Eskom | Powering your world

Annual financial statements

31 March 2016

Contents

The annual financial statements have been prepared under the supervision of the chief financial officer, A Singh CA(SA). The financial statements have been audited in compliance with section 30 of the Companies Act and approved by the board of directors on 31 May 2016. The audited financial statements of the group and Eskom 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 and were published on 5 July 2016.

Statement of directors' responsibilities and approval

The board of directors (board) are responsible for the maintenance of adequate accounting records and appropriate systems of internal control as well as the preparation, integrity and fair presentation of the annual consolidated financial statements which includes financial results, performance against predetermined objectives and the financial position at the end of the year of Eskom Holdings SOC Ltd (Eskom), its subsidiaries, joint ventures, associates and structured entities (together, the group). The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Public Finance Management Act (PFMA), and the South African Companies Act (Companies Act).

In preparing the annual financial statements, the directors are required to consistently apply appropriate accounting policies, make reasonable and prudent judgements and estimates, state whether applicable accounting standards have been followed and whether the annual financial statements for Eskom and the group will continue to be prepared on the going-concern basis in the foreseeable future.

To enable the Eskom board of directors to meet the above mentioned responsibilities, the board sets standards and management implements systems of internal control. The controls are designed to provide assurance that assets are safeguarded, and that liabilities and working capital are efficiently managed. Policies, procedures, structures and approval frameworks provide direction, accountability and division of responsibilities, and contain self-monitoring mechanisms. The controls throughout Eskom and the group focus on those critical risk areas identified by operational management and confirmed by executive management. Both management and the internal audit department closely monitor the controls, and actions are taken to correct deficiencies as they are identified.

Eskom's audit and risk committee plays an integral role in risk management as well as in overseeing Eskom's internal audit function (audit and forensic). The group's internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the group's audit and risk committee, assesses and, when necessary, recommends improvements to the system of internal control and accounting policies, based on audit plans and outcomes that take cognisance of the relative degrees of risk of each function or aspect of the business.

Eskom's audit and risk committee has reviewed the going-concern basis and the effectiveness of Eskom and the group's internal controls. The committee has evaluated Eskom and the group's annual financial statements and has recommended their approval to the board. The audit and risk committee's approval is set out on page 3.

Based on the information and explanations given by management, the internal audit function and discussions held with the independent external auditors, the directors are of the opinion that the internal accounting controls of Eskom and the group are adequate to ensure that the financial records may be relied upon for preparing the annual financial statements, and that accountability for assets and liabilities is maintained.

The directors have made an assessment of the ability of Eskom and the group to continue as a going concern in the foreseeable future. The directors reviewed Eskom's and the group's performance for the year ended 31 March 2016 and the cash flow forecast for the 15 months ending 30 June 2017.

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 directors are 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 continued to adopt the going-concern basis in preparing the financial statements.

These annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates and are prepared on the going-concern basis.

In the opinion of the directors, based on the information available to date, the annual financial statements fairly present the financial position of Eskom and the group at 31 March 2016 and the results of its operations and cash flow information for the year then ended.

The independent external auditors are responsible for independently auditing the financial statements in accordance with International Standards of Auditing (ISA) and the Public Audit Act (PAA). The independent external auditors audited the Eskom and group annual financial statements in accordance with ISA and the PAA and their unqualified audit report is presented on page 11. The independent external auditors were given unrestricted access to all financial records and related data, including minutes of all meetings of the board of directors and committees of the board. The directors believe that all representations made to the independent external auditors during their audit are valid and appropriate.

The Eskom and group annual financial statements for the year ended 31 March 2016 have been prepared under the supervision of the chief financial officer A Singh CA(SA), and approved by the board of directors and signed on its behalf on 31 May 2016 by:

B Ngubane
Chairman

31 May 2016

B Molefe
Group chief executive

31 May 2016

A Singh
Chief financial officer

31 May 2016

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 Code of Governance Principles for South Africa for the financial year ended 31 March 2016.

