in the Generation division with its own technical experts and resources, provides independent assurance on nuclear safety and compliance with licence requirements.

In line with international best practice, Eskom has a three-tier system of nuclear safety governance. The sustainability committee of the board (the top tier) dedicates several meetings a year to nuclear matters. The meetings are attended by international nuclear experts who bring a broad perspective to deliberations. The middle tier, the nuclear management committee presided over by the managing director of the Generation division, monitors, reviews and makes recommendations on issues such as nuclear policy, standards, benchmarks and rules and Eskom's overall business requirements. The third tier, the safety review group, brings together experts from various parts of Eskom to evaluate nuclear safety issues and make recommendations to senior management and the other tiers.

Picture caption
Camden power station is one of the older stations being recommissioned.

CORPORATE CITIZENSHIP

The objective of government's Accelerated and Shared Growth Initiative for South Africa (Asgisa) is to promote economic growth and halve poverty and unemployment by 2014. Eskom's contribution to accelerated and shared growth is centrally coordinated and facilitated through the office of the chief executive. Eskom's most significant contribution to Asgisa is through its core business of supplying reliable electricity. Eskom also leverages associated activities, including its corporate social investment (CSI) programmes, for the development of the disadvantaged.

Eskom CSI contributes to the development of the disadvantaged and promotes skills development, job creation, education and health.

Many CSI initiatives are executed by the Eskom Development Foundation.

Refer to www.eskom.co.za/annreport07/035 for associated Asgisa activities

SUBSIDIARIES

Eskom Enterprises (Pty) Limited, an Eskom subsidiary that focuses on its non-regulated activities, has subsidiaries in South Africa, Mali, Zambia, Uganda and Lesotho. All of the Eskom Enterprises group companies are governed by independent board structures with their own internal controls. Eskom Enterprises and its wholly owned subsidiaries are subject to Eskom group policies, governance and financial control. The directors are accountable to Eskom as shareholder through the shareholder compact.

Eskom's other wholly owned subsidiaries – Eskom Finance Company (Pty) Limited, Eskom Development Foundation, Escap Limited and Gallium Insurance Company Limited – are governed by independent boards and internal controls. Again, the directors are accountable to Eskom through the shareholder compact.

The subsidiaries comply with the PFMA and Companies Act and follow good governance principles.

Picture caption
The fire water pump house at the Gourikwa power station.

