Annual Report 2009

Eskom

Empowering the South African dream

Artist's impression of the new Moses Mabhida Stadium courtesy of Mediaclubsouthafrica.com

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www.eskom.co.za

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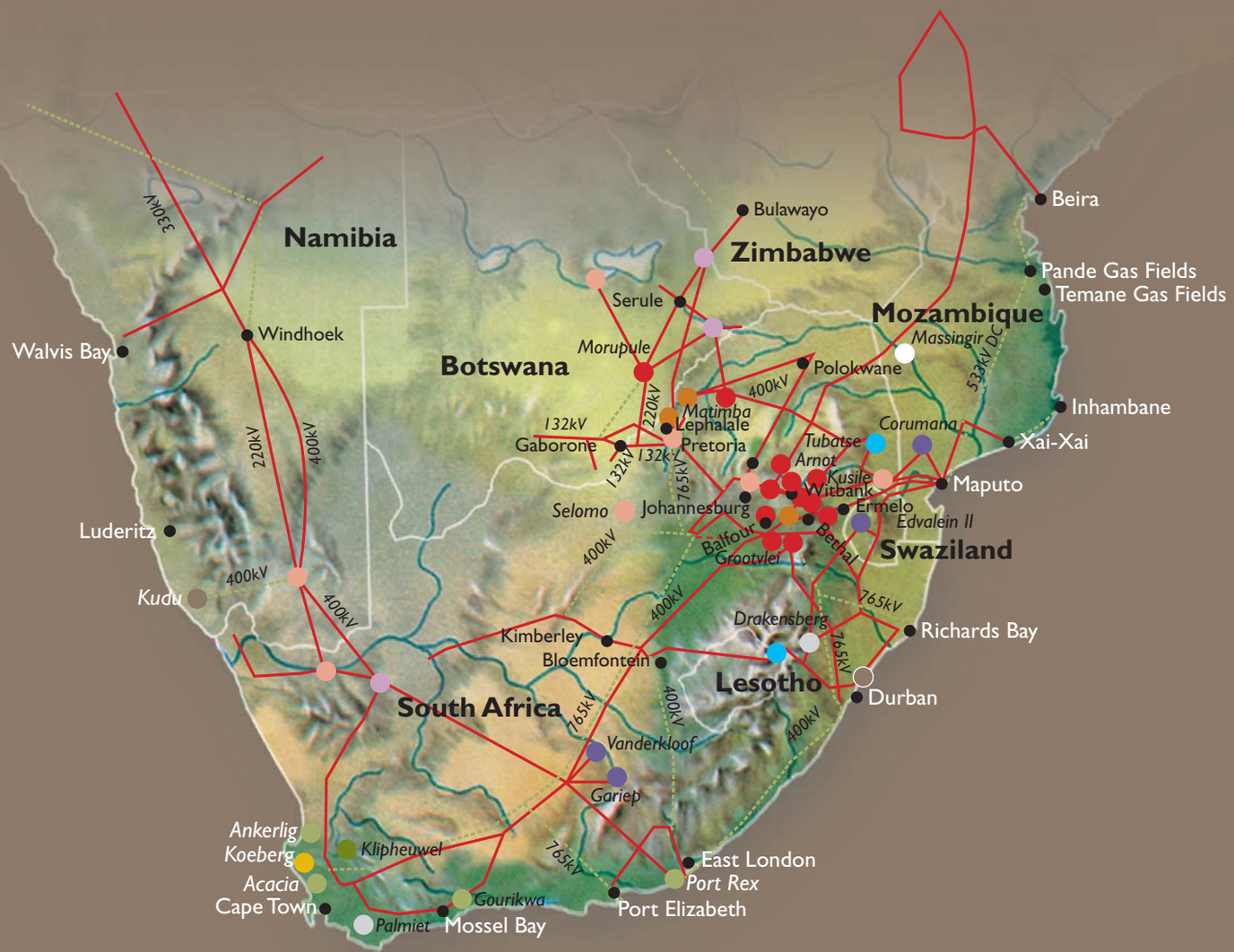
Stakeholder comment
Research block
Information block
Education block

Southern Africa grid map



Key

- Existing grid system
- Possible future grid system
- Future hydroelectric power station
- Future coal-fired power station
- Hydroelectric power station
- Interconnection substation
- Future gas station
- Future pumped storage station
- Coal-fired power station
- Future interconnection substation
- Nuclear power station
- Pumped storage station
- Gas power station
- Renewable energy
- Town

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

Profile

Scope of report

The annual report for 1 April 2008 to 31 March 2009 is an integrated financial, economic, social and sustainability report. Eskom aligns itself with international sustainability best reporting practices, including the Global Reporting Initiative (GRI) Sustainability Reporting Guideline, the AA1000APS (2008) AccountAbility Principles and the AA1000AS (2008) Assurance Standard.

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/annreport09). Additional sustainability information is disclosed in the internet version of the report. The availability of extra web-based information is indicated in the printed report.

Nature of business, major products and services

Eskom generates approximately 95% of the electricity used in South Africa and approximately 45% of the electricity used in Africa. Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers and redistributors. Additional power stations and major power lines are being built to meet rising electricity demand in South Africa. Eskom will continue to focus on improving and strengthening its core business of electricity generation, transmission, trading and distribution.

Eskom buys electricity from and sells electricity to the countries of the Southern African Development Community (SADC). The future involvement in African markets outside South Africa (that is the SADC countries connected to the South African grid and the rest of Africa) is limited to those projects that have a direct impact on ensuring security of supply for South Africa.

Eskom is regulated under licences granted by the National Energy Regulator of South Africa (Nersa), originally under the Electricity Act (41 of 1987) – and latterly 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).

In an effort to meet the rising demand for electricity, Eskom has embarked on a massive build programme of R385 billion (in nominal terms) over the five years to March 2013. Since the build programme started in 2005, additional capacity of 4 454MW has been commissioned up to 30 April 2009.

The Eskom Enterprises (Pty) Limited group, a wholly owned subsidiary of Eskom Holdings, provides lifecycle support and plant maintenance, network protection and support for the build programme for all Eskom divisions.

The core businesses of the Eskom Finance Company (Pty) Limited, Escap Limited and Gallium Insurance Company Limited subsidiaries include the granting of employee home loans and the management and insurance of business risk.

Eskom's corporate social investment is channelled principally through the Eskom Development Foundation, a section 21 company.

Profile CONTINUED

Role in South Africa

Eskom, as a state-owned enterprise, has a greater role to play in addition to the supply of electricity. We also support South Africa's growth and development aspirations. Eskom's value proposition to the country can be summarised as follows:

- **Providing electricity to all South Africans.** Electricity is a necessary and important input to all economic activity, and in particular is important for realising national socioeconomic objectives. The consequences of operating a power system with a limited reserve margin became apparent in January 2008 when Eskom was forced to introduce emergency load shedding. Investment in electricity generation and transmission infrastructure is a necessary precondition for sustained economic growth. Fundamentally, new investments in other sectors can only proceed if the future supply of electricity is secure.
- **Supporting other industries.** Over and above supplying electricity, the size of the organisation's current operations and expansion makes Eskom an important economic stimulant. For example, as electricity generation uses approximately 50% of the country's coal production, the continued operation of Eskom is therefore an integral part in ensuring sustainability of the coal mining sector and related industries – sectors that provide substantial employment.
- **Driving transformation.** Eskom's affirmative procurement strategy has a direct bearing on redistributing wealth and income in society. Eskom continues to support procurement with BEE and BWO suppliers, thereby channelling significant amounts of money into these sectors.
- **Creating jobs and new industries.** Over the five years to March 2013 Eskom plans to spend R385 billion on capital expenditure. This is the biggest build programme in the country and will have large spin-offs through the awarding of contracts, investment by suppliers and purchasing of goods and services sourced from South Africa. This will help to create approximately 40 000 direct and indirect new jobs, with the related skills development benefits.
- **Providing a reliable electricity infrastructure.** For direct foreign investment, a secure and reliable electricity supply is a prerequisite. Eskom must ensure that South Africa remains an attractive investment destination.

Countries in which operations are located

Eskom's head office is in Johannesburg and its operations are spread throughout the country. In December 2008 we also opened a small office in London in the United Kingdom, primarily to exercise quality control for the equipment being manufactured for our build programme.

Eskom Enterprises operates primarily in South Africa. It has two subsidiaries that operate electricity generation concessions in the African countries of Mali and Uganda.

Regional sales breakdown

The majority of sales are in South Africa. Other countries of southern Africa account for a small percentage of sales. (Refer to the financial statement, note 5 page 163.)

Key facts

Eskom, South Africa's electricity utility:

- Is one of the **top 10** utilities in the world by generation capacity
- Generates approximately **95%** of electricity used in South Africa
- Generates approximately **45%** of electricity used in Africa
- Total group assets, **R199 302 million**
- Group operating loss before fair value loss on embedded derivatives and net finance cost, **R3 195 million**
- Cash flows from operating activities, **R11 764 million**
- Capital expenditure, **R47 099 million**
- Number of employees, **37 857**
- Training cost, **R823 million**
- Number of customers, **4 361 007**
- Electricity sales, **214 850GWh**
- Nominal capacity, **44 193MW**
- Net maximum capacity, **40 503MW**
- Power lines and cables (all voltages), **381 700km**
- Carbon dioxide emissions, **221,7Mt**
- Total water consumption, **323 190ML**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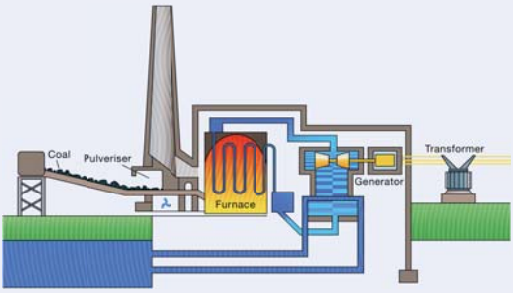
How is electricity generated?

Coal-fired power stations



Input[1]
16,7Mt coal
43 203ML of water[2]

Output[1]
23 580GWh of energy sent out
22,9Mt of CO_2

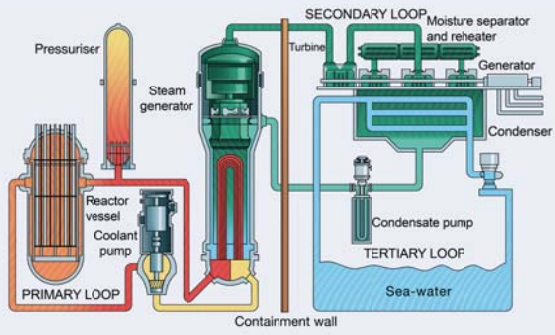
1. *Figures are an estimated average for a typical wet-cooled power station (Lethabo) within the reporting year.*
2. *Dry-cooled water input is significantly less (approximately 93% less than wet cooled), 2 992ML of water (Matimba power station).*

Coal-fired power stations

In most modern power stations in South Africa, coal is burned to heat water and convert it into steam. The coal is carried into the plant on conveyor belts, crushed into fine powder and burned in modern boilers to produce high-pressure steam. The steam is directed onto the blades of a turbine to make it spin. This in turn spins the magnetic rotor inside the coil to generate electricity.

Transformers at the power stations increase the voltage of the electricity for transmission along the power lines. When it has reached its destination, transformers in substations near towns and cities decrease the voltage to a level where it can be used in factories and homes.

Nuclear power stations



Input[3]
Uranium
564ML of water

Output[3]
13 004GWh of energy sent out
164,6m^3 of low and intermediate level radioactive waste

3. *Figures are an estimated average for Koeberg within the reporting year.*

Nuclear power stations

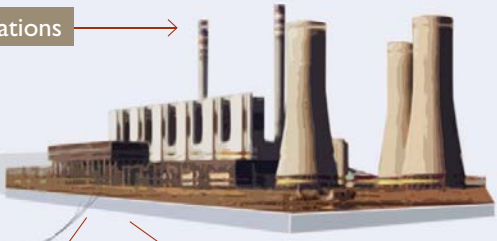
In the case of nuclear power stations, water is heated not by burning coal, but by the heat released in a nuclear reaction. The amount of heat can be increased or decreased by controlling the rate at which uranium atoms are split. This is done by means of what is known as the "moderator", composed of highly purified water and boron, circulating in the primary circuit.

The heat from the primary circuit is given off into a separate secondary circuit where water is turned into steam. The steam produced from heating the water in the second circuit is used to turn the turbines in exactly the same way as in a coal-fired power station.

Electricity: from power station to customer

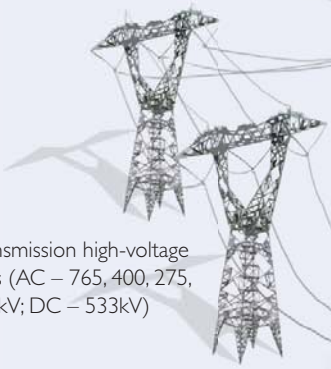
Input:
Water (323 190ML)
Coal[1] (121,2Mt)
Diesel (28,9ML)

Power stations



Emissions and ash:
CO_2 (221,7Mt)
Ash (36,66Mt)
N_2O (2 801t)
SO_x (1 874kt)
NO_x (957kt)
Particulate emissions (55,6kt)
Radiation releases (0,0045mSv)

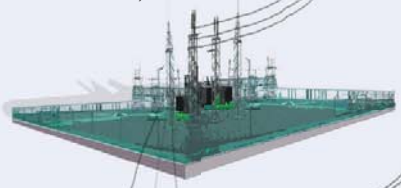
Output:
Total electricity sold
(214 850GWh)



Transmission high-voltage lines (AC – 765, 400, 275, 220kV; DC – 533kV)

Transmission substations

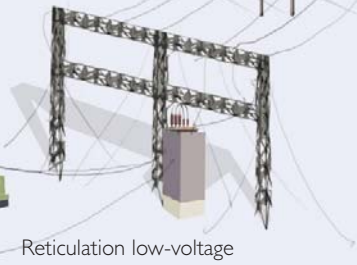
Municipalities high-voltage lines (132, 88, 66, 44, 33kV)



Distribution high-voltage lines (132, 88, 66, 44, 33kV)

Distribution substations

Reticulation high-voltage lines (22, 11, 6,6, 3,3kV)

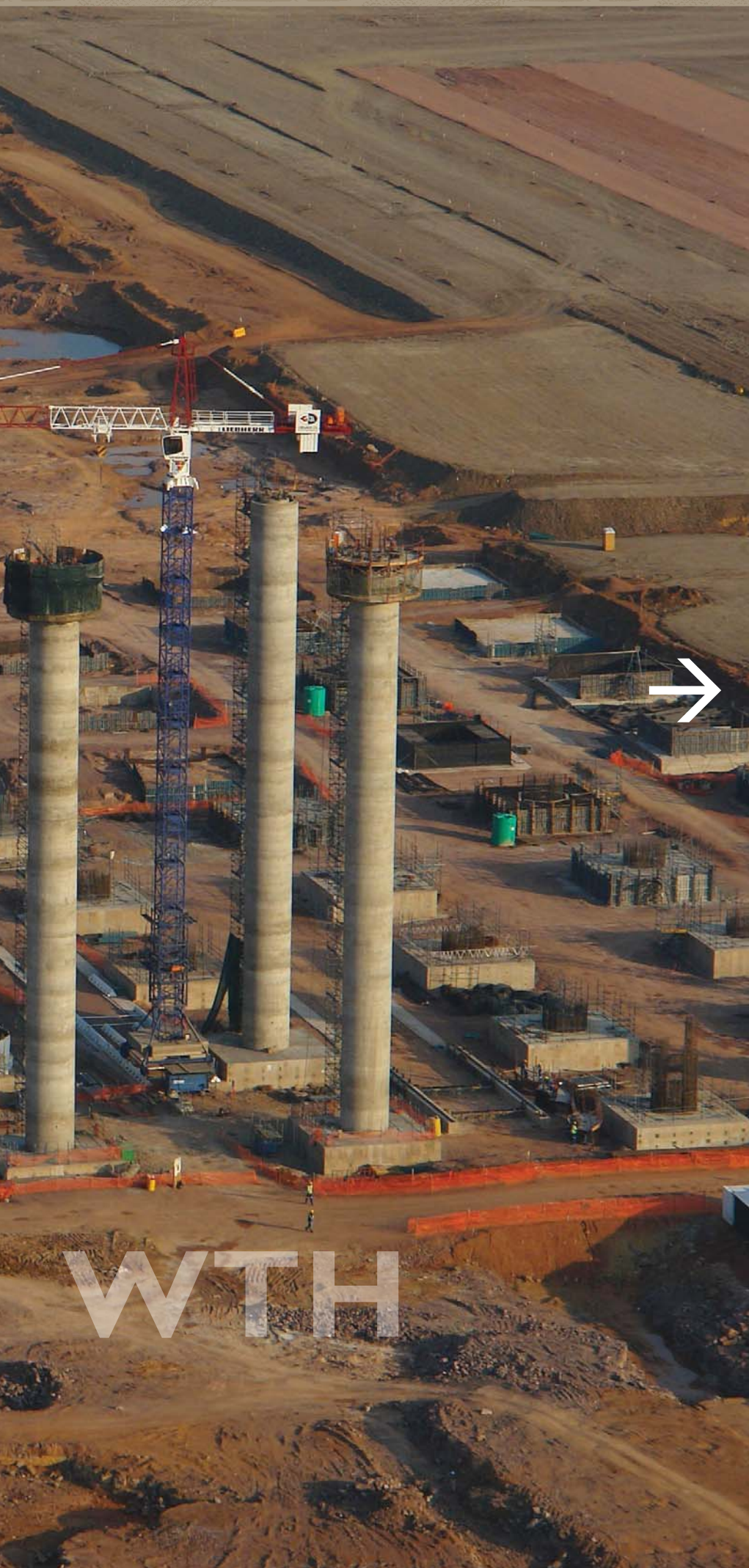


Reticulation low-voltage lines (380, 220V)

Customers

1. *88% of electricity sold is produced from coal.*


GRO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Executive summary

Eskom, as a state-owned enterprise, has a greater role to play in addition to the supply of electricity. As a good corporate citizen we support South Africa's growth and development aspirations as well as its sustainability concerns. Refer to page i for how we see our role in South Africa and page 222 for our governance processes in this regard.

The impact of the power disruptions last year was profound. It touched the lives of every South African in some way or another, and had an impact on confidence in the country and its image abroad.

At the beginning of this financial year the power system was still vulnerable, largely due to the inadequacy of the reserve margin[1]. The problem was exacerbated by low coal reserves at our power stations, as well as quality-related issues. The heavy rains in January and February 2008 made the handling of coal a near impossibility at some stations.

A year later the status of the electricity system has changed dramatically. A decrease in demand together with the technical recovery of the Eskom power system brought about a much healthier reserve margin, moving from around 5% in January 2008 to about 14% this January (including imports).

Coal stockpile days for the system were taken from an average of 12 days in January 2008 to an average of around 41 days, with every power station having stockpile levels above 20 days. There are still issues with the quality of coal, but collaboration with the collieries has improved dramatically. The stations vulnerable to rain have stockpiles of about five days of coarse coal treated with chemicals to resist moisture filtering in. This strategy proved successful at most stations in January 2009 with limited coal-related load losses at these sites despite very high rainfall.

Since the launch of the technical recovery actions in February 2008, a significant improvement in technical performance has been achieved. The generation plant performance was stabilised by winter 2008 and the required level of plant availability and reliability achieved to meet customers' electricity demands.

1. *A cushion of spare capacity that can be used when planned maintenance is necessary and when the system is impacted by unexpected technical faults that demand unplanned maintenance, such as poor coal quality, sudden peaks in demand, or "acts of God", such as extreme weather conditions. Reserve margin is measured as a percentage of maximum generating capacity.*

While the principles and lessons learned through the recovery initiative are being progressively applied to all other plant areas, the focus now moves to achieving a sustainable performance level within an environment of severe financial constraints.

Transmission's 2008/9 interruption performance shows a significant improvement compared to the 2007/8 performance. Of the three major incidents recorded, two were the result of problems with the gas-insulated switchgear at the Invubu substation, while the third related to load shedding.

The Distribution availability index is marginally worse than the previous year, but the interruption duration and frequency index has improved. The impact of planned interruptions was reduced due to better outage coordination and increased utilisation of live line techniques.

However, the constraints on Eskom's energy supply will continue until new power stations start coming online in 2012. In the mean time, the Eskom demand-side management (DSM) initiative aims to reduce national energy demand by 3 000MW by March 2011 and a further 5 000MW by March 2026. This, among others, involves the installation of energy efficient technologies to alter the load profile of Eskom. Since the inception of DSM in 2003 up to end March 2009, a total cumulative saving of 1 999MW has been achieved.

The Eskom build programme is on track to deliver the projects as planned. Over the five years to March 2013, Eskom will spend R385 billion in nominal terms on capacity expansion. South Africa needs to build 40 000MW of new generation capacity by 2025, of which 12 476MW are already under construction (mainly Medupi and Kusile power stations, return to service stations and Ingula power station). Since the programme began in 2005, we have already commissioned 4 454MW. A further 6 184MW will come on stream within the next five years (which includes the 2009 calendar year). This includes the completion of the two remaining old coal-fired stations being returned to service, the upgrade of Arnot power station and the first three units of Medupi and the first unit of Kusile.

Some 1 962km of high-voltage transmission lines have been built in the past four years, as well as numerous new transmission substations

Executive summary CONTINUED

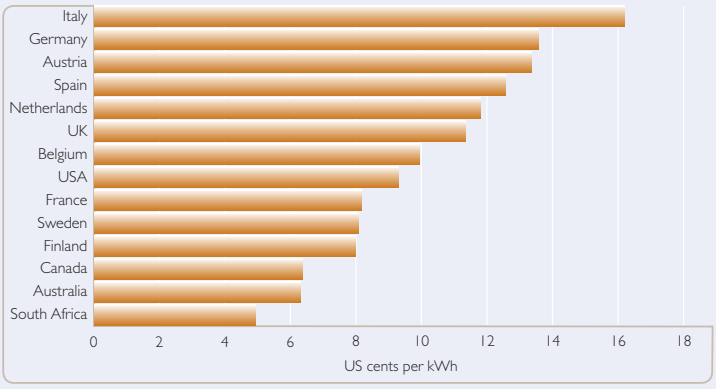
and transmission network upgrade projects. The construction of the 765kV ultra high-voltage line to the Cape is progressing well, with 430km already strung. The Apollo substation refurbishment was completed in May 2008. This increases the availability of the Cahora Bassa/Apollo high-voltage direct current interconnection.

The board decided that while it continues to support nuclear power, it would not proceed with the proposed investment due to the magnitude of the investment. Eskom recommended that government should take over the process and possibly involve a strategic equity partner. The various investigations that had previously commenced to prepare the sites for future nuclear power stations, are continuing.

The financing of Eskom's capital expansion plan will come from three main sources – shareholder loan, external debt and revenue. Government has made a significant contribution through a R60 billion loan (R10 billion of which has already been drawn) and a R176 billion guarantee facility (R150 billion unused).

2009 International electricity cost comparison

Cost per kWh



The survey is based on prices as of 1 June 2009 for the supply of 1 000kW for a site 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 and widely used by the consuming public, deregulated or liberalised contract pricing was used in this survey.

Source: Extract from ©2009 NUS Consulting Group International Electricity Survey and Cost Comparison, June 2009.

The financial performance of the group was severely impacted by the increase in the cost of primary energy (mainly coal). The operating loss for the group was R3 195 million (2008: operating profit of R3 215 million) before the impact of the fair value loss on embedded derivatives of R9 514 million (2008: R1 680 million) and net finance cost of R314 million (2008: R1 788 million). The loss for the year was R9 708 million (2008: R168 million). If the impact of embedded derivatives is excluded, the loss after tax was R2 858 million (2008: profit of R1 042 million).

During August 2008 Moody's downgraded Eskom's credit rating by three notches. This was mainly attributed to the deterioration of our standalone credit profile due to the capital investments programme and the negative impact of the tariff increase that was lower than requested. On 10 June 2009 FitchRatings upgraded the Eskom National long-term (zaf) rating from negative to stable.

The 2008/9 financial year was the last year of the first multi-year price determination (MYPD) agreement with National Energy Regulator of South Africa (Nersa). Eskom faced significant financial challenges during the year due to the capital expansion programme (R385 billion over the five-year period up to March 2013) and increased operating and primary energy costs. On 20 December 2007, Nersa awarded an electricity price increase of 14,2% for 2008/9, and announced a further increase of 13,3% on 18 June 2008. This resulted in an average annual increase of 27,5% (well below the 60% that Eskom requested).

Our price increase application for the first year of the second MYPD was delayed due to the impact of the global economic slowdown, the approval of the new electricity pricing policy and the finalisation of the government guarantees of R176 billion. The approval of the guarantees is also an important building block in accessing other sources of funding. Eskom applied for an interim price increase of 34% for 2009/10.

On Thursday, 25 June 2009, Nersa approved an average price increase of 31,3% for Eskom for the nine months from 1 July 2009 to 31 March 2010. Included in the 31,3% increase is the 2c/kWh environmental levy payable to government (levied on the sale of electricity generated from non-renewable sources) which must be recovered by Eskom within the price increase. Adjusting for the levy, Eskom will receive a net price increase of 24,08%.

We understand the impact of a tariff increase of this magnitude on the country during these economic conditions. We are working with government on ways to shield the poor from the effects of these increases. The approved price increase from Nersa includes a limit of 15% for poor customers of both Eskom and municipalities using the Homelight tariff. This will link in with the existing free basic electricity scheme (see page 42).

Executive summary CONTINUED

The second multi-year price determination (MYPD 2) application will be made based on the current Nersa rules and the Electricity Pricing Policy[1]. At the same time Eskom will in conjunction with stakeholders develop an appropriate funding model that addresses the funding requirements for the building of new infrastructure.

In the 2008 annual report, Eskom outlined its six-point climate change plan. The climate change strategy remains unchanged and Eskom is resolute in its commitment to reduce our greenhouse gas emissions. The implementation of the plan is, however, being severely hampered by our current financial constraints.

While the declining flow of international funding can be seen as a short-term constraint, it has a major impact on the decision-making timeframes for the electricity sector in our country. Despite a reduction in demand for electricity in the short term, there is still a capacity deficit in the country, which will again be exposed when the anticipated economic recovery brings with it an increased demand for electricity. The need for new power stations is still crucial to bring the reserve margin back to within acceptable limits.

As previously stated, although the absolute tons of CO_2 emitted will increase in the short to medium term, we have committed to assessing options to retard that rate of increase and ultimately to begin reducing it. Our stated intent to reduce our relative CO_2 (Mt CO_2/MWh) footprint until 2025 and thereafter continually reduce absolute emissions in support of national and global targets is still relevant.

1. *Policy position 1 of "The South African Electricity Supply Industry: Electricity Pricing Policy GN1398 of 19 December 2008".*

Highlights

- capital expenditure (including interest capitalised) for the year was R47 099 million, which is in line with the target for the year. This is significantly higher than the R24 985 million spent in 2008
- the level of coal stockpiles increased from 12 days to an average of 41 days at 31 March 2009
- some 112 965 electrification connections were made during the year, exceeding the target by 5 470
- the employment racial equity target has been exceeded
- a targeted recruitment drive paid off – 4 261 new Eskom staff members were recruited, resulting in a net increase of 2 242 in staff numbers
- a significant contribution has been made to black economic empowerment by procuring goods and services from BEE companies to the value of R35,2 billion against a target of R24,2 billion (70% of discretionary spend). Eskom achieved an 85/100 rating and attained a level two BBBEE contributor status
- procurement savings from the strategic sourcing initiative for the financial year were R4,7 billion, against the target of R3,5 billion
- the net reserve margin has increased from about 5% in January 2008 to about 14% this January
- Camden power station was the first of the three mothballed coal-fired stations to be successfully returned to service in 2008

Lowlights

- sadly six (2008:17) Eskom employees and 21 (2008:12) contract workers passed away during the past year
- although Eskom was granted the highest price increase in the last 10 years, it was substantially lower than what was needed
- Eskom achieved eight out of 16 targets in the shareholder compact. Financial efficiency and technical performance were impacted by the increase in primary energy costs and poor plant performance
- sales growth decreased from a favourable 2,9% in 2008 to a negative 4,2% in 2009
- the return on assets was severely impacted by the major increase in primary energy costs (mainly coal) despite a reduction in electricity sales volumes of 4,2% and high capital expenditure which increased from R24 985 million in 2008 to R47 099 million in 2009
- particulate emissions from our coal-fired power stations increased from 0,21 to 0,27kg/MWh sent out. This as a result of: power stations being run harder in order to meet the demand for electricity; deteriorating coal quality at some stations; reduced opportunity for maintenance due to the lower reserve margin; and a deterioration in the operational performance of some power stations
- water used as part of the process to generate electricity increased from 1,32 to 1,35L/kWh sent out as a result of the same factors affecting the particulate emissions performance
- at the end of March 2009 an amount of R2 767 million (2008: R1 987 million) of the electricity trade debtors was older than 75 days. The impairment provision for trade and other receivables increased from R1 877 million in 2008 to R2 883 million
- the debt-equity ratio for the group (including long-term provisions) weakened during the review period from 0,40 to 1,22

Application of the GRI principles and using the AA1000 Principles Standards (2008) and AA1000 Assurance Standard (2008)

We made use of the Global Reporting Initiative (GRI) Guideline as a reporting framework for this report and have declared a GRI B+ application level.

In terms of providing assurance around the sustainability issues in this report, our assurance provider was requested to provide assurance against the International Standard on Assurance Engagements 3000: Assurance Engagements other than Audits or Reviews of Historical Information and the AA1000APS (2008) AccountAbility Principles and the AA1000AS (2008) Assurance Standard – requirements for independent assurance on non-financial/sustainability disclosed information and sustainability performance. [LA]

(LA *Limited Assurance provided by the independent assurance provider (refer page 101).)*

The following principles have been applied in the compilation of this integrated sustainability report:

- **Inclusivity:** the results of our stakeholder engagement processes, as set out in page 89 of this report are used to inform the structure and, more importantly, the issues reported on
- **Materiality:** the main areas covered in this report in terms of both current and future issues are based on what our stakeholders have said to us that they need to know, our business focus areas, priorities and the actively managed risks we face. This is depicted on page 2 covering our vision, values and strategic objectives
- **Responsiveness:** our intention is to ensure that we have provided the information our stakeholders have requested related to sustainable development. This is reflected in terms of actual performance over the last financial year against targets set and giving insight into our future objectives

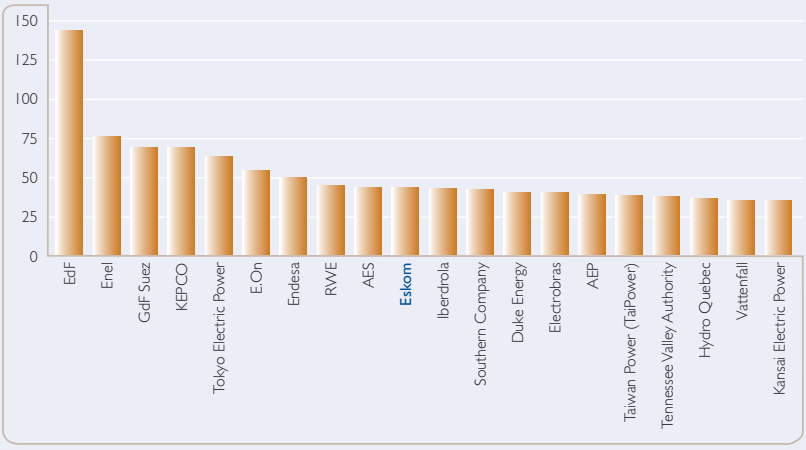
The external assurance process has highlighted certain observations relating to AA1000APS (2008), which are explained in more detail in the assurance report on page 101. We acknowledge these observations and will respond to them.

Our understanding of sustainable development is set out in the introductory paragraph on page 26. The Eskom sustainability performance index on page 26, together with the performance areas and indicators set out in this report, reflects both the opportunities and constraints we face in executing our sustainable development strategy.

The areas of our business included in this report are defined on page i (nature of business, major products and services). The extent to which we have reported on these was based on the scale of our sustainability impacts and the degree to which we have control and influence over these impacts.

Generating capacity of world's top utility companies

GW



Source: Datamonitor April 2009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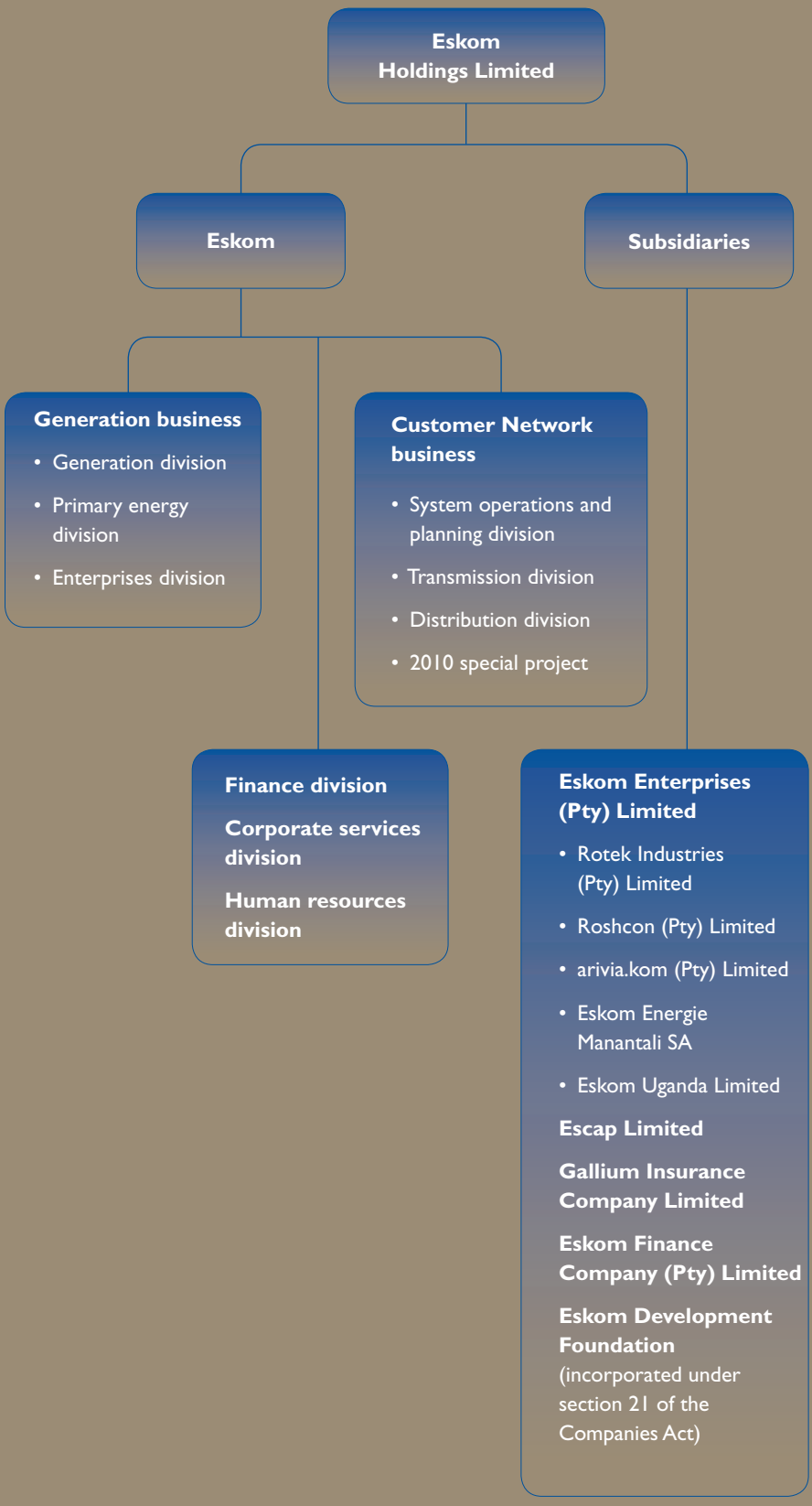
Organisational structure



Major subsidiaries only

Empowering the South African dream

Did you know?

- our next generation of power stations will use water much more efficiently
- it takes up to eight years to build a coal-fired power station
- ash from several power stations is used in the production of cement
- baseload power stations, largely coal-fired and nuclear, are designed to operate continuously – 24 hours a day – until the units come off-line for scheduled maintenance
- peaking power stations, such as hydro, pumped-storage and gas-turbine stations, can react quickly to changes in demand and provide power to supplement that generated by baseload stations. They operate only in peak periods
- Eskom's Klipheuwel wind farm is the first commercial wind facility in sub-Saharan Africa
- Koeberg is the only nuclear power station in Africa

Coal stockpile days
increased to
41 ↑

Sales growth
negative
4,2 % ↓

Staff numbers
net increase of
2 453 ↑

Capital expenditure
increase
88 % ↑

Opportunity

Thanks to the support of the Timbali and Eskom development foundation, the Timbali incubator in Mpumalanga now produces about 2 000 000 gerbera flowers, which have a high market value and have made the incubator the largest producer of this cut flower on the African continent. *(see page 44).*

Growth

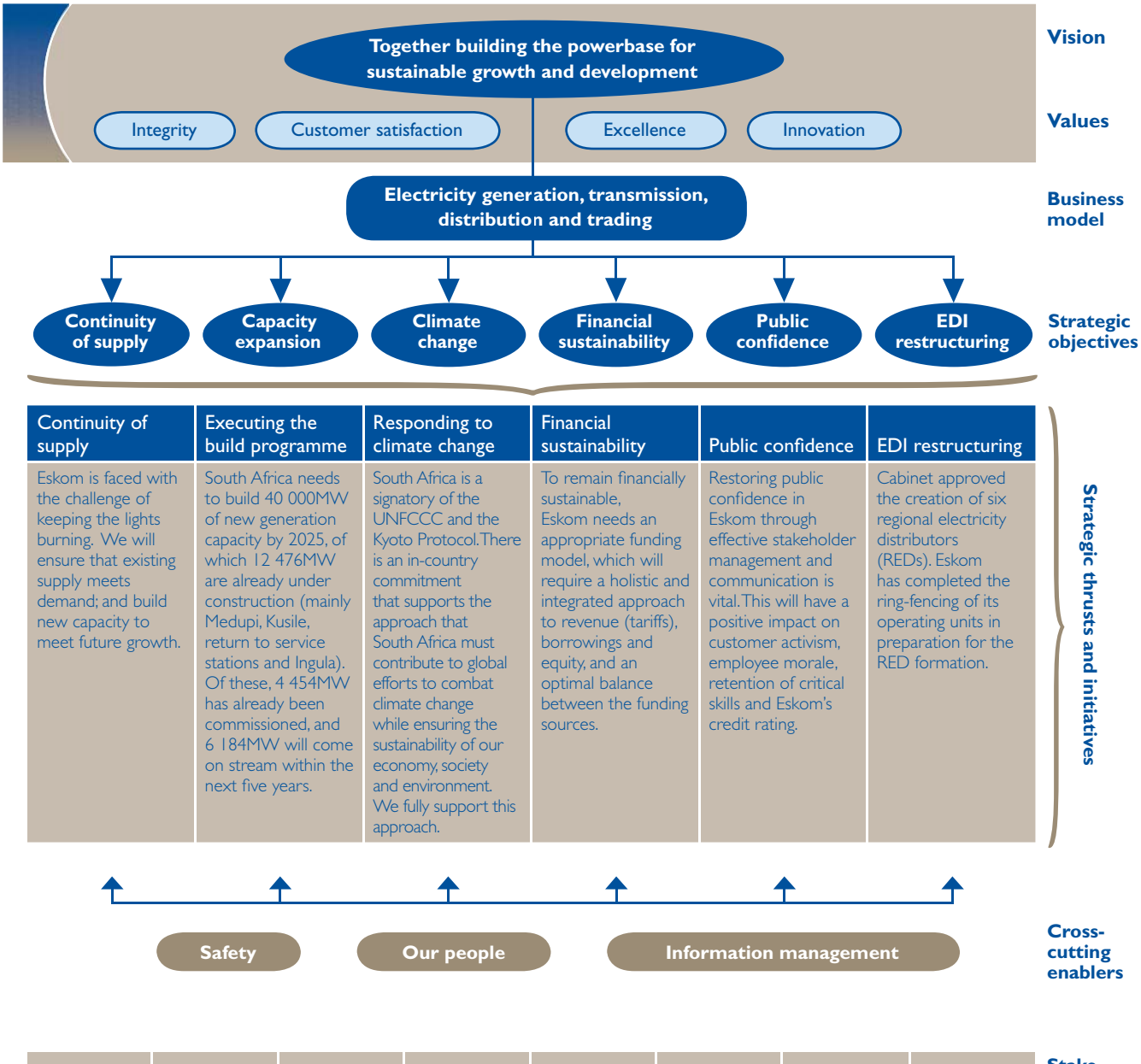
The construction of the Medupi power station in Lephalale brings with it tremendous growth. Just in terms of accommodation, the contractor's village will accommodate at peak 5 000 general and semi-skilled workers. Eskom has also bought approximately 380 existing and new houses and flats from local people and local developers, and is in the process of building some 880 new houses and flats. *(see page 59).*

Training

Training has always been a major focus area in Eskom – to such an extent that many outside organisations make use of our training facilities. We have 28 facilities with 244 training venues spread across South Africa, which can accommodate up to 3 300 students. There are approximately 540 teaching staff with 153 instructors and in excess of 1 600 courses in Eskom's course catalogue. *(see page 93).*

Eskom

Vision, values and strategic objectives



Continuity of supply	Executing the build programme	Responding to climate change	Financial sustainability	Public confidence	EDI restructuring
Eskom is faced with the challenge of keeping the lights burning. We will ensure that existing supply meets demand; and build new capacity to meet future growth.	South Africa needs to build 40 000MW of new generation capacity by 2025, of which 12 476MW are already under construction (mainly Medupi, Kusile, return to service stations and Ingula). Of these, 4 454MW has already been commissioned, and 6 184MW will come on stream within the next five years.	South Africa is a signatory of the UNFCCC and the Kyoto Protocol. There is an in-country commitment that supports the approach that South Africa must contribute to global efforts to combat climate change while ensuring the sustainability of our economy, society and environment. We fully support this approach.	To remain financially sustainable, Eskom needs an appropriate funding model, which will require a holistic and integrated approach to revenue (tariffs), borrowings and equity, and an optimal balance between the funding sources.	Restoring public confidence in Eskom through effective stakeholder management and communication is vital. This will have a positive impact on customer activism, employee morale, retention of critical skills and Eskom's credit rating.	Cabinet approved the creation of six regional electricity distributors (REDs). Eskom has completed the ring-fencing of its operating units in preparation for the RED formation.

Regulators	Customers and consumers	Suppliers	Independent power producers	Government (national, provincial and local)	Investors, financiers, rating agencies	Non-governmental organisations, communities, civil society organisations	Employees, organised labour

The material issues reported in this annual report are structured around current and future significant risks that we face, our strategic objectives and the important issues raised by our stakeholders. These are determined through our integrated risk management process (refer page 27), as well as issues raised by our stakeholders. From this, business priorities and strategic objectives are determined.

The theme of this annual report is *Empowering the South African dream.* The load shedding incidents in 2008 presented an opportunity to reflect on our role in South Africa. A key learning area was the criticality of a reliable power supply to our economy – both present and future. Every employee felt the enormity of the task we have as an organisation in terms of keeping the lights burning and offering confidence for the future.

Although Eskom touches millions of lives every day through the provision of electricity, the organisation's impact stretches far beyond that. The massive build programme – the biggest this country has ever seen – is creating thousands of jobs, furthering local manufacture of various components and kick-starting economies in the vicinity of build projects. Furthermore, Eskom is the biggest consumer of coal in the country, supporting an industry of some 25 000 people. Our electrification, corporate social investment and black economic empowerment programmes uplift and develop previously disadvantaged people. Eskom is a key player in ensuring the success of Africa's biggest event ever – the 2010 FIFA World Cup South Africa™. Eskom is truly a national asset and every one of the 37 857 employees and thousands of contractors are working hard to ensure that this national asset stands strong to power our nation.

Eskom demonstrates its commitment to the vision of *together building the powerbase for sustainable growth and development* through its core business focus of electricity generation, transmission, energy trading and distribution. It entrenches the values of excellence, innovation, customer satisfaction and integrity across all business operations.

Our core strategy is based on the following

- focusing on our core business of electricity supply to maximise shareholder value in economic, social and environmental returns
- *"keeping the lights burning"* through optimal use and operation of our assets, resources and skills
- ensuring the sustainability of the business through balanced financial, social and environmental decision-making
- managing our assets and future capital investments to ensure adequate electricity supply to meet the needs of South Africa

Focus areas

- safety performance
- skills acquisition and retention strategy
- implementation of optimal business systems and solutions
- utilising the new build programme to maximise the organisation's contribution to government's Accelerated and Shared Growth Initiative for South Africa (AsgiSA) and broad-based black economic empowerment (BBBEE)
- all strategic objectives are pursued with due regard for the environment, stakeholder engagements and short-term priorities

For Eskom to play its role of powering South Africa and spearheading South Africa's development, we continually revise how we do business. The current economic downturn has adversely impacted our organisation and, due to limited resources, we are compelled to prioritise our strategic objectives in order to maximise our value proposition to South Africa.

Various initiatives will be implemented to facilitate our strategic objectives. Focused research and development will strengthen our technical performance and capacity expansion programme. A stakeholder engagement strategy is building stronger ties with strategic stakeholders and the general public, in an effort to create a national drive towards energy efficiency and to ensure that we are in line with stakeholder requirements.

Group five-year review

	Unit	2009 (12 months)	2008 (12 months)	2007 (12 months)	2006 (12 months)	2005[1] (15 months)
Funding and resources						
Key financial figures						
Total assets	Rm	**199 302**	166 170	139 838	128 286	110 027
Total equity	Rm	**59 578**	61 129	58 890	50 371	46 947
Total equity and liabilities	Rm	**199 302**	166 170	139 838	128 286	110 027
Electricity revenue – local	Rm	**50 614**	41 550	37 874	34 223	39 842
Electricity revenue – international	Rm	**2 382**	1 971	1 515	1 290	1 381
Group revenue	Rm	**53 826**	44 448	40 068	36 052	43 207
Net fair value (loss)/gain on embedded derivatives	Rm	**(9 514)**	(1 680)	831	1 318	–
Net fair value loss on other derivatives	Rm	**(2 370)**	(684)	(862)	(182)	(99)
Finance income	Rm	**3 370**	2 933	2 884	2 783	3 936
Finance cost	Rm	**(3 684)**	(4 721)	(4 232)	(4 521)	(5 447)
(Loss)/profit before tax	Rm	**(12 986)**	(223)	5 976	6 647	7 686
Income tax expense – current	Rm	**(208)**	(128)	(1 394)	(1 594)	(182)
Income tax expense – deferred	Rm	**4 013**	728	(111)	(528)	(2 131)
(Loss)/profit for the year	Rm	**(9 708)**	(168)	4 009	4 641	5 411
Cash generated from operations	Rm	**5 133**	5 900	15 666	13 292	15 515
Net cash from operating activities	Rm	**11 764**	(1 912)	13 954	12 346	15 302
Net cash used in investing activities	Rm	**(42 945)**	(22 930)	(16 908)	(9 003)	(5 345)
Net cash from/(used in) financing activities	Rm	**38 871**	26 193	2 267	(1 368)	(8 873)
Financial ratios						
Earnings protection (profitability indicators)						
Return on total assets	%	**(0,84)**	2,97	7,44	9,06	12,74
Return on average equity	%	**(16,09)**	(0,29)	7,55	9,54	12,05
Total operating expenditure/revenue	%	**102,62**	92,16	82,64	67,15	65,26
Net pre-tax interest coverage	ratio	**(1,34)**	0,95	2,71	2,82	2,69
EBITDA interest coverage	ratio	**0,85**	1,99	3,28	4,00	4,16
Liquidity	ratio	**0,97**	1,57	1,65	1,28	1,57
Solvency	ratio	**1,43**	1,58	1,67	1,65	1,74
Cash flow protection (cash flow adequacy indicators)						
Funds from operations/average total debt	%	**15,65**	(3,50)	29,42	32,05	46,81
Funds from operations/capex	%	**26,96**	(7,89)	79,59	37,13	286,29
Funds from operations/net interest coverage	%	**5,42**	(1,61)	22,88	6,77	9,70
Capital structure						
Debt:equity	ratio	**0,97**	0,22	(0,01)	0,01	0,00
Debt:equity (including long-term provisions)	ratio	**1,22**	0,40	0,21	0,22	0,17
Interest cover	ratio	**(0,65)**	2,94	11,40	3,76	5,50
Credit ratings and outlook						
Standard and Poor's						
– Foreign currency	rating	**BBB+**	BBB+	BBB+	BBB+	BBB
	outlook	**CreditWatch negative**	CreditWatch negative	Stable	Stable	Stable
– Local currency	rating	**A-**	A-	A-	A-	A-
	outlook	**CreditWatch developing**	CreditWatch negative	Stable	Stable	Stable
Moody's						
– Foreign currency	rating	**Baa2**	A2	A2	A2	Baa1
	outlook	**Negative**	Possible downgrade	Stable	Stable	Stable
– Local currency	rating	**Baa2**	A1	A1	A1	A3
	outlook	**Negative**	Possible downgrade	Stable	Stable	Stable
FitchRatings						
– National long term (zaf)	rating	**AAA**	AAA	AAA	AAA	AAA
	outlook	**Stable[2]**	Negative	Stable	Stable	Stable
– National short term (zaf)	rating	**F1+**	F1+	F1+	F1+	F1+
	outlook	**Stable**	Stable	Stable	Stable	Stable
Other						
Average selling price of electricity[3]	cents per kWh	**24,97[4]**	19,59[4]	18,06[4]	17,01[4]	16,04[4]
Average total cost of electricity sold	cents per kWh	**27,63[4]**	19,78[4]	16,69[4]	14,80[4]	13,59[4]
Employees – group	number	**37 857**	35 404	32 674	31 548	31 475
Value created per employee	R000	**528**	538	775	679	808
Productivity improvement/(decline) for electricity business	%	**0,90[4]**	(9,00)[4]	1,90[4]	(2,10)[4]	1,80[4]
Employment equity	%	**68,60**	65,90	62,50	59,70	57,90[4]
Gender equity	%	**34,50**	34,10	32,70	31,20	28,90[4]
People with disabilities	%	**3,20**	3,10	2,70	2,30	2,00[4]
Training cost	Rm	**823[4]**	784[4]	748[4]	543[4]	518[4]
Eskom bursars	number	**5 907[4]**	5 368[4]	5 136[4]	2 163[4]	1 568[4]

	Unit	2009 (12 months)	2008 (12 months)	2007 (12 months)	2006 (12 months)	2005[1] (15 months)
Continuity of supply						
Electricity sold – local	GWh	202 202	210 458	204 531	195 194	240 951
Electricity sold – international	GWh	12 648	13 908	13 589	13 122	16 008
Total electricity sold	GWh	214 850	224 366	218 120	207 921	256 453
Coal burned in power stations	Mt	121,16	125,30	119,10	112,10	136,40
Energy availability factor	%	85,32	84,85	87,50	87,40	89,50
Peak demand on integrated system	MW	35 959	36 513	34 529	33 461	34 195
Peak demand on integrated system including load reductions	MW	36 227	37 158	35 441	33 461	34 195
Unplanned automatic grid separations per 7 000 operating hour period	trips per unit	2,93	2,80	1,76	1,55	1,33
Demand-side management savings	MW	916,00	650,40	169,80	72,30	85,40
Specific water consumption by power stations[5]	L/kWh	1,35	1,32	1,35	1,32	1,27
Relative particulate emissions	sent out kg/MWh	0,27	0,21	0,20	0,21	0,26
Carbon dioxide emissions[6]	sent out Mt	221,73	223,57	208,90	203,70	247,00
Radiation release	milliSieverts (mSv)	0,0045	0,0041	0,0034	0,0049	0,0079
Lost time incident rate	index	0,50	0,46[7]	0,52[7]	0,40	0,45[8]
Employee fatalities	number	6	17	8	10	19
Contractor fatalities	number	21	12	18	13	17
Public fatalities	number	28	42	41	34	40
Capacity expansion						
Generation capacity installed and commissioned	MW	1 770	1 061	1 351	170	–
Transmission lines installed	km	418	480	430	237	397
Transmission transformer capacity installed	MVA	1 375	1 355	1 000	1 090	5 280
Distribution lines installed	km	5 439	7 319	6 984	5 944	10 892
Distribution transformer capacity installed	MVA	2 776	3 412	2 967	1 866	2 249
Developmental initiatives						
Black economic empowerment	Rm	35 209	25 447	16 557	11 681	10 334[4]
Electrification (homes connected)	number	112 965	168 538	152 125	135 903	222 314
Corporate social investment[9]	Rm	79,5	69,80	74,70	83,60[10]	159,80

Definitions of ratios

Average total cost of electricity sold: total operating expenditure[11] and net finance cost (including fair value adjustment on financial instruments) divided by external sales.
Debt: equity including long-term provisions: net financial assets and liabilities[12] plus non-current retirement benefit obligations and non-current provisions divided by total equity.
Debt: equity: net financial assets and liablilites[12] divided by total equity.
EBITDA interest coverage: operating (loss)/profit before fair value loss on embedded derivatives and net finance cost[13] adjusted for net impairment loss, depreciation and amortisation expense, divided by finance costs[14].
Funds from operations/average total debt: net cash from operating activities divided by the average total financial liabilities[12].
Funds from operations/capex: net cash from operating activities divided by capital expenditure.
Funds from operations/net interest coverage: net cash from operating activities divided by total net finance cost adjusted for borrowing cost capitalised, unwinding of discount on provisions and interest paid on finance lease.
Interest cover: operating (loss)/profit before fair value loss on embedded derivatives and net finance cost[13] divided by net finance cost adjusted for borrowing cost capitalised, unwinding of discount on provisions and interest paid on finance lease.
Liquidity: current assets divided by current liabilities.
Net pre-tax interest coverage: (loss)/profit before tax adjusted by finance costs[13] divided by finance costs[14].
Return on average equity: (loss)/profit for the year divided by average equity[15].
Return on total assets: operating (loss)/profit before fair value loss on embedded derivatives and net finance cost[13] expressed as a percentage of total assets[16].
Solvency: total assets divided by total liabilities.
Total operating expenditure/revenue: total operating expenditure[11] divided by revenue.
Value created per employee: value created divided by number of employees.

1. *Represents, unless indicated otherwise, the 15-month period from 1 January 2004 to 31 March 2005.*
2. *Changed from negative to stable on 10 June 2009.*
3. *Average price of electricity sold based on total sales.*
4. *Represents Eskom Holdings information only.*
5. *Volume of water consumed per unit of generated power sent out, excluding rain and mine water used and excludes Camden and Grootvlei power stations.*
6. *Calculated figures based on coal characteristics and the power station design parameters. SO_2 and CO_2 emissions are based on coal analysis and using coal burned tonnages. For 2009, includes Camden, Grootvlei and the gas turbine power stations as well as oil consumed during power station start-ups.*
7. *As a result of the review of LTIR data the 2007 and 2008 LTIR figures have been recalculated and corrected from 0,35 to 0,52 (2007) and 0,34 to 0,46 (2008).*
8. *Calculated for the period 1 April 2004 to 31 March 2005.*
9. *Includes Eskom Development Foundation expenditure.*
10. *Amounts spent on the Eskom public scholarship programme are now reported under skills development.*
11. *Total operating expenditure is operating (loss)/profit before fair value loss on embedded derivatives and net finance cost, adjusted for revenue, other income and net fair value loss on financial instruments, excluding embedded derivatives.*
12. *Financial assets, and liabilities comprise: Investments in securities, embedded derivative assets and liabilities, derivatives held for risk management, financial trading assets and liabilities, cash and cash equivalents, debt securities issued and borrowings.*
13. *Adjusted for other income and net fair value loss on financial instruments, excluding embedded derivatives.*
14. *Comprises interest paid on debt securities issued and borrowings.*
15. *Current year total equity plus prior year total divided by two.*
16. *Total assets are reduced by financial assets[12], since Eskom's funding is managed as a single pool of financial marketing assets and liabilities.*

Chairman and chief executive

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☑ Sales decreased

by 4,2%

☑ Capital expenditure

R47 099 million

☑ Electrification

112 965 connections

☑ Coal burned

121 million tons

☑ Training

R823 million

☑ Maintenance

R5 981 million

Ingula – conserving our natural heritage

Although Eskom received government approval to build the Ingula project, this was withdrawn shortly afterwards following objections by governmental and non-governmental organisations. The objections mainly centred around the proximity of the project to sensitive wetlands located directly downstream from the project that are the summer habitat of the highly endangered white winged flufftail *(Sarothrura Ayresi)*, a small bird that migrates to South Africa from Ethiopia for the summer.

Eskom decided that to ensure its licence to operate, it had to reach a compromise with the institutions that were critical of the project's development. Eskom and the institutions agreed that Eskom would offset the impacts by purchasing land in excess of that required for the development of the power station, and would manage this land to the benefit of the white winged flufftail and other species of birds and mammals and vegetation included in the area. Eskom then purchased an additional 8 000 hectares close to the proposed pumped-storage scheme.

A team of environmental professionals was tasked with managing the site as a conservation area. This team conducted detailed studies of the area and found that it was not quite the *"pristine environment"* that had been described in the original objections, but rather land that had been over-farmed and was desperately in need of attention to maintain its biodiversity potential.

Major risks included erosion which was leading to the silting up of the wetlands on the property, and the invasion of exotic vegetation which was consuming large volumes of water. Land-use practices were also not compatible with the goals of a conservation area, with uncontrolled hunting and plant harvesting taking place on an ongoing basis. Communities living on the property were struggling to maintain their livelihoods, relying on subsistence farming and handouts.

Projects have now been initiated to address the economic development of the area, to improve the environmental conditions and to improve the social conditions of people living close to the project.

The purchase and appropriate management of the additional property has led not only to the establishment of a suitable habitat for the 210 bird species on the site, but has also added to water security for the project. The new management practices will go a long way towards improving water supply in both catchments on the property as their headwaters are close to the project. The Tugela system is a major source of water for the eastern section of South Africa, and the Wilge River is the headwaters of the Vaal system that feeds Gauteng, the industrial and commercial centre of South Africa.

Message from the chairman

Chairman: Bobby Godsell

Dear Stakeholders

Over this last year Eskom has been intensely focused on ensuring that South Africa's lights stay on. The organisation's efforts to rebuild coal stock, intensify maintenance, increase generation and moderate demand are described in greater detail in the chief executive's statement. The result has been that the national grid has been stable since April of last year. The reserve margin is, however, still very much constrained – in fact, the peak usage during the cold snap in June 2009 was exactly the same as the consumption last year. Power conservation is still absolutely crucial.

In order to ensure long-term stability of supply, the Eskom new build programme, and the allied return to operation of three mothballed power plants, has continued apace, with 4 454MW of additional capacity added since the programme started in 2005.

The organisation's financial results, however, clearly indicate that financial sustainability is now Eskom's single, central challenge. The scale of losses incurred is clearly unsustainable, and the board is determined to move quickly to return the organisation to financial health.

There are two major long-term causes of Eskom's financial woes.

Firstly, South Africa has priced electricity below its full cost for many decades. Whereas electricity costs between 8 and 9 US cents per kilowatt-hour in the developed economies belonging to the OECD, the average tariff in South Africa is 3 US cents. Electricity consumers elsewhere on the African continent also pay much higher prices.

There is an urgent need to achieve an average tariff that recovers the full cost of producing electricity incurred by an efficient public utility, as well as allowing it to build up reserves to partly fund the capital expansion. Within the context of this, average tariff measures can be put in place to ensure that electricity remains affordable for the poorest consumer. The South African government subsidises the first 50 kilowatt-hours of monthly consumption for all consumers. Eskom operates a "homelight" tariff for rural communities, but a nationally consistent and effective "pro poor" tariff is needed.

Secondly, it is not possible to fund the first major expansion of our electricity grid for several decades through revenue generated from tariffs alone. The growth of a business is normally funded by a sensible balance between owner's equity, accumulated reserves and debt. The R9,7 billion loss incurred by Eskom this year needs to be seen in the context of the R30 billion spent on the build programme, R18 billion more than in the previous year. Clearly this is not sustainable.

The bottom-line in terms of the funding model is that Eskom can only build new infrastructure if we have the money to do so. At present we have not secured all the funding needed for the current build projects. We have taken a conscious decision that we will stop or delay projects if we do not have the funding.

We need to mobilise greater equity resources to fund the build programme. The government has already provided R60 billion in a loan with equity characteristics. Government revenues are likely to be severely constrained in the near future. We need to find other sources of expansion funding, perhaps in the form of a development bond that will enable South Africans to invest in the expansion of our country's energy system.

With immediate effect the board has directed management to implement a cost management programme to ensure that it breaks even at the operating level.

Message from the chairman continued

A major source of cost inflation has been the cost of coal purchased. Eskom is urgently engaging the coal mining industry to better manage these costs.

Eskom has a number of commodity-linked pricing contracts with aluminium producers, which both offer discounted prices, and also link the electricity prices to commodity prices and exchange rates. The year-end valuation of these contracts (embedded derivatives) resulted in an accounting loss of R9,5 billion. They are clearly not sustainable and Eskom will be engaging these customers with a view to achieving more equitable pricing.

The capital costs of our build programme have escalated considerably. Prior to the recent global economic crisis, construction costs were escalating worldwide and across all industries. The global recession has created new market circumstances.

Some key longer-term questions

Beyond these immediate concerns, our country faces important longer-term questions in regard to electricity. The first question is how much energy our country will need over the next 30 years. This question touches on both the economic growth rate we achieve over that period, and also on how electricity intensive that growth is likely to be.

A second question is what the sources of our future electricity should be. At present we rely to a great extent on coal for electricity generation. This poses great climate change challenges. We need to fully explore the potential of nuclear and clean coal technologies to reduce electricity's carbon footprint. We need also to energetically explore alternative energy sources including solar, wind and biomass. If every household made use of solar heated geysers, almost 10% of current coal produced energy would be replaced.

The third question is how to fund both the growth and the climate change modification of our electricity system. The final question is how to design an electricity generation, transmission and distribution system that is appropriate to the circumstances of our modern world.

The separation of the Energy portfolio into its own Ministry creates a logical lead agency to ensure that this debate not only takes place, but also results in an electricity strategy to serve this country's future.

Acknowledgements

I would like to make special mention of the people of Eskom – the women and men of Eskom – who managed to turn around the electricity crisis this past year. I can personally bear testimony to the fact that 37 857 people pulled together to restore the Eskom system, while being mindful of the massive role we play in our country.

I would also like to thank my fellow board members for their counsel and wish them well in providing guidance and assurance to this important national asset. They have spent an enormous amount of additional time in special board meetings this year, to address the various challenges and I thank them for their invaluable time.

We bid farewell to a few of our board members who have made a tangible contribution to the organisation in terms of strategic guidance: former chairman Valli Moosa, Dr Brian Count, Sintu Mpambani and Versha Mohanlal Rowjee. Sadly Errol Marshall, who had served on the board since 2006, passed away in 2008. His human touch will be missed. I would also like to thank former finance director Bongani Nqwababa for his valued service to Eskom up to the end of 2008.

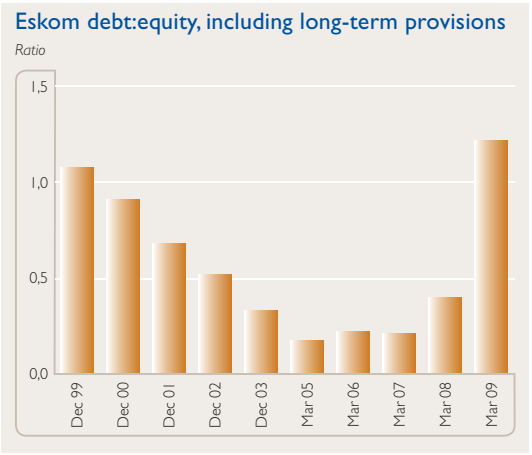
I would like to welcome our new board members – Daniel Dube, chairman of the Self-help and Resource Exchange, Hee-Beom Lee, chairman and CEO of STX Energy Co, and John Mirenge, director of Electrogaz, the power utility of Rwanda. They bring a fresh perspective to the board and new insights from an international perspective.

Special mention must also be made of our former ministers, Mr Alec Erwin, Ms Brigitte Mabandla and Ms Buyelwa Sonjica from the departments of Public Enterprises and Minerals & Energy, respectively. I thank them for their guidance and support over the past few years and wish them well. I welcome our two new ministers – Ms Barbara Hogan and Ms Dipuo Peters – and hope that together we can put the electricity system on a sustainable path for today and tomorrow.

Though the financial challenges facing Eskom are formidable, this large and resilient organisation has served our country well for more than eight decades. I am sure that this family of 37 857 Eskom staff will rise to the challenge, and continue to make Eskom a key part of realising our nation's dream of a better life for all.

Bobby Godsell
Chairman

Eskom debt:equity, including long-term provisions



Board of directors

at 31 March 2009

1 R (Bobby) Michael Godsell (56)

Chairman

BA (Natal), MA (UCT)

Chairman: Business Leadership South Africa (BLSA), Freeworld Coatings, the JSE listed coatings company recently demerged from Barloworld

Co-chairman: Millennium Labour Council (MLC)

Bobby was appointed as chairman of the Eskom Holdings Limited board on 17 July 2008

2 LCZ (Zee) Cele (56)

Non-executive director

BCom (Fort Hare), PostGrad Dip Tax, MAcc (Natal) Executive Leadership Development Programme (ADL-MEI, Cambridge, USA)

Director: Hulamin Limited, Combined Motor Holdings Limited, Sport for All Franchising (Pty) Limited

Zee was appointed in 2005

3 SD (Daniel) Dube (59)

Non-executive director

Diploma in Management from the University of Leicester

Chairman: Self-help and Resource Exchange

Daniel was appointed on 17 July 2008

4 LG (Lars) Josefsson (58) *(Swedish)*

Non-executive director

MSc (Applied Physics) (Chalmers University Sweden), Professor, Cottbus University, Germany
President and CEO Vattenfall AB

President: Union of the Electricity Industry (Eurelectric), German-Swedish Chamber of Commerce

Lars was appointed in 2002

5 HB (Hee-Beom) Lee (60) *(Korean)*

Non-executive director

BA (Electronics Engineering) (Seoul National University), Graduate School of Public Administration (Seoul National University), MBA (George Washington University), PhD in Business Management (Kyunghee University), Honorary Doctorate Degree in Public Administration (Hoseo University)

Chairman and CEO: *Korea International Trade Association (up to February 2009), STX Energy Co. (from March 2009)*

Non-executive director: Korean Air (from March 2009)

Chairman: Haevichi Social Contribution Culture Foundation

Vice-president: National Academy of Engineering of Korea

Hee-Beom was appointed on 17 July 2008

6 WE (Wendy) Lucas-Bull (55)

Non-executive director

BSc (Wits)

Director: Dimension Data Holdings plc, Development Bank of Southern Africa, Lafarge Industries South Africa (Pty) Limited, Anglo Platinum Limited, Peotona Group

Wendy was appointed in 2002

7 PM (Mpho) Makwana (38)

Non-executive director

BAdmin (Zululand), BAdmin (Hons) (Pretoria), EDP (North Western)

Chairman: Epitome Investments

Director: Monitor Group

Trustee: Lovelife Trust

Mpho was appointed in 2002

8 PJ (Jacob) Maroga (49)

Chief executive

BSc (Electrical Eng) (Wits), AMP (Harvard)

Jacob was appointed in 2007 as chief executive

9 J (John) Mirenge (43) *(Rwandan)*

Non-executive director

Bachelor of Law (LLB) (Makerere University), Kampala, Postgraduate Diploma in Legal Practice (Law Development Centre, Kampala)

Chairman: MTN Rwanda, Rwandair Express

Director: Electrogaz (Power Utility of Rwanda), The Rwanda Investment Promotion Agency

John was appointed on 17 July 2008

10 JRD (Jacob) Modise (42)

Non-executive director

BCom, BAcc, CA(SA), MBA (Wits), AMP (Harvard), AMP (Samford)

Director: Batsomi Group, Altron, Blue IQ Investments, IRBA, EDI Holdings, Road Accident Fund

Trustee: Nelson Mandela Children's Fund

Jacob was appointed in 2002

11 AJ (Allen) Morgan (61)

Non-executive director

BSc, BEng (Electrical) (Stellenbosch)

Chairman: Bio Therm Energy (Pty) Limited

Director: Kumba Iron Ore

Allen was appointed in 2002

12 U (Uhuru) Nene (49)

Non-executive director

MSc (Structural Eng) (Patrice Lumumba, Moscow)

Uhuru was appointed in 2005

Retirements and other changes:

- MV Moosa retired as chairman on 17 July 2008
- M Bello retired on 17 July 2008
- BM Count retired on 17 July 2008
- V Mohanlal Rowjee retired on 17 July 2008
- SA Mpambani retired on 17 July 2008
- B Nqwababa resigned as finance director on 31 December 2008
- ID du Plessis was asked to act as chief finance officer from 1 January 2009. He is not a director
- E Marshall passed away during the year

Only major directorships included

Message from the chief executive

Chief executive: Jacob Maroga

Dear Stakeholders

The Western Cape power disruptions of 2006 marked the end of an era – a long period of reliable and abundant power supply with excess capacity that was built in the 80s in anticipation of an economic boom. On 18 January 2008, what was only a Western Cape issue spread to the rest of the country with the first incident of rotational blackouts (load shedding) at a national scale.

The impact of the power disruptions was profound. It touched the lives of every South African in some way or another, and had an impact on confidence in the country and its image abroad.

The fact is that electricity supply has always been in the background as the silent giant powering the country without much attention being paid to it, because it worked. The recent events highlighted the fact that Eskom indeed plays a critical role in the economic development of South Africa.

This major shift in focus has brought about some serious introspection by myself and my management team. Over the past few months we have been engaged in reframing the role of Eskom. This work is driven by our desire to ensure that the role of Eskom is visibly and vividly embedded in the aspirations of the country.

Our history and our legacy

We are steering a company that was formed in 1923 and that was instrumental in the industrialisation of the country and all aspects of the economy – Eskom has been part of the fabric of this country over the past 86 years.

I follow in the footsteps of great men. The development of Eskom since 1923 owes its success to these men and one of whom had the vision, passion and leadership as a truly remarkable South African: Dr Hendrik van der Bijl. He was the founder chairman of Eskom, from 1923 to 1948, and was instrumental in shaping the industrial development of South Africa.

He was intimately involved in the framing of the Electricity Act, No 42 of 1922, which aimed to stimulate the provision of a cheap and abundant supply of electricity wherever required, without profit or loss.

Eskom, since its inception, was run on strictly business lines, but its objective was largely the provision of service for public benefit, and not for profit. Dr van der Bijl established the industrial base of this country as chairman of numerous activities such as the South African Iron and Steel Industrial Corporation (ISCOR), African Metals Corporation Ltd, the Van der Bijl Engineering Corporation and many others.

The role of Eskom in our country

The role of Eskom today must be in the context of the aspirations of the new democratic South Africa. The provision of reliable, abundant and affordable electricity is not only a commercial undertaking, but is critical to the dreams and hopes of the new democratic order.

In 1948, Dr Hendrik van der Bijl wrote the following words in a foreword of a book celebrating the first 25 years of Eskom:

"There lies before the Electricity Supply Commission a great task and great opportunity. It will be our endeavour to play our part not as those who follow, where others lead, but as pioneers, to foresee the needs of a country fast developing, and by wise anticipation be ever ready to provide power wherever it may be required".

The link between the aspiration of the country and the provision of power is as relevant today as it was in 1948. The great task and great opportunity that lies before Eskom today is to foresee the needs of a country that must improve the lives of all its citizens.

Message from the chief executive continued

On 20 April 1964, Nelson Mandela concluded his Rivonia Trial statement from the dock with the following:
"During my lifetime I have dedicated myself to the struggle of the African people. I have fought against white domination, and I have fought against black domination. I have cherished the ideal of a democratic and free society in which all persons live together in harmony and with equal opportunities. It is an ideal which I hope to live for and achieve. But if needs be, it is an ideal for which I am prepared to die."

In this statement, Nelson Mandela articulated a vision that inspired the people of South Africa to strive for a society that is reflected in our Constitution, adopted in 1996.

It is the preamble of our Constitution that ties the contributions of outstanding South Africans such as Hendrik van der Bijl with the vision of our icon, Nelson Mandela. The preamble is a unifying symbol of the hope and aspirations of our nation.

From the Preamble of the Constitution and other sources, we as Eskom have developed the following six universal principles which we believe represent the hopes and aspiration of the country and will guide all our thoughts and actions.

