



Powering your world

**Reviewed condensed group
interim financial statements**
for the six months ended 30 September 2016



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The reviewed condensed group interim financial statements for the six months ended 30 September 2016 have been prepared under the supervision of the chief financial officer, A Singh CA(SA). These condensed group interim financial statements have been independently reviewed by the group's external auditors and were published on 3 November 2016.

Currency of financial statements

The reviewed condensed group interim financial statements are expressed in South African rand (R).

The following are approximate values of the rand to one unit of the selected currencies:

	Average			Reporting date mid-spot rate		
	30 September 2016	31 March 2016	30 September 2015	30 September 2016	31 March 2016	30 September 2015
Euro	16.32	15.21	13.93	15.46	16.77	15.52
United States dollar (USD)	14.53	13.79	12.55	13.79	14.71	13.87
Pound sterling (United Kingdom)	19.99	20.74	19.36	17.91	21.13	21.05
Swiss franc	14.93	14.15	13.17	14.21	15.35	14.23
Japanese yen	0.14	0.12	0.10	0.14	0.13	0.12

Approval of the condensed group interim financial statements

Basis of preparation

The condensed group interim financial statements from page 4 to page 19 for the six months ended 30 September 2016 have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS), the presentation and disclosure requirements of International Accounting Standards (IAS) 34 *Interim Financial Reporting*, and in the manner required by the Companies Act.

Going concern

The board of directors (the board) has made an assessment of the ability of the group to continue as a going concern in the foreseeable future.

The board reviewed the performance for the period ended 30 September 2016 and the cash flow forecast for the 12 months ending 30 September 2017.

The board continues to critically examine the group's activities and costs in order to balance its cash flow requirements. There is continued focus on the Design-to-Cost (DTC) initiative to identify cost saving and efficiency opportunities.

The board is pursuing funding options to implement the group's borrowing programme. In assessing the ability to raise funds, the current economic climate as well as Eskom's and the sovereign's credit ratings have been taken into account.

Based on the above, the board is satisfied that Eskom and the group have access to adequate resources and facilities to be able to continue its operations for the foreseeable future. Accordingly the board has continued to adopt the going-concern basis in preparing the financial statements.

Approval

In the opinion of the board, based on the information available to date, the condensed group interim financial statements fairly present the financial position of the group at 30 September 2016 and the results of the operations and cash flow information for the six months then ended. The condensed group interim financial statements have been approved by the board and signed on its behalf by:



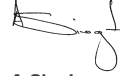
B Ngubane
Chairman

27 October 2016



B Molefe
Group chief executive

27 October 2016



A Singh
Chief financial officer

27 October 2016

Independent auditors' review report on the condensed group interim financial statements to the Minister of Public Enterprises

Introduction

We have reviewed the accompanying condensed group interim financial statements of Eskom Holdings SOC Ltd set out on pages 4 to 19, which comprise the condensed group statement of financial position at 30 September 2016, and the condensed group income statement, statements of comprehensive income, changes in equity and cash flows for the six months then ended and selected explanatory notes.

The board's responsibility for the financial statements

The board is responsible for the preparation and presentation of these condensed group interim financial statements in accordance with the recognition and measurement requirements of IFRS, the presentation and disclosure requirements of IAS 34 *Interim Financial Reporting*, the requirements of the Companies Act and for such internal control as the directors determine is necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility for the financial statements

Our responsibility is to express a conclusion on these condensed group interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of the condensed group interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters which might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed group interim financial statements of Eskom for the six months ended 30 September 2016, are not prepared, in all material respects, in accordance with the recognition and measurement requirements of IFRS, the presentation and disclosure requirements of IAS 34 *Interim Financial Reporting* and the requirements of the Companies Act.



A Mthimunye
SizweNtsalubaGobodo Inc
Director
Registered auditor

31 October 2016

20A Morris Street East
Woodmead
2191

Condensed group statement of financial position

at 30 September 2016

	Reviewed 30 September 2016 Rm	Audited 31 March 2016 Rm	Reviewed ¹ 30 September 2015 Rm
Assets			
Non-current assets	589 873	565 475	535 912
Property, plant and equipment and intangible assets	554 555	521 174	486 730
Future fuel supplies	8 672	10 502	8 940
Payments made in advance	2 250	2 579	3 266
Derivatives held for risk management	21 800	27 600	24 659
Trade, finance lease, loan and other receivables	605	601	9 285
Investment in securities	1 533	2 485	2 527
Other assets	458	534	505
Current assets	90 282	86 268	75 820
Inventories	20 540	17 821	17 329
Taxation	–	93	152
Investment in securities and financial trading assets	15 387	11 585	14 246
Payments made in advance	2 738	3 891	3 342
Derivatives held for risk management	427	2 582	4 705
Trade, finance lease, loan and other receivables	20 879	21 842	23 200
Cash and cash equivalents	30 311	28 454	12 846
Non-current assets held-for-sale	8 925	8 942	–
Total assets	689 080	660 685	611 732
Equity			
Capital and reserves	186 581	180 563	171 117
Liabilities			
Non-current liabilities	426 776	404 343	370 862
Debt securities and borrowings	317 267	306 970	281 616
Embedded derivatives	5 186	5 410	5 590
Derivatives held for risk management	4 544	2 862	840
Deferred tax	23 138	21 000	22 375
Deferred income and payments received in advance	18 660	18 142	16 727
Employee benefit obligations	13 664	12 405	12 277
Provisions	33 381	32 841	30 194
Trade, finance lease and other payables	10 936	4 713	1 243
Current liabilities	74 037	73 971	69 753
Debt securities and borrowings	15 653	15 688	15 833
Embedded derivatives	1 708	1 615	1 499
Derivatives held for risk management	4 660	2 011	515
Employee benefit obligations	5 607	5 190	4 126
Provisions	8 404	11 415	10 356
Deferred income and payments received in advance	5 838	4 333	4 942
Trade, finance lease and other payables	31 082	32 409	30 820
Taxation	–	60	–
Financial trading liabilities	1 085	1 250	1 662
Non-current liabilities held-for-sale	1 686	1 808	–
Total liabilities	502 499	480 122	440 615
Total equity and liabilities	689 080	660 685	611 732