Tables

1. STATISTICAL OVERVIEW

	2007	2006	2005 (15 months)	2004	2003
Sales					
Total sold (GWh)[1,2]	**218 120**	207 921	256 453	206 799	196 980
Growth in GWh sales (%)	**4,9**	(18,9)[3]	30,5	5,0	4,8
Electricity output					
Total electricity for Eskom system (Eskom stations and purchased) (GWh)[4]	**243 926**	232 295	285 601	229 970	218 412
Total produced by Eskom stations (GWh (net))	**232 443**	221 985	273 404	220 152	210 218
Coal-fired stations (GWh (net))	**215 211**	206 606	251 914	202 171	194 046
Hydroelectric stations (GWh (net))	**2 443**	1 141	903	720	777
Pumped storage stations (GWh (net))	**2 947**	2 867	3 675	2 981	2 732
Gas turbine stations (GWh (net))	**62**	78	–	–	–
Nuclear power station (GWh (net))	**11 780**	11 293	16 912	14 280	12 663
Total purchased for Eskom system (GWh)	**11 483**	10 310	12 197	9 818	8 194
Total consumed by Eskom (GWh)[5]	**3 937**	3 814	5 043	4 040	3 664
Total available for distribution (GWh)[2]	**239 989**	228 481	280 558	225 930	214 748
Plant performance indicators					
Total nominal capacity (MW)	**42 618**	42 011	42 011	42 011	42 011
Total net maximum capacity (including reserves) (MW)	**40 413**	39 810	39 810	39 810	39 810
Peak demand on integrated Eskom system (MW)	**34 807**	33 461	34 195	34 195	31 928
Average energy availability – EAF (UCF) (%)[6,7]	**87,5 (88,6)**	87,4 (88,7)	89,5 (89,9)[8]	89,5 (90,0)	87,5 (88,7)
Generation load factor (%)[7,9]	**72,4**	69,7	69,0	69,2	66,3
Integrated Eskom system load factor (%)	**82,7**	79,8	78,0	77,4	76,8
Environmental indicators					
Relative particulate emissions (kg/MWh sent out)	**0,20**	0,21	0,26[8]	0,27	0,28
Specific water consumption (L/kWh sent out)[10]	**1,35**	1,32	1,27[8]	1,26	1,29
Reported legal contraventions counted in the operational sustainability index (number)[11]	**0**	1	3[8]	2	2
Customer satisfaction (PreCare/MaxiCare) (ratio)	**–**	–	8,29[8]	8,31	8,47
Customer satisfaction (Enhanced PreCare/MaxiCare) (ratio)[12]	**100,80**	101,06	93,10	–	–
Net raw water consumption (ML)	**313 064**	291 516	347 135	277 557	271 940
Coal burnt (kt)	**119 113**	112 096	136 437	109 508	104 370
Average calorific value (MJ/kg)	**18,76**	19,58	19,36	19,42	19,41
Average ash content (%)	**29,60**	29,10	29,60	29,60	28,90
Average sulphur content (%)	**0,86**	0,88	0,87	0,87	0,92
Overall thermal efficiency (%)	**33,9**	33,8	34,0	34,0	34,2
Line losses (%)	**8,4**	8,2	8,2[8]	7,8	8,3
Nitrous oxide (N_2O) (t)[13]	**2 730**	3 134	3 552	2 924	2 580
Carbon dioxide (CO_2) (Mt)[13]	**208,9**	203,7	247,0	197,7	190,1
Sulphur dioxide (SO_2) (kt)[13]	**1 876**	1 763	2 236	1 779	1 728
Nitrogen oxide (NO_x) as NO_2 (kt)[13]	**930**	877	994	797	760
Particulate emissions (kt)	**46,08**	45,76	72,83	59,17	58,65
Ash produced (Mt)	**34,16**	33,40	40,80	33,10	29,80
Ash sold (Mt)	**2,155**	1,789	1,957	1,590	1,197
Radiation release (mSv)[14]	**–**	–	–	–	–
Radiation release (mSv)[15]	**0,0034**	0,0049	0,0079[8]	0,0087	0,0123
Low-level waste – steel drums (m^3)	**79,0**	91,3	282,5	258,8	86,9
Intermediate-level waste – concrete drums (m^3)	**36,0**	52,4	114,5	97,5	37,4
Low-level nuclear waste – fuel racks (m^3)[16]	**697**	697	697	697	–
Spent nuclear fuel (number of elements (cumulative figure))	**56 (1 561)**	52 (1 505)	104 (1 453)	56 (1 405)	104 (1 349)
Sales to countries in southern Africa (GWh)	**13 589**	13 122	16 008	12 954	10 173
Botswana	**1 959**	1 727	2 111	1 699	1 390
Mozambique	**8 435**	8 167	10 108	8 076	5 875
Namibia	**1 632**	1 709	1 821	1 515	1 114
Zimbabwe	**589**	549	598	532	793
Lesotho[18]	**50**	23	13	12	38
Swaziland	**856**	760	872	697	796
Zambia	**68**	187	465	403	151
Short-term energy market[19]	**–**	–	20	20	16

2002	2001	2000	1999	1998	1997
187 957	181 511	178 193	173 412	171 457	172 550
3,5	1,8	2,8	1,1	(0,6)	4,3
207 233	198 790	194 601	188 475	185 583	187 850
197 737	189 590	189 307	181 818	183 093	187 811
181 651	175 223	172 362	165 665	165 473	170 464
2 357	2 061	1 343	726	1 596	2 092
1 738	1 587	2 591	2 590	2 420	2 608
–	–	1	–	3	–
11 991	10 719	13 010	12 837	13 601	12 647
9 496	9 200	5 294	6 657	2 490	39
2 354	2 177	3 478	3 507	3 299	3 511
204 879	196 613	191 123	184 968	182 284	184 339
42 011	42 011	41 298	40 585	39 872	39 154
39 810	39 810	39 186	38 517	37 848	37 175
31 621	30 599	29 188	27 813	27 803	28 329
89,3 (91,7)	92,0 (92,5)	92,1 (92,8)	91,0 (92,5)	91,6 (92,7)	90,4 (91,5)
62,3	59,8	60,6	61,2	61,6	65,0
74,0	73,4	74,7	75,9	74,8	74,3
0,29	0,31	0,35	0,37	0,36	0,44
1,27	1,26	1,21	1,25	1,23	1,20
3	2	3	9	9	15
8,57	8,43	8,82	8,78	8,90	9,10
–	–	–	–	–	–
251 611	239 233	228 759	227 288	225 280	225 699
96 460	94 136	92 454	88 470	87 225	90 169
19,54	19,42	19,50	19,53	19,84	19,68
28,40	28,80	28,60	28,50	29,10	28,40
0,92	0,93	0,90	0,96	0,93	0,94
34,1	34,1	34,4	34,4	34,2	34,5
8,2	7,2	7,4	6,2	5,9	6,4
2 246	2 154	2 093	2 010	2 031	2 085
175,2	169,3	161,2	159,4	163,2	169,0
1 494	1 500	1 505	1 506	1 583	1 383
702	684	674	673	669	688
57,53	59,64	66,08	67,08	65,21	83,43
26,20	26,50	24,60	24,30	24,70	23,70
1,257	1,161	1,126	1,116	1,180	1,118
0,0005	0,0007	0,0005	0,0005	0,0007	0,0008
0,0060	0,0192	0,0059	0,0112	0,0088	0,0122
89,04	117,25	72,80	70,77	61,18	89,95
30,21	45,65	22,10	37,11	22,77	26,26
–	–	–	–	–	–
48 (1 245)[17]	104 (1 197)	52 (1 093)	104 (1 041)	52 (937)	104 (885)
6 956	6 710	3 872	3 884	4 093	6 439
1 124	1 183	986	934	689	748
3 907	3 899	1 331	68	385	680
598	578	640	562	602	1 295
298	371	788	1 564	1 521	2 790
16	40	12	55	209	318
799	639	115	701	687	608
103	–	–	–	–	–
111	–	–	–	–	–