1. A united, democratic and prosperous South Africa
2. Eradication of poverty and unemployment
3. A thriving economy, connected to the world and integrated with the broader African continent
4. A sustainable economy, not harmful to the environment and committed to climate change
5. Enhancing the potential of each citizen
6. Leveraging the role of state-owned enterprises for the economic development of the country.

Eskom value proposition

First and foremost we provide power to all of South Africa. This is our fundamental role, given that electricity is the "oxygen" of the economy.

Few people realise that Eskom has a substantial macro-economic footprint, over and above the provision of electricity. We support other industries, such as the coal industry that employs some 25 000 people. Our new build programme is also creating new business opportunities in terms of local manufacture of power station components.

Our capital expansion programme constitutes a major economic stimulus. Consider that the Medupi project alone is four times bigger than the Gautrain project and even bigger than the five-year capital spend on all rail, port and pipeline upgrades in South Africa.

The Medupi project in Lephalale is set to create 8 000 jobs directly at the peak of construction and up to 1 000 jobs in ultimately running the station. Over and above this, the town of Lephalale is already growing exponentially in terms of housing (1 850 needed), infrastructure (services and education), commerce (increase in guest houses and hotels, catering for workforce), and much more.

Our build programme has also provided a major opportunity for Eskom to enhance its corporate social

investment initiatives in the communities around the projects. Examples are the building of classrooms for rural schools, the creation of a contractor training academy, educator training, science and mathematics equipment and resources, to name a few.

As a signatory to the world's largest corporate responsibility initiative – the United Nations Global Compact – we will continue to demonstrate leadership in the 10 principles relating to labour standards, the environment and anti-corruption.

I firmly believe that Eskom is a true citizen of this country – a productive citizen that spreads its hard work across many spheres of our society.

Reviewing the past year

The year under review has been primarily about keeping the lights burning and recovering the power system. This has to a great extent been at the cost of our bottom-line, in return for a strong South African bottom-line.

The load-shedding activities of the 2007/8 financial year underlined the inherent risk of managing a power system with inadequate spare capacity. For the first part of the year under review, Eskom had to undertake extraordinary measures to recover the power system. The recovery programme started soon after the events of 24 January 2008 and was largely concluded in October 2008.

The recovery programme with the associated costs has secured South Africa a much healthier power system and a resilient Eskom, evidenced by the fact that there has been no load shedding since May 2008.

There has been a significant improvement in technical performance since January 2008. As intended at the time of the introduction of the recovery programme, plant performance was stabilised by the winter of 2008 and the required level of plant availability and reliability has been achieved. Most of the pressing needs relating to maintenance and refurbishment were met during the year. Our focus now moves to achieving sustainable performance levels within an environment of severe financial constraints.

The full cost of the power system recovery dominates Eskom's results. The operating loss for the year for the Eskom group, before the impact of embedded derivatives and net finance cost, is R3 195 million (2008: profit of R3 215 million). The sales of electricity decreased by 4,2% (2008: increase of 2,9%). Eskom saw a 2% drop in the demand from the start of 2008 until September 2008. This was mainly in response to the call made to industry and residential users to reduce their energy consumption. Later, as a result of the international economic downturn, the steel industry and the ferro-alloys sector reduced production mainly as a consequence of a reduction in global demand.

The year under review has also been dominated by the accelerated implementation of Eskom's build programme. A total of R30 460 million (2007/8: R12 783 million) was spent on the build programme. Since inception of the programme in 2005, capital expenditure has amounted to a total of R54 304 million.

As at 30 April 2009, 4 454MW was commissioned since 2005. A further 6 184MW will come on stream within the next five years. All eight units of Camden

Message from the chief executive continued

power station are now fully operational – a major achievement given the old technology that had to be recommissioned.

Two units of Grootvlei and one unit of Komati have been successfully synchronised to the national electricity grid. Two more open-cycle gas turbine units were commissioned at Gourikwa power station. Some 1 962km of high-voltage transmission lines have been built in the past four years, as well as numerous new transmission substations and transmission networks. The construction of the 765kV line to Cape Town is progressing well, with 430km already strung. The Apollo substation refurbishment was completed in May 2008, increasing the availability and maintainability of the interconnection between Cahora Bassa in Mozambique and Apollo substation in Gauteng.

Operating costs

The full recovery cost to Eskom, and in particular some of the extraordinary measures taken last year, has dominated the results we are submitting.

- **Increased primary energy cost:** At the end of March 2008, the coal stock levels were at 13 days – well below the required minimum of 20 days. While the total coal burned for the year under review was 121 million tons (2008: 125 million tons), Eskom purchased 133 million tons (2008: 120 million tons). Given that the long-term contracted coal suppliers could not respond to the short-term increase in our coal requirements, the additional coal was purchased mainly under the more expensive short-term coal contracts, which included coal transportation cost.

  The amount spent on primary energy (mainly coal) increased from R18 314 million in 2008 to R25 351 million in 2009. This increase is mainly due to the use of short-term coal contracts and the significant escalation in the unit cost of coal.

- **Higher manpower cost:** During the year under review Eskom had to grow its employee complement not only to build new generation and network capacity but also to operate and maintain both existing and new plants. Eskom recruited 4 261 employees in 2008/9. Eskom has been losing critical and scarce skills to a highly competitive labour market. In the prevailing skills climate in 2008, Eskom was forced to review its remuneration strategy in order to attract and retain staff, particularly those with scarce or critical skills. Consequently, group employee costs increased from R11 353 million in 2008 to R15 166 million in 2009. We have also spent R823 million on training for staff and instituted an academy of learning with six faculties: engineering, apprenticeship, services, project management, leadership and finance.

- **Increased maintenance cost:** During the year under review, significant progress was made in catching up with maintenance which could not be undertaken because our plant was run at full capacity during the latter half of 2007/8. During the year, maintenance costs increased to R5 891 million (2008: R4 526 million).

Acknowledgements

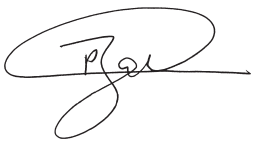
The recovery of the power system is the result of hard work and dedication. Our 37 857 employees and a multitude of contractors worked tirelessly to ensure a healthier electricity supply system. I also need to make special mention of our suppliers, in particular the coal industry, who partnered with us to solve the coal issues

at our power stations. I also salute all our stakeholders who came to me with offers of assistance and advice – your contributions were invaluable and continue to be appreciated.

No words can describe the tragic loss of life of staff, contractors and members of the public – I would like to acknowledge those people who died in the line of duty, and my thoughts go out to all their friends and families. In order to prevent these unacceptable consequences, we have made the decision to reinforce and roll out five Eskom cardinal rules that apply to Eskom employees and other persons performing work for Eskom. We are also working with suppliers, customers and contractors to integrate safety, health and environmental issues into all their operations.

Last year we called on the nation to seriously look for ways to reduce electricity consumption in an attempt to reduce the strain on the system. Many of our customers heeded the call and I thank them. The national electricity supply system remains under pressure, and the solution is not merely to start saving energy when the pressure is on.

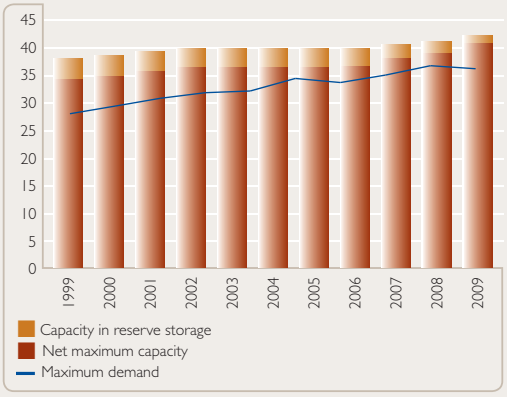
We need to start a national debate about how we consume energy. Every time we flick a switch there is a power station at the end of the line. It consumes raw materials, it costs money and it has certain impacts on the environment. I invite every person in South Africa to start thinking about energy – how we generate it, what we pay for it and how sustainable it is. Collectively we can make national decisions to ensure a sustainable electricity system for the next 86 years to come.



Jacob Maroga
Chief Executive

Generation plant capacity and maximum demand

MW thousands



Executive management committee

at 31 March 2009

1 PJ (Jacob) Maroga (49)

Chief executive and director

BSc (Electrical Eng) (Wits), AMP (Harvard)

2 ID (Izak) du Plessis (54)

Acting chief finance officer

BCom (Hons) (Accounting, Taxation and Auditing) (Free State), MCom (Financial Management) (Pretoria), AMP (Harvard), Advanced Certificate Taxation (UNISA), CA(SA)

Providing financial and procurement strategy, policies, assurance and strategic services to the Eskom group

3 BA (Brian) Dames (43)

Chief officer – Generation business

BSc (Hons) (Western Cape) MBA and Graduate Diploma in Utility Management (Samford, USA)

Chairman: Rotek Industries, Roshcon

Chief executive officer: Eskom Enterprises

Operating and maintenance of generation assets throughout the plant life-cycle, nuclear operations and strategic primary energy sourcing

Designing, building and refurbishing electricity assets, leading project development for the Eskom group, being the custodian of the non-regulated businesses and offering strategic and commercial life-cycle services to the divisions

4 Dr SJ (Steve) Lennon (50)

Managing director – Corporate Services division

MSc (Phys Metallurgy), PhD (Wits), Professional scientist (Pr.Sci.Nat), Fellow of the Academy of Engineering, Fellow of the Royal Society

Chairman: Board of trustees Fossil Fuel Foundation, National Advisory Council on Innovation

Director: Electric Power Research Institute, Eskom Enterprises

Supporting growth, innovation and sustainability of Eskom group by influencing strategic direction and risk management, ensuring safety, assurance, strategy execution, an optimal portfolio of assets, regulatory compliance, and effective group-wide governance, and providing strategic services in the area of information management, environment, security, insurance and research, demonstration and development to the benefit of the business as a whole

5 E (Erica) Johnson (40)

Chief officer – Customer Network business

BSc (Electrical Eng) (UCT), MSc (Electrical Eng) (UCT), MBA (Wits)

Director: PBMR

Accountable for the Network and Customer Services business in Eskom. Entails the planning, operations and maintenance of the transmission and distribution network, the management of the customer base and the revenue stream

6 EM (Elsie) Pule (41)

Acting managing director – Human Resources division

BA (Social Work) (University of the North), BA (Hons Psychology) (Pretoria), MSc (Business Engineering) (Warwick University)

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

Retirements and other changes

Bongani Nqwababa and Mpho Letlape left Eskom's service on 31 December 2008

Only major directorships listed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Market and industry overview

Financial market and economic trends

The global economic slowdown continued during the year and the International Monetary Fund expects global growth to decelerate substantially this calendar year, barely managing half a percent.

The weaker global output and trade conditions have put enormous stress on the commodity markets. The combination of the sharp decline in commodity prices and the fall in the appetite for local exports has put many jobs at risk. Although the National Treasury expects our economy to grow by only 1,2% this calendar year, it has since become obvious that the figure has to be revised downward. GDP for the first quarter of 2009 recorded the largest decline in decades (at minus 6,4% quarter-on-quarter). Public sector infrastructure investment is expected to remain buoyant, while private sector investment is expected to remain depressed.

The lower levels of consumer demand coupled with rather low global oil prices are expected to contribute positively towards restricting domestic inflation pressures. It is expected that the South African monetary policy could be materially relaxed during 2009. On the other hand the volatility of the external value of the rand could continue as global risk aversion persists. As a result of the expected sharp decline in economic growth, the risk posed by the current account deficit has reduced. Exports and imports are expected to under-perform this calendar year. However, the public infrastructure investment programme could lift imports.

Impact of global economic downturn on Eskom

From a financing perspective, the crisis of confidence in the finance and investing communities, coupled with Eskom's lowered credit rating, will affect the rates and availability of credit in the bond market. This will, to some extent, be mitigated by the R176 billion debt guarantee provided by government, but our ability to raise debt in the face of huge international government debt issues may be severely limited.

On the positive side, a prolonged global slowdown may reduce input costs for the build programme and increase availability of resources. Increased competition between contractors and suppliers may reduce prices. In fact, local construction companies are already returning their focus to local infrastructure projects.

A major impact of the economic slowdown is the reduced demand for electricity and a resultant decrease in sales. Cutbacks in existing mining and beneficiation plants have already reduced demand. Significant delays in industrial and mining capital expansion programmes have slowed demand growth. This does mean less pressure on Eskom's reserve margin and the new build programme, but also results in reduced revenue.

For further information on the effect of global and local economic trends on Eskom, please refer to www.eskom.co.za/annreport09/001.html.

Supplier and industry trends

Impact of global expansion in the power sector

From a supply chain point of view, the global economic slow-down has been of mixed benefit to Eskom. Commodity prices, which had risen to unprecedented heights, collapsed, driven by massive commodity fund liquidations, inventory reductions and a reduction in final consumption levels. This creates massive opportunities to reduce supply chain costs, by taking advantage of the spare capacity in the various sectors of our supply chain and the need for suppliers to reduce inventories to free up working capital. However, the risk of a supplier not living up to its actual obligations has increased.

Critical skills

The global drive to increase electricity supply capacity, particularly in India and China, has resulted in a growing local and international demand for scarce technical skills both on the operating and construction side. This, and the global economic slowdown highlights the skills challenges facing Eskom, and the retention of its critical workforce.

Global coal demand trends

The current economic downturn has resulted in lower global demand for coal and, consequently, lower prices. However, it is envisaged that the surplus in the market will start to ease in 2010. In the short term, Australian port and rail constraints, which are expected to restrict Australian thermal coal exports, will continue until 2010.

Furthermore, declining world demand might ease the pressure on supply going forward, but this pressure is expected to increase in the medium term with export caps on Chinese thermal coal expected to continue and Indonesian thermal coal decreasing in quality.

For South Africa, this could mean an increase in exports, provided that the logistical constraints on exporting coal through Richards Bay can be resolved. Given funding constraints, mining houses might delay or cancel previously planned projects in South Africa, which could impact supply in the long term. All of these factors may put pressure on Eskom's coal price.

Environment, climate change and water

Due to the nature and extent of our operations, Eskom has a significant impact on the environment, requiring a systematic approach to environmental management. Various independent regulators actively monitor Eskom's activities, including:

- the National Energy Regulator of South Africa (Nersa)
- the National Nuclear Regulator (NNR)
- the Department of Water Affairs and Forestry and
- the Department of Environmental Affairs and Tourism and the chief air pollution control officer (Capco)

These independent regulators protect the public interest and regulate Eskom's activities to ensure effective environmental protection. This is achieved, among others, through the issuing of environmental authorisations for our infrastructure projects, permits and licences for releases of particulate emissions and for water usage.

South Africa is a signatory to the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol. South Africa is classified as a developing country and thus has no obligations to reduce greenhouse gas emissions. However, there is an in-country commitment that supports the approach that South Africa must contribute to global efforts to combat climate change while ensuring the sustainability of our economy, society and environment. Eskom is fully supportive of this approach and has itself been active in the climate change arena since the early 1990s.

South Africa is a semi-arid country where water resources are scarce and in most catchments water is allocated to existing users. South Africa is a net importer of water and this trend will continue in future as South Africa is expected to contract with Lesotho for further water supply by 2021. Power generation is a large consumer of water and accounts for about 2% of water used in South Africa.

Water and electricity, and the secure and sustainable supply thereof, are vital for growth and development in the country. Eskom and the country need prudent long-term investments in water infrastructure to support growth and development. The cost of water in the future will be significantly higher as the water is sourced further away from the demand centres.

Refer to www.eskom.co.za/annreport09/002.html for more detail on the environment and climate change.

A Rotran multi-axle truck transports a massive transformer to one of the power stations

Business and sustainability performance review

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Empowering schools around Ingula

Bester Junior Secondary School is located in Braamhoek along the main access road that leads to the Ingula pumped-storage construction site. The school caters for 138 learners and has four educators. It was established in 1994 using prefabricated buildings for four classrooms. One additional classroom was built by the school principal using her private funds.

The existing classrooms are no longer up to standard. This has led to some parents opting to let their children attend a neighbouring school, some 15km away. The Eskom Development Foundation has granted R762 000 for three additional classrooms, a storeroom and kitchen, painting and service connection, school desks, domestic science equipment, laboratory chairs, staffroom tables and computers with appropriate software.

The Zaaifontein Primary School is also situated near Ingula. Eskom Distribution has been assigned to electrify the school.

The school caters for children from different backgrounds starting from reception-year to grade seven. There are 165 learners and two educators; all using the only three available classrooms. Most of the parents are farm workers and others are unemployed. Some learners travel as far as 20km to reach the school.

The Eskom Development Foundation approved a grant of R724 000 for the construction of three additional classrooms, the provision of roofing and painting of rooms, as well as an electricity service connection, six toilets and a septic tank. The learners have also been given reflective vests to make them more visible as they walk to school.

Business and sustainability performance review

Eskom has integrated sustainable development issues into decision-making for many years. Given that our sector is long term in nature and that many decisions have implications for decades, it is vital that we take robust and responsible decisions.

Sustainability

Sustainability at Eskom refers to *providing affordable energy and related services through the integration and consideration of economic development, environmental quality and social equity into business practices in order to continually improve performance and underpin development.* This allows us to take a long-term view and ensure that the scope of our work covers all relevant elements, assesses the practicality of implementation and includes issues such as technology development and deployment, quality, risk, safety and skills development.

Eskom has integrated sustainable development into decision-making for many years. Given that our business is long term in nature and that many decisions have implications for decades, it is vital that we take robust, responsible decisions well in advance.

In order to ensure the relevance of our sustainability strategy, workshops were held with the Exco sustainability and safety subcommittee and board sustainability committee during the first quarter of 2009. These were aimed at reviewing recent developments, both locally and internationally, initiating a review of sustainable development in Eskom, related strategies and addressing focus areas into the future.

While the existing sustainability strategy (2004) is still valid, these principles have been revised to ensure alignment with our long-term strategic business priorities[1] and support of our reframing principles[2], while addressing short-term priorities.

Sustainability performance

Our sustainability performance index was developed in 2002 to provide an overarching view of our long-term sustainability status, through the use of appropriate indicators drawn from different indices within the business. The index addresses economic (including financial), environmental, social and technical aspects of the organisation and provides a score from a holistic perspective, and is used to determine our long-term sustainability status.

The index has 20 indicators and each indicator is allocated a relative weighting. Each indicator is further modified with regard to the relative contribution of each of the four areas of economic, environmental, technical and social aspects to that indicator. The overall performance is considered sustainable if the score is equal to or greater than three on a five-point scale.

Our overall performance was 2,5 (2008: 2,5) for the reporting period (April 2008 to March 2009), with sector scores as follows:

- technical 2,4 (2008: 2,5)
- economic 2,4 (2008: 2,5)
- environmental 2,2 (2008: 2,2)
- social 2,8 (2008: 2,6)

1. *Continuity of supply; new build; climate change; financial sustainability; public confidence; EDI restructuring.*
2. *Provide electricity to all South Africans; supporting other industries; driving transformation; creating jobs and new industries; providing a reliable electricity infrastructure. This to form a united, democratic and prosperous South Africa; eradicate poverty and unemployment; create a thriving economy connected to the world and integrated with the broader African continent; a sustainable economy, not harmful to the environment and committed to climate change mitigation initiatives; enhancing the potential of each citizen through an integrated education and skill development system; and leveraging the role of state-owned enterprises to set a foundation for growth and development of the economy.*

After three years of decline, this year saw the stabilisation of sustainability performance. The performance was the result of the low electricity reserve margin, the declining operating income before tax and the unacceptable safety performance in terms of our goal for excellence. Other areas under pressure were the increased interest charge due to funding the build programme and the declining return on capital employed, as well as contraventions of environmental legislation. Areas that performed well included the reduction in electricity demand through demand-side management, race, gender and disability equity, and black economic empowerment.

Going forward, we plan to reassess the index as part of the review of our overall sustainability strategy. The outcome of the revision is to provide an overall view of our long-term sustainability position.

Integrated risk management

Eskom values the importance and benefits of having a comprehensive, fully integrated risk management (IRM) programme. Our programme manages risks on an enterprise-wide basis. The Eskom IRM programme strives to comply with best practices, as outlined in the King II and the Department of Public Enterprises risk management framework.

Following an internal assessment in 2008, our IRM programme has been fully reviewed. As a result, a new policy and standard are being adopted to ensure continual improvement and alignment with international best practice. A software enabler is being rolled out at all levels of the organisation to enable effective risk management across Eskom.

The board acknowledges its overall accountability for ensuring an effective results-driven, IRM process. Exco has implemented a risk control system to enable management to respond appropriately to significant risks that could impact negatively or positively on business objectives.

An Eskom worker connects a new line as part of an electrification project

Performance review continued

Risk reviews are conducted with input from divisional and functional areas. Risks identified are ranked by divisions and subsidiaries, reviewed, and then assessed by Exco, the risk management committee, and the board to determine the major operational, strategic and business continuity risks. The ratings of the risks are finalised after considering the mitigation plans, and executive accountability is assigned for each of the risks.

Integrated risk profile

Eskom reports on operational, strategic, and business continuity risks as part of the Eskom Holdings risk profile. Safety, climate change, leadership, ethics and attention to detail are focus areas inherent in all risk mitigation actions and impact across all risks and treatment plans.

Operational risks

Within the global and national risk context, Eskom's focus is on the treatment of the following identified major operational risks:

Significant focus is placed on Eskom's financial position in relation to the global economic slowdown in terms of our credit rating, availability of funds and the cost of capital. Mitigation plans centre on effective short-, medium-, and long-term financial planning and the establishment of effective partnerships with all stakeholders.

Completing the capital expansion programme within the required cost, time, and specifications. Risk treatment plans in this regard focus on managing the competition for resources, the capacity/capability of suppliers and ensuring the availability of required skills. This includes changes in the skills set required due to the introduction of new or different technologies (including nuclear and renewables such as solar and wind).

From a primary energy perspective, managing the availability and reliability of supply and the management of cost is central to the risk mitigation plans. Also critical is the long-term coal supply strategy to ensure alignment with all the changing coal and electricity supply industry dynamics. This includes an analysis of the relevant power station and coalmine life extension programmes.

The building of new assets and the management of integration across all business performance areas are key elements in ensuring continuity of supply of the existing generation, transmission, and distribution assets. This includes enhanced maintenance management, increased awareness of potential areas of system constraints and business continuity and emergency planning.

Eskom is committed to the 2010 FIFA World Cup South Africa™ regarding short-term security of supply. This links with the improved co-ordination and integration of power system processes and support systems and Eskom's improved ability (resilience programme) to respond to system failure.

The final risk treatment focus area is improving Eskom's active participation in public and stakeholder management, as well as continual shareholder engagement, to ensure alignment of Eskom priorities to the achievement of the shareholder's national goals.

Strategic risks

In the Eskom context, a strategic risk is a significant unexpected or unpredictable change or outcome beyond what was factored into the organisation's strategy and business model and which could impact the group's performance.

The strategic risks monitored and managed by the board and Exco are climate change, skills availability, primary energy, financial sustainability and the policy environment.

Business continuity risks

Business continuity management (BCM) addresses business process continuity, recovery, and restoration following business interruption and disasters. BCM risks are those events that could influence the continuity of Eskom.

All divisions and subsidiaries develop, implement, maintain and review appropriate business continuity plans for all the areas of their business.

Johnny Dladla, managing director for the 2010 Special Project, launches the internal campaign to mobilise Eskom staff around the event

Performance review continued

Performance in terms of the shareholder compact

This is an overview of business performance against the shareholder compact key performance indicators. Refer to page 216 for more detailed information on the shareholder compact.

Key performance area	Key performance indicator	Unit of measure	Target 2009	Actual 2009	Actual 2008	Comment on 2009 performance
Capital and financial efficiency	Return on average capital employed (ROACE)[1]	Budget (%)	≥2,7	2,0	5,4	Not achieved
	Earnings before interest and tax margin (EBIT)	Budget (%)	≥1,9	(3,7)	9,2	Not achieved
Capital expansion (infrastructure and capital expenditure)	Generation capital expenditure	Budget (Rm)	≥25 140	25 984	11 004	Exceeded
	Transmission capital expenditure	Budget (Rm)	≥2 832	4 451	2 394	Exceeded
	Generation technical plan expenditure (investment in existing infrastructure)	Budget (Rm)	≥4 761	4 543	3 461	Not achieved
	Distribution capital expenditure	Budget (Rm)	≥6 061	5 825	3 886	Not achieved
	Generation capacity installed and commissioned	Plan (MW)	≥1 357	1 770[RA]	1 061	Exceeded
	Transmission lines installed	Plan (km)	≥378	418[RA]	246	Exceeded
	Transmission MVA installed	Plan (MVA)	≥815	1 255[RA]	1 295	Exceeded
Operating efficiency	Major incidents (transmission system minutes lost)	Plan (system minutes)				Not achieved
	– severity degree-one (≥1, but less than 10 minutes)		≤1	3[RA]	5	
	– severity degree-two (≥10, but less than 100 minutes)		0	0[RA]	0	
	– severity degree-three (≥100 minutes)		0	1[RA]	1	
	Transmission system minutes lost (<1)	Plan (system minutes)	≤3,40	4,21[RA]	3,56	Not achieved
	Generation unplanned capacity loss factor (UCLF)	Plan (%)	≤5,00	4,38[RA]	5,13	Achieved
	Distribution system average interruption duration index (SAIDI)	Plan (hours per annum)	≤42,5	51,51[RA,2]	73,70	Not achieved
	Distribution system average interruption frequency index (SAIFI)	Plan (number per annum)	≤21,7	24,16[RA,2]	33,72	Not achieved
Socio-economic	Eskom trainees/bursars (learner pipeline)	Target (number)	≥4 400	5 907	5 368	Exceeded
	Number of engineering trainees/apprentices (part of learner pipeline above)	Target (number)	≥3 400	3 535	4 563[3]	Exceeded

1. *DPE formula for ROACE: Economic operating profit (after depreciation, tax and working capital charge)/average capital employed (equity plus non-current liabilities – exclude finance lease and embedded derivatives).*
2. *If load shedding is included, SAIDI and SAIFI would have achieved 65,47 and 30,40, respectively.*
3. *Estimated figure. Detailed split of engineering students not available in 2008.*

RA *Reasonable Assurance provided by the independent assurance provider (refer page 101).*

- **Capital and financial efficiency**

  The ROACE and EBIT margin targets were not achieved. The ratios were negatively impacted by the following:
  - there was a significant increase in the cost of primary energy (mainly cost of coal) of 38% while electricity revenue in total increased by only 22%
  - Eskom received a revised electricity price increase of 27,5% (on average) against a requested increase of 60% for the financial year
  - the electricity sales growth for the year decreased by 4,2%

- **Capital expansion (infrastructure and capital expenditure)**
  - in total, Eskom spent R2 009 million more on capital than targeted in the shareholder compact. This includes the R236 million underspent by distribution (3,9% of target), due to a capital project re-prioritisation process implemented during the year
  - the generation technical plan expenditure was underspent by R218 million (4,5%). With the focus on improving technical performance, more funds were requested for maintenance costs. As a result some capital projects in the technical plan were deferred to the next financial year so that cash was freed up to fund additional maintenance

- **Operating efficiency and effectiveness**
  - equipment failure contributed significantly to the three *"degree-one"* incidents on the transmission network. Various preventive and corrective actions have been identified in order to address the poor interruption performance. The one *"degree-three"* incident was the result of load shedding
  - performance for SAIDI and SAIFI has improved since the previous year. Business plan targets have not been achieved because of the slower than anticipated benefit realisation for Distribution's network performance improvement initiatives as well as an increase in unplanned interruptions. The impact of planned interruptions was reduced due to better outage coordination and increased utilisation of live line techniques

Construction of the two dams at Ingula pumped-storage scheme is progressing well

Performance review continued

Financial review

Financial performance overview

Performance of Eskom and its subsidiaries

The operating loss for the year for the Eskom group, before the impact of embedded derivatives and net finance costs, was R3 195 million (2008: profit of R3 215 million) and for the company a loss of R4 257 million (2008: profit of R3 132 million) after taking into account the following:

- a dividend of R30 million (2008: R800 million) from Gallium Limited is included in the net profit for Eskom (but eliminated for the group)
- the amount spent on primary energy (mainly the cost of coal) increased from R18 314 million in 2008 to R25 351 million in 2009. The cost of primary energy as a percentage of electricity revenue increased from 42,0% in 2008 to 47,8% in 2009. This was despite the fact that the more expensive use of open-cycle gas turbines was minimal in 2009
- the amount of borrowing cost capitalised increased from R727 million to R3 436 million. This is due to the significant increase in the amount spent on property, plant and equipment as well as more capital expenditure financed by borrowings

The loss for the year for the Eskom group was R9 708 million (2008: R168 million) after taking into account the fair value loss on embedded derivatives of R9 514 million (2008: R1 680 million).

The loss for the year for the company was R10 177 million (2008: profit of R191 million) after taking into account the fair value loss on embedded derivatives of R9 506 million (2008: R1 686 million).

Compared to the previous year, the sale of electricity decreased by 4,2% (2008: increase of 2,9%). Producers of ferrochrome and steel switched off their furnaces for part of the year as a result of weak commodity prices and low demand.

The debt equity ratio (including long-term provisions) weakened from 0,40 to 1,22 at the end of the financial year.

Highlights

- the group BEE spend was R35 209 million compared with a target of R24 146 million, R9 762 million more than the previous year
- strategic sourcing savings of R4,7 billion were achieved against the annual target of R3,5 billion. Cumulatively, the five-year target of R7,8 billion ending 31 March 2010 has already been exceeded by R800 million
- the group capital expenditure (including interest capitalised) of R47 099 million for the year was significantly higher than the R24 985 million in the previous year

Lowlights

- the impairment provision for trade and other receivables increased from R1 877 million in 2008 to R2 883 million
- primary energy costs again increased significantly during the year from R18 314 million to R25 351 million
- the latest Moody's rating puts Eskom one notch below the South African government. On 10 June 2009 FitchRatings upgraded the Eskom National long-term (ZAF) rating from negative to stable
- the revised price increase of 27,5% for 2008/9, announced by Nersa in June 2008, was lower than the 60% requested by Eskom
- the return on assets for the year was (0,84%) compared to 2,97% last year

Capital expenditure (including interest capitalised)

Description	2009 Rm	2008 Rm
Generation division	**31 824**	15 239
New capacity	**27 015**	11 004
Technical plan projects	**4 515**	3 939
Asset purchase and other	**294**	296
Transmission division	**6 465**	3 553
New strengthening projects	**5 724**	3 027
Land and rights	**70**	87
Production equipment	**76**	44
Capital spares	**523**	346
Asset purchase and other	**72**	49
Distribution division	**6 446**	5 605
Direct customers	**1 848**	1 771
Strengthening	**1 859**	1 589
Refurbishment	**859**	617
Electrification	**861**	904
Continuing improvement	**272**	117
Asset purchase and other	**747**	607
Systems operation and planning division	**36**	–
Enterprises division	**1 346**	–
Other	**466**	58
Subsidiaries	**516**	530
Total	**47 099**	24 985

Performance review continued

Income statement

Group business performance for the year ended 31 March 2009[1]

	Eskom Holdings Rm	Eskom Enterprises Rm	Escap Rm	Inter-company Rm	Group Rm
2009					
Revenue	**53 090**	**8 271**	**696**	**(8 231)**	**53 826**
Other income	1 422	95	41	(972)	586
Net fair value loss on other derivatives	(2 281)	(8)	(89)	8	(2 370)
Operating expenditure	(56 488)	(7 856)	(892)	9 999	(55 237)
Operating (loss)/gain before fair value loss on embedded derivatives	**(4 257)**	**502**	**(244)**	**804**	**(3 195)**
Net fair value loss on embedded derivatives	(9 506)	(8)	–	–	(9 514)
Operating (loss)/profit before net finance cost	**(13 763)**	**494**	**(244)**	**804**	**(12 709)**
Finance income	3 322	254	192	(398)	3 370
Finance expense	(3 912)	(53)	–	281	(3 684)
Share of profit of equity-accounted investees	–	22	–	15	37
(Loss)/profit before tax	**(14 353)**	**717**	**(52)**	**702**	**(12 986)**
Income tax	4 176	(192)	23	(202)	3 805
(Loss)/profit for the year from continuing operations	**(10 177)**	**525**	**(29)**	**500**	**(9 181)**
Discontinued operations	–	(57)	–	(470)	(527)
(Loss)/profit for the year	**(10 177)**	**468**	**(29)**	**30**	**(9 708)**
2008					
Operating profit/(loss) before net finance costs	**1 446**	**388**	**(23)**	**(276)**	**1 535**
Included in above is:					
Net fair value loss on embedded derivatives	(1 686)	10	–	(4)	(1 680)
Profit/(loss) for the year after tax	**191**	**353**	**87**	**(799)**	**(168)**

Other key information – income statement:

	Actual 2009	Actual 2008
Sales		
Eskom electricity sales (GWh)	**214 850**	224 366
Eskom electricity sales (reduction)/growth (GWh %)	**(4,24)**	2,86
Eskom electricity sales growth (Rm %)	**21,77**	10,61

1. *Includes major subsidiaries only.*

Eskom

At the end of March 2009 an amount of R2 767 million (2008: R1 987 million) of the electricity trade debtors was older than 75 days, a substantial portion of which relates to pre-2001 service-level agreements. Refer to the financial statements on page 141 to 143 for further information. Adequate provision has been made for impaired electricity debtors.

Eskom is not in a tax-paying position and the tax credit to the income statement was R4 176 million (2008: R749 million), which is mostly deferred tax. No income tax was payable to the South African Revenue Service during the review period (2008: Rnil).

Embedded derivatives

The impact on the balance sheet and sensitivity to the assumptions is significant. At 31 March 2009, the embedded derivative assets amounted to R1 366 million (2008: R7 696 million) and the embedded derivative liabilities to R8 260 million (2008: R5 084 million). The net impact on the income statement of changes in the fair value of the embedded derivatives of the company is a fair value loss of R9 506 million (2008: R1 686 million) and a fair value loss of R9 514 million (2008: R1 680 million) for the group.

The annual electricity price increase used to value the embedded derivatives was the applicable tariff determined by Nersa on 25 June 2009 for the 2010 financial year, 25% plus CPI for the next two years and CPI thereafter. A sensitivity analysis for the embedded derivatives appears in note 3 to the annual financial statements which begins on page 147.

The fair value loss of R9 506 million in the books of Eskom is mainly due to the following:

- the sharp decrease in the aluminium price at 31 March 2009 compared with 31 March 2008 is the major contributing factor to the loss
- the annual electricity price increase used to value embedded derivatives at 31 March 2008 was 25% for three years, 18% for the fourth year and then CPI plus 2% thereafter. For the valuation at 31 March 2009, the price curve used was 26,18%, 25% real for two years and then CPI thereafter
- the South African interest rate curve was lower on 31 March 2009 in comparison to 31 March 2008

Revenue and credit management

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

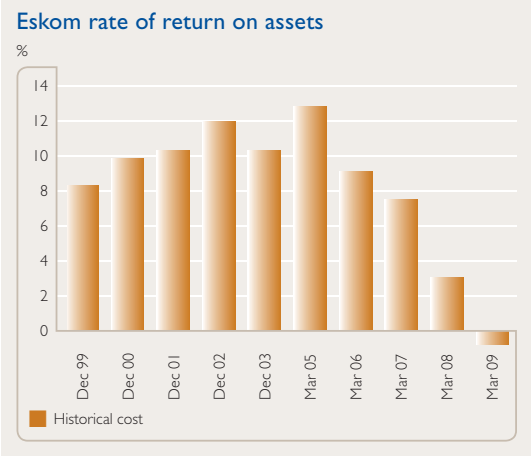
This is covered in detail in note 3 to the financial statements (refer to page 135).

Valuation of assets and impairments

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

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.

Performance review continued



Subsidiaries

Eskom Enterprises (Pty) Limited group

Turnover for the year was R8 271 million (2008: R5 456 million). Profit before tax amounted to R717 million (2008: R515 million), and net profit from continuing operations was R525 million (2008: R366 million), after taxation of R192 million (2008: R149 million). The loss from discontinued operations amounted to R57 million (2008: R13 million), resulting in profit for the year of R468 million (2008: R353 million). Of this, R431 million (2008: R311 million) is attributable to the equity holder of the company, and a profit of R37 million (2008: R42 million) is attributable to minorities.

Disposal of non-core businesses

As reported in the prior year, Eskom Enterprises is in the process of disposing of a number of non-core businesses, and to this end a number of investments were classified as held-for-sale at the 2008 year end. During the current financial year, the group disposed of TAS, a division of Roshcon (Pty) Limited, the investments in Ash Resources (Pty) Limited, Clinker Supplies (Pty) Limited, Lunsemfwa Hydro Power Company (based in Zambia) and the indirect interest in Neotel (Pty) Limited, as well as the assets of Airborne Laser Solutions (Pty) Limited and those of Enerweb, a division of Eskom Enterprises.

Disposal of arivia.kom

As reported previously, Eskom Enterprises and Transnet Limited, the other shareholder, are in the process of disposing of their investment in arivia.kom. The preferred bidder has been selected, and the negotiation of the outsourcing agreement is in progress. The conclusion of the latter is expected to be a condition in the sale agreement, and as a result, it is expected that the sale will be effective before the end of the 2010 financial year. Based on information available to date, an impairment loss of R195 million has been recognised on the investment, which is classified as assets held-for-sale.

Escap Limited and Gallium Insurance Company Limited

Eskom's captive insurance subsidiary companies, Escap and Gallium, continue to provide a full range of customised short-term insurance products to the Eskom group.

Escap's underwriting loss for the year is R95 million (2008: R55 million), largely as a result of an increase in claims. Escap showed a net loss after tax of R29 million (2008: net profit R87 million), reflecting the effect of investment returns that have been influenced by negative South African equity markets in the current year.

The need for Gallium, as our offshore captive insurance company, has been reviewed in terms of our risk financing strategy and is no longer required. Our onshore captive, Escap, is able to cater for the organisation's self insurance needs and therefore Gallium is to be liquidated during the 2010 financial year.

Gallium's underwriting profit for the year is R3 million (2008: R10 million), with a net profit of R22 million (2008: R63 million).

Eskom Finance Company Limited

The core business of the Eskom Finance Company is the granting of employee home loans. Some R1,95 billion (75%) of the mortgage book of Eskom Finance Company

has been securitised (2008: R1,95 billion representing 85%). The reason for the decline in percentage is a growth in the mortgage book by R0,3 billion. The planned disposal of this company is expected to be finalised in the 2010 financial year.

Stakeholder engagement

Consistent and open communication is key to gaining and maintaining financial market confidence. During these turbulent market conditions, stronger ties with the providers of finance are critical. A deliberate and planned communications programme assists in creating a stable and long-term supportive investor and lender base.

A solid investment grade rating is also essential to finance the ongoing capital expenditure programme so as to deliver the investment in electricity that South Africa requires.

The evolving nature of the capital markets means that Eskom has to aggressively promote and sell its bonds to fund the build programme. Investors are becoming increasingly sophisticated; Eskom's challenge is to define and convey a clear, differentiated investment case that overrides short-term market concerns and focuses on the long-term nature of its business.

Eskom faces new and different challenges in managing relationships with the market. Our primary objective is to continue to build market confidence in our business and in our strategy.

Achieving the requested price increases

Eskom applied for an interim price increase of 34% for 2009/10.

On 25 June 2009, Nersa approved an average price increase of 31,3% for Eskom for the nine months from 1 July 2009 to 31 March 2010. Included in the 31,3% increase is the 2c/kWh environmental levy payable to government (levied on the sale of electricity generated from non-renewable sources) which must be recovered by Eskom within the price increase. Adjusting for the levy, Eskom will receive a net price increase of 24,08% on average.

The approved price increase from Nersa includes a limit of 15% for poor customers of both Eskom and municipalities. Refer to Impact on the poor below.

The second multi-year price determination (MYPD 2) application will be made based on the current Nersa rules and the Electricity Pricing Policy[1]. At the same time Eskom will in conjunction with stakeholders develop an appropriate funding model that addresses the funding requirements for the building of new infrastructure.

Refer to www.eskom.co.za/annreport09/003.html for more information regarding the average price adjustment for the last 15 years.

Refer to www.eskom.co.za/annreport09/004.html for more information regarding the approved five-year capital expenditure forecast.

Impact on the poor

Eskom recognises that increases in electricity tariffs will impact the poor and that mechanisms must be developed to address affordability. When addressing affordability of electricity tariffs we need to balance practical, economic and financial realities and at the same time ensure that the tariffs are transparent and easy to implement. Consideration should also be given to the impact on subsidy contributors. If subsidies become too large, subsidising tariffs may also become unaffordable thereby eroding the subsidy base.

In the 2008 request for a rule change of the MYPD 1, Eskom recommended that one method to soften the impact of higher price increases was to apply lower price increases to the Homelight tariff. Nersa, in its July 2008 decision, determined that the increase for the Homelight

1. *Policy position 1 of "The South African Electricity Supply Industry: Electricity Pricing Policy GN1398 of 19 December 2008".*

Performance review continued

customers was to be limited to the 14,2% already implemented by Eskom in April 2008. The lower price increase for the Homelight tariff was subsidised by all non-municipal tariffs through a slightly higher increase of 2% to these tariffs. The 2009 approved 31,3% Nersa price increase includes a limit of 15% for poor customers of both Eskom and municipalities (the Homelight 1 and 2 tariffs). The lower price increase for the Homelight tariff will be subsidised by other users through a slightly higher increase. This is seen by Nersa as an interim measure until the implementation of inclining block rate tariffs for the protection of the poor in the MYPD 2. Refer to page 42 for detail of the government-sponsored free basic electricity programme whereby qualifying customers are eligible for 50kWh of free electricity every month.

Tariff restructuring

The price of any product influences the way in which customers use the product. Our electricity tariffs are therefore designed to send out signals that resemble the cost to supply the electricity. With this approach, customers are guided through price signals to use electricity in an economic and efficient way. Our tariffs are designed to support both energy and capacity efficiency. Energy efficiency is supported through energy rates that are time-of-day and seasonally differentiated while cost-reflective network charges ensure that the networks are used in an optimal way as customers pay for what they use and for what they reserve on the network for their own requirements.

The tariffs are designed to be as non-discriminatory as possible by taking into account the needs of all customers on a fair and equitable basis. Our tariff options are based on consumers' demand sizes, with charges differentiated in terms of location and voltage for the larger supplies.

Refer to www.eskom.co.za/annreport09/005.html for more information regarding tariff restructuring.

Capital and funding strategies

As with any significant capital expansion plan, Eskom must access all available forms of capital ie shareholder equity, borrowings and retained earnings (from tariffs) in order to balance the timing and amount of contributions. It goes without saying that, within the current international financial crisis, companies first look internally for all available efficiencies and prioritise spending. Balanced access to these sources is intended to ensure Eskom maintains an investment-grade credit rating while delivering cost efficient additional capacity.

As a foundation for the funding programme the shareholder has already committed R60 billion in the form of an equity-like loan (of which R10 billion has been received) as well as a R176 billion guarantee facility (R150 billion not yet used). Debt capital markets continue to be constrained and Eskom has prioritised funding sources that are appropriate for the long-term nature of the assets under construction, as well as to provide some cash-flow relief during the long construction period of power stations. The next critical step is to consult on the tariff path and the residual cash requirement via the broader industry funding model.

We estimate a comfortable funding ability, excluding the shareholder loan, of around R30 billion (net) per annum (R150 billion over a five-year period), with a sourcing profile of 60% from international funding and 40% from local funding. This amount remains dependent on Eskom maintaining an investment-grade credit rating.

Funding sources

The funding strategy recognises a number of funding sources: domestic and international markets, long- and short-term tenor, commercial loans and developmental financing aid. The domestic market, for both money and capital market instruments, continues to show its commitment to assist the capital expansion programme. This has been evident in the rolling of investments in the short-term money market commercial paper programme, as well as continued support for Eskom bonds at the regular bond auctions.

On the international front, Eskom expects export credit agency-backed financing to remain accessible and to play, together with development financing institutions, a key

role in the financing of the build programme which we are pursuing in conjunction with our shareholder.

Refer to www.eskom.co.za/annreport09/006.html for information regarding capital funding strategies, restructuring and changes to credit rating outlook.

Procurement and supply chain

The objective of procurement and supply chain management is to secure supply while balancing the competing objectives of lowering the total cost of ownership and ensuring the quality, timing and safety of our purchases, at the same time meeting Eskom's AsgiSA objectives. These include broad-based black economic empowerment (BBBEE) targets and the initiation of competitive supplier development programmes. (Refer to page 43 for the AsgiSA objectives.)

Strategic sourcing strategy

The year saw a consolidation of our strategic sourcing methodology (7 x 7 sourcing matrix) which is built on the framework of a detailed fact base prior to commencing negotiations with third parties.

The procurement and supply chain team responded with actual savings for the year from strategic sourcing initiatives amounting to R4,7 billion against the annual target of R3,5 billion. Cumulatively, the five-year target of R7,8 billion ending 31 March 2010 has already been exceeded by R800 million. The saving target for 2009/10 will be re-established, with renewed focus on bottom-line impacting savings.

Competitive supplier development programme

The competitive supplier development programme (CSDP) aims to contribute towards sustainable local supplier development. The CSDP obligates suppliers with import contracts exceeding $10 million, to invest 30% of the imported contract value within the local power industry and related suppliers. In line with Eskom's CSDP rollout plan submitted to the Department of Public Enterprises, manufacturing facilities have been set up in various tiers of the supplier industries:

- boiler manufacturing and assembly plants have been set up in various locations of the country. To this end a total of R904 million has been contracted for capital investment
- plants have been set up with the original equipment manufacturers for the local manufacture of various cables and conductors

Black economic empowerment (BEE) performance

Eskom's BEE strategy for the past year, and the BBBEE strategy going forward, aims to promote entrepreneurship in black communities and to give black businesses access to business opportunities in the mainstream economy. This is done by developing and empowering these businesses into sustainable contributors of reliable, cost-effective products and/or services for the benefit of Eskom and the broader South Africa. Black women-owned businesses (BWO) will remain the single main focus for development since it has been proven that this classification is not easy to fulfil.

During the last quarter of the 2008/9 financial year Eskom underwent a BBBEE assessment by an independent accredited agency, and as a result Eskom scored 85,01/100 and attained a level 2 BBBEE contributor status. When referenced to the Financial Mail's ranking of listed companies on empowerment, *Top Empowerment Companies 2009* published on 3 April 2009, this would make Eskom the second most empowered company in South Africa.

For the financial year, the BEE target was based on a target of 70% of discretionary spend (with 20% set aside for BWO). Discretionary spend excludes imports, procurement from Eskom group businesses, state departments as well as costs relating to human resources such as salaries and wages. It includes expenditure on coal and demand-side management.

Performance review continued

BEE expenditure

	Target 2009 Rm	Actual 2009 Rm	Actual 2008 Rm
Eskom company			
Total BEE expenditure	**24 146**	**32 025**[RA]	23 492
Black women-owned businesses (included in total BEE expenditure)	**4 829**	**3 535**	3 083
Eskom group			
Total BEE expenditure	**24 146**	**35 209**[RA]	25 447
Black women-owned businesses (included in total BEE expenditure)	**4 829**	**3 743**	3 188

RA *Reasonable Assurance provided by the independent assurance provider (refer page 101).*

Eskom did not achieve its BWO spending targets. This is partly due to the small number of BWO companies in our active sourcing sectors, as well as a reflection of poor supplier performance. As a result, the emphasis has shifted to the focused development of BWOs, which should lead to increased participation. Businesses owned by those with physical disabilities and the youth will also benefit from this focus.

The new financial year will see Eskom fully engaging in the Codes of Good Practice (the Codes) in terms of BBBEE. The Codes, gazetted in February 2007, are a replacement of the narrow-based BEE. The main aim of the Codes is to open more doors for economic emancipation and participation, with sustainability as the core focus. BBBEE suppliers need to be classified according to their level of BBBEE contribution, based on certificates from accredited verification agencies, as required by the Codes. Eskom will no longer conduct its own BEE status assessment of suppliers.

For the new financial year, Eskom will migrate fully to the gazetted Codes of Good Practice.

Refer to www.eskom.co.za/annreport09/007.html for more information regarding the methodology used in assessing BEE companies for the 2008/09 financial year.

Information technology (IT)

Eskom ensured the availability and reliability of all business systems that supported our critical business processes. At the same time we focused on maximising the business value from current systems and IT investments.

To promote continual improvement and quality assurance, Eskom adopted and implemented ISO 9000. This is closely aligned to our business continuity role of ensuring the uninterrupted provision of innovative and cost-efficient IT services.

In alignment with government's position around non-core assets, we have set in motion a process to sell arivia.kom (our IT service provider) to an IT partner with a proven best-practice technology strategy. This is to ensure that we continue to derive and deliver world-class performance and to increase business efficiencies and improve operations.

Eskom is investigating a "Green IT" strategy, whereby the correct implementation will increase effective energy utilisation and reduce carbon emissions related to IT practices and technologies. This strategy, when implemented, will be a key factor in all IT-related decision-making into the future.

Productivity performance

Information on productivity performance provides key insight into the business performance by analysing the dynamics of change in revenue and expenses between two accounting periods expressed in terms of the impact of productivity, inflation (price recovery) and growth. It highlights the change in use of resources, benefits to customers and other stakeholders as well as growth in the business.

Price recovery is the difference between the price increases passed on to customers and the inflationary impact on the cost of resources to Eskom. Short-term price over-recovery may be a buffer against declining sales, while an under-recovery may be a catalyst for engendering business growth strategy.

Productivity and price recovery

The business recorded an overall productivity gain of 0,9% or R491 million due to high primary energy and capital productivity gains, while other operating expenses show a productivity loss.

- the volume of primary energy used by the business during the current financial year decreased compared to the previous year
- the weighted sales declined by 3,6% (the absolute sales decline is 4,2%) due to the economic slowdown and the response to the power conservation programme
- the actual weighted resource quantities have over the same period decreased by 4,5%
- the price over-recovery of 0,5% or R298 million resulted from an effective weighted tariff increase of 26,4%, which was slightly above the 25,8% resources inflation to which Eskom was subjected. The attained weighted tariff increase is still lower than the Nersa approved increase of 27,5%. The 10-year long-term price under-recovery is still R10,08 billion against a productivity gain of R1,61 billion (in 2009 rand)

Overall productivity performance for the year:

	2009 Rm	2008 Rm
Net loss before tax	**(14 353)**	(558)
Net (loss)/profit before tax for the previous period	**(558)**	8 437
Change in net loss before tax	**(13 795)**	(8 995)
Adjustments not impacting on performance[1]	**14 334**	4 573
Change in adjusted net loss before tax	**539**	(4 422)
This is attributable to:		
Net productivity increase/ (decline)	**491**	(4 060)
Price over/(under) recovery	**298**	(731)
Growth	**(250)**	369
Total	**539**	(4 422)

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

Contribution to productivity performances	2009 Rm	2009 %	2008 Rm	2008 %
Total productivity	**491**	**0,9**	(4 060)	(9,0)
Primary energy (including electricity purchases)	**2 800**	**11,6**	(2 781)	(14,7)
Manpower	**(1 868)**	**(16,2)**	(284)	(3,1)
Other operating expenses	**(3 487)**	**(24,9)**	(309)	(3,3)
Capital	**3 046**	**64,9**	(686)	(8,5)
Total productivity	**491**	**0,9**	(4 060)	(9,0)
Capacity utilisation	**(1 027)**	**(1,9)**	715	1,5
Efficiency	**1 518**	**2,8**	(4 775)	(10,5)

- primary energy costs rose by 32%, while its consumption went down by 13,6% resulting in a productivity gain of R2 800 million (11,6%)
- manpower reflects a R1 868 million productivity decline due to quantity increase of 14,9% against sales decline of 3,6%
- the necessary increases in maintenance shows a productivity decline of R3 487 million (24,9%) reflective of the strain the business is under
- capital (depreciation; interest and finance charges) reflects a productivity gain of R3 046 million, owing to higher current capitalisation of R3 400 million against R727 million of the previous year on the build programme
- efficiency gain of R1 518 million was countered by capacity utilisation decline of R1 027 million in response to the economic slowdown

Refer to www.eskom.co.za/annreport09/008.html for more information regarding productivity performance.

1. *Fair value gains/losses on financial instruments, insurance proceeds, depreciation restatement in compliance with IFRS and other adjustments are specifically excluded, because they do not have an impact on productivity.*

Performance review continued

Contribution to society

In support of government initiatives

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 per month.

Refer to page 37 regarding the impact of electricity tariffs on the poor.

Refer to www.eskom.co.za/annreport09/009.html for more information regarding free basic electricity.

Electrification

The Department of Minerals and Energy (DME) began funding the Integrated National Electrification Programme (INEP) in April 2001. Eskom implements the programme in its licensed areas of supply on the DME's behalf.[1] Operating costs relating to this electrification programme are incurred by Eskom as the licensed distributor supplying electricity to its consumers.

Since the inception of the electrification programme in 1991, a total of 3 751 153 (2008: 3 638 188) homes have been electrified.

Funding is currently made available for new connection and infrastructure development projects that are part of the INEP going forward. We expect that 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 improve the quality and reliability of the electricity supply in these areas.

Government aims to achieve universal access to electricity by 2014. Meeting the future universal access programme requirements is dependent on the availability of funding from DME via the INEP. Eskom will continue to engage with DME and other key stakeholders regarding the planning, funding and other requirements needed to achieve universal access.

Electrification programme

	Unit of measure	Target 2009	Actual 2009	Actual 2008
Total connections	number	107 495	112 965	168 538
Direct connections, excluding farm workers	number	106 755	111 903	167 164
Farm worker connections	number	740	1 062	1 374
Total capital investment	Rm	874	798	1 022
Reticulation and connections	Rm	753	682	910
Sub-transmission infrastructure development	Rm	118	113	108
Farm worker connections incentives paid	Rm	3	3	4

1. *Electrification within the licensed areas of supply of a municipality is carried out by that municipality.*

Electrification of grid schools and clinics

	Target 2009 Number	Rm	Actual 2009 Number	Rm	Actual 2008 Number	Rm
Total connections/capital investment	633	123	494	102	751	88

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.

Black economic empowerment

Refer to page 39 for details of Eskom's black economic empowerment programme and its competitive supplier development programme.

Accelerated and shared growth initiative for South Africa

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 most significant contribution to AsgiSA has been through maximising local content in new build, stimulating growth in local industry and jobs, with the emphasis being on SMME, BWO and BBBEE entities. This includes skills training for the youth as part of project delivery.

Refer to www.eskom.co.za/annreport09/010.html for more information regarding the AsgiSA initiative.

Students at the academy receive practical as well as systems training

Academy for contractors

The lack of qualifying SMME and BWO contractors in the market gave rise to a need for contractor development. Consequently, Eskom's Contractor Academy concept was developed and approved on 29 August 2007. The objective of the academy was to equip emerging contractors with sustainable entrepreneurial competencies to successfully compete equitably with other market players. A skills programme including competencies such as building construction, legislative management, leadership and technical skills was registered with, and accredited by, the ESETA.[1]

The first campus of the academy was launched at the Edupark in Polokwane on 14 January 2008 with a group of 38 contractors trained. The group graduated on 24 October 2008. The second intake commenced on 11 May 2009.

Refer to www.eskom.co.za/annreport09/011.html for more information regarding the academy for contractors.

1. *Energy Section Education and Training Authority.*

Performance review continued

Corporate Social investment

Eskom Development Foundation

The Eskom Development Foundation (Foundation) is positioned as a vehicle for Eskom to deliver on its corporate social investment (CSI) objectives, to enhance the quality of life in target communities whilst maximising the strategic impact for Eskom.

The Foundation is a wholly owned subsidiary of, and receives its mandate from, Eskom Holdings Limited (Eskom). It is an association incorporated under section 21 of the Companies Act and is governed by an independent board, complies with the PFMA and the Companies Act and follows good governance principles. The directors are accountable to Eskom through the shareholder compact.

In executing its mandate from Eskom, the Foundation leverages the skills and expertise available in Eskom to provide support to economic and social projects through grants and donations, targeting communities where Eskom implements its new build programme and the communities in which it operates, and in broad terms, supporting the theme of energy.

A total of 239 617 people benefited from the grants and donations during the reporting period (2008: 60 634).

Rural development

Eskom's rural development programme contributes to government's integrated sustainable rural development strategy to address development needs in the rural areas of South Africa. By design, its focus is on the basic needs of the most indigent communities, aimed at closing the gap between the mainstream and the second economy.

The capacity building programme for schools was introduced in January 2008. The programme delivers new infrastructure and electrifies it where possible, as well as food security and adequate institutional arrangements for schools. The programme also assists educators to manage their schools on business principles. An amount of R27 million was spent in 2009 on these programmes.

Refer to www.eskom.co.za/annreport09/012.html for more information regarding rural development.

Summary of corporate social investment

	2009 Number	2009 Rm	2008 Number	2008 Rm
Economic and social development grants, national programmes and flagship projects	46	47,8	64	44,9
Philanthropic and welfare donations, including the Chairman's fund	109	4,7	135	3,9
Total Eskom Development Foundation	155	52,5	199	48,8
Rural development		27,0		21,0
Total donations and grants		79,5[RA]		69,8

Refer to www.eskom.co.za/annreport09/csi/001.html for further information about the Eskom Development Foundation.

RA *Reasonable Assurance provided by the independent assurance provider (refer page 101).*

Securing continuity of supply

System recovery

In April 2008 the country continued to experience supply interruptions as load shedding was implemented to manage an energy shortage. This followed major load shedding in January and February 2008.

The power system had been vulnerable due to an inadequate reserve margin[1]. This was worsened by low coal levels at our power stations. The immediate coal-related problems were poor quality, lower than expected volumes produced by the mines and logistical issues. The unusually heavy rainfall in January and February 2008 made the handling of coal a near impossibility at some of the stations.

In response to this, Eskom initiated the recovery project in January 2008, with a mandate to provide a secure supply of power. A year later the status of the electricity system has changed dramatically. The reserve margin has moved from around 5% in January 2008 to about 14% in January 2009 (including imports). The reason for this is twofold: technical recovery of the Eskom power system and a drop in demand.

In October 2008, having met its mandate, the recovery project was concluded. All processes and procedures developed during the recovery project have since been hardwired back into the business and are being monitored through existing business processes and governance structures. An integrated generation control centre (IGCC) is in the process of being established to ensure continual monitoring and optimisation of generation plant. The national control centre remains responsible for the ultimate power system safety and security.

Refer to www.eskom.co.za/annreport09/013.html for more details of the recovery project.

On the supply side the plan was to keep unplanned load reductions consistently below 2 500MW and increase coal stockpile days at the power stations to a minimum of 20 days by the winter of 2008.

Coal stockpile days for the system were taken from an average of 12 days in January 2008 to 20 system days by winter 2008. The average coal stockpile levels now stand at around 41 days, with every power station having stockpile levels above 20 days. There are still issues with the quality of coal, but collaboration with the collieries has improved dramatically.

The stations vulnerable to rain have stockpiles of about five days of coarse coal treated with chemicals to resist moisture filtering in. This strategy proved successful at most stations in January 2009, with limited coal-related load losses at these sites despite very high rainfall. Unfortunately, at some sites, such as Camden, we require plant modifications and enhancements to reduce load losses due to wet coal. These modifications are subject to capital funding constraints.

The unplanned or forced outage performance improved through the implementation of an integrated recovery strategy across the most vulnerable plant areas. This contributed significantly to Eskom keeping within the target of an average of 2 500MW for partial and full load losses, for the duration of the recovery project and beyond. Following on the success of this approach, many elements initiated through the recovery process have now been introduced into normal business operations and are progressively being applied in other areas of plant performance.

Although the threat of forced outages has receded to an extent, it remains a risk. Some issues, such as boiler tube leak reduction, involve a three- to five-year plan.

1. *A cushion of spare capacity that can be used when planned maintenance is necessary and when the system is impacted by unexpected technical faults that demand unplanned maintenance, such as poor coal quality, sudden peaks in demand, or "acts of God", such as extreme weather conditions. Reserve margin is measured as a percentage of maximum generating capacity.*

Performance review continued

Risks are still prevalent in other areas and new ones are emerging, but capacity issues can now be better managed as a result of the IGCC.

The planning, risk and resilience team was successful in hardwiring the transmission reliability standard into the South African grid code. In addition, the 2008 winter and 2008/9 summer plans were developed and implemented.

The medium-term outlook has been completed, with a seven-year horison, confirming the annual energy and demand gap to be 26TWh and 3 000MW, respectively. This analysis is currently being reviewed in light of the economic downturn. The fuel security and generation adequacy standards are being developed.

The demand-side management (DSM) strategy and five-year plan were developed and approved by Exco and the rollout of 19 million compact fluorescent lamps (CFLs) is on track. Other projects in the strategy and plan are solar water heating, smart metering, etc.

The voluntary phase of the energy conservation scheme, a component of the power conservation programme (PCP), started on 1 July 2008 for 250 of Eskom's large customers. Readiness to rollout the scheme from an Eskom perspective is well under way. The PCP rules to formalise the programme have been submitted to Nersa for approval. The DTI has approved the criteria for new connections for projects above 20MVA.

Load-shedding schedules based on rules, guidelines, systems, value chain processes and principles were developed and implemented for future use when necessary. A process to continually optimise and publish the schedules via our website and print media is in place with key stakeholders. A key challenge is the finalisation of essential and critical loads as there was limited response from customers participating in an analysis to determine these loads.

In terms of public confidence and communication, during the course of the Eskom recovery project of 2008, the Watt campaign was launched with government to create public awareness about the need to save electricity. A campaign to raise awareness and to report progress on the recovery project was taken to Eskom sites in 2008.

Power Alert was initially developed for real-time system status updates on the SABC television channels during the Cape crisis in 2006. This tool was rolled out nationally in 2008 to call for electricity usage reductions, especially during peak periods in line with the actual *tightness* of the system. New emergency communication protocols have been developed and implemented to respond to any emergency on the power system.

The human resources strategy has been re-focused to drive appropriate skills development, morale and process improvement to ensure correct levels of core, critical and scarce skills. Refer to page 92.

Lessons learned during the recovery project

The recovery project has resulted in various lessons learned. Firstly we acknowledge the criticality of security of supply for the country, and the necessity of an appropriate funding plan associated with it. The intensive energy management work done with our 138 largest customers over the past four years on energy management assisted in obtaining immediate support for a call to reduce energy.

The emergency created a *burning platform* to accelerate energy efficiency consciousness and highlighted the importance of security of supply for future economic development. Last year we only achieved a 2% drop in demand as opposed to the call for a 10% saving nationally – this was mainly in the industrial sector. The country has to focus on energy efficiency and demand-side management over the next five years to create the necessary power system buffers in the short term.

The recovery project has shown good results in terms of improved plant performance, energy savings, and organisational and societal resilience. However, it is the beginning of a long road. South Africa needs up to 40 000MW of additional generation capacity by 2025, while meeting financial sustainability and climate change imperatives. While all these initiatives are in progress, load shedding remains a risk. The PCP, DSM and energy efficiency initiatives are critical factors in the medium term to ensure power system security and ultimately to embed a culture of energy saving in South Africa.

Slowdown in demand

We saw a 2% drop in demand from the start of 2008 until September 2008 in response to the call for industry and residential users to reduce their energy consumption. Then the economic downturn manifested, and the steel industry started reducing production, followed by the ferro-alloys sector due to a reduction in global demand.

This has led to a much healthier reserve margin for now. The severity and duration of the current economic downturn are difficult to predict, but there will be a return to previous electricity consumption levels at some point in the future. When industry returns to full production, the country will once again be faced with electricity supply challenges. It is thus critical that all electricity users continue to strive for the 10% saving. The PCP, DSM and energy efficiency initiatives remain critical levers for demand management in the short to medium term, until the new power stations can commence generating electricity.

There are several scenarios that have been modelled, but it is clear that the resultant drop in electricity consumption gives the country and Eskom the opportunity to do the following:

- ensure that the new build programme is implemented successfully and on time to ensure that there is sufficient electricity to support economic growth. It also allows for a debate on the choices for the next baseload power station that is required after 2016
- implement the power conservation programme in a phased manner to ensure that customers have time to adapt to the sector targets and to ensure that energy efficiency is locked into the economy
- in the short term, assist in running generation plant at appropriate load factors, allowing for adequate maintenance and ensuring longer-term sustainable plant performance

When the economy recovers, and the electricity consumption levels return to the levels before the economic slowdown (at least within five years), the power stations currently being built will be required to meet the additional demand.

Managing demand

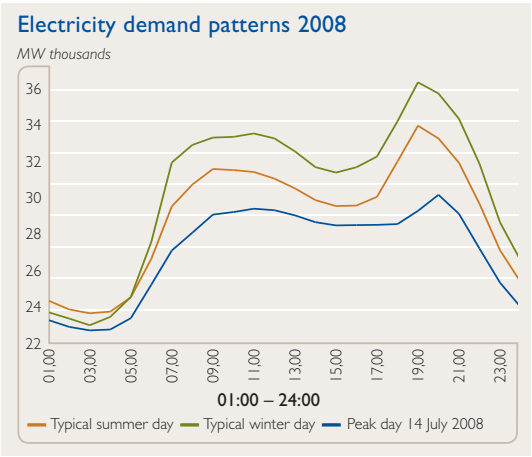
Eskom constantly has the challenge of optimally balancing the supply and demand of electricity, to ensure a reliable supply of energy for all consumers.

In the short term the primary focus is on demand-side initiatives to reduce the demand for electricity.

The peak demand for the year of 36 227MW was set on Monday, 14 July 2008. This is slightly lower than the all-time peak of 37 158MW in 2007.

We are confident that we can address the challenges, but this is only achievable with the support and assistance of all stakeholders. It is important that demand reduction initiatives should be implemented in a transparent manner to fairly share the load and responsibility among all consumers.

Performance review continued



The graph shows the average national hourly electricity demand. The data includes interruption of supply – the generated megawatts plus the demand not supplied to obtain the total national demand. The typical summer day profile consists of data from 1 February 2008 – 15 April 2008 and 1 October 2008 – 15 December 2008. It is relatively "flat" with high air-conditioner load during the day. Morning peak is usually at 12:00 and evening peak at 20:00. The typical winter day profile consists of data from 15 May 2008 – 15 August 2008. This is more "peaky" with high demand in the morning and evening due to heating requirements. Morning peak is usually between 07:00 and 09:00 and evening peak at 19:00.

Demand-side management (DSM)

The constraints on Eskom's energy supply will continue until additional supply-side initiatives become operational in 2012. To manage this constraint, there is a need to remove a certain amount of energy from the system. This can be achieved by co-generation, DSM and a substantial shift in energy saving behaviour. Eskom DSM is working to effect a reduction of 3 000MW by March 2011 and a further 5 000MW by March 2026. This involves the installation of energy-efficient technologies to alter the load and demand profile of Eskom. These technical solutions are seen as hardwiring energy-efficiency measures which ensure a higher level of security of supply in the short to medium term.

The energy efficiency and demand-side management policy from DME guides the implementation of DSM, with energy and demand savings being verified by independent university measurement and verification professionals. Verifiable short-term DSM savings are included in Nersa's multi-year price determination (MYPD) process.

The Power Alert system has been implemented on the national SABC television channels

Load shedding: social impacts

The massive impact of load shedding on all South Africans last year has clearly shown the crucial role of electricity in our society. In an effort to quantify the exact impact and to adapt the load shedding principles, Eskom did intensive research into the social impacts of load shedding.

The research was concluded in Johannesburg and Cape Town among elite, middle class and working class/poor households and interviews were held with members of the Association of Municipal Electricity Undertakers (AMEU).

Refer to www.eskom.co.za/annreport09/014.html for a summary of the findings of the load shedding case study.

The programme within the residential, commercial and industrial sectors has seen an exponential growth in DSM savings, with the programme recently well exceeding its annual targets. The current year saving was 916MW[RA], against the target of 645MW. This has increased the cumulative saving to 1 999MW since the inception of DSM in 2003.

Initially, Eskom DSM focused on realising energy and average demand savings during the evening weekday peak period (18:00 to 20:00) via energy services company projects in the industrial and commercial sectors and hot water load management within municipal environments. With the need to reduce demand, the focus expanded to include mass energy efficient programme rollouts that could be rapidly implemented. These included energy-efficient lighting utilising compact fluorescent lamps (CFLs), solar water heaters and improving the efficiency of electric motors and pumps.

Solar water heater subsidies

Eskom's solar water heating strategy is an initiative that could lead to a reduction in demand of about 530MW on the national grid and a favourable contribution to reducing carbon emissions. At the core of the strategy is a subsidy offered to home owners, aimed at stimulating the uptake of solar water heaters, as it is believed that the high capital costs are limiting the rate of market acceptance of such systems.

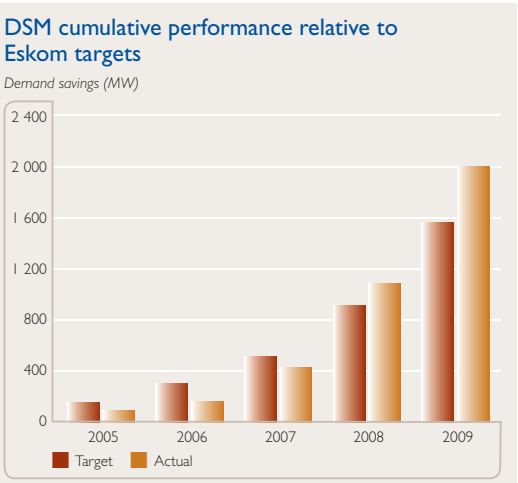
Research will be conducted to examine whether the introduction of *green bonds*, or some other form of widespread climate finance, can be used to reduce the cost of solar water heating to the end user.

RA *Reasonable Assurance provided by the independent assurance provider (refer page 101).*

Performance review continued

Eskom is continuing its efforts to raise public awareness of generation and transmission capacity constraints and encourage energy-saving behaviour through extensive communication campaigns and strengthening relationships with customers, municipalities and the public.

DSM cumulative performance relative to Eskom targets



1. *The figures shown are the verified savings as achieved in the financial year (FY).*
2. *Figures for the 2005 financial year include savings from inception in 2003.*
3. *The 2007 financial year includes 99MW verified during the Cape focus. The savings are deemed sustainable and are therefore tracked and monitored in ongoing reporting.*
4. *2008 financial year includes 67MW for DMP.*

Refer to www.eskom.co.za/annreport09/015.html for more details of our DSM programme.

Power conservation programme (PCP)

The power conservation programme is a government initiative. The key components of PCP include the energy conservation scheme (ECS) to reduce energy consumption by 10% and electricity growth management to manage new electrical connections and consumption growth in line with available supply capacity.

An interim ECS was implemented on 1 July 2008, with the aim of converting into a formal scheme once the regulatory enablers are in place. DME regulations and Nersa rules will support the implementation of pricing signals as a vehicle to promote energy efficiency and investment in generation and thus reduce individual customers' energy consumption.

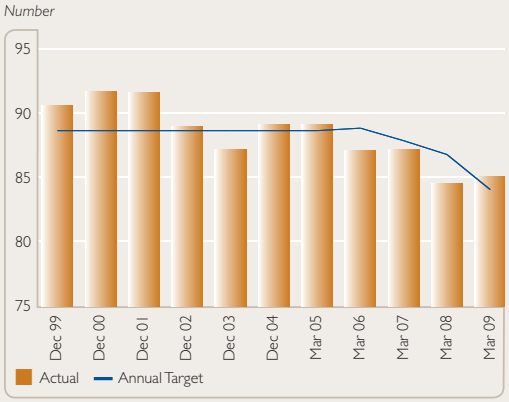
This will be achieved by determining an allocation based on each customer's energy consumption during the period from October 2006 to September 2007. Should customers exceed their monthly energy allocation, excess charges will be levied, which become more punitive the higher the degree to which the allocation is exceeded. It is envisaged that a "phased-in" approach will be taken, considering the current economic downturn and expected recovery.

Internal energy efficiency project

Eskom's billion kilowatt-hour savings project focuses on internal initiatives to reduce energy consumption through education, communication, awareness and technically feasible and economically viable efficiency improvements within the organisation.

- we incorporated energy efficiency criteria into board and Exco investment and procurement committee

Energy availability factor – generating systems



submission guidelines to ensure that the energy efficiency implications of all projects are assessed and considered in decision-making and to determine whether our suppliers are addressing energy efficiency within their businesses
- we compiled a directive aimed at highlighting low-cost energy efficiency interventions that need to be implemented within the organisation
- the power generation sector target as per the National Energy Efficiency Strategy (March 2005) was renegotiated taking into consideration current capacity constraints

Measurement and verification were performed on projects to verify savings at Lethabo power station (lighting), Braamfontein (lighting) and the ERIC building in Rosherville (lighting and air conditioning) and various energy savings initiatives in Eskom buildings in the Northern region. These savings have accumulated to 36 785MWh from inception to date (9 053MWh[RA] for 2009).