The role of the committee is defined in its mandate. It covers, amongst others, its statutory duties and the 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 information technology governance. Information on the membership and composition of the committee is set out in the 2016 integrated report and related information on the Eskom website.

The committee fulfilled all its statutory duties as required by section 94(7)(f) of the Companies Act. The committee reports that it has adopted an 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 of its responsibilities contained therein.

Eskom 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 Eskom's financial and non-financial objectives are achieved and that the preparation of financial statements for external purposes is in accordance with IFRS.

Execution of functions

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

Going concern assumption

The committee considered the following:

- robustness of budgets and business results
- cash flow projections for the 15 months ending 30 June 2017
- regulatory clearing account (RCA) mechanism Multi-Year Price Determination (MYPD) 3
- cost saving opportunities to reduce the revenue shortfall
- the cost of the capital projects, including the capacity expansion programme
- funding plan to finance the capacity expansion programme
- going concern as the basis of preparation of the annual financial statements

Oversight of financial and non-financial reporting and disclosure

The committee considered the following:

- annual financial statements for fair presentation with the relevant requirements of the PFMA, Companies Act and IFRS
- adequacy, reliability and accuracy of financial and non-financial information provided by management and risks that may impact the integrity of the integrated report
- the integrated report is presented in accordance with the International Integrated Reporting Framework
- disclosure of sustainability information in the integrated report to ensure that it is reliable and it does not conflict with the financial information
- the expertise, resources and experience of the finance function

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
- reviewed 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
  - the effectiveness of the entity's compliance with legal and regulatory requirements

Internal and external audit

The committee considered the following:

- 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 and other applicable requirements
- external audit plan, audit budget, actual fee and terms of engagement of the external auditors
- the independence and objectivity of the external auditors
- 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 and compliance processes are adequate
- 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 operated effectively
- the information contained in the integrated report and related information on the Eskom website is reliable and does not contradict the information in the annual financial statements
- Eskom and the group have access to adequate resources and facilities to be able to continue their operations for the foreseeable future, it supporting the going concern assumption
- it is satisfied with the independence and objectivity of the external auditors having considered the matters set out in section 94(8) of the Companies Act

The committee considered the restatement in the financial statements as a result of the improvement in the valuation technique of cross-currency swaps as well as the level of the valuation skills in the organisation to value derivatives held for risk management. It also considered the irregular and fruitless and wasteful expenditure reported in terms of the PFMA. Notwithstanding these aspects, the committee is satisfied 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 financial statements of Eskom and the group for the year ended 31 March 2016 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 with the board and management that the adoption of the going-concern premise in the preparation of the financial statements is appropriate.

The committee has therefore, at their meeting held on 23 May 2016, recommended the adoption of the financial statements by the board.

C Mabude
Chairman

31 May 2016

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.

SM Daniels
Company secretary

31 May 2016

Directors' report

for the year ended 31 March 2016

The directors are pleased to present their report for the year ended 31 March 2016.

Nature of the business

Eskom is South Africa's primary electricity supplier and generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers and to redistributors (metropolitan and other municipalities), who in turn distribute electricity to businesses and households within their areas of supply. The company's head office is in Johannesburg. Eskom also purchases electricity from Independent Power Producers (IPPs), as well as buys and sells electricity in the Southern African Development Community region.

The company has several subsidiaries. The nature of the business of the significant operating subsidiaries is set out in note 12 in the annual financial statements.

Business strategy

There was a significant improvement in the performance of the business that was achieved through the stabilisation of:

- executive management
- generation plant performance
- liquidity position

Eskom recognises the need for fundamental operational changes if it is to provide affordable, sustainable electricity supply, whilst delivering credibility and financial sustainability in the long term.