1. *Sales prior to 2005 include internal sales.*
2. *Difference between electricity available for distribution and electricity sold is due to transmission and other losses.*
3. *Actual sales growth was 0,8% when compared to the 12 months 1 April 2004 to 31 March 2005.*
4. *Includes Eskom electricity produced and delivered to neighbouring countries.*
5. *Used by Eskom for pumped storage facilities and synchronous condenser mode of operation.*
6. *Capacity hours available times 100 divided by total capacity hours in year.*
7. *After excess capacity.*
8. *Represents the 12-month moving average for 1 April 2004 to 31 March 2005.*
9. *kWh produced times 100 divided by average net maximum capacity times hours in a year.*
10. *Volume of water consumed per unit of generated power sent out, excluding rain and mine water used.*
11. *2000 to 2002 reported in terms of the revised definition of the operational sustainability index. Other environmental-related contraventions included since 1998. Only water-related incidents were reported prior to 1998.*
12. *Reflects the environmental element of Enhanced MaxiCare. The Enhanced MaxiCare replaced the PreCare/MaxiCare from January 2005.*
13. *Calculated annual figures based on coal characteristics and power station design parameters.*
14. *Radiation releases, based on the methodology stipulated by the National Nuclear Regulator prior to 2003, included for reference purposes.*
15. *Indicators have been restated for meaningful comparison based on the more conservative methodology approved by the National Nuclear Regulator 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. *The 2002 figure was restated as one element was not reported.*
18. *Lesotho started its own generation in 1999.*
19. *The short-term energy market consists of all the utilities in the southern African countries that form part of the Southern African Power Pool. Energy is traded on a daily, weekly and monthly basis as there is no long-term bilateral contract.*

Tables continued

2. POWER STATIONS COMMISSIONED

at 31 March 2007

Name of station	Location	Number and capacity of generator sets MW	Total nominal capacity MW[1]	Total net maximum capacity MW[1]	Generators in reserve storage Number	Generators in reserve storage Total rating MW	Other generation Total rating MW[2]
Coal-fired stations (13)			37 698	33 036	18	2 591	–
Arnot[3,9]	Middelburg, Mpumalanga	4 x 350; 2 x 370	2 140	2 020	–	–	–
Camden[4,10]	Ermelo	6 x 200; 2 x 190	1 580	930	3	570	–
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]	Lephalale	6 x 665	3 990	3 690	–	–	–
Matla[3]	Bethal	6 x 600	3 600	3 450	–	–	–
Tutuka[3]	Standerton	6 x 609	3 654	3 510	–	–	–
Gas/liquid fuel turbine stations[6] (4)			929	925	–	–	–
Acacia	Cape Town	3 x 57	171	171	–	–	–
Ankerlig	Atlantis	3 x 147	441	438	–	–	–
Gourikwa	Mossel Bay	1 x 146	146	145	–	–	–
Port Rex	East London	3 x 57	171	171	–	–	–
Hydroelectric stations (6)			661	600	–	–	61
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	–	–	–
Pumped storage schemes[8] (2)			1 400	1 400	–	–	–
Drakensberg	Bergville	4 x 250	1 000	1 000	–	–	–
Palmiet	Grabouw	2 x 200	400	400	–	–	–
Nuclear power station (1)							
Koeberg[3]	Cape Town	2 x 965	1 930	1 800	–	–	–
Total stations in commission (26)			42 618	37 761	18	2 591	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), but currently being returned to service.