Internal savings

The Eskom internal energy savings of 36 785MWh equates to the following:

- running 3 000 high-income households for a year (1 000kWh/month)
- running 6 800 middle-income households for a year (450kWh/month)
- powering 61 000 basic electricity allowance households for a year (50kWh/month)
- powering 1 000 incandescent light bulbs (60W each) for about 70 years
- continually powering 1 000 geysers (3kW) for 1,4 years (geysers do not work all the time – only when water needs to be heated)

Refer to www.eskom.co.za/annreport09/016.html for more details of our internal energy efficiency programme.

All the head office escalators were switched off to conserve energy

Head office savings

In November 2007, further measures to reduce energy consumption were implemented at Megawatt Park, the Eskom head office. The aim was to achieve at least a 10% saving.

Over the seven-month period to May 2008, a total estimated saving of 2 831 271kWh was achieved compared to the corresponding period in the previous year. This is a saving of 14,7%. The total money saved was R501 780. Very little money was spent to achieve this saving. The lessons learned from this exercise are easily replicable throughout Eskom buildings.

Refer to www.eskom.co.za/annreport09/017.html for more details of our head office savings case study.

RA *Reasonable Assurance provided by the independent assurance provider (refer page 101).*

Performance review continued

Powering the 2010 FIFA World Cup South Africa™

The staging of the FIFA World Cup in 2010 is a momentous event in the history of South Africa. It will provide a platform for the country to showcase its diversity, culture, and world-class infrastructural capability to a global audience. Staged successfully, it should provide the nation with its next springboard for growth and should strengthen South Africa's global competitiveness.

In support of this event, Eskom has, as a key member of "team South Africa", established a dedicated project team to ensure reliable electricity delivery, the mitigation of risks and collaboration with key 2010 stakeholders.

Eskom's preparations entail the following:

- securing regional networks and supplies to municipalities and key installations
- optimising and integrating Eskom planning through to stadiums and surrounding regions
- supply chain response capability planning in case of outages or any operational emergencies
- an alignment of consolidated risk profiles and treatment plans towards securing the electricity supply chain from generation to distribution
- forecast capacity through municipal load control
- the acceleration of 2010 demand-side management (DSM) initiatives
- Eskom capacity management
- Southern African Power Pool (SAPP) member contributions
- key customer capacity management
- engaging with key business sectors (such as tourism) to improve energy efficiency by developing energy efficiency campaigns and messaging

Leading up to the Confederations Cup in June 2009 and the final preparation stages for the 2010 World Cup, the organisation's focus will be on the refinement of the necessary preparations as well as conducting simulation exercises to test readiness.

Refer to www.eskom.co.za/annreport09/018.html for detail on Eskom's preparations for the Confederations Cup and the 2010 World Cup.

Eskom: Together we will:

"Ensure a reliable electricity delivery, Eskom preparedness, and treatment of risks to enable a successful 2009 FIFA Confederations Cup and 2010 FIFA World Cup South Africa™"

Technical performance

Generation plant performance

Measure	Description of measure	Unit of measure	Target 2009	Actual 2009	Actual 2008	Comments
Unit capability factor (UCF)	Plant availability (Provides an indication of how well the plant is operated and maintained)	%	85,30	86,07	86,24	Achieved
Energy availability factor (EAF)	Plant availability (UCF above), plus energy losses not under the control of plant management (external) and internal non-engineering constraints	%	84,30	85,32	84,85	Achieved
Unplanned automatic grid separations (UAGS hours)	Reliability of service provided to the electrical grid, and the number of supply interruptions per 7 000 operating hour period	number	2,40	2,93	2,80	Not achieved due to an increase in the number of trips and a reduced number of operating hours
Unplanned capability loss factor (UCLF)	UCLF monitors the plant outages and reduced power events resulting from unplanned equipment failure	%	5,00	4,38[RA]	5,13	Achieved

Since Generation launched the technical recovery actions in February 2008 a significant improvement in technical performance has been achieved. As intended at the time, plant performance was stabilised by winter 2008 and the required level of plant availability and reliability achieved to meet customers' electricity demands. See graph on page 56.

The unplanned Generation losses (UCLF and OCLF) improved by 1,38% compared to 2008. This improvement in plant availability, together with an increase in planned maintenance, improved the EAF by 0,47%. The increase in planned outages was mainly due to more short-term and weekend outages being scheduled, while maintaining adequate reserves to stabilise the system.

At the inception of the recovery process it was recognised that it would take some time to align the maintenance and refurbishment practices to fully reflect the harshness of the current operating environment. Significant progress has been made in the focus areas, while the principles and lessons learned through the recovery initiative are being progressively applied to all other plant areas. While the most pressing needs have now been met, focus now moves to achieving a sustainable performance level within an environment of severe financial constraints.

Refer to www.eskom.co.za/annreport09/019.html for detail on Generation maintenance and refurbishment activities.

RA *Reasonable Assurance provided by the independent assurance provider (refer page 101).*

Performance review continued

Transmission system performance

Measure	Description of measure	Target 2009	Actual 2009 (include load shedding)	Actual 2009 (exclude load shedding)	Actual 2008 (include load shedding)	Comments
Number of interruptions	Interruptions affecting the continuity of supply	≤36	31	30	49	Results are within target. A significant improvement from last year was achieved
Number of system minutes lost	Total number of system minutes lost (for incidents of less than one system minute)	≤3,40	4,21	4,21[RA]	3,56	Not achieved, poor performance primarily due to problems experienced at Invubu substation
Number of major incidents	Records number of incidents with a severity greater than one system minute					Not achieved
	– severity degree one (≥1 but less than 10)	≤1	3	3[RA]	5	Two of the incidents are related to problems experienced at Invubu substation and subsequent measures taken
	– severity degree two (≥10 but less than 100)	0	0	0[RA]	0	
	– severity degree three (≥100)	0	1	0[RA]	1	The degree three incident was the result of pre-emptive load shedding in April 2008
Number of line faults	Number of transmission line faults per 100km	≤2,2	2,46	2,46	2,31	Not achieved. There was a deterioration in the number of line faults from last year due to storm-related incidents

Transmission's 2008/9 interruption performance shows a significant improvement in terms of the number of interruptions compared to the 2007/8 performance. Total system minutes related to interruptions of less than one system minute have deteriorated, primarily due to problems with the gas-insulated switchgear at the Invubu substation. Various medium to long-term options are being evaluated to resolve these problems.

Major incidents continue to be a concern but there has been an improvement in terms of the number of incidents compared to the previous period. Two of the three major incidents that were recorded are related to the Invubu substation equipment and subsequent measures taken to restore the electricity supply. Due to general capacity-related constraints during April 2008, Eskom was forced to engage in pre-emptive load shedding. See graphs on page 57.

Line faults performed worse than expected due to an increase in the number of storm-related incidents.

Refer to www.eskom.co.za/annreport09/020.html for more detail on the major incidents and benchmarking results.

RA *Reasonable Assurance provided by the independent assurance provider (refer page 101).*

Distribution network interruption performance

Measure	Description of measure (and unit)	Target 2009 (exclude load shedding)	Actual 2009 (exclude load shedding)	Actual 2009 (include load shedding)	Actual 2008 (exclude load shedding)	Actual 2008 (include load shedding)	Comment
Distribution supply loss index (DSLI)	Transformer unavailability index (minutes per month)	≤9,60	9,17	25,70	10,36	31,50	Target exceeded, see comment below for DSLI
Reticulation supply loss index (RSLI)	Total transformer unavailability index (hours per annum)	Not applicable	2,16	3,10	2,24	3,39	Positive performance trend
Reticulation supply loss index (RSLI)	Unplanned transformer unavailability index (hours per annum)	≤1,15	1,70	2,64	1,68	2,82	
System average interruption frequency index (SAIFI)	Reliability of supply index (number per annum)	≤21,70	24,16	30,40[RA]	25,36	33,72	See combined comment below for RSLI, SAIFI and SAIDI
System average interruption duration index (SAIDI)	Availability of supply index (hours per annum)	≤42,50	51,51	65,47[RA]	55,51	73,70	

Comments regarding DSLI

Distribution has introduced an enhanced and standardised national event flagging, tracing and verification methodology for DSLI during the current year. Year-on-year evaluation and comparative analysis need to cater for these refined processes that were introduced.

Comments regarding RSLI, SAIFI and SAIDI

The RSLI (unplanned transformer unavailability index) is marginally worse than the previous year, but SAIDI and SAIFI have improved since the previous year.

Business plan targets have been based on historical performance trends and have not been restated to reflect recent focus on data correction initiatives. Business plan targets have not been achieved because of the slower than anticipated benefit realisation for Distribution's network performance improvement initiatives as well as an increase in unplanned interruptions. The impact of planned interruptions was reduced due to better outage coordination and increased utilisation of live line techniques.

Refer to www.eskom.co.za/annreport09/021.html for more detail on distribution technical performance.

RA *Reasonable Assurance provided by the independent assurance provider (refer page 101).*

Performance review continued

Solutions for rural areas

Geographically it has always been difficult to attend to problems in certain rural areas of the country. Always striving to provide faster and more effective customer service, we have come up with a possible solution that will not only result in faster and more effective field service and restoration, but could also contribute to community upliftment and social development.

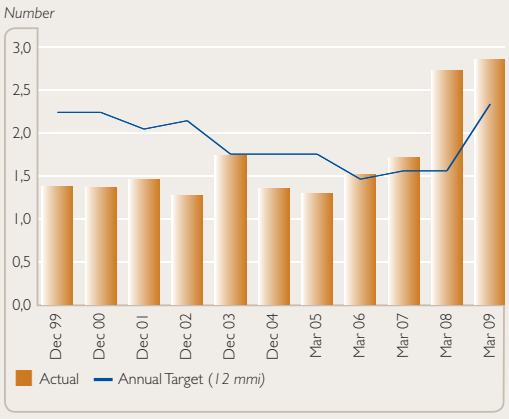
Eskom is looking at contracting first-line support from within the rural communities to act as low-voltage technicians. Apart from the obvious advantage of job creation, skills improvement and much improved customer service, this would also leave highly qualified technicians to attend to more serious problems. It could also improve public safety and help reduce illegal connections which affect the quality of supply in rural areas. GIS (geographic information systems) and GPS (global positioning systems) technology forms part of this solution, of which a prototype is being tested.

Primary energy

Coal

Eskom has long-term coal supply agreements with collieries near its power stations to ensure a continual supply of coal. All coal requirements above those supplied by the long-term agreements are supplied through short to medium-term contracts, which usually have a road or rail transport element associated with the purchase.

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



Eskom purchased about a third of the coal required on short to medium-term contracts.

Coal stockpiles

Eskom started the 2008/09 financial year with stockpiles at levels below that which the organisation considered acceptable. At the end of January 2008, the system stock levels were at 12 days – well below the required minimum level of 20 days.

The target stock level was increased to an average of 42 days during 2008 to mitigate the increased volatility in coal supply and demand on the network. The recovery plan instituted in 2008 has resulted in the organisation's coal burn requirements through the winter of 2008 being met and the system stock level reaching 41 days[LA] at the end of March 2009.

LA *Limited Assurance provided by the independent assurance provider (refer page 102).*

Performance – coal purchased and burned

million tons	Target 2009	Actual 2009	Target 2008	Actual 2008	Target 2007	Actual 2007
Coal burned	122,89	121,16	122,17	125,30	115,25	119,07
Coal purchased	135,63	132,66	129,70	119,63	120,11	117,37

The largest impacts on coal costs were as follows:

- lower than budgeted production from the long-term coal supply agreements which resulted in a higher level of short/medium-term coal being procured with its associated transport cost, to sustain production requirements
- escalation of costs in excess of PPI on most cost drivers, for instance labour, fuel and maintenance costs on the long-term contracts. These escalations were aggravated by skills shortages experienced in the industry, the high oil prices experienced in the earlier part of the financial year and high commodity prices

In addition to the above, Eskom also experienced an increase in the cost of the short/medium-term coal purchase agreements which have a more market-driven dynamic rather than the traditional cost-based long-term agreements.

Coal quality and combustion modelling

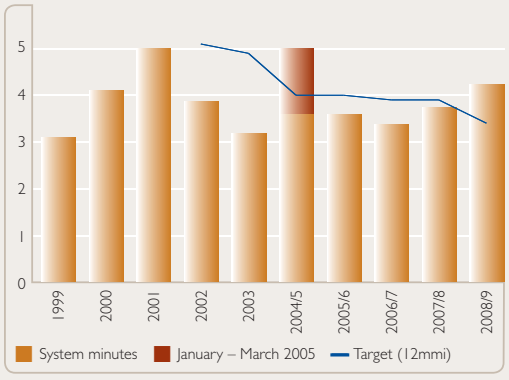
The coal quality effect model (CQEM) is a techno-economic tool that encompasses all components in the coal chain. It represents the performance of coal-fired boilers with the use of solid engineering principles and historical cost analyses. The CQEM analyses individual plant component performance with respect to varying coal properties and predicts the plant limitations, maintenance strategies, material life expectancy and the coal distress and rejection levels.

Currently, this tool plays a vital role in terms of coal qualities and legislation on emissions. Potentially it could evaluate coal contracts (bonuses and penalties), boiler operating and maintenance strategies, plant modifications, asset life management, and financial benefits in coal processing. It could also act as a training tool for skills development.

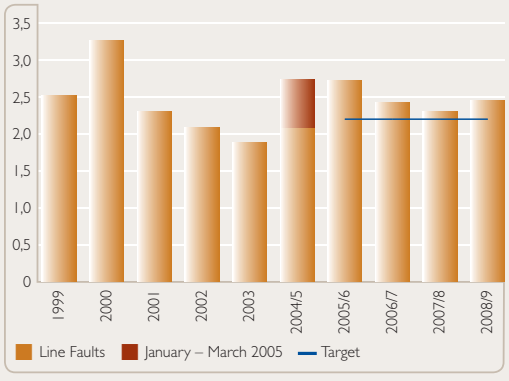
Transport of coal

While Eskom recognises that transporting coal by road is not the ideal method to supply the fuel that is needed to meet the country's demand for electricity, it is the best solution at this time. Most of the coal Eskom purchases on the short/medium-term market is currently transported by road to the power stations. These contracts are allocated in accordance with Eskom's policy regarding empowerment. Consequently, 98 free-on-truck transport contracts have been allocated to eight black economic empowerment entities, 20 black women-owned entities, 42 small, medium and micro enterprises and 28 other transporters. The cost of transporting this coal to power stations was approximately R2,6 billion.

System minutes for incidents less than one system minute



Number of transmission line faults per 100km



Performance review continued

Road repairs

Although it is not obliged to make repairs, Eskom spent R535 million in the last financial year on repairs to the roads used to transport coal to the power stations. Part of Eskom's long-term strategy is to maximise the use of rail to transport coal. However, in the short term to medium term, it is imperative that these roads are repaired and maintained in order to ensure an adequate supply of coal to the power stations and ensure safe driving for local residents, the coal transport companies and the general public who use them.

Refer to www.eskom.co.za/annreport09/022.html for detail on the steps Eskom is taking to secure the coal it requires for electricity generation.

Opportunities arising from future coal requirements

There are between 20 and 25 coal mining projects that are needed in the short to medium term to meet Eskom's demand. The potential benefits arising from these projects are numerous. They include the following:

- around 12 000 additional jobs being created
- skills development in geology and mining engineering fields, as well as in support functions
- a direct contribution of 0,34% to GDP
- improved road and rail infrastructure
- growth in the mine consumables, supporting services and retail sectors
- increased manufacturing opportunities
- positive spin-offs for the manufacturing and supporting industries
- an additional R100 billion in investment in South Africa

Water

For details on water consumption, please see the water section on page 82.

Liquid fuels

Eskom began the year with 1 385MW of installed capacity from liquid fuel-fired stations. During the year an additional 1 041MW was added, increasing the total installed capacity of the liquid fuels plant to 2 426MW. This plant provides assurance of supply to the Western Cape during periods when Koeberg is not operational or problems are experienced with the transmission lines to the Western Cape.

The Gourikwa open cycle gas turbine station was used less often to reduce fuel costs

Because of the high cost of generation from the liquid fuel-fired plant, Eskom strives to restrict the use of this plant to peak hours or during emergencies. During the 2008/9 year we were able to contain the usage to relatively low levels. This plant generated a total of 90MWh excluding generation during the pre-commissioning of the new units.

There are specific challenges around the fuel procurement and fuel storage for the liquid fuels plant. The first concerns the pattern of usage of this plant. As it is used as back-up plant, the uncertainty around the timing and extent of usage is high. The second is that suppliers require long lead times for orders of liquid fuel. Maintaining a stock of fuel is one way of overcoming this challenge. Eskom is aware that this comes at a cost and regularly reviews the stock levels required.

The biggest drivers of the cost of fuel for this plant are the price of oil and the exchange rate, which resulted in the price of fuel fluctuating significantly. Overall, the average price for the current year increased by 80% compared to the 2007/8 year.

Consumption decreased by 92% during 2008/9 because of the increased availability of the nuclear power station and an overall decrease in demand for electricity.

million litres	2009	2008	2007
Liquid fuel usage	28,88[LA]	345,90	11,30

LA *Limited Assurance provided by the independent assurance provider (refer page 102).*

Nuclear fuel

Nuclear fuel is procured and delivered to the Koeberg nuclear power station in accordance with government-authorised contracts for the supply of enriched uranium and for the supply of fabrication services for the nuclear fuel assemblies. These contracts are sufficient to provide the Koeberg nuclear power station with 100% of its fuel demand until the end of 2010.

Contract negotiations to secure nuclear fuel for Koeberg beyond 2010 up to 2017 are in an advanced stage.

Executing the build programme

Additional power stations, major power lines and substations are being built urgently to meet rising electricity demand in South Africa. The approved capacity expansion budget is R385 billion[1] for the five-year period up to March 2013 and is expected to grow to more than a trillion rand by 2025.

South Africa needs to build 40 000MW of new generation capacity by 2025, of which 12 476MW is already under construction (mainly Medupi and Kusile power stations, return to service stations and Ingula power station). Since the programme began in 2005, we have already commissioned 4 454MW. A further 6 184MW will come on stream within the next five years (which includes the 2009 calendar year). This includes the completion of the two remaining old coal-fired stations being returned to service, the upgrade of Arnot power station, the first three units of Medupi and the first unit of Kusile.

1. *This is nominal rand based on 2007/8 financial assumptions.*

Performance review continued

Generation projects will take-up 73% of the budget, with transmission investment accounting for another 13%. The rest of the budget will fund improvements to the distribution network and efforts to diversify our energy mix.

Around 1 962km of high-voltage transmission lines have been built in the past four years, as well as numerous new transmission substations and transmission network upgrade projects. The construction of the 765kV ultra high-voltage line to the Cape is progressing well, with 430km already strung. The Apollo substation refurbishment was completed in May 2008. This increases the availability and maintainability of the Cahora Bassa/Apollo high-voltage direct current interconnection. In addition, 10 100MVA of transformers have been installed.

Some 12 000 people will be employed during construction of our build projects and some 100 000 people could indirectly benefit via the stimulus to the local economies.

As far as resources are concerned, a team of more than 2 500 engineering, project management and commercial resources, supplemented by 19 local and foreign engineering and project management companies contracted as partners over the next 10 years are actively involved in the execution of the build programme.

The capital expenditure incurred from 2005 to date in relation to these projects is as follows:

Year	Budget Rm	Actual Rm
2005/6	3 015	2 835
2006/7	7 058	8 226
2007/8	12 112	12 783
2008/9	28 655	30 460
Cumulative	50 840	54 304

Highlights

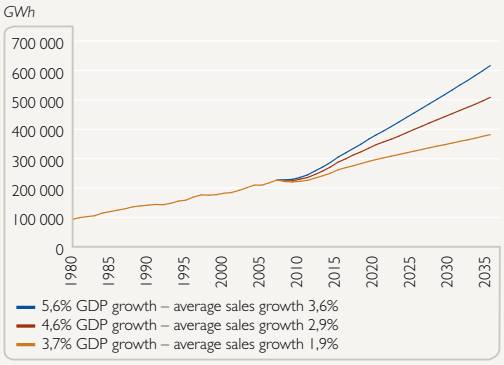
- Camden power station fully operational (eight units)
- two units of Grootvlei power station now synchronised to the grid
- one unit of Komati power station now synchronised to the grid
- five more open-cycle gas turbine units at Ankerlig power station and two more at Gourikwa power station commissioned.

Go to www.eskom.co.za/annreport09/023.html for detail on all the build projects.

Integrated strategic electricity planning

The long-term energy forecast for South Africa has been revised to incorporate the expected impact of the recent economic downturn, both domestically and internationally (reflected in suppressed commodity prices). A critical aspect of this forecast is predicting the timing and speed of the recovery as well as the growth trajectory thereafter. Three demand forecast scenarios have been prepared, reflecting different expected electricity demand growth trajectories (a high growth of 3,6% average; a moderate growth of 2,9%; and a low growth of 1,9%).

ISEP 12 – National plus foreign electricity sales forecasts



The three scenarios follow a similar pattern of growth, with the initial recovery indicating strong growth before tapering off to a long-term average growth.

The generation expansion plans have yet to be revised based on the adjusted forecasts. However, indications from initial studies suggest that there will be a significant baseload-capacity requirement following 2016 to meet the moderate growth scenario. This requirement is over and above the current Eskom-committed build plan.

For detail on the criteria used to assess the plan, go to www.eskom.co.za/annreport09/024.html.

While South Africa's major energy source will remain coal in the foreseeable future, we need to reduce coal's current 88% share of the energy mix to below 70% by 2030. To achieve this, a much higher proportion of nuclear (currently 4%) is proposed by 2030, while additional renewable energy options (about 2% by 2030) will also be pursued. Pumped-storage and gas-fired stations will be established to meet peak demand, while electricity imports from neighbouring countries (to a maximum of the reserve margin) will also be negotiated.

Investment portfolio

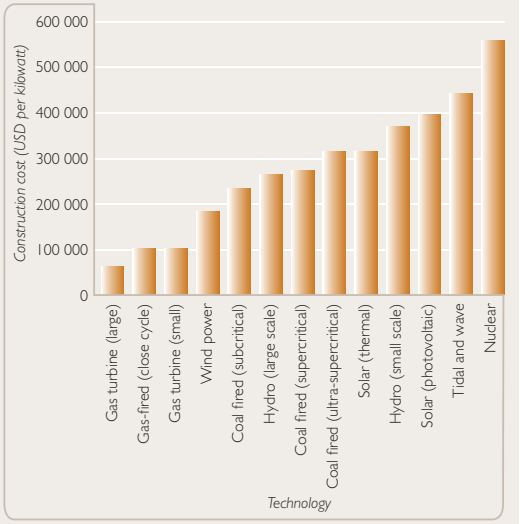
Eskom's investment strategy and portfolio targets are under review in light of the current global economic crisis, the associated funding constraints and the impact of this on long-term planning assumptions.

The investment portfolio target ranges are updated and discussed by the board on an annual basis and were revised in January 2008. The approved generation energy mix is based on the current strategic drivers, the integrated strategic electricity plan (ISEP) and the results of the portfolio modelling. The portfolio work provides an overview of the challenges and issues pertaining to the primary energy options available over the next 20 years.

These portfolios may change due to the demand forecast and the fuel cost of the different baseload technologies. Should the initially expected 4% demand growth not materialise, significantly less capacity will be required but new capacity will be built to achieve an acceptable reserve margin. Changes in any key assumptions will lead to a change in the portfolio targets.

Refer to www.eskom.co.za/annreport09/025.html for more information regarding Eskom's investment portfolio.

Estimated costs of building the various types of power stations in 2015 prices



This indicates pure cost to the developer and does not take into account interest paid during construction.

Source: The International Energy Agency

For information on the costs of different types of power stations go to www.eskom.co.za/annreport09/026.html.

Performance review continued

Status of the build programme

Thus far, the Eskom build programme is on track and given the uncertainty about future trends, Eskom will continue to pursue most of its current projects and push ahead with the design and development of future projects. Risks to schedules and timelines have been identified and are rigorously being tracked by the formal project assurance system whereby schedule, cost, quality and safety risks are tracked in a structured manner.

Eskom is experiencing significant cost pressures in the execution of its projects. Although the placement of major contracts mitigates cost escalation to some extent, contracts contain strong links to price escalations in commodities and labour. The negotiation of the remainder of unplaced contracts in a tight supplier market will remain a major challenge. With the current financial crisis several projects worldwide are being delayed and therefore these trends may be slightly more favourable to Eskom.

Cost of building new stations and power lines

Considering that it takes up to eight years to build a coal-fired power station, keeping the construction costs fixed to a specific amount is truly a challenge.

Eskom invites tenders for the big construction items such as boilers and turbines. In the case of Medupi power station, the tenders were 30% higher than expected due to high demand globally for these items. Prices of European power construction projects jumped by 50% between 2002 and 2007. Suppliers of major components had major orders due to massive power projects in India and China, among others, which meant that they could up their prices. Testimony to these increases is the fact that we built the Majuba coal-fired power station near Volksrust for R11 billion in the eighties and early nineties – Medupi power station is now costing more than R100 billion.

Eskom borrows capital overseas and locally and we pay interest on the loans. Given the long construction periods, escalations in financing costs on these loans are in fact the biggest reason for an increase in our project costs.

Included in the tenders awarded are escalation clauses over the construction period for items such as steel, cement, labour and fuel. In addition there are often changes in scope, to cater for design improvements, new technology, etc. (such as adding the fluidised gas desulphurisation plant to the new Kusile power station).

Safety

Safety is an area of great concern and focus, in the light of an increase in the number of safety-related incidents reported over the last six months, involving Eskom employees and contractor workers. Major construction activities are inherently risky, and require a strong safety culture and constant management focus. This is complemented by safety initiatives such as implementation of safe working procedures, use of specialised personal protective equipment for specific activities, implementation and rollout of Eskom cardinal rules, etc. This calls for close interaction with all suppliers.

Stakeholder engagement

The ministerial visits to two of our main new build sites, in addition to many other strategic events, were important in building sustainable relations with government, the shareholder of Eskom.

We have established effective stakeholder forums at all of our new build sites. The forums comprise representatives from the area such as local and tribal authorities, provincial and national government departments, organised business, non-governmental organisations and local farmer unions. This has resulted in a collective and unified approach towards achieving the new build milestones and most importantly assists in empowering the local communities.

Typical issues raised by stakeholders around our build projects are local employment opportunities, skills development, economic opportunities, local supplier development and corporate social investment opportunities for their communities.

It is important to emphasise that corporate social investment within and around the communities, affected by the new build programme, brings development, empowerment and growth to these communities.

At two major new build sites we have established information centres that give community members access to information about the project and Eskom generally.

Camden power station in Ermelo is the first old coal-fired station successfully returned to service

Successful completion of Camden power station

Camden power station in Ermelo in the Mpumalanga province is a coal-fired plant consisting of eight units, each with a nominal capacity of about 200MW. The plant was originally designed for a service life of 40 years and the units were commissioned from 1966 to 1969. Due to surplus capacity and the lower than expected growth in the demand for electricity, the plant was shut down between 1988 and 1990.

In 2004/5 a decision was taken to return Camden to service due to the sharp increase in the demand for electricity. The initial reference unit, unit 6, was returned to service on 31 March 2005 and went on commercial load on 16 July 2005, with the balance of the units being returned from 2005 to 2008 at intervals of six months apart.

For information on the return to service of Camden power station go to www.eskom.co.za/annreport09/027.html.

Performance review continued

Project status

Generation projects	Megawatts planned	Project phase	Commercial operation first unit /last unit
Ankerlig and Gourikwa (OCGT Phase I)	1 043	Commercial operation	Mar 07/Jun 07
Camden RTS	1 520	Commercial operation	Jul 05/Jul 08
Ankerlig and Gourikwa (OCGT Phase II)	1 041	Commercial operation	Dec 08/May 09
Grootvlei RTS	1 200	Execution	Mar 08/Apr 10
Arnot capacity increase	300	Execution	Apr 06/Dec 10
Komati RTS	1 000	Execution	Jan 09/Jun 11
Ingula	1 352	Execution	Jan 13/Oct 13
Medupi	4 764	Execution	Apr 12/Aug 15
Kusile	4 800	Execution	Jun 13/Oct 16
Sere (wind farm)	100	Execution planning	Aug 10 (Project on hold)
Majuba rail	n/a	Execution planning	Nov 11 (Project on hold)
Tubatse (Lima)	1 500	Execution planning	Possible 2018 (Project on hold)
Total MW	**18 620**		

Transmission projects	Kilometres	Project phase	Commercial operation
Southern Cape strengthening (Beta/Delphi)	408	Commercial operation	Aug 07
Cape strengthening Western grid	56	Commercial operation	Oct 07
Apollo refurbishment	n/a	Commercial operation	May 08
Platinum Basin	111	Commercial operation	Aug 08
Tabor/Spencer 275kV line	85	Execution	Oct 09
765kV Majuba/Umfolozi	218	Execution	Nov 09
Duvha/Leseding 400kV line	205	Execution	Mar 10
Western and Southern grid substation re-insulation	n/a	Execution	May 10
765kV Zeus to Omega Southern and Western Cape	1 450	Execution	Mar 12
Total kilometres	**2 533**		

Temporary housing is built for construction workers in Lephalale

Impact of current power station projects

The Medupi project at more than R100 billion is four times bigger than the Gautrain project (the high-speed rail project connecting Johannesburg and Pretoria). The current total value for the Ingula, Medupi and Kusile power station projects stands at USD23 billion, a mere USD2 billion less than the construction of the Three Gorges Dam in China, the world's largest electricity project.

Medupi and Kusile will increase our baseload capacity by 25% and Ingula will increase our peak load capacity by 30%. Medupi and Kusile will be the fourth and fifth largest coal plants in the world and Ingula the nineteenth largest pumped-storage scheme.

Some 12 000 people will be employed during construction of the three plants and some 100 000 people will indirectly benefit via the stimulus to the local economies.

Go to www.eskom.co.za/annreport09/028.html for the facts about the Medupi power station project.

Fuel for new stations

The long-term coal supply contract for Medupi power station has been negotiated. The long-term coal supply for Kusile has been committed for the first 40 years of the power station's life. The final approvals of the environmental proposals for the mine are in the process of being obtained.

Eskom is presently in the process of obtaining competitive bids from potential suppliers of coal for two potential coal-fired power stations.

Environmental impact assessments

The undertaking of environmental impact assessments (EIAs) plays a critical role in ensuring informed decision-making regarding Eskom's build programme. Most of Eskom's capacity expansion projects are listed activities in terms of legislation and therefore, require an environmental authorisation before construction may start. This is obtained from the DEAT. The EIA regulations require the assessment of alternatives, public participation and for the public to be given the opportunity to appeal against decisions made by the authorities.

Refer to www.eskom.co.za/annreport09/029.html for a list of current major EIAs.

Unit 6 of the new Medupi power station in Lephalale

Performance review continued

Land and rights

We have embarked on numerous strategically important land, servitude and residential property acquisitions for new power stations throughout the country. Land acquisitions for two coal-fired, two pumped-storage power stations, a coal transport system and underground coal gasification were successfully completed.

This year alone 18 parcels of land, 34 servitudes and 302 houses were acquired for the new build programme and six land parcels, 10 servitudes and 63 houses are currently in negotiation for purchase.

Stakeholder forums

Over and above the EIA process and its public participation activities, we are establishing forums around the country in those areas where the expansion programmes will or could take place. The forums provide a platform for regular engagements and communication with the affected communities and provide timeous and accurate responses to stakeholder issues.

The first forum was established in the greater Waterberg area. In December 2008, there was an information sharing session between ourselves and the greater Waterberg area involving landowners, interested and affected parties and other stakeholders. The purpose of the session was to share our "bigger picture" regarding the long-term electricity plan in the region.

Furthermore, we use small groups to workshop issues that are identified during the main forum meeting and these groups feed back to the main forum. In December 2008, air pollution, climate change, renewables and water were identified as critical issues.

Eskom plans to rollout the establishment of the forums in other areas.

Refer to www.eskom.co.za/annreport09/030.html for more detail on stakeholder engagement around the land and servitude acquisition process.

Power purchase programmes

Recognising that the country will continue to experience growth in electricity demand, government has, in terms of the Energy White Paper, directed that 30% of new generation capacity will be developed by the private sector.

In this regard, three key programmes have been developed in order to procure power supply from the private sector:

- pilot national co-generation programme (PNCP)
- medium-term power purchase programme (MTPPP)
- multi-site baseload independent power producer programme (Baseload IPP)

Each of these programmes will have its own underlying power purchase agreement with unique terms reflecting the fundamental characteristics of the particular programme.

Pilot national co-generation programme

Eskom is running a pilot national co-generation programme (PNCP) to source co-generation capacity from the market.

In October 2007, organisations were invited to submit tenders to take part in co-generation with Eskom. The closing date for bid submissions for the pilot programme was 30 May 2008. The potential bidders in the programme were given two opportunities to comment on the power purchase agreement (PPA) that would be offered under this programme, and a PPA was released to the bidders on 20 March 2008.

Medium-term power purchase programme (MTPPP)

While the PNCP process focused on procuring the maximum co-generation capacity in the shortest period of time, there are a number of third parties with potential generation projects that were not participating in the PNCP process. To cater for these, the MTPPP was proposed to access these potential generation projects,

with a PPA for a term ending December 2018 and open to a wide variety of plant sizes and technologies. Eskom is considering proposals received up to 1 December 2008 and up to 3 000MW in size under this programme.

Refer to www.eskom.co.za/annreport09/031.html for more detail about the medium-term power purchase programme.

Nuclear

During 2008 considerable progress was made with the commercial process to procure a PWR (pressurised water reactor) nuclear power station as mentioned in last year's annual report. In December 2008 the Eskom board evaluated the situation taking into account, among others, our financial constraints, the start of the global credit crunch and the progress made during negotiations with potential suppliers. The board decided that while it continued to support nuclear power, it would not proceed with the proposed investment in the Nuclear-1 project due to the magnitude of the investment, and Eskom consequently terminated the commercial procurement process to select the preferred bidder for the construction of the Nuclear-1 project.

The process to introduce further nuclear stations is now being led by government. Eskom will continue to work with government in this regard.

The various investigations that had previously commenced to prepare the sites for future nuclear power stations are continuing. These activities include, among others, the environmental impact assessment investigating three sites for proposed nuclear power stations, the environmental impact assessments investigating transmission line routes associated with the three sites, and the geotechnical and other studies required to characterise the sites to support a future application for a nuclear installation licence from the National Nuclear Regulator.

Refer to www.eskom.co.za/annreport09/032.html for information about the Pebble Bed Modular Reactor (PBMR) project. Further detail on the PBMR project can be obtained from www.pbmr.co.za.

Coal remains Eskom's primary energy source for electricity generation

Performance review continued

Responding to climate change

In the 2008 annual report, we outlined our six-point plan for dealing with the climate change challenge. Our climate change strategy remains unchanged and we are resolute in our commitment to reduce our greenhouse gas emissions. The implementation of the plan is, however, being severely constrained by the global financial challenge as well as our current financial challenges.

While the declining flow of international funding can be seen as a short-term constraint, it has a major impact on the decision-making time frames for the electricity sector in our country. Despite a reduction in demand for electricity in the short term, there is still a baseload-capacity deficit in the country. We still need to build new power stations to bring the reserve margin back to within acceptable limits.

Baseload power stations typically have a 50-year or more lifespan and require long lead times to build. This implies that decisions must be made now on commercially available technologies, which will have a long-term impact on the environment, and therefore the correct market signal from a carbon pricing point of view is very important.

We are committed to support a national process to develop a climate change policy, especially as policy and regulatory support is a crucial enabler for technology acceptance and deployment. This policy and regulatory framework needs to be integrated across a broad base of government departments and national goals to optimise local economic development.

Performance

Highlights

While our relative emissions have increased over the past year, we remain dedicated to finding mechanisms to retard that rate of growth. Highlights over the last year include quantified savings in terms of our demand-side management programmes. We have made significant decisions in this regard, given the long-term nature of the electricity business. These include:

- improving thermal efficiency requirements for new coal-fired plant. The proposed thermal efficiencies of both Medupi and Kusile place them in the category of supercritical coal-fired plant
- including carbon capture readiness in the design of Kusile
- participating in the national initiative to develop a carbon storage atlas for the country
- developing a carbon capture and storage strategy
- deciding to invest in an underground coal gasification pilot plant
- deciding to invest in a 100MW wind generating facility

Lowlights

Although there was a decline in absolute emissions of 221,7Mt compared to 223,6Mt in 2008, the relative emission performance deteriorated to 1,03kg/kWh of electricity sold (2008: 1,00kg/kWh). This overall decline in absolute emissions is due to a reduction in demand for electricity. The deterioration of the relative emission performance was due to a decline in overall thermal efficiency to 33,35 (2008: 33,40).

The full implementation of the climate change strategy, which includes decision-making around expensive lower carbon emitting technologies, has been hampered by the current financial crisis. Although this is seen as a short-term hurdle, this constrains the amount of work that can be done to fast track the research and development of possible baseload options.

The global economic slowdown has also impacted the demand-side management (DSM) programme as the level of national funding for DSM has been reduced compared to last year. This limits the number of DSM initiatives that can be implemented, thus limiting the energy savings that could be achieved.

Diversification of the energy mix

As previously stated, although the absolute tons of CO_2 emitted will increase in the short to medium term, we have committed to assess options to retard that rate of increase and ultimately begin to decrease it. Our stated intent to reduce our relative CO_2 (Mt CO_2/MWh) footprint until 2025, and thereafter continually reduce absolute emissions in support of national and global targets, is still relevant.

In order to support this aspiration, we are developing technology roadmaps together with leading international research organisations to determine when lower carbon-emitting technologies will become commercially available. Advances in research and development can be found on page 71 (refer to research area).

While the electricity planning process includes technologies that are currently commercially available, we have modelled a number of scenarios to assess our future emission profiles and the potential contribution that near-commercial lower carbon-emitting technologies can make to an emissions reduction target. The evaluation of these options to provide the required baseload capacity includes an assessment of the risks, challenges and opportunities to fast-track these options to a point where they can be considered to be viable. Examples include underground coal gasification, concentrating solar power and hydro imports.

Concurrent with these options, which together with nuclear technologies can provide the essential baseload requirement, we are also taking investment decisions on options such as wind generation to provide additional electricity to the country. In doing this work we recognise that there is no technology option that is the single solution for reducing greenhouse gas emissions. We are therefore committed to the principle of not excluding any technology upfront and to assess all options to reduce our emissions.

We remain dedicated to ensuring that our diversification goal includes increasingly efficient ways of utilising coal. This acknowledges the country's abundance of coal reserves and the need to balance emission reductions with the affordability of electricity. From a coal technology perspective, there are a number of mechanisms that continue to predict the future performance of clean coal technologies, in terms of emissions and costs.

Significant international research and demonstration are aimed at improving the efficiency of all these technologies. The technological advances to achieve these higher efficiencies are expected to mature gradually between now and 2030. We already have a requirement for our next coal-fired power station (Kusile) to be carbon capture ready. The engineering design will cater for this requirement.

Performance review continued

Gas is flared at the underground coal gasification site near Volksrust

Clean coal technology roadmap

Certain power generation technologies are inherently more suited to continuous operation (supplying the continuous demand) than others. In South Africa, large coal-fired power stations are mostly used to supply the baseload, since they require a minimum period of eight hours from cold start-up to full load. In addition, starting up these power stations requires large quantities of fuel oil.

As a result we have developed a clean coal technology roadmap that outlines the opportunities and obstacles we face based on a number of future scenarios. Looking ahead, it summarises the coal power technologies that are available now or will be commercially available over the next 25 years. This roadmap will be used to determine our technical options as we plan to effectively meet the electricity needs of South Africa well into the future.

Baseload electricity generation

This is an indication of the average amount of electricity consumed at any given time.

Baseload power station units (largely coal-fired) are generally only shut down for scheduled maintenance or emergency repairs. Baseload power can also be supplied by nuclear power stations and, in countries with abundant water resources, hydro power stations. South Africa's inconsistent rainfall and limited water resources preclude the use of hydro power stations for baseload needs.

Other options such as wind cannot provide baseload power since they cannot be operated continuously or dispatched according to a schedule. Given our aspiration to diversify to lower carbon-emitting technologies, the roadmaps we are developing as well as the work to fast-track these options are focused on baseload options. Exciting technologies that have the potential to meet this requirement include underground coal gasification and concentrating solar power.

Energy efficiency measures

One of the key short-term wins to reduce the relative carbon footprint is energy efficiency measures. Our efforts and lessons learned in this area are detailed in the energy efficiency section on page 48.

Adaptation to the negative impacts of climate change

Additional work includes developing our adaptation strategy to address the impacts of climate change. The strategy seeks to address impacts that affect us directly – such as impacts on natural resources (water), resilience and adaptive capacity of infrastructure, staff and customers and policy required within Eskom, as well as those that affect us indirectly – the country's vulnerability, city infrastructure, risk and disaster recovery capability in the country and policy gaps in addressing adaptation.

Dr Jenitha Badul, Director - National Greening at the DEAT

Stakeholder comment

The DEAT (now known as the Department of Water and Environmental Affairs) has established a partnership with Eskom through a formal agreement whereby Eskom has agreed to support the DEAT on the coordination of the carbon offset programme, against which the national carbon footprint has been established as a result of hosting the 2010 FIFA World Cup.

Eskom participates as a member on the carbon offset working group which meets six to eight times per year. In addition, Eskom has made available human resources for technical and expert advice whenever required. Eskom has also facilitated discussions with the Southern African Power Pool on sponsorship of green energy toward the greening of the 2010 FIFA World Cup.

Innovation through research, demonstration and development

In order for us to maintain our viability and competitiveness in a rapidly evolving market, it is crucial to be at the forefront of research developments. While doing our own research, we maintain memberships and collaboration with national and international research organisations to ensure that we keep abreast of the latest global technologies and trends.

This is particularly important with respect to issues such as climate change. We currently have membership agreements with organisations such as Electric Power Research Institute (EPRI), International Energy Agency (IEA) Clean Coal Centre, IEA SolarPACES[1] (focusing on concentrating solar power systems) and Energy Storage Association (ESA).

Power Series books

The Eskom Power Series is a set of world-class reference books containing practical guidelines based on years of valuable experience gained. Commissioned and produced by our research team, it plays an important part in the skills transfer process. Local and international experts collaborate to create reliable and highly practical content that focuses on power engineering practices and information.

The books have been commended on a global scale and it is expected that the Eskom Power Series will grow according to the needs of the industry. The target audience includes personnel, strategic partners, utilities, libraries, educational and training institutions, municipalities, governments, engineers, technologists, technicians and research organisations.

1. SolarPACES: Solar Power and Chemical Energy systems

Performance review continued

Our research and innovation provides a variety of services such as scientific and technical advice, research and consulting, analysis, detailed design as well as strategic technical planning services and direction.

Most of our research is tailored to meet the needs of our business. These needs drive the research agenda and therefore, the focus is predominantly on applied, not pure research, and the outputs are in line with our strategic and operational needs. In order to remain relevant however, a portion of research resources is allocated to strategic research into issues such as climate change and includes innovative and emerging technology options.

Our research expenditure of R207 million for the financial year was considerably higher than the budget of R158 million. This 31% increase is indicative of the desire to increase expenditure on research and development as well as the need to meet our additional research requirements. The budget for the 2010 financial year has been set at R221 million, a 40% increase in budget year-on-year.

The planned capital expenditure for the construction of demonstration projects is R647 million, the majority of which is to be invested in the concentrating solar power and underground coal gasification projects. The demonstration programme improves quality, reduces cost and reduces the time taken from conception to commission. It also drives our capital expansion technology choices based on the knowledge gained through demonstration, ie to ensure that key technologies which can fundamentally change our current technology path and improve performance are well understood and part of our technology plan.

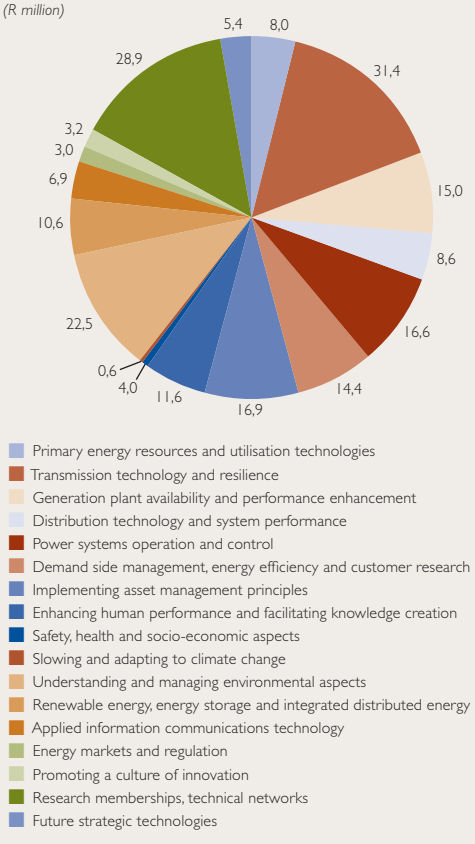
For more detail on the research programmes, go to www.eskom.co.za/annreport09/033.html.

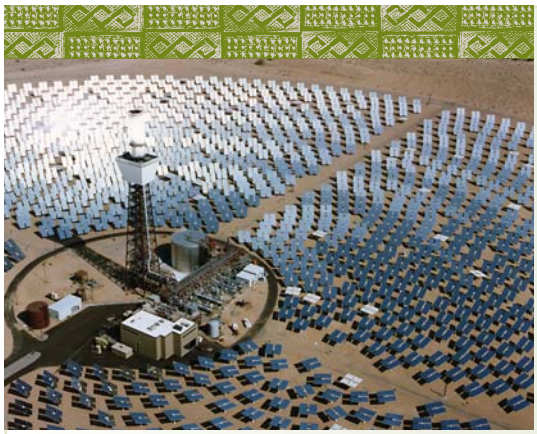
The programme shows a large expenditure on building strategic research partnerships which we pursue to gain leverage from the total research expenditure. The new allocation shows an increased focus on generation support and performance, climate change and renewable energy, demand-side management and energy efficiency as well as strong support to transmission and distribution. It is further envisaged that the percentage of the budget allocated to these categories will continue to rise in future in line with our strategic focus areas.

Climate change research has its own dedicated budget but is also encompassed in many other areas of the research programme. Research work continues on energy efficiency, renewable energy, clean coal technologies, alternate power sources such as nuclear and hydro, high efficiency coal combustion and energy economics including carbon trading mechanisms. These all contribute to the total climate change effort put in by the research team.

Research expenditure per project

(R million)





Eskom is investigating the feasibility of concentrating solar power for South Africa

Concentrating solar power

Concentrating solar power (CSP) technologies use large, sun-tracking mirrors to concentrate solar radiation and generate steam for power generation. Pilot – and more recently, commercial – CSP power stations have provided the cheapest electricity to be generated using solar power.

Our CSP project forms part of our South African Bulk Renewable Energy Generation (SABRE-Gen) programme.

The research will establish the feasibility of using CSP as a large-scale generation option.

Ocean wave power

There is huge excitement in the field of wave energy but the industry is still in its infancy. At least five more years are needed to prove the feasibility of this alternative energy source and its technologies.

We have conducted a resource assessment of ocean wave power along the South African coastline. The study showed that South Africa has sufficient wave energy along the coastline, which warranted further in-depth investigation. We are currently busy with a technology selection process after which a feasibility study to determine the costs of an ocean wave plant as part of our generation mix, will be conducted.

Emissions from coal-fired stations need to be managed much more effectively

Carbon storage atlas in the making

One of the promising greenhouse gas (GHG) mitigation measures being developed internationally is that of carbon capture and storage.

This process involves the separation of the carbon dioxide (CO_2) from the other gases emitted. The CO_2 is then compressed into liquid form and transported to a permanent storage facility, preventing its release into the atmosphere. While it is possible to track international developments in capture technology, geological storage potential has to be determined locally.

We, together with Sasol, PetroSA, Anglo American and the South African National Energy Research Institute (SANERI), are sponsoring the development of a South African Carbon Dioxide (CO_2) Storage Atlas. The atlas will represent an early assessment, aimed at identifying areas and estimating the potential capacity for geological storage of CO_2 in South Africa.

Performance review continued

Investment through the carbon market

We use an indicative price for CO_2 emissions in order to provide the correct investment pricing signal in anticipation of future penalties or taxes on carbon. This shadow price is based on the trends in global carbon prices, and is reviewed annually.

There is some speculation that the value of a ton of CO_2 will increase, based on the commitment from the European Union (EU) and anticipated future commitments from other developed countries, including the United States of America (USA) and developing countries. Commitments by large trading blocks, such as the EU, may also be translated into carbon taxes on imported products.

Alternatively, it is also possible that commitments may not be adopted globally, but that further regional trading schemes develop (for example, cap-and-trade legislation proposed within the USA). We are also assessing alternative models to fund lower carbon-emitting technologies and energy efficiency projects through institutions such as the World Bank, in order to leverage the opportunities that exist.

Progress through communication and advocacy

We were actively involved in government's multi-stakeholder-driven process to develop long-term mitigation scenarios for the country and to the process of developing a national climate change policy.

We have also continued supporting international business activities in advancing climate change issues. We played an active role in the World Economic Forum Steering Committee that developed a CEO statement on climate change for the G8 ministers' meeting last year. We also continue to remain members of the World Business Council for Sustainable Development, providing input to international business positions for the climate change negotiations.

Our participation in national and international efforts to progress climate change issues provides us with the assurance that we are continually pushing the boundaries of what we can achieve within our known constraints.

Our participation in national and international efforts, such as WWF's Earth Hour campaign, to progress climate change issues provides us with the assurance that we are continually pushing the boundaries of what we can achieve within our known constraints

Financing low carbon-emitting technologies

The level and type of policy and investment required to promote technology development and deployment vary depending on the level of commercialisation of technologies. For example, commercially available technologies are, in most cases, inherently less risky than technologies that have not been commercially proven. For these types of technologies, the additional cash flow generated from mechanisms such as the clean development mechanism (CDM) or other future mechanisms may be sufficient in order to make the business case. The policies required to support commercial technologies may be national standards or incentive-based mechanisms such as tax breaks. Technologies that are not yet, or near, commercial may require more complex financing mechanisms with some up-front capital support being required in addition to a stream of CDM-related credits.

IEA Clean Coal Centre

The International Energy Agency (IEA) Clean Coal Centre (CCC) provides unbiased information on the sustainable use of coal worldwide. The IEA CCC is what is known as an "implementing agreement" in which participants contribute to a common fund to finance the activities. We are a member of the executive committee of representatives which is nominated by the contracting parties and "sponsor members", to act as the "board of directors". This ensures that all participants have equal influence over the work programme and policies.

The IEA CCC, a non-profit entity provides access to information on coal as an energy source and raw material for many different processes. There is a strong focus on using coal with minimal emissions to air which increasingly includes considerations related to CO_2, particularly for power generation. For more information visit www.iea-coal.org.uk.

Go to www.eskom.co.za/annreport09/034.html for more detail on the financing of low carbon technologies.

Planning and decision-making

Our integrated strategic electricity planning (ISEP) process provides energy and demand forecasting for up to 20 years into the future. The planning process makes use of economically and environmentally acceptable technology options for flexible and timely decision-making, considering our and our shareholder's objectives and taking into account available energy reserves and primary energy options including renewable energy potential. The criteria for assessing the robustness of the plans include cost, flexibility, robustness, sustainability, which includes the full scope of sustainability criteria (environmental, social and economic) and implementation potential.

A significant factor that can impact the choice of future baseload power generation options is climate change and South Africa's response plan in this regard. Given South Africa's abundant coal resource, it currently remains an important option to satisfy the required growth in supply, while past experience with nuclear power drives the continuing efforts to diversify in favour of mid- to long-term nuclear options.

Coal plants in the new planning cycle will employ cleaner coal technologies. The new Medupi and Kusile power stations will both operate at super-critical temperatures and pressures, meaning better efficiencies and therefore better environmental performance. Nuclear power generation also remains an important choice, both for meeting the baseload and the low carbon emitting requirements. This option remains a crucial mid- to long-term option in planning the country's future electricity supply. In current economic circumstances the challenge remains finding sustainable funding to support our aspirations for the nuclear option.

While acknowledging the above in our current planning cycle, it is a fact that there are several generation options that could be developed to contribute in this area. There is an ongoing process to examine the possible baseload options available to us and what is required to move each of these options forward to enable informed decision-making in the future.

Underground coal gasification research

We are undertaking a detailed demonstration programme to bring underground coal gasification (UCG) technology to fruition. This is a ground-breaking clean coal technology that enables cleaner and more cost-effective electricity. The objective is to demonstrate that UCG gas can be used to fire power station furnaces, and to provide design input for a new combined-cycle power station.

Go to www.eskom.co.za/annreport09/035.html for more detail on underground coal gasification.

Performance review continued

Harald Winkler is associate professor at the Energy Research Centre, UCT. He comments in his individual capacity

Stakeholder comment

South Africa's economy has historically been built around the "minerals-energy complex", of which coal-fired electricity is a core component. Relying on coal is associated with high greenhouse gas (GHG) emissions – 79% of our total GHG emissions come from energy supply and use, with about half of that (41% of total) from electricity supply. How high does South Africa rank in international comparison? It depends on what you count, as the following table shows with different rankings for South Africa.

South Africa produced 1,2% of the world's cumulative energy CO_2 between 1950 and 2000 – 14th highest globally. Since four-fifths of our emissions are energy-related, adding LULUCF emissions (land-use, land-use changes and forestry) shifts South Africa's ranking downwards to 21st place. With our relatively small population, per capita rankings are 47 and 64. Counting annual emissions, our rankings in absolute terms are in a fairly narrow range, between 19th and 24th – depending on the year and counting the three major Kyoto GHGs.

Our GHG intensity (not in the table) was 1 045t CO_2-eq per million USD in 2005 – and we ranked 26th highest by this measure. For electricity, we ranked higher at 13th – and that is with a value of 0,85 kg CO_2 per kWh of electricity using the consistent data source, CAIT. Eskom's own annual reports have indicated 0,96kg, varying slightly over the years. Clearly, the kind of mitigation options identified in the long-term mitigation scenarios for the electricity sector will have to go well beyond existing targets and make a transition to the low-carbon electricity sector.

South African green house gas emissions by different measures compared to global shares and ranks:

	Emissions (Mt CO_2-equivalent)	Tons of CO_2-equivalent per person	Share of global emissions %	Rank in world, based on: Absolute tons, annual or cumulative	Per capita
Cumulative emissions 1950 – 2000: CO_2 – energy only	9 359	200	1,20	14	47
Cumulative emissions 1950 – 2000: CO_2 – energy and LULUCF	10 214	201	0,86	21	64
Annual emissions 2000: CO_2, CH_4 and N_2O, energy and LULUCF	380	8,6	0,94	24	68
Annual emissions 2000: CO_2, CH_4 and N_2O, energy only	378	8,6	1,15	19	50
Annual emissions 2005: CO_2, CH_4 and N_2O, energy and LULUCF	415	8,9	1,15	20	48

Data source: Climate Analysis Indicator Tool (CAIT) – World Resources Institute, http://cait.wri.org/

Limiting the impact on the environment

Our overall environmental performance was unsatisfactory this past year due to our current production pressures. This resulted in operational procedures and practices not being adhered to at all times, which has led to environmental issues not effectively influencing decisions. Focus has therefore been on mechanisms and assurance to meet legal requirements, emphasising environmental awareness, embedding a culture of environmental stewardship, emphasising environmental controls and undertaking environmental impact assessments related to the build programme.

Our future focus is on re-enforcing environmental controls and decision-making, emissions control and water management practices and driving continual improvement through a systems approach to environmental management. New opportunities exist for us to identify and implement our own internal energy efficiency projects and expand on water conservation programmes, and conservation of land as a biodiversity offset.

Environmental performance is managed as an integral part of our governance structure, from the board sustainability committee, to the executive management committee (Exco) sustainability and safety subcommittee. Accountable environmental managers and environmental practitioners ensure the effective implementation of environmental management systems throughout our business.

Through this commitment, our objective remains to ensure continual improvement in our environmental performance by setting environmental performance indicators and controlling our activities through management systems and ensuring that our decision-making processes are based on balanced criteria. These commitments are set out in our safety, health and environment policy.

Our environmental commitment continues to be based on the efficient use of natural resources while controlling our activities that impact on the environment. Based on this year's performance, the focus has been placed on our operational control measures and oversight mechanisms to provide assurance on practices.

Many of Eskom's power stations, such as Kendal and Koeberg, have game on site as part of nature conservation efforts

Performance review continued

Performance

Highlights

- there was success with environmental impact assessments and implementation of environmental management plans for our build projects, and implementation of environmental management systems. Our progress in delivery of additional electricity to South Africa was achieved while ensuring that the decisions made were based on the environmental authorisations received from the DEAT following environmental assessments and public participation
- in our 2008 annual report, KPMG Services issued a qualified conclusion regarding the total number of environmental legal contraventions, indicating that process and control weaknesses prevented complete, consistent and accurate reporting of the performance data. As a result we implemented corrective and preventive plans such as undertaking a series of environmental legal audits focused on waste management and legal compliance and rollout of training and awareness related to environmental legal compliance. This has resulted in improvements to management systems, control measures and relevant waste management and performance reporting procedures
- we signed the MoU with the DWAF to focus on water management and water efficiency
- we entered into a joint initiative agreement with the mining industry on synergistic solutions to reduce environmental damage
- we finalised our water management strategy and adopted dry cooling as the default cooling technology for future coal-fired power stations
- we participated in the Vaal national priority area and contributed to the Vaal Triangle airshed priority area air quality management plan
- we established stakeholder forums for engagement on Eskom's build programme and EIAs
- we completed a national risk sensitivity map for birds and powerlines in South Africa as part of the overall research programme to ensure improved practices related to biodiversity. This included closing 87% of the localities within our distribution and sub-transmission networks where mitigation was required within four months

Lowlights

Our environmental performance declined under our current operational constraints. This overall trend is a continuation of the previous year's performance. The significant areas of concern to us are as follows:

- the need to apply for exemptions for cases where permits were exceeded in terms of our particulate emission limits
- our particulate emissions from our coal-fired power stations increased from 0,21 to 0,27kg/MWh[1] sent out and water used as part of the process to generate electricity increasing from 1,32 to 1,35L/kWh sent out. This is a result of: power stations being run harder to meet the demand for electricity; deteriorating coal quality at some stations; reduced opportunity for maintenance due to the lower reserve margin; and a deterioration in the operational performance of some power stations
- we experienced an increase in legal contraventions from 46 to 114 partly due to the increased focus on reporting of legal contraventions and due to inadequate implementation of procedures
- there was an increase in the number of identified Ludwig's bustard collisions on our powerlines in areas of the Karoo

Go to www.eskom.co.za/annreport09/036.html for more detail on environmental performance reporting.

1. *It is noted that the overall particulate performance figure is based on individual power station performance. For certain power stations, emission figures are based on best estimates.*

Key environmental performance indicators

	Unit of measure	Target 2009	Actual 2009	Actual 2008	Result
Relative particulate emissions[1,2]	kg/MWh sent out	≤0,21	0,27[RA]	0,21	Not achieved
Specific water consumption[3]	litre/kWh sent out	≤1,30	1,35[RA]	1,32	Not achieved
Enhanced PreCare/MaxiCare environmental component	score	≥80,00	99,84	97,21	Exceeded
Total number of environmental legal contraventions[7]	number	N/A	114[RA]	46	Increase in number
Reported legal contraventions of an order of significance[4]	number	0	11[RA]	6	Not achieved
CO_2[5]	Mt	N/A	221,73[RA]	223,57	Decrease in emissions
Radiation exposure, per annum	milliSieverts	≤0,25[6]	0,0045	0,0041	Exceeded target
SO_2[5]	kt	N/A	1 874[RA]	1 950	Decrease in emissions
NO_x[5]	kt	N/A	956,6[LA]	983,9	Decrease in emissions

RA *Reasonable Assurance provided by the independent assurance provider (refer page 101).*
LA *Limited Assurance provided by the independent assurance provider (refer page 102).*

1. *Figures are calculated as a 12-month moving index.*
2. *Amount of ash emitted per unit of generated power sent out (excluding Camden and Grootvlei power stations). In 2009/10 when Camden will have been in full commercial operation for a period of 12 months, it will be included in the calculations.*
   It is noted that the overall particulate performance figure is based on individual power station performance. For certain power stations, emission figures are based on best estimates.
3. *Volume of water consumed per unit of power sent out by all generating stations (excluding Camden and Grootvlei power stations). In 2009/10, Camden will have been in full commercial operation for a period of 12 months and will therefore be included in future calculations.*
4. *Under certain conditions, contraventions of environmental legislation are classified in terms of the Eskom operational health dashboard index. These include instances where censure was received from authorities, legal contraventions were not reported to government and internally, if it is a repeat legal contravention or where the contravention was not addressed adequately. Managing directors can escalate any significant contravention to Exco if deemed appropriate.*
5. *Calculated figures are based on coal characteristics and the power station design parameters. SO_2 and CO_2 emissions are based on coal analysis and tonnages of coal burned in 2008/9. For 2009, this includes Camden, Grootvlei and the open-cycle gas turbine stations as well as oil consumed when power stations are started up.*
6. *National Nuclear Regulator limit.*
7. *The reporting date of legal contraventions is based on their classification at the ELC. This may result in legal contraventions from one year being reported in the following year.*

Eskom has partnerships with organisations, such as the Endangered Wildlife Trust, to manage bird interactions with powerlines

Eskom

Performance review continued

Air quality

The generation of electricity at our fossil-fuel power stations results, *inter alia,* in the release of combustion gases and particulate matter, which can affect local and regional air quality. The National Environmental Management: Air Quality Act (39 of 2004) governs air quality and atmospheric emissions related to our activities.

Our overall relative emissions, used as a performance indicator, showed an overall improvement in performance until 2007. Since then there has been a steady decline in performance, with deterioration since the second quarter of the 2008/9 financial year. This deterioration is related to:

- power stations being run at higher load factors to meet the demand for electricity
- deteriorating coal quality at some stations
- reduced opportunity for maintenance due to the lower reserve margin
- a deterioration in the operational performance of some power stations

As a result of this decline in performance, we have applied for over 170 exemptions and had 22 legal contraventions as a result of not meeting limits set out in the power station emission permits.

Go to www.eskom.co.za/annreport09/037.html for more detail of Eskom's involvement in the National Association for Clean Air (NACA).

Review of power station air quality registration certificates

Registration certificates are currently being reviewed in anticipation of the replacement of registration certificates with atmospheric emission licences from September 2009 onwards. In cases where the particulate emission limits are not in line with the proposed minimum emission standards, the licences contain a programme to reduce emissions over a period of time until they comply with the emission standards.

For the first time, sulphur dioxide (SO_2) and nitrogen oxides (NO_x) emission limits have been included in the licences. Negotiations with the Department of Environmental Affairs and Tourism are underway in this regard.

Air quality research

We have been undertaking investigative air quality monitoring on a regional scale since the late 1970s, using state-of-the-art equipment. Currently there are 11 air quality monitoring sites, including a "super-site" at Elandsfontein, measuring most of the pollutants as stipulated by the Department of Environmental Affairs and Tourism under the Air Quality Act.

It is important to note that the entire air quality monitoring network is accredited by the South African National Accreditation Service (SANAS). Ultimately, by identifying long-term pollution trends and atmospheric chemistry processes, we are able to assess compliance with ambient air quality guidelines and standards and also predict long-term environmental impacts. By enhancing our knowledge and understanding of the effects of power station emissions on atmospheric chemistry at a regional and global scale, we will be able to minimise our industry's impact on the environment.

For detail on the Highveld National Priority Area, go to www.eskom.co.za/annreport09/038.html.

SANS 1929: 2009

The National Framework for Air Quality Management in South Africa (the national framework) makes provision for the establishment of air quality objectives for the protection of human health and the environment as a whole. These values are based on assessments that establish the ambient concentrations of prioritised pollutants, and evaluate the technical feasibility, economic viability and social and political acceptability of implementing measures to reduce and maintain air quality within limit values.

Refer to www.eskom.co.za/annreport09/039.html for more detail on SANS 1929: 2009.

Our air quality focus for the next financial year will include:

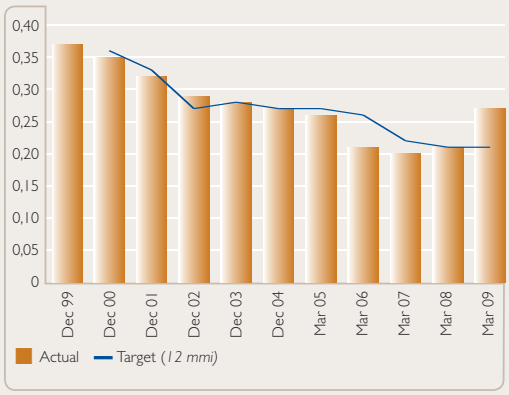
- input into the SABS emissions and ambient air quality standards setting processes
- finalisation of revised power station emission registration certificates
- ensuring compliance with air quality-related conditions of the environmental authorisations for Medupi, Kusile, Gourikwa and Ankerlig power stations
- finalising air quality management plans – detailing how the challenges regarding particulate emissions will be dealt with at those coal-fired power stations performing below target and implementation of action plans at coal-fired power stations to address air quality problems
- participation in the Highveld National Priority Area process

Particulate emissions

The relative emission of particulates from power station stacks increased over the reported period and our target was not achieved. This was as a result of running power stations harder, a poorer quality of coal, as well as a deterioration in power station operational performance.

The actual particulate emissions, based on a 12-month moving index (12MMI), were 0,27kg/MWh sent out (2008: 0,21) against a target of ≤0,21kg/MWh sent out.

Particulate emissions



Refer to www.eskom.co.za/annreport09/040.html for further detail on gaseous emissions.

Ambient air quality monitoring and modelling

Our ambient air quality monitoring and modelling programme is based on numerous sites around the country. This is used to determine general air quality and emissions associated with our operations, taking into account the status of the airsheds in which we operate. This information is shared with the DEAT as part of the plans to address air pollution in particular priority areas.

The DEAT used the data collected over the period 2007/8 to determine the effect of the Clean Fires Campaign – a campaign to change the manner in which household coal fires are made and thus reducing the levels of pollution.

Refer www.eskom.co.za/annreport09/041.html for more detail on our involvement in DEAT's Clean Fires Campaign.

Refer www.eskom.co.za/annreport09/042.html for more detail on ambient air quality monitoring.

Performance review continued

Stack emissions

Our commitment to our air quality policy is reflected by research into new and existing technologies to reduce both particulate and gaseous emissions from coal-fired power stations. Newly enacted legislation requires us to build the next generation of power stations with full-environmental controls, including the installation of flue gas desulphurisation (FGD) plant, hence further research has been undertaken to investigate mature and commercially viable technologies for our application.

Not only are our efforts geared towards particulate removal and reduction efficiencies at existing power stations, but we are also investigating new technologies for the removal of sulphur dioxides (SO_2) with particular attention to new coal-fired power stations taking limited resources like water and sorbent into account.

Our ambient air quality monitoring and modelling programme monitors ambient particulate, SO_2 and NO_x concentrations in areas where populations are potentially affected by power station emissions, and at other sites deemed necessary in order to understand the current and future impact of our activities on ambient air quality. Monitoring stations have been established to measure the impact of return-to-service and new power stations on ambient air quality as the power stations are commissioned. The monitored data is also used to validate and improve our use of atmospheric dispersion models to predict air pollution impacts, and improve our understanding of atmospheric chemistry in the region.

Water usage

We are a strategic water user and use about 2% of the total fresh water resource in South Africa. As a strategic water user we receive our water from the DWAF at a 99,5% level of assurance, and this supply is achieved through augmentation and inter-basin transfer schemes. However, climate change and variability in weather patterns have the potential to impact availability, quantity and demands for water, thus being a major risk to water security and energy security for South Africa.

We largely use freshwater resources abstracted from government water schemes. However, in the period under review, 6 982ML of mine water was used at Tutuka and Lethabo power stations. We are in the process of building a system to use approximately 6ML/day of mine water at Duvha power station.

Water used in the production of electricity

	Unit of measure	Target 2009	Actual 2009	Actual 2008
Water used at Eskom power stations (including Koeberg)	ML	N/A	323 190	322 666
Electricity produced (including hydro and nuclear)	GWh	N/A	228 942	239 108
Specific water consumption[1]	L/kWh sent out	≤1,30	1,35[RA]	1,32

RA *Reasonable Assurance provided by the independent assurance provider (refer page 101).*

1. *Volume of water consumed per unit of power sent out by all generating stations (excluding Camden and Grootvlei power stations). In 2009/10, Camden will have been in full commercial operation for a period of 12 months and will therefore be included in future calculations.*

Our specific water consumption of 1,35L/kWhSO is worse than the target of 1,30L/kWhSO largely due to lower load factors and the use of 1% more wet-cooled power stations than originally budgeted for. Other contributing factors to poor water use performance included the age and thermal efficiency of the current power stations and the deteriorating coal quality supplied to some stations, leading to increasing coal burn rate per unit of electricity generated. The incoming raw water quality to some stations has also deteriorated over the past year, resulting in increased salt loads and additional water use. Specific interventions and programmes have been planned to deal with the poor water use performance.

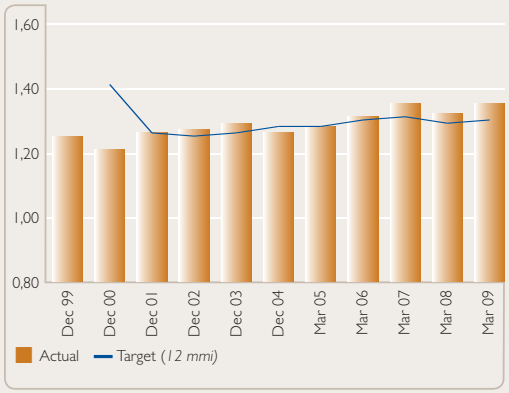
Our adaptation strategies and mitigation plans include the adoption of dry-cooling technology for future new power stations (unless the power station is sited near the coast and sea-water is used for cooling purposes). We are also committed to adopting the most economically feasible, water-efficient, sustainable option on gaseous emission technologies in line with local and international environmental standards and regulations. Further improvement in thermal efficiency of existing and new power stations would improve water use performance and diversification of the energy mix away from coal would reduce freshwater consumption. Working with our consumers to reduce their demand through our demand-side management programme would have the positive advantage of saving about 1,35L/kWh of electricity saved.

We have secured our water supplies through long-term water supply and user contracts with the DWAF. We have also developed long-term scenario plans for the next 50 years and are working closely with the DWAF to ensure adequate and timeous water infrastructure and resource planning to meet the water needs of future power stations. Plans are underway to implement a water augmentation scheme to transfer water from the Crocodile-West Marico water management area to the Lephalale area, where Medupi and further proposed new power stations will be built.

Refer to www.eskom.co.za/annreport09/043.html for further information on water.

Specific water consumption

L/kWh sent out



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

Water research

The impact of industrial activities on water quality is an issue of great concern, since it affects the sustainability of water use. As a major water user we have initiated a pro-active bio-monitoring programme throughout Mpumalanga, Gauteng and the North West Provinces, and also in the vicinity of the Majuba power station.

Bio-monitoring allows for sampling and quantifying the types of organisms present in the water, thereby obtaining an indication of the type and degree of any possible degradation. The information obtained from this research would assist us in making decisions regarding atmospheric emission abatement technologies and the installation of water recovery plants. A number of desalination treatment technologies were considered to improve water quality requirements for industrial re-use. The success of acid mine drainage studies with fly ash, has also prompted the design of a pilot plant that will be able to recover this contaminated water.

Performance review continued

Compliance with environmental legislation

Consistent with our commitment to legal compliance, we evaluate compliance with applicable environmental legal requirements and report all such incidents as part of measuring our environmental performance. Mechanisms are in place for the reasonable identification, recording, reporting and responding to incidents that are considered contraventions of environmental legislation.

During the previous financial year, we received a qualification from the external assurance providers in terms of weaknesses in reporting and identification processes and controls for legal contraventions. As a result we appointed an external service provider to assess the adequacy of reporting procedures and controls. This has resulted in better controls and an oversight mechanism related to environmental legal contraventions.

For this reporting period, 114 (2008: 46) environmental legal contraventions were recorded. Most of the environmental legal contraventions related to non-compliance with clauses contained within environmental authorisations, air quality and water events. For the financial year, 11 (2008: 6) legal contraventions were recorded in terms of our operational health dashboard. The increase is partly due to an increased focus on environmental legal contraventions reporting and as a result of inadequate implementation of procedures.

Refer to www.eskom.co.za/annreport09/044.html for more detail on the definition of a legal contravention.

Biodiversity

We have over 371 000km of powerlines, operate 27 power stations and have three new power stations under construction, which means that our business footprint in relation to biodiversity needs to be monitored and managed closely.

