ANNUAL FINANCIAL STATEMENTS
31 March 2019

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The annual financial statements were prepared under the supervision of the chief financial officer (CFO), C Cassim CA(SA). The financial statements have been audited in compliance with section 30 of the Companies Act and approved by the board of directors (the board) on 18 July 2019.

The audited financial statements of the group and Eskom as at and for the year ended 31 March 2019 are available for inspection at the company's registered office and on the Eskom website at www.eskom.co.za and were published on 30 July 2019.

DIRECTORS' REPORT

for the year ended 31 March 2019

The directors are pleased to present their report for the year ended 31 March 2019.

Nature of the business

Eskom is South Africa's primary electricity supplier that generates, transmits and distributes electricity to local industrial, mining, commercial, agricultural, residential and redistributor (metropolitan and other municipalities) customers as well as to utilities and end-customers in the Southern African Development Community (SADC). Eskom also purchases electricity from independent power producers (IPPs) as well as utilities and private suppliers in the SADC region.

Eskom is a state-owned enterprise with the minister of the Department of Public Enterprises (DPE) as the shareholder representative. The state is the only shareholder in Eskom.

The company's head office is in Johannesburg. The nature of the business of the significant operating subsidiaries is set out in note 12 in the annual financial statements. The business objective of these subsidiaries is mainly for the sole benefit of Eskom.

Overview of the year

A high-level summary of the pertinent issues that characterised the year under review is presented below. Additional information, where relevant, is contained in relevant sections of the directors' report, annual financial statements and integrated report.

The performance for the year was marked by the following key factors that had a negative impact on the business:

- loadshedding in June and July 2018 due to industrial action. There was also loadshedding in November and December 2018, as well as February and March 2019, as a result of a deterioration in generating plant performance
- liquidity constraints and increasing debt levels
- flat sales growth
- an increase in overdue debt

Operational performance

The coal fleet plant performance deteriorated to the extent that stage 4 rotational loadshedding had to be implemented to ensure system sustainability. A dedicated team was established to manage the performance of the coal fleet and a nine-point recovery plan, stress-tested by external parties, was developed to turn the generation performance around. The use of the generation fleet, specifically the coal fleet with an average age of 37 years, is stretched beyond its limits and exceeds international norms.

Good progress was made in bringing the remaining units of the Medupi and Kusile power stations online. There are, however, some concerns about the performance of these units as defects were identified. There are solutions to some of the defects but it will take time to solve the design defects. Eskom's engineers, with support from external expertise, are investigating options to improve the generation performance. Recovery will be made from external parties where the defects are their responsibility.

Financial performance

Eskom has three sources of funding namely revenue, borrowings and shareholder support.

A strategic turnaround plan was approved by the board in November 2018. The plan was based on four pillars, with the assumption that these have to be effected simultaneously to address the reality of Eskom's challenges of liquidity constraints, inadequate tariffs, deteriorating plant performance and over-reliance on debt that had an impact on Eskom's financial and operational sustainability. The pillars are:

- financial support (balance sheet optimisation) from the Government of South Africa (government)
- cost curtailment
- tariff increases through the National Energy Regulator of South Africa (NERSA)
- functional separation of Eskom into individual entities

The plan was based on the following key assumptions:

- debt relief of R100 billion by November 2019
- cost curtailment initiatives producing R33 billion by 2023
- a tariff increase of 15% for 2020 and 12% per annum thereafter
- ring-fencing of the business entities by 2023

There was however a negative impact on the group's financial position as a result of the following developments that occurred since the turnaround plan had been approved:

- government announced support of only R23 billion per annum for 2020 to 2022
- NERSA granted an increase of 9.41% in 2020 plus increases of 4.41%, 8.1% and 5.2% in 2020, 2021 and 2022 respectively on the regulatory clearing account (RCA)

Revenue is determined through the regulatory process with NERSA where there was a net revenue shortfall of R119 billion, consisting of R102 billion over the three years of the Multi-Year Price Determination (MYPD) 4, together with the RCA decision for year two to four of the MYPD 3 period of R17 billion. NERSA allowed Eskom a return on assets of 1.5% with a weighted average cost of capital of 6.9% (pre-tax real) in the MYPD 4 revenue decision that was announced on 7 March 2019. The government support of R23 billion per annum for 2020 to 2022 was however deducted from the allowed return of 1.5%, resulting in a negative return of R9 billion per annum over the three-year period of the application. The total amount allowed for depreciation and return on assets was therefore not enough for Eskom to cover its debt commitments.

These developments resulted in a total deficit of R150 billion over the 2020 to 2022 period. The situation was exacerbated by Eskom's operational challenges, with plant performance weakening to levels below expectations, which necessitated the extensive use of the expensive open-cycle gas turbine (OCGT) generating capacity.

The Eskom Group 2020 to 2022 Corporate Plan was submitted to the shareholder on 31 March 2019 for approval. The plan sets out five proposed scenarios for a collaborative solution between Eskom and government, based on liquidity support and debt relief from government. The plan was prepared in line with the turnaround plan and was based on a preferred financial scenario that incorporated the required liquidity and balance sheet optimisation that best addressed the structural, financial and operational challenges confronting Eskom, thereby placing the business on a trajectory towards financial sustainability.

The group saved R9.9 billion against a target of R10.6 billion in terms of the cost containment plan during the year, although the savings were negated by significantly higher primary energy costs as well as the above-inflation wage settlement and once-off payment to bargaining unit employees.

Eskom borrowed R63.3 billion during the year with the borrowing limit reaching saturation due to Eskom's weak balance sheet. The only option left, other than an increase in guarantees, was shareholder support.

The board approached the shareholder for support and met with the Ministers of Public Enterprises and Finance on several occasions who pledged their support to Eskom. The Minister of Finance announced support of R23 billion per annum over a three-year period in the 2020 budget speech.

The board approached the shareholder again once it had realised that the government support was not sufficient, considering the non-realisation of some of the four pillars in the turn-around plan.

The President of South Africa announced in his State of the Nation address delivered on 20 June 2019 that government would urgently table a special appropriation bill to allocate a significant portion of the R230 billion fiscal support over the next 10 years in earlier years as Eskom was seen as vital to the economy of the country.

Government announced in February 2019 that Eskom would be restructured into separate business entities. It is expected that government will appoint a chief restructuring officer soon, who will be expected to reposition Eskom financially with careful attention to the mix between revenue, debt and the cost structure of the company. The board has continued with the process to separate the business into the main line divisions in preparation for legal restructuring.

The board concluded, based on the understanding by the shareholder of Eskom's situation and the undertaking of additional support, that it had not been trading recklessly at any time during the year and that the group was a going concern. The details considered by the board when assessing the group's ability to continue as a going concern are included in note 3.2 in the annual financial statements. It is important that strategies materialise as envisaged subsequent to the going concern assessment period for Eskom to be sustainable into the future.

The impact of the economic downturn on mining operations and lower cross-border sales resulted in a flat sales growth. The financial performance was further impacted by the increase in municipal and Soweto overdue debt even though numerous interventions to recover debt were instituted that did not yield the desired results. It is critical that an amicable solution is found for this challenge through the Inter-Ministerial Task Team in collaboration with all relevant parties.

Governance and compliance

The initial focus of the board appointed in January 2018 was to root out financial mismanagement, malfeasance and maladministration, the elimination of which is critical to restore transparent and effective governance. The ongoing internal and external enquiries and investigations into state capture also negatively impacted on Eskom's reputation. Significant progress was made in addressing these issues, even though the board acknowledges that there is still work to be done.

The focus of the board shifted to operational sustainability improvement, the completion of Medupi and Kusile power stations, strengthening of the financial health of Eskom and reviewing the structure of the organisation.

Progress was made in clearing the reportable irregularities that had previously been reported. Some irregularities will remain open until all related aspects have been concluded, such as the finalisation of court cases or conclusion of investigations by external parties. The new reportable irregularity that was raised at year end resulted from procedural non-compliance with legislative requirements. The detail relating to reportable irregularities is set out in note 52 in the annual financial statements.

Good progress was made in addressing the audit qualification relating to the completeness of irregular, fruitless and wasteful expenditure and losses due to criminal conduct. Enhancements to improve the Public Finance Management Act (PFMA) reporting process were implemented. The commercial processes and related governance were also improved, with a focus on clearing the backlog relating to the commercial non-compliance issues. Approximately 20% of the irregular expenditure of R6.6 billion reported in 2019 related to new transgressions. The remainder of the reported expenditure related to open contracts that can only be closed once the relevant transgression has been condoned. There is unfortunately still work to be done to ensure an unmodified audit opinion as it is a lengthy process to address and embed a project of this nature.

The external auditors also highlighted some concerns in their opinion relating to the usefulness and reliability of certain key performance indicators in the shareholder compact as well as certain targets that had not been met. They also highlighted that there were some deficiencies relating to revenue, expenditure, procurement, contract and consequence management in the group. Management is in the process of addressing these challenges.

Lifestyle audits of executive senior managers were completed and are being cascaded down to lower levels in the organisation. Several employees with a conflict of interest were identified and disciplinary action was taken where necessary. Some employees resigned or relinquished their business interests as a result of the lifestyle audits.

Eskom is no longer doing business with suppliers where there were non-compliances with procurement and supply chain management procedures. Monetary recovery from suppliers was instituted where relevant and R1 billion was successfully recovered during the year.

The number of executive positions was reduced from 21 to nine and further optimisation of the organisational structure is planned as a first step to restructure and optimise the organisational structure. Certain key managerial appointments were also made to stabilise leadership, in particular, in the generation environment.

Operational performance

Loadshedding was unfortunately required on a total of 30 occasions during the past financial year. Excessive use was made of both Eskom and IPP OCGTs to avoid or minimise the impact of loadshedding. The cost of running the OCGTs is far cheaper to the country than loadshedding, even though it had a negative impact on Eskom's liquidity. Loadshedding was implemented as follows:

- from 14 to 16 June 2018 after wage negotiations broke down and some trade union members embarked on illegal industrial action. Acts of intimidation and obstruction of access for personnel and coal deliveries by road had an impact on generating operations
- on 31 July 2018 because of illegal industrial action as no performance bonuses were allocated for 2018
- from 18 November to 8 December 2018 (11 days) to maintain system stability and manage emergency resources. The load shedding was caused by poor generating plant performance that resulted from significant levels of unplanned breakdown. These unplanned breakdowns resulted in full and partial load losses
- from 10 to 14 February 2019 and again from 14 to 23 March 2019 to stabilise the power system due to poor generation plant availability, low diesel fuel levels at OCGT power stations and low water levels at pumped-storage stations. The situation in March 2019 was exacerbated by the loss of approximately 1 000MW of supply from Hidroeléctrica de Cahora Bassa in Mozambique due to the impact of cyclone Idai

Generation recovery plan

A nine-point recovery programme was developed to address the poor performance of the generation plant. A dedicated team was established to ensure the successful planning and execution of the programme. Detailed implementation plans were developed and progress is tracked and reported to management on a biweekly basis.

The key scope elements of the programme and the progress on the implementation of these are as follows:

- *Fix new plant*
  The new plant at Ingula, Medupi and Kusile power stations had not achieved the desired levels of performance and reliability due to a combination of plant design defects and operational and maintenance inefficiencies. Six major defects were identified at Medupi and Kusile power stations and one at Ingula power station.

  A plan to resolve the major plant defects and improve the inefficiencies in the operation and maintenance of the new units is being executed and has been closely monitored since December 2018. Contractors will be held accountable for plant design defects at their cost, within the provisions of the contract and defect correction period, where relevant.

  The implementation and testing of a solution to resolve the defects at Ingula power station commenced in June 2019 and is planned to be completed before the end of July 2019.

- *Fix load losses and reduce power station trips*
  Power station unit trips remain a key area of concern as these contribute to the poor system performance. Detailed implementation plans to address issues at the four power stations with the most trips, namely Duvha, Majuba, Tutuka and Kriel, are being finalised. Trip reduction processes and procedures are also being established at Medupi and Kusile power station. The operating performance of Medupi power station is showing signs of improvement, from 19 trips in January 2019 to four in April 2019 and three in May 2019.

- *Fix units on long-term forced outages*
  Plans are in place to better manage long outages to return units to service within a reasonable time frame. Major incidents result in long outages and typically require extensive repair work, with the procurement process and equipment lead times adding to the length of outages. Good progress was made during the year with the return to service of a number of units, including Duvha unit 4, Kriel unit 2, Grootvlei unit 2 and Matla unit 5, which had been on extended outages.

- *Fix partial losses and boiler tube leaks*
  Good progress was made in clearing partial load losses. The successful clearing of load losses through scheduled philosophy outages depends on effective planning, outage readiness, execution of the full scope of the outage and the quality of work during execution. Although some work can be executed while units are on load, additional outages are required to sustainably address partial load losses. The granting of additional outages is a challenge while the system remains constrained.

  The relaunch of the tube leak reduction and management programme is a focus area. Annual boiler tube leak compliance reviews were done for Kriel, Majuba and Lethabo power stations and detailed plans will be developed based on the reviews as well as the boiler tube failure performance to address challenges.

- *Fix outage duration and slips*
  Detailed mechanisms are being implemented to monitor outage readiness including focusing on spares and resource availability. Contracts are also being secured with original equipment manufacturers to improve spares availability. The post-outage unplanned capacity load factor improved in 2019 but it was still above the target of 12% and was negatively impacted by high unplanned losses incurred after the Medupi unit 6, Duvha unit 2, Tutuka unit 6 and Kriel unit 5 outages were completed.

- *Fix human capital*
  The filling of critical vacancies is a key element of the recovery plan as the appointments are expected to bring some stability to the division with clear direction to employees. Mr B Nxumalo was appointed as the Group Executive (GE): generation effective 1 July 2019. A structured process to fill critical vacancies in generation is in progress.

- *Prepare for increased OCGT usage*
  The average diesel stock levels were above 50% during the year, but there were instances where short-term diesel shortages prevented the use of the OCGTs. Eskom's diesel supply logistics are not set up for excessive use and requires accurate projections to ensure timely planning and delivery of diesel. Eskom is implementing corrective action to prevent a recurrence of the diesel shortages experienced in March 2019, which partly contributed towards loadshedding.

  Dam levels at pump-storage stations are managed to ensure the availability of the plant when required to minimise the use of OCGTs.

- *Prepare for rain*
  Eskom has seven power stations where there is a risk that coal can get wet. The risk of wet coal is lower during the drier season in winter. A target has been set to have 14 days of the total stockholding in dry coal stock, stored in a way that it does not get wet, in case of an emergency. Three of the seven stations were below the targeted 14-day minimum dry coal stock levels at 31 March 2019.

- *Fix coal stockpiles*
  The normalised coal stock levels improved significantly from 25 days in October 2018 to 36 days by 31 March 2019 (2018: 36 days). The normalised coal stock day figure is calculated by adjusting the total stock days with the stock at power stations that have not yet been fully commissioned or where certain units have been placed in cold reserve. The coal stock unfortunately remained below Eskom minimum expected levels at nine power stations, but it is anticipated that the coal stock days will be at required levels by the end of December 2019.

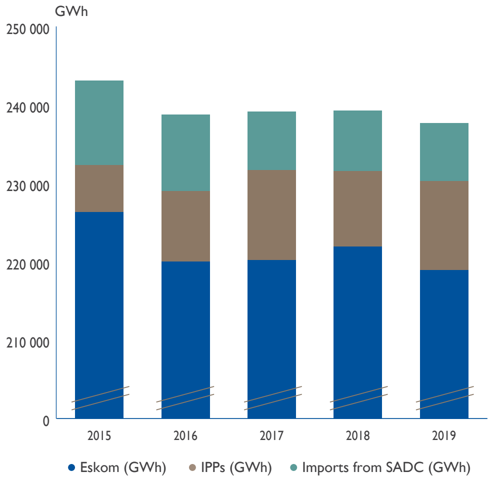
Technical performance

The energy availability factor of the generating plant decreased considerably from 78% in 2018 to 70% in the current year. The decrease was attributable to an increase in both planned and unplanned maintenance of coal-fired plant compared to the prior year. It is important to note that the energy utilisation factor (EUF), a measure of how hard a power station runs, increased significantly when compared to 2018. The high EUF was largely due to the coal-fired power stations that ran at an average EUF of 90.2% compared to 80.6% in 2018, where the EUF was greater than 90% for eight of the 15 coal-fired stations. These levels of EUF far exceed international norms and design parameters, and indicate that the power stations are being run extremely hard, which will have an impact on future reliability due to the stress placed on the plant.

Particulate emissions of 0.47kg/MWhSO reflected a decline from the 2018 performance of 0.27kg/MWhSO. This was the worst performance in 20 years and was mainly caused by the emissions from the Kendal and Tutuka power stations. Water usage relating to power station operations worsened to 1.41l/kWhSO compared to 1.30l/kWhSO in 2018. Plans are in place to improve both particulate emissions and water usage.

Production from Eskom generation sources decreased from 2018 because of a decline in electricity sales and an increase in production from IPPs. The production from IPPs increased by 18% from 9 584GWh in 2018 to 11 344GWh in 2019.

The graph below reflects the breakdown of the group's production sources indicating the growth in production from IPPs with a decline in production from Eskom sources.



The transmission network continued to perform well. The transmission system less than one minute performance was still within the target of 3.53, although the performance worsened from 2.09 in the prior year to 3.16 minutes in 2019.

The performance of the distribution network was in line with that of the prior year, although there was an increase in the average interruption duration. The age of the network is a concern and significant funding will be required to improve network performance. The total technical and non-technical distribution line losses increased from 7.73% in the prior year to 8.47% in 2019. Energy theft remains a major concern with an estimated cost impact of R1.7 billion (2018: R1.4 billion) during the year. Vandalism of infrastructure often results in losses contributing to the increase in line losses.

The group's safety performance remains a concern, particularly in light of the number of fatalities and serious injuries suffered by employees, contractors and the public during the year. Unfortunately, despite the group's commitment to safety, there were three (2018: three) employee, three (2018: 11) contractor and 22 (2018: 26) public fatalities.

Capacity expansion programme

The capacity expansion programme that started in 2005 to build new power stations and reinstate mothballed power stations as well as increase high-voltage transmission power lines and transformer capacity is expected to be completed by 2023. The programme aims to increase installed generation capacity by 17 384MW, transmission lines by 9 756km and transmission substation capacity by 42 470MVA. The installed generation capacity increased by 10 750MW, transmission lines by 7 848km and substation capacity by 37 440MVA at a cost of R383.4 billion excluding borrowing costs from the inception of the programme to the end of 2019.

Operational performance (continued)

Capacity expansion programme (continued)

Unit 2 of Kusile and units 3 and 2 of Medupi power station were synchronised to the grid during the year and contributed intermittently to the national grid. It is expected that all the units of Medupi power station will be synchronised or in commercial operation by 31 December 2019 with the last unit in commercial operation by June 2020. The last unit of Kusile power station is expected to be placed in commercial operation by 2023. The total approved budget for the Medupi and Kusile projects was R145 billion and R161 billion respectively, excluding interest during construction, with the projected cost to completion at R135 billion and R156 billion respectively.

During the year, 378.7km of high-voltage transmission lines and 540MVA of substation capacity were installed and commissioned.

Progress was made on the electrification programme during the year with 191 585 households connected. The total number of households connected to the grid since 2013 is in excess of 1.2 million.

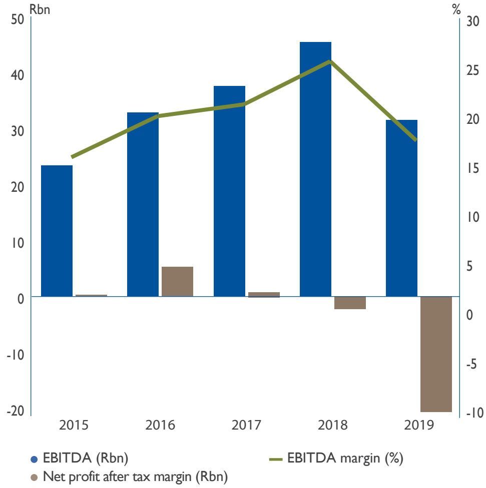
Refer to page 108 of the integrated report for more information.

Financial performance

The group's financial health has been deteriorating over the past few years and is not at an acceptable level. The financial performance of the group for the year weakened further with most of the financial ratios being worse than in 2018.

The net loss after tax for the group was R20.7 billion (2018: R2.3 billion), reflecting a decline of R18.4 billion, mainly because of a decrease in earnings before interest, tax, depreciation and amortisation (EBITDA) as well as increased depreciation and net finance cost. The EBITDA of R31.5 billion in 2019 compared to R45.4 in 2018 decreased by R13.9 billion mainly as a result of increased primary energy expenditure.

The graph below reflects a steady growth in the EBITDA and EBITDA margin with a decline in 2019 and a gradual decline in the net profit after tax.



Revenue increased by R2.5 billion from R177.4 billion in 2018 to R179.9 billion in 2019, and there was a decrease in total electricity sales volume of 208 319GWh compared to 212 190GWh in the prior year. The local electricity sales decreased by 1 064GWh and international sales by 2 807GWh mainly as a result of the impact of the economic downturn on mining operations and lower cross-border sales because of improved water levels that enabled more self-generation by international customers.

Revenue was lower by R2.2 billion with a related impairment reversal of R1.3 billion because of the implementation of International Financial Reporting Standard (IFRS) 15 *Revenue from contracts with customers* where all revenue from customers that does not meet the collectability criteria is now recognised on a cash basis.

Primary energy cost increased to R99.5 billion (2018: R85.2 billion). Coal costs increased by R4.3 billion, IPPs by R5.6 billion and international purchases by R1.0 billion. The OCGT usage increased by R3.4 billion from R0.3 billion in 2018 to R3.7 billion in 2019 as both the Eskom and IPP OCGTs were used extensively to avoid or minimise the impact of loadshedding. The IPP costs increased due to the higher production, but it remains a concern that IPP purchases were 4.8% of total generating production, while their cost represented 25% of the total primary energy cost.

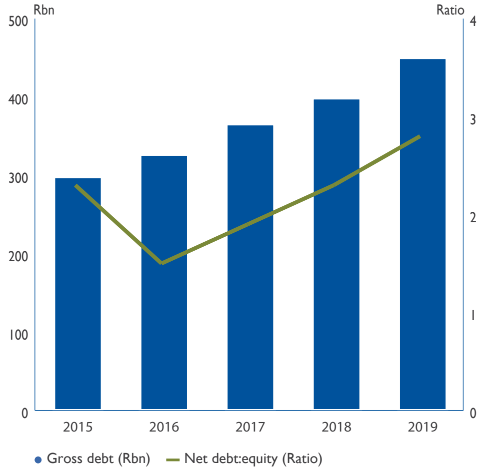
The headcount for employees including fixed-term contractors reduced from 48 628 in 2018 to 46 665 in 2019 through natural attrition. Employee benefit expenses increased by R3.8 billion from R29.5 billion in 2018 to R33.3 billion this year, a 12.9% increase. The increase is only 8.8% if the impact of provisions reversed in 2018 is taken into account.

Depreciation increased by R6.7 billion because of the additional units at Medupi and Kusile power stations that were put into commercial operation as well as accelerated depreciation of the Komati power station as its estimated useful life changed.

Net finance cost increased by R4.4 billion due to the higher debt and borrowings. The capitalisation of borrowing costs remained constant from 2018 to 2019 as more units of Medupi and Kusile power stations were placed in commercial operation.

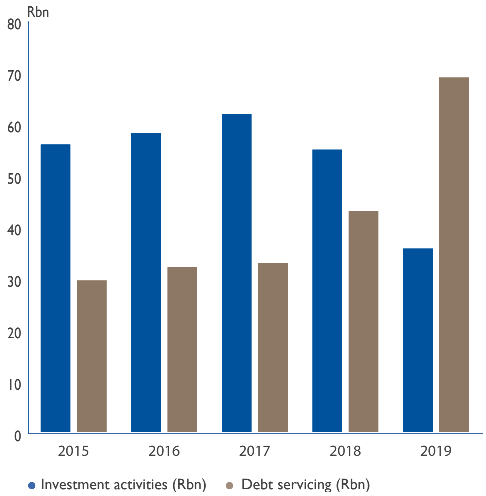
The financial health ratios relating to the statement of financial position deteriorated, with the net debt-equity ratio at 2.8. The gross debt increased by R51.6 billion during the year and equity decreased by R17.2 billion mainly as a result of the net loss during the year. The growth in debt was the only option available to fund Eskom in 2019 as NERSA did not allow the tariffs as requested and there was no support from government.

The graph below reflects the growth in gross debt and the decline in the debt-to-equity ratio. The average growth in gross debt had been 10.9% per annum since 2015.



The net cash from operations of R32.7 billion during the year was not sufficient to service debt and fund some of the capital expenditure. While the group's investment activities decreased as the capital expansion programme is nearing completion, cash required for servicing of debt increased substantially from R43.4 billion in 2018 to R69.4 billion in 2019.

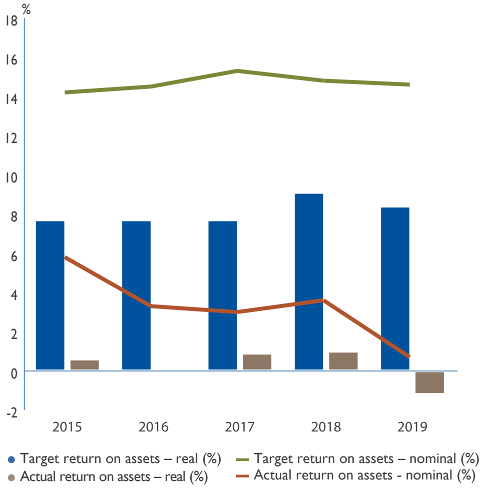
The graph below reflects the decrease in investment activities and increasing debt servicing activities over the last few years.



Eskom's financial health deteriorated over the last few years as the return on assets did not meet the required targets (weighted average cost of capital). The growth in expenses compounded by the fact that the price of electricity is not cost-reflective. Cost savings alone will not resolve Eskom's financial health issues and the price of electricity has to migrate towards cost-reflectivity if Eskom is to become a sustainable business. Several independent studies, including one by NERSA, indicated that the average price of electricity should be approximately 120c/kWh compared to Eskom's current price of 90c/kWh to recover cost.

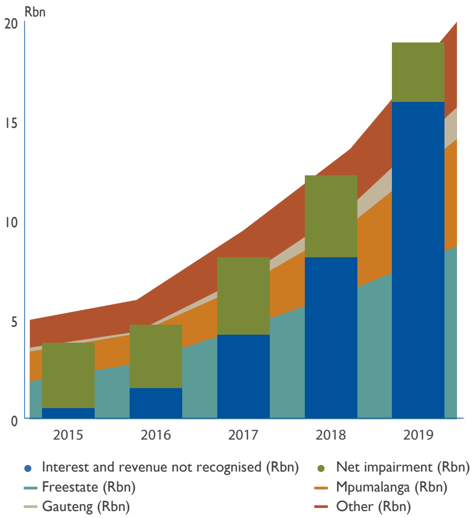
Financial performance (continued)

The graph below demonstrates the considerable difference between the pre-tax targeted return on assets (nominal and real) and the pre-tax actual return on assets (nominal and real).



The total gross overdue debt was R35.7 billion of which municipalities represented 56% and Soweto 37%.The total gross municipal overdue debt increased by R6.3 billion to R19.9 billion of which the Free State owed 44%, Mpumalanga 27% and Gauteng 8%. The total gross overdue debt for Soweto increased by R1.2 billion to R13.3 billion.

The graph below reflects the increase in the overdue municipal debt per province and the breakdown between the net impairment and interest and revenue not recognised since 2015.



No progress was made in recovering the outstanding amounts despite several attempts that were made during the year, including court action, cut-offs and debt restructuring. Eskom is working closely with the Inter-Ministerial Task Team that was tasked to find an amicable solution to this challenge for the country.

The group funded expenditure on property, plant and equipment and intangible assets for the year was R30.4 billion, of which R18.3 billion related to the construction of assets to expand the asset base and R12.1 billion was spent on refurbishing or replacing the existing asset base. The main reason for the reduction was the slowdown of construction activities at the Medupi and Kusile power stations as these projects are nearing completion.

Funding

Funding of R63.3 billion was raised during the year against an initial funding plan of R72.1 billion. The sustainability of Eskom's liquidity position and medium-term ability to raise funding remains at risk.

It became evident towards the end of the financial year that there were challenges with the drawdown of secured, committed and new funding due to the uncertainty around the future restructuring of Eskom, the impact of loadshedding and ongoing concerns regarding Eskom's financial position. Eskom had to, as a result, request advance payment of R13.5 billion of the government support in April 2019.

The borrowing programme for 2020 to 2024 envisaged that Eskom would raise R207 billion from development finance institutions (DFIs), export credit agencies (ECAs), and domestic and foreign bond issuance. The funding plan for 2020 is R46.2 billion of which 58% had already been secured by June 2019.

Eskom makes use of a guarantee of R350 billion from government to secure funding. The committed and drawn down funding against the guarantee at 31 March 2019 was R308.6 billion, with R41.4 billion available for further use.

Economic regulation

The tariff increase allowed by NERSA for 2020 equates to 13.87% when the impact of the RCA is included.

The information provided by NERSA regarding the 2019 revenue decision seems to indicate that it did not consider Eskom's sustainability which is in contravention of its mandate. Eskom lodged a high court review to set aside NERSA's revenue decision for 2019. The board also approved a request for a review through a high court application of NERSA's reasons for the decision on the RCA balance of R32.7 billion for year two to four of MYPD 3 which was implemented on 14 February 2019.

Refer to page 85 of the integrated report for more information.

Governance and compliance

The board implemented measures to address issues relating to corporate governance breaches that had surfaced in the past in an effort to restore Eskom's reputation as a trusted state-owned enterprise and place the organisation on a path towards achieving financial and operational sustainability.

Eskom is co-operating with regulatory bodies and law enforcement agencies that are conducting major investigations into matters of fraud and corruption affecting the organisation. This is a lengthy process with legislative requirements that must be adhered to, as well as the resulting actions and remedial recourse to the issues. Eskom nevertheless made significant progress on addressing a number of governance issues. More than 95% of the 1 049 outstanding disciplinary cases relating to procurement breaches at April 2018 were finalised, with approximately 12% of these cases resulting in employee exits.

The lifestyle audits of 365 senior Eskom employees were completed, with the objective of ensuring that senior employees comply with the highest standards of compliance, ethics and integrity and are not engaged in illicit activities in the performance of their duties. The first phase of the lifestyle audit project is approximately 98% complete with 12% of the employees assessed considered to be high risk. Information relating to the employees assessed as high risk was handed over to the Special Investigating Unit for further investigation.

Remedial action was taken against 25 employees with interests in suppliers doing business with Eskom. Seven of these cases resulted in employee exits, while the remainder relinquished their business interests.

These measures are a key component of the board's plans to root out corruption and to instil a renewed culture of honesty, transparency, good governance and ethical leadership which is required to achieve the common objective of sustainability.

The board remains committed to the implementation of King IV™, together with an overall improvement in governance and ethics, to align the organisation with its stated values. The board concedes that certain of the King IV™ principles need to be effectively implemented once the governance improvement has been completed.

PFMA compliance

Various improvements to the PFMA reporting process were implemented during the year including enhancing the PFMA procedure to clarify roles, responsibility, accountability and recovery of monies from relevant individuals. PFMA training was provided for employees and the divisional PFMA teams were strengthened.

It is expected that new instances of irregularities will be detected as the group continues with its governance clean up. New instances of non-compliances are investigated and appropriately addressed, and the related irregular expenditure is reported as required. Approximately 20% (R1.5 billion) of the irregular expenditure of R6.6 billion reported in 2019 related to new transgressions. The rest of the reported expenditure related to transgressions that had either been identified in prior periods and was continuing until the related contract was condoned (R1.7 billion) or prior year transgressions that were identified in 2019 (R3.4 billion). Transgressions can only be closed once condoned and therefore irregular expenditure will continue to be incurred on open contracts until the related transgression has been condoned. Eskom is in the process of obtaining condonations from the relevant authority including from National Treasury.

Several steps were taken during the year to improve the governance and clean-up of the supply chain process.

The decision-making for single-source and emergency procurement was elevated to executive management level. The approval process for condonations was enhanced, and condonations can now only be approved by divisional tender committees, the Board Investment and Finance Committee or National Treasury.

An online tendering system was developed and implemented to enhance compliance and streamline the process. Suppliers can now submit tenders and supporting documentation, such as tax certificates, electronically.

The clean-up process that initially focused on reviewing all contracts over R1 billion is over 90% complete and 70% of new contracts placed during the year were reviewed for compliance. Contracts were terminated or suppliers sanctioned where non-compliance with procurement and supply chain management procedures was identified, and Eskom is no longer doing business with these suppliers. The control of records in a central repository was identified as an area for improvement. Eskom is rolling out system improvements to assist with this issue.

Governance and compliance (continued)

PFMA compliance (continued)

The interpretation of the Preferential Procurement Policy Framework Act (PPPFA), modifications and tax certificates was clarified and procedures were updated to align these with National Treasury instructions and guidelines.

A dedicated team was established to manage the condonation process, provide guidance and investigate high-value transactions. Functional compliance officers were trained on conducting investigations and preparing reports for the relevant authorising committees when reviewing condonations. Disciplinary action has to be instituted before any transgression can be condoned.

There was a marked improvement in the cleaning up of previously identified irregular expenditure, but additional irregular expenditure was identified and reported during the year. It is recognised that more work is required to ensure that all the challenges are addressed.

The key outstanding matters include the following:

- *Panels of suppliers*
  Panels are established through an open tender process to identify service providers for the same type of service and task allocation is managed through a committee to ensure fair distribution of work between suppliers. Eskom uses panels widely, especially in the distribution environment and for electrification projects, to allow for flexibility and quick decision-making. National Treasury has however introduced the concept of panels for emergency procurement only, resulting in irregular expenditure.
- *Broad-based black economic empowerment (B-BBEE) certificates*
  Eskom introduced an online tendering system to enhance the process where suppliers can submit tender documents and scanned copies of original B-BBEE certificates electronically. The National Treasury guideline stipulates that certificates must be originals or original certified copies and not scanned copies, resulting in irregular expenditure.
- *Contracts management*
  The process for entering into a contract was enhanced, but the group needs to improve the process to manage a contract throughout its life to avoid modifications or other irregularities.
- *Designated sectors*
  The group needs to enhance its information systems so that relevant information on designated sectors is available to assist in implementing procurement legislation.
- *Modifications*
  The process to manage modifications was enhanced and no new issues were identified. The opening balances of modifications have not yet been cleared due to a backlog of work.

Fruitless and wasteful expenditure of R0.6 billion was reported during the year. Losses due to criminal conduct of R2.0 billion, of which R1.7 billion related to non-technical energy losses including energy theft, were reported during the year. It remains a challenge to address losses due to criminal conduct and the group continues to co-operate with all regulatory bodies and law enforcement agencies in dealing with matters of a criminal nature.

Board and executive committee changes

The board shall consist, in terms of the memorandum of incorporation, of a minimum of three and maximum of 15 directors, with the majority being non-executive directors. There is a need for the appointment of more directors to meet this requirement, especially taking into account the challenges that the organisation is facing.

The following changes to the non-executive directors occurred during the year:

Non-executive directors	Comment
MJ Lamberti	Resigned on 6 April 2018
JM Molisane[1]	Resigned on 18 September 2018
J Sebulela	Resigned on 19 October 2018

1. *JM Molisane was employed by the DPE and was considered to be a shareholder representative and therefore not deemed independent.*

The following changes to the executive committee occurred during the year:

Executive committee members	Comment
PS Hadebe	Appointed as group chief executive (GCE) on 1 June 2018 Resigned with effect 31 July 2019
C Cassim	Appointed as CFO on 1 December 2018
A Etzinger	Appointed as acting GE: Generation on 1 November 2018 GE: Generation position no longer part of executive committee from 1 January 2019
T Govender	Resigned on 31 January 2019
NB Hewu	Appointed as joint head of legal on 1 January 2019
WF Majola	Retrenched on 31 December 2018
AA Masango	Resigned on 16 November 2018
SJ Mthembu	Appointed as joint head of legal on 1 January 2019
A Noah	Retrenched on 31 December 2018
MM Ntsokolo	Retrenched on 31 December 2018
JA Oberholzer	Appointed as chief operating officer on 16 July 2018
HJ Steyn	Acted as GE: group capital until 8 May 2018
MS Tshitangano	Appointed as GM: procurement on 1 January 2019
N Zibi	Acted as chief information officer until 31 December 2018 Chief information officer position no longer part of executive committee from 1 January 2019

Refer to page 61 of the integrated report for more information.

Human resources

The 2020 to 2023 Human Capital Plan focuses on workforce optimisation, building critical capabilities, improving staff morale and aligning transformation targets contracted with the shareholder.

Workforce optimisation

Several employee benefits cost-saving initiatives that take cognisance of socio-economic challenges were introduced, including identification of inefficiencies, as well as initiatives to reduce staff levels. The overall headcount decreased by 1 963 to 46 665 during the year, but staff levels remain a challenge. A moratorium is in place on all external recruitment and it is expected that the headcount will be reduced to 42 151 by 2024 through natural attrition.

Building critical capabilities

A recent independent skills audit indicated that most employees possessed the necessary skills and were capable of completing their job tasks. Eskom is in the process of filling 3 638 core and critical vacancies through an internal redeployment process and limited external sourcing. This will be achieved within the current financial constraints.

Aligning transformation targets

The group's employment equity plan aims to achieve employment equity, assist in eliminating unfair discrimination in the workplace and achieve equitable representation of employees from designated groups. The ability to achieve the employment equity targets were impacted by limited recruitment and promotion opportunities as a result of the group's financial constraints.

The racial and gender equity at senior management level, as well as middle management and professionally qualified levels, improved during the year. The group achieved the disability equity target. It was recognised that not all the facilities catered for disabled employees and therefore their needs were addressed on an individual basis.

The group remained committed to skills development despite the current financial constraints. The training spend as a percentage of gross manpower costs was 3.85% (2018: 5.21%) which translated to R1.2 billion (2018: R1.4 billion) of the gross manpower expenditure during the year. The learner pipeline was 2 988 in 2019 which was sufficient to meet the group's future skills requirements.

Refer to page 130 of the integrated report for more information.

Shareholder compact performance

The table below sets out Eskom's performance measured against the shareholder compact that was reviewed by the external auditors. The external audit opinion relating to this review is detailed on page 22. All the key performance indicators (KPIs) in the compact refer to the Eskom company only, with the exception of the lost-time injury rate which is reflected for the group. The 2019 targets were revised, where applicable, in accordance with the shareholder compact addendum signed by the Minister of Public Enterprises on 1 April 2019.