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.

9. Two units uprated in the Arnot capacity increase project.

10. Camden units 6 and 7 have been down rated.

3. ENVIRONMENTAL IMPLICATIONS OF USING/SAVING ONE KILOWATT-HOUR OF ELECTRICITY[1]

		If electricity consumption is measured in:			
	Factor[2]	kWh	MWh	GWh	TWh
Coal use	**0,55**	kilogram	ton	thousand tons (kt)	million tons
Water use[3]	**1,35**	litre	kilolitre	megalitre	thousand megalitres
Ash produced	**157**	gram	kilogram	ton	thousand tons (kt)
Particulate emissions	**0,20**	gram	kilogram	ton	thousand tons (kt)
CO_2 emissions[4]	**0,958[5]**	kilogram	ton	thousand tons (kt)	million tons
SO_2 emissions[4]	**8 601**	gram	kilogram	ton	thousand tons (kt)
NO_x emissions[4]	**4 264**	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 1,35 = 121,50
Therefore 121,50 litres of water used

Example 2:
Used 90 GWh of electricity
CO_2 emissions 90 x 0,958 = 86,22
Therefore 86,22 thousand tons of CO_2 emitted

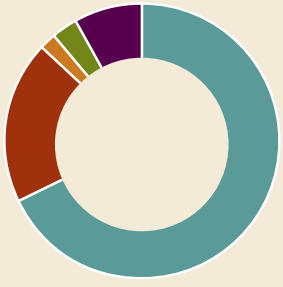
1. *Figures are calculated based on total energy sold by Eskom. Further information can be obtained through the Eskom environmental helpline. Contact details appear on page IBC.*
2. *Figures represent the 12-month period from 1 April 2006 to 31 March 2007.*
3. *Volume of water consumed per unit of generated power sent out, excluding rain and mine water used.*
4. *Calculated annual figures based on coal characteristics and power station design parameters.*
5. *Represents the Eskom average CO_2 figure. We have calculated the carbon emission factor to be 1,2 kg/kWh in accordance with the clean development mechanism (CDM) approved consolidated methodology 0002. The methodology can be found on the official CDM website (http://cdm.unfccc.int).*

4. SALE OF ELECTRICITY AND REVENUE PER CATEGORY OF CUSTOMER

	Customers[1]		Sold		Revenue	
	2007	2006	**2007**	2006	**2007**	2006
Category	**Number**	Number	**GWh**	GWh	**Rm**	Rm
Redistributors	**760**	751	**86 908**	82 108	**14 670**	13 248
Residential[2]	**3 829 986**	3 628 622	**9 736**	8 904	**4 064**	3 569
Commercial	**45 233**	43 572	**7 842**	7 334	**1 843**	1 664
Industrial	**2 955**	3 043	**59 823**	57 068	**9 578**	8 352
Mining	**1 127**	1 097	**32 421**	31 825	**5 479**	5 151
Agricultural	**82 583**	80 900	**4 732**	4 410	**1 594**	1 449
Traction	**510**	511	**3 069**	3 150	**646**	638
International	**10**	10	**13 589**	13 122	**1 515**	1 290
	3 963 164	3 758 506	**218 120**	207 921	**39 389[3]**	35 361

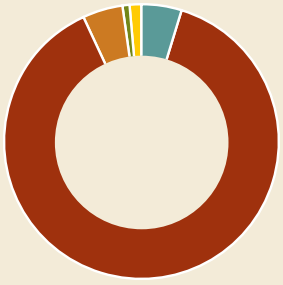
1. *Customer numbers have been revised to take into account disconnected customers and homes that no longer exist as a result of floods and other reasons.*
2. *Prepayments and public lighting included under residential.*
3. *An amount of R45 million included in electricity revenue was capitalised to plant.*

South African energy demand



Source: Digest of South African energy statistics 2006: Department of Minerals and Energy.