The significant threats in terms of biodiversity are managed and controlled through our partnerships with civil society to ensure best practices and specialist input. This includes the Endangered Wildlife Trust (EWT) for avian impacts; BirdLife South Africa and the Middelpunt Wetland Trust for the conservation of a sensitive wetland and associated biodiversity next to the new Ingula pumped-storage scheme; and the Wildlife and Environment Society of SA (WESSA) for broader environmental education programmes in the area of energy and sustainability.

In recognition of our commitment to manage our impact on biodiversity, the process to collate avian impacts was included in the internal assurance process – a first for us. We have initiated a process for the review of the effectiveness of the long-standing Eskom/EWT strategic partnership, with a view to identifying key performance areas and indicators to better understand our material impact on avian wildlife. This process will pro-actively put steps in place to improve the way in which we mitigate our impact.

Refer to www.eskom.co.za/annreport09/045.html for information on the EWT partnership.

We have engaged the South African National Botanical Institute (SANBI) earlier this year to share our future capacity expansion planning and provide an opportunity for SANBI to share their knowledge on various biodiversity-related issues. The engagement was well received and has given impetus for us to further explore appropriate mechanisms to manage our activities.

The Ingula partnership – management of an important conservation area

Eskom's new pumped-storage scheme on the Drakensberg escarpment in South Africa is in close proximity to sensitive wetlands – the summer habitat of the highly endangered white winged fluff tail, a small bird that migrates to South Africa from Ethiopia for the summer. Having at first lost the right to build the scheme due to these environmental considerations, we realised that we had to reach a compromise with the institutions that were critical of the project's development.

We are offsetting our impacts by soundly managing a conservation area that has led not only to the establishment of a suitable habitat for the 210 bird species on the site, but has also added to water supply security for the project and for the country as a whole, while forming sustainable partnerships with those institutions that were at first opposed to the development.

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

The area is now being managed as a conservation area. Programmes have been implemented to manage erosion and vegetation that is not indigenous to the area, and to ensure that the number of animals and levels of harvesting are sustainable. Community programmes focusing on job creation and the development of sustainable farming units owned by the community are being developed. A sustainable eco-tourism initiative is also being kick-started to ensure long-term job creation.

Refer to www.eskom.co.za/annreport09/046.html for further information on the Ingula partnership.

Waste

As a generator, transmitter and distributor of electricity, our significant waste streams are ash (a by-product of the coal burned) and nuclear power station radioactive waste material. As part of our commitment to phase-out polychlorinated biphenyls (PCBs) and asbestos-containing materials these two significant waste materials are removed and disposed of.

Quantities of waste disposed of at registered waste sites

	Unit of measure	2009	2008	2007
Materials containing asbestos	tons	**3 590,8**[LA]	321,0	6 060,0
Material containing polychlorinated biphenyls (PCBs)	tons	**505,6**[LA]	17,0	10,0
Volume of low-level radioactive waste (Koeberg)[1]	m^3	**189,0**[RA]	270,0	135,0
Volume of intermediate-level radioactive waste (Koeberg)[1]	m^3	**473,6**[RA]	418,0	436,0
Ash (approximate)	Mt	**36,7**[LA]	36,0	34,2

RA *Reasonable Assurance provided by the independent assurance provider (refer page 101).*
LA *Limited Assurance provided by the independent assurance provider (refer page 102).*
1. *Sent to the Vaalputs National Radioactive Waste Repository.*

Performance review continued

Polychlorinated biphenyls (PCBs)

We continue to participate in the DEAT national implementation plan (NIP) in terms of the Stockholm Convention for Persistent Organic Pollutants (POPs) *(Sectoral Focus Group 3: PCB Assessment)*. In line with this, we are committed to the phasing out of PCBs by 2025.

PCBs are not generated in Eskom but are found in dielectric fluid used in some electrical equipment, such as transformers and capacitors, for electrical insulation and thermal cooling.

Over the past 12 years, our management practices relating to PCBs have included:

- handling, storage, testing and labelling of PCB-contaminated equipment (based on *SANS 0290: 2008: Mineral Insulating Oils – Management and Handling of Polychlorinated Biphenyl (PCB)*). This standard covers the requirements, classification, labelling, handling, storage, transportation, decontamination and disposal of PCB-contaminated oil
- compilation of inventories of PCB-containing equipment
- development of phase-out plans that meet the requirements of the Stockholm Convention

We verify the inventories regularly to ensure that the management of PCBs is in line with our procedures and in line with the requirements of the SANS 0290: 2008 standard.

Phase-out plans exist within the operational line divisions that deal with PCBs. These plans have been factored into current and future refurbishment and expansion plans.

The table below gives an overview of our PCB inventory indicating the equipment that contains 50ppm or more of PCBs. Over the last seven years we have phased out over 950 tons of PCB-containing equipment through thermal destruction. Equipment is thermally treated and the solid residue tested for the presence of PCBs after treatment. The residue is reclassified as non-hazardous and landfilled.

Ash

Of the approximately 36,7 million tons (2008: 36,0 million tons) of coal ash produced at the coal-fired power stations over the 12-month period, 5,7% (2008: 7%) was recycled. The recycled ash from Lethabo, Matla, Kendal and Majuba power stations is used for the production of cement.

The remaining ash is disposed of in ash dams and dumps next to our power stations. These are then rehabilitated to control fugitive dust.

Eskom equipment containing PCB

Description	Number	Status of equipment	Comment
Number of pieces of Eskom equipment containing ≥ 50ppm PCB	17 086	Currently in use	Comprises transformers, capacitor cans, auxiliary equipment

Nuclear

Volume of nuclear waste generated at Koeberg:

	Unit of measure	2009	2008	2007
Low-level radioactive waste	m^3	**140,8**	180,3	94,5
Intermediate-level radioactive waste	m^3	**23,8**	26,8	36,0
Spent nuclear fuel elements (cumulative)	number	**56 (1 729)**	112 (1 673)	56 (1 561)

The low- and intermediate-level radioactive waste from Koeberg power station is sealed in steel drums and concrete containers, respectively. This waste is disposed of at the Vaalputs national radioactive waste repository. This is a near-surface disposal site for radioactive waste, licensed by the National Nuclear Regulator and operated by Necsa. All the spent fuel (high-level waste) from the power station is stored inside the power station in fuel pools.

Environmental management systems

Our environmental management system ensures that oversight and control measures are in place for our environmental duty of care. It also highlights the environmental impacts of our varied activities and checks that effective controls are in place.

Many parts of our business have received ISO 14001 standard certification, while the rest of the group undertakes audits and management reviews to ensure that the standards are adhered to.

Refer to www.eskom.co.za/annreport09/047.html for detail on divisions and subsidiaries that have achieved ISO 14001 certification.

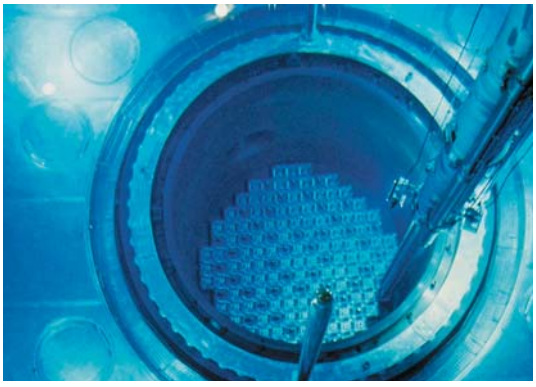
Environmental expenditure

Funds allocated for environmental capital and operational expenditures amounted to R1,10 billion on capital projects and R1,02 billion on operational environmental activities (2008: R1,3 billion capital and R460 million operational).

The funds were used for the following environmental activities:

- air quality-related activities
- water management
- environmental management
- closure provisioning at coal mines
- environmental impact assessments for power stations, powerline and substation construction projects
- waste and sewage management
- rehabilitation of land
- control of vegetation along our 371 000km of powerlines

A truck unloads concrete drums with intermediate-level waste from Koeberg at Vaalputs



The Koeberg reactor contains fuel pools for the spent fuel

Performance review continued

Restoring Eskom's image and public confidence

Just over a year ago, Eskom was unable to fully satisfy the demand for electricity, resulting in power outages across the country. Load shedding impacted heavily on public confidence in Eskom and the company's image.

Although load shedding has not been implemented since April 2008, the experience is still fresh in the minds of South Africans. There remains uncertainty about Eskom's ability to keep the lights on. Added to this are the uncertainties regarding the price increase that Eskom needs, in the midst of a global economic crisis, and the impact on customers and the economy at large.

Eskom took a decision to adopt a reputation management system in conducting all communication activities; in order to address our image and public confidence. The first phase of this process was to conduct various reputation studies among staff, stakeholders and the public. The purpose was to understand whether and how perceptions about the company have altered following the energy crisis, to identify strategic opportunities to address the negative sentiments that exist about Eskom, and to adapt the company's communication strategies and action plans accordingly for the future.

Financial sustainability is currently considered to be the most important reputational driver for Eskom, based on a reputational survey performed. The public considers leadership to be the second most important driver of the company's reputation. The public recognised that they may only receive reliable products/services if Eskom is financially stable, has the ability to cater for future growth, and has strong leadership.

The insight gained from these studies was converted into a communication strategy that includes plans around internal communication, media, branding and stakeholder engagement. An integrated communication campaign has been implemented to provide education about Eskom's challenges, energy efficiency, public safety as well as the growth opportunities that exist as a result of the build programme. This is supported by world-class systems in media relations and messaging; as well as branding and PR interventions.

The stakeholder engagement plan is central to embedding Eskom as an integral part of the South African dream. Key stakeholders understand that Eskom is vital to the success of this country's growth and development. This creates healthy relationships and an enabling environment for Eskom to operate in.

Internal communication has been an area of focus of the reputation management system. Confidence in Eskom needs to be restored from inside out for it to be sustainable. It is important for employees to be empowered, educated and energised to become ambassadors of the organisation. To this end, the Guardian Programme was launched to instill pride and passion in the Eskom brand and to create understanding among employees about their role in the South African economy – *guardians of a national asset*. The launch phase of the programme created enormous awareness regarding the purpose and messages of this programme among 60% of Eskom employees.

The drive to restore Eskom's reputation has begun. It took off successfully in the latter half of 2008; and has become the common goal for all communicators. Eskom can now showcase measurable impacts of various efforts and the penetration of messages to date. Through various communication campaigns, Eskom will continue to provide information to its employees, stakeholders and the public in an open and transparent manner. A lot of work still lies ahead in rebuilding public confidence in Eskom and regaining the trust that the company once enjoyed.

Stakeholder engagement

The different Eskom divisions have played a key role in managing the organisation's reputation while strategically positioning Eskom positively in the minds of stakeholders and managing the issues "of the day". This was done by building and maintaining relationships with stakeholders and by initiating dialogue through optimised communication channels, some of which included establishing numerous platforms of engagement with interested and affected stakeholders. These included forums to tackle issues regarding coal haulage in Mpumalanga as well as forums in the communities of the new build sites across the country.

Through the environmental impact assessments, public participation meetings and focus group meetings were held with a variety of stakeholders which included but were not limited to; local and provincial government departments, municipalities, local business representatives, suppliers, community-based organisations (CBOs), non-governmental organisations (NGOs), local media, farmers' associations and affected communities. It was through these sessions that the organisation was able to solicit stakeholder support regarding Eskom's strategic objectives and in turn where the stakeholders were also able to solicit Eskom's support in numerous pertinent areas.

The stakeholder management staff, across the organisation, develop and implement a pro-active stakeholder engagement process.

The primary objectives are:

- to build strategic partnerships with a view to restoring public trust and confidence in Eskom
- to create an enabling environment for Eskom to achieve its strategic objectives in support of the country's national agenda
- to influence opinions and perceptions of stakeholders with a view to soliciting their support for Eskom's strategic objectives
- to listen to stakeholders and consider their contributions in order to address their concerns and needs
- to maintain and sustain relations through continual dialogue and holding information sharing sessions. This includes addressing issues and giving feedback to stakeholders

The power outages in January 2008 made it necessary for Eskom to review its stakeholder engagement process with a view to engaging as many stakeholder groupings as possible. The immediate challenge was to stabilise the situation, promote the efficient use of electricity and subsequently ensure continuity of supply.

Eskom needed solutions to prevent the recurrence of the power outages and a national task team was formed to serve as a strategic forum for this purpose. This national task team (NTT) included Eskom and government. A series of meetings were held with the objective of coming up with strategies on how to deal with the demand for electricity. An agreement was reached with key stakeholders to reduce electricity consumption by 10% in order to secure continuity of supply.

In addition, a national electricity response team was formed to address the national electricity emergency facing the country at the time. The national electricity response team (NERT) comprised representatives from Eskom, government, local government including SALGA, state-owned enterprises, organised business, labour and civil society. The main focus was the implementation of a national energy-efficiency campaign.

In accordance with the stakeholder engagement strategy, Eskom attended the Nedlac National Stakeholder Summit on Electricity. Collective decisions were taken around the approach with regard to pricing, socio-economic impacts, the savings campaign, balancing supply and demand as well as the role of local government in the implementation of a range of measures.

Performance review continued

In addition, Eskom also participated in the Electricity Distribution Maintenance Summit attended by organising partners from the DPE, DME, DPLG, Nersa, EDI Holdings, AMEU as well as representatives from organised business, labour, civil society and professional associations. The summit theme was "Towards a sustainable electricity distribution industry".

At the same time, Eskom engaged the following key stakeholders on various significant issues:

- DPE: on coal supply, ISEP, tariffs and the build programme
- DME: on acquisition of electricity from IPPs
- DEAT: on the authorisation of the EIAs, climate change and air quality issues
- Nersa: on the tariff application
- Parliament: on the CFL exchange programme
- Metros and municipalities: on power conservation in municipal areas and the electrification programme
- Business Unity South Africa: on security of supply, tariffs/pricing and Eskom's readiness for 2010
- Investors, bankers and loan agencies: to secure funding
- National Treasury: on funding advances and debt guarantees

Eskom's stakeholder engagement strategy is premised on operating in pro-active mode; the Eskom risk profile determines the prioritisation of issues. The bulk of stakeholder engagements in the year under review were in response to the disruptions in the energy supply.

Customer satisfaction

Eskom's efficiency is important to South Africa's economic prosperity, transformation and sustainable development. By monitoring customer satisfaction, we can plan pro-actively to ensure that we deliver the required quality of service at the appropriate time and price. We use a range of statistical perception surveys, conducted by an independent research organisation, to measure customers' satisfaction with the 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 on 31 March 2009 was 84,74% (2008: 82,11%) against a target of 82,51%.

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

Measuring customer satisfaction

Eskom has been measuring customer satisfaction since 1994. Monthly surveys are conducted to guide the action plans and to improve service. The results of these perception surveys are reported throughout the organisation and evaluated along with technical, financial and human resource indicators.

The concept of the customer service index is to measure customer service at a consolidated level over a 12-month period. It combines the results of a number of external customer perception surveys and internal performance measures. A 50% weight is applied to external perception surveys and 50% to internal measures (of which 55% is attributed to contact centre performance).

The external customer perception surveys are as follows:

Enhanced MaxiCare

Enhanced MaxiCare is a total quality index expressed as a percentage of six customer segments:

- agricultural
- commercial
- industry
- residential billed
- prepaid
- precare combined (newly connected customers across all segments)

Enhanced MaxiCare – total quality index[1]

1. *Comparative years on the graph not adjusted for changes in weights and scales used in the current year.*

A monthly survey is done by an external agency. A sample of customers in the above six segments is selected at random, regardless of any recent contact history.

The Enhanced MaxiCare measure features:

- an emotional scale where customers use adjectives to rate each of the service aspects
- approximately 20 questionnaire statements that customers rate for both importance and performance
- calculations performed using statistically determined numeric values that are linked to each word on the scale
- percentage delivery on each service aspect where 100% indicates that customer expectations were met exactly
- results that are plotted on a service quality action matrix and
- a total quality index that is calculated indicating the overall weighted percentage delivery

In the survey, customers are requested to rate Eskom's service delivery on various specific service aspects that are important to them. Since Eskom's core product is electricity, quality of supply is rated by customers as one of the most important service aspects that Eskom delivers. Statements that customers rate in the "quality of supply" service dimension are:

- the number of interruptions in electricity supply
- the number of power surges and voltage drops (dips) in electricity supply impacting the customer
- our commitment to maintenance of networks
- the time it takes to restore supply to the customer after an electricity interruption
- the ease with which we can inform the customer of a supply interruption and the duration thereof

Key customers and KeyCare

The KeyCare total quality index measures the satisfaction of approximately 120 key customers who use a minimum of 100GWh of energy a year. An independent organisation conducts interviews with the general manager, and the most senior engineering and accounting interfaces in the companies.

The KeyCare index performance for the year was 101% against a target of 103%. The KPI is a 12-month moving average across all three segments (general manager, engineering and accounting). Contributing factors to not meeting the target are capacity constraints and price increases.

The measure was not reported in 2008 due to difficulties in obtaining credible data during the load-shedding period during 2007/8.

Refer to www.eskom.co.za/annreport09/048.html for more information about the measuring of customer satisfaction.

Performance review continued

Our people

The role of human resources at Eskom is integrated in Eskom's mandate within the context of South Africa. The HR strategy therefore supports the 2013 vision framework of Eskom namely:

- improving the quality of life of all citizens of our country
- maximising the potential of each employee in our organisation
- becoming an embodiment of a united and democratic South Africa and
- enhancing South Africa's participation in the global economy

The mode of operation is through providing:

- direction and assurance of people-related issues
- HR business partnering in the delivery of the organisation's objectives and
- a cost-effective transactional service for economies of scale and of skills

An important role is to monitor and measure critical factors relating to people management. A human resources sustainability index (HRSI) was established some years ago, measuring relevant areas that are also contracted into leadership performance compacts.

The areas of measurement and measurement criteria are reviewed on an annual basis to ensure applicability. These can be summarised as employee satisfaction, employee competence, equity and employee health and wellness categories.

The HRSI score for the past year was 89,8% (2007/8: 82,3%) 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.

Eskom is a constantly evolving organisation that provides the lifeblood of our economy. We need the right people for the right job, and the right time is now. Every effort is being made to ensure that we recruit and retain the skills needed to ensure a reliable electricity supply for generations to come.

Skills

The national skills shortage necessitated Eskom to explore all options to acquire skills for Eskom locally and internationally *("Woza eKhaya – come back home")*.

Long-term skills requirements have been determined in terms of critical workforce segments as well as core and scarce skills, by completing 20-year workforce plans and five-year workforce skills plans – aligned to the ISEP plan. The recruitment section on the Eskom website (www.eskom.co.za) has been enhanced considerably to make it easy for job seekers to find opportunities in our organisation.

An integral part of retaining current staff and recruiting new people is establishing Eskom as an employer of choice and building a sound employment value proposition (EVP). Key activities in this regard were as follows:

- incentives: motivating people by looking at reward and recognition strategies. Where there is a shortage of core, critical or scarce skills, we will offer competitive packages and review the latest remuneration principles and practices
- employee engagement: meaningful engagement through effective organisational communication and ensuring that people are given work that is challenging and motivating, while having a work/life balance

Approximately 2 958 additional staff with core, critical and scarce skills are needed annually for the next five years to cater for natural attrition and cater for Eskom's new build programme. The Eskom learner pipeline has been increased to 5 907 learners with three- to four-year learning contracts/bursaries to accommodate at least 50% of the new skills requirements, and existing business staff turnover and normal attrition.

Cumulative projected additional core, critical and scarce skills requirements

	2009	2010	2011	2012	2013
Skills required (number)	1 431	1 712	2 054	2 465	2 958

Eskom staff turnover and age distribution

Company	Actual 2009	Actual 2008
Employees at start of period	32 954	30 746
Add: Recruitment	4 261	4 385
Less: Resignations	(1 312)	(1 370)
Deaths	(276)	(260)
Dismissals	(98)	(85)
Retirements	(337)	(447)
Other	4	(15)
Total employees at end of period	35 196	32 954
Employee turnover rate (%)	6,0	6,9

Age distribution of workforce – end of period

Company	Actual 2009 %	Actual 2008 %
18 – 20 years	0,04	0,05
20 – 29	21,62	19,35
30 – 39	27,25	25,60
40 – 49	24,59	28,40
50 – 59	23,20	23,50
Over 60	3,31	3,10

Complement per division

Division	Complement
Generation	10 833
Distribution	16 716
Transmission	1 819
System operations and planning	270
Enterprises	3 097
Corporate services	1 339
Human resources	422
Finance	649
Group communication	51
Total	35 196

Training interventions

Training has always been a major focus area in Eskom – to such an extent that many outside organisations make use of our training facilities. We have 28 facilities with 244 training venues spread across South Africa, which can accommodate a maximum of 3 301 students. There are approximately 540 teaching staff with 153 instructors and in excess of 1 600 courses in Eskom's course catalogue.

These facilities, staff and programmes are used to support the development of new and existing employees, in accordance with individual development plans, to ensure optimal performance in the work environment.

Eskom's total training investment per year:

	Unit of measure	Actual 2008/9	Actual 2007/8
Total training costs	Rm	823,05[RA]	784,2

RA *Reasonable Assurance provided by the independent assurance provider (refer page 101).*

Last year, Exco approved the implementation of an Eskom Academy of Learning. This resulted in the appointment of a council consisting of managing directors and general

Performance review continued

managers. A Chief Learning Officer was appointed as well as the academy management team.

The academy will coordinate and integrate all learning throughout our business, focusing on business needs and will cater for all facets of the learning value chain, covering strategy and planning, learning design and development, learning delivery, learning administration, as well as learning operations, supported by a quality management process. Six faculties have already been created, Engineering, Apprenticeship, Services, Project Management, Leadership and Finance.

The key focus will be on engineers and artisans for the future. We have 5 907 learners in the pipeline – 3 535 of them studying in engineering and technical fields. Once they have completed their training they will be absorbed into the business as engineers or graduates-in-training.

Focus on leadership

During the past financial year it was recognised that the improvement of our leadership capability would strategically contribute to the organisation's vision, values and strategic intent. A comprehensive leadership value chain architecture was designed and implemented. This integrates leadership strategy and direction with the development of Eskom-wide leadership development solutions, talent management and leadership effectiveness assessment. This leadership architecture has positioned us on the forefront of creating a leadership culture that will be characterised by leadership quality and excellence.

To date, 2 133 managers and professionals have been trained in the theory and application of Situational Leadership II. "Leading in times of crisis" e-learning material was developed and activated, and a "Vision dialogue initiative" partly rolled out.

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.

As part of our transformational agenda, we will continue with the affirmative action drive, the promotion of women and the focus on employment equity for people living with disabilities, not because it is required of us by statute, but because we believe that it is the right thing to do. It is also a business imperative.

Employment equity

		Group			Company	
	Unit of measure	Target 2009	Actual 2009	Actual 2008	Actual 2009	Actual 2008
Race:						
Black[1] staff at managerial[2] level	%	65,1	68,6[RA]	65,9	69,3[RA]	66,4
Black staff at all levels	%	N/A	75,8	73,7	76,5	74,5
Gender:						
Women at managerial level	%	35,2	34,5[RA]	34,1	35,1[RA]	34,8
Women at all levels	%	N/A	28,8	27,5	29,6	28,2
People with disabilities	%	3,4	3,2[RA]	3,1	3,4[RA]	3,3
Internal promotions						
Black staff at all levels	%	N/A	78,7	79,1	78,7	78,6
Women at all levels	%	N/A	37,4	36,0	37,4	37,7

1. *Black, Asian and coloured South Africans.*
2. *Managers, professionals and supervisors – CU to F band on the Paterson grading; TASK grading 11 to 18 plus F Bands in Eskom.*

RA *Reasonable Assurance provided by the independent assurance provider (refer page 101).*

Highlights

- Eskom has extended its HIV/Aids workplace programme to their SMMEs by partnering with the South African Business Coalition against HIV/Aids (SABCOHA) and the Tshepang Trust, to do voluntary counselling and testing on all Eskom contractors and provide antiretroviral treatment (ART), free of charge. This initiative has assisted our contractors to test for HIV early and be started on ART, so that they can continue to work and be economically viable
- no man-hours were lost due to industrial action at Eskom in the last year. Good communication is a feature of the industrial relations environment. There are direct lines of communication with managers and professionals and consultation in the bargaining unit through recognised trade unions. Cosatu called for protest marches in various provinces throughout the country (intended, among others, to highlight the electricity crisis facing South Africa and its impact on employment), but this had no impact on Eskom. Eskom concluded a two-year salary and conditions of service agreement with trade unions during 2007. The next round of negotiations began in May 2009

Refer to www.eskom.co.za/annreport09/049.html for details of medical and health services.

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, accountable to the Department of Minerals and Energy. Electricity Distribution Industry Holdings (Pty) Limited is implementing government's restructuring policy. The critical next steps include the finalisation of outstanding policy matters and enabling legislation.

Eskom completed the ring-fencing of its operating units in the prior years, in preparation for the RED formation. Any further internal preparation is dependent on the resolution of national policy matters.

In order to minimise any risk to Eskom and the industry, we have identified, and made transparent, a number of key enablers, for example, compensation for transfer of assets and the impact on the Eskom credit rating. Through national and regional participative structures, Eskom is interacting with key stakeholders to assist with related matters where required.

Safety

There is great concern about the unacceptable number of employee and contractor fatalities this past year. To this end, a number of safety improvement initiatives are being implemented, with a view to reducing the number of safety-related incidents for contractors and employees to zero.

The organisation has embarked on a safety improvement programme that focuses on training leaders and supervisors on practical safety management and tools to observe employees performing their work, thus eliminating unsafe acts and taking corrective action. The initiative will assist us in aligning the existing safety management initiatives in order to achieve a strong internal safety culture and a sustainable result. The implementation of this safety improvement programme will lead to enhanced operational discipline among employees and visible, felt leadership in safety. In our quest to eliminate injury and loss of life and achieve our goal of ZERO HARM, we have identified critical behaviours or actions that, when performed, have a very high probability of causing incidents resulting in severe injuries or fatalities.

Performance review continued

In order to prevent these unacceptable consequences, we have made the decision to reinforce and rollout five Eskom cardinal rules that apply to our employees and other persons performing work for Eskom.

Our cardinal rules

These rules are different from regular safety rules in that they are considered higher order non-negotiable rules that, if violated, will result in a disciplinary process. There may be instances where divisions have additional cardinal rules addressing their specific risks and these will be supplementary to the five Eskom cardinal rules.

Rule 1: Open, isolate, test, earth, bond and/or insulate before touch
Rule 2: Hook up at height
Rule 3: Buckle up
Rule 4: Be sober
Rule 5: Ensure you have a permit to work

There has also been a greater focus on the health and safety of our contractors and the public. This includes creating an environment where quality and discipline are rewarded and enforced. To this end, we are working with suppliers, customers and contractors to integrate safety, health and environmental issues into their operations. Contractors working under the supervision of Eskom or on Eskom premises, are to comply with Eskom's safety, health and environment (SHE) policy, and support the zero tolerance approach to safety management. Our leadership has taken the initiative to engage with contractors in the form of quarterly contractor forums to ensure that the standard of safety management at Eskom sites is in accordance with best practice.

Safety performance

	Unit of measure	Actual 2009	Actual 2008
Employee safety			
Total fatalities	number	6[RA]	17
Electrical contact fatalities	number	4	5
Vehicle accident fatalities	number	0	8
Other fatalities	number	2	4
Lost-time incident rate, including occupational diseases	index	0,50[RA]	0,46[1]
Electrical contact injuries	number	13	25
Contractor safety			
Total contractor fatalities	number	21[RA]	12
Electrical contact fatalities	number	1	1
Other fatalities	number	20	11
Public safety			
Total public fatalities	number	28	42
Electrical contact fatalities	number	22	32
Fatalities from other causes	number	6	10

RA *Reasonable Assurance provided by the independent assurance provider (refer page 101).*

Despite the decrease in fatalities for employees and the public as compared to the previous year, the elimination of all safety-related incidents in Eskom operations remains a focal point of our safety improvement drive. We deeply regret this tragic loss of life and consider this performance unacceptable. Continued focus is required in terms of enhancing safety training and awareness, skills

1. *As a result of the review of LTIR data the 2008 LTIR figure has been recalculated and corrected from 0,34 to 0,46. This excludes occupational diseases for labour brokers. This is further explained in the LTIR section of this report (see page 97).*

and competency, supervision and operational discipline to drastically improve the current performance.

- we lost six employees this financial year in comparison to the 17 we lost in 2008. Of the six fatalities, four were attributed to electrical contacts, one being struck by a grader and one passed away in an aircraft crash
- we also lost 21 contractors this financial year compared to 12 in 2008. Fifteen of the fatalities were attributed to vehicle accidents, two to gunshots, one to a fall from height, one to an electrical contact incident, one was struck by a falling pole and one passed away after an assault
- sadly 28 members of the public died in 2009, with vehicle accidents and electrical contacts remaining the major causes. A massive public safety campaign is addressing this

In memoriam

Our thoughts and prayers go out to the families of the employees and contractors who passed away in the line of duty this past year:

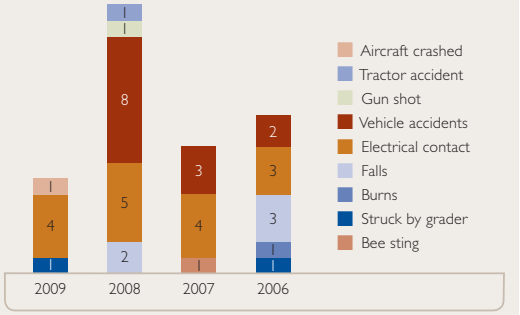
Employees

Jane Kekana
Paulos Makapele
Joseph Moatshe
Robert Mothopeng
Gideon Piet Msibi
Rapulane Ben Phokela

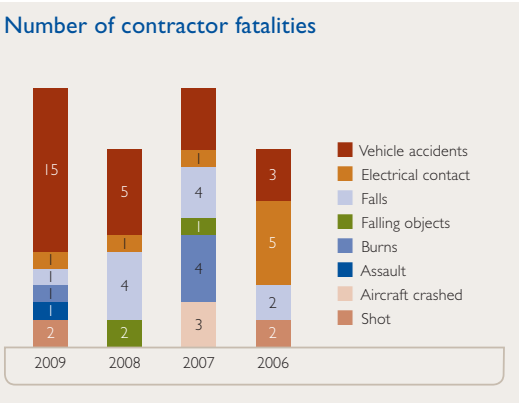
Contractors

Sydney Coleman
Anthony Gavi
Nathaniel Kgadi
Malesela Samson Kgopa
Ntunzi Enoch Khubheka
Ernest Mcamula Khumalo
Thokozani Khumalo
June Lamon Kubheka
Absalom Lephoto
Jabulani Petrus Mabona
Mohale Simon Masekane
Sifiso Mbatha
Jeremiah Mokoena
Bonginkosi Amos Msomi
Samson Moses Ngubane
Solomon Makgodu Ragedi
Johnson Shandu
Nathan Shlatswayo
Fanie Skosana
Elias Tomane Zeku
Lovemore Zimbirau

Number of employee fatalities



Number of contractor fatalities

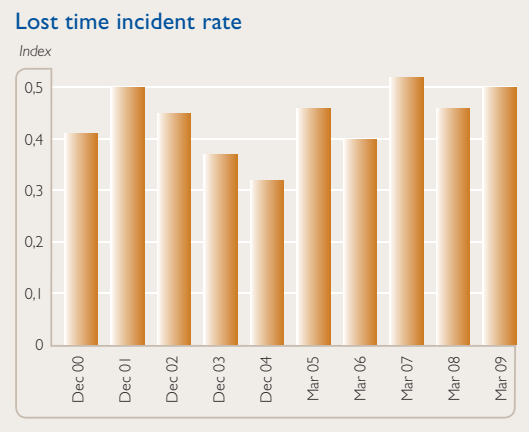


Lost-time incident rate (LTIR)

The progressive LTIR is a proportional representation of the occurrence of lost-time injuries over 12 months.

An external service provider verified the LTIR in order to obtain an accurate baseline for 2007/08. The external assurance on data integrity in 2007/08 highlighted inconsistencies at a selection of sites in the application of the corporate incident reporting, recording procedures and inadequate processes and documentation for classification of lost-time injuries as well as the identification of occupational diseases.

Performance review continued



During 2008/09, the organisation embarked on an extensive project to address the findings raised during the previous year's external assurance report. Training was provided to risk and line management on reporting, recording and classification of incidents as per the Eskom requirements. In addition, all data for the year was reviewed and many internal audits were conducted to verify the accuracy of the LTIR reported.

As a result of this extensive exercise the LTIR for this financial year has been assessed as 0,50 against a target of 0,31. Through this exercise the LTIR for 2007/8 was also corrected and recalculated as 0,46. The root causes of all LTIR incidents are determined and awareness programmes are initiated to address the findings from the investigations to prevent recurrence of these incidents.

Contractor and construction management

Over the past year, the number of contractors within the organisation has progressively increased due to the significant expansion programme. This increase brings about additional complexities, often resulting in an increase in incidents. However, we continue to work in partnership with contractor organisations, aiming to influence their attitudes, behaviour and safety cultures and to establish the highest standards of health and safety performance as a prerequisite for all work carried out for Eskom. Strict controls are, nevertheless, required to ensure that contractors adhere to our requirements.

Current interventions include a workgroup engaged in a project that addresses safety, health and environment (SHE) integration into the procurement and supply chain management processes, and the Generation business is being used as a pilot. Contractors and potential contractors will be audited and pre-qualified prior to conducting business with Eskom. We have also developed a guideline for drafting SHE specifications. This guideline sets out the minimum requirements for the development of a SHE specification for construction work that is specific to the scope of work, site, and type of project.

Stakeholder comment

DuPont Safety Resources

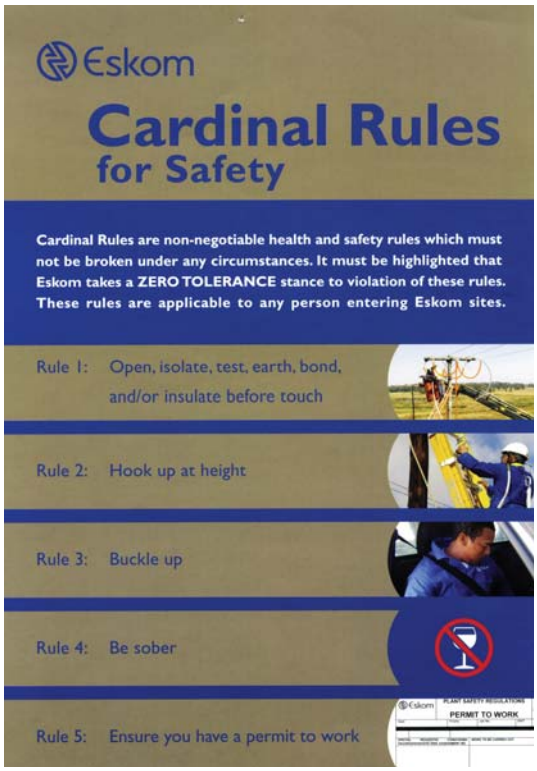
Since the start of the "Switched on to safety excellence" programme in May 2007 we have seen significant change in the visibility of leadership commitment to safety. Examples of this change include the establishment of executive safety committees, the development and tracking of strategic safety improvement plans, the introduction of behaviour observation processes and the adoption of "cardinal rules". These have positively influenced safety performance in a number of areas across the business.

To institutionalise the positive change towards achieving a sustainable goal of "zero harm", executives, senior leaders, middle managers and supervisors need to continue working together to entrench safety as a core value of Eskom Holdings.

Electrical and plant safety

The number of employee electrical contact fatalities, although still unacceptable, decreased from five to four, and electrical contact injuries reduced to 13 compared to the 25 reported in 2008. Electrical contact injuries involving contractor employees remained unchanged at one. Electrical fatal incidents involving members of the public have decreased to 22 in comparison to the 32 reported last year.

In response to this poor performance, we are researching behavioural aspects relating to electrical safety. Changes were made to the Eskom electrical training material and standards to incorporate some of the recommendations made. Continued monitoring of the new training needs and compliance with the revised standards will be the focus for the next financial year.



Occupational hygiene

Approved inspection authority (AIA) verifications to evaluate quality, legal compliance and required improvements of the occupational hygiene (OH) programmes were conducted for all power stations. An occupational hygiene work group was established to advise on OH-related issues. Members are mandated to drive OH strategies within their divisions and to ensure effective OH programmes (including health risk assessments) and legal compliance.

A hearing conservation procedure was approved for the business to pro-actively eliminate and reduce noise induced hearing loss (NIHL) cases. Noise lead indicators were subsequently introduced in order to manage, monitor and assess the effectiveness of the hearing conservation programme.

Silica reporting was also introduced to the business due to a change in legal requirements.

Vehicle safety

Vehicle safety remains an important focus area within Eskom due to the high number of fatalities attributable to vehicle accidents. Two awareness campaigns were conducted – one during the Easter holidays and another during the festive season. The objective of the campaigns was to promote vehicle and road safety, reinforce adherence to road safety rules and regulations and change general driver behaviour, and both campaigns were successful. A safety belt blitz was also conducted to measure adherence to the vehicle and driver safety management procedure and the Eskom cardinal rule – "buckle up".

Performance review continued

We also enhanced our driver behaviour through our "fit for purpose" training interventions to equip our drivers with appropriate driving skills. These interventions included advanced, defensive and skidpan driving skills. Furthermore we are in the final stages of researching technologies available to assess driver fatigue.

Public safety

Public safety remains a major focus area. Safety campaigns to increase public awareness were rolled out in various media (television, radio, advertisements and billboards) and included educational visits to schools and the handing out of safety-related gifts. Promotional materials that carry an Eskom safety message were sent to our operations for distribution to members of the public.

Eskom electricity safety week took place from 13 October to 17 October 2008 where we partnered with the media to promote public safety and the safe use of electricity.

School and community education will continue into the next financial year. Part of our public safety strategy is to present clear, single-minded and motivational messages around public safety issues and to provide a strong foothold for the Wiseman character. The campaign will rollout on television and feature in radio dramas and print advertisements. Electricity safety week is scheduled for 17 August to 23 August in 2009.

Nuclear safety performance

Eskom's nuclear safety performance as measured by the international INPO safety index has shown improvement since mid-2006 and is currently below the median level.

The safety system performance has been maintained in the top quartile if measured against pressurised water reactors of similar design elsewhere.

Koeberg's performance is calculated monthly using the World Association of Nuclear Operators (WANO) performance indicator procedures. The results are benchmarked against the latest quarterly results from this body.

Eskom's Nuclear Safety Inspectorate group performs monthly and six-monthly nuclear safety reviews. These, coupled with the regular reviews performed by WANO, are part of our ongoing commitment to nuclear safety.

Low-hanging conductors

If a cross-arm on an 11kV or 22kV wood pole line breaks, a live conductor typically drops to within touching distance of the ground. Contact with such conductors has caused many fatalities in rural and urban areas.

Comprehensive research into the occurrence, detection and avoidance of these unfortunate incidents has resulted in possible solutions. Firstly, rapid sensing of an earth fault current by the network, combined with an algorithm that uniquely recognises that human or animal contact has occurred, could now result in de-energisation of the line in less than 100 milliseconds. This method has been demonstrated in the field and needs to be refined.

Secondly, sensing the low-hanging conductor by measuring the change in the local electric field, makes it possible for the system to send an alarm (by means of a low-cost radio relay system) to the nearest Eskom depot for rapid response. Field trials of this solution are due to start soon.

Independent assurance report to Eskom Holdings Limited

Independent assurance report on sustainability performance

We have been engaged by the directors of Eskom Holdings Limited ("Eskom") to provide assurance over selected performance information presented in the "business and sustainability performance review" section of the 2008/09 annual report (the report).

The directors are responsible for the preparation and presentation of the report, the identification of stakeholders and stakeholder reporting requirements, material issues, for commitments with respect to sustainability performance, establishing and maintaining appropriate performance management and internal control systems, and the selection of the performance information (the selected performance information) which forms the subject matter of our engagement. The directors are also responsible for the selection and application of the following criteria used in the evaluation of the subject matter:

- the AA1000APS (2008)[1] for the three principles of inclusivity, materiality and responsiveness
- the internally developed reporting guidelines (which are available on request from Eskom) for the selected performance data and
- the Global Reporting Initiative (GRI) G3 Guidelines for the B+ application level

Our responsibility is to express assurance conclusions on the selected performance information based on our work performed.

We comply with the appropriate requirements of the International Federation of Accountants (IFAC) Code of Ethics for Professional Accountants and have systems and processes in place to monitor our compliance with the code and to prevent conflicts regarding independence.

Our work was carried out by a multi-disciplinary team of health, safety, social, environmental and assurance specialists with extensive experience in sustainability reporting.

Our report is made solely to Eskom in accordance with the terms of our engagement. Our work has been undertaken to enable us to express an opinion to Eskom on those matters we have been engaged to do, and for no other purpose. We do not accept or assume liability to anyone other than Eskom, for our work, for this report, or for the conclusions we have reached.

Assurance standards used

We conducted our engagement in accordance with ISAE 3000[2] and AA1000AS (2008)[3].

The scope of AA1000AS (2008) conforms to the requirements of a Type 2 assurance engagement. A Type 2 Assurance engagement, covers not only the nature and extent of the organisation's adherence to the AA1000APS (2008) of inclusivity, materiality and responsiveness, but also evaluates the reliability of the selected performance data. The terms, reasonable and limited assurance, used in ISAE 3000 are consistent with a high and moderate level of assurance respectively, as defined by AA1000AS (2008).

The scope of our engagement includes the provision of:

1. Limited assurance on Eskom's alignment with AA1000APS (2008) as described on page xvi of the report,
2. Assurance, as described below:
   (a) Reasonable assurance on the following performance data:
   - technical performance parameters – *unplanned capability loss factor (UCLF), system minutes*

1. *AA1000 AccountAbility Principles Standard 2008, issued by AccountAbility.*
2. *International Standard on Assurance Engagements 3000: Assurance engagements other than Audits or reviews of Historical Information, issued by the International Auditing and Accounting Standards Board.*
3. *AA1000 Assurance Standard (2008) issued by AccountAbility.*

Independent assurance report to Eskom Holdings Limited continued

lost, major incidents, system average interruption frequency index (SAIFI) and system average interruption duration index (SAIDI)

- environmental performance parameters – *specific water consumption, demand-side management monitoring and verification, internal energy efficiency, particulate emissions, carbon dioxide emissions, sulphur dioxide emissions, low level radioactive waste, intermediate level radioactive waste and environmental legal contraventions*
- social performance parameters – *race, gender, disabilities, total training cost, black economic empowerment expenditure, corporate social investment spend, employee and contractor work-related fatalities and employee lost-time injury rate (LTIR)*
- operational parameters – *generation capacity installed and commissioned, transmission lines installed and transmission MVA installed*

(b) Limited assurance on the following performance data:

- environmental performance parameters – *coal-stock days, diesel usage at the open cycle gas turbines (OCGT), nitrogen oxide emissions, polychlorinated biphenyl (PCB) waste disposed, asbestos waste disposed and ash waste disposed*

3. Limited assurance on Eskom's assertion of the GRI B+ application level.

We believe that the evidence obtained from our work performed, as described in this report, provides an appropriate basis for our assurance conclusions expressed below.

Conclusions

1. **On the AA1000APS(2008) principles of inclusivity, materiality and responsiveness**

   In our opinion, based on our work described in this report, we have no reason to believe that Eskom's assertions relating to their alignment with the AA1000APS (2008) principles of inclusivity, materiality and responsiveness, described on page xvi, are not fairly stated.

2. **On the selected performance information**

   In our opinion, the performance information set out in 2(a) above for the year ended 31 March 2009, is fairly stated in all material respects on the basis of the internally developed Eskom reporting standards.

   Based on our work described in this report, we have no reason to believe that the performance information set out in 2(b) above for the year ended 31 March 2009, is not fairly stated in all material respects on the basis of the internally developed Eskom reporting standards.

3. **On Eskom's assertion on Global Reporting Initiative B+ Application Level**

   Based on work described in this report, nothing has come to our attention that causes us to believe that Eskom's assertion of the GRI B+ application level is not fairly stated in all material respects on the basis of the GRI G3 Guidelines.

Work performed

Our work performed was to obtain all the evidence, information and explanations that we considered necessary for the scope of our engagement. The extent of limited assurance evidence gathering procedures is more limited than where reasonable assurance engagement is expressed.

Our work included the following evidence-gathering procedures:

- interviews with management and senior executives at corporate level and with management at site level to evaluate the implementation of the GRI G3 Guidelines and the AA1000APS (2008) principles and to obtain an understanding of the general control environment
- evaluation and testing of process and systems and review of documentation in place at corporate level,

head office level and at business unit level to generate, collate, aggregate, monitor and report the selected sustainability performance data and inspection of certain documentation
- visits to a risk-based selection of eight business units including Koeberg (nuclear power station), Arnot (coal power station), Majuba (coal power station), Gourikwa (open-cycle gas turbine station), Southern Transmission Grid, the Western Distribution Region, Northern Distribution Region and Roshcon
- conducting an application level check on the report to evaluate whether all disclosure requirements of the GRI B+ application level have been adhered to; and
- an evaluation of whether the information presented in the report corresponds with our overall knowledge and experience of sustainability management and performance at Eskom

For more detail on the work performed, go to www.eskom.co.za/annreport09/050.html.

Key observations

We draw attention to our key observations. These observations do not affect our conclusions.

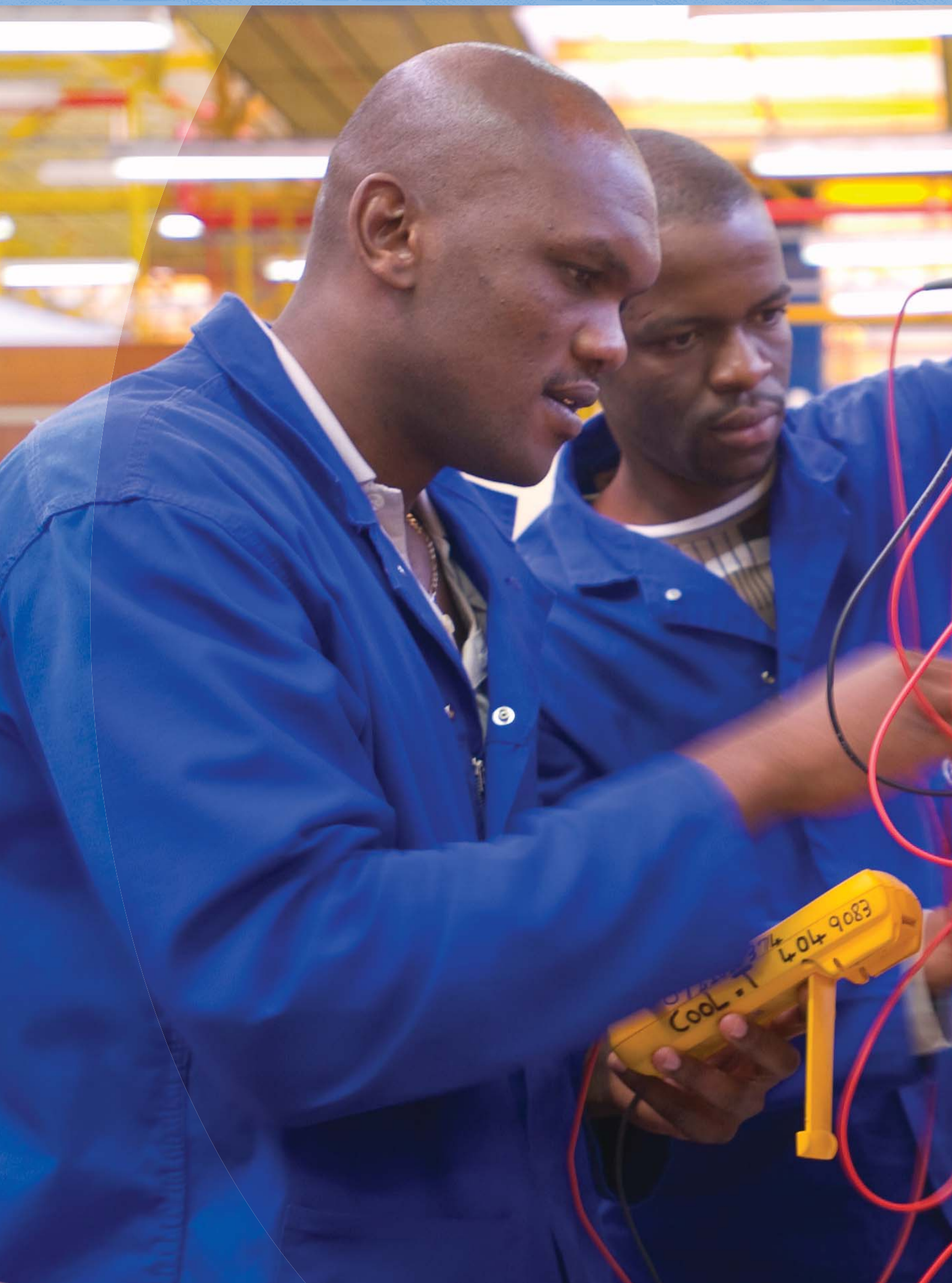
1. **On the principles of inclusivity, materiality and responsiveness in terms of AA1000APS (2008):**
   - in relation to the principle of inclusivity:
     Eskom has carried out work to identify opportunities for improvement, and has drafted a policy to develop a process which will ensure coordinated and ongoing engagement with all key stakeholders at both corporate and local level
   - in relation to the principle of materiality:
     In an endeavour to further enhance the risk management process, Eskom's board has resolved to identify areas for improvement and a closer alignment with the ISO 31000 risk management standard adopted by Eskom. This will also allow for stakeholder concerns to be fed directly into the risk management process
   - in relation to the principle of responsiveness:
     As the observations identified under inclusivity and materiality are addressed, responsiveness to stakeholder concerns should improve

2. **On the selected performance information:**
   Eskom has developed a continually evolving reporting and assurance plan. During the course of this year's engagement, we found that Eskom has made significant progress in implementing many of our recommendations and much work has been undertaken to improve reporting systems and processes to the extent that certain modified conclusions are no longer modified. This includes a focus on internal communications and controls around sustainability information.

KPMG Services (Pty) Limited

PD Naidoo
Director
Johannesburg
16 July 2009

AH Jaffer
Director
Johannesburg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Consolidated financial statements

for the year ended 31 March 2009

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Currency of financial statements

The financial statements are expressed in South African rand (R).
The following are approximate values of R1,00 to the selected currencies and 1 unit of the selected currencies to the rand:

	R1,00 to the selected currencies		1 unit of the selected currencies to the rand	
	March 2009	March 2008	**March 2009**	March 2008
EUR	**0,08**	0,08	**12,63**	12,85
USD	**0,11**	0,12	**9,49**	8,13
GBP	**0,07**	0,06	**13,57**	16,16
CHF	**0,12**	0,12	**8,33**	8,17
JPY	**10,35**	12,25	**0,10**	0,08
SEK	**0,87**	0,73	**1,15**	1,37
CAD	**0,13**	0,13	**7,69**	7,92
AUD	**0,15**	0,13	**6,67**	7,69
NOK	**0,71**	0,63	**1,41**	1,60

Currency	Abbreviation
Euro	EUR
United States dollar	USD
Pound sterling (United Kingdom)	GBP
Swiss franc	CHF
Japanese yen	JPY
Swedish krona	SEK
Canadian dollar	CAD
Australian dollar	AUD
Norwegian krone	NOK

Learning in Eskom

Eskom has continually focused on training and developing its employees through experiential development, mentoring, specific in-house and workplace learning and its further study bursar scheme covering institutional learning.

In addition it has ensured an ongoing pipeline of learners to meet its future needs starting with its school programme, career guidance programmes, winter schools, the Eskom Expo for Young Scientist and others. These programmes have focused on increasing the pool of learners eligible for its undergraduate bursary schemes which support study at colleges, universities of technology and universities.

In order to better coordinate and integrate learning in Eskom, Exco approved the design and implementation of the Eskom Academy of Learning (EAL) in 2007, following a business planning and business case process.

The EAL mission is "to deliver highly effective learning through integrated and standardised processes, systems and governance. The aim is to drive sustained, measurable improvement in Eskom business metrics and imperatives, and to meet the country's current and future electricity demands."

A number of faculties have been established within the EAL catering for artisan development, engineering, commerce, leadership and management development, project management and services. These faculties are responsible for establishing curricula in conjunction with the learning representatives of Eskom's business units and subject matter experts.

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 their 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 for the year and its financial position at the end of the year in terms of International Financial Reporting Standards.

To enable the directors to meet the above mentioned responsibilities, the Eskom board of directors sets standards and management 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 internal audit department closely monitor the controls, and actions taken to correct deficiencies as they are identified.

The financial statements are the responsibility of the directors. The external auditors are responsible for independently auditing the financial statements in accordance with International Standards of Auditing and the Public Audit Act.

The financial statements of Eskom and the group have been prepared in terms of International Financial Reporting Standards and the Companies Act of South Africa, 61 of 1973, as amended. 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.

Based on the information and explanations given by management, the internal audit function and discussions held with the independent external auditors, 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 that 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.

The directors have reviewed the group's performance for the year and the cash flow forecast for the year ending 31 March 2010, together with the two-year forecast for subsequent periods to 31 March 2012. They have taken cognisance of the fact that although an operating loss was recorded during the 2009 financial year, the group continued to generate positive operating cash flows. The expected increase in primary energy and other operating costs, the dependence on coal supply, the impact of inflation, the tariff increase already given by Nersa for 2009/2010 and the reasonableness of the expected tariff increase of 25% plus CPI for the period (April 2010 – March 2012) have been taken into account.

Eskom embarked on a capital expansion programme of R385 billion up to March 2013 that will place tremendous strain on the available cash resources of the organisation. However, the directors are confident that the group will have access to sufficient cash resources taking into account the government support in the form of a loan of R50 billion (undrawn portion) and unused guarantees of R150 billion. In addition, funding is being negotiated in the form of, *inter alia,* export credit agreements, facilities from development finance institutions, domestic bonds, existing liquid assets and cash generated from operations.

In assessing the ability to raise the aforementioned funds, the current economic climate and Eskom's credit rating has been taken into account.

There is national consensus that the capital expansion programme continues. Eskom is in discussion with government and key stakeholders to agree on and implement an appropriate funding model. This will take into account a holistic and integrated approach to tariffs, borrowings and equity.

Should Eskom not receive adequate funding for its planned activities, the board undertakes to curtail its activities in order to balance its cash flow requirements.

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 2009 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 2009 have been approved by the board of directors and signed on its behalf on 16 July 2009 by

RM Godsell
Chairman

PJ Maroga
Chief executive

Report of the audit committee

Report of the audit committee in terms of the Public Finance Management Act, 1 of 1999

The audit committee reports that it has adopted appropriate formal terms of reference as its audit committee charter, 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:

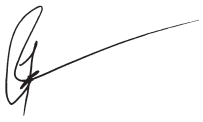
- the effectiveness of the internal control systems
- the risk areas of the entity's operations covered in the scope of internal and external audits
- the adequacy, reliability and accuracy of financial information provided by management
- accounting and auditing concerns identified as a result of internal and external audits
- the entity's compliance with legal and regulatory provisions
- the effectiveness of the assurance and forensic department
- the activities of the assurance and forensic department, including its annual work programme, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations
- preparation of the annual financial statements on the going-concern basis and related cash flow projections
- the independence of and objectivity of the external auditors

The audit committee is of the opinion, based on the information and explanations given by management and the assurance and forensic department and discussions with the independent external auditors on the result of their audits, that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements, and accountability for assets and liabilities is maintained. Having considered the matters set out in section 270A(5) of the Companies Act as amended by the Corporate Law Amendment Act, the audit committee is satisfied with the independence and objectivity of the external auditors.

The audit committee is aware of the impact on the internal control environment of the capital expansion programme as a result of increasing activity and the current economic climate. This is an area that is receiving attention and is monitored on an ongoing basis.

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

The audit committee has evaluated the financial statements of Eskom Holdings Limited and the group for the year ended 31 March 2009 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, the Public Finance Management Act, 1 of 1999, and International Financial Reporting Standards. The audit committee concurs with the board of directors and management that the adoption of the going-concern premise in the preparation of the financial statements is appropriate. The audit committee has therefore recommended the adoption of the financial statements by the board of directors.



JRD Modise
Chairman

16 July 2009

Statement by company secretary

In terms of section 268G(d) of the Companies Act, 61 of 1973, as amended, 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.

TN Msomi
Company secretary

16 July 2009

Eskom

Independent auditors' report to the Minister of Public Enterprises

Report on the annual financial statements

We have audited the accompanying annual financial statements and group annual financial statements of Eskom Holdings Limited (Eskom), which comprise pages 109 to 111 of the directors' report, the balance sheet and consolidated balance sheet as at 31 March 2009, the income statement and the consolidated income statement, 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 112 to 213.

Directors' responsibility for the annual 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 control 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 concerning the annual 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. The audit was also planned and performed to obtain reasonable assurance that our duties in terms of sections 27 and 28 of the Public Audit Act, 25 of 2004, have been complied with.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 on the annual financial statements

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group as at 31 March 2009 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, 1999 (1 of 1999), and the Companies Act of South Africa.

Report on performance information

We have reviewed the key performance indicators in the annual report on page 30.

Directors' responsibility for the performance information

Eskom's directors have additional responsibilities as required by section 55(2)(a) of the Public Finance Management Act to ensure that the annual report and audited annual financial statements fairly present the performance of the group against the predetermined objectives.

Auditors' responsibility concerning the performance information

We conducted our engagement in accordance with section 13 of the Public Audit Act read with General Notice 616 of 2008, issued in the *Government Gazette* No. 31057 of 15 May 2008. In terms of the aforegoing our engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditors' judgement.

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

Opinion on the performance information

There were no significant issues noted that cause us to believe that the performance information included in the annual report requires modification.

KPMG Inc

Director: AH Jaffer
Registered auditor

16 July 2009

SizweNtsaluba VSP

Director: SY Lockhat
Registered auditor

16 July 2009

Directors' report

The directors are pleased to present their report for the year ending 31 March 2009.

Principal activities, state of affairs and business review

Principal activities

The principal activities of the Eskom group are described on page i in the profile section.

State of affairs and business overview

The operating loss for the year for the Eskom group, before the impact of embedded derivatives and net finance costs, was R3 195 million (2008: profit of R3 215 million) and for the company a loss of R4 257 million (2008: profit of R3 132 million) after taking into account the following:

- a dividend of R30 million (2008: R800 million) from a subsidiary is included in the net profit for Eskom (but eliminated for the group)
- the increased amount spent on primary energy. The costs of coal, nuclear fuel and diesel increased from R18 314 million in 2008 to R25 351 million in 2009

The loss for the year for the Eskom group was R9 708 million (2008: R168 million) after taking into account the net fair value loss on embedded derivatives of R9 514 million (2008: R1 680 million).

The loss for the year for the company was R10 177 million (2008: profit of R191 million) after taking into account the net fair value loss on embedded derivatives of R9 506 million (2008: R1 686 million).

The annual electricity price increase used to value the embedded derivatives was the applicable tariff determined by Nersa on 25 June 2009 for the 2010 financial year, 25% plus CPI for the next two years and CPI thereafter. A sensitivity analysis for the embedded derivatives appears in note 3 to the annual financial statements on page 147.

Capital expenditure is disclosed in note 6 and 7 to the annual financial statements. An amount of R47 099 million (2008: R24 985 million) was spent during the year. The funding of the capital expansion programme is discussed on pages 38, 157 and 204.

For more detailed information on the performance for the year, refer to the annual financial statements and the business and sustainability performance review on pages 26 and 112.

Share capital and shareholder

The government of the Republic of South Africa is the sole shareholder of Eskom Holdings Limited. The shareholder's representative is the Minister of Public Enterprises.

Dividends

No dividend was declared during the year under review, after taking into account the resource impact of the future build programme, the current capital structure, and the dividend policy.

Going concern

The board has given particular attention to the assessment of the going concern of the group and is of the view that the group has access to adequate resources to continue in operational existence for the foreseeable future. For more detailed information refer to page 106 in the statement of responsibility of directors.

Directors

Currently the board consists of 11 non-executive directors and the chief executive. Mr MV Moosa resigned as chairman on 17 July 2008, and Mr RM Godsell was appointed as chairman on this date. Messrs M Bello and BM Count also resigned on 17 July 2008. In addition, Eskom sadly paid its respects to Mr E Marshall who passed away during the year. He was a valuable member of the board and had served as a director for a period of two years. Messrs SD Dube, HB Lee and J Mirenge were appointed to the board on 17 July 2008.

Following the resignation of Mr B Nqwababa, the finance director, on 31 December 2008, Mr Izak du Plessis, a senior general manager and chartered accountant, was appointed as acting chief financial officer, pending the selection of a new finance director.

The board of directors and their details are discussed on pages 12 and 217 in the corporate governance report.

Remuneration of directors and members of Exco

The remuneration of the directors and the executives who were members of Exco during the financial year, is disclosed in note 45 to the annual financial statements, on page 209.

Company secretary

The details of the company secretary and her declaration in terms of section 268G(d) of the Companies Act are disclosed in her statement on page 107.

Auditors

The statutory auditors for the forthcoming financial year will be appointed at the next annual general meeting.

Eskom's policy is, where possible, not to use the external auditors for non-audit services. In cases where the external auditors are to be used for non-audit services, the prior approval of the board audit committee must be obtained.

Directors' report continued

Internal control
Refer to the governance section page 221 and the statement of responsibilities and approval on page 106 for further detail on internal control and integrated risk management.

Events after the balance sheet date
Cancellation of the cross-border lease transaction
The cross-border lease transaction referred to under note 6 on page 166 between Eskom and Edison Capital was terminated on 15 April 2009. Eskom has thereby been released of all the financial and operating obligations which arose due to this agreement. The remaining amount of R22 million under deferred income per note 23 on page 193 will be reflected in profit or loss in the 2010 financial year. At the date of termination, the servitude which Edison Capital could exercise over Majuba unit 1, 2 and 3 (in the event of an Eskom default) was cancelled. Eskom is in the process of cancelling the deed of servitude so that no claim can be made over these units.

Pursuant to the termination of the cross-border lease transaction the financial assets linked to the collateral for the letters of credit (LCs), as stated in note 13 on page 181, is being negotiated for termination in stages with the issuing banks, depending on the maturity of the underlying structures. The first portion, R905 million, matured and was returned to Eskom on 5 June 2009. The unwinding of the remaining assets linked to the LCs are being negotiated.

Electricity tariff increase
On Thursday, 25 June 2009, Nersa approved an average price increase of 31,3% for Eskom for the nine months from 1 July 2009 to 31 March 2010. Included in the 31,3% increase is the 2c/kWh environmental levy payable to government (levied on the sale of electricity generated from non-renewable sources) which must be recovered by Eskom within the price increase. Adjusting for the levy, Eskom will receive a net price increase of 24,08% on average. Based on the Nersa ruling the price increase to poor residential customers is limited to 15%.

Subsidiaries, associates and joint venture companies
The investment of Eskom in subsidiaries, associates and joint venture companies is disclosed in notes 8 and 9 to the annual financial statements.

Interests of directors and officers
Details of directors' and officers' interests in quasi-shares and options are disclosed in note 45 to the annual financial statements. Refer to page 221 for Eskom's ethics policies and their application regarding interests in contracts.

Research and development activities
Research and development activities are discussed in the research blocks within each section of the business and sustainability performance review on pages 26 to 100.

Employee information
The Eskom group has increased its complement of employees by 2 453 (7%) from 2008 in an endeavour to address the skills shortage. The management of human resources is discussed in the business and sustainability performance review on page 92.

Safety
Safety remains a major area of concern for Eskom as we have to report the death of six employees and 21 contract workers in the past year. Sadly 28 members of the public died in 2009, with vehicle accidents and electrical contacts remaining the major causes. Much work and effort continues to be put into safety awareness. Refer to page 95 in the business and sustainability performance review.

Environmental issues
Eskom's response to climate change and limiting the impact on the environment is discussed on pages 68 and 77 in the business and sustainability performance review.

Political, religious and charitable donations
Eskom is committed to good corporate citizenship through its corporate social investment (CSI) initiatives. Eskom does not make donations and grants to political party activities, trade union activities and religious organisations unless they are non-profit organisations and have an outreach programme that directly benefits the community, for example, an Aids hospice. Refer also to page 42 in the business and sustainability performance review.

Information required by the Public Finance Management Act
Performance in terms of the shareholder compact
The performance of Eskom against the shareholder compact key performance indicators is shown in the table on page 30 in the business and sustainability performance review.

- the capital and financial efficiency targets in the compact were not met due to the significant increase in the cost of primary energy (mainly cost of coal) of 38% while electricity revenue in total increased only 22%. Eskom received a revised electricity price increase of 27,5% (on average) against a requested increase of 60% for the financial year. The electricity sales growth for the year decreased by 4,2%
- although the amount spent on capital exceeded the target by R2 009 million, capital in the Distribution division was underspent by R236 million (3,9% of target), due to a capital project re-prioritisation process implemented during the year. The generation technical plan expenditure was underspent by R218 million (4,5% of target). With the focus on improving technical performance, more funds were requested for maintenance costs. As a result some capital projects in the technical plan were deferred to the next financial year so that cash was freed up to fund additional maintenance
- the operating efficiency and effectiveness targets were in many instances not achieved. Equipment failure contributed significantly to the three "*degree-one*" incidents on the transmission network. Various preventive and corrective

actions have been identified already in order to address the poor interruption performance. The one "*degree-three*" incident was the result of load shedding
- the performance for SAIDI and SAIFI has improved since the previous year. Business plan targets have not been achieved because of the slower than anticipated benefit realisation for Distribution's network performance improvement initiatives as well as an increase in unplanned interruptions. The impact of planned interruptions was reduced due to better outage coordination and increased utilisation of live line techniques

Losses through criminal conduct and irregular or fruitless and wasteful expenditure

In terms of the materiality framework agreed with the shareholder, any losses due to criminal conduct or irregular or fruitless and wasteful expenditure, that individually (or collectively where items are closely related) exceed R10 million must be reported.

Irregular or fruitless and wasteful expenditure

No material irregular or fruitless and wasteful expenditure has occurred during the period.

Criminal conduct

Conductor theft

Losses due to conductor theft (including copper, cable and tower-related structures) totalled R38 million (2008: R25 million), and involved 2 343 incidents (2008: 1 832 incidents).

Actions to combat conductor theft are managed by the Eskom conductor theft committee in collaboration with other affected state-owned enterprises and the South African Police Services. The combined effort resulted in 480 arrests (2008: 520 arrests). Stolen material worth R4,7 million was recovered (2008: R5 million).

Fraud

No material incidents of fraud occurred during the financial period.

Management of energy losses

Energy losses reflect the difference between the quantity of energy sent out from the power stations and the quantity metered as sold. Losses are categorised as technical or non-technical in nature.
- technical energy losses naturally occur when electrical energy is transferred from one point to another. The media through which energy is transferred impose a resistance to the flow of energy. Therefore, additional energy is required to overcome this transfer medium resistance
- non-technical energy losses are calculated as the difference between total energy losses and technical losses. These are typically caused by the following:
  - electricity theft, for example illegal connections and meter by-passing
  - errors in calculation or estimation of technical losses
  - data quality or errors that distort technical information
  - billing errors; etc

Actual losses compared to Nersa multi-year price determination allowed losses are:

Energy losses	2009 GWh	2008 GWh
Nersa MYPD	20 558	21 428
Actual	19 113	20 027

The distribution and transmission energy losses for 2009 were 11 706GWh (5,5% of the energy purchased) and 7 407GWh (3,1% of the energy purchased) respectively. In total the line losses decreased from 8,0% in 2008 to 7,9% in 2009.

We have also independently benchmarked the Eskom energy loss percentage against other international utilities. Based on the 2007 information, Eskom compared favourably against the participating distribution utilities and the results were within the first quartile of the best performing utilities. The Eskom result was within the international benchmarked parameters of 5,6% to 12,07%.

For internal evaluation purposes we estimate distribution technical losses to range between 50% and 65% of total losses within distribution, while this is almost 100% in the transmission networks. The actual percentage in distribution is influenced by factors such as network design, network topology, load distribution on the network, and network operations.

Eskom instituted the energy losses management programme to manage total losses from a holistic, integrated and best practice perspective. The implemented energy losses programme (ELP) has realised positive results. The level of energy losses has improved due to increased interventions in the management thereof. These actual results achieved are better than the target energy losses allowed for by Nersa.

The programme incorporates the following key activities:
- audit, measure and repair faulty customer meter installations
- disconnect illegal connections and meter by-passes
- ring-fence electrical networks to balance energy delivered with sales
- implement tested technologies to manage energy losses
- improve data accuracy
- stakeholder communication strategies
- introduce pricing penalties for customers who are in breach of contractual/grid code requirements at both transmission and distribution level

Refer to www.eskom.co.za/annreport09/051.html for detail on the investment in new technologies to reduce energy losses.