Actual performance against the year-end target is indicated as follows:
- ● Actual performance for the year met or exceeded the target
- ● Actual performance for the year did not meet the target

Key performance indicator	Ref	Unit	Target 2019		Actual 2019	Actual 2018
Focus on safety						
Lost-time injury rate (including occupational diseases)[1]		index	0.34	● (met)	0.31	0.24
Improve plant operations						
Energy availability factor	(a)	%	78.00	● (not met)	69.95	78.00
Planned capability loss factor		%	9.00	● (met)	10.18	10.35
Total system minutes lost for events <1 minute		minutes	3.53	● (met)	3.16	2.09
System average interruption duration index (SAIDI)[2]		hours	38.00	● (met)	38.00	34.90
System average interruption frequency index (SAIFI)[2]		events	19.80	● (met)	14.90	17.50
Distribution total energy losses	(b)	%	7.45	● (not met)	8.47	7.73
Deliver capital expansion						
Generation capacity installed and commissioned (commercial operation)	(c)	MW	800	● (not met)	–	2 387
Transmission lines installed	(d)	km	475.00	● (not met)	378.70	722.30
Transmission transformer capacity installed and commissioned		MVA	540	● (met)	540	2 510
Reduce environmental footprint in existing fleet						
Relative particulate emissions	(e)	kg/MWh sent out	0.33	● (not met)	0.47	0.27
Specific water consumption	(f)	ℓ/kWh sent out	1.36	● (not met)	1.41	1.30
Implementing coal haulage and the road-to-rail migration plan						
Migration of coal delivery from road to rail (additional tonnage transported on rail)	(g)	Mt	11.50	● (not met)	8.20	11.59
Ensure financial sustainability						
Value add per full-time employee	(h)	R million	1.55	● (not met)	1.29	1.56
Cash interest cover	(i)	ratio	1.08	● (not met)	0.91	1.18
Debt/equity (including long-term provisions)		ratio	3.54	● (met)	3.42	2.70
Free funds from operations as % of gross debt	(j)	%	8.42	● (not met)	5.50	8.80
Free funds from operations as % of capex	(k)	%	92.32	● (not met)	74.65	76.68
EBITDA margin[3]	(l)	%	21.38	● (not met)	16.26	24.48
Average debtors days (including Soweto)	(m)	days	78.95	● (not met)	82.50	71.11
Arrear debt as % of electricity revenue	(n)	%	2.02	● (not met)	4.21	2.73
Coal purchase R/ton	(o)	%	9.00	● (not met)	14.06	3.79
Socio-economic impact: human capital						
Training spend as % of gross employee benefit costs		%	3.75	● (met)	3.85	5.21
Learner intake: artisans	(p)	number	92	● (not met)	–	n/a
Learner intake: engineers	(q)	number	16	● (not met)	10	n/a
Learner intake: technicians	(r)	number	11	● (not met)	3	n/a
Learner intake: sector-specific		number	–	● (met)	8	n/a
Disability equity in total workforce		%	2.50	● (met)	3.22	3.13
Racial equity in senior management (black employees)	(s)	%	71.95	● (not met)	69.44	67.97
Gender equity in senior management (female employees)		%	38.72	● (met)	39.90	38.25
Racial equity in professionals and middle management (black employees)	(t)	%	78.37	● (not met)	76.25	75.35
Gender equity in professionals and middle management (female employees)		%	37.83	● (met)	38.63	38.06

Key performance indicator	Ref	Unit	Target 2019	Actual 2019	Actual 2018
Socio-economic impact: economic impact					
Local content contracted (Eskom-wide)		%	70.00	91.51	87.16
Local content contracted (new build)		%	70.00	81.14	85.59
B-BBEE score	(u)	score	4	–	8
Percentage of B-BBEE spend	(v)	% of TMPS	85.00	54.41	74.24[4]
Procurement spend with black-owned suppliers	(w)	% of TMPS	40.00	33.08	40.93[4]
Procurement spend with black women-owned suppliers		% of TMPS	12.00	12.28	15.08[4]
Procurement spend with black youth-owned suppliers		% of TMPS	2.00	2.10	2.58[4]
Procurement spend with suppliers owned by black people with disabilities	(x)	% of TMPS	1.00	0.15	0.11[4]
Procurement spend with qualifying small enterprises	(y)	% of TMPS	10.00	4.47	7.80[4]
Procurement spend with exempted enterprises		% of TMPS	10.00	13.32	9.32[4]
Technology transfer: acquisition of intellectual property	(z)	R million	5.00	1.68	26.11
Technology transfer: skills development		number of people	30	42	63
Socio-economic impact: corporate social investment					
Corporate social investment committed	(aa)	R million	136.00	132.40	192.00

1. *The prior year comparative was restated resulting in three additional occupational disease incidents recognised as a result of subsequent incident information.*
2. *The prior year comparatives have been restated as SAIDI and SAIFI are reported after allowing for exclusions defined in the National Regulated Standards as adopted from 1 April 2018.*
3. *The prior year comparative was restated as a result of a change in methodology from net electricity revenue to total revenue per the income statement.*
4. *The prior year comparative total measured procurement spend excluded expenditure on IPPs.*

Shareholder compact performance (continued)

The reasons for the targets that were not achieved are discussed below:

Ref	Key performance indicator	Target 2019	Actual 2019	Reason
Improve plant operations				
(a)	Energy availability factor	78.00	69.95	An increase in both planned and unplanned maintenance due to poor generating plant performance and having to run the power stations hard as a result of significant levels of full and partial load losses caused a low energy availability factor
(b)	Distribution total energy losses	7.45	8.47	There was an increase in the non-technical component of losses as a result of theft because of ghost vending, meter tampering and illegal connections across all sectors of the customer base. The technical component of losses was due to the ageing of the distribution networks which are often constrained and overloaded
Deliver capital expansion				
(c)	Generation capacity installed and commissioned (commercial operation)	800	–	A strategic decision was taken to prioritise the correction of the design defects of new build plant to ensure significant improvement in plant performance, availability and reliability prior to synchronisation and commercial operation of the units
(d)	Transmission lines installed	475.00	378.70	Stability issues, poor contractor performance and contractor non-financial viability on certain lines had an impact on the transmission lines installed
Reduce environmental footprint in existing fleet				
(e)	Relative particulate emissions	0.33	0.47	The high emissions were mainly due to poor performance at power stations because of a lack of maintenance earlier in the year which was exacerbated by the industrial action in June 2018. There was also poor performance at four power stations due to damaged fabric filter bags which was compounded by the malfunctioning of the ash conveyance systems at two stations. Poor quality coal also had a negative impact on particulate emissions at three power stations
(f)	Specific water consumption	1.36	1.41	Poor water management practices at power stations as well as slow implementation of the water strategy action plans has a negative impact on the water consumption due to water leaks, water wastage through overflowing tanks, low load factors, ashing with cooling water, several unit trips, boiler filling and operational inefficiencies
Implementing coal haulage and the road-to-rail migration plan				
(g)	Migration of coal delivery from road to rail (additional tonnage transported on rail)	11.50	8.20	Less coal was transported by rail due to delays in concluding the Transnet Freight Rail agreement. This was exacerbated by coal mine production problems and community unrest as well as freight rail operations which were disrupted by cable theft and vandalism. Progress was also hampered due to delays in the commissioning of rail services and the placement of contracts for offloading services
Ensure financial sustainability				
(h)	Value add per full-time employee	1.55	1.29	The high primary energy costs were mainly due to the higher coal usage and the extensive utilisation of OCGTs and IPP peakers in an effort to respond to poor generating plant performance
(i)	Cash interest cover	1.08	0.91	The cash generated from operating activities was insufficient to cover the cost of servicing interest repayments as a result of the high debt and liquidity constraints
(j)	Free funds from operations as % of gross debt	8.42	5.50	The below target performance was due to increasing debt levels and a decrease in free funds from operations as a result of poor performance in margins and operating cash flows
(k)	Free funds from operations as % of capex	92.32	74.65	The free funds from operations were insufficient to cover capital expenditure, despite reductions in capital expenditure, as a result of liquidity constraints and poor operating cash flows
(l)	EBITDA margin	21.38	16.26	The EBITDA deteriorated due to a decline in local and international sales volumes, mainly because of loadshedding and load curtailment by key customers and additional customers who failed the collectability criteria accounted for on the cash basis There was higher use of the OCGTs and production from more expensive coal power stations was required to avoid or minimise the impact of loadshedding. The replenishment of coal stock at higher short-term prices also resulted in escalating primary energy costs and declining margins

Ref	Key performance indicator	Target 2019	Actual 2019	Reason
(m)	Average debtors days (including Soweto)	78.95	82.50	The target was not met due to an escalation in municipal debt, low payments levels in Soweto and increased international debt
(n)	Arrear debt as % of electricity revenue	2.02	4.21	The target was not met due to an escalation in municipal debt, low payments levels in Soweto and increased international debt while revenue has stagnated. Eskom has exhausted all avenues within its control to recover outstanding municipal debt, such as interrupting supply to defaulting municipalities and installing prepaid meters in pilot project areas
(o)	Coal purchase R/ton	9.00	14.06	The target was exceeded due to high volumes of short- and medium-term contract coal purchased to address low coal stock levels as well as coal mine production problems at certain cost-plus mines
Socio-economic impact: human capital				
(p)	Learner intake: artisans	92	–	A limited number of new learners were appointed due to the financial constraints, resulting in the target not being achieved
(q)	Learner intake: engineers	16	10	
(r)	Learner intake: technicians	11	3	
(s)	Racial equity in senior management (black employees)	71.95	69.44	Racial equity targets at both occupational levels were not achieved as appointments were minimised because of the financial constraints
(t)	Racial equity in professionals and middle management (black employees)	78.37	76.25	
Socio-economic impact: economic impact				
(u)	B-BBEE score	4	–	Eskom was rated as a level 8 supplier until June 2018 when the certification expired. A new certificate is expected to be issued by the end of July 2019 however, until a new certificacte is issued, Eskom does not comply with the requirements of the B-BBEE Act
(v)	Percentage of B-BBEE spend	85.00	54.41	The procurement spend with these suppliers and enterprises was below target due to an increase in non-compliance due to expired B-BBEE certificates and the implementation of the new B-BBEE Codes, with most suppliers rated at lower levels and the fact that most suppliers did not provide the type of goods and services required by Eskom
(w)	Procurement spend with black-owned suppliers	40.00	33.08	
(x)	Procurement spend with suppliers owned by black people with disabilities	1.00	0.15	The overall performance of these indicators is better if the IPP expenditure is excluded from the total measured procurement spend as Eskom does not control the allocation of the IPP spend as follows: • B-BBEE 65.84% • black-owned suppliers 40.02% • black women-owned suppliers 14.86% • black youth-owned suppliers 2.54% • suppliers owned by black people with disabilities 0.18% • qualifying small enterprises 5.41% • exempted enterprises 16.12%
(y)	Procurement spend with qualifying small enterprises	10.00	4.47	
(z)	Technology transfer: acquisition of intellectual property	5.00	1.68	Funding constraints resulted in delays and limitation of transactions planned for the year. In addition, a tender for the acquisition of heat recovery steam generator design know-how lapsed and no further work will be performed to acquire this intellectual property
Socio-economic impact: corporate social investment				
(aa)	Corporate social investment committed	136.00	132.40	Certain projects did not materialise as planned

Events after the reporting date

Events after the reporting date are discussed in note 48.

Approval

The Eskom and group annual financial statements for the year ended 31 March 2019 were prepared under the supervision of the CFO C Cassim CA(SA), and approved by the board and signed on its behalf by:

JA Mabuza
Chairman

18 July 2019

PS Hadebe
Group chief executive

18 July 2019

C Cassim
Chief financial officer

18 July 2019

REPORT OF THE AUDIT AND RISK COMMITTEE

Mandate and terms of reference

The audit and risk committee (the committee) presents its report in terms of the requirements of the PFMA, the Companies Act (section 94(7)(f)) and in accordance with the King IV™ Report on Corporate Governance for South Africa for the financial year ended 31 March 2019.

The role of the committee is defined in its mandate. It covers, among others, its statutory duties and assistance to the board with the oversight of financial and non-financial reporting and disclosure, internal control system, risk management, internal and external audit functions and combined assurance, including technology and information governance. The committee also performs the functions required by the Companies Act on behalf of the wholly-owned subsidiaries of the group, with exception of Escap SOC Ltd. Information on the membership and composition of the committee is set out in the 2019 integrated report.

The committee fulfilled all its statutory duties as required by the Companies Act. The committee reports that it has adopted appropriate formal terms of reference as its audit and risk committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities contained therein.

The group is applying a combined assurance model to ensure coordinated assurance activities. The committee oversees the assurance activities and the establishment of effective systems of internal control to provide reasonable assurance that the group's financial and non-financial objectives are achieved and that the preparation of the group's suite of externally published reports (as detailed in the integrated report) is in accordance with the frameworks and standards set out within those reports.

Execution of functions

In the conduct of its duties the committee has, *inter alia*, reviewed the following areas:

Oversight of financial and non-financial reporting and disclosure

The committee considered the annual financial statements for fair presentation with the relevant requirements of the PFMA, Companies Act and International Financial Reporting Standards (IFRS). The committee considered the key judgements, estimates and accounting for significant transactions in the annual financial statements. Where appropriate, the committee sought the input and views of the external auditors and encouraged rigorous challenging of control, accounting and disclosure matters. The committee also considered matters relating to cost savings, budgeting and forecasting, future funding and taxation. The committee continued to oversee the risk management process including the significant risks and opportunities identified with the relevant treatment strategies in place.

The committee, in particular, considered the following significant matters:

Significant matter	Audit committee review and conclusion
Going-concern assessment	The committee monitored the group's liquidity and solvency closely because of the financial position and related challenges and concluded that it was not trading recklessly at any time during the year. The committee acknowledged that Eskom cannot solve its problems alone, but needs support from the shareholder. The committee recognised that government re-confirmed its support to Eskom in the State of the Nation address delivered by the President on 20 June 2019
	The committee considered the key aspects taken into account in the going-concern assessment as discussed in note 3.2 as well as scenarios that might impact the going-concern assessment. The committee critically assessed the liquidity of Eskom using the latest cash flows forecast, including servicing of debt in the next 12 months and stress-tested the forecasts using lower electricity prices, changes to capital activities and reducing costs. The committee considered Eskom's financial ratios that reflect an overall negative trend. The committee concluded, after examining the forecast and stress-tested scenarios and considering Eskom's ability to raise funding in the current market conditions, that the going-concern basis of accounting was appropriate only with support from government. The committee recommended the adoption of the going-concern basis of preparation by the group to the board based on the critical factors as disclosed in note 3.2
Governance	There has been continuous engagement with the shareholder to address the governance framework and streamline processes. The committee acknowledged that some areas relating to compliance to applicable laws, regulations and governance protocols need to be enhanced and that the board is working on improving these processes
	Steps are being taken to sufficiently strengthen the technical capacity of the board. The chief executive resigned effective 31 July 2019 and the process to appoint a new chief executive is in progress. The chief financial officer was appointed in December 2018. Permanent appointments were made in certain key vacant executive positions and the process to fill the remaining vacancies is in progress
	The committee continued its focus on monitoring the status and action taken on addressing key matters arising from investigations, reportable irregularities and fraudulent activities. Key outstanding disciplinary hearings were finalised and matters have been escalated to the appropriate government agencies for further action where relevant. Lifestyle audits have been performed on senior management and action is being undertaken to address issues raised. Refer to the directors' report for further information on the lifestyle audits
Information required by the PFMA and the impact thereof on the audit opinion	The committee placed significant focus during the year on monitoring the progress of the supply chain management recovery programme to address the shortcomings in the completeness of the information required by the PFMA. The committee acknowledged that the roll-out and implementation of the improvements is a lengthy process which is still continuing. It recognised that there was improvement in the identification, reporting and addressing of PFMA matters, even though there are still challenges that need to be addressed. Refer to the directors' report for further information on addressing the PFMA reporting challenges

Significant matter	Audit committee review and conclusion
Recovery of overdue trade receivables (arrear debt)	The committee considered the actions taken by Eskom to address the municipal and Soweto arrear debt, including continued plans to roll out split metering on a prepaid basis, following the Promotion of Administrative Justice Act process for disconnections and enlisting the support of government to enhance and participate in efforts to recover outstanding amounts. The committee believes that there are still major challenges with the implementation of these interventions, despite management's continuous interventions, and it is critical that these challenges are addressed through the Inter-ministerial Task Team. The arrear debt challenge has escalated beyond Eskom's risk appetite and tolerance levels and several efforts to secure government support have not yet yielded positive results. The committee is also monitoring adherence to recent court rulings made regarding recovery of outstanding receivables
Valuation of property, plant and equipment and assessment for possible impairment	The committee assessed the appropriateness of the cash generating units (CGUs) for the group. The committee also considered that impairment indicators such as damaged plant and the impact of lower than expected electricity tariffs on future cash flows have been appropriately taken into account in the impairment assessment. The committee interrogated the underlying assumptions and estimates used in the calculation of the recoverable amount of the CGUs and confirm that there is no impairment required on property, plant and equipment
Valuation and adequacy of long-term decommissioning provisions	The committee considered the briefings on the decommissioning and rehabilitation provisions, including the governance framework applied, the movement in provisions over time and the key assumptions and discount rates used. Detailed annual reviews are done by external experts on a rotation basis to re-assess the relevant decommissioning and rehabilitation liabilities against the latest international practices and benchmarks as well as compliance to legislation. The committee interrogated the underlying assumptions used in determining the decommissioning provisions to assess the adequacy thereof
Internal control over financial reporting, including information technology general controls	The committee monitored the effectiveness of the control environment through feedback on the results of the combined assurance activities from management, assurance and forensics (internal audit) and the external auditors. The committee scrutinised the significant risk areas and their associated remediation plans and mitigating controls implemented, including those relating to segregation of duties, access management, security of confidential data, cyber risk, information technology infrastructure, application issues and third party supplier management. The committee focused on specific control issues, in particular, the controls relating to PFMA reporting and investigations into fraudulent activities. The committee concluded that the internal control environment is satisfactory, even though improvement is necessary in certain areas including PFMA reporting and contract management

The matters listed above are considered to be key focus areas for the committee in the next financial year and will be monitored and reported on in future.

Internal control, management of risks and compliance with legal and regulatory requirements

The committee considered the following:

- effectiveness of internal control systems and governance processes
- legal matters that could have a material impact on the group
- effectiveness of the system and process of risk management including the following specific risks:
  - financial reporting
  - internal financial controls
  - fraud risks relating to financial reporting
  - information technology risks relating to financial reporting and internal control
  - the effectiveness of the entity's compliance with legal and regulatory requirements

Internal and external audit

The committee considered the following:

- audit charter, annual audit plan, independence, effectiveness, coordination with external auditors and performance of the assurance and forensic department
- appointment of the external auditors in terms of the Companies Act, Johannesburg Stock Exchange (JSE) listings requirements and all other applicable legal and regulatory requirements
- the quality of the external audit as well as the independence and objectivity of the external auditors including the tenure of the audit firm and the rotation of the engagement partner
- external audit plan, audit budget, actual fee and terms of engagement of the external auditors including adherence to the policy of not allowing the external auditors to provide any non-audit services
- accounting, sustainability and auditing concerns identified as a result of the internal and external audits, including reportable irregularities

REPORT OF THE AUDIT AND RISK COMMITTEE (continued)

Opinion

The committee is of the opinion, based on the information and explanations provided by management and the assurance and forensic department during the year and at year end and discussions with the independent external auditors, that:

- the expertise, resources and experience of the finance function under the leadership of the chief financial officer are adequate
- the system and process of risk management is adequate even though the effectiveness thereoff needs to be improved
- the compliance framework is adequate and there is continued focus on the application thereof, especially in terms of PFMA requirements and contract management
- the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements and accountability for assets and liabilities is maintained
- the internal audit charter approved by the committee was adhered to
- the expertise, resources and experience of the assurance and forensic department are adequate
- the assurance and forensic department, under the leadership of a general manager, is operating effectively
- the combined assurance model is adequate
- the information contained in the integrated report is reliable and does not contradict the information in the annual financial statements
- Eskom and the group have access to adequate resources, facilities and support from government to be able to continue their operations for the foreseeable future, supporting the going-concern assumption
- it is satisfied with the audit quality of the external audit as well as the independence and objectivity of the external auditors having considered the matters set out in section 94(8) of the Companies Act

The committee is satisfied, notwithstanding the aspects considered in relation to the annual financial statements including the PFMA reporting challenges, that nothing significant has come to the attention of the committee to indicate any material breakdown in the functioning of the controls, procedures and systems during the year under review and that the controls are still appropriate to ensure compliance with the requirements of the Companies Act, the PFMA and IFRS.

Recommendation of the annual financial statements

The committee has evaluated the annual financial statements of Eskom and the group for the year ended 31 March 2019 and, based on the information provided to it, considers that they comply, in all material respects, with the requirements of the Companies Act, the PFMA and IFRS. The committee concurs that the adoption of the going-concern premise in the preparation of the annual financial statements is appropriate.

The committee has therefore, at its meeting held on 17 July 2019, recommended the adoption of the financial statements by the board.

SN Mabaso-Koyana
Chairman

18 July 2019

STATEMENT BY COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act of South Africa, I certify that the company has filed with the Companies and Intellectual Property Commission all such returns and notices in terms of this Act, and all such returns appear to be true, correct and up to date.

M Tyalimpi
Company secretary

18 July 2019

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT AND THE SHAREHOLDER – MINISTER OF PUBLIC ENTERPRISE ON ESKOM HOLDINGS SOC LTD AND ITS SUBSIDIARIES

Report on the audit of the consolidated and separate financial statements

Qualified opinion

We have audited the consolidated and separate financial statements of Eskom Holdings SOC Ltd and its subsidiaries (the group) set out on pages 26 to 121, which comprise the consolidated and separate statements of financial position as at 31 March 2019 and the consolidated and separate statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 31 March 2019, and the group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standard (IFRS) and the requirements of the Companies Act of South Africa (Companies Act) and the Public Finance Management Act of South Africa (PFMA).

Basis for qualified opinion

Irregular expenditure

The irregular expenditure includes amounts emanating from the modifications to contracts which were not conducted as required in terms of the PFMA. In addition, irregular expenditure was not always recorded at the correct amount. We were unable to determine the full extent of the understatement of the irregular expenditure disclosed in terms of section 55(2)(b)(i) of the PFMA stated at R25 659 million (2018: R21 048 million) and R17 789 million (2018: R14 839 million) in the consolidated and separate financial statements respectively, as it was impractical to do so.

Fruitless and wasteful expenditure

We were unable to obtain sufficient appropriate audit evidence to confirm the fruitless and wasteful expenditure included in the notes to the consolidated and separate financial statements respectively as sufficient appropriate audit evidence was not provided. We could not confirm the amounts by alternative means. Consequently, we were unable to determine whether any adjustment was necessary to fruitless and wasteful expenditure stated at R641 million (2018: R143 million) and R603 million (2018: R56 million) in the consolidated and separate financial statements respectively.

Context for the opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.

We are independent of the group in accordance with section 290 and 291 of the Independent Regulatory Board for Auditors' Code of professional conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively.

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

Material uncertainty related to going concern

We draw attention to the matter below. Our opinion is not modified in respect of this matter.

We draw attention to note 3.2 in the consolidated and separate financial statements, which indicates that for the year ended 31 March 2019 the group incurred a loss of R20 729 million (2018: R2 337 million). The group's current liabilities exceed its current assets by R44 057 million (2018: R20 622 million). As stated in note 3.2, the current and prior year losses, deterioration of most of the group's financial indicators, the impact of reduced generation performance along with other matters as set forth in note 3.2, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern.

Emphasis of matter

We draw attention to the matter below. Our opinion is not modified in respect of this matter.

Material losses – electricity

As disclosed in note 51.3 to the consolidated and separate financial statements, estimated non-technical revenue losses of R1 741 million (2018: R1 390 million) were incurred mainly due to meter tampering and bypasses, illegal connections to the electricity network and illegal vending of electricity.

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT AND THE SHAREHOLDER – MINISTER OF PUBLIC ENTERPRISES ON ESKOM HOLDINGS SOC LTD AND ITS SUBSIDIARIES (continued)

Report on the audit of the consolidated and separate financial statements (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance to our audit of the consolidated and separate financial statements of the group for the year ended 31 March 2019. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
Valuation, allocation and accuracy and disclosure of complex financial instruments	
The disclosure associated with the valuation, allocation and accuracy of complex financial instruments is set out in note 6.2 to the consolidated and separate financial statements.	We obtained an understanding of the relevant controls in place to evaluate that correct independent market inputs are used in the valuation models.
Fair value measurement of financial instruments significantly affects profit and loss and the presentation (of financial risks) in the consolidated and separate financial statements.	We applied our valuation expertise to a sample of financial instruments and assessed the appropriateness of the valuation models with reference to approaches commonly used.
Valuation of certain financial instruments (such as derivatives) requires greater judgement and involves estimation to determine the appropriate valuation techniques to apply and to source relevant and reliable inputs.	We assessed the judgements and estimates applied by the board against our understanding of current market practice and conditions. We also obtained independently-sourced inputs where available, which were compared against the inputs used by the board.
Due to the complexity in the application of the new IFRS 9 *Financial instruments* accounting standard and magnitude of financial instruments carried at fair value, the determination of assumptions and the significant judgements applied by the board in the valuation of the financial instruments result in the valuation, allocation, accuracy and presentation of financial instruments considered a significant judgement area and thus a key audit matter.	Where necessary, we engaged an independent actuarial specialist to evaluate the work performed by the board's expert, including: • assessing the independence and competence of the actuarial specialist • assessing the appropriateness of the financial model utilised by the board's expert • testing the reasonableness of inputs into the financial models • assessing the appropriateness of the amounts recognised by comparing the fair values to fair values generated by models commonly used in the industry for similar instruments We assessed key assumptions and modelling approaches in estimating credit value adjustments and debit value adjustments against current market practice. We evaluated gains or losses on significant settled deals to assess calibration of mark-to-model values, and found the board's estimates to be within reasonable ranges. Where valuation inputs were unobservable, we used our valuation expertise to assess the reasonability of the valuation inputs based on supportable and comparable information and compared these to the board's valuation inputs. Based on the results of our work performed, we accepted the board's valuation inputs as falling within reasonable ranges.
Completeness, occurrence, accuracy and disclosure of revenue	
Revenue is disclosed in note 32 to the consolidated and separate financial statements. The entity adopted IFRS 15 *Revenue from contracts with customers* using the modified retrospective transition election with the completed contract practical expedient. The entity has applied IFRS 15 for the first time during the current financial year. The complexity involved in the interpretation of the contracts with customers and translating this into the requirements of the accounting standard is an area of significant judgement. Further there is a high degree of complexity involved with the application of the framework prescribed by the standard in determining how much and when revenue is recognised. Revenue is thus a key audit matter.	We assessed the judgements and estimates applied by the board against our understanding of current market practice and conditions. We also obtained independently-sourced inputs where available, which were compared against the inputs used by the board. We engaged an independent actuarial specialist to evaluate the work performed by the board's expert, including: • assessing the independence and competence of the actuarial specialist • assessing the appropriateness of the financial model utilised by the board's expert • testing the reasonableness of inputs into the financial models • assessing the appropriateness of the amounts recognised by comparing the fair values to fair values generated by models commonly used in the industry for similar instruments Based on the results of our work performed, we are satisfied that revenue is correctly accounted for.

Key audit matter	How the matter was addressed in the audit
Impairment assessment – property, pland and equipment The disclosure associated with the completeness, valuation and allocation and accuracy of impairment is set out in note 36 to the consolidated and separate financial statements. Management conducted a major defects analysis exercise at Medupi, Kusile and Ingula power stations to ascertain the extent of damage and repairs that would need to be carried out. The purpose of the exercise was to determine the financial and technical accounting implications and treatment of the scrapping relating to the units at the aforementioned power stations placed into commercial operation by the entity. Due to the complexity of the estimation techniques used in quantifying these defects as well as the degree of subjectivity involved in the process, assessment of impairment is therefore considered to be a key audit matter.	Our audit work included the following: • identified the Cash Generating Unit (CGU) determination in terms of International Financial Reporting Standards • obtained the discounted cash flow models underlying the recoverable amount of the CGUs as prepared by management and tested the accuracy of the models and challenged the assumptions used by management for the discounted cash flows • assessed and tested the assumptions and methodologies applied, including the weighted average cost of capital (WACC) and other data used by the group • engaged a valuation professional to assist us with our assessment of the reasonability of the WACC and assessed the appropriateness of the expected inflation rates, growth rates and the models used as well as analysing the future projected cash flows used in the models to determine whether they are reasonable and supportable given the current macro-economic climate and expected future performance of the applicable CGUs, against external market data, historical performance and forecast and recalculating the value in use of all CGUs • analysed the sensitivities such as the impact on the headroom if the growth rate were decreased, or the WACC were increased. Specifically focused on the sensitivity in the available headroom for the CGUs, evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount We further engaged an independent engineering specialist to evaluate the work performed by management, including: • assessing the independence and competence of the engineering specialist • assessing the appropriateness of the model utilised by management's expert • testing the reasonableness of inputs and assumptions used against market trends • assessing whether there are material differences of opinion between managements expert's and auditor expert's • resolved the differences of opinion with management and agreed on the appropriate accounting adjustments to be processed Performed detailed substantive testing on the journals processed by management as prompted by the review by the engineering specialist. Based on the results of our work performed, we accepted the board's valuation inputs as falling within reasonable ranges.
Loan covenants compliance The group is highly leveraged with total debt securities and borrowings of R440 610 million at 31 March 2019 and has to comply with certain financial and non-financial covenants. In accordance with the terms' of agreements for loans and borrowings, the group should maintain and comply with certain financial and non-financial covenants. Analysing compliance with covenants is one of the matters of most significance in our audit because it may have a significant impact on the going concern assumption used in the preparation of the consolidated and separate financial statements and on the maturity classification of liabilities in the consolidated and separate statement of financial position. Therefore compliance with financial and non-financial covenants is considered a key audit matter.	Our audit work included the following: Performed substantive tests of detail to confirm whether the entity had complied with its covenants. The procedures consisted primarily of: • inspected the terms of agreements for loans and borrowings including covenant ratios and event of default definitions. We analysed the terms of waivers provided by lenders to the extent applicable • examined management's calculations of covenant ratios. We checked mathematical accuracy of covenant calculations and reconciled input data used in the calculations with data in the consolidated and separate financial statements prepared in accordance with IFRS • compared the maturity classification of loans and borrowings as current or non-current liabilities with the results of analysis of compliance with covenants on relevant loans and borrowings Based on the results of our work performed, we are satisfied that the entity has complied with its covenants.

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT AND THE SHAREHOLDER – MINISTER OF PUBLIC ENTERPRISES ON ESKOM HOLDINGS SOC LTD AND ITS SUBSIDIARIES (continued)

Report on the audit of the consolidated and separate financial statements (continued)

Responsibilities of the accounting authority for the financial statements

The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS and the requirements of the Companies Act and PFMA, and for such internal controls as the accounting authority determines are necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going-concern basis of accounting unless the appropriate governance structure either intends to liquidate the group or to cease operations or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism throughout our audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected key performance areas and on the group's compliance with respect to the selected subject matters.

We also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal controls
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority
- conclude on the appropriateness of the accounting authority's use of the going-concern basis of accounting in the preparation of the financial statements. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. Our conclusions are based on the information available at the date of the auditor's report
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion
- communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit
- confirm to the accounting authority that we have complied with relevant ethical requirements regarding independence and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence and, where applicable, related safeguards

From the matters communicated to those charged with governance, we determine those matters that were of the most significance in the audit of the consolidated and separate financial statements of the current period and are therefore key audit matters. We describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

Report on other legal and regulatory requirements

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified reportable irregularities in terms of the Auditing Profession Act. We have reported such matters to Independent Regulatory Board for Auditors. The matter pertaining to the reportable irregularity has been described in note 52 to the consolidated and separate financial statements.

Report on the audit of the annual performance report

Introduction and scope

In accordance with the Public Audit Act of South Africa (PAA) and the general notice issued in terms thereof, we have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas presented in the *shareholder compact performance* section of the directors' report. We performed procedures to identify findings but not to gather evidence to express assurance.

Our procedures address the reported performance information which must be based on the approved performance planning documents of the group. We have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. Our procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, our findings do not extend to these matters.

We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following key performance areas presented in the *shareholder compact performance* section of the directors' report of the public entity for the year ended 31 March 2019:

- improve plant operations (page 12)
- deliver capital expansion (page 12)
- reduce environmental footprint in existing fleet (page 12)
- ensure financial sustainability (page 12)
- socio-economic impact: economic impact (page 13)
- socio-economic impact: corporate social investment (page 13)

We performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. We performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

The material findings in respect of the usefulness and reliability of the selected key performance information are as follows:

Socio-economic impact: economic impact

Eskom did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below. As a result, the total B-BBEE procurement spend was not quantified and considered in the calculation of the reported achievement of each indicator. We were unable to confirm that the reported achievement of these indicators was reliable by alternative means. Consequently, we were unable to determine whether any adjustments were required to the reported achievement of the indicators listed below:

Indicator description	Reported achievement (% of total measurable procurement spend)
Procurement spend with broad-based black economic empowerment (B-BBEE)	54.41
Procurement spend with black-owned suppliers	33.08
Procurement spend with black women-owned suppliers	12.28
Procurement spend with black youth-owned suppliers	2.10
Procurement spend with suppliers owned by black people with disabilities	0.15
Procurement spend with qualifying small enterprises	4.47
Procurement spend with exempted enterprises	13.32

Corporate social investment committed

We were unable to obtain sufficient appropriate audit evidence to support the reported achievement of Corporate social investment committed. This was due to inadequate technical indicator descriptions and proper performance management systems and processes that predetermined how the achievement would be measured, monitored and reported. We were unable to confirm the reported achievement of the indicator by alternative means. Consequently, we were unable to determine whether any adjustments were required to the achievement of R132.4 million, as reported in the *shareholder compact performance* section of the directors' report.

Other key performance indicators

We did not raise any material findings on the usefulness and reliability of the reported performance information for these key performance areas:

- improve plant operations
- deliver capital expansion
- reduce environmental footprint in existing fleet
- ensure financial sustainability

Other matters

We would like to draw attention to the following matter with regards to the *shareholder compact performance* section in the directors' report:

B-BBEE score level

The group did not perform the verification of its B-BBEE score level, as disclosed in the directors' report.

Achievement of planned targets

Refer to the *shareholder compact performance* section of the directors' report on pages 12 and 13 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance of this report.

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT AND THE SHAREHOLDER – MINISTER OF PUBLIC ENTERPRISES ON ESKOM HOLDINGS SOC LTD AND ITS SUBSIDIARIES (continued)

Report on the audit of compliance with legislation

Introduction and scope

In accordance with the PAA and the general notice issued in terms thereof we have a responsibility to report material findings on the compliance of the group with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.

The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Revenue management

Effective and appropriate steps were not taken, in all instances, to collect all revenue due as required by section 51(1)(b)(i) of the PFMA.

Expenditure management

Effective and appropriate steps were not taken, in all instances, to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for the qualified opinion, the full extent of the irregular expenditure could not be quantified. The majority of the irregular expenditure disclosed in the financial statements was caused by goods or services not being procured through a procurement process which is fair, equitable, transparent and competitive as required by section 51(1)(a)(iii) of the PFMA.

Effective steps were not taken, in all instances, to prevent fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for qualified opinion, the full extent of the fruitless and wasteful expenditure could not be quantified. The majority of the fruitless and wasteful expenditure disclosed in the financial statements was caused by the group not taking delivery of coal in terms of coal supply agreements.

Procurement and contract management

Sufficient appropriate audit evidence could not be obtained that all awards to suppliers on established panels were in accordance with legislative requirements as proper record keeping of such awards was not maintained. Similar limitations were also reported in the prior year.

Some of the goods, works or services were not procured through a procurement process which was fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA. Similar non-compliance was also reported in the prior year.

Some of the contracts and quotations were awarded to bidders based on preference points that were not allocated and/or calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations. Similar non-compliance was also reported in the prior year.

Some of the construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) and did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and/or 25(7A). Similar non-compliance was also reported in the prior year.

Some of the bid documentation for procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).

Some of the commodities designated for local content and production were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation.

Consequence management

We were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular and fruitless and wasteful expenditure as required by section 51(1)(e)(iii) of the PFMA. This was due to investigations not being initiated as well as a failure to maintain proper and complete records as evidence to support investigations where initiated.

We were unable to obtain sufficient appropriate audit evidence that allegations of financial misconduct committed by members of the accounting authority and officials were investigated as required by treasury regulation 33.1.3 and 33.1.1 respectively. This was due to a failure to maintain proper and complete records as evidence to support the investigations into allegations of financial misconduct committed by members of the accounting authority and officials.

We were unable to obtain sufficient appropriate audit evidence that allegations of theft, fraud, extortion, forgery or uttering a forged document which exceeded R100 000 were reported to the SAPS, as required by section 34(1) of the Prevention and Combating of Corrupt Activities Act, (PRECCA).

Governance and oversight

The company secretary did not in all instances ensure that the minutes of all shareholders meetings, board meetings and the meetings of any committees of the directors, or of the company's audit committee, were properly recorded, as required by section 88(2)(d) of the Companies Act.

Other information

The group's accounting authority is responsible for the other information. The other information comprises the information included in the directors' report, the audit and risk committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report thereon and those selected key performance areas presented in the *shareholder compact performance* section of the directors' report that have been specifically reported on in the auditor's report.

Our opinion of the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected key performance areas presented in the *shareholder compact performance* section of the directors' report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Internal control deficiencies

We considered internal controls relevant to our audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, our objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the *shareholder compact performance* section of the directors' report and the findings on compliance with legislation included in this report.

The accounting authority did not exercise adequate oversight responsibility regarding compliance with applicable legislation and related internal controls that resulted in the lack of proper procurement and contract management processes as well as effective consequence management practices. Action plans developed to address internal control deficiencies were not, in all instances, adequate.

Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Other reports

We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the matters reported on the group's financial, performance and compliance related matters. The reports noted do not form part of our opinion on the consolidated and separate financial statements or our findings on the reported performance information or compliance with legislation.

Matters under investigation

During the financial year under review the regulatory authorities and the accounting authority conducted investigations into alleged irregularities, fraud and corruption within the procurement environment and other areas of the entity. As at the reporting date, some of these investigations were still ongoing. As disclosed in note 51.4 to the financial statements, various matters are reported to be under investigation.

Agreed-upon procedure engagements

Agreed-upon procedure engagements were performed on the following:

- National Treasury consolidation template that covered the period from 1 April 2018 to 31 March 2019
- Eskom's generation, transmission and distribution activities regulatory financial report. This agreed-upon procedure is performed on behalf of NERSA

Auditor tenure

In terms of the IRBA rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SNG Grant Thornton has been the auditor of Eskom Holdings SOC Ltd for five years.

Aaron Mthimunye
SizweNtsalubaGobodo Grant Thornton
Director
Registered auditor

26 July 2019

20 Morris East Street, Woodmead, 2191

STATEMENTS OF FINANCIAL POSITION

at 31 March 2019

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Assets					
Non-current		685 153	658 067	685 578	658 440
Property, plant and equipment	8	651 637	630 648	652 233	631 159
Intangible assets	9	3 925	3 945	3 706	3 803
Future fuel supplies	10	6 471	7 157	6 471	7 157
Investment in equity-accounted investees	11	373	372	95	95
Investment in subsidiaries	12	–	–	384	384
Deferred tax	13	17	23	–	–
Loans receivable	15	40	63	–	–
Derivatives held for risk management	16	20 582	13 705	20 582	13 705
Finance lease receivables	17	374	408	374	408
Payments made in advance	18	1 734	1 746	1 733	1 729
Current		63 994	72 123	60 709	70 531
Inventories	20	26 482	24 348	26 251	24 122
Taxation		102	149	–	–
Loans receivable	15	26	18	6 071	6 201
Derivatives held for risk management	16	2 080	1 873	2 080	1 875
Finance lease receivables	17	31	29	31	29
Payments made in advance	18	1 541	1 418	1 460	1 328
Trade and other receivables	19	21 976	20 125	23 137	21 429
Insurance investments	14	9 563	8 172	–	–
Financial trading assets	14	162	168	162	168
Cash and cash equivalents	21	2 031	15 823	1 517	15 379
Assets held-for-sale	22	8 871	8 926	–	40
Total assets		758 018	739 116	746 287	729 011
Equity					
Capital and reserves		153 094	170 336	138 492	158 075
Liabilities					
Non-current		495 194	474 353	494 267	473 788
Debt securities and borrowings	25	387 208	348 112	387 161	348 060
Embedded derivatives	26	1 365	3 434	1 365	3 434
Derivatives held for risk management	16	5 643	16 570	5 643	16 570
Deferred tax	13	8 350	15 846	7 804	15 665
Employee benefit obligations	28	13 546	13 725	13 242	13 404
Provisions	29	45 588	44 370	45 558	44 359
Finance lease payables	30	9 130	9 533	9 130	9 533
Trade and other payables	31	1 031	1 201	1 031	1 201
Payments received in advance	27	2 038	1 766	2 038	1 766
Contract liabilities and deferred income	27	21 295	19 796	21 295	19 796
Current		108 051	92 745	113 528	97 148
Debt securities and borrowings	25	53 402	40 572	57 886	44 525
Embedded derivatives	26	2 069	1 857	2 069	1 857
Derivatives held for risk management	16	1 397	4 896	1 397	4 896
Employee benefit obligations	28	3 244	3 244	2 976	2 992
Provisions	29	5 662	5 309	5 556	5 194
Finance lease payables	30	332	286	332	286
Trade and other payables	31	36 849	32 116	38 208	32 944
Payments received in advance	27	3 359	3 003	3 367	2 996
Contract liabilities and deferred income	27	1 499	1 209	1 499	1 209
Taxation		–	4	–	–
Financial trading liabilities	14	238	249	238	249
Liabilities held-for-sale	22	1 679	1 682	–	–
Total liabilities		604 924	568 780	607 795	570 936
Total equity and liabilities		758 018	739 116	746 287	729 011

INCOME STATEMENTS
for the year ended 31 March 2019

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Revenue	32	179 892	177 424	179 892	177 424
Other income	33	2 150	1 372	3 073	1 787
Primary energy	34	(99 488)	(85 202)	(99 488)	(85 202)
Employee benefit expense	35	(33 272)	(29 454)	(27 616)	(24 455)
Impairment of financial assets	36	278	(528)	260	(503)
Impairment of other assets	36	153	(25)	153	(25)
Other expenses	37	(18 214)	(18 228)	(27 019)	(25 598)
Profit before depreciation and amortisation expense and net fair value and foreign exchange loss (EBITDA)		31 499	45 359	29 255	43 428
Depreciation and amortisation expense	38	(29 756)	(23 132)	(29 662)	(23 110)
Net fair value and foreign exchange loss on financial instruments	39	(3 409)	(1 775)	(3 368)	(1 875)
(Loss)/profit before net finance cost		(1 666)	20 452	(3 775)	18 443
Net finance cost		(27 517)	(23 089)	(28 676)	(24 199)
Finance income	40	2 722	2 872	1 679	1 874
Finance cost	41	(30 239)	(25 961)	(30 355)	(26 073)
Share of profit of equity-accounted investees after tax	11	35	34	–	–
Loss before tax		(29 148)	(2 603)	(32 451)	(5 756)
Income tax	42	8 419	266	9 262	1 148
Loss for the year[1]		(20 729)	(2 337)	(23 189)	(4 608)

STATEMENTS OF COMPREHENSIVE INCOME
for the year ended 31 March 2019

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Loss for the year[1]		(20 729)	(2 337)	(23 189)	(4 608)
Other comprehensive income/(loss)		3 685	(3 269)	3 606	(3 281)
Items that may be reclassified subsequently to profit or loss		2 433	(4 601)	2 383	(4 578)
Available-for-sale financial assets – net change in fair value		–	–	–	(3)
Cash flow hedges					
Changes in fair value	16	2 964	(5 700)	2 964	(5 700)
Net amount transferred to profit or loss		626	346	626	346
Amortisation of effective portion of terminated cash flow hedges	39	(324)	(324)	(324)	(324)
Ineffective portion of cash flow hedges	39	950	670	950	670
Net amount transferred to initial carrying amount of hedged items		(281)	(1 003)	(281)	(1 003)
Foreign currency translation differences on foreign operations		50	(25)	–	–
Income tax thereon	42	(926)	1 781	(926)	1 782
Items that may not be reclassified subsequently to profit or loss		1 252	1 332	1 223	1 297
Re-measurement of post-employment medical benefits	28	1 737	1 850	1 698	1 802
Income tax thereon	42	(485)	(518)	(475)	(505)
Total comprehensive loss for the year[1]		(17 044)	(5 606)	(19 583)	(7 889)

1. A nominal amount is attributable to the non-controlling interest in the group. The remainder is attributable to the owner of the company.

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 March 2019

	Share capital Rm	Cash flow hedge reserve Rm	Available-for-sale reserve Rm	Unrealised fair value reserve Rm	Foreign currency translation reserve Rm	Accumulated profit Rm	Total equity Rm
Group							
Balance at 31 March 2017	83 000	4 160	6	(11 873)	(6)	100 655	175 942
Loss for the year	–	–	–	–	–	(2 337)	(2 337)
Other comprehensive (loss)/income, net of tax	–	(4 576)	–	–	(25)	1 332	(3 269)
Transfer between reserves	–	–	–	1 560	–	(1 560)	–
Balance at 31 March 2018	83 000	(416)	6	(10 313)	(31)	98 090	170 336
Adoption of IFRS 9 and 15[1]	–	–	(6)	–	–	(192)	(198)
Classification and measurement	–	–	(8)	–	–	(264)	(272)
Income tax thereon	–	–	2	–	–	72	74
Adjusted balance at 31 March 2018	83 000	(416)	–	(10 313)	(31)	97 898	170 138
Loss for the year	–	–	–	–	–	(20 729)	(20 729)
Other comprehensive income, net of tax	–	2 383	–	–	50	1 252	3 685
Transfer between reserves	–	–	–	(3 328)	–	3 328	–
Balance at 31 March 2019	83 000	1 967	–	(13 641)	19	81 749	153 094
Company							
Balance at 31 March 2017	83 000	4 160	2	(11 873)	–	90 675	165 964
Loss for the year	–	–	–	–	–	(4 608)	(4 608)
Other comprehensive (loss)/income, net of tax	–	(4 576)	(2)	–	–	1 297	(3 281)
Transfer between reserves	–	–	–	1 560	–	(1 560)	–
Balance at 31 March 2018	83 000	(416)	–	(10 313)	–	85 804	158 075
Loss for the year	–	–	–	–	–	(23 189)	(23 189)
Other comprehensive income, net of tax	–	2 383	–	–	–	1 223	3 606
Transfer between reserves	–	–	–	(3 328)	–	3 328	–
Balance at 31 March 2019	83 000	1 967	–	(13 641)	–	67 166	138 492

Share capital
Refer to note 24 for details regarding share capital.

Cash flow hedge reserve
The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments (forward exchange contracts and cross-currency swaps) related to hedged transactions that have not yet occurred. The cross-currency swap hedges foreign exchange rate and interest rate risk of the future interest payments and the principal repayment on bonds and loans (denominated in US dollar, euro and yen). The reserve includes an unamortised gain of R731 million (2018: R1 055 million) relating to the effective portion of terminated hedges that is amortised to the income statement over the remaining life of the underlying hedged item.