Eskom electricity generation mix



Eskom

Tables continued

5. TRANSMISSION AND DISTRIBUTION EQUIPMENT IN SERVICE

at 31 March 2007

	2007	2006
Power lines		
Transmission power lines (km[1])	**27 770**	27 406
765 kV	**1 153**	1 153
533 kV DC (monopolar)	**1 035**	1 035
400 kV	**15 799**	15 691
275 kV	**7 409**	7 245
220 kV	**1 336**	1 336
132 kV	**1 038**	946
Distribution power lines (km)	**44 044**	43 330
165 – 132 kV	**22 797**	22 142
88 – 33 kV	**21 247**	21 188
Reticulation power lines (km)		
22 kV and lower	**288 040**	282 361
Total all power lines (km)	**359 854**	353 097
Cables (km)	**8 622**	8 031
165 – 132 kV	**164**	156
22 kV and lower	**8 458**	7 875
Total transformer capacity (MVA)	**208 814**	205 662
Transmission (MVA)[2]	**118 630**	118 445
Distribution and reticulation (MVA)	**90 184**	87 217
Total transformers (number)	**314 507**	305 776
Transmission (number)	**377**	374
Distribution and reticulation (number)	**314 130**	305 402

1. *Transmission line lengths as per Geographic Information System distances.*

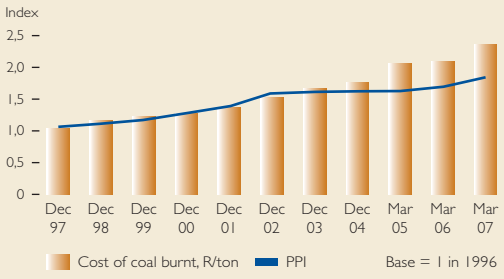
2. *Transformers rated ≥30MVA and primary voltage ≥132kV.*

COMPARISON TO INTERNATIONAL POWER COMPANIES

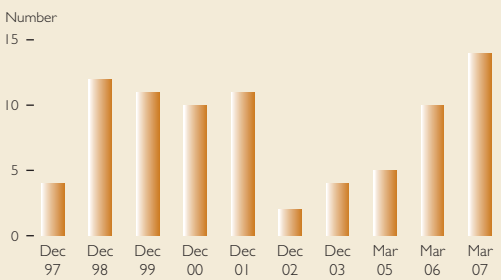
Eskom is one of the top 10 utilities in the world by generation capacity and among the top 11 by sales.

Refer to www.eskom.co.za/annreport07/036 for a list of the top 30 power companies.

Cost of coal burnt versus production price index (PPI)



Low-frequency incidents below 49,5Hz



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. Eskom's frequency control target was reduced from 49,70Hz to 49,50Hz from 2002 following an international benchmarking exercise.

Awards

BusinessMap Top Public Sector Transformer Award

On 13 March 2007 Eskom won the BusinessMap *Top Public Sector Transformer Award,* which celebrates the hard work of our employees on the implementation of black economic empowerment policies and procedures. The shift in black economic empowerment transformation has moved significantly from Eskom's previous focus on employment equity targets and ownership to a more quantitative return on investments in broad-based economic empowerment, small and medium enterprises support schemes, managerial accountability and enterprise, skills, and social development.

ESI Africa's African Power Station Manager of the Year

Nandu Bhula, Peaking Power Station Manager, received the prestigious *Africa's African Power Station Manager of the Year* award at the African Utility Week in May 2006. He was recognised for his commitment to safety and reliability of the plant, addressing possible skills shortages through the graduate recruitment programme and his exceptional perseverance and drive.

ESI Africa Excellence Award

Eskom was awarded the ESI Africa Excellence Award in the category of best service provider in the year 2006.

2006 Global Call Centre Manager of the Year award

The Call Center Industry Advisory Council (USA) conferred this award to Kevin von Berg, Corporate Specialist (Customer Service, Distribution division) on 15 August 2006 for demonstrating superior contact centre leadership and management skills. He was recognised among the most outstanding contact centre leaders and managers in the world.

National Contact Centre Manager of the Year award for 2006

Business Process Enabling South Africa presented this award to Naseema Moorgas, Contact Centre Manager of the Eastern Region (Distribution division) on 4 November 2006. This national award was presented to her for managing an effective and efficient contact centre that supports its customers and caters for the needs of its staff and support teams.

Global Trade Review Magazine's 2006 Deal of the Year award

On 30 August 2006 Eskom signed a €114 million export credit facility with Deutsche Bank which acted as Eskom's export credit agency (ECA) adviser, arranger, agent and lender. This was the first ECA facility that Eskom had signed for many years. It was significant in that the terms and conditions achieved in respect of this facility would largely determine the terms in similar future transactions. Since Eskom intended to make extensive use of ECA financing to partly fund its expansion programme, it was paramount to achieve the best terms available in the market. Eskom senior management and Deutsche Bank undertook a road show of European ECAs, and the team was instrumental in promoting a competitive pricing environment amongst ECAs. Euler Hermes was ultimately chosen as the insurer. The financing terms obtained by Eskom were below those normally associated with this class of borrower in the ECA market and the tenor was also set at 13 years. The award will be made on 21 June 2007 at the annual Global Trade Review magazine awards dinner.