Balance sheets

at 31 March 2009

	Note	Group 2009 Rm	Group Restated[1] 2008 Rm	Company 2009 Rm	Company Restated[1] 2008 Rm
Assets					
Non-current assets		**154 160**	118 432	**155 528**	120 072
Property, plant and equipment	6	**138 642**	96 369	**138 328**	95 792
Intangible assets	7	**851**	519	**740**	457
Investments in equity-accounted investees	8	**182**	173	**95**	95
Investment in subsidiaries	9	**–**	–	**2 341**	2 341
Future fuel supplies	11	**3 510**	2 585	**3 510**	2 585
Deferred tax assets	12	**56**	8	**–**	–
Investment in securities	13	**3 558**	5 882	**3 153**	6 136
Embedded derivative assets	13, 14	**1 135**	6 269	**1 135**	6 269
Derivatives held for risk management	13, 15	**586**	3 538	**586**	3 538
Finance lease receivables	13, 16	**536**	415	**536**	415
Trade and other receivables	13, 17	**23**	180	**23**	9
Payments made in advance	21	**5 081**	2 494	**5 081**	2 435
Current assets		**41 106**	44 318	**39 092**	42 589
Financial instruments with group companies	13, 10	**–**	–	**1 279**	1 069
Inventories	18	**6 581**	3 929	**6 438**	3 628
Finance lease receivables	13, 16	**11**	10	**11**	10
Taxation		**89**	50	**–**	50
Payments made in advance	21	**1 086**	1 762	**1 006**	1 762
Investment in securities	13	**4 360**	9 137	**3 320**	7 840
Embedded derivative assets	13, 14	**231**	1 433	**231**	1 427
Derivatives held for risk management	13, 15	**1 251**	9 132	**1 251**	9 132
Trade and other receivables	13, 17	**8 191**	5 433	**7 073**	5 332
Financial trading assets	13	**924**	2 539	**562**	2 017
Cash and cash equivalents	13	**18 382**	10 893	**17 921**	10 322
Non-current assets held-for-sale	22	**4 036**	3 420	**–**	–
Total assets		**199 302**	166 170	**194 620**	162 661
Equity					
Capital and reserves attributable to equity holder of the company		**59 349**	60 923	**56 701**	58 721
Minority interest		**229**	206	**–**	–
Total equity		**59 578**	61 129	**56 701**	58 721
Liabilities					
Non-current liabilities		**95 349**	74 993	**94 456**	74 630
Debt securities issued	13	**44 253**	39 788	**44 253**	39 788
Borrowings	13	**12 796**	1 480	**12 369**	1 224
Embedded derivative liabilities	13, 14	**8 219**	5 077	**8 219**	5 077
Derivatives held for risk management	13, 15	**786**	947	**786**	947
Deferred tax liabilities	12	**6 098**	10 229	**5 871**	10 220
Deferred income	23	**5 536**	4 913	**5 536**	4 913
Retirement benefit obligations	24	**6 061**	5 409	**5 919**	5 286
Provisions	25	**8 883**	5 607	**8 731**	5 540
Finance lease liabilities	13, 26	**537**	539	**761**	678
Trade and other payables	13, 27	**1 466**	676	**1 297**	676
Payments received in advance	28	**714**	328	**714**	281
Current liabilities		**42 362**	28 214	**43 463**	29 310
Financial instruments with group companies	13, 10	**–**	–	**1 853**	1 849
Trade and other payables	13, 27	**16 701**	10 223	**16 248**	9 843
Payments received in advance	28	**1 471**	1 000	**1 403**	1 000
Finance lease liabilities	13, 26	**15**	9	**45**	36
Taxation		**15**	55	**10**	–
Debt securities issued	13	**3 324**	2 491	**3 324**	2 491
Borrowings	13	**13 811**	6 920	**13 809**	6 916
Financial trading liabilities	13	**2 180**	4 087	**2 180**	4 087
Embedded derivative liabilities	13, 14	**43**	7	**41**	7
Derivatives held for risk management	13, 15	**2 626**	1 475	**2 626**	1 475
Deferred income	23	**494**	269	**494**	269
Retirement benefit obligations	24	**184**	161	**184**	161
Provisions	25	**1 498**	1 517	**1 246**	1 176
Non-current liabilities held-for-sale	22	**2 013**	1 834	**–**	–
Total liabilities		**139 724**	105 041	**137 919**	103 940
Total equity and liabilities		**199 302**	166 170	**194 620**	162 661

1. *Refer note 44.*

Income statements

for the year ended 31 March 2009

	Note	Group 2009 Rm	Group Restated[1] 2008 Rm	Company 2009 Rm	Company Restated[1] 2008 Rm
Continuing operations					
Revenue	29	**53 826**	44 448	**53 090**	43 584
Other income	30	**586**	415	**1 422**	1 928
Net fair value loss on financial instruments, excluding embedded derivatives	31	**(2 370)**	(684)	**(2 281)**	(729)
Primary energy[2]		**(25 351)**	(18 314)	**(25 351)**	(18 314)
Employee benefit expense	32	**(15 166)**	(11 353)	**(14 157)**	(10 576)
Depreciation and amortisation expense	33	**(4 916)**	(4 284)	**(4 745)**	(4 118)
Net impairment loss	34	**(1 213)**	(446)	**(1 239)**	(440)
Other operating expenses	35	**(8 591)**	(6 567)	**(10 996)**	(8 203)
Operating (loss)/profit before fair value loss on embedded derivatives and net finance cost		**(3 195)**	3 215	**(4 257)**	3 132
Net fair value loss on embedded derivatives		**(9 514)**	(1 680)	**(9 506)**	(1 686)
Operating (loss)/profit before net finance cost		**(12 709)**	1 535	**(13 763)**	1 446
Net finance cost		**(314)**	(1 788)	**(590)**	(2 004)
Finance income	36	**3 370**	2 933	**3 322**	2 811
Finance cost	37	**(3 684)**	(4 721)	**(3 912)**	(4 815)
Share of profit of equity-accounted investees	8	**37**	30	**–**	–
Loss before tax		**(12 986)**	(223)	**(14 353)**	(558)
Income tax	38	**3 805**	600	**4 176**	749
(Loss)/profit for the year from continuing operations		**(9 181)**	377	**(10 177)**	191
Discontinued operations					
Loss for the year from discontinued operations	22	**(527)**	(545)	**–**	–
(Loss)/profit for the year		**(9 708)**	(168)	**(10 177)**	191
Attributable to:					
Equity holder of the company		**(9 745)**	(210)	**(10 177)**	191
Minority interest		**37**	42	**–**	–
		(9 708)	(168)	**(10 177)**	191

1. *Refer note 44.*
2. *Primary energy relates to the acquisition of coal, uranium, water, gas and diesel that are used in the generation of electricity.*

Statements of changes in equity

for the year ended 31 March 2009

		Attributable to equity holder of the company										
	Note	Issued capital[1] Rm	Equity reserve[2] Rm	Cash flow hedge reserve[3] Rm	Available-for-sale reserve[4] Rm	Unrealised fair value reserve[5] Rm	Insurance reserve[6] Rm	Foreign currency translation reserve[7] Rm	Accumulated profit[8] Rm	Total Rm	Minority interest Rm	Total equity Rm
Group												
Balance at 31 March 2007		–	–	(49)	(31)	(562)	66	3	58 765	58 192	165	58 357
– Prior year adjustment		–	–	–	–	–	–	–	(3 474)	(3 474)	–	(3 474)
– Deferred tax thereon		–	–	–	–	–	–	–	1 007	1 007	–	1 007
Restated balance at 31 March 2007		–	–	(49)	(31)	(562)	66	3	56 298	55 725	165	55 890
Available-for-sale financial assets												
– Net change in fair value		–	–	–	(153)	(1)	–	–	–	(154)	–	(154)
– Deferred tax thereon		–	–	–	43	–	–	–	–	43	–	43
Cash flow hedges												
– Effective portion of changes in fair value		–	–	8 187	–	–	–	–	–	8 187	–	8 187
– Deferred tax thereon		–	–	(2 669)	–	–	–	–	–	(2 669)	–	(2 669)
– Net amount transferred to initial carrying amount of hedged items		–	–	(8)	–	–	–	–	–	(8)	–	(8)
Foreign currency translation		–	–	–	–	–	–	(5)	–	(5)	–	(5)
Restated loss for the year	44	–	–	–	–	–	–	–	(210)	(210)	42	(168)
Other movements on minority interest		–	–	–	–	–	–	–	–	–	(1)	(1)
Deferred tax change in tax rate		–	–	10	4	–	–	–	–	14	–	14
Transfer from accumulated profit to non-distributable reserves		–	–	–	–	78	20	–	(98)	–	–	–
Balance at 31 March 2008		–	–	5 471	(137)	(485)	86	(2)	55 990	60 923	206	61 129
Available-for-sale financial assets												
– Net change in fair value		–	–	–	33	–	–	–	–	33	–	33
– Deferred tax thereon		–	–	–	(9)	–	–	–	–	(9)	–	(9)
Cash flow hedges												
– Effective portion of changes in fair value		–	–	(411)	–	–	–	–	–	(411)	–	(411)
Changes in fair value		–	–	(816)	–	–	–	–	–	(816)	–	(816)
Ineffective portion of changes in fair value recycled to profit or loss		–	–	405	–	–	–	–	–	405	–	405
– Deferred tax thereon		–	–	178	–	–	–	–	–	178	–	178
– Net amount transferred to initial carrying amount of hedged items		–	–	(66)	–	–	–	–	–	(66)	–	(66)
Foreign currency translation		–	–	–	–	–	–	14	(12)	2	–	2
Subordinated loan from shareholder		–	8 444	–	–	–	–	–	–	8 444	–	8 444
Loss for the year		–	–	–	–	–	–	–	(9 745)	(9 745)	37	(9 708)
Other movements on minority interest		–	–	–	–	–	–	–	–	–	(14)	(14)
Transfer from accumulated profit to non-distributable reserves		–	–	–	–	(1 164)	36	–	1 128	–	–	–
Balance at 31 March 2009		–	8 444	5 172	(113)	(1 649)	122	12	47 361	59 349	229	59 578

	Note	Attributable to equity holder of the company						
		Issued capital[1]	Equity reserve[2]	Cash flow hedge reserve[3]	Available-for-sale reserve[4]	Un-realised fair value reserve[5]	Accumu-lated profit[8]	Total
		Rm	Rm	Rm	Rm	Rm	Rm	Rm
Company								
Balance at 31 March 2007		–	–	(49)	(53)	(575)	56 258	55 581
– Prior year adjustment		–	–	–	–	–	(3 474)	(3 474)
– Deferred tax thereon		–	–	–	–	–	1 007	1 007
Restated balance at 31 March 2007		–	–	(49)	(53)	(575)	53 791	53 114
Available-for-sale financial assets								
– Net change in fair value		–	–	–	(153)	–	–	(153)
– Deferred tax thereon		–	–	–	43	–	–	43
Cash flow hedges								
– Effective portion of changes in fair value		–	–	8 189	–	–	–	8 189
– Deferred tax thereon		–	–	(2 669)	–	–	–	(2 669)
– Net amount transferred to initial carrying amount of hedged items		–	–	(8)	–	–	–	(8)
Restated profit for the year	44	–	–	–	–	–	191	191
Deferred tax change in tax rate		–	–	10	4	–	–	14
Transfer from accumulated profit to non-distributable reserves		–	–	–	–	78	(78)	–
Balance at 31 March 2008		–	–	5 473	(159)	(497)	53 904	58 721
Available-for-sale financial assets								
– Net change in fair value		–	–	–	17	–	–	17
– Deferred tax thereon		–	–	–	(5)	–	–	(5)
Cash flow hedges								
– Effective portion of changes in fair value		–	–	(411)	–	–	–	(411)
Changes in fair value		–	–	(816)	–	–	–	(816)
Ineffective portion of changes in fair value recycled to profit or loss		–	–	405	–	–	–	405
– Deferred tax thereon		–	–	178	–	–	–	178
– Net amount transferred to initial carrying amount of hedged items		–	–	(66)	–	–	–	(66)
Subordinated loan from shareholder		–	8 444	–	–	–	–	8 444
Loss for the year		–	–	–	–	–	(10 177)	(10 177)
Transfer from accumulated profit to non-distributable reserves		–	–	–	–	(1 136)	1 136	–
Balance at 31 March 2009		–	8 444	5 174	(147)	(1 633)	44 863	56 701

Dividends proposed

No dividend has been proposed.

1. *Nominal amount.*
2. *The equity reserve comprises the day-one gain on initial recognition of the subordinated loan from the shareholder (refer note 13.5).*
3. *The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments (comprising forward exchange contracts, interest rate swap and cross-currency swap) related to hedged transactions that have not yet occurred. The cross-currency swap hedges foreign exchange rate risk of the future interest payments and the principal repayment on a euro-denominated loan.*
4. *The available-for-sale reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised.*
5. *The cumulative net change in the fair value of derivatives that have not been designated as cash flow hedging instruments is recognised in profit or loss. The unrealised portion of the net change in fair value is not distributable and has been reallocated from a distributable reserve (accumulated profit) to a non-distributable reserve.*
6. *The insurance reserve is a contingency reserve created in terms of the Short-term Insurance Act, 1998.*
7. *The foreign currency translation reserve comprises exchange differences resulting from the translation of the results and financial position of foreign operations.*
8. *Accumulated profit is the amount of cumulative profit retained in the business after tax. This amount includes cumulative effects of embedded derivatives before tax of R6 896 million loss (2008: R2 618 million profit) in group and R6 894 million loss (2008: R2 612 million profit) in company.*

Cash flow statements

for the year ended 31 March 2009

	Note	Group 2009 Rm	Group Restated[1] 2008 Rm	Company 2009 Rm	Company Restated[1] 2008 Rm
Cash flows from operating activities					
Cash generated from operations	39	**5 133**	5 900	**5 384**	5 574
Net cash flows from financial trading assets		**1 616**	1 289	**1 635**	1 204
Net cash flows from financial trading liabilities		**(2 330)**	65	**(2 330)**	65
Net cash flows from current derivatives held for risk management		**7 629**	(8 528)	**7 629**	(8 528)
Income taxes (paid)/refunded		**(284)**	(638)	**60**	(417)
Net cash from/(applied to) operating activities		**11 764**	(1 912)	**12 378**	(2 102)
Cash flows from investing activities					
Proceeds from disposal of property, plant and equipment		**124**	235	**101**	145
Proceeds from disposal of investments in equity-accounted investees		**101**	–	**–**	–
Acquisitions of property, plant and equipment		**(43 151)**	(24 023)	**(43 126)**	(23 838)
Acquisitions of intangible assets		**(481)**	(229)	**(422)**	(208)
Expenditure on future fuel supplies		**(1 523)**	(658)	**(1 523)**	(658)
Increase in deferred income		**1 173**	1 386	**1 173**	1 386
Decrease/(increase) in investments in equity-accounted investees and subsidiary companies		**17**	(11)	**–**	17
Decrease/(increase) in non-current trade and other receivables		**157**	(176)	**(14)**	(5)
(Increase)/decrease in finance lease receivables		**(122)**	128	**(122)**	126
Non-current assets and liabilities held-for-sale		**(84)**	131	**–**	–
Dividends received		**52**	31	**30**	800
Increase in non-current trade and other payables		**792**	256	**621**	256
Net cash used in investing activities		**(42 945)**	(22 930)	**(43 282)**	(21 979)
Cash flows from financing activities					
Debt raised		**53 959**	16 831	**53 790**	17 060
Debt securities issued		**10 205**	11 327	**10 205**	11 327
Subordinated loan from shareholder[2]		**10 000**	–	**10 000**	–
Borrowings		**33 754**	5 504	**33 585**	5 733
Debt repaid		**(23 492)**	(9 092)	**(23 492)**	(9 073)
Debt securities issued		**(5 085)**	(6 414)	**(5 085)**	(6 414)
Borrowings		**(18 407)**	(2 678)	**(18 407)**	(2 659)
Net cash flows from financial instruments with group companies		**–**	–	**(206)**	696
Decrease in investment in securities		**7 366**	10 326	**7 768**	10 215
Decrease in finance lease liabilities		**(27)**	(8)	**(22)**	(23)
Net cash flows from non-current derivatives held for risk management		**1 817**	8 181	**1 817**	8 181
Interest received		**3 117**	3 109	**3 074**	2 939
Interest paid		**(3 869)**	(3 154)	**(4 226)**	(3 248)
Net cash from financing activities		**38 871**	26 193	**38 503**	26 747
Net increase in cash and cash equivalents		**7 690**	1 351	**7 599**	2 666
Cash and cash equivalents at beginning of the year		**10 893**	9 542	**10 322**	7 656
Cash and cash equivalents at beginning of the year transferred to non-current assets held-for-sale		**(201)**	–	**–**	–
Cash and cash equivalents at end of the year	13.1	**18 382**	10 893	**17 921**	10 322

	Note	Group 2009 Rm	Group Restated[1] 2008 Rm	Company 2009 Rm	Company Restated[1] 2008 Rm
Reconciliation of net cash flow to movement in net debt					
Net increase in debt securities issued		**5 120**	4 913	**5 120**	4 913
Net increase in borrowings		**25 347**	2 826	**25 178**	3 074
Net cash flows from financial instruments with group companies		**–**	–	**(206)**	696
Decrease in investment in securities		**7 366**	10 326	**7 768**	10 215
Decrease in finance lease liabilities		**(27)**	(8)	**(22)**	(23)
Net cash flows from derivatives held for risk management		**11 790**	(7 885)	**11 806**	(7 887)
Net debt raised		**49 596**	10 172	**49 644**	10 988
Portion on subordinated loan from shareholder allocated to equity		**(8 444)**	–	**(8 444)**	–
Non-cash flow movements		**1 281**	1 161	**1 348**	1 240
Cash and cash equivalents at beginning of the year transferred to non-current assets held-for-sale		**201**	–	**–**	–
Net increase in cash and cash equivalents for the year		**(7 690)**	(1 351)	**(7 599)**	(2 666)
Movement in net debt for the year		**34 944**	9 982	**34 949**	9 562
Net debt at beginning of the year		**15 067**	5 085	**17 367**	7 805
Net debt at end of the year		**50 011**	15 067	**52 316**	17 367
Analysis of net debt					
Debt securities issued	13	**47 577**	42 279	**47 577**	42 279
Borrowings	13	**26 607**	8 400	**26 178**	8 140
Finance lease liabilities	13, 26	**552**	548	**806**	714
Financial instruments with group companies	13, 10	**–**	–	**574**	780
Derivatives held for risk management	13, 15	**1 575**	(10 248)	**1 575**	(10 248)
		76 311	40 979	**76 710**	41 665
Cash and cash equivalents	13	**(18 382)**	(10 893)	**(17 921)**	(10 322)
Investment in securities	13	**(7 918)**	(15 019)	**(6 473)**	(13 976)
Net debt at end of the year		**50 011**	15 067	**52 316**	17 367

1. *Refer note 44.*
2. *Includes R1 575 million (2008: nil) which is included in borrowings (refer note 13.5). The remainder of the balance is recognised in equity.*

Notes to the financial statements

for the year ended 31 March 2009

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 9.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these separate and 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 consolidated financial statements of Eskom (the company) at and for the year ended 31 March 2009 comprise the company and its subsidiaries (together referred to as the group) and the group's interest in associates and jointly controlled entities. The separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Public Finance Management Act, 1 of 1999, and the Companies Act of South Africa, 61 of 1973, as amended.

The separate and consolidated financial statements are prepared on the historical basis except for the following financial instruments which are measured at fair value:

- derivative financial instruments
- financial instruments at fair value through profit or loss
- available-for-sale financial assets

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised. 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 standards, amendments and interpretations to existing standards which were effective for the group for the financial year beginning on or after 1 April 2008. The effects of adopting these standards are discussed in note 44.

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 for future accounting periods but have not been adopted early by the group:

IAS 1 Presentation of financial statements (effective 1 January 2009) (revised)

The amendment requires that all non-owner changes in equity (comprehensive income) be presented either in one statement of comprehensive income or in two statements (a separate profit or loss and a statement of comprehensive income). Components of comprehensive income may not be presented in the statement of changes in equity.

It also requires that a balance sheet is presented at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement. The entity has to disclose income tax relating to each component of other comprehensive income, and disclose reclassification adjustments relating to components of other comprehensive income.

The group still needs to determine which disclosure option for comprehensive income it will follow, but is not expecting the impact on the financial statements to be significant.

IAS 23 Borrowing costs (effective 1 January 2009) (revised)

The amendment to the standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. This amendment will not have a significant impact on the group's financial statements as Eskom currently capitalises borrowing costs on qualifying assets.

IAS 27 Consolidated and separate financial statements (effective 1 July 2009) (revised)

In accordance with the amended IAS 27, acquisitions of additional non-controlling equity interests in subsidiaries have to be accounted for as equity transactions. Disposals of equity interests while retaining control are also accounted for as equity transactions. When control of an investee is lost, the resulting gain or loss relating to the transaction will be recognised in profit or loss.

It has always been the group's accounting policy to treat all acquisitions of additional interests in subsidiaries, as well as disposals of interests in subsidiaries as equity transactions. The group will, however, change its accounting policy

relating to the loss of control when an equity interest is retained. In future, when control is lost, through sale or otherwise, the resulting gain or loss recognised in profit or loss will include any remeasurement to fair value of the retained equity interest.

The amendments to IAS 27 also require that losses (including negative *other comprehensive income* as detailed in the revised IAS 1) have to be allocated to the non-controlling interest even if doing so causes the non-controlling interest to be in a deficit position. The group will in future change its accounting polices on the allocation of losses to non-controlling interests. In the past losses were allocated only until the non-controlling interests had a zero balance.

IAS 32 Financial instruments: Presentation and IAS 1 (revised), Presentation of financial statements (effective 1 January 2009) (revised)
IAS 32 requires certain puttable instruments that meet the definition of a financial liability to be classified as equity if and only if they meet the required conditions. These amendments will not have any impact on the group's financial statements.

IAS 39 Financial instruments: Recognition and measurement (effective 1 July 2009) (revised)
IAS 39 provides additional guidance on the designation of a hedged item. The amendment clarifies the designation of a one-sided risk in a hedged item and inflation in a financial hedged item. The group is still determining the impact of the amendment on the financial statements.

IAS 39 Financial instruments: Recognition and measurement and IFRIC 9: Reassessment of embedded derivatives (effective 30 June 2009) (revised)
The amendments to IAS 39 *Financial instruments: Recognition and measurement* and IFRIC 9: *Reassessment of embedded derivatives* clarify that on reclassification of a financial asset out of the *fair value through profit or loss* category all embedded derivatives have to be assessed and, if necessary, separately accounted for in the financial statements.

The amendments will not have an impact on the group's financial statements as the group does not intend to reclassify any of its financial assets out of the *fair value through profit or loss* category.

IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and separate financial statements (effective 1 January 2009) (revised)
The amendment specifies that, if a newly formed entity becomes a parent entity of another entity as part of a reorganisation, then where the investment in the subsidiary is measured at cost, the initial amount recognised shall be equal to its share of total equity shown in the separate financial statements of the subsidiary entity at the date of reorganisation. This amendment is not expected to have a significant impact on the group's financial statements.

IFRS 2 Share-based payment (effective 1 January 2009) (revised)
The amendments apply to equity-settled share-based payment transactions and clarify what vesting and non-vesting conditions are.

Vesting conditions are now limited to service conditions (as defined in the current IFRS 2) and performance conditions. Non-vesting conditions are conditions that do not determine whether the entity receives the services that entitle the counterparty to a share-based payment. Non-vesting conditions are taken into account in measuring the grant date fair value and thereafter there is no *true-up* for differences between expected and actual outcomes.

Other main changes to IFRS 2 require that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.
These changes will have no impact on the group's financial statements as the treatment of *non-vesting* conditions and *cancellations* are consistent with the group's current accounting policies.

IFRS 2 Share-based payment (effective 1 January 2010) (revised)
IFRS 2 provides that an entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets is now required to recognise the goods or services received in its financial statements. This amendment is not expected to have a significant impact on the group's financial statements.

IFRS 3 Business combinations (effective 1 July 2009) (revised)
IFRS 3 applies to all new business combinations that occur after 1 April 2010. The statement requires that all transaction costs be expensed and the contingent purchase consideration be recognised at fair value on acquisition date. For successive share purchases, any gain or loss on the difference between the fair value and the carrying amount of the previously held equity interest in the acquiree will have to be recognised in profit or loss. These amendments are not expected to have a significant impact on the group's financial statements.

Notes to the financial statements continued

for the year ended 31 March 2009

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

IFRS 7 Financial instruments: Disclosures (effective 1 January 2009) (revised)

The amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. These disclosures are expected to provide more information about the relative reliability of fair value measurements.

Furthermore, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. The group is still determining the impact of the disclosures on its financial statements.

IFRS 8 Operating segments (effective 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 on its financial statements.

IFRIC 13 Customer loyalty programmes (effective 1 July 2008)

IFRIC 13 will be adopted for the first time for the financial reporting period ending 31 March 2010. IFRIC 13 addresses accounting by entities that grant loyalty award credits to customers who buy goods or services. Eskom implemented a loyalty programme on a pilot basis to provide customers with incentives to pay their electricity accounts. Awards are supplied by a service provider and the awards can be redeemed for specified goods. As the programme is currently in a pilot phase, the impact of this statement on the group's financial statements is expected to be insignificant.

IFRIC 15 Agreements for the construction of real estate (effective 1 January 2009)

IFRIC 15 addresses accounting for agreements for the construction of real estate and will have an impact on the timing of the recognition of revenue resulting from these contracts. The interpretation is not applicable to the group.

IFRIC 16 Hedges of a net investment in a foreign operation (effective 1 October 2008)

IFRIC 16 addresses the accounting treatment for hedges of a net investment in a foreign operation. Entities were previously allowed to apply hedge accounting to financial instruments used to hedge net investments in foreign operations. Under IFRIC 16, this treatment is no longer permissible. These financial instruments are required to be recognised in the balance sheet at fair value, with movements in fair value going through profit or loss. The interpretation is expected to have no impact on the financial statements.

IFRIC 17 Distribution of non-cash assets to owners (effective 1 July 2009)

IFRIC 17 provides guidance on when and how a liability for certain distributions of non-cash assets is recognised and measured, and how to account for settlement of that liability. The interpretation is currently expected to have no impact on the financial statements.

IFRIC 18 Transfers of assets from customers (effective 1 July 2009)

IFRIC 18 provides guidance on transfers of property, plant and equipment (or cash to acquire it) for entities that receive such contributions from their customers. The group is still determining the impact of the interpretation on the financial statements.

Standards, interpretations and amendments to published standards that are effective and applicable to the group, but had no impact on the financial statements:

The following standards, amendments and interpretations were effective and applicable to the group for the year ended 31 March 2009, but had no impact on the financial statements:

- IFRIC 14 and IAS 19 *The limit of a defined benefit asset, minimum funding requirements and their interaction*
- IAS 39 *Financial instruments: Recognition and measurement* and IFRS 7 *Financial instruments: Disclosures*

Various improvements to IFRS

A number of standards have been amended as part of the International Accounting Standards Board's (IASB) annual improvement project. Management is in the process of considering the relevant amendments to the standards and determining the financial implications and impact on the group.

2.2 Consolidation

Investment in subsidiaries

Subsidiaries are all entities (including special-purpose entities) over which the group has the power to govern the financial and operating policies to obtain benefits from the activities of the entity. 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 consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Investments in subsidiaries are accounted for at cost less impairment losses in the separate financial statements of the company.

Business combinations

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 profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated, but are 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 with minority interests

The group applies a policy of accounting for 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 profit or loss. 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.

Investment in equity-accounted investees

Associates are all entities over which the group has significant influence but no control, generally linked to 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 less impairment losses in the separate financial statements of the company. 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 profit or loss within *share of profit of equity-accounted investees,* 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 or 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.

Notes to the financial statements continued

for the year ended 31 March 2009

2. Summary of significant accounting policies *(continued)*

2.3 Segment reporting *(continued)*

Primary reporting format – business segments

The group is organised into the following business segments:

- Generation division
- Transmission division
- Distribution division
- Other

Secondary reporting format – geographical segments

The group's business segments operate in two geographical areas, local and international.

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 (rounded to the nearest million), 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 profit or loss, except when recognised in equity for qualifying cash flow 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 within *available-for-sale financial assets*.

Translation differences on non-monetary financial assets 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* in equity.

Foreign loans are initially recognised at the exchange rate prevailing at transaction date and are translated at spot at every reporting date. The exchange differences resulting from the mark to spot on foreign loans, except foreign loans accounted for in terms of cash flow hedge accounting, are recognised in profit or loss within *finance income* or *finance cost*.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to rand at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to rand at exchange rates at the dates of the transactions. The group does not have any foreign operations in hyperinflationary economies.

Foreign currency differences are recognised directly in equity within the *foreign currency translation reserve*.

2.5 Property, plant and equipment

Land and buildings comprise mainly office, power station, substation, workshop and related buildings.

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. 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 profit or loss during the financial period in which they are incurred.

Works under construction are stated at cost which includes cost of materials and direct labour and any costs incurred in bringing it to its present location and condition. 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 80
– Transmission	5 to 40
– Distribution	10 to 35
– Test, telecommunication and other plant	3 to 20
Equipment and vehicles	1 to 10

The depreciation method, residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss 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 and joint ventures is included in *investment in equity-accounted investees* 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 and impairment losses. 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 (not exceeding three years). If software is integral to the functionality of related equipment, then it is capitalised as part of the equipment.

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 employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Rights

Rights consist mainly of servitudes and rights of way under power lines. Rights are not amortised 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.

Notes to the financial statements continued

for the year ended 31 March 2009

2. Summary of significant accounting policies *(continued)*

2.6 Intangible assets *(continued)*

Concession assets

Concession assets consists of rights to charge for the usage of the infrastructure under service concession arrangements (refer note 19). Concession assets are capitalised on the basis of the cost of capital expenditure incurred in respect of service concession arrangements, including borrowing costs on qualifying capital expenditures.

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 measured reliably

Research and other development expenditure that does not meet these criteria is recognised in profit or loss within *other operating expenses*. 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.

2.7 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 entities in the group unless an asset is financed by a specific loan, in which case the specific rate is used.

2.8 Service concession arrangements

A service concession arrangement is an arrangement involving an operator constructing and/or upgrading, operating and maintaining infrastructure used to provide a public service for a specified period of time. The operator is paid for its services over the period of the arrangement. The arrangement is governed by a contract that sets out performance standards, mechanisms for adjusting prices and arrangements for arbitrating disputes. The grantor (the party that grants the service arrangement) controls the infrastructure and the operator is required to return to the grantor the infrastructure at the end of the arrangement.

Intangible asset

The group recognises an intangible asset arising from a service concession arrangement to the extent that it receives a right to charge for the usage of the concession infrastructure. Intangible assets received as consideration for providing construction services in a service concession arrangement are measured at fair value upon initial recognition. Subsequent to initial recognition, the intangible asset is measured at cost less accumulated amortisation and impairment losses.

Intangible assets arising from a service concession arrangement are included within *intangible assets* under concession assets (refer note 7).

Financial asset

The group recognises a financial asset arising from a service concession arrangement to the extent that it has an unconditional right to receive cash or another financial asset from or at the direction of the grantor, for the construction, upgrade or operation services of the concession assets. Financial assets recognised as a result of the service concession arrangement are measured at fair value upon initial recognition. Subsequent to initial recognition, the financial asset is accounted for in accordance with IAS 39 *Financial instruments: Recognition and measurement* (refer note 2.11, non-derivative financial instruments).

Financial assets arising from a service concession arrangement are included within *trade and other receivables* under other receivables (refer note 17).

Construction or upgrade services

The group accounts for revenue and costs relating to construction or upgrade services in accordance with IAS 11 *Construction contracts.*

Operation services

The group accounts for revenue relating to operation services in accordance with IAS 18 *Revenue.*

Contractual obligations to maintain and restore the infrastructure

The group accounts for the contractual obligations to maintain or restore the infrastructure in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets.* The provision to restore the infrastructure is included within *provisions* (refer note 25).

2.9 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. Leases of property, plant and equipment 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 profit or loss within *finance cost* 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 acquired under finance leases are depreciated or amortised over the shorter of the useful life of the asset and the lease term.

Finance lease liabilities are derecognised in accordance with the derecognition requirements for financial liabilities (refer note 2.11). Derivatives embedded in leases are accounted for in accordance with the requirements for embedded derivatives (refer note 2.11).

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 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 disclosed as unearned finance income within *finance lease receivables.*

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Finance lease receivables are assessed for impairment and derecognised in accordance with the requirements for financial assets (refer note 2.11). Derivatives embedded in leases are accounted for in accordance with the requirements for embedded derivatives (refer note 2.11).

Premium power supplies are treated as finance leases where the group is the lessor.

Fair value

The fair value of finance lease receivables and finance lease liabilities is determined by discounting the future cash flows with respect to the finance lease at the current market-related interest rate.

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 profit or loss within *other operating expenses* on a straight-line basis over the period of the lease.

Leases where substantially all of the risks and rewards of ownership are not transferred to the lessee (ie the group is the lessor) are classified as operating leases. Payments received under operating leases are recognised in profit or loss within *other income* on a straight-line basis over the period of the lease.

Notes to the financial statements continued

for the year ended 31 March 2009

2. Summary of significant accounting policies *(continued)*

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to amortisation or depreciation and are tested annually for impairment. Assets that are subject to amortisation or depreciation 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 were subject to impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment (loss)/reversal is recognised in profit or loss within *net impairment (loss)/reversal.*

2.11 Financial instruments

2.11.1 Non-derivative financial instruments

Recognition, measurement and derecognition of financial assets

Non-derivative financial assets comprise *investment in securities, financial instruments with group companies, financial trading assets, trade and other receivables, loans receivable, finance lease receivables* and *cash and cash equivalents.*

Cash and cash equivalents comprise balances with local and international banks, monies in call accounts, short-term assets and money market assets with an original maturity of less than 90 days.

Where relevant, non-derivative financial assets are recognised on the date of commitment to purchase (trade date). Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the group has transferred substantially all the risks and rewards of ownership. Realised gains and losses on derecognition are determined using the weighted average method.

Non-derivative financial assets are recognised initially at fair value plus any directly attributable transaction costs except for financial assets at fair value through profit or loss. Directly attributable transaction costs related to financial assets at fair value through profit or loss are recognised in profit or loss on initial recognition when incurred. Subsequent to initial recognition, non-derivative financial assets are measured per asset category (as stated below). The appropriate classification of the financial asset is determined at the time of commitment to acquire the financial asset.

When entering into a transaction, the financial instrument is recognised initially at the transaction price which is the best indicator of fair value. Where fair value of the financial instrument is different from the transaction price a day-one gain or loss may arise. The day-one gain or loss is immediately recognised in profit or loss (except for embedded derivatives and the subordinated loan from the shareholder) within *net fair value gain/(loss) on financial instruments, excluding embedded derivatives,* provided that the fair value has been determined based on market-observable data.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has both the ability and intent to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any accumulated impairment losses.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal payments, plus or minus the cumulative amortisation using the effective interest method and minus any reduction for impairment or uncollectibility.

The effective interest rate is the rate that discounts the estimated future cash receipts of the financial asset exactly to its net carrying amount.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. An instrument may only be designated at fair value through profit or loss when certain criteria are met. The group has not elected to designate financial assets at fair value through profit or loss.

A financial asset is classified as held-for-trading if it is:

- acquired for the purpose of selling it in the short term
- 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
- a derivative instrument

Subsequent to initial recognition, changes in the fair value of these financial assets are recognised in profit or loss within *net fair value gain/(loss) on financial instruments, excluding embedded derivatives.*

Loans and receivables

The trade and other receivables of the group are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that management intends to sell immediately or in the short term, which are classified as held-for-trading
- those that upon initial recognition are designated as available-for-sale
- those for which the group may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any accumulated impairment losses.

Available-for-sale assets

Available-for-sale financial assets are those assets that are designated as such or do not qualify to be classified as at fair value through profit or loss, held-to-maturity or loans and receivables.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses (for monetary items), are recognised directly in equity. When the asset is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Fair value

The fair values of trading assets, available-for-sale assets and assets carried at amortised cost are based on quoted bid prices. For assets that are not quoted in an active market, valuation techniques are used. 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.

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Impairment

A review for impairment indicators is carried out at each financial year end to determine whether there is any objective evidence that a financial asset is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. 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 to be an indicator that the securities are impaired.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss within *net impairment loss.* In the case of 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 profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets carried at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss within *net impairment loss.* For available-for-sale financial assets that are equity securities, a subsequent increase in fair value is recognised directly in equity.

Where an asset has been impaired, the carrying amount of the asset is reduced through an allowance account.

Notes to the financial statements continued

for the year ended 31 March 2009

2. Summary of significant accounting policies *(continued)*

2.11 Financial instruments *(continued)*

2.11.1 Non-derivative financial instruments (continued)

Recognition, measurement and derecognition of financial liabilities (continued)

Non-derivative financial liabilities comprise *debt securities issued, financial instruments with group companies, financial trading liabilities, finance lease liabilities, borrowings* and *trade and other payables.*

Non-derivative financial liabilities are recognised initially at fair value plus any directly attributable transaction costs except for financial liabilities at fair value through profit or loss. Directly attributable transaction costs related to liabilities recognised at fair value through profit or loss are recognised in profit or loss on initial recognition when incurred. Subsequent to initial recognition, non-derivative financial liabilities are measured at amortised cost or fair value as per the relevant liability category (as described below).

Where relevant, non-derivative financial liabilities are recognised on the date of commitment (trade date) and are derecognised when the obligation expires, is discharged or cancelled. Realised gains and losses are determined using the weighted average method.

Financial liabilities at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. An instrument may only be designated at fair value through profit or loss when certain criteria are met. The group has not elected to designate financial liabilities at fair value through profit or loss.

A financial liability is classified as held-for-trading if it is:

- incurred principally for the purpose of selling or repurchasing it in the near term
- 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
- a derivative instrument

Subsequent to initial recognition, financial liabilities at fair value through profit or loss continue to be measured at fair value.

Financial liabilities at amortised cost

Financial liabilities that are not held-for-trading are classified as financial liabilities at amortised cost. Debt securities issued, including foreign loans, that are not held-for-trading are classified as held at amortised cost. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method. The *trade and other payables* of the group are classified as financial liabilities at amortised cost.

Fair value

The fair value of *financial trading liabilities* is based on quoted offer prices. For liabilities that are not quoted in an active market, valuation techniques are used. 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 liability with similar terms and conditions at the balance sheet date.

2.11.2 Financial guarantees

Financial guarantees are contracts that require the group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised cost and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

Fair value

Financial guarantees are valued initially 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 profit or loss. 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.

2.11.3 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 classified as held-for-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 fair value and remeasured subsequently 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 (except those used for cash flow hedging) are carried as *financial trading assets* when the fair value is positive and as *financial trading liabilities* when the fair value is negative and the offset criteria have not been met. Realised and unrealised gains and losses are recognised in profit or loss within *net fair value gain/(loss) on financial instruments, excluding embedded derivatives*.

Hedge accounting

The method of recognising the resulting gain or loss on the derivative depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Derivatives can be designated as:

- hedges of the fair value of recognised liabilities and assets (fair value hedge)
- hedges of a particular risk associated with a recognised liability, asset or a highly probable forecast transaction (cash flow hedge)
- hedges of a net investment in a foreign operation (net investment hedge)

The group applies only cash flow hedge accounting.

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.

Movements on the hedging reserve in shareholders' 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 period of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining period of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion and the forward points portion which is not designated (as part of the hedge) is recognised immediately in profit or loss within *net fair value gain/(loss) on financial instruments, excluding embedded derivatives*.

When the forecast transaction occurs, any cumulative gain or loss existing in equity at that time is included in the initial cost or other carrying amount of the asset or liability.

When a hedging instrument expires, is sold or a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss within the relevant expense category.

Economic hedging

Certain derivative instruments do not qualify for hedge accounting and are used for economic hedging. Changes in the fair value of these derivative instruments are recognised in profit or loss.

2.11.4 Repurchase and resale agreements

Securities sold subject to repurchase agreements are disclosed in the financial statements as financial assets. The liability to the counterparty is included under other liabilities as unsettled deals[1].

Securities purchased under agreements to resell are recorded as *trading assets* 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.

1. *Unsettled deals are transactions to which Eskom is legally bound but due to market convention the cash flows happen after trade date.*

Notes to the financial statements continued

for the year ended 31 March 2009

2. Summary of significant accounting policies *(continued)*

2.11 Financial instruments *(continued)*

2.11.5 Embedded derivatives

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.

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

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

The determination of the host contract of an electricity contract (which includes an embedded derivative) 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.

Embedded derivatives are disclosed separately from *derivatives held for risk management*. The changes in fair value are included in *net fair value gain/(loss) on embedded derivatives* in profit or loss. The impact of the fair value gains or losses is taken into account in the calculation of current and deferred taxation.

Embedded derivatives that are not separated are effectively accounted for as part of the hybrid instrument.

Fair value

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 resulting in day-one gains. These day-one gains or losses are spread equally over the period of the agreement. The fair value will depend on the strike price at inception.

The valuation at initial recognition is adjusted for cash flows since inception. The value of the embedded derivatives which involve 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 determination 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.

Where there is no active market for the embedded derivatives, valuation techniques are used to ascertain their fair values. Financial models are 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 fair value of embedded derivatives has been adjusted, where applicable, to take into account the inherent uncertainty relating to future cash flows of embedded derivatives such as liquidity model risk and other economic factors.

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
- liquidity, model risk and other economic factors

2.12 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 and includes expenditure incurred in acquiring inventories, production and conversion costs and other costs incurred in bringing inventory to present location and condition.

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. 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.

2.13 Share capital

Ordinary shares are classified as equity.

2.14 Equity reserve

The subordinated loan received from the shareholder was initially measured at fair value and the difference between the fair valued amount and the advanced amount gave rise to a day-one gain. This day-one gain is disclosed in equity, under *equity reserve*. The equity reserve is subsequently measured at each reporting date using the latest available cash forecasts.

2.15 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

2.16 Deferred tax

Deferred tax is provided using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred 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 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 tax is determined using tax rates (and laws) enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred 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 tax assets are reviewed at each balance sheet date and reversed if it is no longer probable that the related tax benefits will be realised.

Deferred 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 in the balance sheet within *future fuel supplies* 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 related interest earned is credited to profit or loss within *finance income* and the refunds are repaid in terms of the agreements.

Nuclear

Fuel assemblies in the process of fabrication are stated at cost within *future fuel supplies*, which includes the non-refundable advance payments made in terms of the agreement. Hedge accounting is applied to foreign exchange contracts entered into with respect to the purchase of nuclear fuel, with the effective portion being capitalised during the fabrication period. Advance payments in terms of agreements are capitalised.

Notes to the financial statements continued

for the year ended 31 March 2009

2. Summary of significant accounting policies *(continued)*

2.18 Payments received in advance

Payments received in advance consist mainly of upfront capital contributions for the construction of assets and funding for electrification. These amounts are recognised in profit or loss from the date the asset is placed in commercial operation.

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 the risk of a cancellation event on the contract and is allocated to profit or loss 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 profit or loss within *depreciation and amortisation expense* on a straight-line basis over the expected useful lives of the related assets.

Capital contributions received

Contributions paid in advance by electricity customers relating to the construction of regular distribution and transmission assets (with a standard supply) are credited to profit or loss within *other revenue* on a straight-line basis over the expected useful lives of the related assets when these assets have been placed in commercial operation.

2.20 Insurance reserve

A full contingency reserve of 10% 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 for leave as leave is of a long-term nature. An actuarial valuation is performed on an annual basis for occasional and service leave. The accrued liabilities are determined by valuing all future leave expected to be 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 profit or loss within *employee benefit expense*. 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.

Post-retirement medical aid obligations

The liability for post-retirement medical aid is the present value of the obligation by using long-dated corporate bonds (or government bonds where high-quality corporate bonds are not available) which have maturities similar to the liability. Provision is made by accounting, through profit or loss, 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 profit or loss within *employee benefit expense* immediately. No deferred recognition mechanism is applied.

The entitlement to these benefits is usually conditional on the employee remaining in 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 profit or loss within *employee benefit expense*. The fair value of the liability is determined using the residual valuation model.

Annual and performance bonus

The group recognises a liability for annual and performance bonuses. Annual bonuses are accrued on a proportionate basis as services are rendered. 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.

Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision due to passage of time is recognised as *finance cost.*

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

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 life of the plant.

Spent nuclear fuel

A provision is raised, over the life of the plant, for the management of spent nuclear fuel assemblies and radioactive waste. The charge to profit or loss is based on the latest available cost information and is included in *primary energy.*

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 profit or loss within *primary energy* 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.

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

Service concession arrangements

A provision is raised for contractual obligations to maintain and restore the infrastructure (refer note 2.8). These contractual obligations to maintain or restore infrastructure, except for any upgrade element, are recognised and measured at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period.

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.

Notes to the financial statements continued

for the year ended 31 March 2009

2. Summary of significant accounting policies *(continued)*

2.23 Revenue recognition *(continued)*

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 significant risks and rewards of ownership have passed and the collectibility of the related receivable 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 stage of 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.

Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss within *other revenue, excluding electricity revenue* in proportion to the stage of completion of the contract.

The stage of completion is assessed by reference to surveys of work performed. When an outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

Service concession arrangements

Revenue relating to construction or upgrade services under a service concession arrangement (refer note 2.8) is recognised based on the stage of completion of the work performed, consistent with the group's accounting policy on recognising revenue on construction contracts.

Operation or service revenue is recognised in the period in which the services are provided by the group. When the group provides more than one service in a service concession arrangement the consideration received is allocated by reference to the relative fair values of the services delivered.

2.24 Finance income

Finance income comprises interest receivable on loans, advances, trade receivables, finance lease receivables and income from financial market investments. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

2.25 Finance cost

Finance cost comprises interest payable on borrowings and interest resulting from the unwinding of discount on liabilities. Borrowing costs which are not capitalised (refer note 2.7) are recognised in profit or loss using the effective interest method.

2.26 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.27 Dividend distribution

Dividend distribution to the shareholder is recognised as a liability in the financial statements of the group in the period in which the dividends are approved by the shareholder.

2.28 Non-current assets and liabilities held-for-sale

Assets and liabilities which meet the definition of held-for-sale under IFRS 5 *Non-current assets held-for-sale and discontinued operations*, except for assets excluded from the scope of IFRS 5 for measurement purposes, are 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.

3. Financial risk management

The group has an integrated risk management framework. The group's approach to risk management is based on risk governance structures, risk management policies, risk identification, measurement and reporting. Three types of risks are reported as part of the risk profile, namely operational, strategic and business continuity risks. Operational risks are events, hazards, variances or opportunities which could influence the achievement of Eskom's compliance and operational objectives. For Eskom, a strategic risk is a significant unexpected or unpredictable change or outcome beyond what was factored into the organisation's strategy and business model which could have an impact on the group's performance. Business continuity risks are those events, hazards, variances and opportunities which could influence the continuity of Eskom. One of the key risks for Eskom, identified both under the operational and strategic risk categories, is the financial sustainability of Eskom. The financial risks, as defined by IFRS 7 *Financial instruments: Disclosures*, and the management thereof, form part of this key risk area. For more information on risk, refer to page 221 in the corporate governance report and page 27 in the business sustainability performance review.

The board of directors (the board) has delegated the management of enterprise-wide risk to the risk management committee which operates through various subcommittees. One of the committee's objectives is to ensure that the group is not unduly exposed to financial risks. Most of the financial risks arising from financial instruments are managed in the centralised treasury function of the group, except for instruments such as trade and finance lease receivables and trade and finance lease payables which are managed by the other divisions and subsidiaries.

The group's exposure to risk, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented, unless otherwise stated.

The exposure of the centralised treasury function to the major financial risks is unique to its activities and therefore different to those of the divisions and subsidiaries within the Eskom group. A distinction is therefore made between the treasury department and other divisions and subsidiaries in the group in respect of financial risk management where relevant.

The group has exposure to the following risks as a result of its financial instruments:

- credit risk (refer note 3.1)
- market risk (refer note 3.2)
- liquidity risk (refer note 3.3)

3.1 Credit risk

Credit risk is the risk of financial loss to the group if a customer or other counterparty (including government and financial institutions) to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the sale of goods and services in the ordinary course of business and the centralised treasury activities. Credit risk includes counterparty risk and delivery or settlement risk.

Counterparty risk is the risk that a counterparty is unable to meet its financial and/or contractual obligations during the period of a transaction. Delivery or settlement risk is the risk that a counterparty does not deliver on its contractual commitment on maturity date (including the settlement of money and delivery of securities).

3.1.1 Management of credit risk

Financial instruments managed by the treasury function

Credit risk arises from cash and cash equivalents, investment in securities and deposits made with counterparties. Processes are in place to identify, measure, monitor, control and report credit risk. The objective of Eskom's credit risk management framework is firstly to protect cash and investments and, secondly to project and maximise the rate of return of financial market investments.

Responsibility and governance

The treasury credit risk committee, a subcommittee of the risk management committee, manages counterparty credit risk which arises from the treasury activities in the financial markets. This committee is chaired by the finance director and reports on a quarterly basis to the risk management committee. The activities of the committee are guided by the terms of reference that are updated and approved by the risk management committee.

Notes to the financial statements continued

for the year ended 31 March 2009

3. Financial risk management *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Management of credit risk (continued)

Responsibility and governance (continued)

The terms of reference set out the minimum acceptable standards to be adhered to by those responsible for credit-related transactions within the treasury department. The terms of reference are aligned to the Exco credit risk governance standards and are supplemented by appropriate policies and procedures.

The committee:

- assesses the credit quality of counterparties and types of instruments used
- approves credit limits
- facilitates and manages the issuing of financial guarantees by the group
- ensures that transactions with counterparties are supported by trading agreements, where applicable
- approves methodologies used for the management of counterparty exposure

The senior credit risk advisor in the risk assessment division provides feedback on all treasury credit risk-related matters to the treasury management, finance director, treasury credit risk committee and risk management committee.

The management of credit risk is governed by the following policies:

- trading in financial instruments is conducted and entered into with selected counterparties after credit limits have been authorised. Individual risk limits are set based on internal and external ratings in line with limits set by the board. All credit limits are approved by the treasury credit risk committee. The use of credit limits is regularly monitored
- only banks and financial institutions with an independent minimum rating of A1 are accepted. If there are no independent ratings, the credit quality of the counterparty is assessed, taking into account its financial position, past experience and other factors
- all exposures are mark-to-market. Transaction or close-out netting takes place in accordance with the terms and conditions of the underlying trading agreements
- minimum credit-rating requirements for financial institutions are maintained to assess the risk categories by rating class and to ascertain the probability of default inherent in each rating class
- approved concentration risk parameters and collateral management procedures are in place

Concentration of credit risk is managed by setting credit risk limits at a counterparty-specific level. Concentration credit risk limits are used as second tier limits in relation to counterparty credit limits. Counterparty-specific exposure is monitored against a set concentration of credit risk limits in relation to the total credit risk exposure to all counterparties.

Credit risk measurement, monitoring and reporting

Risk is measured by determining a default probability per counterparty (expressed through an internal risk rating) which is then applied to the market value of the investment placed to determine the capital at risk.

The treasury department's policies and practices are designed to preserve the independence and integrity of decision-making and ensure credit risks are accurately assessed, properly approved, continually monitored and actively managed.

Aggregate credit exposure, hold-limit exceptions and risk profile changes are reported to Exco and the risk management committee on a quarterly basis. There is regular detailed reporting of limits utilisation, limit breaches and customer concentrations to ensure these are appropriately managed and monitored.

Impairment assessments are performed to evaluate the credit risk exposure. The assessments focus on the following areas:

- significant financial difficulty of the issuer or counterparty
- high probability of bankruptcy
- breach of contract

Financial instruments managed by other divisions and subsidiaries

(a) Electricity receivables

Eskom supplies electricity to customers in its licensed areas of supply. A large proportion of the residential customers are on a prepaid basis.

Eskom's exposure to credit risk is influenced by the individual characteristics of each customer. In monitoring credit risk, customers are grouped according to their credit characteristics, including whether they are large or small power users, geographic location, ageing profile, security (deposits and guarantees) held and payment history.

The main classes of electricity receivables are international, local large and local small power users.

Electricity supply agreements are entered into with key international customers who comprise utility companies and governments of neighbouring countries. These customers are not required to provide any security unless they default on their payment terms.

Key large power users comprise mainly South African commercial, industrial and mining customers. Some key large power users are not required to provide any security if they have an acceptable credit rating from an approved rating agency. New customers are required to provide security equivalent to the value of three months' estimated consumption. Existing customers are required to provide security to the value of three months' consumption if they default on their payment terms.

Non-key customers (other than large power users and small power users) are required to provide security equivalent to between one to three months' consumption at the commencement of the supply agreement. The level of security is reviewed when a customer defaults on their payment obligation or requires additional electricity supply capacity in which case they are required to either provide security or increase their existing security to an amount equivalent to between one to three months' of recent consumption before supply will commence. Redistributors were not required to provide any security and are currently re-evaluated based on their payment history to determine if any security is necessary.

Payment terms vary between customer classes

- key international customers: 10 to 45 days
- key and other large power users: individually negotiated up to a maximum of 15 days
- small power users: 30 days

Interest is charged at market-related rates on balances in arrears.

The group has well-established credit control procedures that monitor activity on customer accounts and allow for remedial action should the customer not comply with payment terms. These procedures include an internal collection process, follow up with the customer either telephonically or in person, negotiations of mutually acceptable payment arrangements and the issue of a notice of disconnection of supply and letters of demand. Non-payment will result in disconnection of supply and the customer's account being closed. The legal collection process is pursued thereafter.

The decision to impair overdue amounts is assessed on the probability of recovery based on the customer's credit risk profile.

Progress on the collection process is reviewed on a regular basis and if it is evident that the amount will not be recovered, it is recommended for write-off in terms of the Eskom delegation of authority. The process of recovery continues unless it is confirmed that there is no prospect of recovery or the costs of such action will exceed the benefits to be derived. Amounts written off are determined after taking into account the value of the security held.

The total cumulative allowance for impairment for electricity receivables at 31 March 2009 was R2,69 billion (2008: R1,78 billion) (refer note 3.1.2(a)). A substantial portion relates to outstanding debt in problematic areas. 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 this area continue to receive management attention. The payment levels from these customers, expressed as a percentage of billed revenue, was 33% (2008: 20%).

Eskom is currently testing the strategy of secured split metering and debt recovery via prepayment as a key approach to minimise the risk of non-collection. Significant stakeholder and political support at local and national government level is required to ensure the successful rollout of this new strategy going forward.

In addition, the following strategies are currently in operation and are largely successful in other high-risk areas of non-paying customers. These include:

- disconnections
- conversion to prepayment
- increased internal debt management capacity
- use of debt collectors
- payment arrangements
- focus on early identification and letters of demand
- increased securities
- efficient internal process, for example system automation of credit and collections such as automated notices and letters of demand

The allowance for impairment relating to international customers of R376 million (2008: R127 million) arises as a result of interpretation disputes regarding contractual obligations with some of Eskom's large customers which are currently being resolved at executive level.

Notes to the financial statements continued

for the year ended 31 March 2009

3. Financial risk management *(continued)*

3.1 Credit risk *(continued)*

3.1.1 Management of credit risk (continued)

Financial instruments managed by other divisions and subsidiaries (continued)

(b) Other trade receivables

Eskom Enterprises (Pty) Limited provides plant life cycle support, plant maintenance work, network protection and measurement mainly to Eskom. Credit exposure is managed, amongst others, by setting credit limits which are reviewed and approved by management on a regular basis. Ongoing credit evaluations are performed on the financial position of debtors. Interest is charged on balances in arrears. In the event of default, a collection process is initiated. Impairment is considered on an individual account basis. Debtors are considered to be impaired when alternative collection methods to recover outstanding debt has failed.

(c) Other receivables

Other receivables include recoverable work, employee debtors, intercompany balances and sundry debtors.

Recoverable work is mainly project work carried out by Eskom on behalf of external parties. The projects include repairing damaged power lines, moving of power lines or underground cables and engineering-related work.

(d) Finance lease receivables

Finance lease receivables mainly comprise premium power supply contracts. The supply of electricity to customers may be either in the form of standard or premium power supply.

A standard supply is the least-cost technically acceptable solution as defined in the Distribution Network Code whereas the premium power supply is where the customer's requirement exceeds the specifications of a standard supply. Premium supply customers may already have a standard supply from Eskom but wish to reserve dedicated additional equipment to provide a backup supply. This is achieved through the installation of dedicated premium supply equipment for which the customer is required to pay the full capital costs.

Connection charges for premium supply contracts can be repayable on a monthly basis over a maximum period of 25 years.

The premium supply contracts have been identified as arrangements that contain a lease in terms of IFRIC 4 *Determining whether an arrangement contains a lease*. In terms of IAS 17 *Leases* these arrangements give rise to finance leases with Eskom as the lessor.

The credit risk exposure resulting from premium supply contracts is managed in a similar manner as for the standard supply contracts with these customers. Security is required from customers for premium supply assets which covers irrecoverable costs in the event of the early termination of the supply contract. Premium supply customers have maintained a good payment history with Eskom over the years. The standard payment terms are also applicable to the connection charge relating to the premium supply equipment which is billed monthly to the customer.

(e) Insurance activities

Escap Limited (Escap), a 100% subsidiary of Eskom, acts as the primary insurer for the group. It insures the accident and health, engineering liability, motor, property, transportation and miscellaneous classes of the short-term insurance business. It also insures motor vehicles in terms of Eskom's employee vehicle allowance scheme.

Escap insures the group up to agreed limits per risks whereafter the risks are covered by the reinsurance market.

Reinsurers

The creditworthiness of reinsurers is regularly assessed by the Escap risk management committee, especially prior to finalisation of any contract. Minimum credit ratings and credit limits per counterparty are set. The major reinsurers used during the financial year had market security rating of A- or higher (based on Standard and Poor's ratings). Although there has been a write-off of R6,7 million (2008: nil), management is confident that the group's exposure in respect of the possibility of default by its reinsurers remains minimal.

(f) Non-current assets held-for-sale

Credit risk from financial assets relating to discontinued operations is discussed below. Refer note 22 for further information on non-current assets held-for-sale.

Loans receivable

Home and personal loans are made available to employees in the group via the Eskom Finance Company (Pty) Limited. Credit risk policies are in place which require various criteria to be met prior to the approval of a loan. These criteria include the valuation of property, affordability and credit history of the employee.

The amounts advanced are secured by first mortgages over the property purchased and are repayable over an average period of 26 years. The risk of default by the employee is reduced as the monthly instalments are deducted from the employee's salary. Employees who are no longer in the employ of the group are required to arrange for a monthly debit order to settle the monthly instalment. Loans are not extended where the purchase price of the property exceeds its open market value. The weighted average loan amount as a percentage of the total home loan book at 31 March 2009 was 0,01% (2008: 0,01%).

In the event of default, the debtor is notified verbally and in writing. If payment has not been received for a period exceeding three months, a process to foreclose on the loan is initiated and the property is sold by public auction or repossessed. Should the property be sold by public auction, a reserve value is set that takes into account the value of the property, arrear rates and taxes, legal costs and commissions payable. If the reserve value is not achieved, the property is repossessed and is held for resale. These assets are disclosed as non-current assets held-for-sale.

Eskom Finance Company (Pty) Limited (EFC) entered into a securitisation arrangement with Nqaba Finance 1 (Pty) Limited (Nqaba), a special-purpose entity. The securitising of the home loan book converted the loan assets into marketable securities traded on the South African Bond Exchange. The special purpose entity is consolidated in the annual financial statements of the EFC group. In terms of a preference share agreement entered into between the two companies, EFC is entitled to the profits of Nqaba with the condition that should Nqaba incur losses, the risk thereof would lie with EFC.

EFC provides a first-loss credit enhancement loan equal to 2% of the notes in issue which bears interest at 30% per annum. At 31 March 2009 the loan was R39 million (2008: R39 million). As servicer of Nqaba, EFC earns a servicing fee equal to 0,35% of the quarterly outstanding loan book balance. EFC is the preferential shareholder of Nqaba which entitles it to all the residual profits (residual cash after priority payments). At the end of the financial year, the net asset value of Nqaba was R26 million (2008: R20 million).

Other receivables

The group provides information technology services to local and national governmental departments. A credit policy is in place which requires that credit profiles are established before conducting business with a customer and credit limits are set. No security is required from customers. Payment terms are set at 30 days. In the event of default, a collection process is initiated. Impairment is considered on an individual-account basis. Accounts are considered to be impaired when alternative collection methods to recover outstanding debt have failed. Interest is charged on impaired receivables.

Notes to the financial statements continued

for the year ended 31 March 2009

3. Financial risk management *(continued)*

3.1 Credit risk *(continued)*

3.1.2 *Credit exposure*

The carrying amount of financial assets represents the maximum credit exposure at the reporting date (refer note 13). The following table represents an analysis per credit rating level (as determined by rating agencies) of the credit risk of financial assets, except for embedded derivatives, trade and other receivables and financial instruments with group companies.

	Investment in securities			Financial trading assets Rm	Cash and cash equivalents Rm	Derivatives held for risk management Rm	Finance lease receivables Rm
	Held-to-maturity Rm	Loans and receivables Rm	Available-for-sale Rm				
2009							
Group							
AAA	–	–	1 873	–	394	–	–
AA+	–	–	–	–	–	–	4
AA	–	–	–	–	1	–	–
AA-	–	–	–	–	–	–	3
A+	–	–	–	–	381	–	–
A1+	–	–	3 109	517	12 216	1 555	–
A1	104	2 427	–	407	5 378	282	–
BBB-	–	–	–	–	–	–	9
Unrated	–	405	–	–	12	–	531
	104	2 832	4 982	924	18 382	1 837	547
Company							
AAA	–	–	1 873	–	394	–	–
AA+	–	–	–	–	–	–	4
AA	–	–	–	–	1	–	–
AA-	–	–	–	–	–	–	3
A+	–	–	–	–	–	–	–
A1+	–	–	2 069	155	12 144	1 555	–
A1	104	2 427	–	407	5 378	282	–
BBB-	–	–	–	–	–	–	9
Unrated	–	–	–	–	4	–	531
	104	2 427	3 942	562	17 921	1 837	547
2008							
Group							
AAA	–	–	1 424	–	–	–	–
AA	–	–	–	–	–	–	2
A1+	865	2 697	9 289	1 970	9 754	11 425	2
A1	–	1	457	168	1 062	1 245	9
A2	–	–	–	46	–	–	–
B	–	–	–	5	–	–	–
Unrated	–	285	1	350	77	–	412
	865	2 983	11 171	2 539	10 893	12 670	425
Company							
AAA	–	–	1 424	–	–	–	–
AA	–	–	–	–	–	–	2
A1+	865	2 697	8 531	1 840	9 260	11 425	2
A1	–	1	457	107	1 062	1 245	9
Unrated	–	–	1	70	–	–	412
	865	2 698	10 413	2 017	10 322	12 670	425

No credit limits were exceeded during the reporting period, nor does management expect any losses from non-performance by these counterparties.

	Note	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
The maximum exposure to credit risk for trade and other receivables per class was:					
Electricity receivables		**4 810**	4 022	**4 810**	4 022
International		**176**	249	**176**	249
Local large power users		**3 812**	3 095	**3 812**	3 095
Local small power users		**786**	661	**786**	661
Service delivery framework[1]		**36**	17	**36**	17
Other trade receivables		**305**	155	**–**	–
International		**26**	28	**–**	–
Local		**279**	127	**–**	–
Other receivables		**3 099**	1 436	**2 286**	1 319
Recoverable work		**106**	77	**106**	77
Employee debtors		**43**	54	**43**	50
Inter-company debtors		**–**	–	**704**	659
Reinsurance debtors		**437**	185	**–**	–
Value added tax receivable		**1 064**	–	**1 064**	–
Concession debtors		**655**	389	**–**	–
Sundry debtors		**794**	731	**369**	533
Total trade and other receivables	17	**8 214**	5 613	**7 096**	5 341
The analysis per credit rating level of the credit risk of trade and other receivables was:					
A+		**1 064**	51	**1 064**	51
A1+		**557**	20	**454**	20
A3		**38**	–	**38**	–
Unrated		**6 555**	5 542	**5 540**	5 270
		8 214	5 613	**7 096**	5 341
The maximum exposure to credit risk for non-current assets held-for-sale was:					
Trade and other receivables	22	**344**	259		
Loans receivable	22	**2 787**	2 415		
Finance lease receivables	22	**26**	30		
		3 157	2 704		

1. *Negotiated agreement with stakeholders in residential areas which is a specific initiative aimed at resolving the non-payment of accounts.*

Notes to the financial statements continued

for the year ended 31 March 2009

3. Financial risk management *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Credit exposure (continued)

(a) Electricity receivables

Group and company

2009	Carrying amount Rm	Not impaired[1] Not past due Rm	Not impaired[1] Days past due 0-15 Rm	16-45 Rm	46-75 Rm	>75 Rm	Impaired[2] Not past due Rm	Impaired[2] Days past due 0-15 Rm	16-45 Rm	46-75 Rm	>75 Rm
Individually assessed for impairment											
International	176	35	–	1	–	–	119	–	15	4	2
Gross	552	35	–	1	–	–	150	–	15	10	341
Impairment	(376)	–	–	–	–	–	(31)	–	–	(6)	(339)
Local large power users	3 812	3 576	190	24	8	2	5	1	1	–	5
Gross	4 010	3 576	190	24	8	2	26	22	27	26	109
Impairment	(198)	–	–	–	–	–	(21)	(21)	(26)	(26)	(104)

		Not past due Rm	Days past due 0-30 Rm	31-60 Rm	>60 Rm
Collectively assessed for impairment					
Local small power users	786	377	40	29	340
Gross	2 420	415	95	90	1 820
Impaired	(1 634)	(38)	(55)	(61)	(1 480)
Service delivery framework	36	7	3	2	24
Gross	518	14	5	4	495
Impaired	(482)	(7)	(2)	(2)	(471)
Total carrying amount	4 810				

Group and company

2008	Carrying amount Rm	Not impaired[1] Not past due Rm	Not impaired[1] Days past due 0-15 Rm	16-45 Rm	46-75 Rm	>75 Rm	Impaired[2] Not past due Rm	Impaired[2] Days past due 0-15 Rm	16-45 Rm	46-75 Rm	>75 Rm
Individually assessed for impairment											
International	249	112	–	–	2	1	87	–	–	–	47
Gross	376	112	–	–	2	1	87	–	3	3	168
Impairment	(127)	–	–	–	–	–	–	–	(3)	(3)	(121)
Local large power users	3 095	3 021	43	18	2	8	3	–	–	–	–
Gross	3 106	3 021	43	18	2	8	3	1	2	–	8
Impairment	(11)	–	–	–	–	–	–	(1)	(2)	–	(8)

	Carrying amount Rm	Not past due Rm	Days past due 0-30 Rm	31-60 Rm	>60 Rm
Collectively assessed for impairment					
Local small power users	661	256	58	16	331
Gross	1 763	344	100	57	1 262
Impairment	(1 102)	(88)	(42)	(41)	(931)
Service delivery framework	17	–	1	–	16
Gross	552	6	3	3	540
Impairment	(535)	(6)	(2)	(3)	(524)
Total carrying amount	4 022				

Electricity receivables include an amount of R34 million (2008: R39 million) relating to receivables that were renegotiated[3]. These electricity receivables would have been past due had their terms not been renegotiated.

Interest is charged on all arrear debts and in 2009 R401 million (2008: R347 million) was credited to profit or loss within *finance income*.

1. *Receivables past due but not impaired are receivables where contractual payment terms are past due but the group believes that impairment is not required on the basis of the level of security or collateral available and the stage of collection of amounts owed to the group.*
2. *Impaired receivables are receivables for which the group determines that it is probable that it will be unable to collect all amounts due in accordance with the contractual payment terms.*
3. *Receivables with renegotiated terms are receivables that have been restructured due to the deterioration in the customer's financial position and where the group has made concessions that it would not otherwise consider.*

Notes to the financial statements continued

for the year ended 31 March 2009

3. Financial risk management *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Credit exposure (continued)

(b) Other trade receivables

Group

2009	Carrying amount Rm	Not impaired: Not past due Rm	Not impaired: Days past due 0-30 Rm	31-60 Rm	61-90 Rm	>90 Rm	Impaired: Not past due Rm	Impaired: Days past due 0-30 Rm	31-60 Rm	61-90 Rm	>90 Rm
Individually assessed for impairment											
International	**26**	**25**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**
Gross	**29**	**25**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4**
Impairment	**(3)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3)**
Local	**279**	**237**	**32**	**4**	**–**	**6**	**–**	**–**	**–**	**–**	**–**
Gross	**287**	**237**	**32**	**4**	**–**	**6**	**–**	**–**	**–**	**–**	**8**
Impairment	**(8)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8)**
Total carrying amount	**305**										
2008											
International	28	13	10	–	3	2	–	–	–	–	–
Gross	28	13	10	–	3	2	–	–	–	–	–
Impairment	–	–	–	–	–	–	–	–	–	–	–
Local	127	73	46	3	2	3	–	–	–	–	–
Gross	147	73	46	3	2	3	–	–	–	–	20
Impairment	(20)	–	–	–	–	–	–	–	–	–	(20)
Total carrying amount	155										

(c) Other receivables

Other receivables comprise mainly debtors for which there are no specific repayment terms.

	Group		Company	
	2009 Rm	2008 Rm	**2009 Rm**	2008 Rm
Recoverable work	**106**	77	**106**	77
Gross	**106**	137	**106**	137
Impairment	**–**	(60)	**–**	(60)
Employee debtors	**43**	54	**43**	50
Gross	**45**	55	**45**	51
Impairment	**(2)**	(1)	**(2)**	(1)
Inter-company debtors	**–**	–	**704**	659
Gross	**–**	–	**704**	659
Impairment	**–**	–	**–**	–
Reinsurance debtors	**437**	185	**–**	–
Gross	**437**	185	**–**	–
Impairment	**–**	–	**–**	–
Value added tax receivable	**1 064**	–	**1 064**	–
Gross	**1 064**	–	**1 064**	–
Impairment	**–**	–	**–**	–
Concession debtors	**655**	389	**–**	–
Gross	**665**	389	**–**	–
Impairment	**(10)**	–	**–**	–
Sundry debtors	**794**	731	**369**	533
Gross	**964**	752	**539**	554
Impairment	**(170)**	(21)	**(170)**	(21)
Total carrying amount	**3 099**	1 436	**2 286**	1 319

Factors considered for impairment per class include:
– Sundry and employee debtors: long-outstanding debt or amounts handed over to debt collectors

(d) Non-current assets held-for-sale

Group

2009	Carrying amount Rm	Not impaired: Not past due Rm	Not impaired: Days past due 0-30 Rm	31-60 Rm	>60 Rm	Impaired: Not past due Rm	Impaired: Days past due 0-30 Rm	31-60 Rm	>60 Rm
Individually assessed for impairment									
Trade and other receivables	**344**	**258**	**33**	**13**	**33**	**7**	**–**	**–**	**–**
Gross	**403**	**258**	**33**	**13**	**33**	**14**	**1**	**–**	**51**
Impairment	**(59)**	**–**	**–**	**–**	**–**	**(7)**	**(1)**	**–**	**(51)**

		Not impaired: Not past due Rm	Not impaired: Days past due 0-30 Rm	31-60 Rm	>60 Rm
Collectively assessed for impairment					
Loans receivable	**2 787**	**2 709**	**18**	**9**	**51**
Home loans	**2 799**	**2 713**	**18**	**9**	**59**
Impairment	**(12)**	**(4)**	**–**	**–**	**(8)**
Total carrying amount	**3 131**				

2008	Carrying amount Rm	Not impaired: Not past due Rm	Not impaired: Days past due 0-30 Rm	31-60 Rm	>60 Rm	Impaired: Not past due Rm	Impaired: Days past due 0-30 Rm	31-60 Rm	>60 Rm
Individually assessed for impairment									
Trade and other receivables	259	77	19	2	7	105	34	7	8
Gross	309	77	19	2	7	109	34	9	52
Impairment	(50)	–	–	–	–	(4)	–	(2)	(44)

		Not impaired: Not past due Rm	Not impaired: Days past due 0-30 Rm	31-60 Rm	>60 Rm
Collectively assessed for impairment					
Loans receivable	2 415	2 334	15	8	58
Home loans	2 425	2 335	17	9	64
Impairment	(10)	(1)	(2)	(1)	(6)
Total carrying amount	2 674				

Notes to the financial statements continued

for the year ended 31 March 2009

3. Financial risk management *(continued)*

3.1 Credit risk *(continued)*

3.1.2 Credit exposure (continued)

	Note	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
(e) Security relating to amounts receivable					
The security held against *trade and other receivables* for the group companies comprises guarantees and deposits. The estimate of the fair value of the security held is:					
Electricity receivables		**2 250**	2 149	**2 250**	2 149
International		**–**	–	**–**	–
Local large power users		**1 601**	1 526	**1 601**	1 526
Local small power users		**649**	623	**649**	623
Service delivery framework		**–**	–	**–**	–
Other trade receivables		**–**	–	**–**	–
International		**–**	–	**–**	–
Local		**–**	–	**–**	–
Other receivables		**23**	2	**23**	2
Recoverable work		**12**	2	**12**	2
Employee debtors		**4**	–	**4**	–
Reinsurance debtors		**–**	–	**–**	–
Concession debtors		**–**	–	**–**	–
Inter-company debtors		**–**	–	**–**	–
Sundry debtors		**7**	–	**7**	–
		2 273	2 151	**2 273**	2 151
The total amount of the security above includes R1 407 million (2008: R1 525 million) relating to electricity receivables (international and large power users) which were not impaired and R20 million (2008: R2 million) relating to other receivables that were not impaired.					
Non-current assets held-for-sale					
Loans receivable secured by mortgage loans		**2 799**	2 279		
(f) Allowance for impairment					
The movement in the allowance for impairment in respect of *trade and other receivables* during the year was:					
Balance at beginning of the year		**1 877**	1 533	**1 857**	1 418
Impairment loss recognised (net of reversals)	34	**1 046**	483	**1 073**	443
Write offs		**(40)**	(139)	**(68)**	(4)
Balance at end of the year		**2 883**	1 877	**2 862**	1 857
Comprising:					
Electricity receivables		**2 690**	1 775	**2 690**	1 775
Other trade receivables		**11**	20	**–**	–
Other receivables		**182**	82	**172**	82
		2 883	1 877	**2 862**	1 857

Eskom establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance consists of a specific loss component that relates to individual exposures, and a collective loss component established for groups of similar customers in respect of losses that have been incurred but not yet identified.

(g) Financial guarantees issued

The group's maximum exposure as a result of financial guarantees issued was R2 107 million (2008: R2 260 million) and R2 257 million (2008: R2 374 million) for the company (refer note 40.1) for more information on financial guarantees issued.

3.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates, commodity prices, interest rates and equity prices.

A significant part of the market risk encountered arises from financial instruments that are managed centrally within the treasury function of the group or from contracts containing embedded derivatives.

The objective of the group's market risk management policy is to protect and enhance the balance sheet and income statement by managing and controlling market risk exposures and to optimise the funding of business operations and facilitate capital expansion.

Financial instruments managed by the treasury function

The treasury department is responsible for managing market risk within the risk management framework approved by Exco and the board. The overall authority for the management of market risks within the treasury department is vested in the asset and liability committee (Alco) and the credit risk committee. Measurement and reporting occurs on a daily and/or monthly basis and is performed by an independent section within the treasury department. Financial derivatives are used to manage market risk.

Financial instruments managed by other divisions and subsidiaries

Market risk arises mainly from changes in foreign exchange rates and to a limited extent from changes in commodity prices and equity prices. The divisions and subsidiaries are responsible for identifying the exposure arising from these risks. They liaise with the centralised treasury function to hedge (economic and cash flow hedges) these exposures appropriately on their behalf.

Embedded derivatives

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 foreign production price indices. This gives rise to embedded derivatives that require separation as a result of the different characteristics of the embedded derivative and the host contract. The contractual periods vary from one year up to a maximum of 25 years.

The net impact on profit or loss of changes in the fair value of the embedded derivatives for the group is a fair value loss of R9 514 million (2008: R1 680 million) and a fair value loss of R9 506 million (2008: R1 686 million) for the company. At 31 March 2009, the embedded derivative assets amounted to R1 366 million (2008: R7 702 million) for the group and R1 366 million (2008: R7 696 million) for the company. The embedded derivative liabilities at 31 March 2009 were R8 262 million (2008: R5 084 million) for the group and R8 260 million (2008: R5 084 million) for the company.