Available-for-sale reserve
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.

Unrealised fair value reserve
The cumulative net change in the fair value of financial instruments 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.

Foreign currency translation reserve
The foreign currency translation reserve comprises exchange differences resulting from the translation of the results and financial position of foreign operations.

Accumulated profit
Accumulated profit is the amount of cumulative profit retained in the business after tax. No dividend has been proposed in the current or prior year. There are no restrictions on the distribution of dividends.

Non-controlling interest
The non-controlling interest in the group is a nominal amount.

1. *Refer to note 50.3.*

STATEMENTS OF CASH FLOWS

for the year ended 31 March 2019

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Cash flows from operating activities					
Cash generated from operations	43	33 257	39 659	32 323	37 857
Net cash used in derivatives held for risk management		(172)	(1 726)	(174)	(1 738)
Finance income received		245	393	245	393
Finance cost paid		(277)	(28)	(276)	(28)
Income taxes paid		(313)	(724)	–	–
Net cash from operating activities		32 740	37 574	32 118	36 484
Cash flows used in investing activities					
Disposals of property, plant and equipment		566	453	566	448
Acquisitions of property, plant and equipment		(34 087)	(49 076)	(34 474)	(48 988)
Acquisitions of intangible assets		(443)	(425)	(343)	(424)
Acquisitions of future fuel supplies		(548)	(1 618)	(548)	(1 618)
Net acquisitions of insurance investments		(1 356)	(1 492)	–	–
Payments made in advance		(9)	(40)	(9)	(40)
Cash used in provisions		(1 707)	(4 788)	(1 707)	(4 788)
Net cash used in derivatives held for risk management		(166)	(91)	(166)	(91)
Net cash from/(used in) loans receivable		25	12	96	(25)
Cash from finance lease receivables		29	19	29	19
Dividends received		49	37	35	27
Dividends received – investment in equity-accounted investees	11	34	26	–	–
Finance income received		1 411	1 486	506	534
Net cash used in investing activities		(36 202)	(55 497)	(36 015)	(54 946)
Cash flows (used in)/from financing activities					
Debt securities and borrowings raised	44	58 914	53 234	59 364	53 761
Payments made in advance	44	(1 179)	(929)	(1 179)	(929)
Debt securities and borrowings repaid	44	(34 455)	(12 548)	(34 332)	(12 591)
Net cash from/(used in) derivatives held for risk management	44	1 219	(1 824)	1 219	(1 824)
Disposals of treasury investments	44	–	6 586	–	6 586
Cash used in finance lease payables	44	(357)	(246)	(357)	(246)
Net cash from financial trading assets	44	10	1 459	10	1 459
Net cash used in financial trading liabilities	44	(29)	(1 241)	(29)	(1 241)
Finance income received		858	1 034	820	1 004
Finance cost paid		(35 845)	(31 909)	(36 035)	(32 051)
Taxes paid		(69)	(69)	(69)	(69)
Net cash (used in)/from financing activities		(10 933)	13 547	(10 588)	13 859
Net decrease in cash and cash equivalents		(14 395)	(4 376)	(14 485)	(4 603)
Cash and cash equivalents at beginning of the year		15 823	20 425	15 379	19 964
Foreign currency translation		50	(25)	–	–
Effect of movements in exchange rates on cash held		620	10	620	10
Assets and liabilities held-for-sale		(67)	(211)	3	8
Cash and cash equivalents at end of the year	21	2 031	15 823	1 517	15 379

Cash flow allocation

Cash flows that form part of the changes in the line items of the statement of financial position are classified into operating, investing and financing activities in a manner that is most appropriate to the group. As a result, the cash flows associated with some line items in the statement of financial position may be split into multiple cash flow activities in the statement of cash flows. These line items are:

Derivatives held for risk management

Derivatives held for risk management are classified as operating, investing or financing activities based on the allocation of the cash flows of the underlying hedged item. Refer to note 16.

Payments made in advance

Payments made in advance that relate to the raising of debt securities and borrowings are classified as financing activities. Payments related to the acquisition of property, plant and equipment and intangible assets are allocated to investing activities. All other payments made in advance are deemed operational in nature and are therefore included within operating activities. Refer to note 18.

Provisions

Cash flows related to provisions for environmental restoration and mine-related closure, pollution control and rehabilitation, where the cost of property, plant and equipment as well as future fuel supplies includes environmental rehabilitation costs, are classified as investing activities. All other provisions are operational in nature and are classified as operating activities. Refer to note 29.

Finance income and costs

Finance income and costs are allocated in line with the allocation of the related balances on which the income or cost arose.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2019

1. General information

Eskom Holdings SOC Ltd (Eskom), a state-owned 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 local industrial, mining, commercial, agricultural, redistributors (metropolitan and other municipalities) and residential customers, and to international customers in southern Africa. Eskom also purchases electricity from IPPs and international suppliers in southern Africa. These represent the significant activities of the group. The business focus of the subsidiaries is primarily to support the electricity business. The nature of the businesses of the significant operating subsidiaries is set out in note 12.

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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.

2.1 Basis of preparation and measurement

Statement of compliance

The consolidated financial statements of Eskom at and for the year ended 31 March 2019 comprise the company, its subsidiaries, joint ventures, associates and structured entities (together the group). The separate and consolidated financial statements have been prepared in accordance with IFRS and in the manner required by the PFMA and the Companies Act. The financial statements have been prepared on the going-concern basis and were approved for issue by the board on 18 July 2019.

The group continues to apply IFRS as its reporting framework based on its assessment against the criteria set out in Directive 12 *The selection of an appropriate reporting framework by public entities* (effective 1 April 2018) issued by the Accounting Standards Board. The directive prescribes the criteria to be applied by a public entity in selecting and applying an appropriate reporting framework. The conclusion of the assessment is based on the fact that Eskom's operations are commercial in nature and only an insignificant portion of its funding is acquired through government grants or other forms of financial assistance from government. The conclusion will be re-assessed as the increased support from government in the future can be regarded as a significant change in Eskom's circumstances that could lead to a different outcome of its assessment.

Basis of measurement

The separate and consolidated financial statements are prepared on the historical-cost basis except for the following items which are measured at fair value:

- derivatives held for risk management
- embedded derivatives
- certain investments and financial trading assets and liabilities

Functional and presentation currency

The consolidated financial statements are presented in South African Rand (rounded to the nearest million unless otherwise stated), which is the company's functional currency and the presentation currency of the group.

Changes in accounting policies and comparability

The group has consistently applied the accounting policies to all periods presented in these consolidated financial statements except for new or revised statements and interpretations implemented during the year. The nature and effect of new standards and interpretations are discussed in note 50.2.

2.2 Consolidation

Subsidiaries

Subsidiaries are consolidated from the date on which control is transferred to the group until the date that control ceases. Investments in subsidiaries are accounted for at cost less impairment losses in the separate financial statements of the company. When the group ceases to have control of an entity, it derecognises the assets and liabilities of the subsidiary and any components of equity. Any resulting gain or loss is recognised in profit or loss.

The accounting policies of the subsidiaries have been adjusted, where necessary, to ensure consistency with the policies adopted by the group.

Investment in equity-accounted investees

Investments in equity-accounted investees (associates and joint ventures) are accounted for at cost less impairment losses in the separate financial statements of the company and on the equity method of accounting in the financial statements of the group. The group's share of post-acquisition profits or losses of these investments is recognised in profit or loss within share of profit of equity-accounted investees, and its share of post-acquisition movements in other comprehensive income is recognised directly in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Accounting policies of associates and joint ventures have been adjusted where necessary to ensure consistency with the policies adopted by the group. If the financial statements of the associate or joint venture are prepared as of a different date to that of the group (maximum of three months difference), adjustments are made to the group financial statements for significant transactions and events that occur between the date of the financial statements of the associate or joint venture and the date of the financial statements of the group.

2.3 Foreign currency translation

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 other comprehensive income for qualifying cash flow hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as fair value through other comprehensive income (previously 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 other comprehensive income within fair value through other comprehensive income (previously available-for-sale) financial assets.

Non-monetary items are measured at historical cost.

Foreign loans are initially recognised at the exchange rate prevailing at transaction date and are translated at spot rate at every reporting date. Foreign exchange gains and losses that relate to financial assets and liabilities at amortised cost are presented in profit or loss within net fair value and foreign exchange gain/loss on financial instruments.

Foreign operations

The assets and liabilities of foreign operations (including fair value adjustments arising on acquisition) are translated to rand at the prevailing exchange rates at the reporting date. The income and expenses of foreign operations are translated to rands at the average exchange rate. Foreign currency differences arising as a result of these transactions are recognised in other comprehensive income within the foreign currency translation reserve.

2.4 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes environmental rehabilitation costs, borrowing costs and transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency transactions. Work under construction includes the cost of materials and direct labour and any other directly attributable costs incurred in bringing an item of property, plant and equipment to its present location and condition. Significant parts of an item of property, plant and equipment that have different useful lives are accounted for as separate items (major components). Spare parts classified as strategic and critical spares are recognised as property, plant and equipment and are only capable of operating in the manner intended by management when they are installed. Items of property, plant and equipment transferred from customers are initially recognised at fair value in accordance with International Accounting Standard (IAS) 16 *Property, plant and equipment* and any related revenue is recognised in accordance with IFRS 15 (previously IAS 18 *Revenue)* within revenue.

Subsequent costs are capitalised 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. When part of an asset is being replaced, the carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the financial period incurred.

Land and spare parts are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate cost over the estimated useful lives (limited to residual values), as follows:

	Years
Buildings and facilities	10 to 40
Plant	
• Generating	3 to 80
• Transmitting	5 to 40
• Distributing	10 to 35
• Other	3 to 40
Equipment and vehicles	1 to 15

The depreciation method, residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date. The estimation of the useful lives of property, plant and equipment is based on historical performance as well as expectations about future use and therefore requires a degree of judgement.

Gains or losses on disposal of an item of property, plant and equipment are recognised in profit or loss within other income or other expenses. Projects in works under construction that have been discontinued are written off and included in other expenses.

2.5 Intangible assets

Research and development

Research expenditure is recognised as an expense as incurred.

Development expenditure (relating to the design and testing of new or improved products) is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss within other expenses. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

2. Summary of significant accounting policies (continued)

2.5 Intangible assets (continued)

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs previously capitalised that have been discontinued are written off and included in other expenses.

Capitalised development costs are amortised from the point at which the asset is ready for use on a straight-line basis over its useful life. Subsequent to initial recognition, the capitalised development costs are measured at cost less accumulated amortisation and impairment losses.

Rights

Rights consist mainly of servitudes and rights of way under power lines. A servitude right is granted to Eskom for an indefinite period (useful life) and is therefore not amortised.

Computer software

Computer software and licences acquired have a finite useful life and are measured at cost less accumulated amortisation and any accumulated impairment losses. If software is integral to the functionality of related equipment, it is capitalised as part of the equipment. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Amortisation is calculated using the straight-line method to allocate costs over their estimated useful lives of between two and five years. Amortisation methods and useful lives of assets are reviewed at each reporting date and adjusted if appropriate.

Concession assets

Concession assets consist of the right to charge for the usage of the infrastructure under service concession arrangements. The capital expenditure incurred in respect of the service concession arrangements (fair value at initial recognition), including borrowing costs on qualifying capital expenditures, is capitalised (refer to note 2.7) and amortised over the estimated useful life of the concession asset, which is the concession period during which it is available for use (refer to note 23). Subsequent to initial recognition, the concession assets are measured at cost less accumulated amortisation and impairment losses.

2.6 Impairment of non-financial assets

The carrying amounts of non-financial assets within the scope of IAS 36 *Impairment of assets* are reviewed at each reporting date to determine whether there is any indication of impairment. These assets are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or if there are indicators of impairment. Assets that have an indefinite useful life (rights) are tested annually for impairment.

Assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU) that are largely independent of cash inflows when assessing for impairment. Eskom Holdings SOC Ltd is regarded as a CGU as it is a vertically integrated regulated business with no active market. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets that were subject to impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment losses or reversals are recognised in profit or loss within impairment of other assets.

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, until the asset is substantially ready for its intended use.

Borrowing costs for qualifying assets financed by specific borrowings are capitalised using either the specific borrowing rate or the actual interest expense incurred. Borrowing costs for qualifying assets that are not financed by specific borrowings are capitalised at the weighted average of the borrowing costs (capitalisation rate) using the borrowings applicable to the entities in the group.

2.8 Leases

Finance leases – where the group is the lessee

Finance lease payables comprise mainly of arrangements that contain finance leases in terms of IFRIC 4 *Determining whether an arrangement contains a lease*. The leased assets include plant, mining assets and equipment and vehicles.

Finance leases are capitalised on commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. Finance lease payables are derecognised in accordance with the derecognition requirements for financial liabilities.

Finance leases – where the group is the lessor

Finance lease receivables mainly comprise premium power supply equipment contracts.

The present value of the lease payments is recognised as a receivable when property, plant and equipment are leased out under a finance lease. 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.

Operating leases

Leases where substantially all of the risks and rewards of ownership are not transferred 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 expenses on a straight-line basis over the period of the lease. 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.

2.9 Payments made in advance

Securing debt raised

Payments are made in advance to lenders for the commitment and issuing fees incurred in raising debt.

Environmental rehabilitation trust fund

Contributions are made by Eskom to environmental rehabilitation trust funds that were established to fund the financial obligation in respect of the rehabilitation of certain coal mines from which Eskom sources its coal for the generation of electricity. The trust funds are controlled by third parties and will be solely used for the environmental rehabilitation of the relevant coal mines. The contributions made to the trust funds have been recognised separately from the environmental rehabilitation provision in accordance with the requirements of IFRIC 5 *Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*.

Other

Other payments made in advance comprise mainly payments made to suppliers to reserve manufacturing capacity for the future construction of assets. 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 in advance.

2.10 Financial instruments

2.10.1 Financial assets (excluding derivatives)

Classification

Current year (in terms of IFRS 9)

The appropriate classification of a financial asset is determined on acquisition of the financial asset and is based on:

- whether or not the contractual terms of the financial asset gives rise to contractual cash flows that are solely payments of principal and interest; and
- the objective of the business model in which the financial asset is held at a portfolio level that best reflects the way the business is managed

Financial assets are not reclassified subsequent to their initial recognition unless the group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The group may irrevocably designate a financial asset on initial recognition that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The group may also irrevocably elect on initial recognition of an equity investment that is not held for trading to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

The group did not designate any financial assets at fair value through profit or loss and has not elected to present equity investments at fair value through other comprehensive income.

Financial assets are classified into the following categories:

Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- it is held within a business model whose objective is to hold assets to collect contractual cash flows

Fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets

Fair value through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

Comparative year (in terms of IAS 39)

Comparative year classifications are disclosed in terms of IAS 39. Financial assets were classified as held-for-trading, loans and receivables or available-for-sale.

2. Summary of significant accounting policies (continued)

2.10 Financial instruments (continued)

2.10.1 Financial assets (excluding derivatives) (continued)

Measurement

Initial recognition

Financial assets are initially measured at fair value on the date of commitment to purchase (trade date). The transaction price is generally the best indicator of fair value. If a contract with a customer has a significant financing component, the related financial asset is initially measured at the transaction price excluding the time value of money.

Where the fair value of a financial asset is different to the transaction price, a day-one gain or loss may arise. If the fair value has been determined based on market-observable data the whole day-one gain or loss is recognised immediately in profit or loss. If the fair value has not been based on market-observable data the day-one gain or loss is deferred in the statement of financial position and amortised over the term of the instrument in profit or loss.

Any directly attributable transaction costs are included in the initial measurement of financial assets except for financial assets at fair value through profit or loss where directly attributable transaction costs are recognised in profit or loss.

After initial recognition

Amortised cost (previously loans and receivables)

Financial assets at amortised cost are measured at amortised cost after initial recognition using the effective interest rate method less any accumulated impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Fair value through other comprehensive income (previously available-for-sale)

Financial assets at fair value through other comprehensive income are measured at fair value after initial recognition. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairments are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income.

The loss allowance for financial assets at fair value through other comprehensive income is recognised in profit or loss.

Fair value through profit or loss (previously held-for-trading)

Financial assets at fair value through profit or loss are measured at fair value after initial recognition. Changes in the fair value after initial recognition (including any interest or dividend income) are recognised in profit or loss.

Analysis of current and comparative year classification and measurement

The accounting classification of financial assets in terms of IAS 39 and IFRS 9 is provided in the table below. Refer to note 50 for more information regarding the adoption of IFRS 9.

Instrument	IAS 39 classification and measurement	IFRS 9 classification	Reason for classification in terms of IFRS 9
Loans receivable, finance lease receivables and trade and other receivables	Loans and receivables (amortised cost)	Amortised cost	It was assessed that these balances are managed in terms of the IFRS 9 held-to-collect business model and have met the strictly solely payments of principal and interest (SPPI) criterion
Investments and financial trading assets			
• Negotiable certificates of deposit	Available-for-sale (fair value through other comprehensive income)	Amortised cost	It was assessed that these balances are managed in terms of the IFRS 9 held-to-collect business model and have met the SPPI criterion
• Repurchase agreement	Held-for-trading (fair value through profit or loss)	Amortised cost	It was assessed that these balances are managed in terms of the IFRS 9 held-to-collect business model and have met the SPPI criterion
• Listed shares	Held-for-trading (fair value through profit or loss)	Fair value through profit or loss	It was assessed that these balances are not managed on a held-to-collect and/or for sale business model and the default classification is therefore fair value through profit or loss
• Government bonds	Held-for-trading (fair value through profit or loss)	Fair value through profit or loss	It was assessed that these balances are not managed on a held-to-collect and/or for sale business model and the default classification is therefore fair value through profit or loss

Impairment

Current year (in terms of IFRS 9)

Loss allowances are recognised for expected credit losses on financial assets measured at amortised cost or fair value through other comprehensive income. Loss allowances are calculated using the general or simplified approach.

The general approach requires impairment to be measured using a 12-month or lifetime expected credit loss. The lifetime expected credit loss method will be used if, after initial recognition, there is a significant increase in the credit risk of a financial asset or if it becomes credit-impaired. The simplified approach requires impairment to be measured using a lifetime expected credit loss. The simplified approach is applied to trade and other receivables.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the group is exposed to credit risk. 12-month expected credit losses are the portion of the expected credit loss resulting from default events that are possible within 12 months after reporting date (or a shorter period if the expected life of the instrument is less than 12 months). Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of financial instrument.

Expected credit losses are probability-weighted estimates of credit losses. Credit losses are measured as the difference between the cash flows due in accordance with the contract and the cash flows expected to be received discounted at the effective interest rate of the financial asset.

All financial assets subject to impairment are monitored to assess whether they have been subject to a significant increase in credit risk after initial recognition. There will be a significant increase in credit risk when:
- payments are more than 30 days past due, or
- a significant qualitative event has occurred

Where it is assessed that a counterparty's credit risk has increased significantly from its initial low risk designation, the related asset is moved from stage 1 to stage 2. No significant increases in credit risk were observed in the 2019 financial year.

An assessment is performed at each reporting date to determine whether financial assets subject to impairment are credit-impaired. A financial asset is credit-impaired when there is observable evidence that one or more event has occurred that has had a detrimental impact on the estimated future cash flows expected to flow from the asset such as:
- significant financial difficulty of the borrower, issuer or customer
- a breach of contract such as a default (where the counterpart is unlikely to pay its obligations) or being more than 90 days past due
- restructuring of a loan or advance on terms that the group would not otherwise consider
- it is probable that the borrower or customer will enter bankruptcy or other financial reorganisation
- the disappearance of an active market for a security because of financial difficulties

Where the counterparty is assessed to be credit-impaired the related asset is disclosed in stage 3.

Expected credit loss models and methods

Instrument	Criteria used for assessment of expected credit loss measurement		
	12-month expected credit loss	Lifetime expected credit loss	
	Stage 1 Low credit risk	Stage 2 Not credit-impaired or significant increase in credit risk	Stage 3 Credit impaired or default
Trade and other receivables	Not applicable (simplified approach applied so use lifetime expected credit loss)	Elected to measure loss allowances at an amount equal to the lifetime expected credit losses	Financial asset more than 90 days past due
Finance lease, loans receivable and financial guarantees	Credit risk is assessed as low (where the credit risk rating assigned is equivalent to the globally undersdood definition of investment grade)	Financial asset more than 30 days past due	Financial asset more than 90 days past due
Investments and financial trading assets and cash and cash equivalents	Credit risk is assessed as low (where the credit risk rating assigned is equivalent to the globally undersdood definition of investment grade)	Significant increase in credit risk since initial recognition but there is no objective evidence of loss (ie the counterparty is still considered likely to pay its obligations)	There is objective evidence that the counterparty is unlikely to pay its obligations

Prior year (in terms of IAS 39)

Loans and receivables were assessed at the reporting date for indicators of impairment to determine whether there was any objective evidence of impairment. Individually significant financial assets were tested for impairment on an individual basis. The remaining financial assets were assessed collectively in groups that share similar credit risk characteristics.

An impairment loss was calculated as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Where an asset has been impaired, the carrying amount of the asset was reduced through an allowance account.

The allowance for impairment represented the group's estimate of incurred losses. The allowance consisted of a specific loss component that related to individual exposures, and a collective loss component established for groups of similar receivables in respect of losses that have been incurred but not yet identified.

Loans and receivables that would otherwise have been impaired but were renegotiated were initially accounted for as impaired receivables immediately after having been renegotiated. Once a payment history in terms of the renegotiated agreement was established, the same impairment assessment as applicable to receivables that had not been renegotiated was applied to assess whether the receivable should be impaired or not. Impairment losses were recognised in profit or loss. An impairment loss was reversed if it could be related objectively to an event occurring after the impairment loss was recognised.

2. Summary of significant accounting policies (continued)

2.10 Financial instruments (continued)

2.10.1 Financial assets (excluding derivatives) (continued)

Derecognition

Financial assets are derecognised when the right to receive cash flows from the assets has expired or substantially all the risks and rewards of ownership have transferred from the group. Realised gains or losses on derecognition are determined using the last-in-first-out (LIFO) method. Gains and losses, including those accumulated in other comprehensive income, are recognised in profit or loss.

The gross carrying amount of a financial asset is written off when the group has no reasonable expectation of recovering a financial asset.

2.10.2 Financial liabilities (excluding derivatives)

Classification

Financial liability classifications in terms of IAS 39 and IFRS 9 have not changed. Financial liability balances have been classified as either amortised cost or other liabilities.

Measurement

Initial recognition

Financial liabilities are measured at fair value on the date of commitment (trade date). Where financial liabilities are carried at amortised cost, transaction costs are included in the value of the financial liability. Where financial liabilities are carried at fair value through profit or loss, transaction costs are recognised in profit or loss. Fees paid on the establishment of loan facilities are recorded as a payment made in advance where it is probable that some or all of the facility will be drawn down. Refer to note 2.9. The fees paid are recognised as transaction costs upon drawdown and then amortised to profit or loss within finance costs from the date of first drawdown to final maturity of each facility.

After initial recognition

Current year (in terms of IFRS 9)

Financial liabilities at amortised cost are measured at amortised cost using the effective interest method. Financial liabilities classified as at fair value through profit or loss are measured at fair value. The group did not designate any financial liabilities at fair value through profit or loss.

Prior year (in terms of IAS 39)

Financial liabilities at amortised cost were measured at amortised cost using the effective interest method. Financial liabilities classified as held-for-trading were measured at fair value. The group did not designate any financial liabilities at fair value through profit or loss.

Derecognition

Financial liabilities are derecognised when the obligation expires, is discharged or cancelled, or there is a substantial modification to the terms of the liability. Realised gains and losses are determined using the LIFO method.

2.10.3 Derivatives held for risk management

Classification and measurement

Derivatives held for risk management are classified as at fair value through profit or loss (in the comparative year they were classified as held-for-trading), unless they meet the criteria for and have been designated as cash flow hedges. They are measured at fair value.

Instrument	IAS 39 classification and measurement	IFRS 9 classification	Reason for classification in terms of IFRS 9
Derivatives held for risk management (unless they meet the criteria for and have been designated as cash flow hedges)	Held-for-trading (fair value through profit or loss)	Fair value through profit or loss	It was assessed that these balances are not managed on a held-to-collect and/or for sale business model and the default classification is therefore fair value through profit or loss

The classification of cash flow hedges has not changed from IAS 39 to IFRS 9.

Economic hedges

Certain derivative instruments do not qualify for cash flow hedge accounting but are used for economic hedging. Changes in the fair value of these derivative instruments (realised and unrealised gains or losses) are recognised in profit or loss within net fair value and foreign exchange gain/loss on financial instruments.

Cash flow hedges

The relationship between hedging instruments and hedged items as well as risk management objectives and the strategy for undertaking various hedging transactions are documented at the inception of a transaction. 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.

It is expected that the values of the hedging instrument and the hedged item will move in opposite directions as a result of the hedged risks (foreign exchange and interest rate risks).

The hedge ratio is based on a hedging instrument with the same notional amount in currency terms as the hedged item or portion thereof designated for hedge accounting. This results in a hedge ratio of 1:1 or 100%.

Significant day-one gains and losses are deferred in the statement of financial position (derivatives held for risk management) and amortised on a straight-line basis over the term of the hedging instrument to profit or loss. Unamortised day-one gains and losses will be written off to profit or loss should the related financial instrument be derecognised (extinguished) before maturity date. Day-one gains and losses on hedging instruments are predominantly a function of the inclusion of credit, liquidity and other risks in the terms of the trading instrument. These risks are not included in the determination of a hypothetical derivative used to measure fair value movements in a hedged item and are therefore excluded from any hedge accounting relationships.

The effective realised and unrealised portion of the changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income within the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within net fair value and foreign exchange gain/loss on financial instruments.

Cumulative gains or losses existing in other comprehensive income where the hedged item is a non-financial asset are included in the initial carrying amount of the asset when the forecast transaction results in the recognition of a non-financial asset. Gains and losses recognised in the cash flow hedge reserve in other comprehensive income will affect profit or loss in the periods during which the relevant non-financial assets are expensed to profit or loss.

Cumulative gains or losses existing in other comprehensive income where the hedged item is a financial liability are taken to profit or loss within finance cost or net fair value and foreign exchange gain/loss on financial instruments when the cash flows occur on the hedged financial 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 other comprehensive income until the forecast transaction occurs. If a forecast transaction is still expected to occur, the cumulative gains or losses in other comprehensive income are reclassified from equity to profit or loss in the same periods during which the hedged forecast cash flows affect profit or loss. If a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to profit or loss within net fair value and foreign exchange gain/loss on financial instruments.

Sources of ineffectiveness include the following:
- period mismatches between the hedging instrument and hedged item
- the fair value of the hedging instrument at the hedge relationship designation date (if not zero)
- the fair value or cash flow of the hedged item and hedging instrument are dependent on different variables

2.10.4 Embedded derivatives

Eskom entered into a number of agreements to supply electricity to electricity-intensive businesses where the revenue from these contracts is linked to commodity prices and foreign currency rates or foreign producer price indices that give rise to embedded derivatives.

Embedded derivatives that are not separated from the host contract are effectively accounted for as part of the hybrid instrument. Non-option based derivatives are separated on terms that result in a fair value of zero at the date of inception. 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 or losses. These day-one gains or losses are recognised over the period of the agreement. The fair value will depend on the strike price at inception.

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 best fit the profile of such a customer.

The changes in fair value of embedded derivatives are recognised in profit or loss within net fair value and foreign exchange gain/loss on financial instruments. The impact of the fair value gains or losses is taken into account in the calculation of current and deferred taxation.

2.10.5 Repurchase and resale agreements

Repurchase agreements are included in financial trading liabilities or financial trading assets dependent on whether securities are bought or sold. Agreements to resell securities are recorded as repurchase agreements and included in financial trading assets when the securities are bought for market-making activities. 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.

2.10.6 Financial guarantees

Financial guarantees are contracts that require the group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Current year (in terms of IFRS 9)

Financial guarantees issued are initially measured at fair value and subsequently measured at the loss allowance calculated in accordance with IFRS 9.

Prior year (in terms of IAS 39)

Financial guarantees were measured at fair value at initial recognition. This was calculated by reference to discounted future cash flows adjusted according to the probability of occurrence of the trigger event. The provided portion of the guarantee was disclosed as an expense and a liability. The unprovided portion was disclosed as a contingent liability.

After initial recognition guarantees were measured at the higher of the amortised cost (of the original fair value amount) and the present value of any expected payment (when a payment under the guarantee has become probable).

2. Summary of significant accounting policies (continued)

2.11 Future fuel supplies

Coal

The right to future coal supplies from coal mines is measured at cost. Cost includes payments made to coal suppliers for mine establishment and related equipment in terms of cost-plus agreements. The cost also includes the initial estimate of environmental rehabilitation of the mine as well as changes in the estimated timing or amount of outflow of resources or changes in the discount rate. The cost is amortised to coal inventory over the lesser of the life of the agreement or the underlying assets.

Nuclear

Expenditure incurred to obtain, convert, enrich and fabricate fuel assemblies is stated at cost in future fuel supplies. The fuel assemblies are transferred to inventory when they are received. Costs include the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw materials, fabrication and enrichment.

2.12 Inventories

Coal, liquid fuel, 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 and other costs in bringing inventory to its present location and condition as well as the cost of ongoing programmes to rehabilitate the environment and other closure cost for active mines that is charged to profit or loss within primary energy as the coal is consumed.

Nuclear fuel

Nuclear fuel consists of enriched and fabricated fuel assemblies and fuel in reactors. Nuclear fuel is stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis and includes cost for the management of fuel assemblies that are written off on a straight-line basis to profit or loss within primary energy over the estimated useful life of the fuel in the reactor.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

2.14 Income tax

Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or equity, in which case it is recognised on that basis.

2.15 Deferred tax

Deferred tax is recognised on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates (and laws) enacted or substantively enacted at the reporting date and that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are reviewed at each reporting date and derecognised if it is no longer probable that the related tax benefits will be realised. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- temporary differences relating to investments in subsidiaries and associates to the extent that the group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is also recognised in respect of temporary differences arising on the assets and provisions created in respect of decommissioning and nuclear waste management and closure, pollution control and rehabilitation. Future taxable profits are determined based on business plans for legal entities in the group.

2.16 Payments received in advance, contract liabilities and deferred income

Customer connections

Customer connections arise when customers make a contribution to Eskom to construct regular distribution and transmission assets or when the constructed assets are transferred to Eskom to connect customers to the electricity network. Contributions are made in advance, in terms of a financing agreement or the completed assets are transferred to Eskom.

Customer connections received in advance are initially recognised as payments received in advance.

The related customer connections that arise when customers transferred distribution and transmission assets to Eskom to connect to the electricity network are accounted for when the customer hands over the completed assets to Eskom.

Connections for electricity customers that were connected after 1 April 2018 (transition date to IFRS 15)

When the connection provides the customer with a material right, the connection is allocated to deferred income (contract liabilities) when the customer is connected to the electricity network. The deferred income is recognised in profit or loss within revenue on a straight-line basis over the estimated customer relationship period as the connection provides the customer with a material right of renewal that extends the revenue recognition period beyond the initial contractual period.

When the connection does not provide the electricity customer with a material right, the connection is recognised in full in profit or loss within revenue when the customer is connected to the electricity network.

Connections for electricity customers that were connected after 30 June 2009 but before 1 April 2018

Connections were recognised in profit or loss when the customer was connected to the electricity network in terms of IFRIC 18 *Transfers of assets from customers.*

Connections for electricity customers that were connected before 30 June 2009

Connections were allocated to deferred income when the customer was connected to the electricity network. The deferred income is recognised in profit or loss within revenue on a straight-line basis over the expected useful lives of the related assets.

Refer to note 2.19 for revenue recognition of connections.

Grants

Government grants for electrification are initially recognised in payments received in advance and allocated to deferred income when the related asset has been connected to the electricity network. The deferred income is recognised in profit or loss within depreciation and amortisation expense on a straight-line basis over the expected useful lives of the related assets.

2.17 Employee benefit obligations

Post-employment medical benefits

The liability for post-employment medical benefits is the present value of the obligation determined by using government bonds which have maturities similar to the liability. The post-employment medical benefits plan is unfunded. Provision is made by accounting 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 reporting date. Actuarial gains or losses are recognised in other comprehensive income within re-measurements of post-employment medical benefits. Interest expense and other expenses related to these benefits are recognised in profit or loss.

The entitlement to these benefits is usually conditional on the employee remaining in-service up to retirement. All employees qualify for post-employment medical benefits, except for new employees appointed on or after 1 June 2003 at a managerial level. The group accounts for its post-employment medical benefits obligation as a defined benefit plan in line with IAS 19 *Employee benefits.*

A curtailment will occur when the group significantly reduces the number of employees covered by a termination plan. Curtailment gains and losses are accounted for as past service costs, which are recognised in profit or loss immediately in the period when the termination plan is amended.

If the benefits are changed or curtailed, the resulting change in benefits that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The group recognises gains or losses on the settlement of a defined benefit plan when the settlement occurs. A settlement occurs when payments are made to employees to eliminate any further liabilities.

Occasional and service leave

The liability for occasional and service leave is of a long-term nature in terms of IAS 19 *Employee benefits* as it is not expected to be settled wholly within 12 months after the reporting period but there is no unconditional right to defer settlement for at least 12 months after the reporting period. The full provision is therefore presented as current in the statement of financial position.

An actuarial valuation is performed on an annual basis for the occasional and service leave liability. The accrued liability is 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 is made 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 or losses and past service costs are recognised in profit or loss within employee benefit expense. The present value of the benefit is determined by using government bonds which have maturities similar to the liability.

Annual and performance bonus

The annual and performance bonus is a short-term employee benefit which is expensed as the related services are provided. A liability is recognised for the amount expected to be paid if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. A liability for annual bonuses is accrued on a proportionate basis as services are rendered. A liability for performance bonus is raised on the estimated amount payable in terms of the incentive scheme which is based on the business and employees' performance in the applicable year.

Pension benefits

Pension benefits are provided for employees through the Eskom Pension and Provident Fund (EPPF). Contributions to the fund are based on a percentage of pensionable emoluments and are expensed in the period in which they have been incurred. The group accounts for its pension obligations as a defined contribution plan in line with IAS 19 *Employee benefits*. Additional disclosure relating to the pension benefits have been included in note 28.4 to enable users of financial statements to understand the impact of the particular transaction.

Termination benefits

A liability and expense for termination benefits is recognised by the group when the group can no longer withdraw the offer of those benefits.

2. Summary of significant accounting policies (continued)

2.18 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.

The valuation of long-term provisions requires a degree of judgement regarding the future cash flows and the timing thereof. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects 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 the passage of time is recognised as finance costs.

The initial cost of a provision is capitalised against the cost of the related asset if it meets the requirements for capitalisation. Changes in the liability for capitalised provisions are added to, or deducted from, the cost of the related asset. Any amount exceeding the cost of the related asset is allocated to profit or loss.

The main categories of provisions include the following:

Power station-related environmental restoration – nuclear plant and other generating plant

The provision includes the estimated decommissioning cost of nuclear and other generation plant. The estimated cost of decommissioning at the end of the productive life of plant is based on engineering and technical estimates and reports from independent experts. The initial cost of the provision is capitalised against property, plant and equipment.

A provision is also raised for the management of fuel assemblies and radioactive waste which is recognised and measured based on the latest available cost information and spent fuel management methodologies. The costing and methodologies are revised on a regular basis to ensure alignment with the requirements of the National Nuclear Regulator of South Africa. The cost for the fuel assemblies is included in the cost of inventory while the fuel is in the reactor. The cost relating to radioactive waste is charged to profit or loss within primary energy.

Mine-related closure, pollution control and rehabilitation

The provision includes the estimated cost of physical, biophysical and social closure and environmental rehabilitation of the mine where a legal or constructive obligation exists. The initial cost of the provision is capitalised against future fuel. The cost of ongoing closure and rehabilitation programmes for active mines is charged to inventory and subsequently to profit or loss within primary energy as the coal is consumed, while the cost relating to defunct mines is charged directly to profit or loss.

Coal-related obligations

A provision is raised for coal-related obligations which arise out of contractual obligations as a result of delays in commissioning of the related power stations which is recognised and measured based on the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period and is charged to profit or loss within primary energy.

Other

Other provisions include provisions made for contractual obligations to maintain and restore the infrastructure under service concession arrangements, onerous contracts, compensation events and guarantees. Other provisions are raised based on contractual obligations and are recognised and measured based on the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period and are charged to profit or loss within other expenses.

2.19 Revenue from contracts with customers

Eskom's main revenue activity is the sale of electricity which is recognised when electricity is consumed by the user. The subsidiaries support this main activity but are not considered to be part of the main revenue activity as their operations include providing home loans, insurance, maintenance and construction services.

Revenue is recognised when a customer obtains control of the goods or services being supplied. The amount of revenue recognised is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

The group's principal revenue generating activities are as follows:

Revenue activity	Nature and timing of satisfaction of performance obligation, including significant payment terms	Revenue recognition in terms of IAS 18	Revenue recognition in terms of IFRS 15
Electricity sales	Performance obligation is settled when electricity is supplied to the customer. Most customers pay for electricity after consumption and have between 15 and 45 days to pay. Some customers prepay for electricity	Revenue was recognised when electricity was consumed by the customer Where it was assessed that there was a high probability that the economic benefits related to sales would not materialise, such sales were not recognised	No change compared to IAS 18. Revenue is recognised at a point in time when electricity is consumed by the costomer (ie when control is transferred). Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties Customers that fail the collectability criterion are accounted for on the cash basis (ie revenue will be recognised only when cash is received)

Revenue activity	Nature and timing of satisfaction of performance obligation, including significant payment terms	Revenue recognition in terms of IAS 18	Revenue recognition in terms of IFRS 15
Connections	Connections arise when customers make a contribution to Eskom to construct regular distribution and transmission assets or when the constructed assets are transferred to Eskom to connect customers to the electricity network	Connections that were completed before 30 June 2009 were allocated to deferred income when the customer was connected to the electricity network. The deferred income is recognised in profit or loss within revenue on a straight-line basis over the expected useful life of the related assets	No change. The deferred income is recognised in profit or loss within revenue on a straight-line basis over the expected useful life of the related assets
	Connections arise from contracts with customers who will also become electricity purchasing customers once they are connected and those who will not purchase electricity (eg property developers)	Connections that were completed after 30 June 2009 were recognised as revenue when the customer was connected to the electricity network in terms of IFRIC 18 *Transfers of assets from customers*	Connections that were completed from 1 April 2018 are recognised as follows: • connections relating to electricity purchasing customers where there is a material right are allocated to deferred income when the customer is connected to the electricity network. The deferred income is recognised in profit or loss within revenue on a straight-line basis over the estimated customer relationship period of 25 years. Refer to note 27 for the contract liabilities of connections recognised on a straight-line basis • connections relating to electricity purchasing customers where there is not a material right are recognised as revenue over the initial contract term • connections relating to non-electricity purchasing customers are recognised as revenue at a point in time when the customer is connected to the electricity network
Other	*Ad hoc* requests for electricity related services that are distinct from the sale of electricity or the connection of customers to the grid	Recognised when the service is completed	No change. Revenue is recognised at a point in time when the service is completed

The assessment to defer revenue for connection charges from electricity customers required judgement because of divergent international treatments based on contract and operational differences. Changes to the recognition of customer connections is not expected based on the current information available.

The assessment of whether or not a connection charge is a material right or not in terms of IFRS 15 requires judgement of what constitutes a material right from the perspective of the customer and results in different accounting treatments as discussed above.

2.20 Finance income

Finance income comprises interest receivable on loans, trade receivables, finance lease receivables and income from financial market investments.

Finance income is calculated by applying the effective interest rate method to the gross carrying amount of non-credit impaired financial assets (ie at the amortised cost of the financial asset before adjusting for any expected credit loss allowance). Finance income on credit-impaired financial assets is calculated by applying the effective interest rate to the amortised cost of the credit-impaired financial assets (ie the gross carrying amount less the allowance for expected credit losses). Interest income is recognised as it accrues using the effective interest method in profit or loss.

2.21 Finance cost

Finance cost comprises interest and fees payable on debt securities and borrowings and finance lease payables, interest resulting from derivatives held for risk management and interest from the unwinding of discount on liabilities. Borrowing costs which are not capitalised are recognised in profit or loss. Refer to note 2.7.

2.22 Assets and liabilities held-for-sale

Assets and liabilities (or disposal groups) which meet the definition of held-for-sale under IFRS 5 *Non-current assets held-for-sale and discontinued operations* are stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction.

2.23 Net debt

Gross debt is the aggregate of debt securities and borrowings and finance lease payables.

Net debt is calculated by adjusting gross debt for related payments made in advance, derivatives held for risk management, financial trading instruments and cash and cash equivalents.

3. Capital management and going concern

3.1 Capital management

The objective of capital management is to ensure that the group is sustainable over the long term. The government, as the sole shareholder, and the board have the responsibility to ensure that the group is adequately capitalised and that the business is attractive to investors.

The group's funding consists of equity investments by the shareholder, funds generated from operations and funds borrowed on local and foreign debt markets with strong government support. There were no changes to the group's approach to capital management during the financial year. The following capital reserves are managed:

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Share capital	24	83 000	83 000	83 000	83 000
Accumulated profit		81 749	98 090	67 166	85 804
Net debt	44	430 820	386 671	435 771	391 016
		595 569	567 761	585 937	559 820
Facilities available – debt securities and borrowings[1]		58 732	31 352	58 732	31 352

(a) Share capital

There have been no changes in share capital in the current financial year.

(b) Accumulated profit

Revenue

Eskom analyses the Integrated Resource Plan (which forecasts the growth in long-term electricity demand) and evaluates the alternative options to meet and manage forecast demand. This information impacts the planning process and informs the revenue applications made to NERSA for tariff increases that will allow Eskom to be financially sustainable.

Refer to the economic regulation section in the directors' report for more information on electricity tariffs.

Operating cost

The group continues to pursue cost saving opportunities to assist in ensuring financial sustainability.

The following income statement measures are monitored by management:

	Group 2019 %	Group 2018 %	Company 2019 %	Company 2018 %
EBITDA margin	17.51	25.57	16.26	24.48
Net profit margin	(11.52)	(1.32)	(12.89)	(2.60)

(c) Net debt

	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Funding spent	105 644	98 920	105 562	98 584
Debt repayment and net finance costs	69 442	43 423	69 547	43 638
Investment funding requirements	36 202	55 497	36 015	54 946
Funding raised	105 644	98 920	105 562	98 584
Cash from operations	32 740	37 574	32 118	36 484
Financing activities	58 509	56 970	58 959	57 497
Utilisation of cash resources	14 395	4 376	14 485	4 603

1. *Facilities in foreign currency are converted to rand at mid-spot rate at reporting date. Refer to note 5.3.*

The following ratios play an important role in the credit ratings given to Eskom which in turn influences the cost of funding. Eskom's credit rating is affected by its own financial position as well as the credit rating of the sovereign:

		Group		Company	
	Unit	2019	2018	2019	2018
Net debt: equity	Ratio	2.81	2.27	3.15	2.47
Net debt: EBITDA	Ratio	13.68	8.52	14.90	9.00
Net debt service cover	Ratio	0.47	0.87	0.46	0.84
Free funds from operations: net debt	%	6.74	10.35	14.52	6.27

Eskom's credit ratings at 31 March were as follows:

	Rating		Outlook	
	2019	2018	2019	2018
Standard and Poor's				
Foreign currency	CCC+	BB-	Negative	Negative
Local currency	CCC+	BB-	Negative	Negative
Moody's				
Foreign currency	B2	Ba1	Negative	Negative
Local currency	B2	Ba1	Negative	Negative
Fitch Ratings				
Foreign currency	–	–	Negative	Negative
Local currency	BB-	BBB	Negative	Negative

Net debt is sourced globally to ensure the lowest cost of funding. Where funds are received and have not yet been spent, they are invested to provide the maximum possible return while ensuring minimal capital risk and matching the maturity term requirements of the spending of the amount. Additionally, market-making activities are undertaken to reduce the cost of bonds.