1. Restated. Refer to note 17.

Condensed group income statement

for the six months ended 30 September 2016

	Note	Reviewed six months ended 30 September 2016 Rm	Reviewed ¹ six months ended 30 September 2015 Rm	Audited year ended 31 March 2016 Rm
Revenue	10	97 131	87 876	163 395
Other income		752	1 369	2 390
Primary energy	11	(40 380)	(40 999)	(84 728)
Employee benefit expense	12	(15 758)	(13 806)	(29 257)
Net impairment loss		(615)	(122)	(1 170)
Other expenses		(9 635)	(8 723)	(18 663)
Profit before depreciation and amortisation expense and net fair value (loss)/gain (EBITDA)		31 495	25 595	31 967
Depreciation and amortisation expense		(9 998)	(7 609)	(16 531)
Net fair value (loss)/gain on financial instruments		(1 875)	3	(455)
Profit before net finance cost		19 622	17 989	14 981
Net finance cost		(6 535)	(3 498)	(7 919)
Finance income		2 766	1 542	3 447
Finance cost	13	(9 301)	(5 040)	(11 366)
Share of profit of equity-accounted investees, net of tax		18	28	43
Profit before tax		13 105	14 519	7 105
Income tax	14	(3 749)	(4 172)	(2 488)
Profit for the period²		9 356	10 347	4 617

Condensed group statement of comprehensive income

for the six months ended 30 September 2016

	Reviewed six months ended 30 September 2016 Rm	Reviewed six months ended 30 September 2015 Rm	Audited year ended 31 March 2016 Rm
Profit for the period ²	9 356	10 347	4 617
Other comprehensive (loss)/income	(3 338)	4 332	6 508
Items that may be reclassified subsequently to profit or loss	(3 039)	4 076	5 903
Available-for-sale financial assets	56	(15)	(57)
Cash flow hedges	(4 262)	5 683	8 226
Foreign currency translation differences on foreign operations	(10)	(5)	21
Income tax thereon	1 177	(1 587)	(2 287)
Items that may not be reclassified subsequently to profit or loss	(299)	256	605
Re-measurement of post-employment medical benefits	(415)	351	840
Income tax thereon	116	(95)	(235)
Total comprehensive income for the period²	6 018	14 679	11 125

1. Restated. Refer to note 17.

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

Condensed group statement of changes in equity

for the six months ended 30 September 2016

	Share capital	Equity reserve	Cash flow hedge reserve	Available-for-sale reserve	Unrealised fair value reserve	Foreign currency translation reserve	Accumulated profit	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Balance at 31 March 2015	–	30 520	5 699	4	(8 854)	18	89 777	117 164
Restated profit for the period	–	–	–	–	–	–	10 347	10 347
Other comprehensive income/(loss), net of tax	–	–	4 092	(11)	–	(5)	256	4 332
Share capital issued	10 000	–	–	–	–	–	–	10 000
Conversion of subordinated loan from the shareholder to share capital	60 000	(30 520)	–	–	–	–	(206)	29 274
Transfer between reserves	–	–	–	–	(816)	–	816	–
Balance at 30 September 2015	70 000	–	9 791	(7)	(9 670)	13	100 990	171 117
Loss for the period	–	–	–	–	–	–	(5 730)	(5 730)
Other comprehensive income/(loss), net of tax	–	–	1 831	(30)	–	26	349	2 176
Share capital issued	13 000	–	–	–	–	–	–	13 000
Transfer between reserves	–	–	–	–	(7 042)	–	7 042	–
Balance at 31 March 2016	83 000	–	11 622	(37)	(16 712)	39	102 651	180 563
Profit for the period	–	–	–	–	–	–	9 356	9 356
Other comprehensive (loss)/income, net of tax	–	–	(3 069)	40	–	(10)	(299)	(3 338)
Transfer between reserves	–	–	–	–	801	–	(801)	–
Balance at 30 September 2016	83 000	–	8 553	3	(15 911)	29	110 907	186 581