The valuation methods and inputs are discussed in the accounting policies (refer note 2.11.5, page 130) and the valuation assumptions are disclosed under critical accounting estimates and judgements (refer note 4, page 158). Risks arising from these contracts are discussed under the relevant risk areas as follows:

- currency risk (refer note 3.2.1, page 150)
- commodity risk (refer note 3.2.2, page 150)
- interest rate risk (refer note 3.2.3, page 151)
- other price risk (refer note 3.2.5, page 152)

Electricity contracts that contain embedded derivatives are considered for economic hedging. Hedging in respect of commodity risk and foreign currency exposure resulting from these embedded derivatives takes place on a short-term basis up to a maximum of five years. The South African Reserve Bank currently allows Eskom to hedge commodity price risk up to a maximum of five years with a foreign or local party.

Non-current assets held-for-sale

Market risks in respect of loans receivable, debt securities issued and borrowings arise from changes in interest rates and market prices. Market risk is monitored and analysed through the treasury department and reported to the EFC finance committee. A strategy aimed at protecting the EFC group from changes in market risk that may have a negative impact on earnings has been implemented. Funds to finance operations are raised over the short term, usually for periods between three to six months, but not exceeding one year. This enables the pricing of assets to be matched with changes in the pricing of liabilities. The cost of funding is based on prevailing conditions in the South African money market. Rates charged on outstanding loan receivables are based on movements in the South African Reserve Bank repurchase rate.

Notes to the financial statements continued

for the year ended 31 March 2009

3. Financial risk management *(continued)*

3.2 Market risk *(continued)*

3.2.1 Currency risk

Currency risk arises primarily from purchasing imported goods and services directly from overseas or indirectly via local suppliers, foreign sales and foreign borrowings. The group is exposed to foreign exchange risk arising from future commercial transactions and recognised assets and liabilities that are denominated in a currency other than the functional currency of the group. All transactions in excess of R50 000 are hedged (ie economic or cash flow hedges). Currency exposure is identified by the business and hedged by the central treasury department. All hedging activities are conducted in, and managed by the treasury department. Hedging instruments consist principally of forward exchange contracts, most of which have a maturity of less than one year from the reporting date, but which are rolled over at maturity when necessary. The group also uses currency swaps. The hedging instrument is entered into once the exposure is firm and ascertainable.

The major exposure to foreign currency risk at 31 March, based on notional amounts, was (in million):

2009	EUR	USD	GBP	JPY	SEK	CHF	CAD	NOK
Group								
Assets								
Investment in securities	15	–	–	–	–	–	–	–
Trade and other receivables	7	38	–	–	–	–	–	–
Liabilities								
Debt securities issued	(500)	–	–	–	–	–	–	–
Borrowings	(100)	(291)	–	(3 400)	–	–	–	–
Trade and other payables	(215)	(15)	(2)	(166)	(42)	(3)	–	–
Gross balance sheet exposure	(793)	(268)	(2)	(3 566)	(42)	(3)	–	–
Estimated forecast sales[1]	–	112	–	–	–	–	–	–
Estimated forecast purchases[2]	(3 132)	(369)	(52)	(12 210)	(324)	(3)	(16)	(1)
Gross exposure	(3 925)	(525)	(54)	(15 776)	(366)	(6)	(16)	(1)
Derivatives held for risk management	3 950	658	54	15 813	332	6	15	–
Other exposures covered by company[3]	(31)	(21)	(2)	(34)	–	–	–	–
Net exposure	(6)[5]	112[4]	(2)	3	(34)[5]	–	(1)	(1)
Company								
Assets								
Investment in securities	15	–	–	–	–	–	–	–
Trade and other receivables	7	38	–	–	–	–	–	–
Liabilities								
Debt securities issued	(500)	–	–	–	–	–	–	–
Borrowings	(100)	(291)	–	(3 400)	–	–	–	–
Trade and other payables	(208)	(5)	(1)	(166)	(41)	(2)	–	–
Gross balance sheet exposure	(786)	(258)	(1)	(3 566)	(41)	(2)	–	–
Estimated forecast sales[1]	–	112	–	–	–	–	–	–
Estimated forecast purchases[2]	(3 132)	(369)	(52)	(12 210)	(324)	(3)	(16)	(1)
Gross exposure	(3 918)	(515)	(53)	(15 776)	(365)	(5)	(16)	(1)
Derivatives held for risk management	3 950	658	54	15 813	332	6	15	–
Group exposures covered by company	(38)	(31)	(2)	(34)	(1)	(1)	–	–
Net exposure	(6)[5]	112[4]	(1)	3	(34)[5]	–	(1)	(1)

2008	EUR	USD	GBP	JPY	SEK	CHF	CAD	NOK
Group								
Assets								
Investment in securities	37	–	–	–	–	–	–	–
Embedded derivatives	–	8	–	–	–	–	–	–
Trade and other receivables	4	29	–	–	–	–	–	–
Liabilities								
Debt securities issued	(500)	–	–	–	–	–	–	–
Borrowings	(109)	–	–	–	–	–	–	–
Embedded derivatives	–	(1)	–	–	–	–	–	–
Trade and other payables	(91)	(19)	(2)	(229)	(46)	(2)	–	–
Gross balance sheet exposure	(659)	17	(2)	(229)	(46)	(2)	–	–
Estimated forecast sales[1]	–	105	–	–	–	–	–	–
Estimated forecast purchases[2]	(3 222)	(270)	(30)	(6 207)	(355)	(10)	(6)	–
Gross exposure	(3 881)	(148)	(32)	(6 436)	(401)	(12)	(6)	–
Derivatives held for risk management	3 916	300	35	6 595	384	14	10	–
Other exposures covered by company[3]	(30)	(29)	(1)	(160)	–	–	–	–
Net exposure	5	123[6]	2	(1)	(17)[5]	2	4	–
Company								
Assets								
Investment in securities	37	–	–	–	–	–	–	–
Embedded derivatives	–	8	–	–	–	–	–	–
Trade and other receivables	4	29	–	–	–	–	–	–
Liabilities								
Debt securities issued	(500)	–	–	–	–	–	–	–
Borrowings	(109)	–	–	–	–	–	–	–
Embedded derivatives	–	(1)	–	–	–	–	–	–
Trade and other payables	(83)	(17)	(1)	(229)	(46)	(2)	–	–
Gross balance sheet exposure	(651)	19	(1)	(229)	(46)	(2)	–	–
Estimated forecast sales[1]	–	105	–	–	–	–	–	–
Estimated forecast purchases[2]	(3 222)	(259)	(30)	(6 207)	(355)	(10)	(6)	–
Gross exposure	(3 873)	(135)	(31)	(6 436)	(401)	(12)	(6)	–
Derivatives held for risk management	3 908	287	33	6 595	384	13	10	–
Group exposures covered by company	(35)	(40)	(3)	(160)	–	(1)	–	–
Net exposure	–	112[6]	(1)	(1)	(17)[5]	–	4	–

1. *Represents foreign denominated sales for the next 12 months.*
2. *Represents future purchases contracted for.*
3. *Cover relates to exposure of a non-controlled wholly owned entity.*
4. *Cover relating to forecast sales of R103 million was taken out on 30 April 2009. In addition, cover was not taken out relating to a forecast sale of R20 million that is in dispute. Included is an amount of R12 million where cover can only be taken on firm commitments where there is certainty of 90% take up.*
5. *Cover can only be taken on firm commitments where there is certainty of 90% take up. Cover is taken out when orders are placed.*
6. *Cover relating to forecast sales of R105 million was taken out on 2 April 2008.*

Notes to the financial statements continued

for the year ended 31 March 2009

3. Financial risk management *(continued)*

3.2 Market risk *(continued)*

3.2.1 *Currency risk (continued)*

The following significant exchange rates applied during the year (rand values for 1 unit of selected currencies):

	Average rate		Reporting date mid-spot rate	
	2009	2008	**2009**	2008
EUR	**12,31**	10,26	**12,63**	12,85
USD	**8,79**	7,15	**9,49**	8,13
GBP	**14,72**	14,38	**13,57**	16,16
JPY	**0,09**	0,06	**0,10**	0,08
SEK	**1,22**	1,09	**1,15**	1,37
CHF	**7,69**	6,20	**8,33**	8,17
CAD	**7,69**	6,96	**7,69**	7,92
NOK	**1,45**	1,27	**1,41**	1,60
AUD	**6,67**	6,22	**6,67**	7,69

Sensitivity analysis

The group is mainly exposed to euros and United States dollars. The sensitivity analysis has been performed on the same basis as the prior year. The analysis assumes that all other variables, in particular interest rates, remain constant and are:

	Group				Company			
	2009 1% increase Rm	**2009 1% decrease Rm**	2008 1% increase Rm	2008 1% decrease Rm	**2009 1% increase Rm**	**2009 1% decrease Rm**	2008 1% increase Rm	2008 1% decrease Rm
Profit/(loss), excluding embedded derivatives								
Total exposure	**218**	**(219)**	330	(330)	**218**	**(219)**	330	(330)
Rand/euro exposure	**125**	**(123)**	61	(61)	**125**	**(123)**	61	(61)
Rand/USD exposure	**(7)**	**9**	(19)	19	**(7)**	**9**	(19)	19
Equity, excluding embedded derivatives								
Total exposure	**85**	**(86)**	130	(130)	**85**	**(86)**	130	(130)
Rand/euro exposure	**13**	**(13)**	359	(359)	**13**	**(13)**	359	(359)
Rand/USD exposure	**1**	**(1)**	4	(4)	**1**	**(1)**	4	(4)
Profit/(loss) – embedded derivatives[1]								
Rand/USD exposure	**422**	**(418)**	523	(512)	**422**	**(418)**	523	(512)

3.2.2 *Commodity risk*

The group is exposed to commodity risk where commodities are either used directly (eg coal, liquid fuels) or indirectly as a component of plant, equipment or inventory (eg aluminium, copper or steel). The revenue from certain customised pricing arrangements are linked to commodity prices.

The exposures are hedged economically by means of futures and/or options. Economic hedging is applied where it is practical (a relevant hedging instrument exists) based on the most optimal economic solution and in compliance with the South African Reserve Bank requirements.

The underlying exposure to commodity price risk could result in embedded derivatives. Where the embedded derivative is closely related to the host contract, the embedded derivative is not accounted for separately. Where the embedded derivatives are not closely related to the host contracts, the contracts have been valued and accounted for separately.

At year end only the customised pricing arrangements gave rise to commodity-linked (aluminium) embedded derivatives (refer note 3.2 on page 147).

Commodities used directly

Eskom purchases coal that is used in the generation of electricity from mines and is exposed to price and supply risks. Eskom has entered into long-term supply agreements with mines to ensure continuous supply of coal. In the fixed price contracts the price escalation is fixed, whereas Eskom pays for all the operational costs of the collieries where the contracts are on a cost-plus basis. The contracts are monitored closely and managed to ensure costs are maintained within acceptable levels. All production requirements above those of the long-term contracts are supplied via short- to medium-term contracts which usually have a transport element included in the purchase price. Refer to page 56 for further information on coal.

There is also price-risk exposure in the long-term water supply agreements entered into with the Department of Water Affairs and Forestry (DWAF) where Eskom pays for a portion of the operational costs incurred by DWAF on certain of the water schemes. Refer to page 82 for further information on water.

Eskom is exposed to price risk on the diesel that is used for the generation of electricity at its open-cycle gas turbine power stations. The price of diesel is a function of the crude oil and USD exchange rates. Refer to page 58 for further information on diesel.

Commodities used indirectly

The exposure where commodities formed a part of plant, equipment or inventory was relatively small at year end, but is increasing as the capital expansion programme progresses. Eskom hedges all its base metal exposures (aluminium, copper, zinc, nickel) during the year via commodity swaps (refer note 15).

Sensitivity analysis

The group is exposed mainly to changes in the aluminium price. The sensitivity analysis has been performed on the same basis as the prior year. The analysis assumes that all other variables remain constant and the possible impact on profit or loss is:

	Group				Company			
	2009 1% increase Rm	**2009 1% decrease Rm**	2008 1% increase Rm	2008 1% decrease Rm	**2009 1% increase Rm**	**2009 1% decrease Rm**	2008 1% increase Rm	2008 1% decrease Rm
Profit/(loss), excluding embedded derivatives								
Aluminium options	**(14)**	**15**	(58)	56	**(14)**	**15**	(58)	56
Profit/(loss) – embedded derivatives[1]								
Aluminium price	**363**	**(363)**	433	(433)	**363**	**(363)**	433	(433)

The periods of the hedging instrument and that of the hedged item are not the same because of South African Reserve Bank regulations that limits the number of years which can be hedged.

3.2.3 *Interest rate risk*

Interest rate risk is the risk that the group's financial position may be adversely affected as a result of changes in interest rate levels, yield curves and spreads.

The group's interest rate risk arises mainly from short-term borrowings and the repricing of interest rate swaps and forward exchange contracts. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Long-term borrowings issued at fixed rates expose the group to fair value interest rate risk. The group's policy is to restrict the maximum effective portion of the external debt (excluding the trading portfolio which is managed within the constraints of the treasury policy and control manual) exposed to an interest rate reset within the next 12-month period to 40%.

Sensitivity analysis

The group analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined interest rate shifts. For each simulation, the same interest rate shift is used for all currencies.

The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The calculation excludes borrowing costs capitalised in terms of the group's accounting policy. The analysis relates to variable-rate instruments and has been performed on the same basis as the prior year.

The simulation is performed on a monthly basis to verify that the maximum loss potential is within the limit set by management. The results of the simulation are included in the table below.

The South African rand and the United States dollar interest rates are used in determining the fair value of embedded derivatives. The sensitivity analysis below indicates the impact on profit or loss if these rates change. The sensitivity analysis assumes that all other variables remain constant and has been prepared on the same basis as for the prior year.

	Group				Company			
	2009 +100 basis points Rm	**2009 –100 basis points Rm**	2008 +100 basis points Rm	2008 –100 basis points Rm	**2009 +100 basis points Rm**	**2009 –100 basis points Rm**	2008 +100 basis points Rm	2008 –100 basis points Rm
Profit/(loss), excluding embedded derivatives								
Rand interest rates	**(694)**	**694**	(514)	690	**(682)**	**682**	(528)	705
Profit/(loss), including embedded derivatives[1]								
Rand interest rates	**3 443**	**(3 842)**	3 067	(3 455)	**3 443**	**(3 842)**	3 067	(3 455)
USD interest rates	**(2 885)**	**3 189**	(2 961)	3 281	**(2 885)**	**3 189**	(2 961)	3 281
Profit/(loss), non-current assets held-for-sale	**346**	**(346)**	(2)	2	**–**	**–**	–	–

1. *Impact on profit or loss is before calibration adjustments.*

Notes to the financial statements continued

for the year ended 31 March 2009

3. Financial risk management *(continued)*

3.2 Market risk *(continued)*

3.2.3 Interest rate risk

The group has elected not to hedge interest rate risk and there would therefore be no impact on equity.

Based on the various scenarios, the group manages its fair value interest rate risk by using fixed-to-floating interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from fixed rates to floating rates. Generally, the group raises short-term borrowings at fixed rates and swaps them into floating rates that are lower than those that would have been available had the group borrowed at floating rates directly. Under the interest rate swaps, the group agrees with counterparties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated with reference to the agreed notional amounts.

Fixed and floating rate debt

The fixed and floating rate debt percentages at 31 March were:

	Group				Company			
	Fixed % 2009	**Floating % 2009**	Fixed % 2008	Floating % 2008	**Fixed % 2009**	**Floating % 2009**	Fixed % 2008	Floating % 2008
Continuing operations	**90**	**10**	99	1	**90**	**10**	99	1
Non-current assets held-for-sale	**27**	**73**	22	78	**–**	**–**	–	–

3.2.4 Equity price risk

Equity price risk arises from listed shares held by Escap. Changes in the fair value of equity securities held by the group will fluctuate because of changes in market prices, caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded on the market.

All the equity investments are listed on the JSE Limited (JSE). A 2% increase in the equity portfolio at the reporting date would have increased profit or loss by R5 million (2008: R7 million) after tax. An equal change in the opposite direction would have decreased profit or loss by the same amount. There will be no impact on equity. The analysis assumes that all other variables remain constant and is performed on the same basis as for the prior year.

Movements of financial assets and equity prices are monitored on a monthly basis and equity price changes assessed against the JSE Shareholder Weighted Index as a benchmark.

3.2.5 Other price risk

Inflation price risk arises from embedded derivatives as discussed under note 3.2 on page 147. The risk arises from movements in the electricity tariffs, the United States production price index and the South African consumer price index (CPI).

The following is the sensitivity analysis of the change in the value of the embedded derivatives (relating to customised pricing agreements) as a result of changes in the CPI or the United States PPI. This analysis has been performed on the same basis as the prior year. The analysis assumes that all other variables remain constant and the possible impact on profit or loss is:

	Group				Company			
	2009 1% increase Rm	**2009 1% decrease Rm**	2008 1% increase Rm	2008 1% decrease Rm	**2009 1% increase Rm**	**2009 1% decrease Rm**	2008 1% increase Rm	2008 1% decrease Rm
Profit/(loss) – embedded derivatives[1]								
Electricity tariffs	**(3 085)**	**2 852**	(2 964)	2 727	**(3 085)**	**2 852**	(2 964)	2 727
South African CPI	**(3 489)**	**3 193**	(3 362)	3 030	**(3 489)**	**3 193**	(3 362)	3 030
United States PPI	**129**	**(134)**	(77)	72	**129**	**(134)**	(77)	72

3.3 Liquidity risk

Liquidity risk is the risk that the group will not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows from revenue and capital and operational outflows. Funding risk arises when the necessary liquidity to fund illiquid asset positions, such as building new electricity capacity, cannot be obtained at the expected terms and when required.

The objective of the group's liquidity and funding management is to ensure that all foreseeable operational, capital expansion and loan commitment expenditure can be met under both normal and stressed conditions. The group has adopted an overall balance sheet approach, which consolidates all sources and uses of liquidity, while aiming to maintain a balance between liquidity, profitability and interest rate considerations.

The management of consolidated liquidity and funding risk is centralised in the treasury department in accordance with practices and limits set by the Exco and the board. The group's liquidity and funding management process includes:

- projecting cash flows and considering the cash required by the group and optimising the short-term liquidity requirements as well as the long-term funding
- monitoring balance sheet liquidity ratios
- maintaining a diverse range of funding sources with adequate back-up facilities
- managing the concentration and profile of debt maturities
- actively managing the funding risk by evaluating optimal entry points into the various markets per the official funding plan
- maintaining liquidity and funding contingency plans

Should Eskom not receive adequate funding for its planned activities, the board undertakes to curtail its activities in order to balance its cash flow requirements.

Eskom has an established corporate governance structure and process for managing the risks regarding guarantees and contingent liabilities (refer note 40). All significant guarantees issued by Eskom are approved by the board, and are managed on an ongoing basis through the quarterly meetings of the treasury credit committee, and by the risk management committee of the board.

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.

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.

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.

Primary sources of funding and unused facilities

The primary sources to meet Eskom's liquidity requirements are revenue, cash inflows from maturing financial assets purchased, funds committed by government, as well as local and foreign debt issued in the market. To supplement these liquidity sources under stress conditions, overdraft facilities (for which there was no requirement to use), undrawn loan, financing and guarantee facilities are in place as indicated below.

		Group		Company	
	Currency	2009 m	2008 m	2009 m	2008 m
Japan Bank for International Cooperation (JBIC)					
– Untied facility	JPY	21 000	17 000	21 000	17 000
– Tied facility	JPY	30 000	30 000	30 000	30 000
European Investment Bank	EUR	113	168	113	168
KFW Bankengruppe	EUR	250	–	250	–
General banking facilities	ZAR	700	1 000	700	1 000
Subordinated loan from shareholder	ZAR	50 000	60 000	50 000	60 000
Government guarantees[2]	ZAR	150 000	–	150 000	–

1. *Impact on profit or loss is before calibration adjustments.*
2. *As announced in the government 2009 budget speech.*

Notes to the financial statements continued

for the year ended 31 March 2009

3. Financial risk management *(continued)*

3.3 Liquidity risk *(continued)*

Key indicators used for liquidity management

Duration

Management has set minimum duration limits to help optimise returns for the group on its debt portfolio. Group policy is to ensure that the external debt portfolio (excluding the trade portfolio) has a minimum duration of five years, should it exceed R10 billion. The duration limits are independently monitored and reported to Alco on a monthly basis and to Exco and the risk management committee on a quarterly basis.

The duration (a weighted average term to maturity measure based on future cash flows) of the debt measured at fair value at 31 March was:

	Group		Company	
	2009 Years	2008 Years	**2009 Years**	2008 Years
Continuing operations	**6,28**	6,14	**6,28**	6,14
Non-current assets held-for-sale	**1,70**	1,91	**–**	–

Liquid assets

Liquid assets are investments identified as having the potential to be quickly converted into cash. These investments include government bonds, negotiable certificates of deposit and floating rate notes as disclosed in investment in securities (refer note 13.1 and 13.2). The liquid assets were:

	Group		Company	
	2009 Rm	2008 Rm	**2009 Rm**	2008 Rm
Continuing operations	**21 234**	20 583	**20 824**	20 224

Capital expenditure ratio

The capital expenditure ratio[1] measures whether there are liquid funds available to invest in capital expenditure. The capital expenditure ratio for the period was:

	Group		Company	
	2009 %	2008 %	**2009 %**	2008 %
Continuing operations	**12**	24	**12**	23

1. *The ratio is calculated as cash generated from operations divided by capital expenditure (excluding borrowing cost capitalised) on property, plant and equipment and intangible assets.*

Contractual cash flows

The table below indicates the contractual undiscounted cash flows of the group's financial assets and liabilities (refer note 13) on the basis of their earliest possible contractual maturity. The undiscounted cash flows in respect of the group's financial assets are presented net of impairment losses and include estimates where there are no contractual repayment terms or the receivable is past due. The cash flows of the group's financial liabilities are indicated on a gross undiscounted basis. The cash flows for derivatives are presented as gross inflows and outflows even though physically they are settled simultaneously.

The table contains only cash flows relating to financial instruments and commitments (financial guarantees and loan commitments). It does not include future cash flows expected from the normal course of business and related commodity linked pricing agreements.

	Carrying amount		Cash flows				
2009	Non-current Rm	Current Rm	Nominal cash flows Rm	0 to 3 months Rm	4 to 12 months Rm	1 to 5 years Rm	More than 5 years Rm
Group							
Financial assets							
Investment in securities	3 558	4 360	9 830	4 262	133	2 086	3 349
Derivatives held for risk management	586	1 251	6 128	1 843	3 166	710	409
Finance lease receivables	536	11	1 516	20	62	348	1 086
Trade and other receivables	23	8 191	8 214	7 486	705	21	2
Financial trading assets	–	924	927	815	112	–	–
Cash and cash equivalents	–	18 382	18 693	18 693	–	–	–
	4 703	33 119	45 308	33 119	4 178	3 165	4 846
Financial liabilities							
Debt securities issued	44 253	3 324	134 777	3 017	3 299	20 560	107 901
Borrowings	11 221	13 811	27 636	4 491	10 235	618	12 292
Subordinated loan from shareholder	1 575	–	10 000	–	–	–	10 000
Derivatives held for risk management	786	2 626	63 041	8 090	48 229	5 542	1 180
Finance lease liabilities	537	15	1 880	27	82	405	1 366
Trade and other payables	1 466	16 701	18 726	13 570	3 131	1 686	339
Financial trading liabilities	–	2 180	2 069	44	101	241	1 683
	59 838	38 657	258 129	29 239	65 077	29 052	134 761
Company							
Financial assets							
Financial instruments with group companies	–	1 279	1 292	1 127	165	–	–
Investment in securities	3 153	3 320	8 385	2 788	567	1 681	3 349
Derivatives held for risk management	586	1 251	6 128	1 843	3 166	710	409
Finance lease receivables	536	11	1 516	20	62	348	1 086
Trade and other receivables	23	7 073	7 096	6 394	679	21	2
Financial trading assets	–	562	565	453	112	–	–
Cash and cash equivalents	–	17 921	18 235	18 235	–	–	–
	4 298	31 417	43 217	30 860	4 751	2 760	4 846
Financial liabilities							
Financial instruments with group companies	–	1 853	1 915	643	1 272	–	–
Debt securities issued	44 253	3 324	134 777	3 017	3 299	20 560	107 901
Borrowings	10 794	13 809	27 164	4 491	10 235	146	12 292
Subordinated loan from shareholder	1 575	–	10 000	–	–	–	10 000
Derivatives held for risk management	786	2 626	63 041	8 090	48 229	5 542	1 180
Finance lease liabilities	761	45	2 311	44	131	619	1 517
Trade and other payables	1 297	16 248	18 104	15 836	412	1 401	455
Financial trading liabilities	–	2 180	2 069	44	101	241	1 683
	59 466	40 085	259 381	32 165	63 679	28 509	135 028

Notes to the financial statements continued

for the year ended 31 March 2009

3. Financial risk management *(continued)*

3.3 Liquidity risk *(continued)*

	Carrying amount			Cash flows			
2008	Non-current Rm	Current Rm	Nominal cash flows Rm	0 to 3 months Rm	4 to 12 months Rm	1 to 5 years Rm	More than 5 years Rm
Group							
Financial assets							
Investment in securities	5 882	9 137	18 681	4 155	5 936	4 638	3 952
Derivatives held for risk management	3 538	9 132	9 021	6	1 411	7 604	–
Finance lease receivables	415	10	1 082	16	48	251	767
Trade and other receivables	180	5 433	5 614	4 763	670	92	89
Financial trading assets	–	2 539	3 535	1 700	1 835	–	–
Cash and cash equivalents	–	10 893	10 893	10 893	–	–	–
	10 015	37 144	48 826	21 533	9 900	12 585	4 808
Financial liabilities							
Debt securities issued	39 788	2 491	106 514	1 985	2 925	27 009	74 595
Borrowings	1 480	6 920	9 388	1 278	5 628	1 051	1 431
Derivatives held for risk management	947	1 475	(3 579)	(2 303)	(3 617)	2 341	–
Finance lease liabilities	539	9	1 973	29	80	398	1 466
Trade and other payables	676	10 223	10 899	7 786	2 437	635	41
Financial trading liabilities	–	4 087	5 381	2 887	740	403	1 351
	43 430	25 205	130 576	11 662	8 193	31 837	78 884
Company							
Financial assets							
Financial instruments with group companies	–	1 069	1 069	1 069	–	–	–
Investment in securities	6 136	7 840	18 177	3 397	5 936	4 892	3 952
Derivatives held for risk management	3 538	9 132	9 021	6	1 411	7 604	–
Finance lease receivables	415	10	1 082	16	48	251	767
Trade and other receivables	9	5 332	5 341	4 666	666	8	1
Financial trading assets	–	2 017	3 233	1 585	1 648	–	–
Cash and cash equivalents	–	10 322	10 322	10 322	–	–	–
	10 098	35 722	48 245	21 061	9 709	12 755	4 720
Financial liabilities							
Financial instruments with group companies	–	1 849	1 849	1 849	–	–	–
Debt securities issued	39 788	2 491	106 514	1 985	2 925	27 009	74 595
Borrowings	1 224	6 916	9 677	1 823	5 628	795	1 431
Derivatives held for risk management	947	1 475	(3 579)	(2 303)	(3 617)	2 341	–
Finance lease liabilities	678	36	2 223	37	113	523	1 550
Trade and other payables	676	9 843	10 518	7 504	2 339	634	41
Financial trading liabilities	–	4 087	5 381	2 887	740	403	1 351
	43 313	26 697	132 583	13 782	8 128	31 705	78 968

	Carrying amount			Cash flows			
	Non-current	Current	Nominal cash flows	0 to 3 months	4 to 12 months	1 to 5 years	More than 5 years
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Non-current assets held-for-sale							
2009							
Financial assets							
Loans receivable	**2 779**	**8**	**2 787**	**8**	**–**	**208**	**2 571**
Finance lease receivables	**18**	**8**	**33**	**–**	**11**	**22**	**–**
Trade and other receivables	**–**	**344**	**344**	**322**	**22**	**–**	**–**
Cash and cash equivalents	**–**	**428**	**428**	**266**	**162**	**–**	**–**
	2 797	**788**	**3 592**	**596**	**195**	**230**	**2 571**
Financial liabilities							
Debt securities issued	**1 127**	**266**	**1 393**	**266**	**–**	**1 127**	**–**
Borrowings	**2**	**6**	**8**	**–**	**6**	**2**	**–**
Trade and other payables	**–**	**305**	**305**	**305**	**–**	**–**	**–**
	1 129	**577**	**1 706**	**571**	**6**	**1 129**	**–**
2008							
Financial assets							
Loans receivable	2 404	11	2 415	4	7	147	2 257
Finance lease receivables	3	27	33	7	23	3	–
Trade and other receivables	–	259	259	259	–	–	–
Cash and cash equivalents	–	345	345	345	–	–	–
	2 407	642	3 052	615	30	150	2 257
Financial liabilities							
Debt securities issued	1 372	23	1 395	23	–	1 372	–
Borrowings	78	13	91	2	11	78	–
Trade and other payables	–	236	236	236	–	–	–
	1 450	272	1 722	261	11	1 450	–

3.4 Capital management

Eskom manages accumulated profit and the hedging, fair value, equity and insurance reserves as capital. The equity reserve comprises the day-one gain that resulted from the initial recognition of the subordinated loan received from the shareholder. The day-one gain is included in equity as it is considered to be a contribution from the shareholder (refer note 13.5). Eskom is obliged to pay interest on the loan when the solvency and debt leverage conditions per the agreement are satisfied. Future projections resulted in the day-one gain.

The objective of capital management is to ensure that Eskom is sustainable over the long term. There were no changes to Eskom's approach to capital management during the financial year.

The major items that impact the equity of Eskom include:

- the revenue received from electricity sales (which is a function of price and sales volumes)
- the cost of funding the business
- the cost of operating the electricity business
- the cost of expanding the business to ensure that capacity growth is in line with electricity sales demand (funding and additional depreciation)
- taxation
- dividends

Eskom uses the Integrated Strategic Electricity Planning process which forecasts the growth in electricity demand for the long term and evaluates the alternative means to meet and manage that demand. This information flows into the planning process. The planning process will determine a forward electricity price curve which will be an indication of the size of the price increases which Eskom requires to be sustainable over the long term.

The tariff increases for the electricity business is subject to the process laid down by the National Energy Regulator of South Africa (Nersa). The current regulatory framework applicable to Eskom is a multi-year, incentive-based method of adjusting electricity prices.

The electricity business is currently in a major expansion phase. There is national consensus that the capital expansion programme continues. The funding related to new generating, transmitting and other capacity is envisaged to be obtained from cash generated by the business, shareholder support and funds borrowed on the local and overseas markets. The adequacy of price increases allowed by the regulator and the level and timing of shareholder support are key factors in the sustainability of Eskom. Eskom is in discussion with government and key stakeholders to agree on and implement an appropriate funding model. This will take into account a holistic and integrated approach to tariffs, borrowings and equity. Refer to page 37 for further information on electricity prices.

The debt to equity ratio plays an important role in the credit ratings given to Eskom which in turn influences the cost of funding. The debt equity ratio including long-term provisions at 31 March 2009 for the group was 1,22 (2008: 0,40) and 1,31 (2008: 0,34) for the company. The government as the sole shareholder has the responsibility to ensure that the company is adequately capitalised to ensure continuity of supply and that the business is attractive to investors to enable Eskom to fund the expansion programme.

Notes to the financial statements continued

for the year ended 31 March 2009

4. Critical accounting estimates and judgements

Estimates and judgements are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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 USD) 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 USD, foreign production price indices and foreign interest rates that give rise to embedded derivatives.

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

Valuation

The fair value of embedded derivatives is determined by using a forward electricity price curve.

Valuation assumptions

The electricity price used in determining the fair value of the host contract is based on a recent arms' length transaction and the average change in electricity prices. The host contracts were fair valued by taking into account the ruling prices and the expected future electricity prices.

The spot electricity price is based on the latest price announced in terms of the tariff specified in the electricity sales contract. The future electricity price is linked to the spot price of electricity and the change in the local consumer price index (CPI) plus an adjustment where applicable. Due to the lack of observable market information on electricity prices over the long term and the uncertainty as a result thereof, the price determinations by the National Energy Regulator of South Africa (Nersa) are taken as an indication of future electricity price expectations by the market.

The forward electricity price curve used to value embedded derivatives at 31 March 2009 was the applicable tariff determined by Nersa on 25 June 2009 for the 2010 financial year, 25% plus CPI for the next two years and CPI thereafter. This forward curve is based on the principal decision indicated by Nersa in the price applications for the 2009/10 and 2008/9 financial years. The forward curve used to value the embedded derivatives at 31 March 2008 was 27,5% for the 2009 financial year, 25% for the next three years, 18% for the year thereafter and CPI plus 2% in subsequent years.

Forecast 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 fair value of embedded derivatives has been adjusted, where applicable, to take into account the inherent uncertainty relating to the future cash flows of embedded derivatives, such as liquidity, model risk and other economic factors (refer note 44).

The following valuation assumptions for the future electricity price curve discussed above for the valuation of embedded derivatives were used and are regarded as the best estimates by the board:

2009

		Year ended 31 March					
Input	Unit	2009	2010[1]	2011[1]	2012[1]	2013[1]	2014[1]
Aluminium	USD per ton	**1 357**	**1 498**	**1 642**	**1 769**	**1 875**	**1 970**
Rand/dollar	USD per rand	**0,11**	**–**	**–**	**–**	**–**	**–**
Rand interest rates	Continuous actual/365 days (%)	**9,31**	**7,44**	**7,53**	**7,84**	**8,08**	**8,24**
Dollar interest rates	Annual actual/360 days (%)	**0,43**	**1,29**	**1,46**	**1,75**	**2,04**	**2,30**
United States production price indices	Year-on-year (%)	**(0,84)**	**(3,62)**	**2,36**	**2,17**	**0,41**	**2,59**
South African consumer price indices	Year-on-year (%)	**10,30**	**6,38**	**5,70**	**5,50**	**5,46**	**6,95**

2008		Year ended 31 March					
Input	Unit	2008	2009[1]	2010[1]	2011[1]	2012[1]	2013[1]
Aluminium	USD per ton	2 966	3 137	3 122	2 089	3 084	3 076
Rand/dollar	USD per rand	0,12	–	–	–	–	–
Rand interest rates	Continuous actual/365 days (%)	10,61	11,26	10,94	10,53	10,24	10,05
Dollar interest rates	Annual actual/360 days (%)	3,19	2,40	2,51	2,80	3,14	3,39
United States production price indices	Year-on-year (%)	8,99	2,09	2,03	2,34	2,80	2,47
South African consumer price indices	Year-on-year (%)	9,80	7,08	4,93	6,60	6,37	6,33

Sensitivity analysis
The approximate change in the value of embedded derivatives if one of the inputs is changed is disclosed in note 3.2 Financial risk management – market risk.

(b) Post-retirement medical benefits

The group provides post-retirement medical benefits to its retirees. The post-retirement medical benefits plan is unfunded.

Valuation
The estimated present value of the anticipated expenditure for both in-service and retired members is actuarially valued using the projected unit method. This method treats the accrued service liability separately from the current cost liability. The accrued service liability (on the valuation assumptions) is based on the completed service to the valuation date. The current cost is the cost of providing the benefit over the next year.

Valuation assumptions
The principal actuarial assumptions used were:

	Group		Company	
	2009 %	2008 %	**2009 %**	2008 %
Long-term interest rate before tax	**8,75**	9,50	**8,75**	9,50
Long-term medical aid inflation	**7,25**	8,00	**7,25**	8,00

Sensitivity analysis
The carrying amount of the provision would be an estimated R847 million (2008: R763 million) lower had the medical inflation rate used in the valuation decreased by 1% and R1 057 million (2008: R951 million) higher had the medical inflation rate increased by 1%.

(c) Occasional and service leave

The group recognises a liability for occasional and service leave as the leave is of a long-term nature.

Valuation
An actuarial valuation is done on an annual basis for occasional and service leave. The accrued liability is determined by valuing all future leave expected to be taken and payments to be made in respect of benefits up to the valuation date. The present value of the benefits is determined by using the yield of long-dated corporate bonds (or government bonds where high quality corporate bonds are not available).

Valuation assumptions
The principal actuarial assumptions used were:

	Group		Company	
	2009 %	2008 %	**2009 %**	2008 %
Long-term investment returns	**8,8**	9,8	**8,8**	9,8
Long-term general price inflation	**5,3**	6,0	**5,3**	6,0
Salary increases	**6,8**	7,5	**6,8**	7,5
Leave utilisation	**5,0**	5,0	**5,0**	5,0

The assumptions made in respect of resignation, death and retirement rates are the same as for the post-retirement medical aid liability.

Sensitivity analysis
Based on 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 R36 million (2008: R37 million).

1. *Forward curve based on financial years.*

Notes to the financial statements continued

for the year ended 31 March 2009

4. Critical accounting estimates and judgements *(continued)*

(d) Decommissioning, mine closure and rehabilitation

Nuclear and other generation plant, and spent nuclear fuel

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.

Closure, pollution control and rehabilitation

Provision is made for the estimated cost of closure, pollution control, 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.

Valuation

The provision is determined by discounting the estimated decommissioning and nuclear spent fuel management costs.

Valuation assumptions

The discount rate used for nuclear plant, coal plants, spent fuel and closure, pollution control and rehabilitation was 5,3% (2008: 6,2%) for the group and 5,3% (2008: 6,2%) for the company.

Estimated payment dates

The estimated payment dates of the costs are:

	Group and company	
	2009	2008
Nuclear plant	**2025 – 2039**	2021 – 2035
Coal plants	**2021 – 2063**	2010 – 2047
Spent nuclear fuel	**2010 – 2079**	2021 – 2030
Closure, pollution control and rehabilitation	**2009 – 2073**	2010 – 2067

Sensitivity analysis

The carrying amount of the provision would be an estimated R1 866 million (2008: R1 429 million) higher had the 5,3% (2008: 6,2%) real discount rate used in the calculation of the provision decreased by 1% and R1 565 million (2008: R1 021 million) lower had the 5,3% (2008: 6,2%) real discount rate increased by 1%.

(e) Equity portion on subordinated loan from shareholder

The fair value of the equity portion on the subordinated loan from the shareholder is determined using the estimated cash flow forecasts for the next 30 years as well as assessing the solvency and the debt leverage conditions. The observable market price of government bonds plus the Eskom spread at the date of receipt of funds have been taken into account.

5. Segment information

2009	Generation Rm	Transmission Rm	Distribution Rm	Other Rm	Total Rm	Elimination Rm	Group Rm
Continuing operations							
Revenue							
External sales	–	20 548	32 543	8 966	62 057	(8 231)	53 826
Inter-segment sales	33 790	(15 510)	(18 280)	–	–	–	–
Total revenue	33 790	5 038	14 263	8 966	62 057	(8 231)	53 826
Result							
Segment results	(7 161)	190	2 248	736	(3 987)	792	(3 195)
Net fair value loss on embedded derivatives					(9 514)	–	(9 514)
Finance income					3 772	(402)	3 370
Finance cost					(3 965)	281	(3 684)
Share of profit of equity-accounted investees					37	–	37
Income tax					4 002	(197)	3 805
Loss for the year from continuing operations					(9 655)	474	(9 181)
Discontinued operations							
Loss for the year from discontinued operations					(12)	(515)	(527)
Loss for the year					(9 667)	(41)	(9 708)
Other information							
Segment assets	93 663	21 137	38 359	19 561	172 720	(6 928)	165 792
Investments in equity-accounted investees	–	–	–	116	116	66	182
Non-current assets held-for-sale	–	–	–	4 055	4 055	(19)	4 036
Unallocated assets	–	–	–	32 422	32 422	(3 130)	29 292
Total assets	93 663	21 137	38 359	56 154	209 313	(10 011)	199 302
Segment liabilities	15 906	1 528	13 729	16 837	48 000	(4 444)	43 556
Non-current liabilities held-for-sale	–	–	–	3 289	3 289	(1 276)	2 013
Unallocated liabilities	–	–	–	95 879	95 879	(1 724)	94 155
Total liabilities	15 906	1 528	13 729	116 005	147 168	(7 444)	139 724
Capital expenditure (including borrowing costs capitalised)	31 864	6 665	6 615	2 470	47 614	(515)	47 099
Depreciation and amortisation expense	2 226	566	1 882	256	4 930	–	4 930
Impairment losses (net of reversals)	69	405	675	74	1 223	(10)	1 213

Notes to the financial statements continued

for the year ended 31 March 2009

5. Segment information *(continued)*

2008	Generation Rm	Transmission[1] Rm	Distribution Rm	Other Rm	Total Rm	Elimination Rm	Consolidation Rm
Continuing operations							
Revenue							
External sales	–	17 488	26 096	6 016	49 600	(5 152)	44 448
Inter-segment sales	26 467	(13 333)	(13 134)	–	–	–	–
Total revenue	26 467	4 155	12 962	6 016	49 600	(5 152)	44 448
Result							
Segment results	(2 016)	552	2 479	2 501	3 516	(301)	3 215
Net fair value loss on embedded derivatives					(1 680)	–	(1 680)
Finance income					3 210	(277)	2 933
Finance cost					(4 909)	188	(4 721)
Share of profit of equity-accounted investees					30	–	30
Income tax					564	36	600
Profit for the year from continuing operations					731	(354)	377
Discontinued operations							
Loss for the year from discontinued operations					4	(549)	(545)
Loss for the year					735	(903)	(168)
Other information							
Segment assets	70 594	20 803	35 437	53 526	180 360	(66 666)	113 694
Investment in equity-accounted investees	–	–	–	173	173	–	173
Non-current assets held-for-sale	–	–	–	3 644	3 644	(224)	3 420
Unallocated assets	–	–	–	51 134	51 134	(2 251)	48 883
Total assets	70 594	20 803	35 437	108 477	235 311	(69 141)	166 170
Segment liabilities	41 973	10 770	16 556	27 245	96 544	(65 891)	30 653
Non-current liabilities held-for-sale	–	–	–	2 907	2 907	(1 073)	1 834
Unallocated liabilities	–	–	–	72 594	72 594	(40)	72 554
Total liabilities	41 973	10 770	16 556	102 746	172 045	(67 004)	105 041
Capital expenditure (including borrowing costs capitalised)	15 269	3 573	5 625	847	25 314	(329)	24 985
Depreciation and amortisation expense	1 720	494	1 842	235	4 291	–	4 291
Impairment losses (net of reversals)	(3)	163	257	29	446	–	446

Nature of business segments

Generation – consists of Generation and Primary energy divisions. These divisions procure primary energy and generate electricity.

Transmission – consists of Transmission and Systems operations and planning divisions. These divisions provide, operate and maintain the transmission network for transmitting bulk electricity, manage key large and international customer relationships and trade energy.

Distribution – the Distribution division distributes electricity to redistributors, small and large customers.

Other – comprises subsidiaries and corporate divisions, including treasury activities.

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.

1. *Includes, inter alia, amounts previously reported under key sales and customer services division.*

Geographical segments	Group 2009 Rm	2008 Rm
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	**51 177**	42 244
Outside South Africa	**2 649**	2 204
Total revenue	**53 826**	44 448
Revenue is allocated based on the country in which the customer is located after eliminating intercompany transactions.		
Analysis of revenue by category		
Sale of goods	**52 996**	43 521
Revenue from services	**736**	864
Other revenue	**94**	63
	53 826	44 448
Capital expenditure		
South Africa	**47 077**	24 893
Outside South Africa	**22**	92
	47 099	24 985
Capital expenditure is allocated based on where the assets are located.		
Total assets		
South Africa	**197 922**	164 919
Outside South Africa	**1 198**	1 078
	199 120	165 997
Investments in equity-accounted investees	**182**	173
	199 302	166 170
Assets are allocated based on where the assets are located.		

Notes to the financial statements continued

for the year ended 31 March 2009

	Group			Company		
	Cost Rm	Accumulated depreciation and impairment losses Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and impairment losses Rm	Carrying value Rm
6. Property, plant and equipment						
2009						
Owned assets						
Land	**572**	**–**	**572**	**544**	**–**	**544**
Buildings and facilities	**3 449**	**(1 372)**	**2 077**	**3 358**	**(1 329)**	**2 029**
Plant – Generation	**80 083**	**(29 766)**	**50 317**	**80 083**	**(29 766)**	**50 317**
– Transmission	**15 139**	**(6 076)**	**9 063**	**15 139**	**(6 076)**	**9 063**
– Distribution	**43 151**	**(17 482)**	**25 669**	**43 151**	**(17 482)**	**25 669**
Regular distribution	**29 604**	**(10 735)**	**18 869**	**29 604**	**(10 735)**	**18 869**
Electrification	**13 547**	**(6 747)**	**6 800**	**13 547**	**(6 747)**	**6 800**
– Test, telecommunication and other plant	**2 270**	**(1 496)**	**774**	**461**	**(324)**	**137**
Equipment and vehicles	**6 543**	**(3 585)**	**2 958**	**5 926**	**(3 363)**	**2 563**
Total in commission	**151 207**	**(59 777)**	**91 430**	**148 662**	**(58 340)**	**90 322**
Works under construction	**46 406**	**(154)**	**46 252**	**46 955**	**(154)**	**46 801**
Construction materials	**691**	**–**	**691**	**691**	**–**	**691**
	198 304	**(59 931)**	**138 373**	**196 308**	**(58 494)**	**137 814**
Leased assets	**621**	**(352)**	**269**	**946**	**(432)**	**514**
Mining assets	**573**	**(310)**	**263**	**573**	**(310)**	**263**
Plant	**23**	**(18)**	**5**	**12**	**(4)**	**8**
Equipment and vehicles	**25**	**(24)**	**1**	**361**	**(118)**	**243**
	198 925	**(60 283)**	**138 642**	**197 254**	**(58 926)**	**138 328**
2008						
Owned assets						
Land	400	–	400	371	–	371
Buildings and facilities	3 152	(1 301)	1 851	3 066	(1 259)	1 807
Plant – Generation	64 767	(27 873)	36 894	64 767	(27 873)	36 894
– Transmission	13 706	(5 631)	8 075	13 706	(5 631)	8 075
– Distribution	39 121	(15 847)	23 274	39 121	(15 847)	23 274
Regular distribution	26 301	(9 645)	16 656	26 301	(9 645)	16 656
Electrification	12 820	(6 202)	6 618	12 820	(6 202)	6 618
– Test, telecommunication and other plant	2 277	(1 384)	893	449	(305)	144
Equipment and vehicles	5 682	(3 206)	2 476	5 198	(3 010)	2 188
Total in commission	129 105	(55 242)	73 863	126 678	(53 925)	72 753
Works under construction	21 646	–	21 646	22 029	–	22 029
Construction materials	573	–	573	573	–	573
	151 324	(55 242)	96 082	149 280	(53 925)	95 355
Leased assets	631	(344)	287	834	(397)	437
Mining assets	573	(296)	277	573	(296)	277
Plant	42	(35)	7	12	(3)	9
Equipment and vehicles	16	(13)	3	249	(98)	151
	151 955	(55 586)	96 369	150 114	(54 322)	95 792

Reconciliation of movements

2009	Carrying value beginning of year Rm	Additions and transfers[1] 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
Group									
Owned assets									
Land	400	173	–	–	(1)	–	–	–	572
Buildings and facilities	1 851	307	–	–	(3)	–	–	(78)	2 077
Plant	69 136	20 120	–	924	(42)	–	5	(4 320)	85 823
Equipment and vehicles	2 476	1 097	–	–	(32)	–	–	(583)	2 958
Works under construction	21 646	24 772	–	–	(12)	(155)[2]	1	–	46 252
Construction materials	573	118	–	–	–	–	–	–	691
	96 082	46 587	–	924	(90)	(155)	6	(4 981)	138 373
Leased assets	287	31	(8)	–	–	–	–	(41)	269
Mining assets	277	–	–	–	–	–	–	(14)	263
Plant	7	1	–	–	–	–	–	(3)	5
Equipment and vehicles	3	30	(8)	–	–	–	–	(24)	1
Total property, plant and equipment	96 369	46 618	(8)	924	(90)	(155)	6	(5 022)	138 642
Company									
Owned assets									
Land	371	174	–	–	(1)	–	–	–	544
Buildings and facilities	1 807	299	–	–	(2)	–	–	(75)	2 029
Plant	68 387	20 081	–	924	(12)	–	4	(4 198)	85 186
Equipment and vehicles	2 188	952	–	–	(27)	–	–	(550)	2 563
Works under construction	22 029	24 938	–	–	(12)	(155)[2]	1	–	46 801
Construction materials	573	118	–	–	–	–	–	–	691
	95 355	46 562	–	924	(54)	(155)	5	(4 823)	137 814
Leased assets	437	115	–	–	–	–	–	(38)	514
Mining assets	277	–	–	–	–	–	–	(14)	263
Plant	9	–	–	–	–	–	–	(1)	8
Equipment and vehicles	151	115	–	–	–	–	–	(23)	243
Total property, plant and equipment	95 792	46 677	–	924	(54)	(155)	5	(4 861)	138 328

1. *Included in additions and transfers are borrowing costs capitalised of R3 436 million (2008: R727 million) for the group and company.*
2. *Impairment recognised because of the uncertainty surrounding the completion of identified projects.*

Notes to the financial statements continued

for the year ended 31 March 2009

	Note	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
6. Property, plant and equipment *(continued)*					
Borrowing costs on general borrowings are capitalised at an average rate of 9,6% (2008: 8,3%). Borrowing costs on funds borrowed specifically for the purpose of obtaining a qualifying asset are capitalised at the actual rate obtained for the specific funds borrowed. The average specific rate for the year was 11,08% (2008: nil). The amounts capitalised during the year were:	37	**3 436**	727	**3 436**	727
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		**3 456**	3 553	**3 456**	3 553
The cross-border lease transaction comprises 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 period the assets will return to Eskom. The present value of lease and leaseback obligations was settled in full at the commencement of the transactions. These assets are included in the category *owned assets*. Refer note 43 – Events after the balance sheet date.					
The total depreciation charge for property, plant and equipment is disclosed in profit or loss in the following categories:		**5 022**	4 325	**4 861**	4 163
Depreciation and amortisation expense	33	**5 008**	4 318	**4 847**	4 156
Primary energy		**14**	7	**14**	7

	Group			Company		
	Cost	Accumulated amortisation and impairment losses	Carrying value	Cost	Accumulated amortisation and impairment losses	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm
7. Intangible assets						
2009						
Rights	**642**	**(222)**	**420**	**641**	**(221)**	**420**
Computer software	**2 144**	**(1 776)**	**368**	**2 081**	**(1 761)**	**320**
Concession assets	**79**	**(16)**	**63**	**–**	**–**	**–**
Total	**2 865**	**(2 014)**	**851**	**2 722**	**(1 982)**	**740**
2008						
Rights	512	(222)	290	511	(221)	290
Computer software	1 814	(1 634)	180	1 789	(1 622)	167
Concession assets	58	(9)	49	–	–	–
Total	2 384	(1 865)	519	2 300	(1 843)	457

Reconciliation of movements

2009	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
Group					
Rights	**290**	**130**	**–**	**–**	**420**
Computer software	**180**	**330**	**–**	**(142)**	**368**
Concession assets	**49**	**21**	**–**	**(7)**	**63**
Total	**519**	**481**	**–**	**(149)**	**851**
Company					
Rights	**290**	**130**	**–**	**–**	**420**
Computer software	**167**	**292**	**–**	**(139)**	**320**
Total	**457**	**422**	**–**	**(139)**	**740**

Amortisation of intangible assets of R149 million (2008: R165 million) for the group and of R139 million (2008: R161 million) for the company is included in *depreciation and amortisation expense* (refer note 33) in profit or loss.

Notes to the financial statements continued

for the year ended 31 March 2009

		Group		Company	
	Note	2009 Rm	2008 Rm	2009 Rm	2008 Rm
8. Investments in equity-accounted investees					
Investment in associates	8.1	–	–	–	–
Investment in joint ventures	8.2	182	173	95	95
		182	173	95	95
8.1 Investment in associates					
Balance at beginning of the year		–	12	–	1
Share of profit[1]		11	1	–	–
Allowance for impairment	34	–	(12)	–	(1)
Transfer to non-current assets held-for-sale		–	(1)	–	–
Disposal of investment		(11)	–	–	–
Balance at end of the year		–	–	–	–
Directors' valuation		–	–	–	–

Investments are accounted for at cost in the company, 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:

Name	Country of incorporation	Assets Rm	Liabilities Rm	Revenues Rm	Profit Rm	Interest held %
Group						
2009						
Directly held						
– Uitenhage Electricity Supply Company (Pty) Limited[2, 3]	South Africa	11	10	38	–	33
– Western Power Corridor (Pty) Limited	Botswana	–	–	–	–	20
Indirectly held						
– Ash Resources (Pty) Limited[4, 5]	South Africa	–	–	–	11	–
		11	10	38	11	
2008						
Directly held						
– Uitenhage Electricity Company (Pty) Limited[2]	South Africa	17	11	61	–	33
– Western Power Corridor (Pty) Limited	Botswana	–	–	–	–	20
Indirectly held						
– Ash Resources (Pty) Limited[4]	South Africa	–	–	–	1	25
		17	11	61	1	

Where the above entities' financial year ends differ from that of Eskom, financial information has been obtained from published information or management accounts as appropriate.

1. *Share of profit is after tax.*
2. *Year end is 30 June.*
3. *The company ceased trading on 30 November 2008.*
4. *Year end is 31 December.*
5. *The investment was disposed of during the current financial year.*

		Group		Company	
		2009 Rm	2008 Rm	2009 Rm	2008 Rm
8.2	**Investment in joint ventures**				
	Balance at beginning of the year	173	159	95	95
	Share of profit[1]	26	30	–	–
	Acquisition	–	11	–	–
	Dividends received	–	(15)	–	–
	Transferred to non-current assets held-for-sale	–	(6)	–	–
	Other movements	(17)	(6)	–	–
	Balance at end of the year	182	173	95	95
	Directors' valuation	182	173	160	146

Investments are accounted for at cost in the company. The share of profits since acquisition is 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:

Name	Main business	Country of incorporation	Interest held	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Profit	Investment at cost	Indebtedness
2009			%	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Group										
Directly held										
– Motraco – Mozambique Transmission Company SARL[2]	Electricity transmission	Mozambique	33	368	129	235	103	15	95	–
Indirectly held										
– Trans Africa Projects (Pty) Limited[2]	Engineering services	South Africa	50	2	56	–	37	11	–	–
– Trans Africa Projects Limited (Mauritius)[2]	Engineering services	Mauritius	50	–	–	–	–	–	5	–
– Transpoint (Pty) Limited	Telecommunications	South Africa	50	–	–	–	–	–	–	–
– Clinker Supplies (Pty) Limited[3]	Production and selling of processed and unprocessed clinker material	South Africa	–	–	–	–	–	–	–	–
				370	185	235	140	26	100	–
2008										
Directly held										
– Motraco – Mozambique Transmission Company SARL[2]	Electricity transmission	Mozambique	33	292	95	172	62	10	95	–
Indirectly held										
– Trans Africa Projects (Pty) Limited[2]	Engineering services	South Africa	50	1	47	–	39	(4)	–	–
– Trans Africa Projects Limited (Mauritius)[2]	Engineering services	Mauritius	50	–	–	–	–	–	–	–
– EON~Solutions Africa (Pty) Limited[4]	Consulting	South Africa	50	–	–	–	–	5	–	–
– Transpoint (Pty) Limited	Telecommunications	South Africa	50	–	–	–	–	–	–	17
– Clinker Supplies (Pty) Limited	Production and selling of processed and unprocessed clinker material	South Africa	50	–	–	–	–	19	–	–
				293	142	172	101	30	95	17

1. *Share of profit is after tax.*
2. *Year end is 31 December.*
3. *The investment was disposed of during the current financial year.*
4. *The investment was disposed of during the 2008 financial year.*

Notes to the financial statements continued

for the year ended 31 March 2009

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
9. Investment in subsidiaries				
Shares at cost			388	388
Indebtedness			1 953	1 953
Provision for impairment			–	–
Total interest in subsidiaries			2 341	2 341
Directors' valuation[1]			4 790	4 326
Aggregate attributable after tax profits of subsidiary companies	525	492		
Aggregate attributable after tax losses of subsidiary companies	(29)	–		

Financial instruments with subsidiaries are disclosed in note 10.

Name	Main business	Country of incorp-oration	Issued/ stated share capital	Interest held	Invest-ment at cost	Indebted-ness
2009			R	%	Rm	Rm
Directly held						
– Eskom Finance Company (Pty) Limited[2]	Finance (employee housing loans)	South Africa	4 000	100	[3]	–
– Escap Limited	Insurance	South Africa	379 500 000	100	380	–
– Gallium Insurance Company Limited[2,4]	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	[3]	1 953[5]
– PN Energy Services (Pty) Limited[6]	Maintenance of electrical and telecommunication distribution network	South Africa	1 500 000	100	4	–
– The Natal Navigation Collieries and Estate Company Limited	Dormant	South Africa	1 542 850	100	[3]	–
Indirectly held						
– Golang Coal (Pty) Limited	Coal exports	South Africa	1 000	67	–	–
– Eskom Enterprises Global West Africa[4,7]	Operations management	Nigeria	100	100	–	–
– Eskom Energie Manantali SA[4,7]	Energy supply	Mali	1 000	100	–	–
– Eskom Uganda Limited[4,7]	Operations management	Uganda	100	100	–	–
– Pebble Bed Modular Reactor (Pty) Limited[8]	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	–	–
– Roshcon (Pty) Limited[10]	Construction	South Africa	1	100	–	–
– Airborne Laser Solutions (Pty) Limited	Aerial surveying technologies	South Africa	1	100	–	–
– Lunsemfwa Hydro Power Company[4,7,9]	Operations and maintenance services	Zambia	1 825	–	–	–
– arivia.kom (Pty) Limited[2,10]	Information technology services	South Africa	1 709 616	59	–	–
– South Dunes Coal Terminal (Pty) Limited	Coal exports	South Africa	4 000	50	–	–
					388	1 953

Name 2008	Main business	Country of incorp-oration	Issued/ stated share capital R	Interest held %	Invest-ment at cost Rm	Indebted-ness Rm
Directly held						
– Eskom Finance Company (Pty) Limited[2]	Finance (employee housing loans)	South Africa	4 000	100	[3]	–
– Escap Limited	Insurance	South Africa	379 500 000	100	380	–
– Gallium Insurance Company Limited[4]	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	[3]	1 953[5]
– PN Energy Services (Pty) Limited	Maintenance of electrical and telecommunication distribution network	South Africa	1 500 000	100	4	–
– The Natal Navigation Collieries and Estate Company Limited	Dormant	South Africa	1 542 850	100	[3]	–
Indirectly held						
– Golang Coal (Pty) Limited	Coal exports	South Africa	1 000	67	–	–
– Eskom Enterprises Global West Africa[4,7]	Operations management	Nigeria	100	100	–	–
– Eskom Energie Manantali SA[4,7]	Energy supply	Mali	1 000	100	–	–
– Eskom Uganda Limited[4,7]	Operations management	Uganda	100	100	–	–
– Pebble Bed Modular Reactor (Pty) Limited[8]	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[11]	Broadband services	South Africa	1	–	–	–
– Roshcon (Pty) Limited[10]	Construction	South Africa	1	100	–	–
– Airborne Laser Solutions (Pty) Limited	Aerial surveying technologies	South Africa	1	100	–	–
– Amazing Amanzi (Pty) Limited[11]	Low-energy utility devices	South Africa	100	–	–	–
– Mountain Communications (Pty) Limited[11]	Telecommunication	Lesotho	1 646	–	–	–
– Lunsemfwa Hydro Power Company[4,7]	Operations and maintenance services	Zambia	1 825	51	–	–
– arivia.kom (Pty) Limited[2,10]	Information technology services	South Africa	1 709 616	59	–	–
– South Dunes Coal Terminal (Pty) Limited	Coal exports	South Africa	4 000	50	–	–
					388	1 953

1. *Includes investments classified as non-current assets held-for-sale.*
2. *Classified as non-current assets and liabilities held-for-sale (refer note 22).*
3. *Nominal.*
4. *Issued/stated capital in foreign currency.*
5. *The equity loan to Eskom Enterprises (Pty) Limited of R1 953 million (2008: R1 953 million) has been subordinated to the extent of Rnil (2008: R108 million). The loan is interest free.*
6. *It is intended to integrate the activities of PN Energy Services (Pty) Limited into Eskom during the 2010 financial year.*
7. *Year end is 31 December.*
8. *Pebble Bed Modular Reactor (Pty) Limited is not considered to be controlled by Eskom Enterprises and is not consolidated.*
9. *The investment in Lunsemfwa Hydro Power Company was disposed of during the year.*
10. *The subsidiaries of arivia.kom (Pty) Limited and Roshcon (Pty) Limited have not been disclosed.*
11. *The investment was disposed of during the 2008 financial year.*

Notes to the financial statements continued

for the year ended 31 March 2009

10. Financial instruments with group companies

2009	Eskom Finance Company Rm	Eskom Enterprises Rm	Escap Rm	Carrying value Rm	Fair value Rm
Financial assets					
Available-for-sale financial assets					
Investment in securities					
Floating rate notes	551	–	–	551	551
Loans and receivables					
Loan to subsidiaries	721	7	–	728	728
	1 272	7	–	1 279	1 279
Maturity analysis	1 272	7	–	1 279	1 279
Non-current	–	–	–	–	–
Current	1 272	7	–	1 279	1 279
Financial liabilities					
Liabilities at amortised cost					
Borrowings	–	1 384	469	1 853	1 853
Commercial paper	–	–	436	436	436
Loan from subsidiaries	–	1 384	33	1 417	1 417
Maturity analysis	–	1 384	469	1 853	1 853
Non-current	–	–	–	–	–
Current	–	1 384	469	1 853	1 853
2008					
Financial assets					
Available-for-sale financial assets					
Investment in securities					
Floating rate notes	539	–	–	539	539
Loans and receivables					
Loan to subsidiaries	530	–	–	530	530
	1 069	–	–	1 069	1 069
Maturity analysis	1 069	–	–	1 069	1 069
Non-current	–	–	–	–	–
Current	1 069	–	–	1 069	1 069
Financial liabilities					
Liabilities at amortised cost					
Borrowings	106	1 194	549	1 849	1 849
Commercial paper	–	–	549	549	549
Loan from subsidiaries	106	1 194	–	1 300	1 300
Maturity analysis	106	1 194	549	1 849	1 849
Non-current	–	–	–	–	–
Current	106	1 194	549	1 849	1 849

The loan from subsidiaries is payable on demand. The effective interest rate on commercial paper is 11,77% (2008: 11,99%). Commercial paper is payable within 12 months.

	Note	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
11. Future fuel supplies					
Coal		**3 132**	2 543	**3 132**	2 543
Balance at beginning of the year		**2 543**	2 513	**2 543**	2 513
Additions		**856**	298	**856**	298
Amortised during the year[1]		**(267)**	(268)	**(267)**	(268)
Nuclear		**378**	42	**378**	42
Balance at beginning of the year		**42**	44	**42**	44
Additions		**667**	360	**667**	360
Amortised during the year[1]		**(3)**	(3)	**(3)**	(3)
Transfer from equity		**(66)**	(8)	**(66)**	(8)
Transfer to inventories		**(262)**	(351)	**(262)**	(351)
Total		**3 510**	2 585	**3 510**	2 585
12. Deferred tax					
Deferred tax assets					
Balance at beginning of the year		**8**	5	**–**	–
Transfer from profit or loss	38	**70**	41	**–**	–
Transfer to deferred tax liabilities		**(22)**	(38)	**–**	–
		56	8	**–**	–
Comprising		**56**	8	**–**	–
Property, plant and equipment		**(15)**	(7)	**–**	–
Provisions		**68**	54	**–**	–
Other		**3**	(39)	**–**	–
Deferred tax liabilities					
Balance at beginning of the year		**10 229**	8 356	**10 220**	8 287
Change in tax rate – to statement of changes in equity		**–**	(14)	**–**	(14)
Transfer to profit or loss	38	**(3 943)**	(687)	**(4 176)**	(679)
Transfer (to)/from statement of changes in equity		**(169)**	2 626	**(173)**	2 626
Transfer from deferred tax assets		**(22)**	(38)	**–**	–
Other		**3**	(14)	**–**	–
		6 098	10 229	**5 871**	10 220
Comprising		**6 098**	10 229	**5 871**	10 220
Property, plant and equipment		**14 619**	12 400	**14 557**	12 267
Inventories		**406**	399	**406**	399
Provisions		**(5 205)**	(3 969)	**(5 168)**	(3 904)
Tax losses		**(2 814)**	(948)	**(2 809)**	(942)
Embedded derivative assets and liabilities		**(1 930)**	733	**(1 930)**	732
Other		**1 022**	1 614	**815**	1 668
Unused tax losses available for offset against future taxable income		**10 050**	3 386	**10 032**	3 364

1. *Amortisation of future fuel is included in profit or loss within primary energy.*

Notes to the financial statements continued

for the year ended 31 March 2009

13. Financial instruments

Accounting classifications and fair values

The classification of each class of financial assets and liabilities, and their fair values are:

2009	Note	Held-for-trading Rm	Held-to-maturity Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities[1] Rm	Total carrying amount Rm	Fair value Rm
Group									
Financial assets									
Non-current		586	100	1 620	1 861	–	1 671	5 838	5 835
Investment in securities	13.2	–	100	1 597	1 861	–	–	3 558	3 555
Embedded derivative assets	14.1	–	–	–	–	–	1 135	1 135	1 135
Derivatives held for risk management	15	586	–	–	–	–	–	586	586
Finance lease receivables	16	–	–	–	–	–	536	536	536
Trade and other receivables	17	–	–	23	–	–	–	23	23
Current		1 451	4	27 808	3 121	–	966	33 350	33 365
Finance lease receivables	16	–	–	–	–	–	11	11	11
Investment in securities	13.2	–	4	1 235	3 121	–	–	4 360	4 375
Embedded derivative assets	14.1	–	–	–	–	–	231	231	231
Derivatives held for risk management	15	527	–	–	–	–	724	1 251	1 251
Trade and other receivables[2]	17	–	–	8 191	–	–	–	8 191	8 191
Financial trading assets	13.3	924	–	–	–	–	–	924	924
Cash and cash equivalents	13.1	–	–	18 382	–	–	–	18 382	18 382
Financial liabilities									
Non-current		123	–	–	–	58 515	9 419	68 057	68 040
Debt securities issued	13.4	–	–	–	–	44 253	–	44 253	43 701
Borrowings	13.5	–	–	–	–	12 796	–	12 796	13 331
Embedded derivative liabilities	14.2	–	–	–	–	–	8 219	8 219	8 219
Derivatives held for risk management	15	123	–	–	–	–	663	786	786
Finance lease liabilities	26	–	–	–	–	–	537	537	537
Trade and other payables	27	–	–	–	–	1 466	–	1 466	1 466
Current		2 900	–	–	–	33 836	1 964	38 700	38 655
Trade and other payables[2]	27	–	–	–	–	16 701	–	16 701	16 701
Finance lease liabilities[2]	26	–	–	–	–	–	15	15	15
Debt securities issued	13.4	–	–	–	–	3 324	–	3 324	3 154
Borrowings	13.5	–	–	–	–	13 811	–	13 811	13 936
Financial trading liabilities	13.3	2 180	–	–	–	–	–	2 180	2 180
Embedded derivative liabilities	14.2	–	–	–	–	–	43	43	43
Derivatives held for risk management	15	720	–	–	–	–	1 906	2 626	2 626

2009	Note	Held-for-trading Rm	Held-to-maturity Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities[1] Rm	Total carrying amount Rm	Fair value Rm
Company									
Financial assets									
Non-current		586	100	1 215	1 861	–	1 671	5 433	5 430
Investment in securities	13.2	–	100	1 192	1 861	–	–	3 153	3 150
Embedded derivative assets	14.1	–	–	–	–	–	1 135	1 135	1 135
Derivatives held for risk management	15	586	–	–	–	–	–	586	586
Finance lease receivables	16	–	–	–	–	–	536	536	536
Trade and other receivables	17	–	–	23	–	–	–	23	23
Current		1 089	4	26 957	2 632	–	966	31 648	31 663
Financial instruments with group companies	10	–	–	728	551	–	–	1 279	1 279
Finance lease receivables[2]	16	–	–	–	–	–	11	11	11
Investment in securities	13.2	–	4	1 235	2 081	–	–	3 320	3 335
Embedded derivative assets	14.1	–	–	–	–	–	231	231	231
Derivatives held for risk management	15	527	–	–	–	–	724	1 251	1 251
Trade and other receivables[2]	17	–	–	7 073	–	–	–	7 073	7 073
Financial trading assets	13.3	562	–	–	–	–	–	562	562
Cash and cash equivalents	13.1	–	–	17 921	–	–	–	17 921	17 921
Financial liabilities									
Non-current		123	–	–	–	57 919	9 643	67 685	67 668
Debt securities issued	13.4	–	–	–	–	44 253	–	44 253	43 701
Borrowings	13.5	–	–	–	–	12 369	–	12 369	12 904
Embedded derivative liabilities	14.2	–	–	–	–	–	8 219	8 219	8 219
Derivatives held for risk management	15	123	–	–	–	–	663	786	786
Finance lease liabilities	26	–	–	–	–	–	761	761	761
Trade and other payables	27	–	–	–	–	1 297	–	1 297	1 297
Current		2 900	–	–	–	35 234	1 992	40 126	40 081
Financial instruments with group companies	10	–	–	–	–	1 853	–	1 853	1 853
Trade and other payables[2]	27	–	–	–	–	16 248	–	16 248	16 248
Finance lease liabilities[2]	26	–	–	–	–	–	45	45	45
Debt securities issued	13.4	–	–	–	–	3 324	–	3 324	3 154
Borrowings	13.5	–	–	–	–	13 809	–	13 809	13 934
Financial trading liabilities	13.3	2 180	–	–	–	–	–	2 180	2 180
Embedded derivative liabilities	14.2	–	–	–	–	–	41	41	41
Derivatives held for risk management	15	720	–	–	–	–	1 906	2 626	2 626

1. *Includes finance lease receivables and payables, embedded derivatives and derivatives used for cash flow hedges.*
2. *The carrying amounts of these financial instruments approximate their fair values. The effect of discounting is not expected to be material.*

Notes to the financial statements continued

for the year ended 31 March 2009

13. Financial instruments *(continued)*

Accounting classifications and fair values *(continued)*

2008	Note	Held-for-trading Rm	Held-to-maturity Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities[1] Rm	Total carrying amount Rm	Fair value Rm
Group									
Financial assets									
Non-current		518	100	2 552	3 410	–	9 704	16 284	16 348
Investment in securities	13.2	–	100	2 372	3 410	–	–	5 882	5 946
Embedded derivative assets	14.1	–	–	–	–	–	6 269	6 269	6 269
Derivatives held for risk management	15	518	–	–	–	–	3 020	3 538	3 538
Finance lease receivables	16	–	–	–	–	–	415	415	415
Trade and other receivables	17	–	–	180	–	–	–	180	180
Current		4 177	765	16 839	7 761	–	9 035	38 577	38 577
Finance lease receivables[2]	16	–	–	–	–	–	10	10	10
Investment in securities	13.2	–	765	611	7 761	–	–	9 137	9 137
Embedded derivative assets	14.1	–	–	–	–	–	1 433	1 433	1 433
Derivatives held for risk management	15	1 540	–	–	–	–	7 592	9 132	9 132
Trade and other receivables[2]	17	–	–	5 433	–	–	–	5 433	5 433
Financial trading assets	13.3	2 539	–	–	–	–	–	2 539	2 539
Cash and cash equivalents	13.1	98	–	10 795	–	–	–	10 893	10 893
Financial liabilities									
Non-current		947	–	–	–	41 944	5 616	48 507	48 154
Debt securities issued	13.4	–	–	–	–	39 788	–	39 788	39 254
Borrowings	13.5	–	–	–	–	1 480	–	1 480	1 661
Embedded derivative liabilities	14.2	–	–	–	–	–	5 077	5 077	5 077
Derivatives held for risk management	15	947	–	–	–	–	–	947	947
Finance lease liabilities	26	–	–	–	–	–	539	539	539
Trade and other payables	27	–	–	–	–	676	–	676	676
Current		5 143	–	–	–	19 634	435	25 212	24 218
Trade and other payables[2]	27	–	–	–	–	10 223	–	10 223	10 223
Finance lease liabilities[2]	26	–	–	–	–	–	9	9	9
Debt securities issued	13.4	–	–	–	–	2 491	–	2 491	1 635
Borrowings	13.5	–	–	–	–	6 920	–	6 920	6 782
Financial trading liabilities	13.3	4 087	–	–	–	–	–	4 087	4 087
Embedded derivative liabilities	14.2	–	–	–	–	–	7	7	7
Derivatives held for risk management	15	1 056	–	–	–	–	419	1 475	1 475

2008	Note	Held-for-trading Rm	Held-to-maturity Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities[1] Rm	Total carrying amount Rm	Fair value Rm
Company									
Financial assets									
Non-current		518	100	2 096	3 949	–	9 704	16 367	16 431
Investment in securities	13.2	–	100	2 087	3 949	–	–	6 136	6 200
Embedded derivative assets	14.1	–	–	–	–	–	6 269	6 269	6 269
Derivatives held for risk management	15	518	–	–	–	–	3 020	3 538	3 538
Finance lease receivables	16	–	–	–	–	–	415	415	415
Trade and other receivables	17	–	–	9	–	–	–	9	9
Current		3 655	765	16 697	7 003	–	9 029	37 149	37 149
Financial instruments with group companies	10	–	–	530	539	–	–	1 069	1 069
Finance lease receivables[2]	16	–	–	–	–	–	10	10	10
Investment in securities	13.2	–	765	611	6 464	–	–	7 840	7 840
Embedded derivative assets	14.1	–	–	–	–	–	1 427	1 427	1 427
Derivatives held for risk management	15	1 540	–	–	–	–	7 592	9 132	9 132
Trade and other receivables[2]	17	–	–	5 332	–	–	–	5 332	5 332
Financial trading assets	13.3	2 017	–	–	–	–	–	2 017	2 017
Cash and cash equivalents	13.1	98	–	10 224	–	–	–	10 322	10 322
Financial liabilities									
Non-current		947	–	–	–	41 688	5 755	48 390	48 038
Debt securities issued	13.4	–	–	–	–	39 788	–	39 788	39 254
Borrowings	13.5	–	–	–	–	1 224	–	1 224	1 406
Embedded derivative liabilities	14.2	–	–	–	–	–	5 077	5 077	5 077
Derivatives held for risk management	15	947	–	–	–	–	–	947	947
Finance lease liabilities	26	–	–	–	–	–	678	678	678
Trade and other payables	27	–	–	–	–	676	–	676	676
Current		5 143	–	–	–	21 099	462	26 704	26 258
Financial instruments with group companies	10	–	–	–	–	1 849	–	1 849	1 849
Trade and other payables[2]	27	–	–	–	–	9 843	–	9 843	9 843
Finance lease liabilities[2]	26	–	–	–	–	–	36	36	36
Debt securities issued	13.4	–	–	–	–	2 491	–	2 491	1 635
Borrowings	13.5	–	–	–	–	6 916	–	6 916	7 326
Financial trading liabilities	13.3	4 087	–	–	–	–	–	4 087	4 087
Embedded derivative liabilities	14.2	–	–	–	–	–	7	7	7
Derivatives held for risk management	15	1 056	–	–	–	–	419	1 475	1 475

1. *Includes finance lease receivables and payables, embedded derivatives and derivatives used for cash flow hedges.*
2. *The carrying amounts of these financial instruments approximate their fair values. The effect of discounting is not expected to be material.*

Notes to the financial statements continued

for the year ended 31 March 2009

13. Financial instruments *(continued)*

		Group				Company			
		Carrying value 2009 Rm	Fair value 2009 Rm	Carrying value 2008 Rm	Fair value 2008 Rm	Carrying value 2009 Rm	Fair value 2009 Rm	Carrying value 2008 Rm	Fair value 2008 Rm
13.1	**Cash and cash equivalents**								
	Bank balances	**1 252**	**1 252**	1 207	1 207	**841**	**841**	848	848
	Unsettled deals	**394**	**394**	277	277	**394**	**394**	277	277
	Fixed deposits	**16 736**	**16 736**	9 311	9 311	**16 686**	**16 686**	9 099	9 099
	Negotiable certificates of deposits	**–**	**–**	98	98	**–**	**–**	98	98
		18 382	**18 382**	10 893	10 893	**17 921**	**17 921**	10 322	10 322
	Made up as follows:	**18 382**	**18 382**	10 893	10 893	**17 921**	**17 921**	10 322	10 322
	Held-for-trading	**–**	**–**	98	98	**–**	**–**	98	98
	Loans and receivables	**18 382**	**18 382**	10 795	10 795	**17 921**	**17 921**	10 224	10 224
13.2	**Investment in securities**								
	Held-to-maturity	**104**	**96**	865	861	**104**	**96**	865	861
	Floating rate notes	**–**	**–**	761	765	**–**	**–**	761	765
	Preference shares	**104**	**96**	104	96	**104**	**96**	104	96
	Maturity analysis	**104**	**96**	865	861	**104**	**96**	865	861
	Non-current	**100**	**92**	100	96	**100**	**92**	100	96
	Current	**4**	**4**	765	765	**4**	**4**	765	765
	Loans and receivables	**2 832**	**2 852**	2 983	3 051	**2 427**	**2 447**	2 698	2 766
	Preference shares	**2 142**	**2 154**	2 170	2 238	**2 142**	**2 154**	2 170	2 238
	Foreign fixed deposits	**183**	**199**	472	475	**183**	**199**	472	475
	Fixed deposits	**102**	**94**	56	53	**102**	**94**	56	53
	Loan to Richards Bay Coal Terminal	**405**	**405**	222	222	**–**	**–**	–	–
	Other	**–**	**–**	63	63	**–**	**–**	–	–
	Maturity analysis	**2 832**	**2 852**	2 983	3 051	**2 427**	**2 447**	2 698	2 766
	Non-current	**1 597**	**1 602**	2 372	2 440	**1 192**	**1 197**	2 087	2 155
	Current	**1 235**	**1 250**	611	611	**1 235**	**1 250**	611	611
	Available-for-sale	**4 982**	**4 982**	11 171	11 171	**3 942**	**3 942**	10 413	10 413
	Government bonds	**1 873**	**1 873**	1 424	1 424	**1 873**	**1 873**	1 424	1 424
	Negotiable certificates of deposits	**1 040**	**1 040**	757	757	**–**	**–**	–	–
	Floating rate notes	**2 069**	**2 069**	8 989	8 989	**2 069**	**2 069**	8 989	8 989
	Other	**–**	**–**	1	1	**–**	**–**	–	–
	Maturity analysis	**4 982**	**4 982**	11 171	11 171	**3 942**	**3 942**	10 413	10 413
	Non-current	**1 861**	**1 861**	3 410	3 410	**1 861**	**1 861**	3 949	3 949
	Current	**3 121**	**3 121**	7 761	7 761	**2 081**	**2 081**	6 464	6 464
	Total investment in securities	**7 918**	**7 930**	15 019	15 083	**6 473**	**6 485**	13 976	14 040
	Maturity analysis	**7 918**	**7 930**	15 019	15 083	**6 473**	**6 485**	13 976	14 040
	Non-current	**3 558**	**3 555**	5 882	5 946	**3 153**	**3 150**	6 136	6 200
	Current	**4 360**	**4 375**	9 137	9 137	**3 320**	**3 335**	7 840	7 840

Encumbered assets

Eskom has concluded sale and repurchase transactions of commercial paper, comprising Eskom bonds and government bonds, with approved counterparties. Application of trade date accounting resulted in the continued recognition of this commercial paper even though legal title has passed from Eskom to the counterparty. At year end, Eskom has sold, and is committed to repurchase commercial paper after year end with a fair value of R5 508 million (2008: R1 997 million). Of this amount, R4 775 million (2008: R1 825 million) relates to government securities and R733 million (2008: R172 million) relates to Eskom bonds.