Net debt is managed via the continuous monitoring of current and potential debt funding arrangements to achieve the most favourable terms possible. These terms and costs are heavily dependent on Eskom's credit rating. Eskom is focusing on alleviating the rating agencies' concerns regarding the high leveraged financial profile, inadequate electricity price path and funding requirements of Eskom.

Refer to note 44 for a reconciliation of the movements and analysis of the composition of net debt.

3.2 Going concern

The board made an assessment of the ability of the group to continue as a going concern in the foreseeable future. The board:

- recognised that Eskom is facing various legacy challenges that resulted from mismanagement and corruption in the past. Significant progress has been in cleaning-up irregularities and improving processes, but it is taking time to identify all issues and take appropriate corrective action and consequence management
- noted that there is a need to secure funding of R46 billion in 2020 (58% of the funding for 2020 has already been secured by the end of June 2019)
- considered the impact of the current economic climate and the sovereign's credit ratings on Eskom's ability to raise funds
- reviewed the performance of the group for the period ended 31 March 2019 including the net loss after tax of R20 729 million and the net current liabilities of R44 057 million
- noted the further deterioration of most of the group's financial indicators
- considered the impact of the cash flow forecast for the 24 months ending 31 March 2021 and the projected net loss for 2020
- considered that Eskom is in a debt reliant liquidity situation that resulted from low tariffs, stagnant and contracting sales volumes, increased costs and the capital programme to increase and replace generating and transmitting capacity
- considered the impact of reduced generation performance and the continuous increase in overdue electricity receivables including the impact of non-recoverability of long outstanding electricity receivables
- considered the impact of the apparent deduction of the R23 billion per annum support from government over the next three years in the NERSA MYPD 4 tariff determination

3. Capital management and going concern (continued)

3.2 Going concern (continued)

The challenges that the group is facing are being addressed by the following mitigation strategies and actions:

- continuous engagement is taking place with the shareholder and National Treasury to ensure that the challenges that impact the group's going-concern status are addressed satisfactorily within a reasonable timeframe
- Government continues to support Eskom to operate as a going concern given the strategic role that Eskom plays in pursuit of government objectives. Government support of R23 billion per year for the next three years has been announced in the 2019 budget by the Minister of Finance of which R13.5 billion has been provided in April 2019
- the President announced in the State of the Nation address delivered on 20 June 2019 that government will urgently table a special appropriation bill before the Medium Term Budget Policy Statement to allocate a significant portion of the R230 billion fiscal support over the next 10 years in earlier years as Eskom is seen as vital to the economy of the country
- the President announced in the State of the Nation Address in February 2019 a plan to reform the electricity sector. The separation of Eskom into three independent entities under Eskom Holdings is at the core of this plan, with the immediate priority to establish a transmission company
- the board continued with the process to separate the business into the main line divisions in preparation of legal restructuring. It is expected that government will appoint a chief restructuring officer soon, who will be expected to reposition Eskom financially with careful attention to the mix between revenue, debt and the cost structure of the company
- Eskom lodged court proceedings against NERSA around the determination of the 5.23% tariff increase awarded for the 2019 financial year
- the group's cost structures and capital programme are continuously being reviewed to extract cost savings and improve cash flows
- the group's generation capacity is being managed as a key focus area to ensure appropriate steps are being taken to manage the performance challenges
- there is continued focus on implementing relevant strategies in an effort to recover overdue trade receivables through the inter-ministerial task team
- the group will not embark on any further generation expansion activities in the foreseeable future after the completion of the Kusile power station project
- funding options, with the support of National Treasury, are being pursued to implement the group's borrowing programme
- there is continued focus on the supply chain recovery programme to address the shortcomings relating to the completeness of the irregular expenditure, fruitless and wasteful expenditure and losses due to criminal conduct reporting process in terms of the PFMA (resulted in the qualified audit opinion) and the clean-up of the related challenges in the commercial environment

The board considered the risks relating to the group's going-concern status and is satisfied that the risks will be satisfactorily addressed with the mitigation strategies in place. The board continues to manage these strategies as a priority as it is important that they materialise as envisaged. Tough and painful decisions will have to be made by Eskom, the shareholder and NERSA for the strategy to succeed. The board therefore concluded that it is satisfied that the group has access to adequate resources and facilities to be able to continue its operations for the foreseeable future as a going concern.

4. Critical accounting estimates and assumptions

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.

The methods and types of assumptions used in preparing the sensitivity analyses did not change compared to the previous period other than those set out in 4.7 and 4.8 which arose from the implementation of IFRS 9 and 15. Sensitivity analyses are calculated based on a change in a single assumption keeping all other assumptions constant. In practice, this is unlikely to occur and changes in some assumptions may be correlated.

4.1 Embedded derivatives

Eskom entered into a number of agreements to supply electricity to electricity-intensive businesses where the revenue from these contracts is linked to commodity prices and foreign currency rates or foreign producer price indices that give rise to embedded derivatives.

The embedded derivatives consist of the following categories:

- commodity and/or foreign currency
- United States producer price and foreign currency

Valuation

Valuation techniques are used to determine the fair value as there is no active market for embedded derivatives. The fair value is determined by fair valuing the whole agreement and deducting from it the fair value of the host agreement. The valuation methods include the use of swaps (where the electricity tariff is swapped for a commodity in a foreign currency) and options (where the electricity tariff or other revenue is based on an embedded derivative floor or cap on foreign consumer or producer price indices or interest rates and a closed form analytic solution is used to produce various cap and floor strike prices).

A forward electricity price curve is used to value the host agreement and the derivative agreement is valued by using market forecasts of future commodity prices, foreign currency rand exchange rates, interest rate differentials, forecast sales volumes, and production price and liquidity. The forward curves used are based on Eskom's financial years.

The forecast cash flow is determined and then discounted at the relevant interest rate curve. The net present value of the cash flows is then converted at the rand/foreign currency spot rate to the reporting currency. The fair value of the embedded derivative is 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. The important assumptions are obtained either with reference to the contractual provisions of the relevant agreements or from independent market sources where appropriate. The only significant unobservable input is the United States producer price index (PPI).

Valuation assumptions

Forecast sales volumes are based on the most likely future sales volumes based on past trends and taking into account future production plans in consultation with industry specific experts and key customer executives.

The following valuation assumptions were used for the valuation of embedded derivatives and are regarded as the best estimates by the board:

2019		Year ended 31 March					
Input	Unit	2019	2020	2021	2022	2023	2024
Aluminium	USD per ton	1 886	1 969	2 048	2 120	2 189	2 256
Volatility	Year-on-year (ratio)	0.19	0.19	0.19	0.19	0.19	0.19
Rand interest rates	Continuous actual/365 days (%)	6.75	7.93	7.06	7.16	7.24	7.38
Dollar interest rates	Annual actual/365 days (%)	2.52	2.75	2.39	2.32	2.29	2.30
United States PPI	Year-on-year (%)	(1.00)	1.86	1.80	2.28	1.26	1.89
Rand/USD	Rand per USD	14.48	15.25	15.89	16.74	17.65	18.67
Electricity price increase	Year-on-year (%)	5.23	13.87	7.81	5.05	8.00	8.00

2018							
Input	Unit	2018	2019	2020	2021	2022	2023
Aluminium	USD per ton	2 008	2 037	2 071	2 097	2 122	2 154
Volatility	Year-on-year (ratio)	0.16	0.16	0.16	0.16	0.16	0.16
Rand interest rates	Continuous actual/365 days (%)	6.76	7.46	6.71	6.84	6.99	7.12
Dollar interest rates	Annual actual/365 days (%)	2.09	2.67	2.59	2.67	2.71	2.73
United States PPI	Year-on-year (%)	3.66	1.89	2.07	1.85	1.89	2.06
Rand/USD	Rand per USD	11.88	12.46	12.90	13.46	14.09	14.79
Electricity price increase	Year-on-year (%)	2.20	5.23	8.00	8.00	8.00	8.00

Sensitivity analysis

The effect on profit/loss before tax of an increase or decrease in the assumptions is:

			Group and company			
		Change in assumption	2019 increase	2019 decrease	2018 increase	2018 decrease
Input	Unit		Rm	Rm	Rm	Rm
Aluminium price	USD per ton	1%	32	(32)	47	(47)
Electricity tariffs	Rand per kWh	1%	(17)	17	(69)	68
United States PPI	Index	1%	86	(90)	110	(120)
Rand interest rates	Continuous actual/365 days (%)	100 basis points	154	(171)	262	(294)
Dollar interest rates	Annual actual/365 days (%)	100 basis points	(117)	115	(183)	176
Rand/USD	Rand per USD	1%	53	(48)	77	(68)

4.2 Post-employment medical benefits

The group recognises a liability for post-employment medical benefits to qualifying retirees. The post-employment 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 credit 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 and the current cost liability is the cost of providing the benefit over the next year.

Valuation assumptions

The principal actuarial assumptions used were:

		Group		Company	
	Unit	2019	2018	2019	2018
Discount rate	%	11.0	10.5	11.0	10.5
Medical aid inflation	%	8.4	8.6	8.4	8.6
Male longevity	years	14.42	14.42	14.42	14.42
Female longevity	years	20.82	20.82	20.82	20.82
Weighted average duration	years	18.70	19.30	18.80	19.50

4. Critical accounting estimates and assumptions (continued)

4.2 Post-employment medical benefits (continued)

Sensitivity analysis

The effect of an increase or decrease in the assumptions is:

	Change in assumption	Group 2019 increase Rm	Group 2019 decrease Rm	Group 2018 increase Rm	Group 2018 decrease Rm	Company 2019 increase Rm	Company 2019 decrease Rm	Company 2018 increase Rm	Company 2018 decrease Rm
Effect on aggregate current service cost and finance cost									
Discount rate	1%	(277)	356	(193)	243	(273)	350	(190)	240
Medical aid inflation	1%	356	(281)	411	(322)	350	(276)	405	(316)
Future mortality	1 year	50	(50)	56	(56)	49	(49)	55	(55)
Effect on post-employment medical benefits obligation									
Discount rate	1%	(1 736)	2 176	(1 854)	2 348	(1 700)	2 133	(1 815)	2 300
Medical aid inflation	1%	2 169	(1 755)	2 326	(1 865)	2 126	(1 719)	2 279	(1 827)
Future mortality	1 year	362	(363)	385	(385)	354	(355)	376	(376)

4.3 Occasional and service leave

The group recognises a liability for occasional and service leave.

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 and company 2019 %	Group and company 2018 %
Discount rate	11.0	10.5
General price inflation	6.4	6.6
Salary increases	7.9	8.1
Leave usage	4.0	4.0

Assumptions regarding future mortality have been based on published mortality tables and statistics derived from experience. For details regarding current longevities underlying the values of the occasional and service leave obligation at the reporting date refer to note 4.2.

Sensitivity analysis

Based on current experience, 4% (2018: 4%) of the leave is utilised. If the rate at which leave is taken is 8% (2018: 8%), then the liability will increase by R68 million (2018: R70 million).

The carrying amount of the occasional and service leave liability for the group is R1 348 million (2018: R1 411 million) and R1 266 million (2018: R1 332 million) for the company.

4.4 Power station-related environmental restoration and mine-related closure, pollution control and rehabilitation

Valuation

These provisions are determined by discounting the current estimated future decommissioning and rehabilitation costs.

Valuation assumptions

The real discount rate used for these provisions was 3.4% (2018: 3.3%) for the group and company.

Estimated payment dates

The estimated payment dates of the costs are:

	Group and company	
	2019	2018
Nuclear plant	2026 – 2041	2026 – 2041
Coal and pumped storage plants	2024 – 2098	2024 – 2098
Spent nuclear fuel	2020 – 2125	2019 – 2125
Mine-related closure, pollution control and rehabilitation	2020 – 2077	2019 – 2076

Sensitivity analysis

The carrying amount of the decommissioning, mine closure and rehabilitation provision would be an estimated R6 610 million (2018: R5 929 million) lower had the real discount rate used in the calculation of the provision increased by 1% and R8 857 million (2018: R8 020 million) higher had the real discount rate decreased by 1%.

4.5 Coal-related obligations

Provision is made for coal-related obligations which arise out of contractual obligations as a result of delays in commissioning of the related power stations.

Valuation

These provisions are determined by taking consideration of the anticipated commissioning dates, future coal prices, coal utilisation and coal stock-piles.

Valuation assumptions

The discount rate used for these provisions was 9.1% (2018: 8.6%) for the group and company.

Estimated payment dates

Payments are expected to occur until 2020 (2018: 2023).

Sensitivity analysis

The carrying amount of the coal-related obligations would be an estimated R194 million (2018: R202 million) lower had the anticipated commissioning dates been one month earlier than estimated and R107 million (2018: R520 million) higher had the anticipated commissioning dates been one month later than estimated.

4.6 Revenue from contracts with customers

Customer connections

Connection charges are charged to customers in exchange for connection to Eskom's electricity network. This connection enables Eskom to sell electricity to these customers over the estimated customer relationship period. The customer relationship period refers to the period the customer remains a purchaser of electricity from Eskom at a given point of supply. A period of 25 years was determined after considering, inter alia, assumptions about the life-cycle of the distribution network used to supply electricity to customers.

Collectability of amounts receivable

Revenue may only be recognised if it is believed at the time of sale that the revenue is likely to be recovered from the customer. This recoverability requirement is not considered to have been met in contracts with customers who have a poor payments history and for which Eskom does not have the ability to manage the credit risk due to external facts and circumstances (for example socio-economic or political reasons). Eskom accounts for revenue from these contracts on a cash (rather than accrual) basis.

Where the recoverability requirement is met, revenue is recognised on an accrual basis. The risk of non-collection is reflected in the expected credit loss as an impairment expense rather than an adjustment to the revenue recognised.

4. Critical accounting estimates and assumptions (continued)

4.7 Expected credit loss on financial assets

The expected credit loss on financial assets is calculated using the following formula:

Expected credit loss = Exposure x Probability of default x Loss given default x Expected lifetime

The exposure is the amount outstanding less any collateral. The probability of default measures the likelihood that the amount outstanding will become more than 90 days past due. The loss given default measures the expected credit loss in the event that the outstanding amount becomes more than 90 days past due.

The financial assets that are subject to IFRS 9 impairment are stratified using factors such as the balance type, credit risk rating, existence and type of collateral, remaining term to maturity, delinquency status and geographical location.

The following details are applicable to the models used for the various financial asset balances:

Financial asset	Model details
International electricity receivables	Expected credit losses were calculated using a benchmark approach that assigns a probability of default to a client based on the size and country in which the client operates. The benchmark levels are based on a study performed by the Bank of International Settlements (BIS) and external agency benchmark data. Credit ratings were assigned to these categories which were then used to determine the probability of default. These probabilities of default are considered to represent a long-run average over an economic cycle. The through-the-cycle probability of default was used to estimate the expected credit loss due to the lack of data showing a relationship between the probability of default and macro-economic factors across the various jurisdictions. It is expected that international electricity receivables will behave in a cyclical manner similar to local electricity receivables and therefore no forward-looking adjustments were made. The loss given default was aligned to the corporate loss given default based on the South African Reserve Bank (SARB) requirements
Local large and small power user electricity receivables (excluding municipalities)	Expected credit losses were calculated using a provision matrix which utilises a transition approach. The probability of default relevant to balances with similar characteristics was determined by analysing their most recent historical loss rates. Default probabilities are not thought to be sensitive to changes in the South African macro-economic factors such as gross domestic product (GDP) and unemployment rates due to their short-term nature and therefore no forward-looking adjustment was made. The loss given default was calculated using the long-run average recovery rates
Municipality electricity receivables	Expected credit losses were calculated using a scorecard approach. Key financial ratios were calculated based on the latest signed municipality annual financial statements. Default probabilities are not believed to be sensitive to changes in the South African macro-economic factors such as GDP and unemployment rates due to their short-term nature and therefore no forward-looking adjustment was made. The loss given defaults are based on the long-run average recovery rates
Intercompany trade and other receivables and intercompany loans receivable	The estimates of the probability of default were based on the external rating of Eskom Holdings SOC Ltd mapped to an internal rating scale. These probabilities of default are considered to represent a long-run average over an economic cycle. Probability of default data for listed corporates shows that default rates are sensitive to changes in South African GDP and therefore a forward-looking adjustment factor was calculated using a macro-economic forecast. The probability of default was not adjusted as the forward-looking adjustment factor was not material. The loss given default was aligned to the corporate loss given default based on the SARB requirements
Other receivables, finance lease receivables and loans receivable	Expected credit losses were calculated using a benchmark approach that assigns a probability of default to a client based on the size and country in which the client operates. The benchmark levels are based on a study performed by the BIS and external agency benchmark data. Credit ratings were assigned to these categories which were then used to determine the probability of default. These probabilities of default are considered to represent a long-run average over an economic cycle. Probability of default data for listed corporates shows that default rates are sensitive to changes in South African GDP and therefore a forward-looking adjustment factor was calculated using a macro-economic forecast. The probability of default was not adjusted as the forward-looking adjustment factor was not material. The loss given default was aligned to the corporate loss given default based on the SARB requirements
Investments, financial trading assets and financial guarantees	The estimates of the probability of default were based on the external credit ratings of the counterparts using an external rating scale mapped to an internal rating scale. These probabilities of default are considered to represent a long-run average over an economic cycle. Probability of default data for listed corporates shows that default rates are sensitive to changes in South African GDP and therefore a forward-looking adjustment factor was calculated using a macro-economic forecast. The probability of default was not adjusted as the forward-looking adjustment factor was not material. The loss given default was aligned to the corporate loss given default based on the SARB requirements

5. Financial risk management

The group's integrated risk and resilience management process enables management to assess and respond to all material risks that may affect the achievement of organisational objectives.

The group maintains an integrated risk and resilience management framework comprising governance structures, management policies and guidance standards with a focus on risk and resilience assessments, treatment plans, monitoring and reporting. The management of financial risks, as defined by IFRS 7 *Financial instruments: disclosures*, falls within these overarching structures, policies and standards.

Management of financial risks is delegated by the board to the audit and risk committee. Day-to-day management of financial risks is carried out in the area in which the risks arise. Risk assessments, treatment plans and monitoring measures are reported to the audit and risk committee on a quarterly basis.

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.

The group has exposure to the following risks as a result of its financial instruments:

- credit risk – the risk of financial loss to the group if a customer or other counterparty to a financial instrument fails to meet its contractual obligations
- market risk – 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
- liquidity risk – 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

5.1 Credit risk

The carrying amounts of financial assets represent the maximum credit exposure except for cash and cash equivalents. The group's maximum exposure as a result of financial guarantees issued is disclosed in note 45.1.

5.1.1 Derivatives held for risk management, financial trading assets and cash and cash equivalents

The asset and liability committee (Alco) manages credit risk arising from the treasury department's activities in the financial markets with the objective of maximising the rate of return on investments while not exceeding approved levels of credit risk exposure. It is chaired by the chief financial officer and reports on a quarterly basis to Exco and the audit and risk committee.

The committee's terms of reference are maintained and approved by the chief financial officer. They are aligned to the Exco credit risk governance standards and are supplemented by appropriate policies and procedures.

Specific activities undertaken by the Alco include the following:

- assessing the credit quality of counterparties and approving credit limits based on this assessment
- monitoring the adherence to credit limits
- approving methodologies for the management of counterparty exposure
- ensuring that, where applicable, transactions with counterparties are supported by trading agreements
- facilitating and managing the issuing of financial guarantees by the group

To assist the Alco to discharge its mandate, the portfolio assessment section within the treasury function provides it with regular feedback on all treasury credit risk-related matters.

The management of credit risk is governed by the following policies:

- trading in financial instruments is only conducted with selected counterparties after credit limits have been authorised
- only financial institutions and/or counterparties with an independent minimum rating of A1 are accepted for investments. 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 based on mark-to-market values. 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

Risk is measured by determining a default probability per counterparty using default probabilities assessed by rating agencies for various types of credit ratings. These default probabilities are then applied to the market value of the investment placed to determine the capital at risk.

The treasury division'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.

The following are monitored and reported on:

- aggregate credit risk exposure
- limits utilisation including any breaches
- hold-limit exceptions
- risk profile changes
- risk concentrations

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.1 Derivatives held for risk management, financial trading assets and cash and cash equivalents (continued)

Where the credit risk of a particular counterparty has increased, a reassessment of the valuation of the instrument is made. In making this assessment, the counterparty is assessed for the following factors:

- significance of financial difficulty
- probability of bankruptcy
- probability of breach of contract

(a) Impairment analysis

	2019 Not subject to impairment Rm	2019 Subject to impairment Stage 1 Rm	2019 Total Rm	2018 Total Rm
Group				
Derivatives held for risk management				
BBB- to AAA	22 662	–	22 662	15 578
Financial trading assets				
BBB- to AAA	103	59	162	168
Cash and cash equivalents	–	2 031	2 031	15 823
BBB- to AAA	–	2 026	2 026	15 747
Unrated	–	5	5	76
Company				
Derivatives held for risk management				
BBB- to AAA	22 662	–	22 662	15 578
Financial trading assets				
BBB- to AAA	103	59	162	168
Cash and cash equivalents	–	1 517	1 517	15 379
BBB- to AAA	–	1 512	1 512	15 375
Unrated	–	5	5	4

The impairments calculated for financial trading assets and cash and cash equivalents are immaterial. The gross amount approximates the carrying value.

5.1.2 Trade and other receivables

Trade receivables

Credit risk attributable to trade receivables is assessed taking into account the following counterparty characteristics:

- geographic location of the customer (both internationally and within South Africa)
- size of demand (large or small power user)
- receivable ageing profile
- security held (deposits and guarantees)
- payment history

A large number of the residential customers are on a prepaid basis thereby eliminating credit risk relating to these customers. The group has well-established credit control procedures for conventional customers 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 can result in disconnection of supply and the customer's account being closed. A legal collection process is pursued after disconnection.

The following strategies are currently in operation in high risk areas of non-paying customers with varying levels of success:

- contacting the customer
- disconnections
- conversion to prepayment
- use of debt collectors
- payment arrangements
- focus on early identification and letters of demand
- increased security deposits and guarantees
- efficient internal process, for example system automation of credit and collections such as automated notices and letters of demand
- adverse listing of defaulting customers

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 writeoff in terms of the group policy and 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 main classes of trade receivables are:

International customers

Electricity supply agreements are entered into with key international customers who comprise utility companies, governments of neighbouring countries and sundry large power users. Their payment terms are between 10 and 45 days. Impairment is assessed based on the country-specific risk.

International customers are not required to provide upfront security however if they default, new payment arrangements are negotiated, or supply is curtailed. Certain international customers may be required to pay upfront when their credit risk profile has changed.

Local large power users

Local large power users comprise South African redistributors (metropolitan and municipalities), commercial, industrial and mining customers usually with supplies above 100kVA. Payment terms are individually negotiated and are normally at a maximum of 15 days, except for certain bulk redistributing municipalities which are at a maximum of 30 days.

Municipalities are required to provide security for all new supplies or where they request an upgrade of existing supply points. Where a large power user has an acceptable credit rating from an approved rating agency, the provision of security is amended based on the type of risk as defined in the revenue security policy.

Certain municipalities continued to fall into arrears during the course of the financial year. Monitoring of these municipality payment levels continues to receive ongoing management attention and remains a high priority focus area. Interventions pursued included entering into special payment arrangements and following the Promotion of Administrative Justice Act for disconnections. Eskom continues to work closely with the Department of Co-operative Governance and Traditional Affairs and other government departments as well as relevant stakeholders to resolve the systemic challenges which have given rise to municipalities' arrear debt.

Other interventions include considering:
- restricting supply to non-paying municipalities if set maximum demand levels are exceeded
- interrupting electricity supply to the non-paying municipalities where no recovery plan could be presented and agreed upon between Eskom and the municipalities
- installation of split metering technology with protective steel enclosures

Local small power users

Local small power users comprise local customers that have a supply of 100kVA or less in size. Payment terms for small power customers is 30 days.

New customers are required to provide security equivalent to between one and three months' consumption at the commencement of the supply agreement. The level of security is reviewed if a customer defaults on their payment obligation or requires additional electricity supply capacity. In these instances, additional security is required to cover between one and three months of recent consumption before supply will commence. All new customers will preferably be on prepayment terms.

Soweto receivables are an identified high credit risk area subject to specific credit risk management. The collection of revenue from customers 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 expressed as a percentage of billed revenue (excluding interest) for the year was 13% (2018: 15%). The residential revenue management strategy, which includes Soweto, continues to be implemented. The strategy entails implementation of split metering technology, conversion of meters to prepayment and stepping up disconnections for customers to improve payment levels.

Other receivables

Other receivables comprise mainly reinsurance receivables relating to insurance claims made and sundry receivables. There are no significant balances with specific repayment terms. No security is held in respect of these balances and no interest has been charged on overdue balances.

5. Financial risk management (continued)
5.1 Credit risk (continued)
5.1.2 Trade and other receivables (continued)
Impairment analysis

	2019								
	Stage 2			Stage 3			Total		
	Gross Rm	Allowance for impairment Rm	Carrying value Rm	Gross Rm	Allowance for impairment Rm	Carrying value Rm	Gross Rm	Allowance for impairment Rm	Carrying value Rm
Trade receivables									
Group and company									
International	943	(9)	934	810	(702)	108	1 753	(711)	1 042
B- to BB+	843	(7)	836	388	(280)	108	1 231	(287)	944
Below B-	100	(2)	98	422	(422)	–	522	(424)	98
Local large power users – municipalities	7 474	(478)	6 996	4 397	(2 528)	1 869	11 871	(3 006)	8 865
BBB- to AAA	2 717	–[1]	2 717	–	–	–	2 717	–	2 717
B- to BB+	3 281	(111)	3 170	3	–	3	3 284	(111)	3 173
Below B-	1 476	(367)	1 109	4 394	(2 528)	1 866	5 870	(2 895)	2 975
Local large power users – other	7 185	(30)	7 155	294	(222)	72	7 479	(252)	7 227
0 – 30 days	6 998	(7)	6 991	–	–	–	6 998	(7)	6 991
30 – 90 days	187	(23)	164	–	–	–	187	(23)	164
More than 90 days	–	–	–	294	(222)	72	294	(222)	72
Local small power users – Soweto	12	–	12	4 256	(3 473)	783	4 268	(3 473)	795
0 – 30 days	3	–	3	–	–	–	3	–	3
30 – 90 days	9	–	9	–	–	–	9	–	9
More than 90 days	–	–	–	4 256	(3 473)	783	4 256	(3 473)	783
Local small power users – other	1 877	(83)	1 794	853	(664)	189	2 730	(747)	1 983
0 – 30 days	1 604	(25)	1 579	–	–	–	1 604	(25)	1 579
30 – 90 days	273	(58)	215	–	–	–	273	(58)	215
More than 90 days	–	–	–	853	(664)	189	853	(664)	189
	17 491	(600)	16 891	10 610	(7 589)	3 021	28 101	(8 189)	19 912
Trade and other receivables									
Group	19 513	(615)	18 898	10 788	(7 763)	3 025	30 301	(8 378)	21 923
Trade receivables	17 491	(600)	16 891	10 610	(7 589)	3 021	28 101	(8 189)	19 912
Other receivables (B- to BB+)	2 022	(15)	2 007	178	(174)	4	2 200	(189)	2 011
Company	20 756	(643)	20 113	10 764	(7 740)	3 024	31 520	(8 383)	23 137
Trade receivables	17 491	(600)	16 891	10 610	(7 589)	3 021	28 101	(8 189)	19 912
Other receivables (B- to BB+)	3 265	(43)	3 222	154	(151)	3	3 419	(194)	3 225

1. *No impairment raised due to the existence of adequate security.*

	Carrying amount	Not impaired[1] Not past due	Days past due 0 – 15	16 – 45	46 – 75	>75	Impaired Not past due	Days past due 0 – 15	16 – 45	46 – 75	>75
2018	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Group and company											
Individually assessed for impairment											
International	1 893	769	–	–	–	–	205	185	145	180	409
Gross	1 918	769	–	–	–	–	205	185	145	180	434
Impairment	(25)	–	–	–	–	–	–	–	–	–	(25)
Local large power users – municipalities	7 838	5 024	4	1	–	–	1 101	1	71	43	1 593
Gross	11 937	5 024	4	1	–	–	1 177	12	262	97	5 360
Impairment	(4 099)	–	–	–	–	–	(76)	(11)	(191)	(54)	(3 767)
Local large power users – other	7 051	6 811	88	46	13	34	11	3	17	5	23
Gross	7 158	6 811	88	46	13	34	20	9	27	9	101
Impairment	(107)	–	–	–	–	–	(9)	(6)	(10)	(4)	(78)

	Carrying amount	Not past due	Days past due 0-30	31-60	>60
	Rm	Rm	Rm	Rm	Rm
Collectively assessed for impairment					
Local small power users – Soweto	752	30	8	8	706
Gross	4 305	59	34	37	4 175
Impairment	(3 553)	(29)	(26)	(29)	(3 469)
Local small power users – other	1 805	1 485	162	41	117
Gross	2 445	1 537	211	76	621
Impairment	(640)	(52)	(49)	(35)	(504)
	19 339				

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.*

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.2 Trade and other receivables (continued)

Reconciliation of movements in allowance for impairment

		2019					
		Group			Company		
	Note	Stage 2 Rm	Stage 3 Rm	Total Rm	Stage 2 Rm	Stage 3 Rm	Total Rm
Balance at beginning of the year		628	8 001	8 629	627	7 993	8 620
Raised/(reversed) to the income statement	36	69	(378)	(309)	111	(406)	(295)
Reversed on payment of opening balance		(77)	(2 478)	(2 555)	(77)	(2 478)	(2 555)
Remeasurement of opening balances held at year end		12	65	77	12	65	77
Raised on new balances		134	2 035	2 169	176	2 007	2 183
Transfer of balances between stage 2 and 3		(72)	72	–	(84)	84	–
Finance income on stage 3 balances		–	153	153	–	153	153
Writeoffs		(10)	(85)	(95)	(11)	(84)	(95)
Balance at end of the year	19	615	7 763	8 378	643	7 740	8 383

		2018	
	Note	Group Rm	Company Rm
Balance at beginning of the year		8 747	8 729
Impairment	36	517	510
Writeoffs		(635)	(619)
Balance at end of the year	19	8 629	8 620

Security

Security is held for trade receivables consisting of guarantees and deposits. Certain guarantees that were past their original due dates were renegotiated. Where renegotiated terms are not met, the original payment terms are reapplied. Details regarding security held and renegotiated amounts are analysed below:

	Group and company									
	2019					2018				
	Fair value of security held			Security called upon	Renegotiated balances	Fair value of security held			Security called upon	Renegotiated balances
	Credit impaired receivables Rm	Not credit impaired receivables Rm	Total Rm	Rm	Rm	Impaired receivables Rm	Not impaired receivables Rm	Total Rm	Rm	Rm
International	–	5	5	–	–	–	1	1	–	–
Local large power users	162	10 072	10 234	21	2 738	200	6 931	7 131	18	4 863
Municipalities	109	489	598	2	2 724	181	346	527	1	4 847
Other	53	9 583	9 636	19	14	19	6 585	6 604	17	16
Local small power users	90	2 154	2 244	38	57	76	2 011	2 087	52	51
Soweto	–	13	13	–	1	13	–	13	–	1
Other	90	2 141	2 231	38	56	63	2 011	2 074	52	50
	252	12 231	12 483	59	2 795	276	8 943	9 219	70	4 914

5.1.3 Insurance investments

Escap SOC Ltd (Escap) invests in listed shares and negotiable certificates of deposit (NCD) to satisfy its capital adequacy requirements in line with insurance regulations in South Africa. The listed shares do not expose the group to credit risk. Investments in NCDs are made with banks with an investment-grade credit rating.

Impairment analysis

	2019							2018
	Not subject to impairment	Subject to impairment Stage 1			Total			
	Gross	Gross	Allowance for impairment	Carrying value	Gross	Allowance for impairment	Carrying value	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Group								
BBB- to AAA	–	7 951	(5)	7 946	7 951	(5)	7 946	6 839
Not subject to credit risk	1 617	–	–	–	1 617	–	1 617	1 333
	1 617	7 951	(5)	7 946	9 568	(5)	9 563	8 172

There are no material movements in the allowance for impairment.

5.1.4 Finance lease receivables

The supply of electricity to customers may be in the form of either a standard or premium power supply. A standard power supply is the least life-cycle cost technically acceptable solution as defined in the South African Grid Code and the Distribution Network Code whereas with a premium supply the customer's connection requirement exceeds the specifications of a standard supply. This is achieved through the installation of premium supply equipment for which the customer is required to pay a connection charge. Connection charges for premium supply contracts were repayable on a monthly basis over a maximum period of 25 years. This payment option is no longer available for new premium supplies as the connection charges are payable upfront.

The standard payment terms for trade receivables are also applied to the premium supply equipment connection charge customers. The credit risk exposure resulting from premium supply contracts is managed by monitoring payment levels of the customer's trade receivable balance. There were no significant overdue or distressed balances relating to finance lease receivables in the current or previous financial year. Security in the form of bank guarantees is required from customers before the asset is constructed and is in place for a maximum period of 14 years to cover irrecoverable costs in the event of early termination of the supply contract. In addition, the premium supply equipment serves as security for the outstanding finance lease receivable balance.

Impairment analysis

	Group and company			
	2019 Stage 1			2018
	Gross	Allowance for impairment	Carrying value	Carrying value
	Rm	Rm	Rm	Rm
BBB- to AAA	–	–	–	27
B- to BB+	408	(3)	405	2
Unrated	–	–	–	408
	408	(3)	405	437

There are no material movements in the allowance for impairment.

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.5 Loans receivable

Alco manages credit risk arising from loans receivable from subsidiaries with the objective of reducing costs on Eskom Group consolidated liability.

The credit risk exposure to Eskom Finance Company (EFC) is capped based on limits set by Alco and credit risk exposure to employees is mitigated by property values through mortgage contracts with access to payroll for qualifying employees.

Impairment analysis

	Group				Company			
	2019			2018	2019			2018
	Gross	Stage 1 Allowance for impairment	Carrying value	Carrying value	Gross	Stage 1 Allowance for impairment	Carrying value	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
BBB- to AAA	–	–	–	81	–	–	–	6 201
B- to BB+	67	(1)	66	–	6 111	(40)	6 071	–
	67	(1)	66	81	6 111	(40)	6 071	6 201

There are no material movements in the allowance for impairment.

5.2 Market risk

A significant part of market risk encountered by the group arises from financial instruments that are managed centrally within the treasury division of the group or from contracts containing embedded derivatives.

The objective of the group's market risk management framework is to protect and enhance the statement of financial position and profit or loss by managing and controlling market risk exposures and to optimise the funding of business operations and facilitate capital expansion.

The basis for calculating risk and sensitivity measures are consistent with the prior year. Sensitivity analyses assume that only the input being analysed changes with all other variables remaining constant.

Financial instruments mainly managed by the treasury division

The treasury division 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 division is vested in Alco. Measurement and reporting occurs on a daily and/or monthly basis and is performed by an independent section within the treasury division. Financial derivatives are used to manage market risk.

Financial instruments managed by various 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 division to hedge (economic and cash flow hedges) these exposures appropriately on their behalf.

Embedded derivatives

Eskom 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 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 remaining contractual periods are between two and 10 years.

The valuation methods and inputs are discussed in the accounting policies (refer to note 2.10.4) and the valuation assumptions and sensitivities are disclosed under critical accounting estimates and assumptions (refer to note 4.1). Risks arising from these contracts are discussed under the relevant risk areas as follows:

- currency risk (refer to note 5.2.1)
- commodity risk (refer to note 5.2.2)
- interest rate risk (refer to note 5.2.3)
- other price risk (refer to note 5.2.5)

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 in terms of the SARB regulations.

5.2.1 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 R150 000 are hedged (ie economic or cash flow hedges). Currency exposure is identified by the business and hedged and managed by the central treasury division. 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 cross-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:

	EUR m	USD m	GBP m	JPY m	SEK m	CHF m	CAD m	NOK m
2019								
Group								
Liabilities								
Debt securities and borrowings	(2 444)	(9 669)	–	(4 972)	–	–	–	–
Trade and other payables	(36)	(7)	(1)	–	(20)	–	–	(2)
Gross statement of financial position exposure	(2 480)	(9 676)	(1)	(4 972)	(20)	–	–	(2)
Estimated forecast purchases[1]	(522)	(104)	(16)	(285)	(118)	–	(1)	(4)
Gross exposure	(3 002)	(9 780)	(17)	(5 257)	(138)	–	(1)	(6)
Derivatives held for risk management[2]	3 001	9 778	17	5 257	136	–	1	5
Net exposure	(1)	(2)	–	–	(2)	–	–	(1)
Company								
Liabilities								
Debt securities and borrowings	(2 444)	(9 669)	–	(4 972)	–	–	–	–
Trade and other payables	(36)	(7)	(1)	–	(20)	–	–	(2)
Gross statement of financial position exposure	(2 480)	(9 676)	(1)	(4 972)	(20)	–	–	(2)
Estimated forecast purchases[1]	(520)	(104)	(15)	(285)	(118)	–	(1)	(4)
Gross exposure	(3 000)	(9 780)	(16)	(5 257)	(138)	–	(1)	(6)
Derivatives held for risk management[2]	2 999	9 778	16	5 257	136	–	1	5
Net exposure	(1)	(2)	–	–	(2)	–	–	(1)
2018								
Group								
Liabilities								
Debt securities and borrowings	(2 681)	(7 556)	–	(7 465)	–	–	–	–
Trade and other payables	(76)	(10)	(2)	–	(27)	–	–	–
Gross statement of financial position exposure	(2 757)	(7 566)	(2)	(7 465)	(27)	–	–	–
Estimated forecast purchases[1]	(702)	(143)	(6)	(609)	(175)	(1)	(1)	(1)
Gross exposure	(3 459)	(7 709)	(8)	(8 074)	(202)	(1)	(1)	(1)
Derivatives held for risk management[2]	3 457	7 700	8	8 071	190	1	1	1
Net exposure	(2)	(9)	–	(3)	(12)	–	–	–
Company								
Liabilities								
Debt securities and borrowings	(2 681)	(7 556)	–	(7 465)	–	–	–	–
Trade and other payables	(76)	(10)	(2)	–	(27)	–	–	–
Gross statement of financial position exposure	(2 757)	(7 566)	(2)	(7 465)	(27)	–	–	–
Estimated forecast purchases[1]	(699)	(143)	(5)	(609)	(175)	(1)	(1)	(1)
Gross exposure	(3 456)	(7 709)	(7)	(8 074)	(202)	(1)	(1)	(1)
Derivatives held for risk management[2]	3 454	7 699	7	8 071	190	1	1	1
Net exposure	(2)	(10)	–	(3)	(12)	–	–	–

1. Represents future purchases contracted for.
2. Includes notional value and accrued interest.

5. Financial risk management (continued)

5.2 Market risk (continued)

5.2.1 Currency risk (continued)

The following significant exchange rates applied for the group and company during the year:

	One unit of the selected currency to the rand				R1.00 to the selected currency			
	Annual average		Reporting date mid-spot rate		Annual average		Reporting date mid-spot rate	
	2019	2018	2019	2018	2019	2018	2019	2018
EUR	15.92	15.21	16.26	14.64	0.06	0.07	0.06	0.07
USD	13.76	13.00	14.48	11.88	0.07	0.08	0.07	0.08
GBP	18.05	17.23	18.93	16.69	0.06	0.06	0.05	0.06
CHF	13.89	13.39	14.55	12.44	0.07	0.07	0.07	0.08
JPY	0.12	0.12	0.13	0.11	8.33	8.33	7.69	9.09
SEK	1.53	1.56	1.56	1.42	0.65	0.64	0.64	0.70
CAD	10.49	10.14	10.83	9.20	0.10	0.10	0.09	0.11
AUD	10.03	10.05	10.27	9.12	0.10	0.10	0.10	0.11
NOK	1.65	1.60	1.68	1.51	0.61	0.63	0.60	0.66

Sensitivity analysis

	Group and company			
	2019		2018	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Profit/(loss) before tax				
Rand/EUR exposure	46	(46)	56	(56)
Rand/USD exposure	47	(42)	73	(64)
Rand/other currency	13	(13)	(2)	2
Equity				
Rand/EUR exposure	66	(66)	77	(77)
Rand/USD exposure	166	(166)	93	(93)
Rand/other currency	2	(2)	2	(2)

5.2.2 Commodity risk

The group is exposed to commodity risk where commodities are either used directly (eg coal or liquid fuels) or indirectly as a component of plant, equipment or inventory (eg aluminium, copper or steel). The revenue from certain negotiated pricing arrangements is 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 SARB requirements.

The underlying exposure to commodity price risk could result in embedded derivatives. Where the embedded derivatives are closely related to the host contracts, the embedded derivatives are 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.

The periods of the hedging instrument and that of the hedged item are not the same because of SARB regulations that limit the number of years which can be hedged.

The negotiated pricing arrangements gave rise to commodity-linked (aluminium) embedded derivatives. Refer to note 4.1.

5.2.3 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 debt securities, borrowings and derivatives held for risk management. Borrowings and debt securities issued and derivatives held for risk management at variable rates expose the group to cash flow interest rate risk. Borrowings and debt securities 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 risk management framework) exposed to an interest rate reset within the next 12-month period to 40%.

Refer to note 25 for the group's quantitative exposure to interest rate risk.

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 excludes borrowing costs capitalised in terms of the group's accounting policy.

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.

	Group				Company			
	2019		2018		2019		2018	
	+100 basis points Rm	-100 basis points Rm	+100 basis points Rm	-100 basis points Rm	+100 basis points Rm	-100 basis points Rm	+100 basis points Rm	-100 basis points Rm
Profit/(loss) before tax								
Rand interest rates	295	(334)	421	(463)	275	(313)	389	(430)
EUR interest rates	(108)	63	(48)	49	(108)	63	(48)	49
USD interest rates	(404)	421	(259)	258	(404)	421	(315)	316
Other currency interest rates	(1)	1	(2)	2	(1)	1	(2)	2
Equity								
Rand interest rates	4 629	(4 302)	3 342	(3 540)	4 629	(4 302)	3 342	(3 540)
EUR interest rates	(1 138)	1 226	(1 098)	1 193	(1 138)	1 226	(1 098)	1 193
USD interest rates	(4 976)	4 715	(2 837)	3 006	(4 976)	4 715	(2 837)	3 006
Other currency interest rates	(7)	7	(18)	10	(7)	7	(18)	10

Fixed and floating rate debt

	Group and company			
	2019		2018	
	fixed %	floating %	fixed %	floating %
Proportion of fixed versus floating rate debt at 31 March	73	27	72	28

5.2.4 Equity price risk

Equity price risk arises from investments listed on the JSE. 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.