Second-most ideal employer in 2006

Eskom was selected the second-most ideal employer, preferred by science and engineering students at all 23 South African universities and universities of technology. This announcement was made at the third Magnet Awards on 23 November 2006. The Magnet survey is South Africa's largest student survey, which reflects students' preferences regarding companies and organisations as employers of choice. It is conducted by Magnet Communications, an independent research and media company that specialises in the career expectations of students and young professionals.

Glossary

Base-load plant	Base-load power stations, largely coal-fired and nuclear, are designed to operate continuously
Clawback	The actual over-recovery against that allowed by Nersa in the multi-year-price-determination
Combined cycle	A technology for producing electricity from otherwise lost waste heat as it exits from one or more gas (combustion) turbines
Daily peak	The maximum amount of energy demanded in one day by electricity consumers
Decommissioning	Removing a facility (eg reactor) from service, and subsequent actions of safe storage, dismantling and making the site available for unrestricted use
Demand-side management (DSM)	Planning, implementing and monitoring activities to encourage consumers to use electricity more efficiently, including both the timing and level of electricity demand
Embedded derivative	A financial instrument that causes some or all cash flows that would otherwise be required by a contract to be modified according to a specified variable such as a currency
Energy availability factor (EAF)	Measures plant availability taking account of energy losses not under the control of plant management and internal non-engineering constraints
Energy efficiency	Programmes to reduce energy used by specific end-use devices and systems, typically without affecting the services provided
Eskom sustainability performance index (ESPI)	Index covering technical, economic, environmental and social measures to score sustainable performance
Flashover	Electrical insulation breakdown
Forced outage	Shutdown of a generating unit, transmission line or other facility for emergency reasons or a condition in which generating equipment is unavailable for load due to unanticipated breakdown
Free basic electricity (FBE)	Amount of electricity deemed sufficient to provide basic electricity services to a poor household
Human resources sustainability index (HRSI)	A measure of Eskom's ability to achieve its human resources objectives
International Financial Reporting Standards (IFRS)	Global accounting standards that require transparent and comparable information in general purpose financial statements issued by the International Accounting Standards Board
Independent power producer (IPP)	Any entity, other than Eskom, that owns or operates, in whole or in part, one or more new independent power production facilities
Interruptible load	Load that can be interrupted in the event of capacity or energy deficiencies on the supply system
Interruptible power	Power whose delivery can be curtailed by the supplier, usually in agreement between Eskom and the customer
Kilowatt-hour (kWh)	Basic unit of electric energy equal to one kilowatt of power supplied to or taken from an electric circuit steadily for one hour; one kilowatt-hour equals 1 000 watt-hours
Load	Amount of electric power delivered or required at any specific point on a system
Load management	Activities to influence the level and shape of demand for electrical energy so demand conforms to the present supply situation, long-term objectives and constraints
Load profile	Information on a customer's electricity use over time, sometimes shown as a graph
Load shifting	The transfer of loads from peak to off-peak periods; eg in situations where a utility does not expect to meet demand during peak periods but has excess capacity in off-peak periods
Load shedding	Scheduled and controlled power cuts by rotating available capacity between all customers when demand is greater than supply to avoid total blackouts in the supply area
Lost-time incident rate	A proportional representation of the occurrence of lost-time injuries over 12 months
Maximum demand	Highest demand of load within a specified period
Megawatt	One million watts
Megawatt-hour (MWh)	One thousand kilowatt-hours or one million watt-hours
Mid-merit power generation	Installations that generate electricity during the day when electricity demand is higher than average
Mothballed	Plant (ie power stations) placed in long-term storage