Condensed group statement of cash flows

for the six months ended 30 September 2016

	Reviewed six months ended 30 September 2016 Rm	Reviewed six months ended 30 September 2015 Rm	Audited year ended 31 March 2016 Rm
Cash flows from operating activities			
Profit before tax	13 105	14 519	7 105
Adjustment for non-cash items	21 583	10 873	29 904
Changes in working capital	(2 611)	(3 488)	(2 201)
Cash generated from operations	32 077	21 904	34 808
Net cash flows (used in)/from derivatives held for risk management	(382)	845	643
Interest received	592	457	2 322
Interest paid	(17)	(4)	(11)
Income taxes paid	(337)	(162)	(520)
Net cash from operating activities	31 933	23 040	37 242
Cash flows used in investing activities			
Proceeds from disposal of property, plant and equipment and intangible assets	86	320	360
Acquisitions of property, plant and equipment and intangible assets	(26 000)	(24 149)	(54 175)
Expenditure on future fuel supplies	(304)	(270)	(1 754)
Net cash flows used in investment in securities and financial trading assets	(22)	(2 041)	(1 886)
Increase in payments made in advance	(118)	(101)	(274)
Expenditure incurred on provisions	(4 296)	(637)	(3 054)
Net cash flows from/(used in) derivatives held for risk management	780	(158)	771
Interest received	581	455	1 202
Other cash flows from investing activities	31	63	220
Net cash used in investing activities	(29 262)	(26 518)	(58 590)
Cash flows from financing activities			
Debt securities and borrowings raised	21 910	16 519	41 052
Payments made in advance to secure balances raised	(626)	(155)	(555)
Debt securities and borrowings repaid	(4 248)	(5 594)	(11 123)
Share capital issued	–	10 000	23 000
Net cash flows (used in)/from derivatives held for risk management	(2 502)	377	11 847
Decrease in finance lease payables	(21)	(54)	(157)
Increase in investment in securities and financial trading assets and liabilities	(2 755)	(3 710)	(1 621)
Interest received	1 473	550	1 275
Interest paid	(14 082)	(10 503)	(22 791)
Net cash (used in)/from financing activities	(851)	7 430	40 927
Net increase in cash and cash equivalents	1 820	3 952	19 579
Cash and cash equivalents at beginning of the period	28 454	8 863	8 863
Foreign currency translation	(10)	(5)	21
Effect of movements in exchange rates on cash held	22	36	75
Non-current assets held-for-sale	25	–	(84)
Cash and cash equivalents at end of the period	30 311	12 846	28 454

Selected notes to the condensed group interim financial statements

for the six months ended 30 September 2016

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 industrial, mining, commercial, agricultural, redistributors (metropolitan and other municipalities), and residential customers and to international customers in southern Africa. Eskom also purchases electricity from independent power producers (IPPs) and international suppliers in southern Africa. These represent the significant activities of the group. The business focus of the subsidiaries is to primarily support the electricity business.

2. Basis of preparation

The reviewed condensed group interim financial statements of Eskom as at and for the six months ended 30 September 2016 comprise the company, its subsidiaries, joint ventures, associates and structured entities (together, the group). The reviewed condensed group interim financial statements do not include all of the information required for full financial statements and should be read in conjunction with the Eskom Holdings SOC Ltd 31 March 2016 group annual financial statements. The annual financial statements of the group as at and for the year ended 31 March 2016 are available for inspection at the company's registered office and on the Eskom website at www.eskom.co.za.

The condensed group interim financial statements are prepared in accordance with the recognition and measurement requirements of IFRS, the presentation and disclosure requirements of IAS 34 *Interim Financial Reporting*, and in the manner required by the Companies Act.

The condensed group interim 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
- investment in securities
- financial trading assets
- financial trading liabilities

The board of directors (the board) has made an assessment of the ability of the group to continue as a going concern in the foreseeable future.

The board reviewed the performance for the period ended 30 September 2016 and the cash flow forecast for the 12 months ending 30 September 2017.

The board continues to critically examine the group's activities and costs in order to balance its cash flow requirements. There is continued focus on the DTC initiative to identify cost saving and efficiency opportunities.

The board is pursuing funding options to implement the group's borrowing programme. In assessing the ability to raise funds, the current economic climate as well as Eskom's and the sovereign's credit ratings have been taken into account.

Based on the above, the board is satisfied that Eskom and the group have access to adequate resources and facilities to be able to continue its operations for the foreseeable future. Accordingly the board has continued to adopt the going-concern basis in preparing the financial statements.

3. Significant accounting policies

The accounting policies are consistent with those applied in the audited financial statements as at 31 March 2016 except for the revised statements and interpretations of IFRS which have become effective during the six months ended 30 September 2016. These changes had no or minimal impact on the interim financial statements.

4. Critical accounting estimates and judgements

The significant estimates and judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were substantially the same as those applied to the financial statements as at and for the year ended 31 March 2016 except for embedded derivatives as detailed below.

4.1 Embedded derivatives

The forward electricity price used to value the embedded derivatives at 30 September 2016 is based on the National Energy Regulator of South Africa Multi-Year Price Determination 3 tariff increase of 8% for 2017/18, whereafter a forecast return on the regulatory asset base is used until maturity. Another key estimate in the valuation of embedded derivatives includes the forecast United States (US) production price index (PPI) which is based on an internal model which simulates US PPI using other observable market prices such as the South African consumer price index and ZAR/USD forward exchange rates.

The contracted electricity price used to value embedded derivatives is based on a combination of the factors in the table below over the contracted period.

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 fair value of embedded derivatives takes into account the inherent uncertainty relating to the future cash flows of embedded derivatives, such as liquidity, model risk and other economic factors.