The investment policy is approved by the Escap board and monitored by the Escap audit and risk committees. Exposure to market risk is limited through diversification and by applying strict investment criteria.

The carrying value of investments made per sector is as follows:

	Group			
	2019		2018	
	Rm	portfolio %	Rm	portfolio %
Banks, financial services and insurance	421	26	387	29
Basic materials and resources	293	18	171	13
Consumer goods and services	734	45	541	41
Other	169	11	234	17
	1 617	100	1 333	100

A 1% increase or decrease in share prices would have increased/decreased profit or loss before tax by R16 million (2018: R13 million). There will be no impact on equity.

5. Financial risk management (continued)

5.2 Market risk (continued)

5.2.5 Other price risk

Inflation price risk arises from embedded derivatives as discussed under note 4.1. The risk arises from movements in the electricity tariffs and the United States PPI. Refer to note 26 for the group's quantitative exposure to other price risk.

Sensitivity analysis

	Group and company			
	2019		2018	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Profit/(loss) before tax				
Electricity tariffs	(17)	17	(69)	68
United States PPI	86	(90)	110	(120)

5.3 Liquidity risk

Liquidity risk can arise from mismatches in the timing of cash flows from revenue with 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 statement of financial position 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 group 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 as well as the long-term funding
- monitoring financial position 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 borrowing programme
- maintaining liquidity and funding contingency plans

Eskom has an established corporate governance structure and process for managing the risks regarding guarantees and contingent liabilities. All significant guarantees issued by Eskom are approved by the board, and are managed on an ongoing basis by the treasury department and by the Exco and audit and risk committee of the board. Refer to note 45.

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.

5.3.1 Key liquidity indicators

		Group		Company	
	Unit	2019	2018	2019	2018
Weighted average term to maturity of debt securities and borrowings	years	6.85	7.31	6.85	7.31
Working capital	ratio	1.02	1.05	1.01	1.06
Cash interest cover	ratio	0.94	1.22	0.91	1.18
Net debt service cover	ratio	0.47	0.87	0.46	0.84
Liquid assets	Rm	2 031	15 823	1 517	15 379

Management has set a minimum weighted average term to maturity for debt securities and borrowings of five years. The term limits are independently monitored and reported to Alco on a monthly basis and to Exco and the audit and risk committee on a quarterly basis.

The cash interest cover and debt service cover ratios measure the ability to fund debt costs via cash from operations. Management has targeted 3.5 for cash interest cover and 1.5 for debt service cover.

Liquid assets are investments identified as having the potential to be quickly converted into cash. These are made up of the investing portfolio of investment in securities as well as cash and cash equivalents.

5.3.2 Primary sources of funding and unused facilities

The primary sources to meet Eskom's liquidity requirements are cash generated from operations, cash inflows from maturing financial assets purchased, funds committed by government, signed and committed export credit agencies and development funding institution facilities, as well as local and foreign debt issued in the market. To supplement these liquidity sources under stress conditions, undrawn loans, commercial paper facilities and unutilised government guarantees are in place as indicated in the table. All figures are quoted in notional amounts.

	Group and company					
	ZAR		EUR		USD	
	2019 m	2018 m	2019 m	2018 m	2019 m	2018 m
Facilities available						
Export credit agencies	–	–	353	387	9	17
Crédit Agricole Corporate and Investment Bank – Coface	–	–	44	44	–	–
Banque Nationale de Paris Paribas – Coface	–	–	201	201	–	–
Kreditanstalt für Wiederaufbau – Hermes	–	–	108	141	–	–
Deutsche Bank – Hermes	–	–	–	1	–	–
Export-Import Bank of the United States	–	–	–	–	9	17
Development financing institutions	129	843	112	315	3 516	1 686
World Bank	–	–	–	–	693	713
African Development Bank	129	129	112	143	–	–
Clean technology fund – African Development Bank	–	–	–	–	58	58
Clean technology fund – World Bank	–	–	–	–	215	215
European Investment Bank	–	–	–	75	–	–
Kreditanstalt für Wiederaufbau	–	–	–	–	100	100
Agence Française de Développement	–	714	–	97	–	–
China Development Bank	–	–	–	–	2 450	600
	129	843	465	702	3 525	1 703
Funds received during the year						
Export credit agencies	–	–	34	128	8	178
Banque Nationale de Paris Paribas – Coface	–	–	–	30	–	–
Kreditanstalt für Wiederaufbau – Hermes	–	–	33	93	–	–
Deutsche Bank – Hermes	–	–	1	5	–	–
Export-Import Bank of the United States	–	–	–	–	8	178
Development financing institutions	714	3 918	106	69	670	1 071
World Bank[1]	–	–	–	–	20	171
African Development Bank[2]	–	3 175	31	69	–	–
European Investment Bank	–	–	75	–	–	–
Agence Française de Développement[3]	714	743	–	–	–	–
China Development Bank[4]	–	–	–	–	650	900
	714	3 918	140	197	678	1 249

1. *All funds received were reimbursements on payments made by Eskom to various suppliers for goods and services supplied for the construction of the Medupi power station, Sere wind farm and Majuba rail projects.*
2. *All funds received were reimbursements on payments made by Eskom to various suppliers for goods and services supplied for the Medupi boilers and turbines and Sere wind farm projects.*
3. *Funds received were for the Sere wind farm project.*
4. *Funds received were for the Medupi and Kusile power stations.*

5. Financial risk management (continued)

5.3 Liquidity risk (continued)

5.3.2 Primary sources of funding and unused facilities (continued)

Government guarantees available

	Group and company					
	2019			2018		
	Domestic multi-term note programme Rm	General Rm	Total Rm	Domestic multi-term note programme Rm	General Rm	Total Rm
Opening balance	11 916	77 474	89 390	38 774	95 993	134 767
Facility granted	150 000	200 000	350 000	150 000	200 000	350 000
Accumulated amounts used	(138 084)	(122 526)	(260 610)	(111 226)	(104 007)	(215 233)
Restatement	–	–	–	–	3 734	3 734
Restated opening balance	11 916	77 474	89 390	38 774	99 727	138 501
Facility swap	(15 000)	15 000	–	–	–	–
Used during the year	(10 754)	(60 789)	(71 543)	(26 858)	(22 253)	(49 111)
Original	(10 754)	(60 789)	(71 543)	(26 858)	(22 824)	(49 682)
Restatement	–	–	–	–	571	571
Repaid during the year	23 532	–	23 532	–	–	–
Closing balance	9 694	31 685	41 379	11 916	77 474	89 390
Facility granted	135 000	215 000	350 000	150 000	200 000	350 000
Accumulated amounts used	(125 306)	(183 315)	(308 621)	(138 084)	(122 526)	(260 610)

The 2018 balances were restated as the usage of government guarantees denominated in foreign currency is now measured at the rand exchange rate applicable at the date the funding was secured (in line with a National Treasury instruction). As a result, subsequent changes in exchange rates will not alter the amount of government guarantees available to Eskom. The carrying value of government guaranteed debt securities and borrowings at 31 March 2019 was R276 billion (2018: R243 billion).

5.3.3 Contractual cash flows

The tables on the following pages indicate the contractual undiscounted cash flows of the group's financial assets and liabilities 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 held for risk management are presented on a net basis in line with the classification in the statement of financial position. Contractual cash flows are a function of forward exchange rates and forward interest rates and are a point in time calculation that are impacted by market conditions at that time.

The table contains only cash flows relating to financial instruments and financial guarantees. It does not include future cash flows expected from the normal course of business and related commodity-linked pricing agreements.

	Note	Carrying amount Non-current Rm	Current Rm	Total Rm	Nominal inflow/ outflow Rm	Cash flows 0 – 3 months Rm	4 – 12 months Rm	1 – 5 years Rm	>5 years Rm
2019									
Group									
Financial assets									
Loans receivable	15	40	26	66	67	7	19	41	–
Derivatives held for risk management	16	20 582	2 080	22 662	37 730	598	1 511	13 415	22 206
Finance lease receivables	17	374	31	405	672	20	59	286	307
Trade and other receivables	19	–	21 923	21 923	21 857	20 393	1 464	–	–
Insurance investments	14	–	9 563	9 563	9 567	4 012	5 555	–	–
Financial trading assets[1]	14	–	162	162	227	63	5	38	121
Cash and cash equivalents	21	–	2 031	2 031	2 031	2 031	–	–	–
		20 996	35 816	56 812	72 151	27 124	8 613	13 780	22 634
Financial liabilities									
Debt securities and borrowings	25	387 208	53 402	440 610	844 848	11 149	70 455	244 780	518 464
Derivatives held for risk management	16	5 643	1 397	7 040	9 173	590	5 613	6 887	(3 917)
Finance lease payables	30	9 130	332	9 462	20 118	430	1 299	6 876	11 513
Trade and other payables	31	1 031	35 754	36 785	36 761	28 019	7 687	1 055	–
Financial trading liabilities[1]	14	–	238	238	272	182	7	83	–
		403 012	91 123	494 135	911 172	40 370	85 061	259 681	526 060
Company									
Financial assets									
Loans receivable	15	–	6 071	6 071	6 244	2 729	3 515	–	–
Derivatives held for risk management	16	20 582	2 080	22 662	37 730	598	1 511	13 415	22 206
Finance lease receivables	17	374	31	405	672	20	59	286	307
Trade and other receivables	19	–	23 137	23 137	23 065	21 844	1 221	–	–
Financial trading assets[1]	14	–	162	162	227	63	5	38	121
Cash and cash equivalents	21	–	1 517	1 517	1 517	1 517	–	–	–
		20 956	32 998	53 954	69 455	26 771	6 311	13 739	22 634
Financial liabilities									
Debt securities and borrowings	25	387 161	57 886	445 047	849 386	13 972	72 216	244 734	518 464
Derivatives held for risk management	16	5 643	1 397	7 040	9 173	590	5 613	6 887	(3 917)
Finance lease payables	30	9 130	332	9 462	20 118	430	1 299	6 876	11 513
Trade and other payables	31	1 031	37 186	38 217	38 239	31 205	5 979	1 055	–
Financial trading liabilities[1]	14	–	238	238	272	182	7	83	–
Financial guarantees	45	–	3	3	3	3	–	–	–
		402 965	97 042	500 007	917 191	46 382	85 114	259 635	526 060

1. *The contractual cash flows for financial trading assets and liabilities have been disclosed based on the contractual maturity of the instrument. However, as some of these instruments are held at fair value through profit or loss, they may be sold or settled prior to contractual maturity.*

5. Financial risk management (continued)
5.3 Liquidity risk (continued)
5.3.3 Contractual cash flows (continued)

		Carrying amount				Cash flows			
		Non-current	Current	Total	Nominal inflow/ outflow	0 – 3 months	4 – 12 months	1 – 5 years	>5 years
	Note	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2018									
Group									
Financial assets									
Loans receivable	15	63	18	81	82	5	14	63	–
Derivatives held for risk management	16	13 705	1 873	15 578	14 918	176	1 248	6 743	6 751
Finance lease receivables	17	408	29	437	751	20	60	302	369
Trade and other receivables	19	–	20 082	20 082	20 081	18 089	1 992	–	–
Insurance investments	14	–	8 172	8 172	8 172	2 296	5 876	–	–
Financial trading assets[1]	14	–	168	168	275	16	16	53	190
Cash and cash equivalents	21	–	15 823	15 823	15 823	15 823	–	–	–
		14 176	46 165	60 341	60 102	36 425	9 206	7 161	7 310
Financial liabilities									
Debt securities and borrowings	25	348 112	40 572	388 684	723 625	10 834	50 751	219 130	442 910
Derivatives held for risk management	16	16 570	4 896	21 466	21 215	2 837	6 433	15 882	(3 937)
Finance lease payables	30	9 533	286	9 819	28 782	523	1 579	8 618	18 062
Trade and other payables	31	1 201	31 230	32 431	32 434	23 414	7 814	1 206	–
Financial trading liabilities[1]	14	–	249	249	254	240	1	9	4
Financial guarantees	45	–	1	1	54	54	–	–	–
		375 416	77 234	452 650	806 364	37 902	66 578	244 845	457 039
Company									
Financial assets									
Loans receivable	15	–	6 201	6 201	6 334	2 759	3 575	–	–
Derivatives held for risk management	16	13 705	1 875	15 580	14 921	177	1 250	6 743	6 751
Finance lease receivables	17	408	29	437	751	20	60	302	369
Trade and other receivables	19	–	21 429	21 429	21 429	20 035	1 394	–	–
Financial trading assets[1]	14	–	168	168	275	16	16	53	190
Cash and cash equivalents	21	–	15 379	15 379	15 379	15 379	–	–	–
		14 113	45 081	59 194	59 089	38 386	6 295	7 098	7 310
Financial liabilities									
Debt securities and borrowings	25	348 060	44 525	392 585	727 594	13 776	51 829	219 079	442 910
Derivatives held for risk management	16	16 570	4 896	21 466	21 215	2 837	6 433	15 882	(3 937)
Finance lease payables	30	9 533	286	9 819	28 782	523	1 579	8 618	18 062
Trade and other payables	31	1 201	32 115	33 316	33 318	25 793	6 317	1 208	–
Financial trading liabilities[1]	14	–	249	249	254	240	1	9	4
Financial guarantees	45	–	2	2	1 123	1 123	–	–	–
		375 364	82 073	457 437	812 286	44 292	66 159	244 796	457 039

1. *The contractual cash flows for financial trading assets and liabilities have been disclosed based on the contractual maturity of the instrument. However, as some of these instruments are held-for-trading, they may be sold or settled prior to contractual maturity.*

6. Accounting classification and fair value

6.1 Accounting classification

	Note	Group Fair value through profit or loss Rm	Group Amortised cost Rm	Group Other assets and liabilities Rm	Group Total Rm	Company Fair value through profit or loss Rm	Company Amortised cost Rm	Company Other assets and liabilities Rm	Company Total Rm
2019									
Financial assets									
Loans receivable	15	–	66	–	66	–	6 071	–	6 071
Derivatives held for risk management	16	1 378	–	21 284	22 662	1 378	–	21 284	22 662
Foreign exchange contracts		1 281	–	20	1 301	1 281	–	20	1 301
Cross-currency swaps		49	–	21 264	21 313	49	–	21 264	21 313
Credit default swaps		9	–	–	9	9	–	–	9
Inflation linked swaps		39	–	–	39	39	–	–	39
Finance lease receivables	17	–	–	405	405	–	–	405	405
Trade and other receivables	19	–	21 923	–	21 923	–	23 137	–	23 137
Insurance investments	14	1 617	7 946	–	9 563	–	–	–	–
Negotiable certificates of deposit		–	7 946	–	7 946	–	–	–	–
Listed shares		1 617	–	–	1 617	–	–	–	–
Financial trading assets	14	103	59	–	162	103	59	–	162
Repurchase agreements		–	59	–	59	–	59	–	59
Government bonds		103	–	–	103	103	–	–	103
Cash and cash equivalents	21	–	2 031	–	2 031	–	1 517	–	1 517
Bank balances		–	2 018	–	2 018	–	1 504	–	1 504
Unsettled deals		–	13	–	13	–	13	–	13
		3 098	32 025	21 689	56 812	1 481	30 784	21 689	53 954
Financial liabilities									
Debt securities and borrowings	25	–	440 610	–	440 610	–	445 047	–	445 047
Eskom bonds		–	152 283	–	152 283	–	152 283	–	152 283
Commercial paper		–	1 105	–	1 105	–	3 714	–	3 714
Eurorand zero coupon bonds		–	4 399	–	4 399	–	4 399	–	4 399
Foreign bonds		–	79 963	–	79 963	–	79 963	–	79 963
Development financing institutions		–	135 661	–	135 661	–	135 661	–	135 661
Export credit facilities		–	31 782	–	31 782	–	31 782	–	31 782
Floating rate notes		–	4 047	–	4 047	–	4 047	–	4 047
Other loans		–	31 370	–	31 370	–	33 198	–	33 198
Embedded derivatives	26	–	–	3 434	3 434	–	–	3 434	3 434
Derivatives held for risk management	16	1 139	–	5 901	7 040	1 139	–	5 901	7 040
Foreign exchange contracts		471	–	88	559	471	–	88	559
Cross-currency swaps		322	–	5 813	6 135	322	–	5 813	6 135
Credit default swaps		305	–	–	305	305	–	–	305
Inflation linked swaps		41	–	–	41	41	–	–	41
Finance lease payables	30	–	–	9 462	9 462	–	–	9 462	9 462
Trade and other payables	31	–	36 785	–	36 785	–	38 217	–	38 217
Financial trading liabilities	14	238	–	–	238	238	–	–	238
Short-sold government bonds		57	–	–	57	57	–	–	57
Repurchase agreements		181	–	–	181	181	–	–	181
		1 377	477 395	18 797	497 569	1 377	483 264	18 797	503 438

6. Accounting classification and fair value (continued)

6.1 Accounting classification (continued)

	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total Rm
2018							
Group							
Financial assets							
Loans receivable	15	–	81	–	–	–	81
Derivatives held for risk management	16	245	–	–	–	15 333	15 578
Foreign exchange contracts		152	–	–	–	36	188
Cross-currency swaps		61	–	–	–	15 297	15 358
Commodity forwards		17	–	–	–	–	17
Credit default swaps		15	–	–	–	–	15
Finance lease receivables	17	–	–	–	–	437	437
Trade and other receivables	19	–	20 082	–	–	–	20 082
Insurance investments	14	1 333	–	6 839	–	–	8 172
Negotiable certificates of deposit		–	–	6 839	–	–	6 839
Listed shares		1 333	–	–	–	–	1 333
Financial trading assets	14	168	–	–	–	–	168
Repurchase agreements		9	–	–	–	–	9
Government bonds		159	–	–	–	–	159
Cash and cash equivalents	21	–	15 823	–	–	–	15 823
Bank balances		–	15 778	–	–	–	15 778
Unsettled deals		–	45	–	–	–	45
		1 746	35 986	6 839	–	15 770	60 341
Financial liabilities							
Debt securities and borrowings	25	–	–	–	388 684	–	388 684
Eskom bonds		–	–	–	146 172	–	146 172
Commercial paper		–	–	–	2 275	–	2 275
Eurorand zero coupon bonds		–	–	–	5 711	–	5 711
Foreign bonds		–	–	–	47 608	–	47 608
Development financing institutions		–	–	–	119 854	–	119 854
Export credit facilities		–	–	–	31 735	–	31 735
Floating rate notes		–	–	–	2 005	–	2 005
Other loans		–	–	–	33 324	–	33 324
Embedded derivatives	26	–	–	–	–	5 291	5 291
Derivatives held for risk management	16	3 593	–	–	–	17 873	21 466
Foreign exchange contracts		2 643	–	–	–	638	3 281
Cross-currency swaps		858	–	–	–	17 235	18 093
Credit default swaps		92	–	–	–	–	92
Finance lease payables	30	–	–	–	–	9 819	9 819
Trade and other payables	31	–	–	–	32 431	–	32 431
Financial trading liabilities	14	249	–	–	–	–	249
Short-sold government bonds		8	–	–	–	–	8
Repurchase agreements		241	–	–	–	–	241
		3 842	–	–	421 115	32 983	457 940

	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total Rm
2018							
Company							
Financial assets							
Loans receivable	15	–	6 201	–	–	–	6 201
Derivatives held for risk management	16	247	–	–	–	15 333	15 580
Foreign exchange contracts		154	–	–	–	36	190
Cross-currency swaps		61	–	–	–	15 297	15 358
Commodity forwards		17	–	–	–	–	17
Credit default swaps		15	–	–	–	–	15
Finance lease receivables	17	–	–	–	–	437	437
Trade and other receivables	19	–	21 429	–	–	–	21 429
Financial trading assets	14	168	–	–	–	–	168
Repurchase agreements		9	–	–	–	–	9
Government bonds		159	–	–	–	–	159
Cash and cash equivalents	21	–	15 379	–	–	–	15 379
Bank balances		–	15 334	–	–	–	15 334
Unsettled deals		–	45	–	–	–	45
		415	43 009	–	–	15 770	59 194
Financial liabilities							
Debt securities and borrowings	25	–	–	–	392 585	–	392 585
Eskom bonds		–	–	–	146 172	–	146 172
Commercial paper		–	–	–	4 423	–	4 423
Eurorand zero coupon bonds		–	–	–	5 711	–	5 711
Foreign bonds		–	–	–	47 608	–	47 608
Development financing institutions		–	–	–	119 854	–	119 854
Export credit facilities		–	–	–	31 735	–	31 735
Floating rate notes		–	–	–	2 005	–	2 005
Other loans		–	–	–	35 077	–	35 077
Embedded derivatives	26	–	–	–	–	5 291	5 291
Derivatives held for risk management	16	3 593	–	–	–	17 873	21 466
Foreign exchange contracts		2 643	–	–	–	638	3 281
Cross-currency swaps		858	–	–	–	17 235	18 093
Credit default swaps		92	–	–	–	–	92
Finance lease payables	30	–	–	–	–	9 819	9 819
Trade and other payables	31	–	–	–	33 316	–	33 316
Financial trading liabilities	14	249	–	–	–	–	249
Short-sold government bonds		8	–	–	–	–	8
Repurchase agreements		241	–	–	–	–	241
		3 842	–	–	425 901	32 983	462 726

6. Accounting classification and fair value (continued)

6.2 Fair value

Valuation processes

The group has a control framework in place for the measurement of fair values. It includes a valuation team that ultimately reports to the chief financial officer and has overall responsibility for all significant fair value measurements.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. Where third-party information, such as broker quotes or pricing services, is used to measure fair value, this information is assessed as to whether it provides adequate support for the accounting treatment applied including the level of the fair value hierarchy assigned to it.

Principal markets

The group is involved in various principal markets because of the unique funding activities undertaken where the fair value is determined by each participant in the different principal markets. The principal markets include:

- capital and money markets
- development financing institutions
- export credit agencies

Fair value hierarchy

Fair value measurements are categorised into the different levels in the fair value hierarchy based on the inputs to the valuation techniques used. There were no changes in the valuation techniques applied. The hierarchy levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable, either directly (ie as prices) or indirectly (ie derived from prices).

Level 3: Unobservable inputs.

There were no transfers between level 1, 2 or 3 of the fair value hierarchy during the year. The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfers have occurred. The group's policy for determining when transfers between levels in the hierarchy have occurred includes monitoring of the following factors:

- changes in market and trading activity (eg significant increases/decreases in activity)
- changes in inputs used in valuation techniques (eg inputs becoming/ceasing to be observable in the market)

Valuation techniques

Financial instrument	Valuation technique
Level 1: Quoted prices (unadjusted) in active markets	
Financial trading assets (government bonds) and insurance investments (listed shares)	Quoted bid price in active markets. A market is regarded as active when it is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis
Financial trading liabilities (short-sold government bonds)	Quoted bid price in active markets. A market is regarded as active when it is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis
Level 2: Inputs other than quoted prices included within level 1 that are observable	
Loans receivable, insurance investments (negotiable certificates of deposit), debt securities and borrowings, finance lease receivables and payables and financial trading assets and liabilities (repurchase agreement assets and liabilities)	A discounted cash flow technique is used which uses expected cash flows and a market-related discount rate
Derivatives held for risk management	Valuation determined with reference to broker quotes as well as use of discounted cash flow and option pricing models. Broker quotes are tested for reasonableness by discounting expected future cash flows using a market interest rate for a similar instrument at the measurement date Valuations of cross-currency swaps include the credit risk of Eskom (known as debit value adjustment) and counterparties (known as credit value adjustment) where appropriate. A stochastic modelling approach is followed where the expected future exposure to credit risk for Eskom and its counterparties (considering default probabilities and recovery rates derived from market data) is modelled
Trade and other receivables and payables and cash and cash equivalents	Fair values have not been disclosed for financial instruments where the carrying amounts are a reasonable approximation of fair value
Level 3: Unobservable inputs	
Embedded derivative liabilities	Fair valued using unobservable inputs. Refer to note 26 for a movement reconciliation and to note 4.1 for information regarding the valuation techniques and assumptions used

The fair value hierarchy of financial instruments is as follows:

	Measured at fair value	2019 Level 1 Rm	2019 Level 2 Rm	2019 Level 3 Rm	2018 Level 1 Rm	2018 Level 2 Rm	2018 Level 3 Rm
Group							
Financial assets							
Loans receivable	No	–	108	–	–	81	–
Derivatives held for risk management		–	22 662	–	–	15 578	–
Foreign exchange contracts	Yes	–	1 301	–	–	188	–
Cross-currency swaps	Yes	–	21 313	–	–	15 358	–
Commodity forwards	Yes	–	–	–	–	17	–
Credit default swaps	Yes	–	9	–	–	15	–
Inflation linked swaps	Yes	–	39	–	–	–	–
Finance lease receivables	No	–	405	–	–	437	–
Insurance investments		1 617	7 950	–	1 333	6 839	–
Negotiable certificates of deposit	No/Yes[1]	–	7 950	–	–	6 839	–
Listed shares	Yes	1 617	–	–	1 333	–	–
Financial trading assets		103	59	–	159	9	–
Repurchase agreements	No/Yes[1]	–	59	–	–	9	–
Government bonds	Yes	103	–	–	159	–	–
Financial liabilities							
Debt securities and borrowings		–	412 399	–	–	377 893	–
Eskom bonds	No	–	140 909	–	–	141 978	–
Commercial paper	No	–	1 108	–	–	2 280	–
Eurorand zero coupon bonds	No	–	3 717	–	–	5 504	–
Foreign bonds	No	–	80 023	–	–	48 475	–
Development financing institutions	No	–	118 351	–	–	111 248	–
Export credit facilities	No	–	32 373	–	–	32 465	–
Floating rate notes	No	–	4 239	–	–	2 153	–
Other loans	No	–	31 679	–	–	33 790	–
Embedded derivatives	Yes	–	–	3 434	–	–	5 291
Derivatives held for risk management		–	7 040	–	–	21 466	–
Foreign exchange contracts	Yes	–	559	–	–	3 281	–
Cross-currency swaps	Yes	–	6 135	–	–	18 093	–
Credit default swaps	Yes	–	305	–	–	92	–
Inflation linked swaps	Yes	–	41	–	–	–	–
Finance lease payables	No	–	10 541	–	–	11 428	–
Financial trading liabilities		57	181	–	8	241	–
Short-sold government bonds	Yes	57	–	–	8	–	–
Repurchase agreements	Yes	–	181	–	–	241	–

1. *Carried at amortised cost in terms of IFRS 9 in 2019 and at fair value in terms of IAS 39 in 2018.*

6. Accounting classification and fair value (continued)

6.2 Fair value (continued)

	Measured at fair value	2019 Level 1 Rm	2019 Level 2 Rm	2019 Level 3 Rm	2018 Level 1 Rm	2018 Level 2 Rm	2018 Level 3 Rm
Company							
Financial assets							
Loans receivable	No	–	6 111	–	–	6 201	–
Derivatives held for risk management		–	22 662	–	–	15 580	–
Foreign exchange contracts	Yes	–	1 301	–	–	190	–
Cross-currency swaps	Yes	–	21 313	–	–	15 358	–
Commodity forwards	Yes	–	–	–	–	17	–
Credit default swaps	Yes	–	9	–	–	15	–
Inflation linked swaps	Yes	–	39	–	–	–	–
Finance lease receivables	No	–	405	–	–	437	–
Financial trading assets		103	59	–	159	9	–
Repurchase agreements	No/Yes[1]	–	59	–	–	9	–
Government bonds	Yes	103	–	–	159	–	–
Financial liabilities							
Debt securities and borrowings		–	416 846	–	–	381 800	–
Eskom bonds	No	–	140 909	–	–	141 978	–
Commercial paper	No	–	3 726	–	–	4 433	–
Eurorand zero coupon bonds	No	–	3 717	–	–	5 504	–
Foreign bonds	No	–	80 023	–	–	48 475	–
Development financing institutions	No	–	118 351	–	–	111 248	–
Export credit facilities	No	–	32 373	–	–	32 465	–
Floating rate notes	No	–	4 239	–	–	2 153	–
Other loans	No	–	33 508	–	–	35 544	–
Embedded derivatives	Yes	–	–	3 434	–	–	5 291
Derivatives held for risk management		–	7 040	–	–	21 466	–
Foreign exchange contracts	Yes	–	559	–	–	3 281	–
Cross-currency swaps	Yes	–	6 135	–	–	18 093	–
Credit default swaps	Yes	–	305	–	–	92	–
Inflation linked swaps	Yes	–	41	–	–	–	–
Finance lease payables	No	–	10 541	–	–	11 428	–
Financial trading liabilities		57	181	–	8	241	–
Short-sold government bonds	Yes	57	–	–	8	–	–
Repurchase agreements	Yes	–	181	–	–	241	–

1. *Carried at amortised cost in terms of IFRS 9 in 2019 and at fair value in terms of IAS 39 in 2018.*

7. Segment information

Management has determined the reportable segments based on the reports regularly provided, reviewed and used by Exco to make strategic decisions and assess performance of the segments. Exco assesses the performance of the operating segments based on a measure of profit or loss consistent with that of the financial statements. The amounts provided to Exco with respect to total assets and liabilities are measured in terms of IFRS. These assets and liabilities are allocated based on the operation of the segment and the physical location of the assets.

The operations in each of the group's reportable segments are as follows:

Segment	Operations
Generation	Consists of the generation and primary energy functions. These functions procure primary energy and generate electricity for sale
Transmission	Consists of the transmission grids and the integrated demand management function. These functions operate and maintain the transmission network for transmitting electricity and also sell bulk electricity to international customers
Distribution	Distribution consists of nine provincial operating units. These units provide, operate and maintain the distribution network for distributing electricity
Energy purchases/sales	Consists of the southern African energy and energy planning and market development segments. They both deal with decisions involving energy purchases and sales to southern Africa and would be influenced by the same sales demand trends. Their activities include systems operations, purchase or sale of electricity from or to southern African countries, purchase of electricity from IPPs and wholesale energy for the purposes of energy trading
Group customer services	Group customer services consists of the customer service function that sells electricity to local large power users (including municipalities) and local small power users
Group capital	Group capital is responsible for the planning, development and monitoring of all capital projects and the execution of significant capital projects
All other segments	Relates to operating segments which are below the quantitative thresholds for determining a reportable segment in terms of IFRS 8 *Operating segments* which includes the group's subsidiaries as well as all service and strategic functions which do not qualify as a reportable segment in terms of IFRS 8

The revenue earned by subsidiaries is presented in the segment note in line with what has been reported in the respective subsidiary financial statements. Inter-segment revenue and purchases of electricity are allocated between Generation, Transmission, Distribution, Energy purchases/sales and Group customer services segments based on cost recovery plus a uniform return on assets. Net finance costs are allocated to segments based on relative funding requirements.

7. Segment information (continued)

The segment information provided to Exco for the reportable segments is as follows:

	Generation Rm	Transmission Rm	Distribution Rm	Energy purchases/ sales Rm	Group customer services Rm	Group capital Rm	All other segments Rm	Reallocation and inter-segment transactions Rm	Group Rm
2019									
External revenue	–	215	2 118	8 171	169 388	–	1 377	(1 377)	179 892
Inter-segment revenue/ recoveries	125 449	3 548	16 905	21 855	(167 417)	(133)	11 252	(11 459)	–
Total revenue	125 449	3 763	19 023	30 026	1 971	(133)	12 629	(12 836)	179 892
Other income	747	187	335	–	88	496	1 717	(1 420)	2 150
Primary energy	(70 793)	–	–	(28 681)	(11)	(3)	–	–	(99 488)
Employee benefit expense	(9 843)	(1 812)	(9 208)	(57)	(1 728)	(767)	(9 857)	–	(33 272)
Impairment of financial assets	–	22	(15)	(689)	992	(16)	(173)	157	278
Impairment of other assets – raised	(11)	–	(4)	–	–	–	–	–	(15)
Impairment of other assets – reversed	107	–	39	–	–	22	–	–	168
Other expenses	(21 408)	(1 574)	(7 641)	(14)	(1 423)	222	(1 891)	15 515	(18 214)
Profit/(loss) before depreciation and amortisation expense and net fair value and foreign exchange (loss)/gain (EBITDA)	24 248	586	2 529	585	(111)	(179)	2 425	1 416	31 499
Depreciation and amortisation expense	(22 064)	(2 122)	(3 652)	(638)	(4)	(100)	(1 395)	219	(29 756)
Net fair value and foreign exchange (loss)/gain on financial instruments	(5 733)	881	59	1	1 847	(797)	339	(6)	(3 409)
(Loss)/profit before net finance (cost)/income	(3 549)	(655)	(1 064)	(52)	1 732	(1 076)	1 369	1 629	(1 666)
Net finance (cost)/income	(20 405)	(3 371)	(2 632)	(1 295)	(103)	(127)	163	253	(27 517)
Finance income	1	24	34	104	246	3	2 212	98	2 722
Finance cost	(20 406)	(3 395)	(2 666)	(1 399)	(349)	(130)	(2 049)	155	(30 239)
Share of profit of equity-accounted investees	–	–	–	–	–	–	35	–	35
(Loss)/profit before tax	(23 954)	(4 026)	(3 696)	(1 347)	1 629	(1 203)	1 567	1 882	(29 148)
Income tax	–	–	–	–	–	–	8 837	(418)	8 419
(Loss)/profit for the year	(23 954)	(4 026)	(3 696)	(1 347)	1 629	(1 203)	10 404	1 464	(20 729)
Other information									
Segment assets	310 101	54 751	90 205	9 247	19 094	227 054	59 186	(20 864)	748 774
Investment in equity-accounted investees	–	–	–	–	–	–	373	–	373
Assets held-for-sale	–	–	–	–	–	–	8 871	–	8 871
Total assets	310 101	54 751	90 205	9 247	19 094	227 054	68 430	(20 864)	758 018
Total liabilities	64 667	1 800	31 825	14 339	13 273	11 939	488 352	(21 271)	604 924
Additions to property, plant and equipment and intangible assets	8 454	1 109	6 883	1	18	18 266	496	(529)	34 698

	Generation Rm	Transmission Rm	Distribution Rm	Energy purchases/ sales Rm	Group customer services Rm	Group capital Rm	All other segments Rm	Reallocation and inter-segment transactions Rm	Group Rm
2018									
External revenue	–	252	1 993	9 480	165 699	–	1 473	(1 473)	177 424
Inter-segment revenue/ recoveries	118 250	8 513	21 510	13 504	(161 471)	(107)	11 994	(12 193)	–
Total revenue	118 250	8 765	23 503	22 984	4 228	(107)	13 467	(13 666)	177 424
Other income	751	95	387	–	116	294	571	(842)	1 372
Primary energy	(62 957)	–	–	(22 085)	(160)	–	–	–	(85 202)
Employee benefit expense	(9 222)	(1 667)	(8 627)	(60)	(1 586)	(1 084)	(7 208)	–	(29 454)
Impairment of financial assets	(138)	(5)	–	96	(463)	(1)	(17)	–	(528)
Impairment of other assets – raised	(63)	–	(1)	–	–	–	–	–	(64)
Impairment of other assets – reversed	3	–	36	–	–	–	–	–	39
Other expenses	(18 511)	(2 052)	(8 123)	(13)	(1 706)	807	(2 925)	14 295	(18 228)
Profit/(loss) before depreciation and amortisation expense and net fair value and foreign exchange gain/(loss) (EBITDA)	28 113	5 136	7 175	922	429	(91)	3 888	(213)	45 359
Depreciation and amortisation expense	(15 908)	(1 982)	(3 510)	(638)	(5)	(103)	(1 202)	216	(23 132)
Net fair value and foreign exchange gain/(loss) on financial instruments	1 712	(807)	122	–	139	(3 290)	351	(2)	(1 775)
Profit/(loss) before net finance (cost)/income	13 917	2 347	3 787	284	563	(3 484)	3 037	1	20 452
Net finance (cost)/income	(16 986)	(2 920)	(2 159)	(1 672)	65	398	(63)	248	(23 089)
Finance income	286	58	151	85	377	392	1 431	92	2 872
Finance cost	(17 272)	(2 978)	(2 310)	(1 757)	(312)	6	(1 494)	156	(25 961)
Share of profit of equity-accounted investees	–	–	–	–	–	–	34	–	34
(Loss)/profit before tax	(3 069)	(573)	1 628	(1 388)	628	(3 086)	3 008	249	(2 603)
Income tax	–	–	–	–	–	–	343	(77)	266
(Loss)/profit for the year	(3 069)	(573)	1 628	(1 388)	628	(3 086)	3 351	172	(2 337)
Other information									
Segment assets	319 432	52 570	86 049	10 523	17 590	199 479	65 703	(21 528)	729 818
Investment in equity-accounted investees	–	–	–	–	–	–	372	–	372
Assets held-for-sale	–	–	–	–	–	40	8 886	–	8 926
Total assets	319 432	52 570	86 049	10 523	17 590	199 519	74 961	(21 528)	739 116
Total liabilities	59 164	1 538	30 058	13 681	14 272	11 987	458 628	(20 548)	568 780
Additions to property, plant and equipment and intangible assets	10 600	1 008	8 774	–	28	28 211	1 743	(371)	49 993

7. Segment information (continued)

Geographical information	Group Revenue 2019 Rm	Group Revenue 2018 Rm	Group Non-current assets 2019 Rm	Group Non-current assets 2018 Rm
South Africa	171 651	167 894	663 923	643 731
Foreign countries	8 241	9 530	217	137
	179 892	177 424	664 140	643 868

The group's reportable segments operate mainly in South Africa, which is Eskom's country of domicile.

Revenue is allocated based on the country in which the customer is located after eliminating inter-segment transactions. There is no significant revenue derived from a single external customer by any of the reportable segments.

Non-current assets disclosed for geographical information comprise non-current assets other than deferred tax assets and financial instruments.

8. Property, plant and equipment

	Note	2019 Land, buildings and facilities Rm	2019 Plant Generating Rm	2019 Plant Transmitting Rm	2019 Plant Distributing Rm	2019 Spares and other Rm	2019 Equipment and vehicles Rm	2019 Work under construction Rm	2019 Total Rm	2018 Total Rm
Group										
Carrying value at beginning of the year		8 155	278 364	40 502	71 176	14 005	6 798	211 648	630 648	588 867
Cost		10 032	363 883	56 839	115 768	15 587	17 411	213 579	793 099	730 491
Accumulated depreciation and impairment losses		(1 877)	(85 519)	(16 337)	(44 592)	(1 582)	(10 613)	(1 931)	(162 451)	(141 624)
Adoption of IFRS 15[1]		–	–	–	–	–	–	51	51	–
Additions		30	414	70	191	2 322	512	30 716	34 255	49 568
Transfers of assets from customers		–	–	–	1 454	–	–	–	1 454	737
Commissioning of assets constructed		443	9 181	3 969	6 158	(2 297)	303	(17 757)	–	–
Basis adjustment – cash flow hedge reserve		–	–	–	–	–	–	(281)	(281)	(617)
Finance cost capitalised	41	–	–	–	–	–	–	15 378	15 378	15 547
Provisions capitalised	29	–	(297)	–	–	–	–	1 626	1 329	881
Transfers from assets held-for-sale		37	–	–	–	–	–	–	37	22
Disposals and writeoffs		(5)	(197)	(183)	(16)	(8)	(50)	(416)	(875)	(601)
Depreciation		(139)	(22 354)	(1 995)	(4 640)	(93)	(1 306)	–	(30 527)	(23 737)
Net impairment	36	–	–	–	–	–	21	147	168	(19)
Carrying value at end of the year		8 521	265 111	42 363	74 323	13 929	6 278	241 112	651 637	630 648
Cost		10 532	369 144	60 599	123 542	15 589	17 897	242 645	839 948	793 099
Accumulated depreciation and impairment losses		(2 011)	(104 033)	(18 236)	(49 219)	(1 660)	(11 619)	(1 533)	(188 311)	(162 451)

1. *Refer to note 50.3.*

	Note	2019 Land, buildings and facilities Rm	Plant Generating Rm	Plant Transmitting Rm	Plant Distributing Rm	Spares and other Rm	Equipment and vehicles Rm	Work under construction Rm	Total Rm	2018 Total Rm
Company										
Carrying value at beginning of the year		8 004	279 105	40 626	71 395	14 005	5 167	212 857	631 159	589 479
Cost		9 802	365 415	56 978	116 058	15 587	14 391	214 788	793 019	730 642
Accumulated depreciation and impairment losses		(1 798)	(86 310)	(16 352)	(44 663)	(1 582)	(9 224)	(1 931)	(161 860)	(141 163)
Additions		29	414	70	191	2 322	498	31 118	34 642	49 462
Transfers of assets from customers		–	–	–	1 454	–	–	–	1 454	737
Commissioning of assets constructed		403	9 324	3 981	6 173	(2 297)	221	(17 805)	–	–
Basis adjustment – cash flow hedge reserve		–	–	–	–	–	–	(281)	(281)	(617)
Finance cost capitalised	41	–	–	–	–	–	–	15 378	15 378	15 547
Provisions capitalised	29	–	(297)	–	–	–	–	1 626	1 329	881
Transfers from assets held-for-sale		37	–	–	–	–	–	–	37	22
Disposals and writeoffs		(5)	(197)	(183)	(16)	(8)	(50)	(738)	(1 197)	(595)
Depreciation		(138)	(22 554)	(2 001)	(4 655)	(93)	(1 015)	–	(30 456)	(23 738)
Net impairment	36	–	–	–	–	–	21	147	168	(19)
Carrying value at end of the year		8 330	265 795	42 493	74 542	13 929	4 842	242 302	652 233	631 159
Cost		10 261	370 746	60 750	123 841	15 589	14 784	243 835	839 806	793 019
Accumulated depreciation and impairment losses		(1 931)	(104 951)	(18 257)	(49 299)	(1 660)	(9 942)	(1 533)	(187 573)	(161 860)

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Carrying value of leased assets		7 841	8 495	7 841	8 495
Generating plant		7 718	8 356	7 718	8 356
Spares and other plant		123	139	123	139
The total depreciation charge for property, plant and equipment is disclosed in profit or loss in the following categories:		30 527	23 737	30 456	23 738
Depreciation and amortisation expense	38	30 511	23 721	30 440	23 722
Primary energy		16	16	16	16

	Group and company 2019 %	Group and company 2018 %
Average rates of finance cost capitalised to qualifying assets:		
General borrowings	9.43	9.26
Specific borrowings	9.24	9.16

9. Intangible assets

	Note	2019 Rights Rm	2019 Computer software Rm	2019 Concession assets Rm	2019 Total Rm	2018 Total Rm
Group						
Carrying value at beginning of the year		2 881	927	137	3 945	3 981
Cost		3 101	7 089	247	10 437	10 258
Accumulated amortisation and impairment losses		(220)	(6 162)	(110)	(6 492)	(6 277)
Additions and transfers		120	223	100	443	425
Writeoffs		–	(9)	–	(9)	–
Amortisation	38	–	(434)	(20)	(454)	(461)
Carrying value at end of the year		3 001	707	217	3 925	3 945
Cost		3 221	7 286	364	10 871	10 437
Accumulated amortisation and impairment losses		(220)	(6 579)	(147)	(6 946)	(6 492)
Company						
Carrying value at beginning of the year		2 881	922	–	3 803	3 817
Cost		3 101	6 759	–	9 860	9 669
Accumulated amortisation and impairment losses		(220)	(5 837)	–	(6 057)	(5 852)
Additions and transfers		120	223	–	343	424
Writeoffs		–	(9)	–	(9)	–
Amortisation	38	–	(431)	–	(431)	(438)
Carrying value at end of the year		3 001	705	–	3 706	3 803
Cost		3 221	6 956	–	10 177	9 860
Accumulated amortisation and impairment losses		(220)	(6 251)	–	(6 471)	(6 057)

10. Future fuel supplies

	Note	Group and company 2019 Coal Rm	2019 Nuclear Rm	2019 Total Rm	2018 Total Rm
Carrying value at beginning of the year		6 821	336	7 157	8 190
Net additions		229	319	548	1 618
Provisions capitalised	29	475	–	475	51
Basis adjustment – cash flow hedge reserve		–	–	–	(386)
Transfer to inventories	20	(1 700)	(9)	(1 709)	(2 316)
Carrying value at end of the year		5 825	646	6 471	7 157

11. Investment in equity-accounted investees

	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Balance at beginning of the year	372	364	95	95
Share of profit after tax	35	34	–	–
Dividends received	(34)	(26)	–	–
Balance at end of the year	373	372	95	95

The group's investments in joint ventures and associates are not individually material.