Operational sustainability index	Index reflecting overall technical performance while balancing low-cost electricity production with sustainable long-term reliability
Outage	The period in which a generating unit, transmission line, or other facility is out of service
Off-peak	Period of relatively low system demand
Peak demand	Maximum power used in a given period, traditionally between 07:00 – 10:00 and 18:00 – 21:00
Peaking capacity	Generating equipment normally operated only during hours of highest daily, weekly or seasonal loads
Peak-load plant	Usually gas turbines or a pumped storage scheme used during peak-load periods
Unit capability factor (UCF)	A measure of plant availability indicating how well plant is operated and maintained
Power pool	An association of two or more interconnected electric systems that agree to coordinate operations and seek improved reliability and efficiencies
Primary energy	Energy embodied in natural resources (eg coal, liquid fuels, sunlight, wind, uranium)
Pumped storage scheme	A pumped storage scheme consists of a lower and an upper reservoir with a power station/pumping plant between the two. During off-peak periods the reversible pump/turbines use electricity to pump water from the lower to the upper reservoir. During peak demand, water is allowed to run back into the lower reservoir through the turbines thereby generating electricity
Reserve margin	Difference between net system capability and system's maximum load requirements (peak load or peak demand)
Spent fuel	Nuclear fuel that has been irradiated in and permanently removed from a nuclear reactor. At Koeberg power station approximately 52 fuel assemblies (one third of the fuel assemblies) are removed from each of the two reactors on average every 16 months, and stored on site in the spent fuel pools in the respective fuel buildings next to the reactors
Supply-side management (SSM)	Planning, implementing and monitoring supply-side activities to create opportunities for cost-effective purchase, management, generation, transmission and distribution of electricity and all other associated activities
System minutes	The international benchmark for measuring the severity of interruptions to customers. One system minute is equivalent to the loss of the entire system for one minute at annual peak
Unplanned automatic grid separations (UAGS)	A measure of the reliability of the service provided to the electrical grid that logs the number of supply interruptions per operating period
Unplanned Capability Loss Factor (UCLF)	All occasions when plant has to be shut down and taken out of service. Energy losses due to outages are considered unplanned if they are not scheduled at least four weeks in advance

ENERGY TERMS

Units of power	Units of energy
Power is generated per unit of time	Energy is power multiplied by time
Power is expressed in watts (W)	
1kW (kilowatt) = 1 000W	1kWh (kilowatt hour) = 1kW expended over one hour
1MW (megawatt) = 1 000kW	1MWh (megawatt hour) = 1 000 kWh
1GW (gigawatt) = 1 000 000kW or 1 000MW	1GWh (gigawatt hour) = 1 000 000kWh or 1 000MWh
Voltage	
1kV (kilovolt) = 1 000V	

PRESENTATION CURRENCY

Unit of currency
R1 million = R1 000 000
R1 billion = R1 000 000 000

Acronyms

Asgisa	Accelerated Shared Growth Initiative for South Africa (RSA)
BEE	Black economic empowerment, legislated in South Africa under the Preferential Procurement Policy Framework Act, (5 of 2000) and Broad-Based Black Economic Empowerment Act, (53 of 2003)
Besa	Bond Exchange of South Africa
BWO	Black women-owned businesses
CDM	Clean development mechanism (to address climate change)
CPI	Consumer price index
CSI	Corporate social investment
CSP	Concentrating solar plant
DEAT	Department of Environmental Affairs and Tourism (RSA)
DME	Department of Minerals and Energy (RSA)
DMP	Demand market participation
DPE	Department of Public Enterprises (RSA)
DWAF	Department of Water Affairs and Forestry (RSA)
EBITDA	Earnings before interest, tax, depreciation and amortisation
EDI	Electricity distribution industry, currently being restructured in RSA
EFC	Eskom Finance Company
EIA	Environmental impact assessment
ELI	Eskom learning institutions
EMPs	Environmental management programmes
EMS	Environmental management system
EWT	Endangered Wildlife Trust
Exco	Eskom executive management committee
FBE	Free basic electricity of 50kWh/month to assist low-income households (RSA)
FGD	Fluidised gas desulphurisation
FPM	Fine particulate matter
GDP	Gross domestic product
GHG	Greenhouse gas
GWh	Gigawatt hour (1 000MWh)
HRSI	Human resources sustainability index
HVDC	High-voltage direct current
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
Inep	Integrated national electrification programme
IPP	Independent power producer
IRM	Integrated risk management
Isep	Integrated strategic electricity planning
ISO 14001	This international standard specifies requirements for an environmental management system
KPI	Key performance indicators
kt	Kilotons (1 000 tons)
kWh	Kilowatt hour
kWh SO	Kilowatt hour sent out
LME	London Metals Exchange
LTA	Lesotho Telecommunications Authority
LTIR	Lost-time incidence rate
MKC	Mountain Kingdom Communications
MMI	Monthly moving index
MW	Megawatt
MWh	Megawatt hour (1 000kWh)
ML	Megalitre (1 000 000 litres)
mSv	millisievert
Mt	Mega tons
MVA	Mega Volt Ampere
MYPD	Multi-year price determination
Neea	National Energy Efficiency Agency
Necsa	Nuclear Energy Corporation of South Africa (RSA)
Nepad	New Partnership for Africa's Development
Nersa	National Energy Regulator of South Africa (RSA)
Nema	National Environmental Management Act
NGO	Non-governmental organisation
NNR	National Nuclear Regulator (RSA)
NO_x/NO_2	Nitrogen oxide
N_2O	Nitrous oxide
NPI	National Productivity Institute