The following valuation assumptions for the future electricity price curve discussed above for the valuation of embedded derivatives were used and are regarded as the best estimates by management:

		Period ended 30 September 2016 (reviewed)					
Input	Unit	2016	2017	2018	2019	2020	2021
Aluminium	USD per ton	1 661	1 685	1 732	1 785	1 844	1 905
Volatility	Year-on-year (ratio)	0.20	0.20	0.20	0.20	0.20	0.20
Rand interest rate	Continuous actual/365 days (%)	7.21	7.29	7.81	7.72	7.35	7.44
Dollar interest rate	Annual actual/365 days (%)	0.48	0.86	1.26	1.29	1.02	1.08
United States PPI	Year-on-year (%)	(0.48)	1.75	1.52	2.10	2.06	1.49
Rand/USD	Rand per USD	13.79	14.25	15.19	16.15	17.23	18.41

		Period ended 31 March 2016 (audited)					
Input	Unit	2016	2017	2018	2019	2020	2021
Aluminium	USD per ton	1 485	1 555	1 606	1 663	1 729	1 790
Volatility	Year-on-year (ratio)	0.18	0.18	0.18	0.18	0.18	0.18
Rand interest rate	Continuous actual/365 days (%)	7.06	8.24	7.70	7.93	8.09	8.25
Dollar interest rate	Annual actual/365 days (%)	0.51	1.30	0.86	0.98	1.10	1.21
United States PPI	Year-on-year (%)	(2.07)	1.86	1.66	1.75	1.65	1.71
Rand/USD	Rand per USD	14.70	15.76	16.86	17.79	19.11	20.90

		Period ended 30 September 2015 (reviewed)					
Input	Unit	2015	2016	2017	2018	2019	2020
Aluminium	USD per ton	1 551	1 588	1 655	1 725	1 796	1 864
Volatility	Year-on-year (ratio)	0.19	0.19	0.19	0.19	0.19	0.19
Rand interest rate	Continuous actual/365 days (%)	6.06	7.26	7.06	7.38	7.62	7.83
Dollar interest rate	Annual actual/365 days (%)	0.24	0.97	0.75	0.99	1.21	1.40
United States PPI	Year-on-year (%)	(5.30)	2.18	2.01	1.51	2.23	2.36
Rand/USD	Rand per USD	13.87	14.31	15.25	16.26	17.35	19.76

Selected notes to the condensed group interim financial statements (continued)

for the six months ended 30 September 2016

5. Segment information

	Gene-ration	Trans-mission	Distri-bution	Energy purchases/sales	Group customer services	Group capital	All other segments	Reallocation and inter-segment transactions	Group
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
30 September 2016 (reviewed)									
External revenue	–	–	591	5 847	90 693	–	662	(662)	97 131
Inter-segment revenue/recoveries	62 664	5 906	13 917	5 095	(87 405)	(65)	5 890	(6 002)	–
Total revenue	62 664	5 906	14 508	10 942	3 288	(65)	6 552	(6 664)	97 131
Profit/(loss) before tax	7 541	2 046	3 930	(223)	1 227	(2 127)	1 446	(735)	13 105
Income tax	–	–	–	–	–	–	(3 948)	199	(3 749)
Profit/(loss) for the period	7 541	2 046	3 930	(223)	1 227	(2 127)	(2 502)	(536)	9 356
Segment assets	209 673	47 520	75 126	11 327	18 377	239 902	109 887	(22 732)	689 080
Segment liabilities	48 550	1 592	29 827	13 262	16 557	14 506	400 235	(22 030)	502 499
30 September 2015 (reviewed)									
External revenue	–	–	484	3 284	84 108	–	568	(568)	87 876
Inter-segment revenue/recoveries	58 828	5 045	12 867	5 263	(81 847)	–	6 008	(6 164)	–
Total revenue	58 828	5 045	13 351	8 547	2 261	–	6 576	(6 732)	87 876
Profit/(loss) before tax	7 499	1 972	3 700	(89)	1 813	(2 502)	1 669	457	14 519
Income tax	–	–	–	–	–	–	(4 044)	(128)	(4 172)
Profit/(loss) for the period	7 499	1 972	3 700	(89)	1 813	(2 502)	(2 375)	329	10 347
Segment assets	177 836	44 507	70 535	1 251	17 244	227 822	98 706	(26 169)	611 732
Segment liabilities	43 595	1 642	26 374	2 747	16 504	18 819	357 071	(26 137)	440 615
31 March 2016 (audited)									
External revenue	–	9	1 621	8 105	153 660	–	1 251	(1 251)	163 395
Inter-segment revenue/recoveries	110 536	7 232	20 809	10 949	(149 237)	(87)	11 205	(11 407)	–
Total revenue	110 536	7 241	22 430	19 054	4 423	(87)	12 456	(12 658)	163 395
Profit/(loss) before tax	2 254	759	2 538	(190)	2 149	(3 337)	2 824	108	7 105
Income tax	–	–	–	–	–	–	(2 449)	(39)	(2 488)
Profit/(loss) for the period	2 254	759	2 538	(190)	2 149	(3 337)	375	69	4 617
Segment assets	182 994	46 018	73 205	5 257	15 862	249 778	112 876	(25 305)	660 685
Segment liabilities	48 513	1 789	27 671	6 581	15 509	18 859	386 317	(25 117)	480 122

6. Issuances, repurchases and repayments of debt securities and borrowings and share capital

6.1 Debt securities and borrowings

The nature of the group's issuances, repurchases and repayments of debt securities and borrowings are consistent with those reported previously. The debt raised and repaid by the group is disclosed in the statement of cash flows.

6.2 Share capital

There was no change in share capital during the six months ended 30 September 2016.

7. Dividend paid

No dividend was paid to the shareholder during the six months ended 30 September 2016 nor in the comparative periods presented.

8. Significant events and transactions

The following significant movements occurred in the six months ending 30 September 2016:

8.1 Property, plant and equipment

Property, plant and equipment increased by R33 billion as a result of the continuing capital expansion programme as well as a new IPP finance lease asset.

8.2 Derivatives held for risk management

The net derivatives held for risk management decreased by R12 billion arising mainly from the strengthening of the rand against the euro and United States dollar.

8.3 Finance lease payables

Finance lease payables increased by R6 billion because of a new IPP power supply agreement.