The group's share of the results of its significant joint ventures, all of which are unlisted, is as follows:

Name	Main business	Country of incorporation	Interest held %	2019 Group Share of profit/(loss) after tax for the year Rm	2019 Company Investment at cost Rm	2018 Group Share of profit/(loss) after tax for the year Rm	2018 Company Investment at cost Rm
Directly held							
Motraco – Mozambique Transmission Company SARL[1]	Electricity transmission	Mozambique	33	47	95	32	95
Indirectly held							
Trans Africa Projects (Pty) Ltd	Engineering services	South Africa	50	(12)		2	
				35		34	

The share capital of the group's investment in joint ventures comprises ordinary shares. The joint ventures are structured as separate vehicles and the group has a residual interest in the net assets. The relevant activities are jointly controlled in accordance with the agreements under which the entities are established. The joint arrangements have therefore been classified as joint ventures.

12. Investment in subsidiaries

Name	Main business	Country of incorporation	2019 and 2018 Interest held %	2019 and 2018 Investment at cost Rm
Directly held				
Escap SOC Ltd	Insurance	South Africa	100	380
Eskom Development Foundation NPC	Corporate social investment	South Africa	100	–
Eskom Enterprises SOC Ltd	Non-regulated electricity supply industry activities in South Africa and electricity supply and related services outside South Africa	South Africa	100	–[2]
Eskom Finance Company SOC Ltd[3]	Finance (employee housing loans)	South Africa	100	–[2]
PN Energy Services SOC Ltd	Not trading	South Africa	100	4
				384
Indirectly held				
Eskom Rotek Industries SOC Ltd	Construction and abnormal load transportation	South Africa	100	
Eskom Uganda Ltd[1]	Operations management	Uganda	100	
Golang Coal SOC Ltd	Coal exports	South Africa	67	
Nqaba Finance 1 (RF) Ltd[3]	Residential backed mortgage securities	South Africa	100	
Pebble Bed Modular Reactor SOC Ltd	Reactor driven generation project	South Africa	100	
South Dunes Coal Terminal SOC Ltd	Coal exports	South Africa	69	

All subsidiaries continue to be accounted for as previously assessed as there has not been any change in the outcome of the control assessment. The group does not have any subsidiaries with a material non-controlling interest.

1. *Year end is 31 December.*
2. *Nominal*
3. *Eskom Finance Company SOC Ltd and its subsidiary Nqaba Finance 1 (RF) Ltd (a securitisation vehicle) have been classified as held-for-sale. Refer to note 22.*

13. Deferred tax

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
13.1 Deferred tax assets					
Balance at beginning of the year		23	50	–	–
Recognised in profit or loss	42	(2)	(28)	–	–
Assets and liabilities held-for-sale		(4)	1	–	–
Balance at end of the year		17	23	–	–
Comprising		17	23	–	–
Provisions		16	22	–	–
Payments received in advance		1	1	–	–
13.2 Deferred tax liabilities					
Balance at beginning of the year		15 846	18 067	15 665	18 090
Adoption of IFRS 9	50.3	(74)	–	–	–
Recognised in profit or loss	42	(8 833)	(958)	(9 262)	(1 148)
Recognised in other comprehensive income	42	1 411	(1 263)	1 401	(1 277)
Balance at end of the year		8 350	15 846	7 804	15 665
Comprising		8 350	15 846	7 804	15 665
Property, plant and equipment		82 768	74 695	82 024	74 376
Provisions		(26 505)	(23 776)	(26 287)	(23 599)
Tax losses		(45 441)	(30 558)	(45 428)	(30 558)
Embedded derivative liabilities		(962)	(1 482)	(962)	(1 482)
Insurance investments		31	47	–	–
Cash flow hedges		808	(118)	812	(115)
Payments received in advance		(3 428)	(3 556)	(3 428)	(3 556)
Employee benefit obligations		1 079	594	1 073	599
Unused tax losses available for offset against future taxable income		162 289	109 136	162 243	109 136

14. Investments and financial trading instruments

Portfolio	Managed by	Purpose
Insurance	Escap	To maintain adequate ring-fenced capital reserves to meet statutory solvency requirements
Financial trading	Treasury	To reduce the funding cost of the company

14.1 Insurance investments

	Group			
	2019			2018
	Gross Rm	Allowance for impairment Rm	Carrying value Rm	Total Rm
Negotiable certificates of deposit	7 951	(5)	7 946	6 839
Listed shares	1 617	–	1 617	1 333
	9 568	(5)	9 563	8 172

14.2 Financial trading instruments

	Group and company					
	2019			2018		
	Assets Rm	Liabilities Rm	Net asset/ (liability) Rm	Assets Rm	Liabilities Rm	Net asset/ (liability) Rm
Repurchase agreements	59	181	(122)	9	241	(232)
Eskom bonds	–	91	(91)	–	124	(124)
Government bonds	59	90	(31)	9	117	(108)
Government bonds	103	57	46	159	8	151
	162	238	(76)	168	249	(81)

Financial trading assets – collateral held
Eskom purchased both Eskom and government bonds from approved counterparties and has committed to resell these back to the counterparties in the following financial year. Although Eskom has legal title to the bonds at year end, they have not been recognised in the statement of financial position as a result of the commitment to resell. The total receivable is secured by bonds of an equivalent fair value. The difference between the purchase and resale price is treated as interest accrued over the life of the agreement using the effective-yield method.

Financial trading liabilities – encumbered assets
Eskom concluded sale and repurchase transactions of both Eskom and government bonds with approved counterparties. The group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. The transferred assets are not derecognised if all or substantially all risks and rewards are retained. The difference between the sale and repurchase price is treated as interest accrued over the life of the agreement using the effective-yield method.

15. Loans receivable

	Group				Company			
	2019			2018	2019			2018
	Gross Rm	Allowance for impairment Rm	Carrying value Rm	Carrying value Rm	Gross Rm	Allowance for impairment Rm	Carrying value Rm	Carrying value Rm
Loans to subsidiaries	–	–	–	–	6 111	(40)	6 071	6 201
Other	67	(1)	66	81	–	–	–	–
	67	(1)	66	81	6 111	(40)	6 071	6 201
Maturity analysis	67	(1)	66	81	6 111	(40)	6 071	6 201
Non-current	41	(1)	40	63	–	–	–	–
Current	26	–	26	18	6 111	(40)	6 071	6 201

16. Derivatives held for risk management

	Note	2019 Foreign exchange contracts Rm	Cross-currency swaps Rm	Commodity forwards Rm	Credit default swaps Rm	Inflation-linked swaps Rm	Total Rm	2018 Total Rm
Group								
Net (liability)/asset at beginning of the year		(3 093)	(2 735)	17	(77)	–	(5 888)	7 275
Net fair value gain/(loss)		3 480	19 300	(18)	(219)	(41)	22 502	(16 814)
Income statement	39	2 985	16 831	(18)	(219)	(41)	19 538	(11 114)
Statement of comprehensive income		495	2 469	–	–	–	2 964	(5 700)
Finance cost accrued		–	(150)	–	–	39	(111)	10
Cash paid/(received)		355	(1 237)	1	–	–	(881)	3 641
Net asset/(liability) at end of the year		742	15 178	–	(296)	(2)	15 622	(5 888)
Hedge exposure covered		742	15 178	–	(296)	(2)	15 622	(5 888)
Debt securities and borrowings		809	15 178	–	(296)	(2)	15 689	(5 060)
Other		(67)	–	–	–	–	(67)	(828)
Assets								
Economic hedging		1 281	49	–	9	39	1 378	245
Cash flow hedging		20	21 264	–	–	–	21 284	15 333
		1 301	21 313	–	9	39	22 662	15 578
Maturity analysis		1 301	21 313	–	9	39	22 662	15 578
Non-current		–	20 582	–	–	–	20 582	13 705
Current		1 301	731	–	9	39	2 080	1 873
Liabilities								
Economic hedging		471	322	–	305	41	1 139	3 593
Cash flow hedging		88	5 813	–	–	–	5 901	17 873
		559	6 135	–	305	41	7 040	21 466
Maturity analysis		559	6 135	–	305	41	7 040	21 466
Non-current		–	5 297	–	305	41	5 643	16 570
Current		559	838	–	–	–	1 397	4 896
Notional amount		m	m	m	m	m	m	m
EUR		1 595	1 396	–	–	–	2 991	3 450
USD		2 427	7 291	–	–	–	9 718	7 951[1]
GBP		17	–	–	–	–	17	8
JPY		285	4 944	–	–	–	5 229	8 027
SEK		136	–	–	–	–	136	190
CHF		–	–	–	–	–	–	1
CAD		1	–	–	–	–	1	1
NOK		5	–	–	–	–	5	1
ZAR		–	–	161	3 972	1 000	5 133	4 336

1. *Includes forward starting cross-currency swaps of USD300 million.*

	Note	2019 Foreign exchange contracts Rm	Cross-currency swaps Rm	Commodity forwards Rm	Credit default swaps Rm	Inflation-linked swaps Rm	Total Rm	2018 Total Rm
Company								
Net (liability)/asset at beginning of the year		(3 091)	(2 735)	17	(77)	–	(5 886)	7 263
Net fair value gain/(loss)		3 476	19 300	(18)	(219)	(41)	22 498	(16 812)
Income statement	39	2 981	16 831	(18)	(219)	(41)	19 534	(11 112)
Statement of comprehensive income		495	2 469	–	–	–	2 964	(5 700)
Finance cost accrued		–	(150)	–	–	39	(111)	10
Cash paid/(received)		357	(1 237)	1	–	–	(879)	3 653
Net asset/(liability) at end of the year		742	15 178	–	(296)	(2)	15 622	(5 886)
Hedge exposure covered		742	15 178	–	(296)	(2)	15 622	(5 886)
Debt securities and borrowings		809	15 178	–	(296)	(2)	15 689	(5 060)
Other		(67)	–	–	–	–	(67)	(826)
Assets								
Economic hedging		1 281	49	–	9	39	1 378	247
Cash flow hedging		20	21 264	–	–	–	21 284	15 333
		1 301	21 313	–	9	39	22 662	15 580
Maturity analysis		1 301	21 313	–	9	39	22 662	15 580
Non-current		–	20 582	–	–	–	20 582	13 705
Current		1 301	731	–	9	39	2 080	1 875
Liabilities								
Economic hedging		471	322	–	305	41	1 139	3 593
Cash flow hedging		88	5 813	–	–	–	5 901	17 873
		559	6 135	–	305	41	7 040	21 466
Maturity analysis		559	6 135	–	305	41	7 040	21 466
Non-current		–	5 297	–	305	41	5 643	16 570
Current		559	838	–	–	–	1 397	4 896
Notional amount		m	m	m	m	m	m	m
EUR		1 593	1 396	–	–	–	2 989	3 446
USD		2 427	7 291	–	–	–	9 718	7 950[1]
GBP		16	–	–	–	–	16	7
JPY		285	4 944	–	–	–	5 229	8 027
SEK		136	–	–	–	–	136	190
CHF		–	–	–	–	–	–	1
CAD		1	–	–	–	–	1	1
NOK		5	–	–	–	–	5	1
ZAR		–	–	161	3 972	1 000	5 133	4 336

The hedging practices and accounting treatment are disclosed in note 2.10.3 in the accounting policies. The derivative instruments used to hedge the various financial risks are set out as follows:

Derivative instrument	Financial risk hedged	Exposure
Foreign exchange contracts	Market (currency)	Electricity generation activity purchases and loans denominated in foreign currencies
Cross-currency swaps	Market (currency and interest rate)	Foreign fixed rate bonds and other foreign fixed or floating borrowings
Commodity forwards	Market (commodity)	Electricity sales in terms of agreements where the sales price is influenced by the market price for aluminium
Credit default swaps	Credit	Event of default by Eskom on debt securities and borrowings
Inflation-linked swaps	Market (interest rate)	Finance cost that are dependent on current interest rates

1. *Includes forward starting cross-currency swaps of USD300 million.*

16. Derivatives held for risk management (continued)

Cash flow hedges

Contractual cash flows are a function of foreign exchange and interest rates and are a point in time calculation that are impacted by market conditions at that time. This may result in future contractual cash outflows or inflows even though the fair value of the derivative may be reflected as an asset or liability.

The periods in which the cash flows of derivatives designated as cash flow hedges are expected to occur are:

	Group and company					
	Carrying amount Rm	Undiscounted cash flows Rm	0 – 3 months Rm	4 – 12 months Rm	1 – 5 years Rm	>5 years Rm
2019						
Foreign exchange contracts						
Assets	20	27	16	11	–	–
Liabilities	(88)	(73)	(10)	(63)	–	–
Cross-currency swaps						
Assets	21 264	35 081	(71)	551	13 404	21 197
Liabilities	(5 813)	(7 557)	(216)	(5 228)	(6 622)	4 509
	15 383	27 478	(281)	(4 729)	6 782	25 706
2018						
Foreign exchange contracts						
Assets	36	38	24	14	–	–
Liabilities	(638)	(625)	(163)	(462)	–	–
Cross-currency swaps						
Assets	15 297	14 528	(26)	1 098	6 705	6 751
Liabilities	(17 235)	(17 163)	(295)	(5 528)	(15 417)	4 077
	(2 540)	(3 222)	(460)	(4 878)	(8 712)	10 828

The periods in which the cash flows associated with derivatives are expected to impact profit or loss are:

	Group and company					
	Carrying amount Rm	Undiscounted cash flows Rm	0 – 3 months Rm	4 – 12 months Rm	1– 5 years Rm	>5 years Rm
2019						
Foreign exchange contracts						
Assets	20	8 558	16	11	276	8 255
Liabilities	(88)	(73)	(10)	(63)	–	–
Cross-currency swaps						
Assets	21 264	35 081	(71)	551	13 404	21 197
Liabilities	(5 813)	(7 557)	(216)	(5 228)	(6 622)	4 509
	15 383	36 009	(281)	(4 729)	7 058	33 961
2018						
Foreign exchange contracts						
Assets	36	8 790	24	14	282	8 470
Liabilities	(638)	(625)	(163)	(462)	–	–
Cross-currency swaps						
Assets	15 297	14 528	(26)	1 098	6 705	6 751
Liabilities	(17 235)	(17 163)	(295)	(5 528)	(15 417)	4 077
	(2 540)	5 530	(460)	(4 878)	(8 430)	19 298

Ineffective cash flow hedges

During the year a loss of R950 million (2018: R670 million) was recognised in profit or loss as ineffectiveness arising from cash flow hedges (refer to note 39). There were no transactions, in the current or comparative financial years, for which cash flow hedge accounting had to be ceased as a result of highly probable cash flows no longer being expected to occur.

Day-one gain/loss

The group recognises a day-one gain/loss on initial recognition of cross-currency swaps held as hedging instruments where applicable.

	Group and company Rm
Loss at 31 March 2017	(727)
Day-one loss recognised	(95)
Amortised to profit or loss	115
Loss at 31 March 2018	(707)
Day-one loss recognised	(580)
Amortised to profit or loss	141
Loss at 31 March 2019	(1 146)

17. Finance lease receivables

	Group and company						
	2019				2018		
	Gross receivables Rm	Unearned finance income Rm	Allowance for impairment Rm	Carrying value Rm	Gross receivables Rm	Unearned finance income Rm	Carrying value Rm
Non-current	593	(216)	(3)	374	671	(263)	408
Between one and five years	286	(145)	(1)	140	302	(163)	139
After five years	307	(71)	(2)	234	369	(100)	269
Current							
Within one year	79	(48)	–	31	80	(51)	29
	672	(264)	(3)	405	751	(314)	437

The average implicit interest rate for the group and company was 13% (2018: 13%).

18. Payments made in advance

	2019				2018
	Securing debt raised Rm	Environmental rehabilitation trust fund Rm	Other Rm	Total Rm	Total Rm
Group					
Balance at beginning of the year	1 150	882	1 132	3 164	4 029
Payments made	1 179	–	146	1 325	1 314
Expense recognised	(81)	–	(249)	(330)	(380)
Transferred to the statement of financial position	(640)	–	(244)	(884)	(1 799)
Balance at end of the year	1 608	882	785	3 275	3 164
Maturity analysis	1 608	882	785	3 275	3 164
Non-current	668	882	184	1 734	1 746
Current	940	–	601	1 541	1 418
Company					
Balance at beginning of the year	1 150	882	1 025	3 057	3 814
Payments made	1 179	–	143	1 322	1 298
Expense recognised	(81)	–	(221)	(302)	(274)
Transferred to the statement of financial position	(640)	–	(244)	(884)	(1 781)
Balance at end of the year	1 608	882	703	3 193	3 057
Maturity analysis	1 608	882	703	3 193	3 057
Non-current	668	882	183	1 733	1 729
Current	940	–	520	1 460	1 328

19. Trade and other receivables

	2019				2018			
	Receivable before collect-ability adjust-ments Rm	Amounts not meeting collect-ability criteria[1] Rm	Allowance for impairment Rm	Carrying value Rm	Receivable before collect-ability adjust-ments Rm	Amounts not meeting collect ability criteria[1] Rm	Allowance for impairment Rm	Carrying value Rm
Group								
Financial instruments								
Trade receivables								
International	1 753	–	(711)	1 042	1 918	–	(25)	1 893
Local large power users	35 223	(15 873)	(3 258)	16 092	27 219	(8 124)	(4 206)	14 889
Municipalities	27 744	(15 873)	(3 006)	8 865	20 061	(8 124)	(4 099)	7 838
Other	7 479	–	(252)	7 227	7 158	–	(107)	7 051
Local small power users	16 291	(9 293)	(4 220)	2 778	14 910	(8 160)	(4 193)	2 557
Soweto	13 561	(9 293)	(3 473)	795	12 442	(8 137)	(3 553)	752
Other	2 730	–	(747)	1 983	2 468	(23)	(640)	1 805
	53 267	(25 166)	(8 189)	19 912	44 047	(16 284)	(8 424)	19 339
Other receivables	2 200	–	(189)	2 011	948	–	(205)	743
	55 467	(25 166)	(8 378)	21 923	44 995	(16 284)	(8 629)	20 082
Non-financial instruments								
VAT	53	–	–	53	43	–	–	43
	55 520	(25 166)	(8 378)	21 976	45 038	(16 284)	(8 629)	20 125
Company								
Trade receivables								
International	1 753	–	(711)	1 042	1 918	–	(25)	1 893
Local large power users	35 223	(15 873)	(3 258)	16 092	27 219	(8 124)	(4 206)	14 889
Municipalities	27 744	(15 873)	(3 006)	8 865	20 061	(8 124)	(4 099)	7 838
Other	7 479	–	(252)	7 227	7 158	–	(107)	7 051
Local small power users	16 291	(9 293)	(4 220)	2 778	14 910	(8 160)	(4 193)	2 557
Soweto	13 561	(9 293)	(3 473)	795	12 442	(8 137)	(3 553)	752
Other	2 730	–	(747)	1 983	2 468	(23)	(640)	1 805
	53 267	(25 166)	(8 189)	19 912	44 047	(16 284)	(8 424)	19 339
Other receivables	3 419	–	(194)	3 225	2 286	–	(196)	2 090
	56 686	(25 166)	(8 383)	23 137	46 333	(16 284)	(8 620)	21 429

		Group and company	
	Note	2019 Rm	2018 Rm
Reconciliation of movements in amounts not meeting collectability criteria			
Balance at beginning of the year		16 284	10 937
Revenue not recognised	32	8 914	3 635
Finance income not recognised	40	2 593	2 137
Cash basis revenue recognised	32	(2 472)	(358)
Writeoffs		(153)	(67)
Balance at end of the year		25 166	16 284

Refer to note 5.1.2 for a reconciliation of the movements in allowance for impairment.

1. *Refer to note 2.19.*

20. Inventories

	Note	2019 Coal and liquid fuel Rm	2019 Nuclear fuel Rm	2019 Maintenance spares and consumables Rm	2019 Total Rm	2018 Total Rm
Group						
Carrying value at beginning of the year		10 815	2 517	11 016	24 348	22 359
Adoption of IFRS 15[1]		–	–	(315)	(315)	–
Changes in working capital		(188)	(763)	1 523	572	(579)
Transfer from future fuel supplies	10	1 700	9	–	1 709	2 316
Provisions capitalised	29	10	173	–	183	258
Net impairment loss	36	–	–	(15)	(15)	(6)
		12 337	1 936	12 209	26 482	24 348
Company						
Carrying value at beginning of the year		10 815	2 517	10 790	24 122	22 156
Changes in working capital		(188)	(763)	1 203	252	(602)
Transfer from future fuel supplies	10	1 700	9	–	1 709	2 316
Provisions capitalised	29	10	173	–	183	258
Net impairment loss	36	–	–	(15)	(15)	(6)
		12 337	1 936	11 978	26 251	24 122

21. Cash and cash equivalents

	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Bank balances	2 018	15 778	1 504	15 334
Unsettled deals	13	45	13	45
	2 031	15 823	1 517	15 379

1. *Refer to note 50.3.*

22. Assets and liabilities held-for-sale

	2019 Eskom Finance Company Rm	2019 Inter-company transactions Rm	2019 Total Rm	2018 Total Rm
Statements of financial position				
Group				
Assets				
Non-current	8 586	–	8 586	8 625
Property, plant and equipment	–	–	–	40
Loans receivable	8 566	–	8 566	8 569
Trade and other receivables	3	–	3	3
Deferred tax	17	–	17	13
Current	339	(54)	285	301
Loans receivable	186	–	186	190
Taxation	1	–	1	12
Trade and other receivables	3	–	3	5
Cash and cash equivalents	149	(54)	95	94
Total assets	8 925	(54)	8 871	8 926
Liabilities				
Non-current				
Debt securities and borrowings	1 426	–	1 426	843
Current	6 368	(6 115)	253	839
Debt securities and borrowings	6 361	(6 112)	249	832
Trade and other payables	7	(3)	4	7
Total liabilities	7 794	(6 115)	1 679	1 682
Company				
Assets				
Non-current				
Property, plant and equipment	–	–	–	40

Eskom Finance Company SOC Ltd (EFC)

The disposal of the assets and liabilities of EFC was not concluded at 31 March 2019. The disposal process followed during the year did not solicit interest from buyers that either had the necessary expertise to originate loans and manage a loan book, or could acquire and manage the loan book in terms of Eskom's requirements or had sufficient financial reserves to purchase the company.

Eskom reviewed the process followed to understand the reasons behind the lack of interest and, based on the findings, are now following a different process with requirements that should result in interest from credible parties. Eskom remains committed to the disposal of EFC as one of its options to address its liquidity challenges. The revised disposal strategy is expected to result in a successful disposal process and is estimated to be completed by the end of 31 March 2020.

Eskom residential properties

Certain residential properties that were regarded as surplus to the group's operational needs were presented as held-for-sale in 2018 in line with the decision by the shareholder to dispose of non-core assets. Although Eskom's intention to sell these properties remains unchanged, it was assessed that the properties not yet sold no longer meet the classification as held-for-sale in terms of IFRS 5 and have consequently been transferred back to property, plant and equipment.

23. Service concession arrangements

The group operates a service concession for the generation and transmission of electricity through its operations in Uganda.

Eskom Uganda Ltd (Eskom Uganda) entered into an operation and maintenance agreement with Uganda Electricity Generation Company Ltd (UEGCL) in 2002, which is linked to a power purchase agreement concluded with Uganda Electricity Transmission Company Ltd (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 substations, land and movable property together constitute the 'energy assets' in terms of the agreement. The concession period is 20 years (ending 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 and will revert to UEGCL at the end of the concession period. At that point Eskom Uganda will have no further obligation in respect of the plant.

	2019 Rm	2018 Rm
Summarised statements of financial position		
Assets		
Intangible assets	217	137
Taxation	10	1
Inventories	28	23
Payments made in advance	1	1
Trade and other receivables	56	43
Cash and cash equivalents	111	72
	423	277
Liabilities		
Debt securities and borrowings	14	14
Deferred tax	13	13
Provisions	12	11
Employee benefit obligations	4	4
Trade and other payables	94	24
	137	66
Summarised income statements		
Revenue	205	219
Profit for the year before tax	50	63
Taxation	(21)	(18)
Profit for the year after tax	29	45

The above transactions and balances are included in the respective line items in the statements of financial position and income statements.

24. Share capital

	Group and company 2019 Shares	2018 Shares
Authorised ordinary shares	100 000 000 000	100 000 000 000
Issued ordinary shares	83 000 000 001	83 000 000 001

The unissued share capital is under the control of the Government of the Republic of South Africa, represented by the DPE, as the sole shareholder.

25. Debt securities and borrowings

	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Eskom bonds	152 283	146 172	152 283	146 172
Commercial paper	1 105	2 275	3 714	4 423
Eurorand zero coupon bonds	4 399	5 711	4 399	5 711
Foreign bonds	79 963	47 608	79 963	47 608
Development financing institutions	135 661	119 854	135 661	119 854
Export credit facilities	31 782	31 735	31 782	31 735
Floating rate notes	4 047	2 005	4 047	2 005
Other loans	31 370	33 324	33 198	35 077
	440 610	388 684	445 047	392 585
Maturity analysis	440 610	388 684	445 047	392 585
Non-current	387 208	348 112	387 161	348 060
Current	53 402	40 572	57 886	44 525

	Currency	Security number	Interest rate 2019 %	Interest rate 2018 %	Nominal 2019 m	Nominal 2018 m	Maturity date	Group Carrying value 2019 Rm	Group Carrying value 2018 Rm	Company Carrying value 2019 Rm	Company Carrying value 2018 Rm
Eskom bonds								152 283	146 172	152 283	146 172
	ZAR	ES18[1]	–	9.38	–	2 339	Apr 18	–	2 436	–	2 436
	ZAR	ECN20	10.01	10.01	5 000	5 000	Mar 20	5 009	4 993	5 009	4 993
	ZAR	E170[2]	10.13	10.13	8 792	8 798	Aug 21	9 324	9 560	9 324	9 560
	ZAR	ECN22	10.17	10.17	5 000	5 000	Mar 22	4 972	4 958	4 972	4 958
	ZAR	ES23[1]	9.39	9.41	17 927	16 904	Jan 23	18 598	17 597	18 598	17 597
	ZAR	ECN24	10.37	10.37	5 000	5 000	Mar 24	4 945	4 933	4 945	4 933
	ZAR	ES26[1]	9.27	9.22	28 851	26 198	Apr 26	27 917	25 226	27 917	25 226
	ZAR	EL28[1]	2.55	2.55	7 563	5 718	May 28	7 692	5 946	7 692	5 946
	ZAR	EL29[1]	1.90	1.90	5 167	4 911	Nov 29	5 250	5 000	5 250	5 000
	ZAR	EL30[1]	2.30	2.30	4 861	4 641	Jul 30	4 887	4 667	4 887	4 667
	ZAR	EL31[1]	2.10	2.10	5 180	4 934	Jun 31	5 184	4 936	5 184	4 936
	ZAR	ECN32	2.95	2.95	5 951	5 696	Mar 32	5 964	5 708	5 964	5 708
	ZAR	ES33[1]	9.18	9.12	33 904	32 533	Sep 33	29 569	28 374	29 569	28 374
	ZAR	EL36[1]	2.25	2.25	4 613	4 411	Jan 36	4 646	4 444	4 646	4 444
	ZAR	EL37[1]	2.25	2.25	4 684	4 483	Jan 37	4 631	4 428	4 631	4 428
	ZAR	ES42[1]	10.03	9.99	15 201	14 359	Apr 42	13 695	12 966	13 695	12 966
Commercial paper								1 105	2 275	3 714	4 423
	ZAR	n/a	–	7.70	–	1 705	Nov 18[3]	–	1 667	–	1 667
	ZAR	ESNOICP[1]	8.07	7.73	1 130	625	Sep 19	1 105	608	1 105	608
	ZAR	n/a[4]	8.09	7.74	2 709	2 215	Feb 20[3]	–	–	2 609	2 148
Eurorand zero coupon bonds[2]								4 399	5 711	4 399	5 711
	ZAR	n/a	–	13.93	–	2 000	Dec 18	–	1 811	–	1 811
	ZAR	n/a	13.33	13.33	8 000	8 000	Aug 27	2 800	2 471	2 800	2 471
	ZAR	n/a	11.89	11.89	7 500	7 500	Dec 32	1 599	1 429	1 599	1 429

	Currency	Security number	Interest rate 2019 %	Interest rate 2018 %	Nominal 2019 m	Nominal 2018 m	Maturity date	Group Carrying value 2019 Rm	Group Carrying value 2018 Rm	Company Carrying value 2019 Rm	Company Carrying value 2018 Rm
Foreign bonds								79 963	47 608	79 963	47 608
	USD	n/a	5.75	5.75	1 750	1 750	Jan 21	25 541	20 920	25 541	20 920
	USD	n/a	6.75	6.75	1 000	1 000	Aug 23	14 541	11 949	14 541	11 949
	USD	n/a	7.13	7.13	1 250	1 250	Feb 25	18 030	14 739	18 030	14 739
	USD	n/a	8.45	–	500	–	Aug 28	7 298	–	7 298	–
	USD	n/a[1]	6.35	–	1 000	–	Aug 28	14 553	–	14 553	–
Development financing institutions[3]								135 661	119 854	135 661	119 854
	USD	n/a[1]	4.67	3.96	500	500	Dec 19	7 242	5 915	7 242	5 915
	USD	n/a[1]	5.71	4.87	965	965	Jul 21	13 937	11 317	13 937	11 317
	ZAR	n/a[1]	8.50	8.48	1 267	1 400	Aug 28	1 284	1 419	1 284	1 419
	USD	n/a[1]	3.96	3.12	184	203	Aug 28	2 679	2 425	2 679	2 425
	EUR	n/a[1]	–	2.11	–	3	Dec 28	–	44	–	44
	EUR	n/a[1]	–	–	603	630	Aug 29	9 811	9 216	9 811	9 216
	ZAR	n/a[1]	7.77	7.69	7 369	8 071	Aug 29	7 462	8 171	7 462	8 171
	ZAR	n/a[1]	10.10	10.10	3 935	3 935	Sep 29	3 929	3 928	3 929	3 928
	ZAR	n/a	10.37	10.37	15 000	15 000	Jan 31	15 259	15 252	15 259	15 252
	EUR	n/a[1]	1.50	1.50	470	470	Mar 31	7 268	6 568	7 268	6 568
	USD	n/a[1]	2.69	2.55	8	8	Aug 31	110	98	110	98
	ZAR	n/a	7.55	7.53	1 193	1 287	Mar 32	1 197	1 291	1 197	1 291
	USD	n/a[1]	4.84	4.52	1 550	900	Sep 33	22 278	10 673	22 278	10 673
	USD	n/a[1]	5.71	4.87	9	10	Aug 36	127	108	127	108
	ZAR	n/a[1]	11.15	11.13	4 998	5 292	Aug 36	4 995	5 288	4 995	5 288
	USD	n/a[1]	3.29	2.03	184	171	May 38	2 700	2 034	2 700	2 034
	ZAR	n/a[1]	9.16	9.16	30 011	31 554	May 38	31 151	32 741	31 151	32 741
	ZAR	n/a[1]	10.18	10.05	3 039	2 387	Nov 40	3 114	2 447	3 114	2 447
	USD	n/a[1]	0.25	0.25	35	35	May 51	506	416	506	416
	USD	n/a[1]	0.25	0.25	42	42	Aug 51	612	503	612	503
Export credit facilities[3]								31 782	31 735	31 782	31 735
	JPY	n/a	1.58	1.58	4 944	7 418	May 22	644	823	644	823
	EUR	n/a	0.89	0.78	50	69	Sep 23	775	964	775	964
	EUR	n/a	0.66	0.62	9	11	Jul 24	142	151	142	151
	EUR	n/a	4.73	4.73	723	839	Jan 27	11 153	11 545	11 153	11 545
	EUR	n/a	2.49	2.50	575	645	Jul 27	8 771	8 811	8 771	8 811
	ZAR	n/a	9.35	9.63	1 765	1 947	Jul 27	1 640	1 811	1 640	1 811
	USD	n/a	2.32	2.32	641	689	Mar 31	8 657	7 630	8 657	7 630
Floating rate notes	ZAR	n/a[1]	7.16	9.88	4 000	2 000	Apr 21	4 047	2 005	4 047	2 005
Other loans								31 370	33 324	33 198	35 077
	ZAR	n/a	13.25	–	3 000	–	Apr 19	3 003	–	3 003	–
	ZAR	n/a[1]	9.35	9.13	15 000	20 000	Feb 20	15 096	20 047	15 096	20 047
	ZAR	n/a	9.90	9.88	1 000	1 000	Aug 23	1 015	1 015	1 015	1 015
	ZAR	n/a	10.39	10.36	3 650	3 650	Mar 24	3 658	3 658	3 658	3 658
	ZAR	n/a	12.80	12.80	1 500	1 500	Oct 24	1 588	1 588	1 588	1 588
	ZAR	n/a	11.27	11.42	6 850	6 850	Feb 25	6 963	6 965	6 963	6 965
	ZAR	n/a[4]	6.76	6.95	1 875	1 804	On demand	–	–	1 875	1 804
	ZAR	n/a	–	–	47	51	On demand	47	51	–	–
								440 610	388 684	445 047	392 585

1. Government guaranteed.
2. Holders have a right to first charge against revenue and assets of Eskom in terms of section 7 of the Eskom Conversion Act.
3. Latest in a range of maturity dates is indicated for these instruments.
4. Includes, inter alia, instruments issued to subsidiaries.

26. Embedded derivatives

	2019 Commodity and/or foreign currency Rm	2019 United States PPI and foreign currency Rm	2019 Total Rm	2018 Total Rm
Group and company				
Liability at beginning of the year	4 633	658	5 291	5 414
Net fair value gain	(1 625)	(232)	(1 857)	(123)
Liability at end of the year	3 008	426	3 434	5 291
Maturity analysis	3 008	426	3 434	5 291
Non-current	945	420	1 365	3 434
Current	2 063	6	2 069	1 857

27. Payments received in advance and contract liabilities and deferred income

	Note	2019 Customer connections Rm	2019 Government grant Rm	2019 Other Rm	2019 Total Rm	2018 Total Rm
27.1 Payments received in advance						
Group						
Balance at beginning of the year		3 289	1 002	478	4 769	5 531
Payments received		1 433	2 886	390	4 709	4 006
Transfers to contract liabilities and deferred income	27.2	(193)	(2 790)	–	(2 983)	(3 375)
Income recognised		(861)	(3)	(234)	(1 098)	(1 393)
Balance at end of the year		3 668	1 095	634	5 397	4 769
Maturity analysis		3 668	1 095	634	5 397	4 769
Non-current		1 909	–	129	2 038	1 766
Current		1 759	1 095	505	3 359	3 003
Company						
Balance at beginning of the year		3 289	1 002	471	4 762	5 525
Payments received		1 433	2 886	405	4 724	3 999
Transfers to contract liabilities and deferred income	27.2	(193)	(2 790)	–	(2 983)	(3 375)
Income recognised		(861)	(3)	(234)	(1 098)	(1 387)
Balance at end of the year		3 668	1 095	642	5 405	4 762
Maturity analysis		3 668	1 095	642	5 405	4 762
Non-current		1 909	–	129	2 038	1 766
Current		1 759	1 095	513	3 367	2 996
27.2 Contract liabilities and deferred income						
Group and company						
Balance at beginning of the year		2 416	18 589	–	21 005	18 843
Transfers of property, plant and equipment from customers		187	–	–	187	–
Transfers from payments received in advance	27.1	193	2 790	–	2 983	3 375
Income recognised	38	(172)	(1 209)	–	(1 381)	(1 213)
Balance at end of the year		2 624	20 170	–	22 794	21 005
Maturity analysis		2 624	20 170	–	22 794	21 005
Non-current		2 417	18 878	–	21 295	19 796
Current		207	1 292	–	1 499	1 209

28. Employee benefit obligations

	Note	2019 Post-employment medical benefits Rm	2019 Leave Rm	2019 Bonus Rm	2019 Total Rm	2018 Total Rm
Group						
Balance at beginning of the year		14 243	2 266	460	16 969	21 138
Raised to income statement		617	859	433	1 909	233
Reversed to other comprehensive income		(1 737)	–	–	(1 737)	(1 850)
Finance cost	41	1 533	–	–	1 533	1 677
Cash paid		(522)	(938)	(424)	(1 884)	(4 229)
Balance at end of the year		14 134	2 187	469	16 790	16 969
Maturity analysis		14 134	2 187	469	16 790	16 969
Non-current		13 546	–	–	13 546	13 725
Current		588	2 187	469	3 244	3 244
Company						
Balance at beginning of the year		13 911	2 083	402	16 396	20 306
Raised to income statement		609	809	378	1 796	164
Reversed to other comprehensive income		(1 698)	–	–	(1 698)	(1 802)
Finance cost	41	1 498	–	–	1 498	1 637
Cash paid		(510)	(892)	(372)	(1 774)	(3 909)
Balance at end of the year		13 810	2 000	408	16 218	16 396
Maturity analysis		13 810	2 000	408	16 218	16 396
Non-current		13 242	–	–	13 242	13 404
Current		568	2 000	408	2 976	2 992

28.1 Post-employment medical benefits

	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
The group has anticipated expenditure in terms of continued contributions to medical aid subscriptions in respect of qualifying employees who retire.				
Amounts recognised in profit or loss:				
Employee benefit expense	617	656	609	646
Finance cost	1 533	1 644	1 498	1 605
Amounts recognised in other comprehensive income:				
Remeasurements of post-employment medical benefits (actuarial gain)	(1 737)	(1 850)	(1 698)	(1 802)
Financial assumptions	(1 469)	(1 323)	(1 440)	(1 297)
Experience adjustments	(268)	(527)	(258)	(505)
Measurement of post-employment medical benefits and key actuarial assumptions				
The estimated present value of the anticipated expenditure for both in-service and retired members was calculated by independent actuaries.				
The group expects to pay R588 million and the company R568 million in contributions to this plan in the 2020 financial year.				
Expected maturity analysis of undiscounted post-employment medical benefits:				
Within one year	588	518	568	507
Between one and two years	637	567	621	552
Between two and five years	2 499	2 247	2 436	2 190
After five years	194 188	189 607	191 638	187 773
	197 912	192 939	195 263	191 022

28. Employee benefit obligations (continued)

28.1 Post-employment medical benefits (continued)

Risks

The medical aid benefits are administered by funds that are legally separated from the group. The boards of the funds are required by law to act in the best interest of the plan participants and are responsible for setting policies including investment, contribution and indexation of the funds.

These funds expose the group to a number of risks, the most significant of which are:

- changes in bonds' yields: a decrease in corporate bond yields will increase plan liabilities
- inflation risk: the post-employment obligations are linked to inflation and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation)
- life expectancy: the majority of the plans' obligations are to provide benefits for the life of the member and therefore increases in life expectancy will result in an increase in the plans' liabilities

The expected current service cost for the 2020 financial year is estimated at R405 million for the group and R400 million for the company. Refer to note 4.2 for the sensitivity analysis and principal actuarial assumptions used.

28.2 Leave

The group recognises a liability for annual, occasional and service leave. Refer to note 4.3.

28.3 Bonus

The bonus consists of the annual bonus that equals one month's salary for employees on Tuned Assessment of Skills and Knowledge grading levels 1 to 13. Employees on grading levels 14 to 26 can choose to spread their bonus amount over the year or take it as a thirteenth cheque.

28.4 Pension benefits

The EPPF is registered in terms of the Pension Funds Act. The assets of the fund are legally separated from the group. All employees are members of the fund. Contributions comprise 20.8% of pensionable emoluments of which members pay 7.3%. The trustees of the EPPF are required by law to act in the best interests of the plan participants.

The net benefit asset at the reporting date is not accounted for in the financial statements. The rules of the EPPF 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 fund was valued actuarially on the IAS 19 *Employee benefits* basis on 31 March 2019 (previous valuation at 31 March 2018). The actuarial present value of retirement benefits at 31 March 2019 was R108 264 million (2018: R113 164 million), while the fair value of the fund's assets was R142 518 million (2018: R135 327 million).

Principal actuarial valuation assumptions

	Group and company	
	2019 %	2018 %
Long-term investment return before tax	11.00	10.50
Future general salary increases	7.90	8.10
Future pension increases (inflation)	6.40	6.60

Assumptions regarding future mortality have been based on published mortality tables and statistics derived from experience. For details regarding current longevities underlying the values of the pension benefit obligation at the reporting date refer to note 4.2.