No impairment loss was recognised on the held-to-maturity, loans and receivables and available-for-sale investment in securities.

		Group				Company			
		Carrying value 2009 Rm	Fair value 2009 Rm	Carrying value 2008 Rm	Fair value 2008 Rm	Carrying value 2009 Rm	Fair value 2009 Rm	Carrying value 2008 Rm	Fair value 2008 Rm
13.3	**Financial trading assets and liabilities**								
	Financial trading assets								
	Negotiable certificates of deposits	**558**	**558**	1 024	1 024	**558**	**558**	1 024	1 024
	Repurchase agreements	**4**	**4**	127	127	**4**	**4**	127	127
	Other money market securities	**–**	**–**	866	866	**–**	**–**	866	866
	Listed shares	**362**	**362**	522	522	**–**	**–**	–	–
		924	**924**	2 539	2 539	**562**	**562**	2 017	2 017
	Financial trading liabilities								
	Eskom bonds	**1 035**	**1 035**	658	658	**1 035**	**1 035**	658	658
	Short-sold government bonds	**468**	**468**	140	140	**468**	**468**	140	140
	Commercial paper issued	**673**	**673**	3 165	3 165	**673**	**673**	3 165	3 165
	Repurchase agreements	**4**	**4**	124	124	**4**	**4**	124	124
		2 180	**2 180**	4 087	4 087	**2 180**	**2 180**	4 087	4 087
13.4	**Debt securities issued**	**47 577**	**46 855**	42 279	40 889	**47 577**	**46 855**	42 279	40 889
	Eskom bonds	**38 156**	**37 471**	32 703	30 667	**38 156**	**37 471**	32 703	30 667
	Electrification participation notes	**1 082**	**1 093**	1 351	1 418	**1 082**	**1 093**	1 351	1 418
	Promissory notes	**136**	**195**	117	161	**136**	**195**	117	161
	Eurorand zero coupon bonds	**1 882**	**2 704**	1 664	2 865	**1 882**	**2 704**	1 664	2 865
	Foreign bonds	**6 321**	**5 392**	6 444	5 778	**6 321**	**5 392**	6 444	5 778
	Maturity analysis	**47 577**	**46 855**	42 279	40 889	**47 577**	**46 855**	42 279	40 889
	Non-current	**44 253**	**43 701**	39 788	39 254	**44 253**	**43 701**	39 788	39 254
	Current	**3 324**	**3 154**	2 491	1 635	**3 324**	**3 154**	2 491	1 635

Included in total debt securities issued is an amount of R13 659 million (2008: R794 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 initial counterparty still holds the bonds.

Notes to the financial statements continued

for the year ended 31 March 2009

13. Financial instruments *(continued)*

13.4 Debt securities issued *(continued)*

Terms and debt repayment schedule

Group and company

	Currency	Security Number	Interest rate 2009 %	Interest rate 2008 %	Nominal 2009 Rm	Nominal 2008 Rm	Maturity Date	Carrying value 2009 Rm	Carrying value 2008 Rm
Eskom bonds								**38 156**	32 703
	ZAR	E157	–	13,44	–	210	Nov 08	–	224
	ZAR	E159	–	12,58	–	88	Sep 08	–	89
	ZAR	E160	**14,59**	14,59	**79**	80	Nov 09	**81**	80
	ZAR	E170	**10,13**	10,15	**11 805**	10 992	Aug 20	**14 607**	13 687
	ZAR	ES08	–	14,47	–	1 335	Jun 08	–	1 376
	ZAR	ES09	**14,51**	14,80	**2 209**	1 909	Jun 09	**2 276**	1 903
	ZAR	ES26[1]	**8,96**	8,46	**10 169**	6 227	Apr 26	**9 568**	6 120
	ZAR	ES33[1]	**8,68**	8,14	**13 138**	9 865	Sep 33	**11 624**	9 224
Electrification participation notes	ZAR	EPN	**20,30**	18,85	**796**	950	Apr 10	**1 082**	1 351
Promissory notes								**136**	117
	ZAR	PN04	**16,03**	16,03	**90**	90	Aug 12	**58**	50
	ZAR	PN05	**16,10**	16,10	**60**	60	Aug 13	**33**	28
	ZAR	PN06	**16,13**	16,13	**60**	60	Aug 14	**28**	24
	ZAR	PN07	**15,34**	15,34	**60**	20	Aug 20	**4**	3
	ZAR	PN08	**15,08**	15,08	**60**	20	Aug 21	**3**	3
	ZAR	PN09	**14,80**	14,80	**60**	35	Aug 22	**5**	5
	ZAR	PN10	**14,61**	14,61	**35**	35	Aug 23	**5**	4
Eurorand zero coupon bonds								**1 882**	1 664
	ZAR	n/a	**13,92**	13,92	**2 000**	2 000	Dec 18	**561**	493
	ZAR	n/a	**13,35**	13,35	**2 000**	2 000	Dec 27	**201**	178
	ZAR	n/a	**13,35**	13,35	**6 000**	6 000	Dec 27	**600**	529
	ZAR	n/a	**11,88**	11,88	**7 500**	7 500	Dec 32	**520**	464
Foreign loans	EUR	n/a	**4,00**	4,00	**500**	500	Mar 13	**6 321**	6 444
Total								**47 577**	42 279

	Group				Company			
	Carrying value 2009 Rm	**Fair value 2009 Rm**	Carrying value 2008 Rm	Fair value 2008 Rm	**Carrying value 2009 Rm**	**Fair value 2009 Rm**	Carrying value 2008 Rm	Fair value 2008 Rm
13.5 Borrowings	**26 607**	**27 267**	8 400	8 443	**26 178**	**26 838**	8 140	8 732
Direct placings	**5 510**	**5 688**	1	1	**5 510**	**5 688**	1	1
Export credit facilities	**1 559**	**1 621**	1 371	1 406	**1 559**	**1 621**	1 371	1 406
Floating rate notes	**3 847**	**4 146**	–	–	**3 847**	**4 146**	–	–
Commercial paper	**13 189**	**13 313**	5 433	5 441	**13 189**	**13 313**	5 433	5 990
Subordinated loan from shareholder	**1 575**	**1 572**	–	–	**1 575**	**1 572**	–	–
Bank overdraft	**3**	**3**	52	52	**3**	**3**	52	52
Unsettled deals	**495**	**495**	1 283	1 283	**495**	**495**	1 283	1 283
Foreign loans	**–**	**–**	11	11	**–**	**–**	–	–
Rand loans	**429**	**429**	249	249	**–**	**–**	–	–
Maturity analysis	**26 607**	**27 267**	8 400	8 443	**26 178**	**26 838**	8 140	8 732
Non-current	**12 796**	**13 331**	1 480	1 661	**12 369**	**12 904**	1 224	1 406
Current	**13 811**	**13 936**	6 920	6 782	**13 809**	**13 934**	6 916	7 326

	Currency	Interest rate		Nominal		Maturity	Carrying value Group		Carrying value Company	
		2009 %	2008 %	2009 Rm	2008 Rm	Date	2009 Rm	2008 Rm	2009 Rm	2008 Rm
Direct placings							5 510	1	5 510	1
	ZAR	5,00	5,00	1	1	Sep 11	1	1	1	1
	ZAR	12,25	–	2 000	–	Aug 28	2 039	–	2 039	–
	USD	2,78	–	291	–	Sep 28	2 765	–	2 765	–
	ZAR	9,83	–	701	–	Sep 31	705	–	705	–
Export credit facilities							1 559	1 371	1 559	1 371
	EUR	5,07	4,77	114	114	May 19	1 230	1 371	1 230	1 371
	JPY	1,48	–	3 400	–	May 20	329	–	329	–
Floating rate notes[1]	ZAR	10,75	–	3 800	–	Mar 10[2]	3 847	–	3 847	–
Commercial paper					–		13 189	5 433	13 189	5 433
	ZAR	–	11,31	–	522	Apr 08	–	518	–	518
	ZAR	–	11,51	–	225	Jul 08	–	216	–	216
	ZAR	–	12,14	–	5 177	Jan 09	–	4 699	–	4 699
	ZAR	12,26	–	1 352	–	Apr 09	1 345	–	1 345	–
	ZAR	12,63	–	2 374	–	Jun 09	2 339	–	2 339	–
	ZAR	11,97	–	3 415	–	Sep 09	3 291	–	3 291	–
	ZAR	10,18	–	6 664	–	Mar 10	6 214	–	6 214	–
Subordinated loan from shareholder							1 575	–	1 575	–
	ZAR	7,96	–	5 000	–	Dec 38	1 195	–	1 195	–
	ZAR	9,82	–	5 000	–	Mar 39	380	–	380	–
Bank overdraft							3	52	3	52
Unsettled deals							495	1 283	495	1 283
Foreign loans							–	11	–	–
Rand loans							429	249	–	–
Total							26 607	8 400	26 178	8 140

Subordinated loan from shareholder

The group negotiated a subordinated loan of R60 billion (2008: nil) from the shareholder. The total draw down for the year was R10 billion (2008: nil). Eskom is obliged to pay interest on the loan when it is solvent and the debt leverage conditions per the agreement are satisfied. The interest on the subordinated loan is not cumulative.

The loan has been classified as a financial liability in accordance with IAS 32 *Financial instruments: Presentation* and has been measured at amortised cost. The loan was initially measured at fair value and the difference between the fair valued amount and the advanced amount accounted for under *borrowings* gave rise to a day-one gain. This day-one gain is disclosed in equity, under *equity reserve* (refer page 114).

13.6 Collateral obtained

During the period Eskom has called upon security deposits and guarantees from customers who have defaulted on their accounts. The carrying amount of the security deposits and guarantees which were called upon is R30 million (2008: R1 million).

13.7 Collateral held

Eskom has bought commercial paper from approved counterparties and has committed to sell this commercial paper back to the counterparties in the following financial year. Although Eskom has legal title to the commercial paper at year end, it has not been recognised on the balance sheet due to the application of trade date accounting. This has also resulted in the recognition of a loan receivable with a fair value of R5 425 million (2008: R1 000 million) at year end. Of this amount, R1 035 million (2008: R570 million) relates to government securities and R4 386 million (2008: R430 million) to Eskom bonds. The total loan receivable is secured by commercial paper of an equivalent fair value.

13.8 Collateral placed

Eskom has provided collateral security in the form of letters of credit from banks in respect of the cross-border lease transactions. Assets to the value R2 144 million (2008: R2 151 million) (included under loans and receivable), R100 million (2008: R100 million) (included under held-to-maturity) and R530 million (2008: R503 million) (included under derivatives held for risk management) have been pledged to the letter of credit providers. The collateral 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 transaction in the event of cancellation or default. The calculation of the beneficiary's exposure is influenced by pledged securities in the form of US treasury notes which are marked-to-market semi-annually. The exposure amount was adjusted accordingly (refer note 43 *Events after balance sheet date*.)

1. *Government guaranteed.*
2. *Earliest maturity date is March 2010.*

Notes to the financial statements continued

for the year ended 31 March 2009

	Current	Non-current		Total non-current	Total
	1 year Rm	1 to 5 years Rm	After 5 years Rm	Rm	Rm
14. Embedded derivative assets and liabilities					
14.1 Embedded derivative assets					
2009					
Group					
Commodity and/or foreign currency	**231**	**235**	**900**	**1 135**	**1 366**
Foreign currency or interest rate	**–**	**–**	**–**	**–**	**–**
Production price indices and foreign currency	**–**	**–**	**–**	**–**	**–**
	231	**235**	**900**	**1 135**	**1 366**
Company					
Commodity and/or foreign currency	**231**	**235**	**900**	**1 135**	**1 366**
Production price indices and foreign currency	**–**	**–**	**–**	**–**	**–**
	231	**235**	**900**	**1 135**	**1 366**
2008					
Group					
Commodity and/or foreign currency	1 419	3 512	2 757	6 269	7 688
Foreign currency or interest rate	6	–	–	–	6
Production price indices and foreign currency	8	–	–	–	8
	1 433	3 512	2 757	6 269	7 702
Company					
Commodity and/or foreign currency	1 419	3 512	2 757	6 269	7 688
Production price indices and foreign currency	8	–	–	–	8
	1 427	3 512	2 757	6 269	7 696
14.2 Embedded derivative liabilities					
2009					
Group					
Commodity and/or foreign currency	**27**	**2 353**	**4 463**	**6 816**	**6 843**
Foreign currency or interest rate	**2**	**–**	**–**	**–**	**2**
Production price indices and foreign currency	**14**	**336**	**1 067**	**1 403**	**1 417**
	43	**2 689**	**5 530**	**8 219**	**8 262**
Company					
Commodity and/or foreign currency	**27**	**2 353**	**4 463**	**6 816**	**6 843**
Production price indices and foreign currency	**14**	**336**	**1 067**	**1 403**	**1 417**
	41	**2 689**	**5 530**	**8 219**	**8 260**
2008					
Group					
Commodity and/or foreign currency	–	1 080	2 957	4 037	4 037
Foreign currency or interest rate	–	–	–	–	–
Production price indices and foreign currency	7	149	891	1 040	1 047
	7	1 229	3 848	5 077	5 084
Company					
Commodity and/or foreign currency	–	1 080	2 957	4 037	4 037
Production price indices and foreign currency	7	149	891	1 040	1 047
	7	1 229	3 848	5 077	5 084

The embedded derivative instruments comprise a combination of swaps, forwards and options.

15. Derivatives held for risk management

	Assets Rm	Liabilities Rm	Notional amount Rm
2009			
Group and company			
Derivatives held for economic hedging	1 113	843	17 232
Foreign exchange derivatives	615	559	10 477
Swaps	530	36	519
Foreign exchange contracts	85	523	9 958
Interest rate derivatives	57	4	3 726
Forward rate agreements	–	4	936
Swaps	57	–	2 790
Commodity derivatives	441	280	3 029
Aluminium options	437	66	2 570
Swaps	4	214	459
Derivatives held for cash flow hedging	724	2 569	52 217
Foreign exchange contracts	724	1 415	41 492
Interest rate swap	–	463	3 800
Cross-currency swap	–	691	6 925
Total derivatives held for risk management	1 837	3 412	
Maturity analysis	1 837	3 412	
Non-current	586	786	
Derivatives held for economic hedging	586	123	
Derivatives held for cash flow hedging	–	663	
Current	1 251	2 626	
Derivatives held for economic hedging	527	720	
Derivatives held for cash flow hedging	724	1 906	

Notes to the financial statements continued

for the year ended 31 March 2009

	Assets Rm	Liabilities Rm	Notional amount Rm
15. Derivatives held for risk management *(continued)*			
2008			
Group and company			
Derivatives held for economic hedging	2 058	2 003	23 085
Foreign exchange derivatives	2 045	55	8 675
Swaps	517	–	519
Foreign exchange contracts	1 528	55	8 156
Interest rate derivatives	10	4	5 942
Forward rate agreements	3	1	3 709
Swaps	7	3	2 233
Commodity derivatives	3	1 944	8 468
Aluminium options	3	1 944	8 468
Swaps	–	–	–
Derivatives held for cash flow hedging	10 612	419	35 704
Foreign exchange contracts	7 592	419	32 029
Interest rate swap	–	–	–
Cross-currency swap	3 020	–	3 675
Total derivatives held for risk management	12 670	2 422	
Maturity analysis	12 670	2 422	
Non-current	3 538	947	
Derivatives held for economic hedging	518	947	
Derivatives held for cash flow hedging	3 020	–	
Current	9 132	1 475	
Derivatives held for economic hedging	1 540	1 056	
Derivatives held for cash flow hedging	7 592	419	

The hedging practices and accounting treatment are disclosed in note 2.11.3 in the accounting policies (refer page 129).

The group uses forward exchange contracts, cross-currency swaps and interest rate swaps for cash flow hedging. Only the changes in cash flows attributable to movements in the spot exchange rates are hedged.

- Foreign exchange contracts: used to hedge the changes in the cash flows resulting from the purchase of services and goods denominated mainly in US dollar, euro and yen.
- Cross-currency swap: used to hedge the currency risk arising from the fixed rate bonds (denominated in euro and yen) issued by the group.
- Interest-rate swaps: used to hedge the interest expense variability of the issued floating rate notes.

During the year R405 million (2008: nil) was recognised in profit or loss as ineffectiveness arising from cash flow hedges. A spot adjustment from the implied spot rate of R13,85 to the actual spot rate of R13,04 on the day that the euro cross-currency swap was re-couponed resulted in a R405 million loss (2008: nil) recycled out of equity to profit or loss. There were no transactions for which cash flow hedge accounting had to be ceased in the current or comparative financial years as a result of highly probable cash flows no longer being expected to occur.

Cash flow hedges

The periods in which the cash flows of derivatives designated as cash flow hedges are expected to occur are:

	Carrying amount Rm	Undis-counted cash flows Rm	0 to 3 months Rm	4 to 12 months Rm	1 to 5 years Rm	More than 5 years Rm
2009						
Group and company						
Cross-currency swaps						
Assets	**7 035**	**9 360**	**1**	**2**	**8 948**	**409**
Liabilities	**(7 726)**	**(10 264)**	**(7)**	**(16)**	**(9 938)**	**(303)**
Interest rate swaps						
Assets	**2 991**	**5 911**	**93**	**209**	**1 289**	**4 320**
Liabilities	**(3 454)**	**(7 206)**	**(83)**	**(258)**	**(1 365)**	**(5 500)**
Forward exchange contracts						
Assets	**724**	**441**	**20**	**421**	**–**	**–**
Liabilities	**(1 415)**	**(2 374)**	**(56)**	**(2 318)**	**–**	**–**
	(1 845)	**(4 132)**	**(32)**	**(1 960)**	**(1 066)**	**(1 074)**
2008						
Group and company						
Cross-currency swaps						
Assets	6 382	10 068	–	–	–	10 068
Liabilities	(3 362)	(5 198)	–	–	–	(5 198)
Interest rate swaps						
Assets	–	–	–	–	–	–
Liabilities	–	–	–	–	–	–
Forward exchange contracts						
Assets	7 592	778	–	–	8	770
Liabilities	(419)	(1 894)	–	(1 894)	–	–
	10 193	3 754	–	(1 894)	8	5 640

Notes to the financial statements continued

for the year ended 31 March 2009

15. Derivatives held for risk management *(continued)*

Gains or losses recognised in the hedging reserve in equity are recognised in profit or loss in the periods during which the hedged forecast transaction affects profit or loss.

The periods in which the cash flows associated with derivatives are expected to impact profit or loss are:

2009	Carrying amount Rm	Undis-counted cash flows Rm	0 to 3 months Rm	4 to 12 months Rm	1 to 5 years Rm	More than 5 years Rm
Group and company						
Cross-currency swaps						
Assets	**7 035**	**9 360**	**1**	**2**	**8 948**	**409**
Liabilities	**(7 726)**	**(10 264)**	**(7)**	**(16)**	**(9 938)**	**(303)**
Interest rate swaps						
Assets	**2 991**	**5 911**	**93**	**209**	**1 289**	**4 320**
Liabilities	**(3 454)**	**(7 206)**	**(83)**	**(258)**	**(1 365)**	**(5 500)**
Forward exchange contracts						
Assets	**724**	**441**	**20**	**421**	**–**	**–**
Liabilities	**(7 957)**	**(8 916)**	**(106)**	**(2 517)**	**(232)**	**(6 061)**
	(8 387)	**(10 674)**	**(82)**	**(2 159)**	**(1 298)**	**(7 135)**
2008						
Group and company						
Cross-currency swaps						
Assets	6 382	6 382	–	–	–	6 382
Liabilities	(3 363)	(3 363)	–	–	–	(3 363)
Interest rate swaps						
Assets	–	–	–	–	–	–
Liabilities	–	–	–	–	–	–
Forward exchange contracts						
Assets	7 592	778	–	–	8	770
Liabilities	(835)	(2 310)	–	(1 894)	(194)	(222)
	9 776	1 487	–	(1 894)	(186)	3 567

	Note	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
16. Finance lease receivables					
Gross receivables		**1 516**	1 082	**1 516**	1 082
Unearned finance income		**(969)**	(657)	**(969)**	(657)
Present value of minimum lease payments		**547**	425	**547**	425
Maturity analysis of gross receivables from finance leases					
Due within one year		**82**	64	**82**	64
Due between two and five years		**348**	251	**348**	251
Due after five years		**1 086**	767	**1 086**	767
		1 516	1 082	**1 516**	1 082
Unearned finance income		**(969)**	(657)	**(969)**	(657)
		547	425	**547**	425
Maturity analysis of net investment in finance leases					
Non-current		**536**	415	**536**	415
Due between two and five years		**66**	51	**66**	51
Due after five years		**470**	364	**470**	364
Current					
Due within one year		**11**	10	**11**	10
		547	425	**547**	425
The finance lease receivables are raised in terms of IFRIC 4 *Determining whether an arrangement contains a lease.*					
Average implicit rate (%)		**13**	13	**13**	13
17. Trade and other receivables					
Trade receivables		**7 816**	5 972	**7 500**	5 797
Other receivables		**3 281**	1 518	**2 458**	1 401
		11 097	7 490	**9 958**	7 198
Allowance for impairment of trade and other receivables	3.1.2 (f)	**(2 883)**	(1 877)	**(2 862)**	(1 857)
		8 214	5 613	**7 096**	5 341
Maturity analysis		**8 214**	5 613	**7 096**	5 341
Non-current		**23**	180	**23**	9
Current		**8 191**	5 433	**7 073**	5 332
18. Inventories					
Coal		**2 741**	708	**2 741**	708
Nuclear fuel		**945**	1 015	**945**	1 015
Maintenance spares and consumables		**2 895**	2 206	**2 752**	1 905
		6 581	3 929	**6 438**	3 628

The group reversed Rnil of a previous inventory write-down (2008: R7 million). The amount reversed has been included in *net impairment loss* in profit or loss (refer note 34).

Notes to the financial statements continued

for the year ended 31 March 2009

19. Service concession arrangements

The Eskom group operates two service concessions for the generation and/or transmission of electricity, through its operations in Mali and Uganda.

Mali

Eskom Energie Manantali (Eskom Manantali) entered into an operation and maintenance agreement with La Société de Gestion de L'Energie de Manantali (SOGEM) in 2001 to operate and maintain a 200 MW hydro-electricity facility in Mali and supply power to the national electrical companies in Mali, Senegal and Mauritania. The dam, hydro-electric generating plant and eastern and western transmission networks together constitute the 'energy assets' in terms of the agreement. The concession period is 15 years (ends December 2017).

Eskom Manantali is entitled to a fixed annual fee to operate the concession. Although Eskom Manantali is responsible for the billing of electricity supplied, it merely collects and distributes the proceeds from the sale of electricity. The annual fee does not cover additional expenditure to be incurred on the energy assets.

Eskom Manantali is responsible for the day-to-day maintenance, repairs and replacement of the energy assets. In terms of this requirement, a fund is to be set up by SOGEM, to which Eskom Manantali is to contribute 10% of annual revenues to cover the cost of major overhauls. This fund has not yet been set up. Eskom Manantali has, however, made a provision amounting to 10% of revenues.

The assets remain the property of SOGEM and will revert to them at the end of the concession period. At that point Eskom Manantali will have no further obligations in respect of the energy assets. The agreement does not contain a renewal option.

A provision of R101 million (2008: nil) has been raised as an onerous contract. A claim was recently lodged with SOGEM for the reimbursement of expenditure on the energy assets. Given the uncertainty of the outcome of the claim, it is not considered prudent to recognise an asset. The agreement has been set up that if Eskom Manantali wants to exit the agreement, it will incur substantial penalties (refer note 25).

Uganda

Eskom Uganda Limited (Eskom Uganda) entered into an operation and maintenance agreement with Uganda Electricity Generation Company Limited (UEGCL) in 2002, which is linked to a power purchase agreement concluded with Uganda Electricity Transmission Company Limited (UETCL). In terms of the agreements, Eskom Uganda operates and maintains two hydro-electric power stations in Uganda, from which it supplies electricity to UETCL. The dams, powerhouses, related switchyard facilities, high voltage substation, land and movable property together constitute the 'energy assets' in terms of the agreement. The concession period is 20 years (ends in December 2023).

Eskom Uganda is entitled to receive revenue from UETCL, based on electricity supplied at tariffs regulated by the Electricity Regulatory Authority of Uganda. It also receives a fee to cover it for investment in additional energy assets where required. This has been recognised as an intangible asset.

The plant remains the property of UEGCL and will revert to UEGCL at the end of the concession period. At that point Eskom Uganda will have no further obligations in respect of the plant.

	2009			2008
	Eskom Manantali Rm	Eskom Uganda Rm	Total Rm	Total Rm
Income statements				
Revenue	**81**	**185**	**266**	191
(Loss)/profit for the year	**(24)**	**14**	**(10)**	14
Balance sheets				
Property, plant and equipment	**27**	**–**	**27**	84
Intangible assets	**–**	**63**	**63**	49
Inventories	**18**	**14**	**32**	6
Trade and other receivables[1]	**957**	**45**	**1 002**	523
Cash and cash equivalents	**31**	**43**	**74**	76
Total assets	**1 033**	**165**	**1 198**	738
Provisions	**42**	**11**	**53**	25
Borrowings	**37**	**28**	**65**	36
Trade and other payables	**975**	**28**	**1 003**	532
Other liabilities	**–**	**13**	**13**	14
Total liabilities	**1 054**	**80**	**1 134**	607

1. *Includes concession debtors of R655 million (2008: R389 million) which relates to amounts to be collected by Eskom Manantali on behalf of SOGEM.*

	Group		Company	
	2009 R	2008 R	2009 R	2008 R
20. Share capital				
Authorised				
1 000 ordinary shares of R1 each	1 000	1 000	1 000	1 000
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.

21. Payments made in advance	Rm	Rm	Rm	Rm
Payments made in advance	6 167	4 256	6 087	4 197
Maturity analysis	6 167	4 256	6 087	4 197
Non-current	5 081	2 494	5 081	2 435
Current	1 086	1 762	1 006	1 762

Payments made in advance to suppliers are primarily to reserve manufacturing capacity for the future construction of assets and for future goods and services. These amounts will be used as partial settlement towards the future amounts payable to the suppliers. There is no contractual right to receive a refund in cash or another financial instrument from the suppliers. In the event of default or non-performance, there are performance bonds in place that can be used to recover outstanding payments made in advance.

22. 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 (EFC) have been presented as held-for-sale following the approval of the Eskom board of directors on 16 September 2004 to sell EFC. 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, as a result of events and circumstances beyond Eskom's control, the sale transaction has been delayed. The Eskom board resolved that the business should be disposed of as a going concern, failing which the assets should be disposed of and the company wound down. Attempts at disposal of the company as a going concern did not materialise during the 2009 financial year, resulting in the start of a process to dispose of the assets and winding down the company. This process involves consultation with labour, tender and adjudication, the performance of a due diligence by the successful bidder, disposal and thereafter winding down the company. This process has already commenced with initial consultation with labour. Should the activities relating to the disposal process be conducted without undue delay, the anticipated conclusion thereof is expected within the foreseeable future.

Directly held subsidiary – Gallium Insurance Company Limited

The assets and liabilities of Gallium Insurance Company Limited (Gallium) have been presented as held-for-sale after approval by the Eskom board of directors to close down the company. A commutation/novation agreement will be entered into between Gallium and Escap Limited (Escap) in respect of the insurance business written by Gallium between March 2006 and March 2009. This will have the effect of transferring any potential claim liabilities to Escap. The closure of Gallium is expected to be completed by 31 March 2010.

Indirectly held subsidiaries, associates and joint ventures

The investment in arivia.kom (Pty) Limited (arivia) met the requirements of IFRS 5 *Non-current assets held-for-sale and discontinued operations* to be classified as non-current assets held-for-sale in 2008. The tender process is considered to be at an advanced stage and the sale transaction is expected to be concluded by 31 March 2010.

The investments in Lusemfwa Hydro Power Company Limited, TAS – a division of Roshcon (Pty) Limited, Ash Resources (Pty) Limited, Clinker Supplies (Pty) Limited and the assets of Airborne Laser Solutions (Pty) Limited and Enerweb, a division of Eskom Enterprises (Pty) Limited, were disposed of during the financial year.

Notes to the financial statements continued

for the year ended 31 March 2009

22. Non-current assets and liabilities held-for-sale *(continued)*

A consolidated analysis of the results of these discontinued operations, and the result recognised on the remeasurement of assets is:

	2009						2008
	Eskom Finance Company Rm	arivia.kom Rm	Gallium Rm	Total before inter-company eliminations Rm	Inter-company eliminations Rm	Total Rm	Total Rm
Income statements							
Revenue	–	1 412	4	1 416	(869)	547	1 178
Other income	3	–	1	4	–	4	9
Employee benefit expense	(24)	(797)	–	(821)	–	(821)	(849)
Net fair value loss on financial instruments	–	–	–	–	–	–	(7)
Net loss on financial assets held-for-trading	–	–	–	–	–	–	(2)
Foreign currency translation differences income	–	–	–	–	–	–	(5)
Net impairment loss	(4)	(195)	–	(199)	–	(199)	(6)
Depreciation and amortisation expense	(2)	(28)	–	(30)	–	(30)	(63)
Loss on disposal of investment	–	–	–	–	–	–	(143)
Other operating expenses	(31)	(448)	(4)	(483)	30	(453)	(793)
Operating (loss)/profit before net finance cost	(58)	(56)	1	(113)	(839)	(952)	(674)
Finance income	382	29	21	432	(5)	427	345
Cash and cash equivalents	382	22	21	425	–	425	336
Finance leases	–	7	–	7	(5)	2	9
Finance cost	(297)	(2)	–	(299)	129	(170)	(150)
Borrowings	(297)	–	–	(297)	129	(168)	(147)
Finance leases	–	(2)	–	(2)	–	(2)	(3)
Profit/(loss) before tax	27	(29)	22	20	(715)	(695)	(479)
Income tax	(4)	(28)	–	(32)	200	168	(66)
Profit/(loss) for the year from discontinued operations	23	(57)	22	(12)	(515)	(527)	(545)
The loss from discontinued operations includes operating expenditure which will still be incurred by the continuing operations after these entities have been disposed of.							
Cash flow statements							
Operating cash flows	327	(8)	8	327	–	327	472
Investing cash flows	(384)	(78)	–	(462)	–	(462)	(81)
Financing cash flows	(108)	38	(9)	(79)	–	(79)	(157)
Total cash flows	(165)	(48)	(1)	(214)	–	(214)	234

	Note	2009 Eskom Finance Company Rm	2009 arivia.kom Rm	2009 Gallium Rm	2009 Inter-company eliminations Rm	2009 Total Rm	2008 Total Rm
Balance sheets							
Assets							
Non-current assets		2 796	195	–	208	3 199	2 770
Property, plant and equipment		11	58	–	50	119	280
Intangible assets		1	23	–	–	24	2
Investments		–	–	–	–	–	32
Loans receivable		2 779	–	–	–	2 779	2 404
Finance lease receivables	22.2	–	60	–	(42)	18	3
Deferred tax assets		5	54	–	200	259	49
Current assets		81	810	173	(227)	837	650
Trade and other receivables		8	542	2	(208)	344	259
Inventories		–	49	–	–	49	8
Loans receivable		8	–	–	–	8	11
Cash and cash equivalents		65	192	171	–	428	345
Finance lease receivables	22.2	–	27	–	(19)	8	27
Total assets		2 877	1 005	173	(19)	4 036	3 420
Liabilities							
Non-current liabilities		1 127	224	–	–	1 351	1 462
Debt securities issued		1 127	–	–	–	1 127	1 372
Borrowings		–	2	–	–	2	78
Deferred tax liabilities		–	–	–	–	–	12
Provisions		–	222	–	–	222	–
Current liabilities		1 550	385	3	(1 276)	662	372
Trade and other payables		8	298	3	(4)	305	236
Debt securities issued		817	–	–	(551)	266	23
Borrowings		721	6	–	(721)	6	13
Provisions		4	81	–	–	85	100
Total liabilities		2 677	609	3	(1 276)	2 013	1 834

Notes to the financial statements continued

for the year ended 31 March 2009

22. Non-current assets and liabilities held-for-sale *(continued)*

22.1 Accounting classifications and fair values

The classification of each class of financial assets and liabilities for all discontinued operations, and their fair values are:

	Held-for-trading Rm	Held-to-maturity Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total carrying amount Rm	Fair value Rm
2009								
Financial assets								
Non-current assets	–	–	2 779	–	–	18	2 797	2 797
Loans receivable	–	–	2 779	–	–	–	2 779	2 779
Finance lease receivables	–	–	–	–	–	18	18	18
Current	–	–	780	–	–	8	788	788
Loans receivable	–	–	8	–	–	–	8	8
Trade and other receivables	–	–	344	–	–	–	344	344
Cash and cash equivalents	–	–	428	–	–	–	428	428
Finance lease receivables	–	–	–	–	–	8	8	8
Total financial assets	–	–	3 559	–	–	26	3 585	3 585
Financial liabilities								
Non-current	–	–	–	–	1 129	–	1 129	1 129
Debt securities issued	–	–	–	–	1 127	–	1 127	1 127
Borrowings	–	–	–	–	2	–	2	2
Current	–	–	–	–	577	–	577	577
Trade and other payables	–	–	–	–	305	–	305	305
Debt securities issued	–	–	–	–	266	–	266	266
Borrowings	–	–	–	–	6	–	6	6
Total financial liabilities	–	–	–	–	1 706	–	1 706	1 706
2008								
Financial assets								
Non-current assets	–	–	2 404	–	–	3	2 407	2 401
Loans receivable	–	–	2 404	–	–	–	2 404	2 398
Finance lease receivables	–	–	–	–	–	3	3	3
Current	–	–	615	–	–	27	642	642
Loans receivable	–	–	11	–	–	–	11	11
Trade and other receivables	–	–	259	–	–	–	259	259
Cash and cash equivalents	–	–	345	–	–	–	345	345
Finance lease receivables	–	–	–	–	–	27	27	27
Total financial assets	–	–	3 019	–	–	30	3 049	3 043
Financial liabilities								
Non-current	–	–	–	–	1 450	–	1 450	1 450
Debt securities issued	–	–	–	–	1 372	–	1 372	1 372
Borrowings	–	–	–	–	78	–	78	78
Current	–	–	–	–	272	–	272	272
Trade and other payables	–	–	–	–	236	–	236	236
Debt securities issued	–	–	–	–	23	–	23	23
Borrowings	–	–	–	–	13	–	13	13
Total financial liabilities	–	–	–	–	1 722	–	1 722	1 722

	Group	
	2009 Rm	2008 Rm
22.2 Finance lease receivables		
Gross receivables	**33**	33
Unearned finance income	**(7)**	(3)
Present value of minimum lease payments	**26**	30
Maturity analysis of gross receivables from finance leases		
Due within one year	**11**	30
Due between two and five years	**22**	3
	33	33
Unearned finance income	**(7)**	(3)
	26	30
Maturity analysis of net investment in finance leases		
Non-current		
Due between two and five years	**18**	3
Current		
Due within one year	**8**	27
	26	30

	Note	Group		Company	
		2009 Rm	2008 Rm	**2009 Rm**	2008 Rm
23. Deferred income					
Cross-border lease		**22**	44	**22**	44
Government grant		**4 439**	3 821	**4 439**	3 821
Capital contributions received from customers		**1 569**	1 317	**1 569**	1 317
		6 030	5 182	**6 030**	5 182
Maturity analysis		**6 030**	5 182	**6 030**	5 182
Non-current		**5 536**	4 913	**5 536**	4 913
Current		**494**	269	**494**	269
Reconciliation of movement					
Balance at beginning of the year		**5 182**	4 056	**5 182**	4 056
Additions and transfers		**1 173**	1 386	**1 173**	1 386
Income recognised		**(325)**	(260)	**(325)**	(260)
Balance at end of the year		**6 030**	5 182	**6 030**	5 182
The total income in profit or loss is disclosed in the following categories:					
Depreciation and amortisation expense	33	**(241)**	(199)	**(241)**	(199)
Other income	30	**(22)**	(24)	**(22)**	(24)
Other revenue		**(62)**	(37)	**(62)**	(37)
		(325)	(260)	**(325)**	(260)

Cross-border lease
The deferred income arises from benefits realised through cross-border lease transaction over certain generating plant (refer note 6). The present value of the lease and leaseback commitments was settled in full on commencement of the transaction and a profit resulted. The cross-border lease transaction was terminated on 15 April 2009 (refer note 43).

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 relating to the construction of electricity network assets are paid in advance by electricity customers.

Notes to the financial statements continued

for the year ended 31 March 2009

	Note	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
24. Retirement benefit obligations					
Post-retirement medical benefits	24.2	**6 238**	5 562	**6 103**	5 447
Gratuities	24.3	**7**	8	**–**	–
		6 245	5 570	**6 103**	5 447
Maturity analysis		**6 245**	5 570	**6 103**	5 447
Non-current		**6 061**	5 409	**5 919**	5 286
Current		**184**	161	**184**	161
The total charge in profit or loss is disclosed in the following categories:					
Pension benefits	24.1	**981**	873	**930**	809
Post-retirement medical benefits	24.2	**838**	536	**817**	527
Gratuities	24.3	**–**	3	**–**	–
		1 819	1 412	**1 747**	1 336
24.1 Pension benefits					
The amounts recognised in profit or loss are:					
Contributions	32	**981**	873	**930**	809
The total charge is included in *employee benefit expense* in profit or loss.					
The net benefit 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 IAS 19 *Employee benefits* basis on 31 March 2009 (previous valuation at 31 March 2008). The actuarial present value of retirement benefits at 31 March 2009 was R47 566 million (2008: R45 818 million), while the fair value of the fund's assets was R48 946 million (2008: R53 096 million).					
The principal actuarial assumptions used were:					
Long-term investment return before tax (%)		**8,8**	9,8	**8,8**	9,8
Future general salary increases (%)		**6,8**	7,5	**6,8**	7,5
Future pension increases (inflation) (%)		**5,3**	6,0	**5,3**	6,0
In-service mortality		**SA 56-62 composite plus allowance for HIV**	SA 56-62 composite plus allowance for HIV	**SA 56-62 composite plus allowance for HIV**	SA 56-62 composite plus allowance for HIV
Pensioner mortality		**PA (90) less 1 year**	PA (90) less 1 year	**PA (90) less 1 year**	PA (90) less 1 year

	Note	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
24.2 Post-retirement medical benefits					
The group has anticipated expenditure in terms of continued contributions to medical aid subscriptions in respect of employees who retire. The estimated present value of the anticipated expenditure for both in-service and retired members was calculated by independent actuaries.					
Present value of unfunded obligations		**6 238**	5 562	**6 103**	5 447
Unrecognised actuarial losses		**–**	–	**–**	–
Liability in the balance sheet		**6 238**	5 562	**6 103**	5 447
Movement in the liability					
Balance at beginning of the year		**5 562**	5 173	**5 447**	5 065
Total expense charged to profit or loss		**838**	536	**817**	527
Contributions paid		**(162)**	(147)	**(161)**	(145)
Balance at end of the year		**6 238**	5 562	**6 103**	5 447
The amounts recognised in profit or loss are:					
Current service cost		**265**	200	**244**	191
Finance cost		**518**	387	**518**	387
Net actuarial gain/(loss) recognised for the year		**55**	(51)	**55**	(51)
		838	536	**817**	527
The total charge is disclosed in profit or loss in the following categories:					
Employee benefit expense	32	**320**	149	**299**	140
Finance cost	37	**518**	387	**518**	387
		838	536	**817**	527
Refer note 4(b) for the sensitivity analysis and principal actuarial assumptions used.					
24.3 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 profit or loss are:					
Current service cost		**–**	3	**–**	–
The total charge is disclosed in profit or loss in the following category:					
Employee benefit expense	32	**–**	3	**–**	–
Movement in the liability					
Balance at beginning of the year		**8**	6	**–**	1
Total expense charged to profit or loss		**–**	3	**–**	–
Payments made		**(1)**	(1)	**–**	(1)
Balance at end of the year		**7**	8	**–**	–

Notes to the financial statements continued

for the year ended 31 March 2009

	Power station-related environmental restoration[1] Rm	Mine-related closure, pollution control and rehabilitation[2] Rm	Leave[3] Rm	Annual and performance bonus[4] Rm	Other[5] Rm	**Total 2009 Rm**	Total 2008 Rm
25. Provisions							
Group							
Balance at beginning of the year	**3 906**	**1 080**	**577**	**752**	**809**	**7 124**	7 286
Provision raised/(reversed) for the year	**1 859**	**332**	**259**	**1 120**	**(55)**	**3 515**	693
Finance cost	**813**	**151**	**–**	**–**	**–**	**964**	844
Expenditure incurred	**–**	**–**	**(131)**	**(749)**	**(342)**	**(1 222)**	(1 699)
Balance at end of the year	**6 578**	**1 563**	**705**	**1 123**	**412**	**10 381**	7 124
Maturity analysis	**6 578**	**1 563**	**705**	**1 123**	**412**	**10 381**	7 124
Non-current	**6 462**	**1 563**	**662**	**–**	**196**	**8 883**	5 607
Current	**116**	**–**	**43**	**1 123**	**216**	**1 498**	1 517
Company							
Balance beginning of the year	**3 906**	**1 080**	**544**	**693**	**493**	**6 716**	7 052
Provision raised/(reversed) for the year	**1 859**	**332**	**251**	**1 073**	**(18)**	**3 497**	464
Finance cost	**813**	**151**	**–**	**–**	**–**	**964**	844
Expenditure incurred	**–**	**–**	**(133)**	**(725)**	**(342)**	**(1 200)**	(1 644)
Balance at end of the year	**6 578**	**1 563**	**662**	**1 041**	**133**	**9 977**	6 716
Maturity analysis	**6 578**	**1 563**	**662**	**1 041**	**133**	**9 977**	6 716
Non-current	**6 462**	**1 563**	**662**	**–**	**44**	**8 731**	5 540
Current	**116**	**–**	**–**	**1 041**	**89**	**1 246**	1 176

1. *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 (refer note 4d).*
2. *Provision is made for the estimated cost of closure, pollution control, 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 (refer note 4d).*
3. *The group recognises a liability for occasional and service leave as the leave is of a long-term nature (refer note 4c).*
4. *The annual bonus equals one month's salary for employees on Tuned Assessment of Skills and Knowledge (TASK) grading levels 1 – 13. Employees on TASK grading levels 14 – 26 can choose to spread their bonus amount over the year or take it as a 13th cheque. The performance bonus is based on the performance of the company and employees.*
5. *Includes provision made for contractual obligations to maintain and restore the infrastructure under service concession arrangements, onerous contract and guarantees.*

		Group		Company	
		2009 Rm	2008 Rm	2009 Rm	2008 Rm
26.	**Finance lease liabilities**				
	Gross finance lease liabilities to subsidiaries	–	–	435	252
	Other gross finance lease liabilities	1 880	1 971	1 876	1 971
	Gross finance lease liabilities	1 880	1 971	2 311	2 223
	Future finance charges on finance leases	(1 328)	(1 423)	(1 505)	(1 509)
	Present value of finance lease liabilities	552	548	806	714
	Maturity analysis of gross lease liabilities				
	Due within one year	109	109	175	150
	Due between two and five years	405	398	619	523
	Due after five years	1 366	1 464	1 517	1 550
		1 880	1 971	2 311	2 223
	Future finance charges	(1 328)	(1 423)	(1 505)	(1 509)
		552	548	806	714
	Maturity analysis of net lease liabilities				
	Non-current	537	539	761	678
	Due between two and five years	36	81	167	102
	Due after five years	501	458	594	576
	Current				
	Due within one year	15	9	45	36
		552	548	806	714
	The finance lease liabilities are raised in terms of IFRIC 4 *Determining whether an arrangement contains a lease.*				
	Average implicit interest rate or incremental borrowing rate (%)	18	19	18	18
27.	**Trade and other payables**				
	Trade and other payables	13 985	7 775	14 370	7 934
	Accruals	3 253	2 317	2 246	1 778
	Deposits	929	807	929	807
		18 167	10 899	17 545	10 519
	Maturity analysis	18 167	10 899	17 545	10 519
	Non-current	1 466	676	1 297	676
	Current	16 701	10 223	16 248	9 843
	Non-current trade and other payables consist mainly of retentions payables that are payable after 12 months.				
28.	**Payments received in advance**				
	Upfront capital contributions	1 547	1 080	1 547	1 080
	Grant funding	471	135	471	135
	Other	167	113	99	66
		2 185	1 328	2 117	1 281
	Maturity analysis	2 185	1 328	2 117	1 281
	Non-current	714	328	714	281
	Current	1 471	1 000	1 403	1 000

Notes to the financial statements continued

for the year ended 31 March 2009

	Note	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
29. Revenue					
Electricity revenue		**52 996**	43 521	**52 996**	43 521
Other revenue, excluding electricity revenue		**830**	927	**94**	63
		53 826	44 448	**53 090**	43 584
30. Other income					
Insurance proceeds		**–**	3	**342**	292
Management fee income		**27**	33	**601**	472
Government grant		**149**	–	**149**	–
Deferred income	23	**22**	24	**22**	24
Net surplus on disposal of property, plant and equipment		**34**	74	**47**	75
Operating lease income		**86**	81	**91**	81
Dividend income		**52**	16	**30**	800
Sale of scrap		**80**	86	**80**	86
Rental income		**60**	98	**60**	98
Other income		**76**	–	**–**	–
		586	415	**1 422**	1 928
31. Net fair value loss on financial instruments, excluding embedded derivatives					
Gain on financial assets held-for-trading		**181**	541	**181**	496
Loss on financial assets held-for-trading		**(90)**	(166)	**(1)**	(166)
Gain on financial liabilities held-for-trading		**55**	73	**55**	73
Loss on financial liabilities held-for-trading		**(478)**	(399)	**(478)**	(399)
Net loss on financial liabilities measured at amortised cost		**(230)**	(237)	**(230)**	(237)
Change in fair value of derivatives held for risk management (economic hedges)		**(1 403)**	(496)	**(1 403)**	(496)
Ineffective portion of changes in fair value of cash flow hedges (transferred from statement of changes in equity)		**(405)**	–	**(405)**	–
		(2 370)	(684)	**(2 281)**	(729)
32. Employee benefit expense					
Salaries and other staff costs		**13 623**	10 120	**12 706**	9 419
Share-based payments		**–**	16	**–**	16
Pension benefits	24.1	**981**	873	**930**	809
Post-retirement medical aid benefits	24.2	**320**	149	**299**	140
Gratuities	24.3	**–**	3	**–**	–
Direct training and development		**242**	192	**222**	192
		15 166	11 353	**14 157**	10 576
Number of employees		**37 857**	35 404	**35 196**	32 954
33. Depreciation and amortisation expense					
Depreciation of property, plant and equipment	6	**5 008**	4 318	**4 847**	4 156
Amortisation of intangible assets	7	**149**	165	**139**	161
Deferred income recognised (government grant on electrification)	23	**(241)**	(199)	**(241)**	(199)
		4 916	4 284	**4 745**	4 118

	Note	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
34. Net impairment loss					
Impairment		1 219	507	1 244	453
Property, plant and equipment	6	155	10	155	7
Investment in equity-accounted investees	8	–	12	–	1
Inventory		18	2	16	2
Trade and other receivables (net of reversals)	3.1.2 (f)	1 046	483	1 073	443
Reversal		(6)	(61)	(5)	(13)
Property, plant and equipment	6	(6)	(43)	(5)	(4)
Finance lease receivables		–	(9)	–	–
Inventory	18	–	(7)	–	(7)
Housing and other loans		–	(2)	–	(2)
		1 213	446	1 239	440
35. Other operating expenses					
Managerial, technical and other fees		1 970	1 177	1 955	1 162
Research and development		207	71	207	167
Operating lease expense		149	118	145	110
Auditors' remuneration		57	52	44	40
Onerous contract		101	–	–	–
Loss/(profit) on disposal of shares		90	(86)	–	–
Repairs and maintenance, transport and other expenses		6 017	5 235	8 645	6 724
		8 591	6 567	10 996	8 203
36. Finance income[1]					
Held-to-maturity investments		45	211	45	211
Loans and receivables		2 161	1 306	2 074	1 206
Interest income		2 172	1 198	2 085	1 098
Exchange differences		(11)	108	(11)	108
Available-for-sale financial assets		1 061	1 383	941	1 246
Interest received from subsidiaries		–	–	159	123
Interest earned on finance lease receivables		103	33	103	25
		3 370	2 933	3 322	2 811
37. Finance cost					
Debt securities issued		3 696	3 587	3 673	3 587
Interest expense		3 677	3 584	3 654	3 584
Exchange differences		(107)	1 550	(107)	1 550
Cash flow hedges recycled from statement of changes in equity		126	(1 547)	126	(1 547)
Borrowings		1 846	532	1 839	439
Interest expense		1 860	208	1 858	115
Exchange differences		(68)	324	(73)	324
Subordinated loan from shareholder		22	–	22	–
Cash flow hedges recycled from statement of changes in equity		32	–	32	–
Borrowing costs capitalised to property, plant and equipment	6	(3 436)	(727)	(3 436)	(727)
Unwinding of discount on provisions		1 482	1 231	1 482	1 231
Post-retirement medical benefit	24.2	518	387	518	387
Provisions	25	964	844	964	844
Interest paid to subsidiaries		–	–	231	173
Interest paid on finance lease payables		96	98	123	112
		3 684	4 721	3 912	4 815

1. *Finance income includes preference dividends of R273 million (2008: R229 million) for both the group and the company.*

Notes to the financial statements continued

for the year ended 31 March 2009

	Note	Group 2009 Rm	Group 2008 Rm	Company 2009 Rm	Company 2008 Rm
38. Income tax					
Current tax		**208**	128	**–**	(70)
Current year		**223**	201	**–**	–
Over provision in prior years		**(15)**	(73)	**–**	(70)
Deferred tax	12	**(4 013)**	(728)	**(4 176)**	(679)
(Originating)/reversal of temporary differences		**(1 848)**	408	**(2 048)**	460
Tax losses		**(1 867)**	(942)	**(1 867)**	(942)
Change in tax rate		**–**	(272)	**–**	(271)
(Under)/over provision in prior years		**(298)**	78	**(261)**	74
Total income tax in profit or loss		**(3 805)**	(600)	**(4 176)**	(749)
Reconciliation of effective tax rate		**%**	%	**%**	%
Taxation as a percentage of profit before tax		**29,30**	269,05	**29,09**	134,42
Taxation effect of:					
Exempt income		**(0,93)**	(53,20)	**(0,63)**	(57,68)
Expenses not deductible for tax purposes		**1,95**	29,15	**1,44**	8,12
Controlled foreign operations income		**0,05**	0,09	**0,04**	3,33
Change in tax rate		**–**	(115,78)	**–**	(46,10)
Foreign tax rate differential		**–**	0,68	**–**	–
Discontinued operations		**–**	(71,86)	**–**	–
Prior year adjustment		**(2,34)**	3,80	**(1,86)**	1,13
Other		**(0,03)**	(32,93)	**(0,08)**	(14,22)
Standard tax rate		**28**	29	**28**	29
Deferred tax rate		**28**	28	**28**	28
39. Cash generated from operations					
Loss before tax		**(12 986)**	(223)	**(14 353)**	(558)
Adjustments for:		**20 523**	10 505	**21 356**	9 720
Depreciation and amortisation expense		**4 916**	4 284	**4 745**	4 118
Depreciation expense – primary energy		**14**	7	**14**	7
Net impairment loss		**1 213**	446	**1 239**	440
Net surplus on disposal of property, plant and equipment		**(34)**	(74)	**(47)**	(75)
Net loss/(surplus) on disposal of listed shares		**90**	(86)	**–**	–
Increase in provisions		**3 836**	843	**3 796**	603
Decrease in deferred income		**(84)**	(61)	**(84)**	(61)
Amortisation of future fuel		**270**	279	**270**	279
Other non-cash items		**(44)**	(40)	**–**	(11)
Finance income		**(3 370)**	(2 933)	**(3 322)**	(2 811)
Finance cost		**3 684**	4 721	**3 912**	4 815
Dividends received		**(52)**	(16)	**(30)**	(800)
Net fair value loss on financial instruments		**11 884**	2 364	**11 787**	2 415
Share of profit of equity-accounted investees		**(37)**	(30)	**–**	–
Non-current assets held-for-sale		**(839)**	–	**–**	–
Change in decommissioning interest rate		**(924)**	801	**(924)**	801
		7 537	10 282	**7 003**	9 162
Changes in working capital		**(2 404)**	(4 382)	**(1 619)**	(3 588)
(Increase)/decrease in inventories		**(2 408)**	64	**(2 564)**	227
Increase in trade and other receivables		**(3 804)**	(1 153)	**(2 814)**	(1 207)
Increase in payments made in advance		**(1 911)**	(3 659)	**(1 890)**	(3 673)
Increase in trade and other payables		**6 248**	1 733	**6 174**	2 388
Expenditure incurred on provisions		**(1 386)**	(1 844)	**(1 361)**	(1 789)
Increase in payments received in advance		**857**	477	**836**	466
		5 133	5 900	**5 384**	5 574

	Group		Company	
	2009 Rm	2008 Rm	**2009 Rm**	2008 Rm

40. Guarantees and contingent liabilities

Eskom issues guarantees for strategic and business purposes to facilitate other business transactions.

40.1 Financial guarantees

(a) Long-term debt raised by Motraco

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. At 31 March 2009 the outstanding amount was USD32 million (2008: USD38 million), which translates into R304 million (2008: R309 million). The loans of USD4 million and USD28 million mature on 30 September 2009 and 6 September 2019 respectively. The guarantees would be triggered if Motraco was 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.

The risk adjusted credit exposure of Motraco is calculated by applying a rating agency's annual default probabilities. Applying the default probability of 0,26% (2008: 0,23%), the combined financial liability in respect of these guarantees is calculated as R1 million at 31 March 2009 (2008: R1 million). This amount has been raised as a provision in the current year, and is included in *other provisions* (refer note 25).

The default probability trend into the future is seen to be positive, and changes in variables will not have a significant impact on profit or loss.

No payments have been made in terms of these guarantees since their inception in 1999.

The unprovided portion, disclosed as a contingent liability amounted to	**303**	308	**303**	308

(b) Letters of credit for the cross-border lease transactions

Eskom has provided collateral security in the form of letters of credit from banks in respect of the cross-border lease transaction (refer 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 transaction 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 transaction, in favour of all parties to whom the company has such obligations in terms of the lease and leaseback operative documents.

In terms of the cross-border lease, Eskom's potential liability of USD283 million (2008: USD283 million) has been fully collateralised, with USD419 million (2008: USD419 million) having been deposited with the providers of letters of credit.

At 31 March 2009 the amount guaranteed was USD190 million (2008: USD240 million) which, at the year end exchange rate, translates to	**1 803**	1 951	**1 803**	1 951

The cross-border lease agreement was terminated on 15 April 2009 (refer note 43).

Notes to the financial statements continued

for the year ended 31 March 2009

	Group		Company	
	2009 Rm	2008 Rm	**2009 Rm**	2008 Rm
40. Guarantees and contingent liabilities *(continued)*				
40.1 Financial guarantees *(continued)*				
(c) EFC loans to Eskom group employees				
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 2009 the guaranteed amounts were R161 million (2008: R125 million) for the group and R150 million (2008: R114 million) for the company, issued to EFC.				
Historically EFC has absorbed any losses incurred, and has not called up any guarantee payments. Eskom's guarantee exposure is therefore 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 13% of the loan book) is calculated at 26% (2008: 26%), while the secured portion of the loan book (87% of the loan book) is calculated at 0,52% (2008: 0,52%). Applying the combined default probability, the financial liability in respect of this guarantee is calculated for the company at R2 million at 31 March 2009 (2008: R6 million). This amount has been raised as a provision in Eskom in the current year, and is included in *other provisions* (refer note 25).				
Changes in variables will not have a significant impact on profit or loss.				
The unprovided portion, disclosed as a contingent liability amounted to	**–**	–	**148**	108
Summary of financial guarantees				
Unprovided portion	**2 106**	2 259	**2 254**	2 367
Amounts provided in other provisions	**1**	1	**3**	7
Total financial guarantees	**2 107**	2 260	**2 257**	2 374
40.2 Other guarantees				
(a) Guarantees to SARS for customs duty				
Customs duty and import VAT are normally due upon declaration of imported goods at the port of entry (harbour or airport). The South African Revenue Services (SARS) allows Eskom up to a maximum of 37 days after declaration date before the customs duty and import VAT must be settled on the deferment account. SARS requires Eskom to provide a bank guarantee to secure the debt when it becomes due.				
All conditions of the deferral of the customs duty and import VAT have been met. The total amount disclosed as a contingent liability amounted to	**183**	–	**183**	–
(b) Eskom Pension and Provident Fund				
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	
	2009 Rm	2008 Rm	**2009 Rm**	2008 Rm
(c) Eskom Enterprises performance bonds				
Eskom Enterprises (Pty) Limited has performance bonds totalling R54 million (2008: R54 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 one of the contracts should meet the project deliverables. As a result of this contractual dispute, the R35 million (2008: R33 million) performance bond for this contract has 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* (refer note 25).				
Eskom Enterprises (Pty) Limited has not been required to make any previous performance bond payments.				
The total amount disclosed as a contingent liability amounted to	**19**	21	**–**	–
(d) Conflict of interest guarantee				
A subsidiary of Eskom Enterprises (Pty) Limited issued a conflict of interest guarantee to a customer, that restricts Eskom Enterprises from trading outside a specific area in Mali. There is currently no possibility of Eskom Enterprises trading outside the specified area.				
The total amount disclosed as a contingent liability amounted to	**65**	63	**–**	–
(e) Rental guarantees				
Some Eskom Enterprises group companies issued rental guarantees to various property owners to guarantee the rental on the properties they occupy. The guarantees have various dates of expiry.				
The total amount disclosed as a contingent liability amounted to	**10**	8	**–**	–
40.3 Other contingent liabilities				
(a) Legal claims				
Legal claims are in process against Eskom as a result of contractual disputes with various parties. On the basis of the evidence available it appears that no obligation is present. The claims are therefore disclosed as a contingent liability and amounted to	**434**	95	**434**	95
Eskom entered into arbitration during the year relating to the rehabilitation and closure cost at the closed Kilbarchan colliery.				
(b) Pledges				
South Dunes Coal Terminal (Pty) Limited 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) Limited Throughput Agreement Rights and Entitlement and certain other accounts are pledged as security for the loan. The unused loan facility, disclosed as a contingent liability, amounts to	**50**	235	**–**	–

Notes to the financial statements continued

for the year ended 31 March 2009

	Group		Company	
	2009 Rm	2008 Rm	**2009 Rm**	2008 Rm
41. Commitments				
41.1 Capital expenditure				
Estimated capital expenditure	**213 805**	260 890	**211 181**	258 482
Contracted	**99 446**	91 248	**98 990**	91 008
Approved, not yet contracted for	**114 359**	169 642	**112 191**	167 474
The expenditure is expected to be incurred as follows:	**213 805**	260 890	**211 181**	258 482
Due within one year	**76 101**	39 195	**75 404**	38 716
Due between two and five years	**135 324**	172 324	**133 397**	170 395
Due after five years	**2 380**	49 371	**2 380**	49 371
This expenditure will be financed from shareholder support, debt (refer to funding strategy on page 38 for further information) and internally generated funds.				
41.2 Operating leases				
Group as lessee				
The future minimum lease payments payable under non-cancellable operating leases are:	**127**	166	**111**	153
Due within one year	**70**	88	**60**	81
Due between two and five years	**57**	73	**51**	67
Due after five years	**–**	5	**–**	5
Group as lessor				
The future minimum lease payments receivable under non-cancellable operating leases are:	**1 004**	510	**1 004**	510
Due within one year	**88**	50	**88**	50
Due between two and five years	**317**	188	**317**	188
Due after five years	**599**	272	**599**	272
41.3 Supply of water				
Eskom has entered into long-term agreements with the Department of Water Affairs and Forestry to reimburse the department for the cost incurred in supplying water to Eskom. This cost is regarded as part of *primary energy* in profit or loss.				
41.4 Coal				
Eskom has entered into long-term agreements with suppliers for coal purchases. The annual cost of coal is regarded as part of *primary energy* in profit or loss.				

42. Related-party transactions

The group is 100% controlled by its shareholder, the government, represented by the Department of Public Enterprises.

Eskom (and its subsidiaries) constitutes 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 2008.

In addition, related parties comprise associates and joint ventures of the group and post-retirement benefit plans for the benefit of employees.

		Group		Company	
		2009 Rm	2008 Rm	2009 Rm	2008 Rm
	The following transactions were carried out with related parties:				
42.1	**Sales of goods and services**				
	Shareholder, including government departments	349	340	252	204
	State-owned enterprises in the national government sphere	1 144	1 022	1 081	1 012
	Eskom subsidiaries	–	–	1 034	1 619
	Eskom associates	3	4	3	4
	Joint ventures in which Eskom is a partner	1 093	884	1 093	884
		2 589	2 250	3 463	3 723
	Goods and services are sold to related parties on an arm's length basis at market-related prices.				
42.2	**Government grant funding for electrification**				
	Department of Minerals and Energy	1 027	899	1 027	899
42.3	**Purchases of goods and services**				
	Shareholder, including government departments	469	480	468	434
	State-owned enterprises in the national government sphere	306	303	303	271
	Eskom subsidiaries	–	–	9 144	5 546
	Eskom Pension and Provident Fund (contributions)	981	873	930	809
		1 756	1 656	10 845	7 060
	Goods and services are bought from related parties on an arm's length basis at market-related prices.				
42.4	**Sale of property**				
	State-owned enterprises in the national government sphere	–	417	–	–
	Assets are sold to related parties on an arm's length basis at market-related prices.				
42.5	**Finance income**				
	Shareholder, including government departments	141	16	141	1
	State-owned enterprises in the national government sphere	–	1	–	1
	Eskom subsidiaries	–	–	159	123
		141	17	300	125
42.6	**Finance cost**				
	Shareholder, including government departments	1 011	90	1 011	29
	Eskom subsidiaries	–	–	231	173
		1 011	90	1 242	202
42.7	**Lease income**				
	State-owned enterprises in the national government sphere	37	34	37	34
	Eskom subsidiaries	–	–	5	9
		37	34	42	43
42.8	**Lease expenses**				
	Eskom subsidiaries	–	–	1	–
42.9	**Finance lease finance cost**				
	Eskom subsidiaries	–	–	27	14
42.10	**Receivables and amounts owed by related parties**				
	Shareholder, including government departments	1 835	54	1 814	32
	State-owned enterprises in the national government sphere	162	84	107	72
	Eskom subsidiaries	–	–	1 973	1 187
	Joint ventures in which Eskom is a partner	383	240	383	240
		2 380	378	4 277	1 531
42.11	**Allowance for impairment losses**				
	Shareholder, including government departments	164	60	164	60
	State-owned enterprises in the national government sphere	2	–	–	–
	Joint ventures in which Eskom is a partner	288	101	288	101
		454	161	452	161

Notes to the financial statements continued

for the year ended 31 March 2009

	Group		Company	
	2009 Rm	2008 Rm	2009 Rm	2008 Rm
42. Related-party transactions *(continued)*				
42.12 Guarantees				
Shareholder, including government departments	175 970	–	175 970	–
State-owned enterprises in the national government sphere	5	5	5	5
	175 975	5	175 975	5
The shareholder guarantee facility is in support of Eskom's capital expansion programme as announced in the government 2009 Budget speech.				
The guarantees from state-owned enterprises are for future or unpaid electricity consumption accounts.				
42.13 Payables and amounts owed to related parties				
Shareholder, including government departments	23 687	858	23 687	858
Borrowings	13 687	858	13 687	858
Subordinated loan from shareholder	10 000	–	10 000	–
State-owned enterprises in the national government sphere	749	385	749	385
Eskom subsidiaries	–	–	3 596	3 245
Eskom Pension and Provident Fund	–	32	–	–
	24 436	1 275	28 032	4 488
Purchase transactions with related parties are at an arm's length basis with payment terms of 30 days from invoice date.				
42.14 Payments made in advance				
Eskom subsidiaries	–	–	4	–
42.15 Indirect transactions – balance sheet assets at nominal value				
Eskom subsidiaries	–	–	539	539
Government bonds	1 873	1 424	1 873	1 424
	1 873	1 424	2 412	1 963
Interest payable on financial market instruments is in accordance with normal market practice.				
42.16 Indirect transactions – balance sheet liabilities at nominal value				
Short-sold government bonds	468	140	468	140
42.17 Loans to subsidiaries				
Eskom subsidiaries	–	–	1 853	1 849

43. Events after the balance sheet date

Cancellation of the cross-border lease transaction

The cross-border lease transaction referred to under note 6 on page 166 between Eskom and Edison Capital was terminated on 15 April 2009. Eskom has thereby been released from all the financial and operating obligations which arose due to this agreement. The remaining amount of R22 million under deferred income per note 23 on page 193 will be reflected in profit or loss in the 2010 financial year. At the date of termination, the servitude which Edison Capital could exercise over Majuba unit 1, 2 and 3 (in the event of an Eskom default) was cancelled. Eskom is in the process of cancelling the deed of servitude so that no claim can be made over these units.

Pursuant to the termination of the cross-border lease transaction, the financial assets linked to the collateral for the letters of credit (LCs) as stated in note 13 on page 181 is being negotiated for termination in stages with the issuing banks, depending on the maturity of the underlying structures. The first portion of R905 million matured and was returned to Eskom on 5 June 2009. The unwinding of the remaining assets linked to the LCs is being negotiated.