9. Seasonality of interim results

The sale of electricity is subject to seasonal fluctuations where revenue is normally higher during the first six months of the financial year (winter months) as compared to the summer months, both in terms of tariff energy charges and peak demand.

	Reviewed six months ended 30 September 2016 Rm	Reviewed six months ended 30 September 2015 Rm	Audited year ended 31 March 2016 Rm
10. Revenue			
Electricity	96 474	87 484	161 688
Other	657	392	1 707
	97 131	87 876	163 395
Electricity revenue of R2 395 million (30 September 2015: R868 million; 31 March 2016: R1 472 million) was not recognised as it was assessed that there is a high probability that the related economic benefits will not materialise. Eskom continues to actively pursue recovery of these amounts.			
11. Primary energy			
Own generation costs	26 018	28 151	57 594
Environmental levy	4 167	4 091	8 120
International electricity purchases	1 396	2 149	3 660
Independent power producers	8 697	6 501	15 106
Other	102	107	248
	40 380	40 999	84 728
12. Employee benefit expense			
Gross employee benefit expense	17 461	15 387	32 523
Capitalised to property, plant and equipment	(1 703)	(1 581)	(3 266)
	15 758	13 806	29 257
13. Finance cost			
Gross finance cost	18 783	15 394	30 792
Capitalised to property, plant and equipment	(9 482)	(10 354)	(19 426)
	9 301	5 040	11 366
14. Income tax			
Income tax for the interim period is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year which is applied to the pre-tax income of the interim period.			

Selected notes to the condensed group interim financial statements (continued)

for the six months ended 30 September 2016

15. Fair value classification and measurement

15.1 Accounting classification and fair value

	Held-for- trading	Loans and receivables	Available- for-sale	Liabilities at amortised cost	Other assets and liabilities	Total carrying amount	Fair value
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
30 September 2016 (reviewed)							
Financial assets							
Investment in securities	–	–	13 455	–	–	13 455	13 455
Government bonds	–	–	3 530	–	–	3 530	3 530
Negotiable certificates of deposit	–	–	9 925	–	–	9 925	9 925
Loans receivable ¹	–	94	–	–	–	94	94
Derivatives held for risk management	195	–	–	–	22 032	22 227	22 227
Foreign exchange contracts	106	–	–	–	18	124	124
Cross-currency swaps	69	–	–	–	22 014	22 083	22 083
Commodity forwards	11	–	–	–	–	11	11
Credit default swaps	9	–	–	–	–	9	9
Finance lease receivables ¹	–	–	–	–	462	462	462
Trade and other receivables ¹	–	20 810	–	–	–	20 810	20 810
Financial trading assets	3 465	–	–	–	–	3 465	3 465
Repurchase agreements	1 900	–	–	–	–	1 900	1 900
Listed shares	1 209	–	–	–	–	1 209	1 209
Government bonds	356	–	–	–	–	356	356
Cash and cash equivalents	–	30 311	–	–	–	30 311	30 311
Bank balances	–	20 195	–	–	–	20 195	20 195
Unsettled deals	–	(223)	–	–	–	(223)	(223)
Fixed deposits	–	10 339	–	–	–	10 339	10 339
	3 660	51 215	13 455	–	22 494	90 824	90 824
Financial liabilities							
Debt securities and borrowings	–	–	–	332 920	–	332 920	308 797
Eskom bonds	–	–	–	138 652	–	138 652	135 389
Promissory notes	–	–	–	50	–	50	53
Commercial paper	–	–	–	3 979	–	3 979	3 538
Euro rand zero coupon bonds	–	–	–	4 747	–	4 747	4 697
Foreign bonds	–	–	–	55 188	–	55 188	56 651
Development financing institutions	–	–	–	83 969	–	83 969	64 234
Export credit facilities	–	–	–	37 067	–	37 067	35 675
Other loans	–	–	–	9 268	–	9 268	8 560
Embedded derivatives	–	–	–	–	6 894	6 894	6 894
Derivatives held for risk management	5 173	–	–	–	4 031	9 204	9 204
Foreign exchange contracts	3 049	–	–	–	964	4 013	4 013
Cross-currency swaps	943	–	–	–	3 067	4 010	4 010
Commodity forwards	1	–	–	–	–	1	1
Credit default swaps	1 180	–	–	–	–	1 180	1 180
Finance lease payables	–	–	–	–	10 183	10 183	10 722
Trade and other payables ¹	–	–	–	30 513	–	30 513	30 513
Financial trading liabilities	1 085	–	–	–	–	1 085	1 085
Short-sold government bonds	75	–	–	–	–	75	75
Repurchase agreements	1 010	–	–	–	–	1 010	1 010
	6 258	–	–	363 433	21 108	390 799	367 215