29. Provisions

	Note	2019 Power station-related environmental restoration[1] Nuclear plant Rm	2019 Power station-related environmental restoration[1] Other generating plant Rm	2019 Mine-related closure, pollution control and rehabilitation[1] Rm	2019 Coal-related obligations[2] Rm	2019 Other Rm	2019 Total Rm	2018 Total Rm
Group								
Balance at beginning of the year		15 928	13 375	12 737	3 398	4 241	49 679	53 078
Charged to income statement		420	91	39	(2 458)	409	(1 499)	(2 259)
Raised		534	147	149	–	772	1 602	1 823
Reversed		–	(13)	(77)	(2 429)	(358)	(2 877)	(4 564)
Change in discount rate		(114)	(43)	(33)	(29)	(5)	(224)	482
Capitalised to property, plant and equipment	8	(75)	(222)	–	–	1 626	1 329	881
Raised		–	14	–	–	6 851	6 865	5 296
Reversed		–	(127)	–	–	(5 225)	(5 352)	(4 693)
Change in discount rate		(75)	(109)	–	–	–	(184)	278
Capitalised to future fuel supplies	10	–	–	475	–	–	475	51
Raised		–	–	1 318	–	–	1 318	39
Reversed		–	–	(782)	–	–	(782)	(7)
Change in discount rate		–	–	(61)	–	–	(61)	19
Capitalised to inventories	20	173	–	10	–	–	183	258
Raised		173	–	67	–	–	240	277
Reversed		–	–	(57)	–	–	(57)	(19)
Finance cost	41	1 494	1 216	965	230	35	3 940	4 095
Cash paid		(143)	–	(320)	(846)	(1 548)	(2 857)	(6 425)
Balance at end of the year		17 797	14 460	13 906	324	4 763	51 250	49 679
Maturity analysis		17 797	14 460	13 906	324	4 763	51 250	49 679
Non-current		17 590	14 460	13 192	–	346	45 588	44 370
Current		207	–	714	324	4 417	5 662	5 309

1. *Refer to note 4.4 for critical accounting estimates and assumptions.*
2. *Refer to note 4.5 for critical accounting estimates and assumptions.*

29. Provisions (continued)

	Note	2019 Power station-related environmental restoration[1] Nuclear plant Rm	Other generating plant Rm	Mine-related closure, pollution control and rehabilitation[1] Rm	Coal-related obligations[2] Rm	Other Rm	Total Rm	2018 Total Rm
Company								
Balance at beginning of the year		15 928	13 375	12 737	3 398	4 115	49 553	52 481
Charged to income statement		420	91	39	(2 458)	399	(1 509)	(1 813)
Raised		534	147	149	–	705	1 535	1 784
Reversed		–	(13)	(77)	(2 429)	(301)	(2 820)	(4 079)
Change in discount rate		(114)	(43)	(33)	(29)	(5)	(224)	482
Capitalised to property, plant and equipment	8	(75)	(222)	–	–	1 626	1 329	881
Raised		–	14	–	–	6 851	6 865	5 296
Reversed		–	(127)	–	–	(5 225)	(5 352)	(4 693)
Change in discount rate		(75)	(109)	–	–	–	(184)	278
Capitalised to future fuel supplies	10	–	–	475	–	–	475	51
Raised		–	–	1 318	–	–	1 318	39
Reversed		–	–	(782)	–	–	(782)	(7)
Change in discount rate		–	–	(61)	–	–	(61)	19
Capitalised to inventories	20	173	–	10	–	–	183	258
Raised		173	–	67	–	–	240	277
Reversed		–	–	(57)	–	–	(57)	(19)
Finance cost	41	1 494	1 216	965	230	35	3 940	4 095
Cash paid		(143)	–	(320)	(846)	(1 548)	(2 857)	(6 400)
Balance at end of the year		17 797	14 460	13 906	324	4 627	51 114	49 553
Maturity analysis		17 797	14 460	13 906	324	4 627	51 114	49 553
Non-current		17 590	14 460	13 192	–	316	45 558	44 359
Current		207	–	714	324	4 311	5 556	5 194

30. Finance lease payables

	2019 Gross payables Rm	2019 Future finance charges Rm	2019 Carrying value Rm	2018 Gross payables Rm	2018 Future finance charges Rm	2018 Carrying value Rm
Group and company						
Non-current	18 389	(9 259)	9 130	26 680	(17 147)	9 533
Between one and five years	6 876	(4 969)	1 907	8 618	(6 964)	1 654
After five years	11 513	(4 290)	7 223	18 062	(10 183)	7 879
Current						
Within one year	1 729	(1 397)	332	2 102	(1 816)	286
	20 118	(10 656)	9 462	28 782	(18 963)	9 819

The average implicit interest rate for the group and company was 15% (2018:15%). The lease payables are payable on a monthly basis over a maximum period of 15 years.

1. *Refer to note 4.4 for critical accounting estimates and assumptions.*
2. *Refer to note 4.5 for critical accounting estimates and assumptions.*

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
31. Trade and other payables					
Financial instruments		36 785	32 431	38 217	33 316
Trade and other payables		23 621	20 065	24 094	20 774
Accruals		8 507	8 194	9 466	8 370
Deposits		4 657	4 172	4 657	4 172
Non-financial instruments					
VAT		1 095	886	1 022	829
		37 880	33 317	39 239	34 145
Maturity analysis		37 880	33 317	39 239	34 145
Non-current		1 031	1 201	1 031	1 201
Current		36 849	32 116	38 208	32 944
32. Revenue					
Redistributors[1]		71 265	70 234	71 265	70 234
Invoiced to customers		77 231	72 935	77 231	72 935
Amounts not meeting collectability criteria	19	(8 438)	(3 059)	(8 438)	(3 059)
Recognised on a cash received basis	19	2 472	358	2 472	358
Residential		5 490	5 435	5 490	5 435
Invoiced to customers		5 966	6 011	5 966	6 011
Amounts not meeting collectability criteria	19	(476)	(576)	(476)	(576)
Industrial		36 168	33 996	36 168	33 996
Mining		26 550	26 277	26 550	26 277
Commercial		12 385	11 726	12 385	11 726
Agricultural		8 682	8 154	8 682	8 154
International		8 241	9 530	8 241	9 530
Rail		3 119	3 151	3 119	3 151
Public lighting		160	179	160	179
Post-paid electricity sales		172 060	168 682	172 060	168 682
Prepaid electricity sales		8 645	8 395	8 645	8 395
Total electricity sales		180 705	177 077	180 705	177 077
Connections		2 300	900	2 300	900
Other		280	1 619	280	1 619
Gross revenue		183 285	179 596	183 285	179 596
Capitalised to property, plant and equipment		(3 393)	(2 172)	(3 393)	(2 172)
		179 892	177 424	179 892	177 424

Sales of electricity to local customers are included in the group customer services operating segment. International sales are included in the energy purchases/sales segment. Other revenue consists of reconnection fees and ad hoc sundry revenue. Connections occur mainly within the transmission and distribution operating segments. Refer to note 50 for details regarding the adoption of IFRS 15.

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
33. Other income					
Insurance proceeds		24	–	1 189	674
Services income		284	290	–	–
Management fee income		–	–	131	110
Operating lease income		360	336	257	244
Dividend income		49	37	35	27
Other		1 433[2]	709	1 461[2]	732
		2 150	1 372	3 073	1 787

1. Represents metropolitan and municipal customers.
2. Includes R902 million recovery from a supplier.

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
34. Primary energy					
Own generation costs		70 796	62 957	70 796	62 957
Generation costs		62 991	54 896	62 991	54 896
Environmental levy	47	7 805	8 061	7 805	8 061
International electricity purchases		3 740	2 768	3 740	2 768
Independent power producers		24 952	19 317	24 952	19 317
Other		–	160	–	160
		99 488	85 202	99 488	85 202

Generation costs relate to the cost of coal (including logistics), uranium, water and liquid fuels that are used in the generation of electricity. Eskom uses a combination of short-, medium- and long-term agreements with suppliers for coal purchases and long-term agreements with the Department of Water Affairs to reimburse the department for the cost incurred in supplying water to Eskom.

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
35. Employee benefit expense					
Salaries		24 850	23 180	22 415	20 999
Overtime		2 237	2 069	1 815	1 696
Annual bonus		1 370	1 179	1 199	1 028
Post-employment medical benefits		617	656	609	646
Leave		859	833	809	773
Performance bonus		–	(439)	–	(426)
Pension benefits		2 421	1 348	2 192	1 172
Direct costs of employment		32 354	28 826	29 039	25 888
Direct training and development		116	155	91	121
Temporary and contract staff costs		2 831	2 806	695	855
Other staff costs		1 357	868	1 177	792
Gross employee benefit expense		36 658	32 655	31 002	27 656
Capitalised to property, plant and equipment		(3 386)	(3 201)	(3 386)	(3 201)
		33 272	29 454	27 616	24 455

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
36. Impairment of assets					
36.1 Financial assets					
Loans receivable		31	18	40	–
Finance lease receivables		3	–	3	–
Trade and other receivables	19	(309)	517	(295)	510
Insurance investments		5	–	–	–
		(270)	535	(252)	510
Bad debts recovered – trade and other receivables		(8)	(7)	(8)	(7)
		(278)	528	(260)	503
36.2 Other assets					
Raised		15	64	15	64
Property, plant and equipment	8	–	58	–	58
Inventories	20	15	6	15	6
Reversed					
Property, plant and equipment	8	(168)	(39)	(168)	(39)
		(153)	25	(153)	25

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
37. Other expenses					
Managerial, technical and other fees		743	709	709	651
Operating lease expense		1 277	1 040	680	357
Auditors' remuneration[1]		156	149	144	136
Net loss on disposal of property, plant and equipment and intangible assets		318	148	640	147
Repairs and maintenance, transport and other expenses		15 720	16 182	24 846	24 307
		18 214	18 228	27 019	25 598

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
38. Depreciation and amortisation expense					
Depreciation of property, plant and equipment	8	30 511	23 721	30 440	23 722
Amortisation of intangible assets	9	454	461	431	438
Contract liabilities and deferred income recognised (government grant)	27.2	(1 209)	(1 050)	(1 209)	(1 050)
		29 756	23 132	29 662	23 110

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
39. Net fair value and foreign exchange loss on financial instruments					
Gain/(loss) on instruments carried at fair value		21 335	(10 855)	21 377	(10 962)
Financial trading assets		4	80	4	80
Financial trading liabilities		(18)	(53)	(18)	(53)
Insurance investments		(46)	109	–	–
Derivatives held for risk management	16	19 538	(11 114)	19 534	(11 112)
Embedded derivatives		1 857	123	1 857	123
(Loss)/gain on foreign currency translation of instruments carried at amortised cost		(24 118)	9 426	(24 119)	9 433
Trade and other receivables		3	(5)	–	(5)
Cash and cash equivalents		620	10	620	10
Trade and other payables		(119)	(114)	(117)	(107)
Debt securities and borrowings		(24 622)	9 535	(24 622)	9 535
Amounts recycled from cash flow hedge reserve		(626)	(346)	(626)	(346)
Amortisation of effective portion of terminated cash flow hedges		324	324	324	324
Ineffective portion of cash flow hedges		(950)	(670)	(950)	(670)
		(3 409)	(1 775)	(3 368)	(1 875)

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
40. Finance income					
Treasury investments		–	199	–	199
Financial trading assets		3	–	3	–
Insurance investments		601	571	–	–
Loans receivable		865	865	461	468
Finance lease receivables		51	56	51	56
Trade and other receivables		347	461	347	461
Invoiced to customers		2 940	2 598	2 940	2 598
Amounts not meeting collectability criteria	19	(2 593)	(2 137)	(2 593)	(2 137)
Cash and cash equivalents		855	720	817	690
		2 722	2 872	1 679	1 874

1. *There were no non-audit services rendered by the group's statutory auditors.*

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
41. Finance cost					
Debt securities and borrowings		31 845	27 577	31 997	27 729
Eskom bonds		12 895	12 154	12 895	12 154
Promissory notes		–	19	–	19
Commercial paper		263	502	299	532
Eurorand zero coupon bonds		689	661	689	661
Foreign bonds		4 538	3 389	4 538	3 389
Development financing institutions		8 825	7 533	8 825	7 533
Export credit facilities		1 647	1 673	1 647	1 673
Floating rate notes		373	5	373	5
Other loans		2 615	1 641	2 731	1 763
Derivatives held for risk management		6 218	5 947	6 218	5 947
Employee benefit obligations	28	1 533	1 677	1 498	1 637
Provisions	29	3 940	4 095	3 940	4 095
Finance lease payables		1 444	1 835	1 444	1 835
Trade and other payables		637	377	636	377
Gross finance cost		45 617	41 508	45 733	41 620
Capitalised to property, plant and equipment	8	(15 378)	(15 547)	(15 378)	(15 547)
		30 239	25 961	30 355	26 073

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
42. Income tax					
Recognised in profit or loss					
Current tax		412	664	–	–
Deferred tax	13	(8 831)	(930)	(9 262)	(1 148)
Reversal of temporary differences		6 052	14 645	5 608	14 427
Tax losses		(14 883)	(15 575)	(14 870)	(15 575)
		(8 419)	(266)	(9 262)	(1 148)
Reconciliation between standard and effective tax rate:					
R million					
Taxation income at standard rate		(8 161)	(729)	(9 086)	(1 612)
Non-taxable income[1]		(484)	(185)	(458)	(170)
Expenses not deductible for tax purposes[2]		226	648	282	634
Taxation income per the income statement		(8 419)	(266)	(9 262)	(1 148)
%					
Taxation income at standard rate		28.00	28.00	28.00	28.00
Non-taxable income[1]		1.66	7.11	1.41	2.95
Expenses not deductible for tax purposes[2]		(0.78)	(24.89)	(0.87)	(11.01)
Taxation income per the income statement		28.88	10.22	28.54	19.94

1. *Non-taxable income in 2019 includes a recovery from a supplier with a tax impact of R253 million.*
2. *Non-deductible expenditure in 2018 includes amounts under investigation with a tax impact of R392 million.*

	2019			2018		
	Before tax Rm	Tax Rm	Net of tax Rm	Before tax Rm	Tax Rm	Net of tax Rm
Recognised in other comprehensive income						
Group						
Cash flow hedges	3 309	(926)	2 383	(6 357)	1 781	(4 576)
Net change in fair value	2 964	(830)	2 134	(5 700)	1 596	(4 104)
Net amount transferred to profit or loss	626	(175)	451	346	(96)	250
Net amount transferred to initial carrying amount of hedged items	(281)	79	(202)	(1 003)	281	(722)
Foreign currency translation differences	50	–	50	(25)	–	(25)
Re-measurement of post-employment medical benefits	1 737	(485)	1 252	1 850	(518)	1 332
	5 096	(1 411)	3 685	(4 532)	1 263	(3 269)
Company						
Available-for-sale financial assets						
Net change in fair value	–	–	–	(3)	1	(2)
Cash flow hedges	3 309	(926)	2 383	(6 357)	1 781	(4 576)
Changes in fair value	2 964	(830)	2 134	(5 700)	1 596	(4 104)
Net amount transferred to profit or loss	626	(175)	451	346	(96)	250
Net amount transferred to initial carrying amount of hedged items	(281)	79	(202)	(1 003)	281	(722)
Re-measurement of post-employment medical benefits	1 698	(475)	1 223	1 802	(505)	1 297
	5 007	(1 401)	3 606	(4 558)	1 277	(3 281)

43. Cash generated from operations

	Group		Company	
	2019 Rm	2018 Rm	2019 Rm	2018 Rm
Loss before tax	(29 148)	(2 603)	(32 451)	(5 756)
Adjustments for:	58 712	44 710	59 974	46 193
Depreciation and amortisation expense	29 756	23 132	29 662	23 110
Depreciation expense – primary energy	16	16	16	16
Impairment of financial and other assets (excluding bad debts recovered)	(423)	560	(405)	535
Net fair value loss on financial instruments	3 409	1 775	3 368	1 875
Net loss on disposal of property, plant and equipment	318	148	640	147
Transfer of assets from non-electricity purchasing customers	(1 267)	(737)	(1 267)	(737)
Dividend income	(49)	(37)	(35)	(27)
Increase in employee benefit obligations	1 909	233	1 796	164
Decrease in provisions	(1 499)	(2 259)	(1 509)	(1 813)
Decrease in contract liabilities and deferred income	(172)	(163)	(172)	(163)
Payments made in advance recognised in profit or loss	330	380	302	274
Payments received in advance recognised in profit or loss	(1 098)	(1 393)	(1 098)	(1 387)
Finance income	(2 722)	(2 872)	(1 679)	(1 874)
Finance cost	30 239	25 961	30 355	26 073
Share of profit of equity-accounted investees	(35)	(34)	–	–
	29 564	42 107	27 523	40 437
Changes in working capital:	3 693	(2 448)	4 800	(2 580)
Payments made in advance	(137)	(345)	(134)	(329)
(Decrease)/increase in inventories	(496)	747	(176)	770
Increase in trade and other receivables	(1 437)	(944)	(1 311)	(969)
Increase/(decrease) in trade and other payables	4 088	(46)	4 621	(530)
Expenditure incurred on employee benefit obligations	(1 884)	(4 229)	(1 774)	(3 909)
Expenditure incurred on provisions	(1 150)	(1 637)	(1 150)	(1 612)
Payments received in advance	4 709	4 006	4 724	3 999
	33 257	39 659	32 323	37 857

44. Net debt reconciliation

	Debt securities and borrowings[1] Rm	Finance lease payables[2] Rm	Treasury investments Rm	Financial trading assets[3] Rm	Financial trading liabilities[3] Rm	Derivatives held for risk management[4] Rm	Payments made in advance[5] Rm	Cash and cash equivalents[6] Rm	Net debt Rm
Group									
Balance at 1 April 2017	355 300	10 065	(6 704)	(1 730)	1 620	(9 188)	(1 379)	(20 425)	327 559
Net cash increase/(decrease)	40 686	(246)	6 586	1 459	(1 241)	(1 824)	(929)	4 376	48 867
Net fair value and foreign exchange (gains)/losses	(9 535)	–	3	(80)	53	16 082	–	(10)	6 513
Foreign currency translation	–	–	–	–	–	–	–	25	25
Assets and liabilities held-for-sale	–	–	–	–	–	–	–	211	211
Other movements	2 233	–	115	183	(183)	(10)	1 158	–	3 496
Balance at 31 March 2018	388 684	9 819	–	(168)	249	5 060	(1 150)	(15 823)	386 671
Net cash increase/(decrease)	24 459	(357)	–	10	(29)	1 219	(1 179)	14 395	38 518
Net fair value and foreign exchange losses/(gains)	24 622	–	–	(4)	18	(22 121)	–	(620)	1 895
Foreign currency translation	–	–	–	–	–	–	–	(50)	(50)
Assets and liabilities held-for-sale	–	–	–	–	–	–	–	67	67
Other movements	2 845	–	–	–	–	153	721	–	3 719
Balance at 31 March 2019	440 610	9 462	–	(162)	238	(15 689)	(1 608)	(2 031)	430 820
Company									
Balance at 1 April 2017	358 707	10 065	(6 704)	(1 730)	1 620	(9 188)	(1 379)	(19 964)	331 427
Net cash increase/(decrease)	41 170	(246)	6 586	1 459	(1 241)	(1 824)	(929)	4 603	49 578
Net fair value and foreign exchange (gains)/losses	(9 535)	–	3	(80)	53	16 082	–	(10)	6 513
Other movements	2 243	–	115	183	(183)	(10)	1 158	(8)	3 498
Balance at 31 March 2018	392 585	9 819	–	(168)	249	5 060	(1 150)	(15 379)	391 016
Net cash increase/(decrease)	25 032	(357)	–	10	(29)	1 219	(1 179)	14 485	39 181
Net fair value and foreign exchange losses/(gains)	24 622	–	–	(4)	18	(22 121)	–	(620)	1 895
Assets and liabilities held-for-sale	–	–	–	–	–	–	–	(3)	(3)
Other movements	2 808	–	–	–	–	153	721	–	3 682
Balance at 31 March 2019	445 047	9 462	–	(162)	238	(15 689)	(1 608)	(1 517)	435 771

1. Refer to note 25.
2. Refer to note 30.
3. Refer to note 14.2.
4. Refer to note 16 (hedge exposure covering debt securities and borrowings).
5. Refer to note 18 (securing debt raised).
6. Refer to note 21.

45. Guarantees and contingent liabilities

	Unit	Group 2019	Group 2018	Company 2019	Company 2018

45.1 Financial guarantees

Long-term debt raised by Motraco

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. Motraco has raised debt as part of these operations maturing on 30 April 2019. Eskom has guaranteed a portion of this debt.

The guarantees would be triggered if Motraco was unable to meet its obligations in terms of the long-term debt agreement. 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.

	Unit	Group 2019	Group 2018	Company 2019	Company 2018
Guarantee issued	USDm	2	5	2	5
Default probability	%	1.05	1.05	1.05	1.05
Guaranteed contract value	Rm	22	54	22	54
Financial guarantee	Rm	–	1	–	1

There was a contingent liability of R53 million for group and company in 2018.

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.

EFC loans to group employees

EFC has granted loans (secured by mortgage bonds on the properties) to qualifying employees of the group. Eskom has issued guarantees to EFC to the extent to which the loan values of employees exceed the current value of the mortgage security.

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.

	Unit	Group 2019	Group 2018	Company 2019	Company 2018
Guarantee issued/contract value	Rm	–	–	1 032	1 069
Default probability	%	–	–	0.29	0.13
Financial guarantee	Rm	–	–	3	1

There was a contingent liability of R1 068 million in the company in 2018. Changes in variables will not have a significant impact on profit or loss.

Summary of financial guarantees

	Unit	Group 2019	Group 2018	Company 2019	Company 2018
Total guaranteed contract value	Rm	22	54	1 054	1 123
Total financial guarantee	Rm	–	1	3	2

45.2 Other guarantees

Guarantees to South African Revenue Services (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). 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.

	Unit	Group 2019	Group 2018	Company 2019	Company 2018
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	Rm	156	156	156	156

Eskom Pension and Provident Fund (EPPF)

Eskom has indemnified the EPPF against any loss resulting from negligence, dishonesty or fraud by the fund's officers or trustees.

45.3 Other contingent liabilities

Legal claims

	Unit	Group 2019	Group 2018	Company 2019	Company 2018
Legal claims are in process against Eskom as a result of disputes with various parties. On the basis of the evidence available it appears that no obligation is present. The claims are disclosed as a contingent liability and amounted to	Rm	106	15	106	15

46. Commitments

	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
46.1 Capital expenditure				
Contracted capital expenditure	35 535	46 298	35 515	46 269
Within one year	15 691	20 925	15 671	20 896
One and five years	19 773	25 373	19 773	25 373
After five years	71	–	71	–

Capital expenditure excludes finance costs capitalised and foreign currency fluctuations.

The capital expenditure will be financed through debt with government support and internally generated funds.

The capital programme will be reviewed and reprioritised by management in line with the funds available.

	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
46.2 Operating leases				
As lessee				
The future minimum lease payments payable under non-cancellable operating leases are:	176	158	176	158
Within one year	91	78	91	78
One to five years	85	80	85	80
As lessor				
The future minimum lease payments receivable under non-cancellable operating leases are:	6	55	6	55
Within one year	3	52	3	52
One to five years	3	3	3	3

47. Related-party transactions and balances

The group is wholly owned by the government represented by the DPE. Eskom (and its subsidiaries) are classified as schedule 2 public entities in terms of the PFMA. Eskom is part of the national sphere of government and its related parties in that sphere include national departments (including the shareholder), constitutional institutions and public entities (schedule 1, 2 and 3). A list of related parties is provided by National Treasury on its website www.treasury.gov.za.

Related parties also include subsidiaries, associates and joint ventures of the group and post-retirement benefit plans for the benefit of employees. It also includes key management personnel of Eskom or its shareholder and close family members of these related parties. Key management personnel for Eskom include the group's board of directors and the Exco. Disclosure of related-party transactions with key management personnel is included in note 49.

The following transactions were carried out with related parties:

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Transactions					
Sales of goods and services[1]		11 797	11 227	13 112	12 074
National departments		1 148	1 181	1 148	1 181
Public entities		6 937	6 525	6 868	6 501
Subsidiaries, associates and joint ventures		3 712	3 521	5 096	4 392
Government grant funding received for electrification					
National departments		2 841	3 399	2 841	3 399
Purchases of goods and services[1]		8 608	7 648	19 524	18 964
Constitutional institutions		8	8	8	8
National departments		1 671	1 738	1 671	1 738
Public entities		4 337	3 537	3 818	2 879
Subsidiaries, associates and joint ventures		171	211	11 835	12 361
Eskom Pension and Provident Fund		2 421	2 154	2 192	1 978
Net fair value (loss)/gain on derivatives held for risk management					
Subsidiaries, associates and joint ventures		–	–	(4)	2
Finance income		142	367	603	835
National departments		9	93	9	93
Public entities		133	274	133	274
Subsidiaries, associates and joint ventures		–	–	461	468
Finance cost[2]		7 856	8 197	8 159	8 498
National departments		8	9	8	9
Public entities		7 682	8 024	7 682	8 024
Subsidiaries, associates and joint ventures		–	–	303	301
Eskom Pension and Provident Fund		166	164	166	164
Dividend income					
Subsidiaries, associates and joint ventures		34	26	34	26
Lease income		62	60	66	64
Public entities		62	60	62	60
Subsidiaries, associates and joint ventures		–	–	4	4
Lease expenses		7	20	10	23
National departments		–	12	–	12
Public entities		7	8	7	8
Subsidiaries, associates and joint ventures		–	–	3	3
Environmental levy					
Public entities	34	7 805	8 061	7 805	8 061

1. *Goods and services are bought and sold to related parties at an arm's length basis at market-related prices.*
2. *Bonds are bearer instruments and it is therefore unknown if the initial counterparty still holds the bonds. Transactions in the secondary market where Eskom is not the counterparty are therefore excluded.*

47. Related-party transactions and balances (continued)

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Outstanding balances (due by related parties)					
Receivables and amounts owed by related parties		2 236	1 191	3 530	2 568
National departments		100	140	100	140
Public entities		1 808	737	1 650	515
Subsidiaries, associates and joint ventures		328	314	1 780	1 913
Payments made in advance					
Public entities		8	–	8	–
Loans receivable					
Subsidiaries, associates and joint ventures[1]		–	–	6 111	6 201
Derivative assets held for risk management					
Subsidiaries, associates and joint ventures		–	–	–	2
Indirect transactions – assets at nominal value					
National departments		103	139	103	139
Total due by related parties		2 347	1 330	9 752	8 910
Cash and cash equivalents					
Public entities		–	10 061	–	10 061
Outstanding balances (due to related parties)					
Debt securities and borrowings		122 657	122 310	127 141	126 263
National departments		17	17	17	17
Public entities		119 789	119 567	119 789	119 567
Subsidiaries, associates and joint ventures[2]		–	–	4 484	3 953
Eskom Pension and Provident Fund		2 851	2 726	2 851	2 726
Payables[3] and amounts owed to related parties		3 537	2 914	5 861	4 863
Constitutional institutions		6	–	6	–
National departments		405	491	405	491
Public entities		2 939	2 203	2 804	2 145
Subsidiaries, associates and joint ventures		8	45	2 467	2 052
Eskom Pension and Provident Fund		179	175	179	175
Payments received in advance		1 041	1 298	1 057	1 298
National departments		1 041	988	1 041	988
Public entities		–	310	–	310
Subsidiaries, associates and joint ventures		–	–	16	–
Indirect transactions – liabilities at nominal value					
National departments		57	9	57	9
Total due to related parties		127 292	126 531	134 116	132 433
Guarantees					
Refer to note 5.3.2 for details of guarantees received and used.					
Guarantees issued contract value		178	210	1 210	1 279
National departments	45.2	156	156	156	156
Subsidiaries, associates and joint ventures	45.1	22	54	1 054	1 123

Commitments

Eskom does not have any material commitments with its related parties.

1. *The effective interest rate on the loans to subsidiaries is 7.74% (2018: 7.55%).*
2. *Refer to note 25 for effective interest rate and maturity date relating to intercompany instruments.*
3. *Purchase transactions with related parties are on an arm's length basis with payment terms of 30 days from invoice date.*

48. Events after the reporting date

The group chief executive resigned effective 31 July 2019.

Eskom received R5 billion on 2 April 2019 and R8.5 billion on 29 April 2019 as part of the support from government.

The President announced in the State of the Nation address delivered on 20 June 2019 that government will urgently table a special appropriation bill to allocate a significant portion of the R230 billion fiscal support that Eskom requires over the next 10 years in earlier years as Eskom is seen as vital to the economy of the country.

49. Directors' remuneration

The background to directors' remuneration and an overview of the main provisions of the remuneration policy is included in the remuneration and benefits section in the integrated report. The details of the board (governing body) and executive management remuneration are included in this note. The details regarding the appointments, resignations and other changes in roles of directors during the year are included in the directors' report.

The total remuneration earned (single total figure of remuneration) reflects earnings attributable to the performance delivered during the year, while the total cash value reflects the earnings received by each incumbent during the year. The cash value is calculated by removing the value earned but not settled in the current year while the cash value earned but not settled from the prior year that was subsequently settled during the year is added back.

49.1 Executive directors and group executives

The remuneration of the group chief executive and the chief financial officer (executive directors) and Exco members (group executives) are disclosed below. Eskom's prescribed officers are the group executives. The group chief executive and the chief financial officer have fixed term contracts. The group executives have permanent contracts based on Eskom's standard conditions of service. NB Hewu and SJ Mthembu were appointed on standard full-time contracts.

The emoluments for the executives of the group were as follows:

Name	Salaries R'000	Notice payment R'000	Other payments R'000	Total remuneration earned R'000	Prior year cash value earned paid R'000	Total cash value of remuneration R'000
2019						
Executive directors	11 651	–	210	11 861	–	11 861
PS Hadebe	8 521	–	94	8 615	–	8 615
C Cassim	3 130	–	116	3 246	–	3 246
Group executives	24 490	18 743	763	43 996	–	43 996
JA Oberholzer	3 900	–	53	3 953	–	3 953
A Etzinger	399	–	12	411	–	411
T Govender	3 297	939	94	4 330	–	4 330
NB Hewu	850	–	–	850	–	850
WF Majola	1 882	3 849	117	5 848	–	5 848
AA Masango	2 271	1 223	54	3 548	–	3 548
SJ Mthembu	850	–	–	850	–	850
A Noah	2 541	6 372	120	9 033	–	9 033
MM Ntsokolo	2 912	6 360	139	9 411	–	9 411
EM Pule	3 339	–	133	3 472	–	3 472
HJ Steyn	290	–	13	303	–	303
MS Tshitangano	580	–	10	590	–	590
N Zibi	1 379	–	18	1 397	–	1 397
	36 141	18 743	973	55 857	–	55 857

49. Directors' remuneration (continued)

49.1 Executive directors and group executives (continued)

Name	Salaries R'000	Notice payment R'000	Other payments R'000	Total remuneration earned R'000	Prior year cash value earned paid R'000	Total cash value of remuneration R'000
2018						
Executive directors	7 461	2 564	907	10 932	3 989	14 921
PS Hadebe	1 649	–	4	1 653	–	1 653
C Cassim	1 649	–	84	1 733	–	1 733
B Molefe	–	–	–	–	2 110	2 110
A Singh	4 163	2 564	819	7 546	1 879	9 425
Group executives	32 719	–	2 488	35 207	16 409	51 616
JA Dladla	1 070	–	151	1 221	–	1 221
T Govender	3 956	–	128	4 084	2 731	6 815
P Govender	2 445	–	511	2 956	–	2 956
MM Koko	3 714	–	346	4 060	2 623	6 683
WF Majola	2 509	–	85	2 594	–	2 594
S Maritz	3 061	–	464	3 525	1 569	5 094
AA Masango	3 617	–	126	3 743	2 138	5 881
A Noah	3 388	–	94	3 482	2 428	5 910
MM Ntsokolo	3 883	–	378	4 261	2 878	7 139
EM Pule	3 339	–	98	3 437	2 042	5 479
MP Sebola	591	–	69	660	–	660
HJ Steyn	456	–	29	485	–	485
N Zibi	690	–	9	699	–	699
	40 180	2 564	3 395	46 139	20 398	66 537

Salaries

Salaries consist of a guaranteed package that includes Eskom's medical and pension fund contributions. No fees were paid to executives who serve on the boards of Eskom subsidiaries.

Short-term bonus

If applicable, a short-term incentive bonus is paid after year end. No short-term bonuses were awarded in the year.

PS Hadebe decided to forgo any payment relating to performance incentive conditions attached to his appointment that vested during the 2019 financial year in light of Eskom's financial situation.

Long-term bonus

If applicable, a long-term incentive bonus is paid after year end in cash and consists of the vested amount in a reporting period. The long-term bonus is based on units that are awarded in terms of the long-term incentive scheme to reward performance in line with performance conditions and targets over a three-year performance period. The number of units that vest may differ from the number awarded depending on the achievement of performance conditions. The scheme requires that the employee remains in Eskom's employment throughout the vesting period. These units are not in the scope of IFRS 2 *Share-based payment* as the performance award is not linked to a share or a share price.

Awards vested

Name	Vested on 31 March 2019 Awarded units	Vested on 31 March 2019 Payable R'000	Vested on 31 March 2018 Awarded units	Vested on 31 March 2018 Paid R'000
T Govender	–	–	2 574 094	–
AA Masango	–	–	1 624 104	–
A Noah	2 684 480	–	2 556 648	–
MM Ntsokolo	3 076 945	–	2 930 405	–
EM Pule	2 646 000	–	1 791 402	–
	8 407 425	–	11 476 653	–

Bonus units awarded on 1 April 2016 vested on 31 March 2019 with a vesting rate over the three-year period of 38.07% payable at R1.27 per unit. The board applied its discretion and resolved that the awards vested at 0% due to the current financial constraints Eskom finds itself in.

Bonus units awarded on 1 April 2015 vested on 31 March 2018 with a vesting rate over the three-year period of 38.73% payable at R1.26 per unit. The board applied its discretion and resolved that the awards vested at 0% due to the current financial constraints Eskom finds itself in.

Awards to vest
No performance awards were issued for the 1 April 2017 and 2018 cycles (that would have vested on 31 March 2020 and 31 March 2021 respectively) due to Eskom's current financial constraints.

Long-term bonus provision movement reconciliation

	2019 R'000	2018 R'000
Balance at beginning of the year	5 451	26 348
Service cost accrued	1 744	6 040
Effect of changes in rates of vesting including board's discretionary adjustments	(4 868)	(6 630)
Forfeited	(2 327)	(12 749)
Settled	–	(7 558)
Balance at end of the year	–	5 451
Notice payment		
Payments in terms of contractual agreements	18 743	2 564
Other payments		
Other payments consist of accumulated leave paid out on resignation and fees related to telephone costs, security services and operating vehicle expenditure.	973	3 395
Housing loans		
C Cassim	3 094	2 955
AA Masango	–	495
HJ Steyn	1 699	1 565
A Etzinger	74	–
	4 867	5 015

Home loan balances are disclosed when an individual is in the role of an executive director and group executive (even if they were only in that capacity for a portion of the year). The interest rate on the loans from EFC at 31 March 2019 was 8.50% (2018: 8.50%). The loans are repayable over a maximum period of 30 years. The terms and conditions applicable to ex-employees are applied on resignation.

49.2 Non-executive directors

Non-executive directors receive a fixed fee and are reimbursed for out-of-pocket expenses incurred in fulfilling their duties. Their emoluments were as follows:

	2019 R'000	2018 R'000
JA Mabuza (Chairman)	1 599	–
RDB Crompton	524	101
RSN Dabengwa	489	95
SD Dingaan	–	464
S Gounden	–	460
ZW Khoza	–	941
VJ Klein	–	120
M Lamberti[1]	(110)	110
GM Leonardi	–	452
SN Mabaso-Koyana	607	115
C Mabude	–	232
NVB Magubane	489	95
MW Makgoba	717	233
BCE Makhubela	489	543
B Mavuso	593	112
PE Molokwane	578	640
TH Mongalo	593	196
P Naidoo	–	759
BS Ngubane	–	257
J Sebulela	289	101
	6 857	6 026

1. *Fees earned repaid to Eskom on 16 April 2018.*

50. New standards and interpretations

50.1 Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, interpretations and amendments to existing standards have been published that are applicable for future accounting periods that have not been adopted early by the group. These standards and interpretations will be applied in the first year that they are applicable to Eskom.

Topic	Summary of requirements	Impact
IFRIC 23 *Uncertainty over income tax treatments* (1 January 2019)	IFRIC 23 clarifies that where it is unclear how tax law applies to a particular transaction or circumstance, an entity will have to assess whether it is probable that the tax authority will accept the entity's chosen tax treatment. Where it is probable that the tax authority may not accept the chosen tax treatment, disclosure about judgements made, assumptions and other estimates used; and the potential impact of uncertainties that are not reflected may be required. The interpretation also requires the entity to reassess the judgements and estimates applied if the facts and circumstances change	Impact not material. The group is already accounting for uncertainty over income tax treatments in accordance with the guidance
IFRS 16 *Leases* (1 January 2019)	IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an arrangement contains a lease*, SIC-15 *Operating leases – incentives* and SIC-27 *Evaluating the substance of transactions involving the legal form of a lease*	The group has evaluated the detailed requirements of the standard to assess the impact on the financial statements. An assessment process has been followed to identify all potential leases to ascertain whether the contracts fall within the scope of IFRS 16 *Leases*. All existing leases are also being reviewed and will be assessed on an individual basis
	Lessee accounting IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation on the right-of-use asset and interest on the lease liability and also classifies cash repayments of the lease liability into principal and interest portions and presents them in the statement of cash flows applying IAS 7 *Statement of cash flows* Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease Lessees will need to apply judgement in deciding on the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee IFRS 16 can be applied using either a retrospective approach or a modified retrospective approach with optional practical expedients for lessees. The lessee will have to apply any elections consistently to all of its leases When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition	The group expects to apply the modified retrospective approach on adoption of IFRS 16 and, as a result, comparative information will not be restated The group expects to apply the following practical expedients: • the present value of the remaining lease payments would be based on a single discount rate on implementation date • existing leases with a remaining period of 12 months will be reported as short-term leases • the underlying assets would not be accounted for as a right-of-use asset for low value leases Rental of property is currently being treated as operational expenditure and it is expected that right-of-use assets and lease liabilities will arise on implementation of IFRS 16 The right-of-use asset for all existing finance leases will be measured using the carrying amount of the finance lease asset and liability under IAS 17 *Leases* It is likely that the current classification of leases in terms of IFRIC 4 *Determining when an arrangement contains a lease* will not be recognised as leases in terms of IFRS 16. The group is currently quantifying the impact of a possible re-classification
	Lessor accounting IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating or finance leases and to account for those two types of leases differently IFRS 16 also requires enhanced disclosures to be provided about a lessor's risk exposure, particularly to residual value risk	All current contracts have been reviewed and the group does not foresee any changes in the current application to lessor accounting under the new standard

Topic	Summary of requirements	Impact
Annual improvements 2017 (1 January 2019)	The annual improvements deal with additional guidance for applying the acquisition method to particular types of business combinations (IFRS 3 *Business combinations*), accounting for acquisitions of interests in joint operations (IFRS 11 *Joint arrangements*), income tax consequences of payments on financial instruments classified as equity (IAS 12 *Income taxes*), and borrowing costs eligible for capitalisation (IAS 23 *Borrowing costs*)	Impact not material. There are currently no business combinations, joint operations or dividends payable The additional guidance on borrowing costs eligible for capitalisation will be applied prospectively from 1 April 2019. The impact is not expected to be significant
Prepayment features with negative compensation – amendments to IFRS 9 (1 January 2019)	The amendment allows that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the relevant requirements of IFRS 9	Impact not material. There are currently no financial assets with prepayment features
Plan amendments, curtailment or settlement – amendments to IAS 19 (1 January 2019)	The amendment to IAS 19 clarifies current service and net interest in the accounting for defined benefit plans	Impact not material. There is currently no amendment, curtailment or settlement of a defined benefit plan
Amendments to references to Conceptual Framework in IFRS standards effective (1 January 2020)	The main changes to the principles in the framework have implications for how and when assets and liabilities are recognised and derecognised in the financial statements. It is expected that inconsistencies between accounting policies and the new guidance will be rare	The group is currently in the process of evaluating the detailed requirements of the improvements to assess the impact on the financial statements
Definition of a business – amendments to IFRS 3 (1 January 2020)	The amendments provide more guidance on the definition of a business. The effect of these changes is that the new definition of a business is narrower. This could result in fewer business combinations being recognised	Impact not material. There are currently no business combinations
Definition of material – amendments to IAS 1 and IAS 8 (1 January 2020)	The definition of 'material' has been refined and practical guidance on applying the concept of materiality has been issued The revised definition of material is: 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'	The adoption of the updated definition and practical guidance is not expected to result in any significant changes based on how materiality has been applied in the current annual financial statements

50. New standards and interpretations (continued)

50.2 Standards, interpretations and amendments to published standards that are effective and applicable to the group

The group has adopted the following new standards, interpretations and amendments to existing standards for the first time for the financial year ended 31 March 2019. The nature and effect of the changes are as follows:

Topic	Summary of requirements	Impact
IFRS 15 *Revenue from contracts with customers* (1 January 2018)	Eskom has applied IFRS 15 (replacing IAS 18 *Revenue*, IAS 11 *Construction contracts* and related interpretations) from 1 April 2018. It establishes a comprehensive framework for determining whether, how much and when revenue is recognised IFRS 15 requires revenue to be recognised when a customer obtains control of the goods or services being supplied. The amount of revenue recognised is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties Eskom has adopted IFRS 15 using the modified retrospective transition election (with the completed contract practical expedient). Under the modified retrospective method: • the comparative period data is presented, as previously reported under IAS 18, IAS 11 and related interpretations • IFRS 15 has been applied to new and existing contracts that were not completed at the date of initial adoption • the cumulative adjustment was recognised in retained earnings as at 1 April 2018 for contracts which were considered not completed as defined as at 31 March 2018	The group disclosed in its interim results that the impact of adopting IFRS 15 did not result in an adjustment to retained earnings due to the application of the practical expedient available for completed contracts. Based on new information on the impact of IFRS 15, cost in terms of IAS 11 stage of completion in a subsidiary were released on incomplete construction contracts on transition. This resulted in a reduction in retained earnings at 1 April 2018 of R262 million with a corresponding reduction in inventory of R315 million and an increase in property, plant and equipment of R52 million. The disclosure presented in the interim results will be corrected for the comparative information in the next interim results If Eskom did not apply the practical expedient available for completed contracts, there would have been a further reduction in retained earnings at 1 April 2018 with a corresponding reduction in trade receivables due to the application of the collectability criterion, as well as an increase in deferred income due to the deferral of customer connections received When compared to the line items that have been presented for 2019, had IAS 18 been applied then revenue (note 32) would have been R2.2 billion higher with a related impairment of R1.3 billion because certain contracts failed the collectability criterion to qualify as an identified contract in terms of IFRS 15. Revenue would also have been R370 million higher and contract liabilities (note 27) R370 million lower because of the change in accounting for customer connections received for connections completed after 1 April 2018. The connections were recognised as revenue in terms of IAS 18 when the customer was connected to the electricity network. The connections are now deferred in terms of IFRS 15 as contract liabilities and recognised in revenue on a straight-line basis over the estimated customer relationship period of 25 years. The tax impact of these items would have resulted in additional tax of R355 million with an overall increase in net profit of R914 million
IFRS 9 *Financial instruments* (1 January 2018)	Eskom has applied IFRS 9 which replaces IAS 39 *Financial instruments: recognition and measurement* from 1 April 2018. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items	The group has adopted the consequential amendments to IAS 1 *Presentation of financial statements* as a result of the adoption of IFRS 9 which requires impairment of financial assets to be presented separately in the statement of profit or loss (previously included under net impairment loss). The consequential amendments to IFRS 7 *Financial instruments: disclosures* were applied in 2019 (no change to comparative information).