OCGT	Open cycle gas turbine
OHSA	Occupational Health and Safety Act
OMS	Outage management system
OSI	Operational sustainability index
PCB	Polychlorinated biphenyls
PBMR	Pebble bed modular reactor
PFMA	Public Finance Management Act (RSA)
RED	Regional electricity distributor
RoD	Record of decision
Saavi	South African Aids Vaccine Initiative
SACECS	South African Centre for Essential Community Services
SADC	Southern African Development Community
Sapp	Southern African Power Pool
SHE	Safety, health and environment
SMME	Small, medium and micro enterprises
SNO	Second network operator (RSA telecommunications)
SOE	State-owned enterprise
SO_2	Sulphur dioxide
SO_3	Sulphur trioxide
Sm_3	Standard cubic metre
TOU	Time-of-use (tariff)
TQI	Total quality index
UCF	Unit capability factor
UCG	Underground coal gasification
UCLF	Unplanned capability lost factor
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
VAT	Value added tax (RSA)
VCT	Voluntary counselling and testing (HIV/Aids RSA)
Wano	World Association of Nuclear Operators
WBCSD	World Business Council for Sustainable Development

GRI index

An index to the 2007 annual report based on the Global Reporting Initiative (GRI) sustainability reporting guideline criteria.

GRI reference	Description	Reference in annual report	Page
Strategy and analysis			
	Statement from senior decision-makers, description of impacts, risks and opportunities	Executive summary	iv – viii
		Message from the chairman and chief executive	6 – 21
		Introduction	30 – 34
Organisational profile			
	Organisational profile: details and scale of organisation, ownership, changes and awards received	Profile, grid map, key facts, organisational structure, executive summary, vision, values and strategic objectives, group five-year review	Flap, i – viii 1 – 5
		Awards	191
		Contact information	IBC
Report parameters			
	Report profile, scope and boundaries, GRI content index, assurance	Profile, grid map, key facts, organisational structure, executive summary, vision, values and strategic objectives, group five-year review	Flap, i – viii 1 – 5
		Independent auditors' report to the Minister of Public Enterprises	25 – 26
		Stakeholder engagement	181 – 184
Governance, commitments and engagements			
	Governance, commitments to external initiatives and stakeholder engagement	Board of directors	14 – 15
		Corporate governance	174 – 185
Economic performance indicators			
	Economic performance, market presence and indirect economic impacts	Our finances	70 – 84
		Contribution to society	84 – 90
Environmental performance indicators			
	Materials, energy, water, biodiversity, emissions, effluents and wastes, product and services, compliance, transport and overall	Use of primary resources	39 – 42
		Energy efficiency	42 – 43
		Impact on the environment and climate change	46 – 54
		Statistical overview	186 – 187
		Environmental implications of using/saving one kWh of electricity	189
Social performance indicators: *– Labour practices and decent work*			
	Employment, labour/management relations, occupational health and safety, training and education, diversity and equal opportunities	Our people	60 – 70
– Human rights			
	Investment and procurement practices, non-discrimination, freedom of association and collective bargaining, child labour, forced and compulsory labour, security practices and indigenous rights	Our people Note: Eskom's policies and procedures are developed to ensure compliance with South African legislation, including the South African Constitution, which specifically provides for the protection of human rights	60 – 70
– Society			
	Community, corruption, public policy, anti-competitive behaviour and compliance	Contribution to society	84 – 90
		Ethical business conduct	180
– Product responsibility			
	Customer health and safety, product and service labelling, marketing communication, customer privacy and compliance	Safety	67 – 70
		Customer satisfaction	43 – 45

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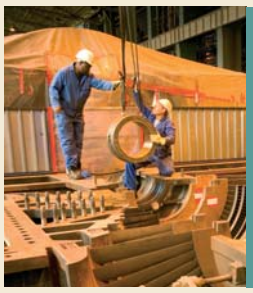
BASTION GRAPHICS



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