	Held-for-trading	Loans and receivables	Available-for-sale	Liabilities at amortised cost	Other assets and liabilities	Total carrying amount	Fair value
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
31 March 2016 (audited)							
Financial assets							
Investment in securities	–	–	10 226	–	–	10 226	10 226
Government bonds	–	–	3 769	–	–	3 769	3 769
Negotiable certificates of deposit	–	–	6 457	–	–	6 457	6 457
Loans receivable ¹	–	80	–	–	–	80	80
Derivatives held for risk management	1 130	–	–	–	29 052	30 182	30 182
Foreign exchange contracts	1 008	–	–	–	1 151	2 159	2 159
Cross-currency swaps	82	–	–	–	27 901	27 983	27 983
Commodity forwards	31	–	–	–	–	31	31
Credit default swaps	9	–	–	–	–	9	9
Finance lease receivables ¹	–	–	–	–	499	499	499
Trade and other receivables ¹	–	21 839	–	–	–	21 839	21 839
Financial trading assets	3 844	–	–	–	–	3 844	3 844
Repurchase agreements	2 044	–	–	–	–	2 044	2 044
Listed shares	1 187	–	–	–	–	1 187	1 187
Government bonds	613	–	–	–	–	613	613
Cash and cash equivalents	–	28 454	–	–	–	28 454	28 454
Bank balances	–	28 452	–	–	–	28 452	28 452
Unsettled deals	–	2	–	–	–	2	2
	4 974	50 373	10 226	–	29 551	95 124	95 124
Financial liabilities							
Debt securities and borrowings	–	–	–	322 658	–	322 658	282 770
Eskom bonds	–	–	–	126 466	–	126 466	120 216
Promissory notes	–	–	–	46	–	46	45
Commercial paper	–	–	–	4 822	–	4 822	4 822
Eurobond zero coupon bonds	–	–	–	4 462	–	4 462	3 358
Foreign bonds	–	–	–	58 815	–	58 815	54 739
Development financing institutions	–	–	–	82 976	–	82 976	58 602
Export credit facilities	–	–	–	37 597	–	37 597	34 465
Other loans	–	–	–	7 474	–	7 474	6 523
Embedded derivatives	–	–	–	–	7 025	7 025	7 025
Derivatives held for risk management	2 928	–	–	–	1 945	4 873	4 873
Foreign exchange contracts	1 482	–	–	–	106	1 588	1 588
Cross-currency swaps	382	–	–	–	1 839	2 221	2 221
Credit default swaps	1 064	–	–	–	–	1 064	1 064
Finance lease payables ¹	–	–	–	–	3 928	3 928	3 928
Trade and other payables ¹	–	–	–	32 922	–	32 922	32 922
Financial trading liabilities	1 250	–	–	–	–	1 250	1 250
Short-sold government bonds	227	–	–	–	–	227	227
Repurchase agreements	1 023	–	–	–	–	1 023	1 023
	4 178	–	–	355 580	12 898	372 656	332 768

1. The fair values of these financial instruments approximate their carrying amounts. The effect of discounting is not expected to be material.

Selected notes to the condensed group interim financial statements (continued)

for the six months ended 30 September 2016

15. Fair value classification and measurement (continued)

15.1 Accounting classification and fair value (continued)

	Held-for-trading	Loans and receivables	Available-for-sale	Liabilities at amortised cost	Other assets and liabilities	Total carrying amount	Fair value
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
30 September 2015 (reviewed)							
Financial assets							
Investment in securities	–	–	11 258	–	–	11 258	11 258
Government bonds	–	–	3 852	–	–	3 852	3 852
Negotiable certificates of deposit	–	–	7 406	–	–	7 406	7 406
Loans receivable ¹	–	8 911	–	–	–	8 911	7 395
Secured by mortgages	–	8 716	–	–	–	8 716	7 266
Other	–	195	–	–	–	195	129
Derivatives held for risk management	4 328	–	–	–	25 036	29 364	29 364
Foreign exchange contracts	3 249	–	–	–	1 169	4 418	4 418
Cross-currency swaps	1 060	–	–	–	23 867	24 927	24 927
Commodity forwards	10	–	–	–	–	10	10
Credit default swaps	9	–	–	–	–	9	9
Finance lease receivables ²	–	–	–	–	500	500	500
Trade and other receivables ²	–	23 059	–	–	–	23 059	23 059
Financial trading assets	5 515	–	–	–	–	5 515	5 515
Repurchase agreements	3 881	–	–	–	–	3 881	3 881
Listed shares	1 132	–	–	–	–	1 132	1 132
Government bonds	502	–	–	–	–	502	502
Cash and cash equivalents	–	12 846	–	–	–	12 846	12 846
Bank balances	–	8 628	–	–	–	8 628	8 628
Unsettled deals	–	(857)	–	–	–	(857)	(857)
Fixed deposits	–	3 804	–	–	–	3 804	3 804
Gilt carries	–	1 271	–	–	–	1 271	1 271
	9 843	44 816	11 258	–	25 536	91 453	89 937
Financial liabilities							
Debt securities and borrowings	–	–	–	297 449	–	297 449	282 910
Eskom bonds	–	–	–	118 296	–	118 296	115 910
Promissory notes	–	–	–	43	–	43	46
Commercial paper	–	–	–	7 369	–	7 369	8 971
Eurobond zero coupon bonds	–	–	–	4 194	–	4 194	3 322
Foreign bonds	–	–	–	55 454	–	55 454	52 909
Development financing institutions	–	–	–	68 205	–	68 205	52 671
Export credit facilities	–	–	–	36 314	–	36 314	33 828
Other loans	–	–	–	7 574	–	7 574	15 253
Embedded derivatives	–	–	–	–	7 089	7 089	7 089
Derivatives held for risk management	960	–	–	–	395	1 355	1 355
Foreign exchange contracts	116	–	–	–	24	140	140
Cross-currency swaps	2	–	–	–	371	373	373
Commodity forwards	2	–	–	–	–	2	2
Credit default swaps	840	–	–	–	–	840	840
Finance lease payables ²	–	–	–	–	482	482	482
Trade and other payables ²	–	–	–	30 159	–	30 159	30 159
Financial trading liabilities	1 662	–	–	–	–	1 662	1 662
Short-sold government bonds	264	–	–	–	–	264	264
Repurchase agreements	1 398	–	–	–	–	1 398	1 398
	2 622	–	–	327 608	7 966	338 196	323 657

1. The fair value of loans receivable is based on what a market participant would be willing to pay to acquire the loans. This participant would not have the ability to garnish salaries, thus increasing the probability of default resulting in a lower fair value than the group's carrying value.