Topic	Summary of requirements	Impact
IFRS 9 *Financial instruments* (1 January 2018)	**Classification and measurement of financial assets** IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 includes three principal classification categories for financial assets namely measured at amortised cost, fair value through profit or loss and fair value through other comprehensive income. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale	Financial assets are measured based on their IFRS 9 measurement classification (superseding the IAS 39 classification). The classification is based on the business model in which the financial assets are managed and their contractual cash flow characteristics. Refer to note 2.10 for details of the changes in the classification
	Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. The hybrid financial instrument as a whole is assessed for classification	The impact of the initial adoption of IFRS 9 at 1 April 2018 was as follows: • the impact on finance income as a result of the reclassification of repurchase agreements from fair value through profit or loss to amortised cost was immaterial • the changes in the classification of the negotiable certificate of deposits which were accounted for at available-for-sale (fair value through other comprehensive income) in terms of IAS 39 to amortised cost in terms of IFRS 9 resulted in a reduction of R8 million in the asset, R6 million in retained earnings and R2 million in deferred tax liability
	Impairment of contract and financial assets IAS 39's incurred loss model is replaced in IFRS 9 with an expected credit loss model. The expected credit loss model applies to financial assets measured at amortised cost and is a probability-weighted estimate of credit losses. Credit losses in terms of IFRS 9 are likely to be recognised earlier than previously in terms of IAS 39 The new impairment model will apply to financial assets measured at amortised cost or fair value through other comprehensive income, except for investments in equity instruments and contract assets	The impact of the IFRS 9 impairment requirements at 1 April 2018 was not material. Refer to note 4.7 for more information about the expected credit losses on financial assets.
	Classification of financial liabilities IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities All fair value changes of financial liabilities designated as at fair value through profit or loss are recognised in profit or loss under IAS 39, whereas under IFRS 9 these fair value changes are generally presented as follows: • the change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income • the remaining change in the fair value is presented in profit or loss	The group has not designated any financial liabilities at fair value through profit or loss and there was therefore no impact on the group
	Transition Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below	The group applied the IFRS 9 exemption to not restate the comparative information for the comparative period ending 31 March 2018 with respect to classification and measurement including impairment. IFRS 9 has therefore been applied from 1 April 2018
	Hedge accounting The hedge accounting requirements in IFRS 9 are generally applied prospectively, with limited exceptions. In particular, comparative information may need to be restated for the cost of hedge accounting that is applied retrospectively	The group has elected as its accounting policy, based on the choice presented in IFRS 9, to defer the adoption of the IFRS 9 general hedge accounting model. The group continues to apply the hedge accounting requirements in IAS 39 to all of its hedging relationships. The disclosure requirements relating to hedge accounting as presented in IFRS 9 have been implemented

50. New standards and interpretations (continued)

50.2 Standards, interpretations and amendments to published standards that are effective and applicable to the group (continued)

Topic	Summary of requirements	Impact
Amendments to IFRS 4 applying IFRS 9 with IFRS 4 *Insurance Contracts* (1 January 2018)	This amendment provides for a temporary exemption from IFRS 9 for a reporting company with predominantly insurance activities as the different effective dates of IFRS 9 and the new insurance contracts standard could have a significant impact on insurers	Impact not material. The group did not apply the temporary exemption for its insurance subsidiary
IFRIC 22 *Foreign currency transactions and advance consideration* (1 January 2018)	IFRIC 22 clarifies that the transaction date for the purpose of determining the exchange rate to be used on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or liability arising from the payment or receipt of advance consideration An entity can apply this interpretation either retrospectively or prospectively on initial adoption	Impact not material. The group applied this interpretation prospectively from 1 April 2018

50.3 Impact on the statement of financial position at initial adoption of IFRS 9 and 15 (1 April 2019)

	Group				
	Before implementation Rm	Impact of implementation of: IFRS 9 Rm	IFRS 15 Rm	Total Rm	After implementation Rm
Statement of financial position					
Assets		(8)	(264)	(272)	
Property, plant and equipment	630 648	–	51	51	630 699
Inventories	24 348	–	(315)	(315)	24 033
Insurance investments	8 172	(8)	–	(8)	8 164
Equity		(6)	(192)	(198)	
Available-for-sale reserve	6	(6)	–	(6)	–
Accumulated profit	98 090	–	(192)	(192)	97 898
Liabilities					
Deferred tax	15 846	(2)	(72)	(74)	15 772

There was no impact on the company's statement of financial position on the initial adoption of IFRS 9 and 15.

51. Information required by the Public Finance Management Act

Section 55(2)(b)(i) of the PFMA requires that the particulars of any irregular expenditure, fruitless and wasteful expenditure as well as material losses due to criminal conduct be disclosed in the annual financial statements. Any losses that individually or collectively (where items are closely related) exceed R25 million in terms of the significance and materiality framework, as agreed with the shareholder, have to be reported.

51.1 Irregular expenditure

Irregular expenditure is defined as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation. The scope includes transgressions of any laws and regulations as well as internal policies and procedures regardless of whether or not the expenditure was justified from a business perspective, value was received, the breaches were deliberate or accidental, or the breaches happened unknowingly or in good faith.

Irregular expenditure is incurred when the related transaction is recognised in terms of IFRS. The irregular expenditure is removed from the note when it is either condoned by the relevant authority or recovered.

	Note	Balance at beginning of the year Rm	Expenditure Rm	Condoned Rm	Recovered Rm	Balance at end of the year Rm
2019						
Group						
PFMA		14 369	4 364	–	–	18 733
Use of sole source	(a)	4 997	2 174	–	–	7 171
Tender processes not adhered to	(b)	500	149	–	–	649
Incorrect classification as emergency procurement	(c)	254	69	–	–	323
Tender process not followed and insufficient delegation of authority	(d)	2 070	–	–	–	2 070
Modifications exceeding allowed amounts	(e)	6 548	1 972	–	–	8 520
PPPFA		4 107	224	(144)	–	4 187
Incorrect tender process applied	(f)	912	22	(144)	–	790
Tax clearance certificates	(g)	3 195	202	–	–	3 397
CIDB regulations						
Contracts awarded without following CIDB requirements	(h)	574	797	–	–	1 371
National Treasury instructions						
Contracts not in accordance with National Treasury guidelines	(i)	1 398	–	–	(902)	496
Internal processes and rules						
Internal processes not adhered to	(j)	551	1 208	(951)	–	808
Various commercial requirements						
Breach of more than one commercial requirement	(k)	41	23	–	–	64
Other		8	2	(10)	–	–
		21 048	6 618	(1 105)	(902)	25 659
Company						
PFMA		9 334	2 383	–	–	11 717
Use of sole source	(a)	247	253	–	–	500
Tender processes not adhered to	(b)	311	108	–	–	419
Incorrect classification as emergency procurement	(c)	203	50	–	–	253
Tender process not followed and insufficient delegation of authority	(d)	2 070	–	–	–	2 070
Modifications exceeding allowed amounts	(e)	6 503	1 972	–	–	8 475
PPPFA		3 376	194	–	–	3 570
Incorrect tender process applied	(f)	609	2	–	–	611
Tax clearance certificates	(g)	2 767	192	–	–	2 959
CIDB regulations						
Contracts awarded without following CIDB requirements	(h)	571	797	–	–	1 368
National Treasury instructions						
Contracts not in accordance with National Treasury guidelines	(i)	1 398	–	–	(902)	496
Internal processes and rules						
Internal processes not adhered to	(j)	111	1 125	(662)	–	574
Various commercial requirements						
Breach of more than one commercial requirement	(k)	41	23	–	–	64
Other		8	2	(10)	–	–
		14 839	4 524	(672)	(902)	17 789

51. Information required by the Public Finance Management Act (continued)

51.1 Irregular expenditure (continued)

	Note	Balance at beginning of the year Rm	Expenditure Rm	Condoned Rm	Recovered Rm	Balance at end of the year Rm
2018						
Group						
PFMA		2 340	12 137	(108)	–	14 369
Use of sole source	(a)	40[1]	4 957[1]	–	–	4 997
Tender processes not adhered to	(b)	207	293[1]	–	–	500
Incorrect classification as emergency procurement	(c)	8	354	(108)[1]	–	254
Tender process not followed and insufficient delegation of authority	(d)	2 070	–	–	–	2 070
Modifications exceeding allowed amounts	(e)	15[1]	6 533[1]	–	–	6 548
PPPFA		280	4 421	(594)	–	4 107
Incorrect tender process applied	(f)	244[1]	1 262[1]	(594)[1]	–	912
Tax clearance certificates	(g)	36	3 159[1]	–	–	3 195
CIDB regulations						
Contracts awarded without following CIDB requirements	(h)	2	572[1]	–	–	574
National Treasury instructions						
Contracts not in accordance with National Treasury guidelines	(i)	–	1 398	–	–	1 398
Internal processes and rules						
Internal processes not adhered to	(j)	460[1]	720[1]	(629)	–	551
Various commercial requirements						
Breach of more than one commercial requirement	(k)	–	41[1]	–	–	41
Other		–	8	–	–	8
		3 082	19 297	(1 331)	–	21 048
Company						
PFMA		2 308	7 030	(4)	–	9 334
Use of sole source	(a)	27	220	–	–	247
Tender processes not adhered to	(b)	207	104	–	–	311
Incorrect classification as emergency procurement	(c)	4	203	(4)	–	203
Tender process not followed and insufficient delegation of authority	(d)	2 070	–	–	–	2 070
Modifications exceeding allowed amounts	(e)	–	6 503	–	–	6 503
PPPFA		130	3 840	(594)	–	3 376
Incorrect tender process applied	(f)	94[1]	1 109	(594)	–	609
Tax clearance certificates	(g)	36	2 731[1]	–	–	2 767
CIDB regulations						
Contracts awarded without following CIDB requirements	(h)	2	569[1]	–	–	571
National Treasury instructions						
Contracts not in accordance with National Treasury guidelines	(i)	–	1 398	–	–	1 398
Internal processes and rules						
Internal processes not adhered to	(j)	53	352	(294)	–	111
Various commercial requirements						
Breach of more than one commercial requirement	(k)	–	41	–	–	41
Other		–	8	–	–	8
		2 493	13 238	(892)	–	14 839

1. *Prior period corrected with updated numbers identified during the group's clean-up exercise.*

Expenditure analysis

	Note	2019 Current year Rm	2019 Prior years Rm	2019 Total Rm	2018 Total Rm
Group					
PFMA		2 249	2 115	4 364	12 137
Use of sole source	(a)	2 146	28	2 174	4 957[1]
Tender processes not adhered to	(b)	41	108	149	293[1]
Incorrect classification as emergency procurement	(c)	62	7	69	354
Modifications exceeding allowed amounts	(e)	–	1 972	1 972	6 533[1]
PPPFA		34	190	224	4 421
Incorrect tender process applied	(f)	20	2	22	1 262[1]
Tax clearance certificates	(g)	14	188	202	3 159[1]
CIDB regulations					
Contracts awarded without following CIDB requirements	(h)	6	791	797	572[1]
National Treasury instructions					
Contracts not in accordance with National Treasury guidelines	(i)	–	–	–	1 398
Internal processes and rules					
Internal processes not adhered to	(j)	936	272	1 208	720[1]
Various commercial requirements					
Breach of more than one commercial requirement	(k)	–	23	23	41[1]
Other		2	–	2	8
		3 227	3 391	6 618	19 297
Company					
PFMA		268	2 115	2 383	7 030
Use of sole source	(a)	225	28	253	220
Tender processes not adhered to	(b)	–	108	108	104
Incorrect classification as emergency procurement	(c)	43	7	50	203
Modifications exceeding allowed amounts	(e)	–	1 972	1 972	6 503
PPPFA		4	190	194	3 840
Incorrect tender process applied	(f)	–	2	2	1 109
Tax clearance certificates	(g)	4	188	192	2 731[1]
CIDB regulations					
Contracts awarded without following CIDB requirements	(h)	6	791	797	569[1]
National Treasury instructions					
Contracts not in accordance with National Treasury guidelines	(i)	–	–	–	1 398
Internal processes and rules					
Internal processes not adhered to	(j)	853	272	1 125	352
Various commercial requirements					
Breach of more than one commercial requirement	(k)	–	23	23	41
Other		2	–	2	8
		1 133	3 391	4 524	13 238

1. *Prior period corrected with updated numbers identified during the group's clean up exercise.*

51. Information required by the Public Finance Management Act (continued)

51.1 Irregular expenditure (continued)

(a) Use of sole source

State-owned entities are required to procure goods and services in a manner that is fair, equitable, transparent, competitive and cost-effective. Expenditure was incurred on awards which did not follow proper tender processes where awards were incorrectly allocated to predetermined suppliers. These incidents and all similar transactions incurred during the year have been investigated. Internal procedures have been enhanced and system controls implemented to flag the transactions when they occur.

Condonations have been approved internally and have been submitted to National Treasury for approval.

(b) Tender processes not adhered to

Transgressions where the approved tender processes were not followed reduced significantly. Various initiatives were implemented to address the shortcomings as follows:

- the importance of adherence to the supply chain policies and procedure was reinforced
- updated guidelines and checklists were communicated to employees
- awareness roadshows were conducted for the sourcing teams
- document management and compliance is a key deliverable of an individual's performance measurement
- dedicated function established to monitor and ensure compliance
- system improvements to enhance contract workflow approval and tagging of emergency transactions for better monitoring
- continued implementation of the new document management system (open text) that allows easy access to all supporting contract documentation

(c) Incorrect classification as emergency procurement

Irregular expenditure was incurred where emergency purchases did not meet the National Treasury requirements for emergency procurement. Identified weaknesses were addressed by raising the approval level for emergency procurement to group executive level. This resulted in a significant reduction in the number of emergency procurement transactions since October 2017. Appropriate action has been taken against implicated individuals where the related investigations were completed.

The group is engaging National Treasury to confirm the threshold of when emergency procurement transgressions have to be condoned by National Treasury.

(d) Tender process not followed and insufficient delegation of authority

The group is still engaged in civil and criminal action relating to contracts that were placed without proper delegation of authority in prior years. This matter can only be removed from the register of irregular expenditure in terms of the National Treasury Irregular Expenditure Framework after the civil and criminal processes have been completed.

(e) Modifications exceeding allowed amounts

Any modification to an original contract where the value of the modification is more than 20% or R20 million for construction-related goods, works or services and 15% or R15 million for all other goods or services has to be approved by National Treasury effective from 1 May 2016. The group did not initially comply with the National Treasury instruction and an estimated amount of irregular expenditure was reported in 2018. The full population is currently being reviewed to determine the irregular expenditure incurred. The scope of the review has been further extended to investigate unauthorised modifications on task orders. The group's procurement procedure has been aligned to the National Treasury instruction to ensure compliance going forward.

(f) Incorrect tender process applied

The Preferential Procurement Policy Framework Act (PPPFA), effective 7 December 2012, requires that the preferential points calculation is determined inclusive of VAT. Certain procurement was incorrectly done where the preferential points calculation, which is based on the applicable quotation or contract value, was determined exclusive of VAT. The group's procurement procedure has been amended in line with the PPPFA requirements. Awareness sessions and training has been provided to relevant employees.

Transactions incurred between 2013 and 2015 have been revisited to quantify irregular expenditure. The irregular expenditure identified has been submitted for condonation to National Treasury for approval, despite impracticalities in obtaining all source documents such as system and storage limitations. Condonation approval has been received from National Treasury for 2016 and 2017. The opening balance disclosed in 2018 has increased by R12 million as a result of the clean-up exercise.

(g) Tax clearance certificates

The PPPFA regulations require that tenders may only be awarded to a person whose tax matters have been declared to be in order by SARS. The group did not always received tax clearance for foreign suppliers. SARS has since created a mechanism whereby a supplier's tax status can be confirmed. Internal processes were enhanced and all new contracts are reviewed for compliance prior to concluding the contract.

All awards have been reviewed and an application for condonation has been submitted to National Treasury for transgressions in 2016 and 2017. The group engaged SARS and affected suppliers to assess their tax compliance for the period December 2012 to March 2015. It was determined impractical to fully quantify the extent of further non-compliance and any associated irregular expenditure because of the nature of the exercise and the reliance on third-party information. Expenditure disclosed in 2018 has reduced by R9 million as a result of the clean-up exercise.

(h) Contracts awarded without following CIDB requirements

The group did not comply with the CIDB regulation regarding the advertising of tenders, grading of contractors and publishing of awards. Eskom engaged with CIDB and National Treasury to address the non-compliance. Controls have been enhanced to prevent future non-compliances. Application for condonation will be made to National Treasury including evidence of relevant consequence management against implicated individuals. Expenditure disclosed in 2018 has reduced by R20 million as a result of management reviews.

(i) Contracts not in accordance with National Treasury guidelines

Eskom entered into consulting contracts on a risk-based remuneration model without obtaining prior approval from National Treasury. Eskom is pursuing recovery of an amount of R1 398 million paid to a supplier and its subcontractor as settlement when the contract was terminated, of which R902 million and interest of R99 million has been recovered to date. A review application has been made to the court. Criminal charges have been laid against the implicated individuals. The matter is being investigated by the Directorate for Priority Crime Investigation (Hawks). Eskom instituted civil procedures to recover the remaining amount of R496 million. The Pretoria High Court ruled in Eskom's favour on 18 June 2019 and ordered the sub-contractor to repay the amount due with costs.

(j) Internal processes not adhered to

Irregular expenditure was incurred as a result of non-adherence to internal procurement processes and employees contravening the Eskom Delegation of Authority. Significant progress has been made to close these matters with the majority being resolved or condoned.

(k) Breach of more than one commercial requirement

Investigations identified transgressions of more than one legislative requirement as well as Eskom procurement policy and procedures. Condonation will be requested from National Treasury, where applicable, and improvements made to processes to address each of the breaches.

51.2 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure made in vain that could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is reported in the annual financial statements when it is confirmed.

	Balance at beginning of the year[1] Rm	Expenditure Rm	Recovered Rm	Removed Rm	Balance at end of the year Rm
2019					
Group					
Project management	–	53	–	(46)	7
Procurement and contract management	7	21	–	(19)	9
Revenue management	–	4	–	(4)	–
Interest and penalties	–	31	–	(18)	13
Other	1	532	–	(10)	523
	8	641	–	(97)	552
Company					
Project management	–	48	–	(41)	7
Procurement and contract management	7	3	–	(2)	8
Revenue management	–	4	–	(4)	–
Interest and penalties	–	19	–	(5)	14
Other	1	529	–	(7)	523
	8	603	–	(59)	552
2018					
Group					
Project management	–	104	–	(104)	–
Procurement and contract management	–	8	–	(1)	7
Non-adherence to procedures	–	13	–	(13)	–
Other	–	18	–	(17)	1
	–	143	–	(135)	8
Company					
Project management	–	20	–	(20)	–
Procurement and contract management	–	7	–	–	7
Non-adherence to procedures	–	13	–	(13)	–
Other	–	16	–	(15)	1
	–	56	–	(48)	8

1. No opening balances were previously maintained prior to 1 April 2017.

51. Information required by the Public Finance Management Act (continued)

51.2 Fruitless and wasteful expenditure (continued)

Expenditure analysis

	2019 Current year Rm	2019 Prior years Rm	2019 Total Rm	2018 Total Rm
Group				
Project management	43	10	53	104
Procurement and contract management	4	17	21	8
Non-adherence to procedures	–	–	–	13
Revenue management	3	1	4	–
Interest and penalties	7	24	31	–
Other	526	6	532	18
	583	58	641	143
Company				
Project management	39	9	48	20
Procurement and contract management	3	–	3	7
Non-adherence to procedures	–	–	–	13
Revenue management	3	1	4	–
Interest and penalties	7	12	19	–
Other	524	5	529	16
	576	27	603	56

Other fruitless and wasteful expenditure includes R522 million paid to a coal supplier in terms of a take or pay agreement as Eskom did not take delivery of coal as it did not have a contract in place for the transportation of the coal to the Medupi power station.

The processes for reporting and disclosing of fruitless and wasteful expenditure have been enhanced to address shortcomings in line with the National Treasury guideline on fruitless and wasteful expenditure. Enhancements include improved recording and monitoring with emphasis on the recovery of fruitless and wasteful expenditure incurred. An occurrence of fruitless and wasteful expenditure may not be removed from the register unless it is clearly documented that appropriate preventive and corrective measures have been instituted as far as possible, including civil recovery.

The group experienced 215 (2018: 242) incidents of fruitless and wasteful expenditure during the reporting period. Management continues to institute preventive and corrective measures, including disciplinary action, as considered appropriate.

51.3 Criminal conduct

Material losses caused by criminal conduct and any disciplinary, civil or criminal action taken in respect of such losses are reported in terms of materiality framework.

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Theft of conductors, cabling and related equipment	(a)	105	46	104	46
Fraud	(b)	51	49	29	45
Estimated non-technical revenue losses	(c)	1 741	1 390	1 741	1 390
Other crimes	(d)	80	35[1]	79	35[1]
		1 977	1 520	1 953	1 516

(a) Theft of conductors, cabling and related equipment

The group experienced 5 150 (2018: 5 152) incidents relating to theft of conductor, cabling and related equipment during the year. Actions to combat these losses are managed in collaboration with other affected state-owned companies and the South African Police Service. The combined effort resulted in 119 (2018: 216) arrests and R2 million (2018: R3 million) worth of stolen material was recovered.

(b) Fraud

Material incidents (greater than R25 million)

An employee colluded with a supplier to defraud the company of an amount of R28 million. Forty four invoices were paid with no services rendered. Both the employee and the supplier have admitted to the scam. The supplier has paid back R3 million. Eskom has instituted legal proceedings to recover the outstanding amount. A criminal case has also been registered.

Immaterial incidents (less than R25 million)

Eskom concluded 19 (2018: 37) investigations into fraud during the year totalling R23 million. The internal control measures in the affected and similar areas have been reviewed and enhanced. Disciplinary, criminal and civil proceedings have been instituted against those involved.

(c) Estimated non-technical revenue losses

Non-technical losses arise mainly from meter tampering and bypasses, illegal connections to the electricity network and illegal vending of electricity. The management of non-technical losses focuses on ensuring that all energy supplied is accounted for, energy supplied and not invoiced is identified, lost revenue calculated and any lost revenue stemming from energy losses recovered. Eskom invoiced R449 million (2018: R368 million) of revenue relating to these losses during the year, of which R117 million has been received during the year.

Interventions to reduce non-technical energy losses include:
- reconciliation of the energy delivered and energy sold (ie energy accounting) at various levels of the network to prioritise high loss feeders for normalisation
- revenue risk analysis to identify metering installations with a high revenue risk
- auditing and repairing of faulty customer meter installations
- disconnection of illegal connections, meter tampers and imposition of penalties (remedial fees)
- correction of process non-adherence and data anomalies
- estimation and recovery of revenue for historical unaccounted energy where tampered, faulty or missing metering installations were encountered in the conventional customer base
- systemisation of various elements of the loss management process to improve efficiencies (ie implementation of advanced analytics in identifying revenue risk, automation of revenue risk case management, energy balancing and rollout of tools for lost revenue estimation)
- implementation of audit, advisory, training, standardisation, automation and benchmarking support
- customer education, social mobilisation and partnership campaigns to change behaviour
- customer education campaigns to drive behaviour change

(d) Other crimes

Material incidents (greater than R25 million)

An oil leak occurred at the Tutuka Power Station that caused major damage to a unit. The leak is not seen as a technical failure and a case of malicious damage to property has been reported to the police. The matter is being investigated.

Immaterial incidents (less than R25 million)

The group experienced 1 838 (2018: 1 949) incidents of other criminal related conduct during the year. All instances were reported to Eskom's security and, where appropriate, the police. During the year, 62 suspects were arrested.

51.4 Matters under investigation

Matters under investigation include the following:
- various non-compliances to PFMA section 51(1)(a)(iii) regarding the principles of fair, equitible, transparent, competitive and cost-effective procurement including inappropriate:
  - use of sole sources and emergencies
  - modifications to contracts
  - application of the Preferential Procurement Regulations (designated sectors, thresholds and tax non-compliance)
  - inappropriate application of CIDB Act
- various non-adherence to internal policies and procedures including breaches of delegation of authority
- possible undue influence where employees have a conflict of interest
- potential losses due to a lack of reasonable care in project and contract management
- interest and penalties being levied against Eskom due to instances of late payment of suppliers
- challenges around the use and monitoring of panel contracts including the fairness and equitability of work allocated to suppliers
- various other instances of non-adherence to internal policies and procedures resulting in losses

Relevant disclosure will be made in a subsequent financial year should any losses or expenditure incurred prove to be irregular, fruitless and wasteful or due to criminal conduct.

52. Reportable irregularities

The external auditors raised certain reportable irregularities in terms of section 45 of the Auditing Profession Act in prior periods. Progress was made in clearing these reportable irregularities, but some will stay open until finalisation of court cases or conclusion of investigations by external parties.

The table below reflects the status of the reportable irregularities at 31 March 2019. The discussion focused on items that were open at the previous year end.

Description	Action	Status
Reportable irregularities – 31 March 2017		
• there were allegations that an early retirement agreement between Eskom and the former GCE (B Molefe) was irregular	• the former GCE appealed the High Court decision to the Supreme Court of Appeal. The Supreme Court of Appeal dismissed his appeal in April 2019. He subsequently appealed the matter to the Constitutional Court • the Eskom Pension and Provident Fund issued a letter of demand to the former GCE in April 2019 for payment of the amounts ordered by the High Court • the Hawks are currently investigating the matter	• open, pending the outcome of the appeal
Reportable irregularities – 30 September 2017		
• a parliamentary inquiry was held into perceived maladministration, governance and procurement issues at Eskom. Certain representations made by previous and current directors and officials indicated that there could have been a breach of fiduciary duties in terms of the requirements of the Companies Act	• Eskom investigated and action was taken, including relevant reporting where appropriate, against those implicated in the parliamentary inquiry • some of the implicated employees resigned or their employment was terminated • criminal charges were lodged against relevant employees • the final report on the inquiry was adopted by the Portfolio Committee on Public Enterprises on 28 November 2018 • the findings of the report, which were not conclusive, have been analysed. The report recommended that the findings and evidence be submitted to the Judicial Commission of Inquiry into Allegations of State Capture (Zondo Commission) for further investigation • the Zondo Commission is ongoing and Eskom is participating in this process	• open, pending finalisation and conclusion by the Zondo Commission
• Eskom procured the services of McKinsey through its sole source supplier process and, as a result, a competitive bidding process was not followed • in addition, the subcontracting of Trillian Management Consultancy (Trillian) by McKinsey did not follow the procurement process • a further issue relating to this matter was raised on 31 March 2018 where the former chief procurement officer (CPO) (E Mabelane), former GE: group capital (A Masango), former acting GE: group capital (P Govender) and former CS (S Daniels) approved payments to Trillian without the existence of a contract thereby breaching their fiduciary duties	• executives and senior management resigned • criminal charges were lodged against relevant employees • the business relationship with McKinsey and Trillian was terminated • information was provided to the Hawks for investigation • McKinsey repaid R902 million plus interest of R99 million during the year • The High Court ruled against Trillion on 18 June 2019 and ordered it to repay R595 million to Eskom	• closed, McKinsey • open, Trillian – pending completion of the recovery process
• the former CFO (A Singh) approved a guarantee on behalf of Eskom to Tegeta Exploration and Resources (Pty) Ltd in December 2015 in contravention of the PFMA without proper delegation of authority	• the former CFO resigned • the guarantee was not called on and expired on 31 March 2017 • guarantee fees were incurred and reported as fruitless and wasteful expenditure in terms of the PFMA • the cost incurred will be recovered from the former CFO	• open, pending recovery of guarantee fees
• certain services provided by Cliffe Dekker Hofmeyr (CDH) to the former company secretary (CS) (S Daniels) were questionable in terms of Eskom rules	• the former CS was dismissed • the business relationship with CDH was terminated • all legal matters handled by CDH were formally handed over to Eskom • a letter was sent to the Law Society of South Africa regarding the conduct of CDH	• closed

Description	Action	Status
• minutes of the board and its sub-committees were not timeously approved	• improvements in the minute approval process were implemented • improvements in the tracking and monitoring of the status of board decisions have been implemented	• closed
• Eskom did not timeously update directors' records with the Companies and Intellectual Property Commission (CIPC)	• the changes were lodged with and updated by the CIPC • quarterly reviews of CIPC and company statutory records were implemented to ensure compliance with the Companies Act	• closed
Reportable irregularities – 31 March 2018		
• there were allegations that the former CFO (A Singh) and former interim GCE (S Maritz) breached their fiduciary duties by contractually and financially binding Eskom to a facilitation fee with Huarong Asset Financing	• the former CFO and interim GCE resigned • the agreement was not binding as the required formal approval from the DPE and National Treasury was not obtained • there was no financial loss to Eskom • it was communicated to Huarong that Eskom would not honour any agreement as it is considered not binding • the matter was discussed at the Zondo Commission	• open, awaiting conclusion of Zondo Commission
• there were allegations that the CPO (J Pillay) and other senior officials in procurement were involved in acts of misconduct involving EOH Holdings Ltd	• the CPO and two employees resigned • the investigation was finalised and no significant matter was found against the CPO and supplier	• closed
• there were allegations that Eskom incorrectly procured services from Bizz Tracers (Pty) Ltd through the sole source supplier process • subsequent to 31 March 2018, further suppliers were identified where services were incorrectly procured through the sole source supplier process	• the GE: security resigned • the investigation into the matter was finalised and the findings from the investigation are being actioned • letters of demand were issued to relevant suppliers for recovery of monies paid	• open, pending addressing of findings and finalisation of recovery process
• it was alleged that the former CS (S Daniels) and the former interim GCE (MM Koko) distributed confidential Eskom documentation to a third party	• the former CS was dismissed and the former interim GCE resigned • the investigation into the matter was finalised and it was confirmed that the former interim GCE distributed confidential Eskom information to third parties • the matter was handed over to the Special Investigating Unit which will lay criminal charges against the former interim GCE	• closed
Reportable irregularities – 30 September 2018		
• a member of the board and Audit and Risk committee (J Sebulela) did not declare a conflict of interest and did not recuse himself from deliberations involving the supplier (EOH)	• the board member resigned • the tender process was withdrawn • the board deliberated on the matter and took appropriate action in terms of its responsibility • the Minister of the DPE was formally informed of the matter in January 2019 as well as its responsibility to close out the matter in terms of the Companies Act (contravention in terms of section 50(3)(a) and (b) of Companies Act)	• closed
• legal fees were paid on behalf of certain former board members that were not directly related to their roles as directors of Eskom	• the former board members resigned • it was confirmed that legal fees had been paid on behalf of BS Ngubane, MV Pamensky and DV Naidoo • letters of demand and summons were issued to former board members for recovery of fees paid	• open, pending finalisation of recovery process
Reportable irregularities – 31 March 2019		
• there was non-compliance in terms of the B-BBEE Act as Eskom's compliance report and annual financial statements were not submitted timeously as required	• condonation of the late submission was requested from the B-BBEE commissioner • the relevant submissions were made as required • procedures have been put in place to ensure that the relevant submissions will be submitted timeously	• open, pending confirmation of exemption
• Eskom did not apply the relevant code of good practice in terms of the B-BBEE Act when evaluating a request for proposal and the award made to Dongfang Electrical Corporation Limited	• the findings issued by the B-BBEE commissioner on the non-compliance to the code of good practice are being addressed	• open, pending addressing findings of non-compliance

53. Pro forma revaluation of property, plant and equipment (unaudited)

The group currently accounts for its property, plant and equipment using the cost model under IAS 16 *Property, plant and equipment*. The cost model requires that property, plant and equipment should be measured at cost (including borrowing cost capitalised in respect of qualifying assets), less accumulated depreciation and impairment. However, the cost model does not reflect the true economic value of the group's property, plant and equipment and the basis on which our tariff is calculated by NERSA. Therefore, a summary has been provided below reflecting what the impact on the financial statements would be if the group's property, plant and equipment was measured using the depreciated replacement cost (DRC) model. Borrowing costs were not included in the carrying amount of property, plant and equipment when determining the increase or decrease in the revaluation surplus and have therefore been expensed. The fair values determined using the DRC model were reviewed for possible impairment loss in order to determine whether or not the net future cash inflows related to the use of property, plant and equipment are less than the calculated fair value of property, plant and equipment. The fair values disclosed below are net of the adjustment made for the tariff shortfall in the first few years of R566 billion (2018: R393 billion). This shortfall is expected to be eliminated once the electricity price determined in terms of the regulatory methodology, which is based on the depreciated replacement values, is cost reflective.

	2019			2018		
	Historical cost Rm	Adjustments Rm	After revaluation Rm	Historical cost Rm	Adjustments Rm	After revaluation Rm
Summarised group statements of financial position						
Assets						
Property, plant and equipment	651 637	54 308	705 945	630 648	232 435	863 083
Other assets	106 381	–	106 381	108 468	–	108 468
	758 018	54 308	812 326	739 116	232 435	971 551
Equity and liabilities						
Total equity	153 094	39 102	192 196	170 336	167 353	337 689
Deferred tax	8 350	15 206	23 556	15 846	65 082	80 928
Other liabilities	596 574	–	596 574	552 934	–	552 934
	758 018	54 308	812 326	739 116	232 435	971 551
Summarised group income statements						
Profit before depreciation and amortisation expense, impairment of other assets and other expenses	46 151	–	46 151	61 837	–	61 837
Depreciation and amortisation expense	(29 756)	(731)	(30 487)	(23 132)	(4 033)	(27 165)
Impairment of other assets	153	(168)	(15)	(25)	19	(6)
Other expenses	(18 214)	(102)	(18 316)	(18 228)	(219)	(18 447)
(Loss)/profit before net finance cost	(1 666)	(1 001)	(2 667)	20 452	(4 233)	16 219
Net finance cost	(27 517)	(15 378)	(42 895)	(23 089)	(15 547)	(38 636)
Share of profit of equity-accounted investees, net of tax	35	–	35	34	–	34
Loss before tax	(29 148)	(16 379)	(45 527)	(2 603)	(19 780)	(22 383)
Income tax	8 419	4 586	13 005	266	5 539	5 805
Loss for the year	(20 729)	(11 793)	(32 522)	(2 337)	(14 241)	(16 578)
Summarised group statements of comprehensive income						
Loss for the year	(20 729)	(11 793)	(32 522)	(2 337)	(14 241)	(16 578)
Other comprehensive income/(loss)	3 685	(116 458)	(112 773)	(3 269)	126 336	123 067
Revaluation reserve (reversed)/raised	–	(161 748)	(161 748)	–	175 467	175 467
Other items of other comprehensive loss	5 096	–	5 096	(4 532)	–	(4 532)
Income tax thereon	(1 411)	45 290	43 879	1 263	(49 131)	(47 868)
Total comprehensive (loss)/income for the year	(17 044)	(128 251)	(145 295)	(5 606)	112 095	106 489

APPENDIX – ACRONYMS, ABBREVIATIONS AND DEFINITIONS

Accounting, audit and other financial terms	
CGU	Cash Generating Unit
DRC	Depreciated Replacement Cost
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
GDP	Gross Domestic Product
IAS	International Accounting Standard/(s)
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard/(s)
IRBA	International Regulatory Board for Auditors
IAS	International Standards on Auditing
JSE	Johannesburg Stock Exchange
LIFO	Last-In-First-Out
PPI	Producer Price Index
R	Rand
Rm	Rand millions
SIC	Standing Interpretations Committee of the International Accounting Standards Committee
SPPI	Solely Payments of Principal and Interest
VAT	Value Added Tax
WACC	Weighted Average Cost of Capital

Currencies	
AUD	Australian Dollar
CAD	Canadian Dollar
CHF	Swiss Franc
EUR	Euro
GBP	Pound Sterling (United Kingdom)
JPY	Japanese Yen
NOK	Norwegian Krone
SEK	Swedish Krona
USD	United States Dollar
ZAR	South African Rand

Entities	
company	Eskom Holdings SOC Ltd
EFC	Eskom Finance Company SOC Ltd
EPPF	Eskom Pension and Provident Fund
Escap	Escap SOC Ltd
Eskom	Eskom Holdings SOC Ltd
Eskom Uganda	Eskom Uganda Ltd
group	Eskom Holdings SOC Ltd and its subsidiaries
Motraco	Mozambique Transmission Company SARL
Nqaba	Nqaba Finance 1 (RF) Ltd
UEGCL	Uganda Electricity Generation Company Ltd
UETCL	Uganda Electricity Transmission Company Ltd

Legislation	
Companies Act	Companies Act, No.71 of 2008
PAA	Public Audit Act, No. 25 of 2004
PFMA	Public Finance Management Act, No. 1 of 1999
PPPFA	Preferential Procurement Policy Framework Act, No. 5 of 2000

APPENDIX – ACRONYMS, ABBREVIATIONS AND DEFINITIONS continued

Measures	
GWh	Gigawatt hour
kg	Kilogram
km	Kilometre
kWh	Kilowatt hour
kWhSO	Kilowatt hour Sent Out
ℓ	Litre
Mt	Million tons
MVA	Mega volt ampere
MW	Megawatt
MWh	Megawatt hour
MWhSO	Megawatt hour Sent Out

Other	
Alco	Asset and Liability Committee
Board	Board of directors
B-BBEE	Broad-Based Black Economic Empowerment
CA(SA)	Chartered Accountant of South Africa
CFO	Chief Financial Officer
CIDB	Construction Industry Development Board
DPE	Department of Public Enterprises
EUF	Energy Utilisation Factor
Exco	Executive Management Committee
GCE	Group Chief Executive
GE	Group Executive
IPP	Independent Power Producer
MYPD	Multi-Year Price Determination
NCD	Negotiable Certificates of Deposit
NERSA	National Energy Regulator of South Africa
OCGT	Open Cycle Gas Turbine
RCA	Regulatory Clearing Account
SADC	Southern African Development Community
SARB	South African Reserve Bank
SARS	South African Revenue Services
TMPS	Total Measured Procurement Spend

Definitions	
Cash interest cover ratio	Net cash flows from operating activities divided by the aggregate of interest paid and received from financing activities
EBITDA	Revenue plus other income minus primary energy, employee benefit expense, impairment of financial assets, impairment of other assets and other expenses
EBITDA margin	EBITDA divided by revenue
Free funds from operations	Net cash flows from operating activities minus cash flows from changes in working capital
Liquid assets	Treasury investments plus cash and cash equivalents
Net debt	Debt securities and borrowings plus finance lease payables minus treasury investments minus financial trading assets plus financial trading liabilities plus derivative liabilities held for risk management (used to hedge other items of net debt) minus derivative assets held for risk management (used to hedge other items of net debt) minus payments made in advance (used to secure borrowings raised) minus cash and cash equivalents
Net debt service cover	Net cash flows from operating activities divided by the aggregate of debt repaid and interest paid and received from financing activities
Net profit margin	Net profit divided by revenue
Working capital current assets	Inventories plus payments made in advance (current portion) plus trade and other receivables (current portion) plus taxation asset
Working capital current liabilities	Trade and other payables (current portion) plus payments received in advance (current portion) plus provisions (current portion) plus employee benefit obligations (current portion) plus taxation liability
Working capital ratio	Working capital current assets divided by working capital current liabilities

Refer to the integrated report for definitions relating to the shareholder compact key performance indicators on page 156.

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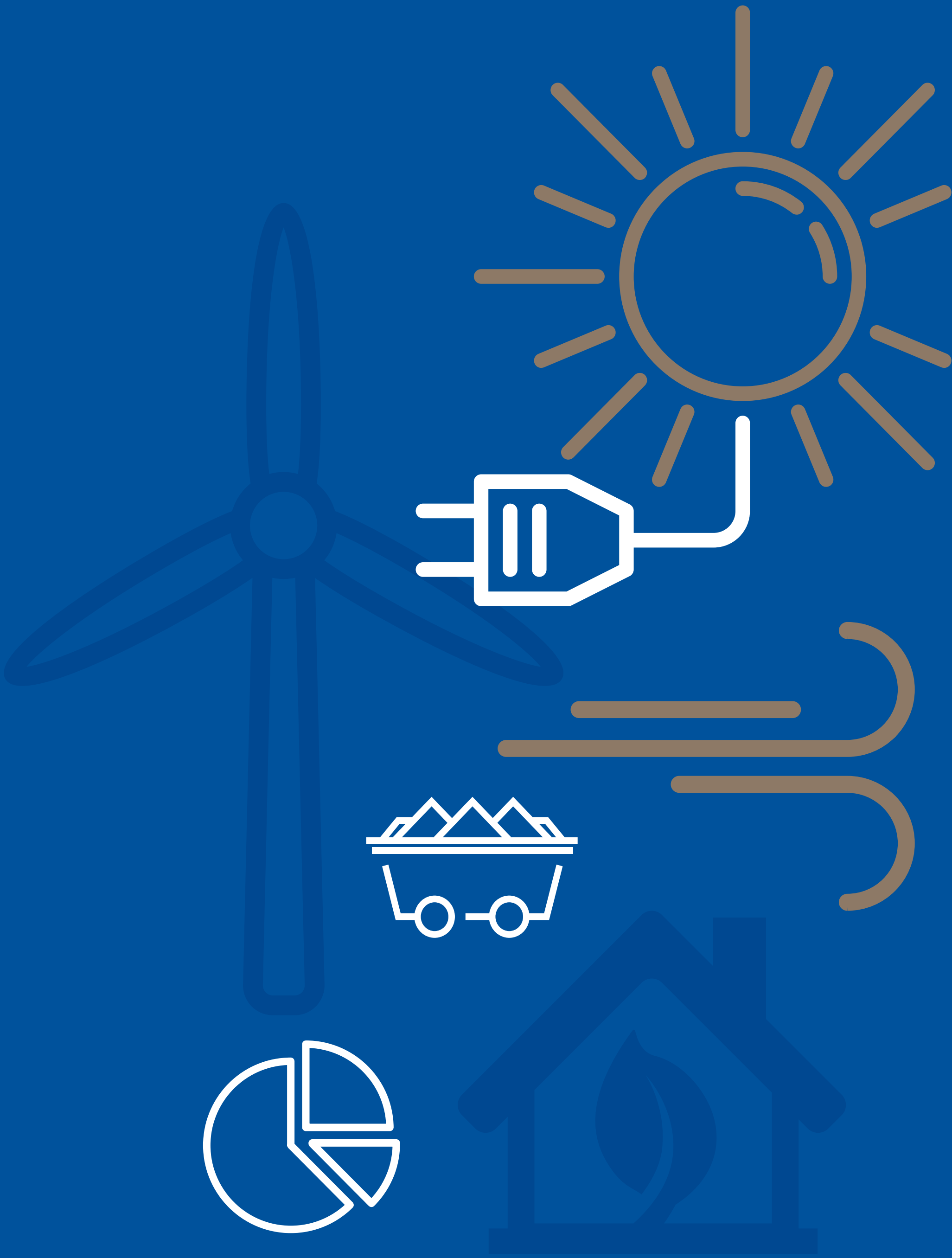

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