Electricity tariff increase

On 25 June 2009 Nersa announced an interim increase in the electricity price of 31,3% for the period 1 July 2009 to 31 March 2010. The effective price increase for Eskom is 24,1% as the total increase includes the 2c/kWh environmental levy on the sale of electricity generated from non-renewable sources as announced in the 2008 Budget speech. The levy resulted in an additional 7,2% that has to be recovered in the electricity price effective from 1 July 2009. Based on the Nersa ruling the price increase to poor residential customers is limited to 15%. The revaluation of assets and depreciation will be considered in the multi-year price determination 2 (MYPD 2) in line with the Electricity pricing policy[1].

The fair value of embedded derivatives at 31 March 2009 was calculated based on the Nersa announcement of 25 June 2009 as well as the principles established in the previous determination of 18 June 2008. The forward electricity price curve used to value the embedded derivatives was the applicable tariff determined by Nersa for the 2010 financial year, 25% plus CPI for the next two years and CPI thereafter.

1. *Policy position 1 of the South African Electricity Supply Industry: Electricity Pricing Policy GN 1398 of 19 December 2008.*

44. Restatement of comparatives

New and revised standards and interpretations

The following new and revised standards and interpretations were implemented during the financial year, but had no impact on the financial statements:

- IFRIC 14 and IAS 19 *The limit of a defined benefit asset, minimum funding requirements and their interaction*
- IAS 39 *Financial instruments: Recognition and measurement* and IFRS 7 *Financial instruments: Disclosures*

During the current year, the group adopted IFRIC 12 *Service concessions*, which is effective for periods beginning on or after 1 January 2008. The statement covers the treatment of service concessions, as defined, being those in which the grantor (usually a public entity) controls or regulates the service provided by the operator, by determining which services must be provided to whom and at what price. In addition, the grantor controls the residual interest in the infrastructure at the end of the concession period. IFRIC 12 requires retrospective application.

As a result of the adoption of IFRIC 12, property, plant and equipment accounted for by Eskom Uganda and Eskom Energie Manantali was reclassified as an intangible asset, with the associated depreciation being reclassified as amortisation. A provision for refurbishment was recognised at year end, relating to expenditure to be incurred during the next financial year. No provision was required at the previous year end or the beginning of the comparative period. Refer note 19 for further information on the service concession arrangements.

Change in measurement basis of embedded derivatives

Eskom makes use of a valuation technique in terms of IFRS to determine the fair value of commodity linked embedded derivative contracts taking into account the inputs for aluminium prices, exchange rates, interest rates, production price indices and electricity tariffs. Due to recent clarity emerging regarding the fair value of financial instruments, particularly as a result of the global economic crisis, Eskom decided to review the methodology used in arriving at the fair value of its embedded derivatives. The review resulted in the identification of additional risk adjustments that were necessary to reflect the appropriate risk premium that market participants would factor into the valuation because of the uncertainty inherent in the future cash flows of the embedded derivatives. Factors considered included liquidity, model risk and other economic factors. Since these additional risk adjustments are relevant to the determination of fair value in prior years and given the size of the adjustments related to prior years, the prior year financial statements have been restated.

The effect of the restatement of comparative figures to comply with the new interpretation on service concession arrangements, the change in the measurement basis of embedded derivatives and the reclassification of other line items on the balance sheets, the income statements, statements of changes in equity and the cash flow statements is indicated below.

	Group			Company		
	Previously reported Rm	Adjust-ments Rm	Restated Rm	Previously reported Rm	Adjust-ments Rm	Restated Rm
Balance sheets at 31 March 2008						
Assets						
Non-current assets						
Property, plant and equipment	96 418	(49)	96 369	95 792	–	95 792
Intangible assets	470	49	519	457	–	457
Deferred tax assets	6	2	8	–	–	–
Embedded derivative assets	10 447	(4 178)	6 269	10 447	(4 178)	6 269
Payments made in advance[1]	–	2 494	2 494	–	2 435	2 435
Current assets						
Financial instruments with group companies[1]	–	–	–	530	539	1 069
Embedded derivative assets	2 266	(833)	1 433	2 260	(833)	1 427
Deferred tax assets	2	(2)	–	–	–	–
Investment in securities[1]	9 137	–	9 137	8 379	(539)	7 840
Payments made in advance[1]	4 256	(2 494)	1 762	4 197	(2 435)	1 762
Equity						
Capital and reserves attributable to equity holder of the company	64 532	(3 609)	60 923	62 330	(3 609)	58 721
Liabilities						
Non-current liabilities						
Embedded derivative liabilities	5 077	–	5 077	5 077	–	5 077
Deferred tax liabilities	8 479	1 750	10 229	8 322	1 898	10 220
Payments received in advance[1]	–	328	328	–	281	281
Current liabilities						
Financial instruments with group companies[1]	–	–	–	1 300	549	1 849
Embedded derivative liabilities	7	–	7	7	–	7
Deferred tax liabilities	3 152	(3 152)	–	3 300	(3 300)	–
Payments received in advance[1]	1 328	(328)	1 000	1 281	(281)	1 000
Borrowings[1]	6 920	–	6 920	7 465	(549)	6 916

1. *Reclassification.*

Notes to the financial statements continued

for the year ended 31 March 2009

	Group			Company		
	Previously reported Rm	Adjustments Rm	Restated Rm	Previously reported Rm	Adjustments Rm	Restated Rm
44. Restatement of comparatives *(continued)*						
Income statements for the year ended 31 March 2008						
Continuing operations						
Revenue	44 448	–	44 448	43 584	–	43 584
Other income	231	184	415	1 744	184	1 928
Net fair loss on financial instruments, excluding embedded derivatives	(684)	–	(684)	(729)	–	(729)
Primary energy	(18 314)	–	(18 314)	(18 314)	–	(18 314)
Employee benefit expense	(11 353)	–	(11 353)	(10 576)	–	(10 576)
Depreciation and amortisation	(4 284)	–	(4 284)	(4 118)	–	(4 118)
Depreciation	(4 320)	2	(4 318)	(4 156)	–	(4 156)
Amortisation	(163)	(2)	(165)	(161)	–	(161)
Deferred income recognised	199	–	199	199	–	199
Net impairment loss	(446)	–	(446)	(440)	–	(440)
Other operating expenses	(6 383)	(184)	(6 567)	(8 019)	(184)	(8 203)
Operating profit before net fair value loss on embedded derivatives and net finance cost	3 215	–	3 215	3 132	–	3 132
Net fair value loss on embedded derivatives	(143)	(1 537)	(1 680)	(149)	(1 537)	(1 686)
Operating profit before net finance cost	3 072	(1 537)	1 535	2 983	(1 537)	1 446
Net finance cost	(1 788)	–	(1 788)	(2 004)	–	(2 004)
Finance income	2 933	–	2 933	2 811	–	2 811
Finance cost	(4 721)	–	(4 721)	(4 815)	–	(4 815)
Share of profit of equity-accounted investees	30	–	30	–	–	–
Profit/(loss) before tax	1 314	(1 537)	(223)	979	(1 537)	(558)
Income tax expense	205	395	600	354	395	749
Profit/(loss) for the year from continuing operations	1 519	(1 142)	377	1 333	(1 142)	191
Discontinued operations						
Loss for the year from discontinued operations	(545)	–	(545)	–	–	–
Profit/(loss) for the year	974	(1 142)	(168)	1 333	(1 142)	191
Statements of changes in equity						
Balance at 1 April 2007	58 357	(2 467)	55 890	55 581	(2 467)	53 114
Restatement of opening balance	6 381	(1 142)	5 239	6 749	(1 142)	5 607
Profit/(loss) for the year	974	(1 537)	(563)	1 333	(1 537)	(204)
Effect of deferred tax thereon	–	395	395	–	395	395
Other movements	5 407	–	5 407	5 416	–	5 416
Restated opening balance	64 738	(3 609)	61 129	62 330	(3 609)	58 721
Cash flow statements for the year ended 31 March 2008						
Cash flows from operating activities						
Cash generated from operations	7 371	(1 471)	5 900	6 960	(1 386)	5 574
Net cash flows from financial trading assets	1 204	85	1 289	1 204	–	1 204
Net cash flows from derivative instruments	(347)	(8 181)	(8 528)	(347)	(8 181)	(8 528)
Cash flows from investing activities						
Acquisitions of property, plant and equipment	(24 037)	14	(24 023)	(23 891)	53	(23 838)
Expenditure on intangible assets	(221)	(8)	(229)	(208)	–	(208)
Increase in deferred income	–	1 386	1 386	–	1 386	1 386
Loans granted to related parties – subsidiaries	–	–	–	216	(216)	–
Cash flows from financing activities						
(Decrease)/increase in finance lease liabilities	(2)	(6)	(8)	30	(53)	(23)
Increase in amounts owing to subsidiaries	–	–	–	480	(480)	–
Net cash flows from financial instruments with group companies	–	–	–	–	696	696
Net cash flows from derivative instruments	–	8 181	8 181	–	8 181	8 181

45. 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 local 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.

The executive remuneration strategy is constantly reviewed to stay abreast of best practises.

Remuneration committee

The human resources and remuneration 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 page 220.

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 and remuneration committee are forwarded to the board. The board then makes recommendations to the shareholder.

As from December 2006 non-executive directors fees changed from an honorarium to a fixed monthly fee following a review under guidelines issued by the shareholder. In addition to the fees, directors are reimbursed for out-of pocket expenses incurred in fulfilling their duties.

Executive management committee (Exco) members

The committee makes recommendations to the board concerning the remuneration of the chief executive, and approves the remuneration of the other Exco members. The remuneration 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 Exco members 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 and remuneration 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, chief operating officers and 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 Exco members 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 and compulsory benefits (medical aid, life cover and pension). The guaranteed amount is increased annually to keep remuneration in line with the market.

Short-term incentives

These reward the achievement of individual predetermined performance objectives and targets as set by the chief executive in performance contracts with each Exco member. The human resources and remuneration committee approves the targets set for the chief executive.

The short-term incentive scheme is calculated as a percentage of pensionable earnings.

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1. *Includes remuneration of Exco members (chief executive, finance director, chief operating officers and managing directors) who are senior executives and not directors of Eskom.*

Notes to the financial statements continued

for the year ended 31 March 2009

45. Directors' remuneration *(continued)*

Long-term incentives

These are designed to attract, retain and reward the Exco members for meeting the organisational objectives set by the shareholder. A market-benchmarked long-term incentive and deferred bonus scheme have been approved effective from 1 April 2005. The shareholder has approved certain modifications to the long-term incentive scheme as it has become evident that the electricity price increases are a material factor driving the shareholder value of Eskom, and the board deemed it inappropriate. The conditions governing the vesting of the performance shares and the other scheme parameters remain appropriate. The shareholder has further approved that the plan remain in operation, but that the value of the outstanding performance shares be decoupled from the Eskom shareholder value and that the value of all outstanding and future performance shares be deemed to be R1 per share at grant date. This will be applicable to both the long-term incentive scheme and the deferred bonus plan. The share value escalates at a money-market rate.

Long-term incentive scheme

A number of notional performance shares (award performance shares) were awarded to the Exco members on 1 April 2005, 2006, 2007 and 2008. The awards for 2006 and 2007 were based on the fair value at grant date. The number of outstanding performance and deferred bonus shares have been decreased to offset the increase in value at grant 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 ensuring business sustainability of Eskom, ensuring reliability of supply to all South Africans, ensuring that future power needs for South Africa are adequately provided for and supporting the developmental objectives of South Africa, 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 0% 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 lost time incident rate is greater than 0,45
- the sustainability committee gives an unfavourable safety report
- Eskom's audited annual financial statements show a financial loss
- the auditors qualify Eskom's annual financial statements
- a significant PFMA contravention occurs
- enhancement of Eskom's reputation

The vesting period for award performance shares is three years from the date of grant. At the end of that period, the human resource and remuneration 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 grant value, escalated at a money market rate

In addition to the performance conditions, vesting of award performance shares is dependent on the scheme participant remaining in Eskom's employment throughout the vesting period. The award lapses if employment ceases during the vesting period (other than for permitted reasons).

Deferred bonus scheme

Eskom offered bonus shares to the Exco members. Participants had the right to accept a certain number of bonus shares as a percentage of their annual bonus after tax. Eskom determined the value of the bonus shares at R1 escalated at a money market rate over 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.

Share awards – vested

Award performance shares awarded on 1 April 2006 vested on 31 March 2009 with an expected vesting rate, due to achievement of non-financial performance conditions over the three year period of 39,33%. The cash value of the vested shares is payable in June 2009 at R1,35 per share based on the money market rate. However, the board exercised its discretion regarding the gatekeeper conditions and deferred the vesting in respect of the 2006 awards.

Deferred bonus shares taken up at 1 April 2006 have become fully vested and have qualified for the one for one share match on 31 March 2009 in terms of the scheme. These shares are valued at R1,35 per share. The remuneration value of the bonus shares therefore comprise R0,35 per share (related to the interest earned at a money market rate) plus R1,35 per share related to the matching share. However, the board exercised its discretion regarding the gatekeeper conditions and deferred the vesting in respect of the 2006 bonus awards.

Share awards – vested *(continued)*

Shares vesting on 31 March 2009 are:

Name	Award performance shares vesting on 31 March 2009 Number[1]	Award performance shares vested on 31 March 2009 at a rate of 0% Number[2]	Award performance shares payable at R1,35 per share R	Deferred bonus shares vested on 31 March 2009 Number[1,3]	Deferred bonus shares R[2]
BA Dames	1 423 800	–	–	–	–
SJ Lennon	1 478 054	–	–	126 319	–
PJ Maroga	1 572 567	–	–	130 610	–
Other[4]	8 004 450	–	–	630 886	–

Share awards – vesting

Current estimated vesting values of the award performance shares are R1,33 per share for the 1 April 2007 awards (vesting 31 March 2010) and R1,27 per share for the 1 April 2008 awards (vesting 31 March 2011). The value of the performance shares allocated does not take the impact of performance conditions over the applicable three-year performance periods into account. The respective values estimated for the 2007 and 2008 bonus shares are R1,33 and R1,27 per share respectively.

Shares awarded on 1 April 2008 are:

Name	Outstanding award performance shares vesting on 31 March 2011 Number[1]	Award performance shares vesting on 31 March 2011 at a rate of 50,00% Number	Award performance shares payable in June 2011 at R1,27 per share R	Deferred bonus shares vesting on 31 March 2011 Number[3]	Deferred bonus shares payable in June 2011 R
BA Dames	2 122 050	1 061 025	1 347 502	–	–
EL Johnson	1 642 200	821 100	1 042 797	–	–
SJ Lennon	1 715 834	857 917	1 089 554	–	–
PJ Maroga	4 037 110	2 018 555	2 563 565	–	–
Other[4]	16 131 838	8 065 919	10 243 717	–	–

Shares awarded on 1 April 2007 are:

Name	Outstanding award performance shares vesting on 31 March 2010 Number[1]	Award performance shares vesting on 31 March 2010 at a rate of 39,73% Number	Award performance shares payable in June 2010 at R1,33 per share R	Deferred bonus shares vesting on 31 March 2010 Number[1,3]	Deferred bonus shares payable in June 2010 R
BA Dames	1 974 000	784 270	1 043 079	–	–
SJ Lennon	1 599 845	635 618	845 372	–	–
PJ Maroga	2 940 000	1 168 062	1 553 522	–	–
Other[4]	11 618 255	4 615 933	6 139 191	304 693	505 790

The long-term incentive and deferred bonus schemes were recognised in previous years as share-based payments in terms of IFRS 2 *Share-based payment,* because the value of the payment was based on the fair value of Eskom Holdings Limited. They are now recognised under IAS 19 *Employee benefits* as long-term employee benefits as the value is no longer linked to the shareholder value of Eskom.

The value of the performance shares is deemed to be R1 at grant date, and is escalated at a money-market rate to determine the value at reporting date.

Shares awarded on 1 April 2005 and redeemed during the year are:

Name	Award performance shares redeemed in June 2008 R	Deferred bonus shares redeemed in June 2008 R	Total R
BA Dames	666 338	61 789	728 127
SJ Lennon	640 490	249 080	889 570
ME Letlape	605 220	210 000	815 220
PJ Maroga	681 446	–	681 446
B Nqwababa	678 941	–	678 941
Other[4]	3 887 423	907 496	4 794 919
	7 159 858	1 428 365	8 588 223

1. *Award performance and deferred bonus shares adjusted due to change in performance share value (refer to reconciliation of performance share movements).*
2. *Board deferred the vesting of the 2006 awards.*
3. *Number of shares purchased by the individual as an investment in the deferred bonus scheme.*
4. *Relates to non-Exco members and senior general managers.*

Notes to the financial statements continued

for the year ended 31 March 2009

45. Directors' remuneration *(continued)*

Share awards – vesting *(continued)*

The details of the schemes are:

	Long-term incentive plan	Deferred bonus plan	Long-term incentive plan	Deferred bonus plan
Date of grant	1 April 2008	1 April 2008	1 April 2007	1 April 2007
Number granted	25 649 031	–	30 623 763	435 084
Contractual life	3 years	3 years	3 years	3 years
Vesting conditions	Variable vesting depending on the achievement of performance conditions	Three-year service period	Variable vesting depending on the achievement of performance conditions	Three-year service period
Method of settlement	Cash	Cash	Cash	Cash
Expected attrition of employee (%)	–	–	–	–
Expected outcome of performance conditions (%)	50,00	Not applicable	39,73	Not applicable

Reconciliation of performance share movements

	2009 Number	2009 Number	2008 Number	2008 Number
Outstanding at beginning of year	74 345 360	2 441 158	55 964 972	2 288 366
Granted during the year	25 649 031	–	30 623 763	435 084
Forfeited during the year	(12 956 274)	(162 067)	–	–
Settled during the year	(15 298 866)	(1 020 259)	(12 243 375)	(282 292)
Expired during the year	–	–	–	–
Adjustment due to change in share value	(15 479 249)	(681 004)	–	–
Adjustment to deferred bonus plan shares	–	614 680	–	–
Outstanding at end of year	56 260 002	1 192 508	74 345 360	2 441 158
Carrying amount of liability (R000)	16 979	1 816	21 544	2 874
Intrinsic value of liabilities relating to vested rights (R000)	16 979	1 816	21 544	2 874

The directors' emoluments for the year are:

Name	Salaries/ fees R000	Short-term bonus payment[1] R000	Other payments R000	Total 2009 R000	Total 2008 R000
Non-executive directors					
R Godsell[2]	740	–	–	740	–
VM Moosa[3]	350	–	–	350	1 069
M Bello[4]	133	–	–	133	398
LC Cele	478	–	–	478	478
BM Count[4]	166	–	–	166	477
D Dube[5]	282	–	–	282	–
LG Josefsson	582	–	–	582	507
HB Lee[5]	221	–	–	221	–
WB Lucas-Bull	449	–	–	449	449
PM Makwana	478	–	–	478	478
E Marshall[6]	199	–	–	199	398
J Mirenge[5]	302	–	–	302	–
JR Modise	495	–	–	495	495
V Mohanlal Rowjee[4]	133	–	–	133	398
AJ Morgan	535	–	–	535	535
SA Mpambani[4]	142	–	–	142	427
U Nene	449	–	–	449	449
Executive directors					
TS Gcabashe[7]	–	–	–	–	7 762
PJ Maroga	4 960	–	–	4 960	3 914
B Nqwababa[8]	2 168	–	–	2 168	3 268
Total directors	13 262	–	–	13 262	21 502

The directors' emoluments for the year are: (continued)

Name	Salaries/ fees R000	Short-term bonus payment[1] R000	Other payments R000	Total 2009 R000	Total 2008 R000
Exco members					
BA Dames[9]	2 979	–	–	2 979	2 947
EL Johnson[10]	2 535	–	–	2 535	2 004
SJ Lennon	2 139	–	–	2 139	2 324
ME Letlape[11]	1 471	–	–	1 471	2 171
PD Mbonyana[12]	–	–	–	–	3 719
Total Exco members	9 124	–	–	9 124	13 165
Housing loans to Exco members					
BA Dames				3 287	3 316
TS Gcabashe[7]				–	1 454
EL Johnson				883	1 050
PJ Maroga				3 009	3 069
PD Mbonyana[12]				–	898
B Nqwababa[8]				–	3 274
				7 179	13 061

The interest rate loan from Eskom Finance Company (Pty) Limited at 31 March 2009 was 12,0% (31 March 2008: 12,5%). The loans are repayable over a maximum period of 30 years.[13]

The following board and Exco members were directors of Eskom directly held subsidiary companies. Fees paid for attendance of meetings were all paid to Eskom Holdings.

Eskom Enterprises (Pty) Limited[14]		
BA Dames	–	–
SJ Lennon	–	–
B Nqwababa[8]	–	–
Eskom Finance Company (Pty) Limited[15]		
B Nqwababa	10	25
Escap Limited[15]		
B Nqwababa[8]	27	34

1. *The board deferred allocation in respect of the short-term incentives.*
2. *Appointed as chairman of the board on 17 July 2008.*
3. *Conclusion of contract on 17 July 2008.*
4. *Resigned from the board effective 17 July 2008.*
5. *Appointed to the board on 17 July 2008.*
6. *Deceased September 2008.*
7. *Chief executive contract expired 31 December 2007. Resigned from Exco and board.*
8. *Resigned from Eskom and board on 31 December 2008.*
9. *Appointed as Chief officer Generation on 1 February 2008.*
10. *Appointed as Chief officer Networks and customer service on 1 February 2008.*
11. *Resigned from Eskom effective 31 December 2008.*
12. *Retired from Eskom on 31 August 2007.*
13. *On resignation the terms and conditions of the loan are renegotiated.*
14. *Paid by Eskom.*
15. *Fees paid to Eskom.*

Corporate governance and tables

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Live-line workers – a breed apart

Eskom has a very special team that works hard to keep the electricity supply running – this is the live-line team, a handful of highly specialised people that work day and night to fix problems on our major power lines.

The main reason that this team is so specialised is that they can do repairs or maintenance on live power lines – with voltages up to 765 000 volts coursing through them.

The team uses helicopters if the area is difficult to reach, with the workers suspended from the helicopters and then lowered onto the lines. Alternatively they have to climb the towers to work on the lines.

A massive achievement in the team's history is the work they did during the Western Cape power interruptions in 2006. They replaced 20 000 insulator strings in the Western and Southern Cape to minimise interruptions on all the 400kV lines.

The exceptional team patrols and maintains some 30 000km of power lines throughout the year. They often identify potential faults even before they can result in an interruption of supply. The live-line team is very much one of the "behind-the-scenes" Eskom teams that work tirelessly to ensure a reliable supply of electricity to the country.

Corporate governance

Introduction

Good corporate governance is essentially about effective leadership. It requires leadership that is able to integrate decision-making, strategy and sustainability. It also calls for an inclusive and collaborative approach with stakeholders that is founded on the need for effective dialogue and engagement.

In rising to these challenges during what has been a challenging period for the business, Eskom has reflected on its processes and structures, as well as its interaction with stakeholders. We are therefore in the process of enhancing our practices and processes in this regard.

The year has been a particularly demanding one for Eskom because of the financial challenges created by the inadequate electricity funding model, aggravated by the global financial crisis. It was necessary that the governance processes, systems and structures were able to deal with a number of issues in a coherent and effective manner.

More frequent meetings of the board of directors and the executive management committee were required. In addition, Eskom had to engage with various stakeholders with regard to a shared understanding of the problems with the funding model and the alternative solutions. There was a need for alignment with government as shareholder and more intensive communication and interaction with customers and Nersa. At the same time Eskom had to focus on the capital expansion programme and on the operations of the business and there was a need for in-depth consideration of a number of issues.

The need for more intensive engagement with stakeholders resulted in a number of meetings between Eskom, government, the regulator and customers, including the key industrial customers and major metros. A number of joint task teams were established to assist with the resolution of some of the problems. The increased stakeholder engagement has been beneficial to Eskom's governance processes, but it is acknowledged that Eskom needs to improve its communication with stakeholders.

Eskom views good corporate governance practices as integral to good performance. As a state-owned enterprise (SOE), it is critical 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 adhered 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 compliance is monitored in this regard. In addition, Eskom is also 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. Certain Eskom employees have participated, at subcommittee level, in the drafting of the King III Report (King III) and comprehensive feedback was provided to the Institute of Directors on the draft document during the comment period.

The integrity of Eskom's governance processes and structures was maintained and they functioned effectively. The current challenges and the need at times for urgent decision-making did not lead to a deterioration of the high corporate governance standards. The governance processes were adhered to and duties were fulfilled in a proper manner.

A regular review of governance practices was also carried out. This included a review of the committees, the agendas, documentation tabled at board meetings, terms of reference and continuous director training. The performance of the board committees was considered and areas for improvement were identified.

Areas for improvement and focus include:

- stakeholder engagement
- communication
- decision-making processes
- shareholder interaction

Shareholding and shareholder compact

The government of the Republic of South Africa is Eskom's sole shareholder. The shareholder representative is the Minister of Public Enterprises.

Each year, Eskom, in consultation with the Minister of Public Enterprises, agrees on its performance objectives, measures and indicators in line with Treasury regulations under the PFMA. The annual targets are annexed to a list of principles agreed between Eskom and its shareholder (the shareholder compact). The performance of the organisation against the performance objectives is indicated on page 30.

The compact does not interfere with the normal principles of company law. The relationship between the shareholder and board is preserved. The board ensures that proper internal controls are in place and that Eskom is effectively managed. The compact promotes good governance by helping to clarify the board and shareholder roles and responsibilities and ensures consensus on Eskom's mandate and key objectives.

Governing bodies

Composition of the board

Eskom has a unitary board structure with a majority of non-executive directors. All of the non-executive directors are independent directors, appointed by the shareholder, and are drawn from diverse backgrounds (local and international) and reflect South Africa's demographics. Their contributions to the board consisting of a wide range of experience and professional skills, is invaluable. These skills are supplemented at committee level by external committee members.

The three-year term of office of non-executive directors expired at the sixth AGM in July 2008. The chairman of the board, Mr MV Moosa, and directors Messrs SA Mpambani and M Bello, Dr BM Count and Ms RM Rowjee wished to retire and were thanked for their valuable contribution to Eskom during their tenure as board members.

Mr RM Godsell was appointed as an independent, non-executive director and chairman of the Eskom board in Mr Moosa's stead by the shareholder at the sixth AGM. The following non-executive director appointments were similarly made: Mr SD Dube, Mr HB Lee from Korea and Mr J Mirenge from Rwanda.

Sadly, Eskom paid its respects to Mr E Marshall who passed away during the year. He was a valuable member of the board and served as director for a period of two years.

Currently the board consist of 11 non-executive directors and the chief executive. Following the resignation of the finance director, Mr B Nqwababa, which took effect on 31 December 2008, Mr Izak du Plessis, a senior general manager in the office of the chief executive was appointed as acting chief financial officer. He is a chartered accountant.

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. Eskom is at an advanced stage of its recruitment of a finance director.

Good corporate governance requires that the composition of the board be reviewed on a regular basis. The rotation of directors at regular intervals is accepted as standard practice as it ensures that the board remains dynamic and does not become stagnant in terms of its thinking and abilities. However, it is important that it is managed in such a way that the rotation of directors does not lead to a disruption in the operations of the business and that the board is well-balanced in terms of skills, expertise and demographics (race, gender and people with disabilities).

The term of office of non-executive directors is a maximum of three years, which will be subject to review at the seventh AGM in July 2009. Retiring directors are eligible for re-appointment.

Executive directors are full-time employees and as such are subject to Eskom's conditions of service.

Board meetings are scheduled annually in advance. Special meetings are convened as necessary to address specific issues. Directors or external committee members unable to attend meetings may use teleconferencing facilities. The attendance of members at the 11 board meetings during the reporting period is reflected on page 218.

Delegation of authority

The board has the authority to lead, control, manage and conduct the business of Eskom, including the authority to delegate its powers. Its aim is to ensure that Eskom remains a sustainable and viable business of global stature. Its responsibilities are facilitated by a well-developed governance structure through board committees, including the executive management committee (Exco), as well as subcommittees of Exco and a comprehensive delegation-of-authority framework. This framework assists decision-making without diluting director accountability and responsibility.

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 and remuneration committee facilitates the evaluation of senior management.

Director induction and orientation

New directors and external committee members complete an induction programme to improve their understanding of Eskom's legislative framework, governance processes, delegation of authority and business operations. Continual training addresses the needs of each director or group of directors. Directors are briefed on new legislation and regulations. The induction and training include visits to certain business sites.

Corporate governance continued

As a result of the capacity challenges facing the company, in particular the funding of the Eskom build programme, additional board meetings were held during the year and these are reflected in the table on the meeting schedule and attendance. It should be pointed out that over and above these additional board meetings, numerous board briefings and meetings of the chairpersons of the board committees were also held on a regular (at times weekly) basis. Some of these meetings were attended by representatives of the shareholder. The purpose of the additional briefing sessions and meetings of the committee chairpersons was to keep directors informed of key developments as they unfolded and to allow directors an opportunity to express their views on the developments and strategies on an ongoing basis.

Eskom directors were called on to commit significant additional time to the business of Eskom during this critical period.

Board and board committees – meeting attendance table 2008/9

Members	Board	Audit	Investment and finance	Tender	Sustainability	Human resources and remuneration	Risk management	Nomination and governance	Exco
Number of meetings	11	10	8	12	3	4	4	0	20
Board									
MV Moosa[1]	2	–	–	–	1	2[7]	–	–	–
R Godsell[3]	9	–	–	–	–	2	–	–	–
M Bello[1]	1	–	–	–	–	–	–	–	–
LCZ Cele	11	10	–	12	–	–	–	–	–
BM Count[1]	1	–	1	–	–	2	–	–	–
D Dube[3]	9	–	–	6	–	2	–	–	–
LG Joseffson	6	4	–	–	1	–	–	–	–
WE Lucas-Bull	9	–	8	–	3	–	–	–	–
HB Lee[3]	6	–	2	–	–	–	–	–	–
PM Makwana	9	4	–	–	–	4	–	–	–
PJ Maroga	11	–	5	–	3	4	–	–	18
ET Marshall[2]	–	–	–	1	–	–	1	–	–
JRD Modise	10	10	–	–	–	–	3	–	–
V Mohanlal Rowjee[1]	2	–	–	–	–	2	–	–	–
AJ Morgan	8	–	8	9	–	–	4	–	–
SA Mpambani[1]	2	4	–	–	–	–	–	–	–
U Nene	8	–	3[6]	4	3	–	3	–	–
B Nqwababa[5]	7	6	6[6]	–	–	–	3	–	14
J Mirenge[3]	7	3	5	–	–	–	–	–	–
External committee members									
BL Fanaroff	–	–	–	–	3	4	–	–	–
MJ Husain	–	–	–	6	–	–	–	–	–
MM Matutu	–	–	–	–	1	–	–	–	–
S Sebotsa	–	–	4	–	–	–	–	–	–
Executive management									
BA Dames	–	–	–	–	–	–	–	–	19
I du Plessis[4]	–	–	–	–	–	–	–	–	5
E Johnson	–	–	–	–	–	–	–	–	19
SJ Lennon	–	–	–	–	–	–	–	–	17
ME Letlape[5]	–	–	–	–	–	–	–	–	13
E Pule	–	–	–	–	–	–	–	_	4

1. *These members retired on 17 July 2008.*
2. *Member deceased.*
3. *These members were appointed on 17 July 2008.*
4. *These members were appointed in acting positions on 1 January 2009.*
5. *These members resigned with effect from 31 December 2008.*
6. *These members were only members for part of the year.*
7. *By invitation.*

Directors' remuneration

Please refer to note 45 on page 209 to the annual financial statements for details of directors' remuneration.

Company secretarial function

Directors have unrestricted access to the advice and services of the company secretary. 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 Services division monitor Eskom's compliance with the PFMA, the Companies Act and other relevant legislation, and report to the board on these issues.

Mohamed Adam resigned as company secretary on 31 March 2009 to assume the position of corporate counsel and regulatory affairs with Eskom. Terresa Nonkululeko Msomi was appointed in his stead with effect from 1 April 2009.

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 define the composition, role, responsibilities and delegated authority of the committee. The board from time to time sets up committees for specific (ad hoc) purposes. All committees, except Exco, comprise a majority of independent non-executive directors. An independent non-executive director serves as chairman in each case. Committee meeting attendance is reflected on page 218.

In addition to the terms of reference, a board committee exercises its delegated authority in accordance with specific policies approved by the board from time to time.

Audit committee

The committee comprises five independent non-executive directors. The committee monitors that internal control is maintained to protect Eskom's interests and assets.

The committee also reviews any accounting and auditing concerns raised by internal and external audit, the annual financial statements and the interim reports, the accompanying reports to shareholders, the preliminary announcement of results and any other announcement regarding the company's results or other financial information to be made public. Refer to page 107 for the report of the audit committee detailing how it carried out its functions.

The committee ensures that an effective internal audit function is in place and that the roles and functions of the external audit and internal audit are sufficiently clarified and coordinated to provide an objective overview of the operational effectiveness of the company's systems of internal control, risk management, governance and reporting. The committee also has to assess the performance of the internal audit function, and the adequacy of available internal audit resources.

In addition, the committee considers and appropriately deals with any complaints received relating to the financial statements, accounting practices or internal audit, whether from within or outside of Eskom.

The committee considers and makes recommendations on the appointment and retention of the external auditors and ensures that such appointments comply with legislation, the fees paid and the terms of engagement, pre-approves the nature and extent of any non-audit services and evaluates their independence, objectivity and effectiveness.

The assurance and forensic general manager and the external auditors have unrestricted access to the chairman of the committee and the chairman of the board. The committee reviews the accuracy, reliability and credibility of statutory financial reporting. It also reviews the annual financial statements and the Eskom group annual report, as presented by management prior to board approval.

Ten committee meetings were held during the review period. They were also attended by the external auditors, the finance director, the assurance and forensic general manager, the managing director of the corporate services division and relevant company officials.

Investment and finance committee

The committee comprises four independent non-executive directors, the chief executive and finance director, and Mrs S Sebotsa, an external committee member. The committee reviews the 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.

Corporate governance continued

Investment decisions are made within a framework of policies that guide such decisions and which are approved by the board. Eight committee meetings were held during the period under review.

Tender committee

The committee comprises five independent non-executive directors, and Mr MJ Husain, an external committee member who brings additional expertise to the committee. The tender committee assists the board with procurement decisions, tenders and contracts within its delegated authority and approves procurement policies. It ensures that Eskom's procurement system is equitable, transparent, competitive and cost effective.

Twelve committee meetings were held.

Sustainability committee

The committee comprises four independent non-executive directors, the chief executive and Messrs BL Fanaroff and MM Matutu, external committee members. This committee deals with integrated sustainability issues and makes recommendations on policies, strategies and guidelines, particularly related to safety, health, environment, quality and nuclear issues.

The committee also scrutinises nuclear safety at Eskom facilities to ensure that standards exceed all regulatory and internal requirements and remain consistent with international best practice.

Three meetings were held.

Human resources and remuneration committee

This committee comprises three independent non-executive directors, the chairman of the board, the chief executive (who is excused when his remuneration is considered) and Mr BL Fanaroff, an external committee member.

The committee, *inter alia,* makes recommendations on remuneration and other human resource-related policies.

Four meetings were held.

Nomination and governance committee

The nomination and governance committee was established towards the end of the year to deal with the appointment of non-executive directors to the board and exercise oversight of governance matters, including ethics. This committee comprises the chairman of the board, the chairman of the human resources and remuneration committee and the chief executive. As the committee was recently established, no formal meetings were convened, as the committee members are currently attending to the recruitment of the finance director and the managing director (Human Resources division).

Risk management committee

The committee comprises four independent non-executive directors and the finance director. Synergy between the risk management committee and the audit committee is achieved by having the chairman of the audit committee as a member of the risk management committee. The committee ensures that the company's risk management strategies and processes are aligned with best practices.

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.

Further information on the risk management processes is set out on pages 27 and 221.

Executive management committee (Exco)

The Exco comprises the chief executive, the finance director and various divisional senior executives. The chief executive announced the rationalisation of Eskom's executive structure in February 2008 and the implementation thereof continued into the period under review, with the erstwhile Exco members attending many of the Exco meetings. The new structure introduced the position of chief officers and the clustering of related businesses.

The committee assists the chief executive in guiding the overall direction of the business and in exercising executive control. Its task is to assist with the effective management of the day-to-day operations of the business.

Twenty Exco meetings were held, including scheduled operations and security of supply meetings, special meetings and strategic workshops. Attendance is reflected on page 218.

Exco is assisted by its procurement, operations, investment and capital assurance, nuclear management and sustainability and safety subcommittees.

Public Finance Management Act (PFMA)

The board is the accounting authority in terms of the PFMA and 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 entities.

The PFMA regulates 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 are also specified in the PFMA.

Integrated risk management (IRM)

The effective management of risk is central to the achievement of Eskom's vision of together, building the power-base for sustainable growth and development in South Africa. By understanding and managing risk, we can provide greater certainty and security for our employees, our customers and all our stakeholders.

The Eskom board, through the risk management committee, acknowledges its overall accountability for ensuring an effective results-driven, IRM process. Exco has implemented a risk monitoring system that enables management to respond appropriately to all significant risks that could impact on business objectives.

Responsibility for the management of risk resides with line management in all divisions and projects. Those accountable for the management of risks also ensure that the necessary controls remain in place and are effective at all times. Control effectiveness focuses on improving our ability to manage risk effectively, so that we can quickly and confidently act on opportunities to improve and sustain the quality and continuity of supply, create value and achieve sustained growth.

Risk management in Eskom is performed at departmental, regional, divisional and subsidiary level and is reported upward to corporate (bottom-up). After consolidation of these integrated risk reports, Exco and the board risk management committee review and evaluate the risk profile to determine the major operational, strategic and business continuity risks (top-down).

Refer to www.eskom.co.za/annreport09/052.html for detail on the governance of risk.

Ethical business conduct

Eskom commits itself to the highest standards of ethical conduct in its business dealings, underpinning its key value of integrity.

The ethics office assists the chief executive in setting the framework, rules, standards and boundaries for ethical behaviour, and provides ethics training and an advisory service to employees, assisting them in dealing effectively with ethics issues and ethical dilemmas in the workplace.

A key milestone for the past financial year was the implementation of Eskom's code of ethics, *"The Way"*, throughout the organisation, through various communication initiatives. The objectives of the communication campaign were to reach all employees, including temporary and contract employees, simultaneously, and to provide them with creative material that will ensure a comprehensive understanding of the code, its purpose, and how it is applied in the workplace.

The implementation was further enhanced through staff dialogue sessions facilitated by managers, to encourage staff interaction on the code of ethics, and to discuss and resolve specific ethics issues within the work environment.

Refer to www.eskom.co.za/annreport09/053.html for detail on ethics awareness.

Internal control

Management is charged with the responsibility of establishing an effective internal control environment, including adequate internal financial controls. In addition, operational control systems are developed and maintained on an ongoing basis to provide reasonable assurance to the board regarding:

- the integrity and reliability of the financial statements
- the safeguarding of its assets
- the economic and efficient use of resources
- the verification of the accomplishment of established goals and objectives
- the detection and minimisation of fraud, potential liability, loss and material misstatement
- compliance with applicable legislation and regulations

Corporate governance continued

These controls are contained in organisational policies and procedures, structures and approval frameworks, and they provide direction, establish accountability and ensure adequate segregation of duties. They each contain self-monitoring mechanisms.

The board ensures that an effective internal control framework has been established. The Assurance and Forensic department, the internal audit function, monitors the operation of the internal control systems and reports findings and recommendations for improvement to management and the audit committee.

The audit committee monitors and evaluates the duties and responsibilities of management, and of internal and external audit to ensure that all major issues reported have been satisfactorily resolved. Finally, the audit committee reports all important matters considered necessary to the board.

Assurance and forensic

During the period under review the corporate departments of audit, technical audit, technical investigations as well as forensic and anti-corruption were integrated into the Assurance and Forensic department (AFD).

In line with the requirements of the PFMA and good governance, AFD provides the audit committee and management with independent, objective assurance, consulting and forensic services designed to add value to and improve Eskom's operations. The department brings a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.

AFD is governed by international standards and best practices, published by recognised professional institutes.

A risk-based audit approach is followed by assurance and forensic. The audit plan is based on the risk assessment and other considerations, such as the achievement of organisational business objectives. The audit plan is updated as required (minimum quarterly) to reflect significant changes in the risk profile resulting from changes in the business operations, changes in customer needs or regulatory requirements.

AFD is supported by the board and audit committee and is authorised to have unrestricted access to all functions, records, property and personnel.

External auditors independently audit and report on the financial statements.

Security risk management

The board ensures that 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 department of assurance and forensic) establish the facts to enable management to deal appropriately with the matter and prevent a recurrence.

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 area is directly accountable to the chief officer (Generation business) for all aspects of electricity production at Koeberg power station, including safety. The Nuclear Safety and Assurance section, a separate department in the Generation business 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 the deliberations. The middle tier, the nuclear management committee presided over by the chief officer of the Generation business, 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 committees, brings together experts from various parts of Eskom to evaluate nuclear safety issues and make recommendations to senior management and other tiers.

Corporate citizenship and sustainability

In Eskom's view, being a good corporate citizen means that its business must be run in an ethical manner that takes into account its impact on all stakeholders. In addition, it means that Eskom needs to contribute to the realisation of the hopes and aspirations of South Africa.

This includes contributing to a safe working environment, environmental responsibility, promoting Accelerated and Shared Growth Initiative for South Africa (AsgiSA) and corporate social responsibility and improving the life of all South Africans.

The chief executive, as chief safety officer and chairman of Exco's sustainability and safety subcommittee, is accountable for overall sustainability and safety performance.

The sustainability and safety subcommittee guides our strategy and sets performance targets on sustainability, occupational health and safety and environmental matters, in line with Eskom's safety health and environment policy, the National Environmental Management Act, (107 of 1998), as amended and the Occupational Health and Safety Act, (85 of 1993), as amended. Strategies are reviewed and approved by the sustainability committee of the board.

Exco's operations subcommittee assesses occupational health, safety and environmental performance and reviews major incidents to ensure that corrective action is taken.

The objective of government's AsgiSA programme is to promote economic growth and halve poverty and unemployment by 2014. Eskom's contribution to this initiative as well as rural development is centrally coordinated and facilitated through the Corporate Services division. 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's CSI contributes to the development of the disadvantaged and promotes, *inter alia,* skills development, job creation, education and health. Many CSI initiatives are executed by the Eskom Development Foundation.

Subsidiaries

The Eskom Enterprises (Pty) Limited group, a wholly owned subsidiary of Eskom Holdings, provides lifecycle support and plant maintenance, network protection and support for the build programme for all Eskom divisions. It also has subsidiaries in South Africa, Mali and Uganda. All of the Eskom Enterprises group companies are governed by independent board structures with their own internal control. 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. The directors are accountable to Eskom through the shareholder compact.

The subsidiaries comply with the PFMA and Companies Act, or their equivalent legislation where they are foreign-registered, and follow good governance principles.

Tables

1. Statistical overview

	2009	2008	2007	2006	2005 (15 months)	2004
Sales						
Total sold (GWh)[1,2]	214 850	224 366	218 120	207 921	256 453	206 799
(Reduction)/growth in GWh sales (%)	(4,2)	2,9	4,9	(18,9)[3]	30,5	5,0
Electricity output						
Total produced by Eskom stations (GWh (net))	228 942	239 108	232 443	221 985	273 404	220 152
Coal-fired stations (GWh (net))	211 941	222 908	215 211	206 606	251 914	202 171
Hydroelectric stations (GWh (net))	1 082	751	2 443	1 141	903	720
Pumped-storage stations (GWh (net))	2 772	2 979	2 947	2 867	3 675	2 981
Gas turbine stations (GWh (net))	143	1 153	62	78	–	–
Nuclear power station (GWh (net))	13 004	11 317	11 780	11 293	16 912	14 280
Total purchased for Eskom system (GWh)	12 189	11 510	11 483	10 310	12 197	9 818
Total electricity for Eskom system (Eskom stations and purchased) (GWh)[4]	241 131	250 618	243 926	232 295	285 601	229 970
Total consumed by Eskom (GWh)[5]	3 816	4 136	3 937	3 814	5 043	4 040
Total available for distribution (GWh)[2]	237 315	246 482	239 989	228 481	280 558	225 930
Plant performance indicators						
Total power station nominal capacity (MW)	44 193	43 037	42 618	42 011	42 011	42 011
Total power station net maximum capacity (MW)	40 503	38 744	37 761	36 398	36 208	36 208
Peak demand on integrated Eskom system (MW)	35 959	36 513	34 807	33 461	34 195	34 195
Average energy availability – EAF (UCF) (%)[6]	85,3 (86,1)	84,8 (86,2)	87,5 (88,6)	87,4 (88,7)	89,5 (89,9)[7]	89,5 (90,0)
Generation load factor (%)[8]	67,0	72,3	72,4	69,7	69,0	69,2
Integrated Eskom system load factor (EUF) (%)	78,6	85,2	82,7	79,8	78,0	77,4
Environmental indicators						
Specific water consumption (L/kWh sent out)[9]	1,35	1,32	1,35	1,32	1,27[7]	1,26
Significant legal contraventions reported (number)[10]	11	6	0	1	3[7]	2
Customer satisfaction (Enhanced PreCare/ MaxiCare) (ratio)[11]	99,84	97,21	100,80	101,06	93,10	8,31
Net raw water consumption (ML)	323 190	322 666	313 064	291 516	347 135	277 557
Coal burnt (Mt)	121,2	125,3	119,1	112,1	136,4	109,6
Average calorific value (MJ/kg)	19,10	18,51	19,06	19,58	19,36	19,42
Average ash content (%)	29,70	29,09	29,70	29,10	29,60	29,60
Average sulphur content (%)	0,83	0,87	0,86	0,88	0,87	0,87
Overall thermal efficiency (%)	33,4	33,4	33,9	33,8	34,0	34,0
Line losses (%)	7,9	8,0	8,4	8,2	8,2[7]	7,8
Nitrous oxide (N_2O) (t)[12]	2 801	2 872	2 730	3 134	3 552	2 924
Carbon dioxide (CO_2) (Mt)[12]	221,7	223,6	208,9	203,7	247,0	197,7
Sulphur dioxide (SO_2) (kt)[12]	1 874	1 950	1 876	1 763	2 236	1 779
Nitrogen oxide (NO_x) as NO_2 (kt)[12]	957	984	930	877	994	797
Relative particulate emissions (kg/MWh sent out)[13]	0,27[20]	0,21	0,20	0,21	0,26[7]	0,27
Particulate emissions (kt)[13]	55,6	50,84	46,08	45,76	72,83	59,17
Ash produced (Mt)	36,66	36,04	34,16	33,40	40,80	33,10
Ash sold (Mt)	2,1	2,4	2,2	1,8	2,0	1,6
Radiation release (mSv)[14]	–	–	–	–	–	–
Radiation release (mSv)[15]	0,0045	0,0041	0,0034	0,0049	0,0079[7]	0,0087
Low-level radioactive waste (cubic metres)[16]	140,8	180,3	94,5	90,2	106,2	80,2
Intermediate-level radioactive waste (cubic metres)[16]	23,8	14,9	50,3	52,7	62,7	49,9
Low-level nuclear waste – fuel racks (cubic metres) (cumulative figure)[17]	0 (697)	0 (697)	0 (697)	0 (697)	0 (697)	697
Spent nuclear fuel, number of elements (cumulative figure)	56 (1 729)	112 (1 673)	56 (1 561)	52 (1 505)	104 (1 453)	56 (1 405)
Sales to countries in southern Africa (GWh)	12 648	13 908	13 589	13 122	16 008	12 954
Botswana	1 959	2 181	1 959	1 727	2 111	1 699
Mozambique	8 243	8 491	8 435	8 167	10 108	8 076
Namibia	1 573	2 087	1 632	1 709	1 821	1 515
Zimbabwe	0	107	589	549	598	532
Lesotho	107	50	50	23	13	12
Swaziland	756	770	856	760	872	697
Zambia	10	222	68	187	465	403
Short-term energy market[18]	–	–	–	–	20	20

2003	2002	2001	2000	1999
196 980	187 957	181 511	178 193	173 412
4,8	3,5	1,8	2,8	1,1
210 218	197 737	189 590	189 307	181 818
194 046	181 651	175 223	172 362	165 665
777	2 357	2 061	1 343	726
2 732	1 738	1 587	2 591	2 590
–	–	–	1	–
12 663	11 991	10 719	13 010	12 837
8 194	9 496	9 200	5 294	6 657
218 412	207 233	198 790	194 601	188 475
3 664	2 354	2 177	3 478	3 507
214 748	204 879	196 613	191 123	184 968
42 011	42 011	42 011	41 298	40 585
36 208	36 208	36 208	35 584	34 585
31 928	31 621	30 599	29 188	27 813
87,5 (88,7)	89,3 (91,7)	92,0 (92,5)	92,1 (92,8)	91,0 (92,5)
66,3	62,3	59,8	60,6	61,2
76,8	74,0	73,4	74,7	75,9
1,29	1,27	1,26	1,21	1,25
2	3	2	3	9
8,47	8,57	8,43	8,82	8,78
271 940	251 611	239 233	228 759	227 288
104,4	96,5	94,1	92,5	88,5
19,41	19,54	19,42	19,50	19,53
28,90	28,40	28,80	28,60	28,50
0,92	0,92	0,93	0,90	0,96
34,2	34,1	34,1	34,4	34,4
8,3	8,2	7,2	7,4	6,2
2 580	2 246	2 154	2 093	2 010
190,1	175,2	169,3	161,2	159,4
1 728	1 494	1 500	1 505	1 506
760	702	684	674	673
0,28	0,29	0,31	0,35	0,37
58,65	57,53	59,64	66,08	67,08
29,80	26,20	26,50	24,60	24,30
1,2	1,3	1,2	1,1	1,1
–	0,0005	0,0007	0,0005	0,0005
0,0123	0,0060	0,0192	0,0059	0,0112
92,9	89,04	117,25	72,80	70,77
30,6	30,21	45,65	22,10	37,11
–	–	–	–	–
104 (1 349)	48 (1 245)	104 (1 197)	52 (1 093)	104 (1 041)
10 173	6 956	6 710	3 872	3 884
1 390	1 124	1 183	986	934
5 875	3 907	3 899	1 331	68
1 114	598	578	640	562
793	298	371	788	1 564
38	16	40	12	55
796	799	639	115	701
151	103	–	–	–
16	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 a year.*
7. *Represents the 12-month moving average for 1 April 2004 to 31 March 2005.*
8. *kWh produced times 100 divided by average net maximum capacity times hours in a year.*
9. *Volume of water consumed per unit of generated power sent out, excluding Camden and Grootvlei power stations, as well as rain and mine water used.*
10. *2000 to 2002 reported in terms of the revised definition of the operational health dashboard. From 2008, repeat legal contraventions are included in the criteria.*
11. *Reflects the environmental element of Enhanced MaxiCare.*

    The Enhanced MaxiCare replaced the PreCare/MaxiCare from January 2005.
12. *Calculated figures are based on coal characteristics and the power station design parameters. SO_2 and CO_2 emissions are based on coal analysis and tonnages of coal burned in 2008/9. 2009 includes Camden, Grootvlei and the gas turbine power stations as well as oil consumed during power station start-ups.*
13. *The overall particulate performance figure is based on individual power station performance. For certain power stations, emission figures are based on best estimates.*
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. *These are the net volumes produced in a 12-month moving window. To ensure consistent reporting, the figures from 2003 to 2008 have been restated based on actual performance data.*
17. *Waste as a result of re-racking of spent fuel elements at Koeberg power station.*
18. *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.*

Eskom

Tables continued

2. Power station capacities
at 31 March 2009

Name of station	Location	Number and designed capacity of generator sets	Total nominal capacity	Total net maximum capacity	Generators in reserve storage		Other generation
						Total nominal rating	
		MW	MW[1]	MW[1]	Number	MW	Total rating MW[2]
Coal-fired stations (13)			37 773	34 294	11	1 550	–
Arnot[3,9]	Middelburg	1x350; 2x370; 1x390; 2x400;	2 280	2 160	–	–	–
Camden[4,10]	Ermelo	2x200; 2x195; 2x190; 1x170; 1x180	1 520	1 440	–	–	–
Duvha[3]	Witbank	6 x 600	3 600	3 450	–	–	–
Grootvlei[4]	Balfour	6 x 200	1 200	380	4	800	–
Hendrina[3,11]	Middelburg	9 x 200; 1x 195	1 995	1 895	–	–	–
Kendal[3,5]	Witbank	6 x 686	4 116	3 840	–	–	–
Komati[4]	Middelburg	5 x 100; 4 x 125	1 000	228	7	750	–
Kriel[3]	Bethal	6 x 500	3 000	2 850	–	–	–
Lethabo[3]	Viljoensdrift	6 x 618	3 708	3 558	–	–	–
Majuba[3]	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)			2 426	2 409	–	–	–
Acacia	Cape Town	3 x 57	171	171	–	–	–
Ankerlig[12]	Atlantis	4 x 149,2; 5 x 148,3	1 338	1 327	–	–	–
Gourikwa[12]	Mossel Bay	5 x 149,2	746	740	–	–	–
Port Rex	East London	3 x 57	171	171	–	–	–
Hydro-electric stations (6)			661	600	–	–	61
Colley Wobbles[2]	Mbashe River	3 x 14	42	–	–	–	42
First Falls[2]	Umtata River	2 x 3	6	–	–	–	6
Gariep[7]	Norvalspont	4 x 90	360	360	–	–	–
Ncora[2]	Ncora River	2 x 0,4; 1 x 1,3	2	–	–	–	2
Second Falls[2]	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	–	–	–
Wind Energy (1)							
Klipheuwel[2]	Klipheuwel	1 x 1,75; 1 x 0,66; 1 x 0,75	3	–	–	–	3
Nuclear power station (1)							
Koeberg[3]	Cape Town	2 x 965	1 930	1 800	–	–	–
Total power station capacities (27)			44 193	40 503	11	1 550	64

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. *Return to service station.*
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 up-rated in the Arnot capacity increase project.*
10. *Most of Camden units have been de-rated.*
11. *One Hendrina unit de-rated to 195MW.*
12. *MW ratings per unit finalised after performance testing.*

3. Environmental implications of using or saving one kilowatt-hour of electricity[1]

		If electricity consumption is measured in:			
	Factor[2]	kWh	MWh	GWh	TWh
Coal use	**0,56**	kilogram	ton	thousand tons (kt)	million tons
Water use[3]	**1,50**	litre	kilolitre	megalitre	thousand megalitres
Ash produced	**171**	gram	kilogram	ton	thousand tons (kt)
Particulate emissions	**0,27**	gram	kilogram	ton	thousand tons (kt)
CO_2 emissions[4]	**1,03**[5]	kilogram	ton	thousand tons (kt)	million tons
SO_x emissions[4]	**8,72**	gram	kilogram	ton	thousand tons (kt)
NO_x emissions[4]	**4,45**	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 90kWh of electricity
Water consumption: 90 x 1,50 = 135
Therefore 135 litres of water used

Example 2: Used 90GWh of electricity
CO_2 emissions 90 x 1,03 = 92,7
Therefore 92,7 thousand tons 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 the inside back cover.*
2. *Figures represent the 12-month period from 1 April 2008 to 31 March 2009.*
3. *Volume of water consumed per unit of generated power sent out, excluding rain and mine water used.*
4. *Calculated figures based on coal characteristics and the power station design parameters. SO_2 and CO_2 emissions are based on coal analysis and coal burned tonnages. 2009 includes Camden, Grootvlei and the gas turbine power stations as well as oil consumed during power station start-ups.*
5. *Represents the Eskom average CO_2 figure.*

4. Transmission and distribution equipment in service
at 31 March 2009

	2009	2008
Power lines		
Transmission power lines (km)[1]	**28 236**	28 164
765kV	**1 153**	1 153
533kV DC (monopolar)	**1 035**	1 035
400kV	**16 336**	16 190[2]
275kV	**7 390**	7 348[2]
220kV	**1 333**	1 333[2]
132kV	**989**	1 105[2]
Distribution power lines (km)	**45 302**	44 680
165 – 132kV	**23 856**	23 296
88 – 33kV	**21 446**	21 384
Reticulation power lines (km)		
22kV and lower	**297 783**	293 424
Total all power lines (km)	**371 321**	366 268
Cables (km)	**10 379**	9 921
165 – 132kV	**179**	170
22kV and lower	**10 200**	9 751
Total transformer capacity (MVA)	**219 232**	215 776
Transmission (MVA)[3]	**122 860**	122 180[4]
Distribution and reticulation (MVA)	**96 372**	93 596
Total transformers (number)	**333 945**	324 437
Transmission (number)	**394**	387
Distribution and reticulation (number)	**333 551**	324 050

1. *Transmission line lengths as per Geographic Information System distances.*
2. *Transmission line lengths restated to include lines not reported before and small corrections in length.*
3. *Transformers rated ≥ 30MVA and primary voltage ≥ 132kV.*
4. *Transformer details restated to include transformers installed but not reported.*

Tables continued

5. Sale of electricity and revenue per category of customer

Category	Customers		Sold		Revenue[1]	
	2009 Number	2008 Number	2009 GWh	2008 GWh	2009 Rm	2008 Rm
Redistributors	769	766	88 345	89 941	20 579	16 382
Residential[2]	4 223 708	4 016 689	10 392	10 423	5 552	4 645
Commercial	47 603	46 496	8 642	8 373	2 732	2 081
Industrial	2 935	2 966	54 815	61 510	11 887	10 629
Mining	1 144	1 153	32 177	32 373	7 439	5 825
Agricultural	84 329	83 722	4 913	4 848	2 249	1 741
Traction	509	510	2 918	2 990	869	697
International						
Utilities	7	7	3 525	4 553	978	860
End users across the border	3	3	9 123	9 355	1 356	1 111
	4 361 007	4 152 312	214 850	224 366	53 641	43 971

1. *Revenue includes the EDI levy that is paid over to EDI Holdings Ltd.*
2. *Prepayments and public lighting included under residential.*

Real GDP growth versus Eskom sales (GWh) growth

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

Awards

2008 Ernst & Young Excellence in Corporate Reporting and Excellence in Sustainability Reporting Survey Awards

Eskom's 2007 annual report was selected as "excellent" in the parastatal category of the 2008 Ernst & Young Excellence in Corporate Reporting Survey Awards.

The parastatals category is a new addition to the prestigious annual Excellence in Corporate Reporting Survey Awards event. These awards have become the benchmark for judging the quality of financial reporting in South Africa since they started in 1998.

An adjudication panel of senior accounting lecturers from the University of Cape Town reviewed and ranked the annual reports of the top 100 listed companies and the top 10 parastatal organisations. The judging panel indicated that *"Eskom may well have been in contention for a top 10 ranking"* if the parastatal category had been running for a longer period of time. Another comment was: *"Some of the parastatals – including Eskom – can hold their head high as regards the quality of their reporting, being of a standard that is higher than many other listed companies"*.

Eskom's 2008 annual report was selected as "excellent" in the parastatal category in the 2008 Ernst & Young Excellence in Sustainability Reporting Awards.

2008 Annual Report Awards

Eskom received the second place in the state entities category of the 2008 Annual Report Awards hosted by Chartered Secretaries Southern Africa and JSE Limited.

Criteria for judging included:

- directors and management report;
- company information;
- corporate governance, including corporate social investment; and
- presentation.

Global Business Coalition on HIV/Aids

Eskom was one of the eight companies honoured by the Global Business Coalition on HIV/Aids, TB and Malaria for its fight against global epidemics.

The awards ceremony was held in the United States on 13 June 2008 and Eskom received an award in the testing and counselling category.

The organisation was recognised for having invested its financial and human resources to manage HIV/Aids. The adjudicators were also impressed by our provision of outstanding counselling services through an independent service provider, and ensuring that qualified psychologists are available to provide emotional support around the clock.

International Electrotechnical Commission 1906 Award

The International Electrotechnical Commission (IEC) is the leading global organisation that prepares and publishes international standards for all electrical, electronic and related technologies. The IEC promotes international cooperation on the assessment of conformity to standards in the fields of electricity, electronics and related technologies. The 1906 Award recognises exceptional and recent achievement, a project or other specific contribution related to the activities of the IEC.

Last year Robert Koch from Eskom was one of 129 recipients from 21 countries of these prestigious awards, selected from the many thousands of national technical experts who participate in the work of the IEC. He was nominated for his work on immunity and emissions standards used in the management of power quality. Robert chairs the IEC77A Working Group 8, and in addition to work on various standards and reports related to quality of supply, he oversaw the development of three IEC international technical reports on the connection of large disturbing installations to the national power system.

Endangered Wildlife Trust Cheetah Award

On 26 November 2008, Johan van Staden – an electrical engineer with Eskom was awarded the Endangered Wildlife Trust's Cheetah Award.

During 2005 and 2006 Johan became involved in resolving the problem of ongoing vulture electrocutions on Eskom's power line infrastructure. His engineering expertise, coupled with his passion for the vultures themselves, enabled him to research, design and implement solutions to vulture electrocutions. He inspired numerous other Eskom staff to work on this issue and created a forum for the discussion and development of technical engineering solutions to environmental problems.

He performed helicopter surveys of problematic power lines during 2006 and 2007; designed, funded and built a 40m flight enclosure for research into the interaction of vultures with Eskom pylons using rehabilitated vultures, dummy pylons and video cameras; and presented the results of this work at the Pan African Ornithological Conference in October 2008.

Awards continued

EPRI Power Delivery and Utilisation (PDU) 2008 Technology Transfer Award

EPRI presented the 2008 PDU Technology Transfer Award to the Eskom team that was urgently established in 2008 to re-establish a balance between load and power generation by using existing equipment.

They implemented demand and energy reduction via voltage regulation and achieved tangible immediate savings in real power and reactive power and energy usage at several Eskom pilot sites. This was a pilot programme that proved outstandingly successful, and will be followed by a nationwide rollout of the programme, which is expected to save at least 500MW of load.

This programme can be used as part of the 10% demand reduction mandatory regime that Eskom is seeking users to implement. In this way, industries such as smelters and mining operations do not have to cut the full 10% of their load. Calculations show that once expanded to a nationwide project, this solution will offset the need to run three 150MW open cycle gas turbine units at a cost of R2 000 per MWh.

2008 World Energy Globe Award – youth category

The Eskom Energy and Sustainability Programme scooped top honours on Monday, 26 May 2008 in the youth category of the prestigious 2008 World Energy Globe Awards. Seven projects were collectively entered for the World Energy Globe Awards by the Eskom Energy and Sustainability Programme under the title *"Young People Against Climate Change"*. The programme has 114 action-based environmental projects under its national guidance.

The Energy Globe Award ranks as one of the most prestigious environmental prizes and it attracted 853 entries from 109 countries last year. The Eskom Energy and Sustainability Programme is one of the flagship programmes of the Eskom Development Foundation, which is responsible for Eskom's corporate social investment. The programme has successfully been carried out for the past 11 years in conjunction with the Wildlife and Environmental Society of South Africa. It encourages young people to find creative solutions to the challenges facing their communities while providing relevant funding, environmental support and expertise.

The Eskom Energy and Sustainability Programme, in partnership with WESSA, scooped top honours in the youth category of the prestigious 2007 World Energy Globe awards in Brussels, Belgium on Sunday, 25 May 2008. Melissa Wilschutt, Avril Wilkinson (National Coordinator for WESSA), Mr Kofi Annan (former Secretary General at the United Nations), Ian Jameson, (Eskom), Siwongiwe Botha, Krishna Thottekka

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)	A measure of 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 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
Metro	Municipalities of large cities
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
Non-technical losses	The difference between total losses and technical losses is referred to as non-technical losses

Glossary continued

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
Power pool	An association of two or more interconnected electricity supply 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 the 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 respective 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
Technical losses	Technical losses are the naturally occurring losses that depend on the power systems used
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
Unit capability factor (UCF)	A measure of plant availability indicating how well plant is operated and maintained
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 000kWh
1GW (gigawatt) = 1 000 000kW or 1 000MW	1GWh (gigawatt hour) = 1 000 000kWh or 1 000MWh
1TW (terawatt) = 1 000 000MW	1TW (terawatt hour) = 1 000 000MWh

Voltage

1kV (kilovolt) = 1 000V

Presentation currency

Unit of currency
R1 million = R1 000 000
R1 billion = R1 000 000 000

Abbreviations and acronyms

AsgiSA	Accelerated and Shared Growth Initiative for South Africa
BEE BBBEE	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 (address climate change)
CFL	Compact fluorescent lamps
CPI	Consumer price index
CSI	Corporate social investment
CSP	Concentrating solar plant
CV	Calorific value
DEAT	Department of Environmental Affairs and Tourism (RSA) – The environmental portfolio now falls under the Department of Water and Environmental Affairs (DWEA)
DME	Department of Minerals and Energy (RSA) – The energy portfolio has been separated from minerals, and now falls under the Department of Energy
DMP	Demand market participation
DPE	Department of Public Enterprises (RSA)
DPLG	Department of Provincial and Local Government
DSLI	Distribution supply loss index
DWAF	Department of Water Affairs and Forestry (RSA) – The water portfolio now falls under the Department of Water and Environmental Affairs (DWEA)
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
GIS	Geographic information system
GPS	Global positioning system
GWh	Gigawatt hour (1 000MWh)
HRSI	Human resources sustainability index
HVDC	High-voltage direct current
IFRS	International Financial Reporting Standards
IGCC	Integrated generation control centre
ILO	International Labour Organisation
Inep	Integrated national electrification programme
IPCC	Intergovernmental Panel on Climate Change
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 indicator
kt	Kilotons (1 000 tons)
kWh	Kilowatt hour
kWh SO	Kilowatt hour sent out
LME	London Metals Exchange
LSM	Living standards measure (indicates economic status)
LTIR	Lost-time incidence rate
MMI	Monthly moving index
MW	Megawatt
MWh	Megawatt-hour (1 000kWh)
ML	Megalitre (1 000 000 litres)
mSv	MilliSievert
Mt	Mega tons

Abbreviations and acronyms continued

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
OCLF	Other capability loss factor
OEM	Original equipment supplier
OHSA	Occupational Health and Safety Act
OMS	Outage management system
PCB	Polychlorinated biphenyls
PBMR	Pebble bed modular reactor
PCP	Power conservation programme
PCLF	Planned capability loss factor
PFMA	Public Finance Management Act (RSA)
RED	Regional electricity distributor
RoD	Record of decision (environmental authorisation)
RSLI	Reticulation supply loss index
Saavi	South African Aids Vaccine Initiative
SACECS	South African Centre for Essential Community Services
SADC	Southern African Development Community
SAIDI	System average interruption duration index
SAIFI	System average interruption frequency index
Sapp	Southern African Power Pool
SHE	Safety, health and environment
SMME	Small, medium and micro enterprises
SME	Small and medium enterprises
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 loss 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 2009 annual report based on the Global Reporting Initiative (GRI) sustainability reporting guideline criteria is provided in the table.

GRI reference	Description	Reference(s) in annual report	Page
Strategy and analysis			
1.1 – 1.2	Statement from senior decision-makers, description of impacts, risk and opportunities	Profile	i
		Message from the chairman	8
		Message from the chief executive	14
Organisational profile			
2.1 – 2.10	Organisational profile: details and scale of organisation, ownership, changes and awards received	Profile	i
		Map and contact information	IFC and IBC
		Key facts and organisational structure	iii, xx
		Vision, values and strategic objectives	2
		Market and industry overview	22
		Integrated risk profile	28
		Directors' report	109
		Notes to the financial statements – investments in equity accounted investees	168
		Tables	224
		Awards	229
Report parameters			
3.1 – 3.13	Report profile, scope and boundaries	Profile	i
	GRI content index	Electricity: from power station to customer	vii
	Assurance	Executive summary	x
		Application of GRI principles	xvi
		Vision, values and strategic objectives	2
		Independent assurance report to Eskom Holdings Limited	101
		Statement of responsibilities and approval	106
		Independent auditors' report to the Minister of Public Enterprises	108
		GRI index	235
Governance, commitments and engagements			
4.1 – 4.17	Governance	Vision, values and strategic objectives	2
	Commitments to external initiatives	Group five-year review	4
	Stakeholder engagement	Performance in terms of the shareholder compact	30
		Productivity and price recovery	41
		Restoring Eskom's image and public confidence	88
		Corporate governance	216
		Stakeholder engagement	2, 37, 63, 66, 89, 90
		Business and sustainability performance review	26
Management approach and performance indicators			
Economic performance indicators (EC)			
EC1 – EC9	Economic performance	Group five-year review	4
	Market presence	Market and industry overview	22
	Indirect economic impacts	Financial review	32
		Productivity performance	40
		Directors' report	109
		Consolidated financial statements	104
		Employee benefits, notes to financial statement	194, 198

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GRI Index continued

GRI reference	Description	Reference(s) in annual report	Page
Environmental performance indicators (EN)			
EN1 – EN30	Materials	Demand-side management (DSM)	48
	Energy	Primary energy	56
	Water	Coal	56
	Biodiversity	Liquid fuels	58
	Emissions, effluents and wastes	Nuclear	59
	Product and services	Responding to climate change	68
	Compliance	Limiting the impact on the environment	77
	Transport	Air quality	80
	Overall	Water usage	82
		Compliance with environmental legislation	84
		Biodiversity	84
		Waste	85
		Environmental expenditure	87
		Tables	224
		Environmental implications of using or saving one kilowatt-hour of electricity	227
Social performance indicators: Labour practices and decent work (LA)			
LA1 – LA14	Employment	Contribution to society	42
	Labour/management relations	Our people	92
	Occupational health and safety	Training interventions	93
	Training and education	Employment equity	94
	Diversity and equal opportunities	Safety performance	96
		Business and sustainability performance review	26
Social performance indicators: Human rights (HR)			
HR1 – HR9	Investment and procurement practices, non-discrimination, freedom of association and collective bargaining, child labour, forced and compulsory labour, security practices, indigenous rights	Market and industry overview	22
		Capital and funding strategies	38
		Competitive supplier development programme	39
		Investment portfolio	61
		Environmental impact assessments	65
		Our people	92
		Business and sustainability performance review	26
Social performance indicators: Society (SO)			
SO1 – SO8	Community	Contribution to society	42
	Corruption	Corporate citizenship and sustainability	222
	Public policy	Directors' report	109
	Anti-competitive behaviour	Ethical business conduct	221
	Compliance		
Social performance indicators: Product responsibility (PR)			
PR1 – PR9	Customer health and safety	Tariff restructuring	38
	Product and service labelling	Securing continuity of supply	45
	Marketing communication	Customer service index	90
	Customer privacy	Safety performance	96
	Compliance	Contractor and construction management	98
		Public safety	100
		Ethical business conduct	221

Eskom annual report survey

What is the purpose of the survey?

- to determine how stakeholders rate the current annual report in respect of its content, format and appearance
- to determine what additional information stakeholders want to see in future reports
- to determine which annual report format stakeholders prefer

What will Eskom do with the results of the survey?

- add content or review content for future annual reports
- change the design of the annual report

Introduction

We strive to make our annual report as informative, relevant and interesting as possible. Please take a few minutes to give us feedback on your impressions.

Section A: Respondent profile

1. What stakeholder group do you represent? (Tick the appropriate box/boxes)

NGO/NPO	
Organised business	
Government	
Academia	
Eskom employee	
Eskom supplier	
Eskom customer:	
– Industrial customer	
– Commercial customer	
– Agricultural customer	
– Residential customer	
Other (please specify)	

2. Which report format do you prefer

The printed report	
The online version (website) of the report	
CD version	

Section B: Rating of current annual report

3. Indicate the degree to which you agree or disagree with the following statements? Mark your response with an X in the appropriate box.

Statement	Strongly agree	Agree	No opinion	Disagree	Strongly disagree
It is easy to find the information I am looking for in the printed version of the annual report, namely the index, colour coding and tabs are user friendly					
It is easy to find the information I am looking for in the on-line version of the annual report, that is the search facility and dropdown menus are user friendly					
The annual report contains sufficient information on the issues that I require information on					
I would like to see additional issues addressed in the annual report					

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Eskom annual report survey continued

4. Rate the following elements contained within the annual report. Mark your response with an X in the appropriate box.

Element	Excellent	Good	Average	Poor	No opinion
Key facts					
Executive summary					
Chairman's report					
Chief executive's report					
Business performance report					
Financial report					
Financial tables					
Graphs					
Visuals and photographs					
Case studies					
Research summaries					
Stakeholder comments and quotes					
General layout					
Spiral binding					

5. Rate your satisfaction with the following information contained in the report. Mark your response with an X in the appropriate box.

Information content	Excellent	Good	Average	Poor	No opinion
Current supply situation					
Solution to supply shortages					
Future supply capacity situation					
Power station and plant performance					
Pricing of electricity					
Energy efficiency					
Climate and environmental affairs					
Safety matters					
Details of staff composition and skills situation					

Section C: Additional information requirements

6. Please list two key issues/topics – not already covered in the report – that you want Eskom to include in future annual reports.

1.	
2.	
3.	I do not require additional information to be included in future reports

Thank you for your participation.
Please return your questionnaire to Eskom, choosing one of the following options:

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BASTION GRAPHICS

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