2. The fair values of these financial instruments approximate their carrying amounts. The effect of discounting is not expected to be material.

Valuation processes

The group has a controlled framework with respect to the measurement of fair values. The framework includes a valuation team that 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. If third party information, such as broker quotes or pricing services, is used to measure fair value, then the valuation team assesses and documents the evidence obtained from the third parties to support their conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy that the resulting fair value estimate should be classified to.

Principal markets

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

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

15.2 Fair value hierarchy

There has been no change in the valuation technique 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 for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

Level 3: Inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfers have occurred.

Eskom'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)

There were no transfers between level 1, 2 or 3 of the fair value hierarchy during the six months ended 30 September 2016 nor in the comparative periods presented.

The valuation techniques used are as follows:

Level 1: Quoted prices (unadjusted) in active markets

The fair values of financial instruments traded in active markets are based on quoted market prices at the reporting date. 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. The quoted market price used for financial assets held by the group is the current bid price. For financial liabilities included in level 1, the current ask price is used. Instruments included in level 1 comprise listed investments classified as trading securities or available for sale.

Level 2: Inputs other than quoted prices included within level 1 that are observable

Financial instrument	Fair value determination
Derivatives	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
Non-derivatives including finance lease payables	A discounted cash flow technique is used, which uses expected cash flows and a market-related discount rate
Trade and other receivables and payables and finance lease receivables	The future cash flows are discounted at the implicit interest rate based on the contractual terms. The fair values approximate the carrying value as the effect of discounting at a market rate as opposed to an Eskom-specific rate is not expected to be material

Level 3: Inputs not based on observable market data (unobservable inputs)

Level 3 items are fair valued using unobservable inputs. For information on the valuation techniques and assumptions of embedded derivatives refer to page 9 and 17.

Selected notes to the condensed group interim financial statements (continued)

for the six months ended 30 September 2016

15. Fair value classification and measurement (continued)

15.2 Fair value hierarchy (continued)

The table below analyses fair value measurements which are categorised into the different levels in the fair value hierarchy based on the inputs to the valuation techniques used:

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
30 September 2016 (reviewed)				
Assets measured at fair value				
Investment in securities	3 530	9 925	–	13 455
Government bonds	3 530	–	–	3 530
Negotiable certificates of deposit	–	9 925	–	9 925
Derivatives held for risk management	–	22 227	–	22 227
Foreign exchange contracts	–	124	–	124
Cross-currency swaps	–	22 083	–	22 083
Commodity forwards	–	11	–	11
Credit default swaps	–	9	–	9
Financial trading assets	1 565	1 900	–	3 465
Repurchase agreements	–	1 900	–	1 900
Listed shares	1 209	–	–	1 209
Government bonds	356	–	–	356
	5 095	34 052	–	39 147
Liabilities measured at fair value				
Embedded derivatives	–	–	6 894	6 894
Derivatives held for risk management	–	9 204	–	9 204
Foreign exchange contracts	–	4 013	–	4 013
Cross-currency swaps	–	4 010	–	4 010
Commodity forwards	–	1	–	1
Credit default swaps	–	1 180	–	1 180
Financial trading liabilities	75	1 010	–	1 085
Short-sold government bonds	75	–	–	75
Repurchase agreements	–	1 010	–	1 010
	75	10 214	6 894	17 183
31 March 2016 (audited)				
Assets measured at fair value				
Investment in securities	3 769	6 457	–	10 226
Government bonds	3 769	–	–	3 769
Negotiable certificates of deposit	–	6 457	–	6 457
Derivatives held for risk management	–	30 182	–	30 182
Foreign exchange contracts	–	2 159	–	2 159
Cross-currency swaps	–	27 983	–	27 983
Commodity forwards	–	31	–	31
Credit default swaps	–	9	–	9
Financial trading assets	1 800	2 044	–	3 844
Repurchase agreements	–	2 044	–	2 044
Listed shares	1 187	–	–	1 187
Government bonds	613	–	–	613
	5 569	38 683	–	44 252
Liabilities measured at fair value				
Embedded derivatives	–	–	7 025	7 025
Derivatives held for risk management	–	4 873	–	4 873
Foreign exchange contracts	–	1 588	–	1 588
Cross-currency swaps	–	2 221	–	2 221
Credit default swaps	–	1 064	–	1 064
Financial trading liabilities	227	1 023	–	1 250
Short-sold government bonds	227	–	–	227
Repurchase agreements	–	1 023	–	1 023
	227	5 896	7 025	13 148

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
30 September 2015 (reviewed)				
Assets measured at fair value				
Investment in securities	3 852	7 406	–	11 258
Government bonds	3 852	–	–	3 852
Negotiable certificates of deposit	–	7 406	–	7 406
Derivatives held for risk management	–	29 364	–	29 364
Foreign exchange contracts	–	4 418	–	4 418
Cross-currency swaps	–	24 927	–	24 927
Commodity forwards	–	10	–	10
Credit default swaps	–	9	–	9
Financial trading assets	1 634	3 881	–	5 515
Repurchase agreements	–	3 881	–	3 881
Listed shares	1 132	–	–	1 132
Government bonds	502	–	–	502
	5 486	40 651	–	46 137
Liabilities measured at fair value				
Embedded derivatives	–	–	7 089	7 089
Derivatives held for risk management	–	1 355	–	1 355
Foreign exchange contracts	–	140	–	140
Cross-currency swaps	–	373	–	373
Commodity forwards	–	2	–	2
Credit default swaps	–	840	–	840
Financial trading liabilities	264	1 398	–	1 662
Short-sold government bonds	264	–	–	264
Repurchase agreements	–	1 398	–	1 398
	264	2 753	7 089	10 106

The movement in the fair value measurements in level 3 of the fair value hierarchy is as follows:

	Embedded derivatives Rm
Balance at 31 March 2015	8 022
Net fair value gain	(933)
Balance at 30 September 2015	7 089
Net fair value gain	(64)
Balance at 31 March 2016	7 025
Net fair value gain	(131)
Balance at 30 September 2016	6 894

The fair value of embedded derivatives is determined by using a forward electricity price curve to value the host contract and the derivative contract is valued by using market forecasts of future commodity prices, rand/USD exchange rate, interest rate differential, future sales volumes, production prices and liquidity, model risk and other economic factors.

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 to the reporting currency at the spot rand/USD exchange rate. 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 contracts or from independent market sources where appropriate. These assumptions are:

- spot and forward commodity prices
- spot and forward rand/USD exchange rates
- spot and forward interest rates
- forecast sales volumes
- spot and forward consumer and foreign production prices indices
- liquidity, model risk and other economic factors

Embedded derivatives that are not separated are effectively accounted for as part of the hybrid instrument. Non-option based derivatives are separated on terms that result in a fair value at the date of inception of zero. Option-based derivatives are separated on the terms stated in the contracts and will not necessarily have a fair value equal to zero at the initial recognition of the embedded derivative resulting in day-one gains 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 only significant unobservable input is the US PPI.

Selected notes to the condensed group interim financial statements (continued)

for the six months ended 30 September 2016

15. Fair value classification and measurement (continued)

15.2 Fair value hierarchy (continued)

Sensitivity analysis

The approximate change in the value of embedded derivatives if one of the inputs is changed is disclosed below. The analysis assumes that all other variables remain constant and the possible impact on profit or loss is:

	Unit change	Reviewed 30 September 2016		Audited 31 March 2016		Reviewed 30 September 2015	
		increase	decrease	increase	decrease	increase	decrease
		Rm	Rm	Rm	Rm	Rm	Rm
Aluminium price	1%	78	(78)	87	(87)	97	(97)
Rand interest rate	100 basis points	454	(489)	468	(497)	573	(615)
Dollar interest rate	100 basis points	(303)	309	(321)	335	(395)	410
Electricity tariffs	1%	(277)	273	(263)	258	(400)	392
United States PPI	1%	153	(156)	128	(124)	162	(161)
Rand/USD	1%	104	(98)	106	(103)	120	(116)

15.3 Day-one gain/(loss)

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

	Cross-currency swaps Rm	Credit default swaps Rm	Total Rm
Gain at 31 March 2015	732	24	756
Day-one loss recognised	(106)	–	(106)
Amortised to profit or loss	(461)	–	(461)
Gain at 30 September 2015	165	24	189
Day-one loss recognised	(200)	–	(200)
Amortised to profit or loss	(6)	–	(6)
(Loss)/gain at 31 March 2016	(41)	24	(17)
Day-one loss recognised	(611)	–	(611)
Amortised to profit or loss	36	(24)	12
Loss at 30 September 2016	(616)	–	(616)

16. Material events subsequent to 30 September 2016

There were no material events after the reporting date.

17. Restatement of comparatives





Eskom restated the financial statements at 31 March 2016 because of a change in the measurement basis of cross-currency swaps classified as held for risk management and as a result, the statement of financial position and income statement at 30 September 2015 were restated accordingly. Eskom makes use of a valuation technique in terms of IFRS to determine the fair value of cross-currency swaps that are held for risk management. Eskom reviewed and improved the valuation technique to better reflect non-performance risk, in particular credit risk taking into account the credit value adjustment (CVA) of the counterparty and debit value adjustment (DVA) of Eskom. This resulted in a value that is more representative of the net credit exposure to a counterparty.

The tax treatment of the conversion of the subordinated loan from the shareholder to equity was updated at 30 September 2015 to reflect the treatment applied at 31 March 2016. The related tax impact was charged against the statement of changes in equity to better reflect where the underlying transaction took place instead of applying the charge to the income statement as had been done previously.

The impact of the restatement for the period ended 30 September 2015 is as follows:

	Previously reported Rm	Adjustments Rm	Restated Rm
Statement of financial position at 30 September 2015			
Assets			
Non-current			
Derivatives held for risk management	31 048	(6 389)	24 659
Equity			
Capital and reserves attributable to owner of the company	175 717	(4 600)	171 117
Liabilities			
Non-current			
Derivatives held for risk management	840	–	840
Deferred tax	24 164	(1 789)	22 375
Income statement for the period ended 30 September 2015			
Profit before depreciation and amortisation expense and net fair value (loss)/gain (EBITDA)	25 595	–	25 595
Depreciation and amortisation expense	(7 609)	–	(7 609)
Net fair value (loss)/gain on financial instruments	(668)	671	3
Profit before net finance cost	17 318	671	17 989
Net finance cost	(3 498)	–	(3 498)
Finance income	1 542	–	1 542
Finance cost	(5 040)	–	(5 040)
Share of profit of equity-accounted investees, net of tax	28	–	28
Profit before tax	13 848	671	14 519
Income tax	(2 539)	(1 633)	(4 172)
Profit for the period	11 309	(962)	10 347

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