The corporate plan, approved by the board on 25 February 2016, is grounded in the design-to-cost (DTC) paradigm which is underpinned by two maxims, namely cost optimisation and moderate price increases. Achieving this paradigm shift will require Eskom to:

- improve the generation energy availability factor (EAF) to 80% by 2021
- complete the Ingula, Medupi and Kusile power stations by 2017, 2020 and 2022 respectively
- optimise its capital expenditure portfolio through prioritisation and cost optimisation
- ensure revenue certainty through the regulatory mechanism of RCAs and the submission of MYPD 4
- drive cost containment by optimising primary energy, manpower and other external expenses
- optimise the balance sheet in the short term for funding
- ensure regulatory and legal compliance
- deliver on government's strategic objectives of transformation, IPPs and other key initiatives
- improve Eskom's credibility through improved performance in the short term

Financial review

The group achieved a net profit after tax of R4.6 billion (2015: R0.2 billion) for the year ended 31 March 2016. An earnings before interest, taxation, depreciation and amortisation (EBITDA) of R32.0 billion (2015: R23.3 billion) was achieved by the group, representing an increase of 37.3%.

Revenue amounted to R163.4 billion (2015: R147.7 billion), an increase of 10.6%. The electricity sales of 214 487GWh were 0.83% lower than the prior year. Eskom was a net exporter of electricity this year by 3 762GWh (2015: 1 180GWh) mainly due to the drought in southern Africa, providing opportunities during periods of surplus capacity. International revenue amounted to R8.1 billion (2015: R6.3 billion).

Primary energy costs were R84.7 billion (2015: R83.4 billion). Own generation costs of R57.6 billion (2015: R61.6 billion) include R8.7 billion (2015: R9.5 billion) which was spent on diesel for the open cycle gas turbines (OCGTs) to generate 3 936GWh (2015: 3 709GWh). The IPPs generated 9 033GWh (2015: 6 022GWh) at a cost of R15.1 billion (2015: R9.5 billion). Eskom spent R8.1 billion and R3.7 billion (2015: R8.4 billion and R3.7 billion) on environmental levy and international electricity purchases respectively.

Other operating expenditure in addition to primary energy amounted to R65.6 billion (2015: R59.6 billion) driven largely by increases in employee expenses, depreciation and repairs and maintenance. Eskom (company) spent R13.3 billion (2015: R12.4 billion) on repairs and maintenance during the year.

The capital expenditure cash flows on property, plant and equipment, intangible assets and future fuel, excluding capitalised borrowing costs, amounted to R55.9 billion (2015: R54.4 billion), mainly due to expenditure on the capital expansion programme and generation outages.

Operating performance

Unit 6 of the Medupi power station (720MW) has been in commercial operation since August 2015. Units 3 and 4 of the Ingula power station were synchronised on 3 and 25 March 2016 respectively.

There was no load shedding during the second half of the financial year, although load curtailment of key customers was initiated on 9 October 2015.

Unit 3 of Ingula power station was successfully synchronised to the national grid and performed excellently for over a month, but an unfortunate incident occurred on 6 April 2016 when the unit faulted and was damaged during the commissioning and optimisation of the unit by the contractor. A full investigation to evaluate the extent of the damage is underway. The unit will be repaired and put into commercial operation before the end of the 2017 financial year.

The generation EAF declined to 71.07% compared to 73.73% at 31 March 2015. The EAF improved considerably during the second half of the year and minimised the reliance on the OCGTs.

The water performance of 1.44l/kWhSO (2015: 1.38l/kWhSO) for the year is worse than the previous year, while the particulate emissions performance of 0.36kg/MWhSO (2015: 0.37kg/MWhSO) was better than the previous year.

The conversion of the OCGTs to dual fuel (gas or diesel) will be completed during the upcoming outages at the Gourikwa and Ankerlig power stations during 2017, considering that the conversion is outage dependent. Gas sourcing activities are underway.

Operating performance (continued)

There was excellent transmission system minutes <1 and line fault performance, with a new best reported performance of 2.41 (2015: 2.85) system minutes <1 and 1.51 (2015: 2.01) faults per 100 km. The frequency and duration of distribution network incidents was better than target.

Eskom's safety performance remains a concern, particularly in light of the number of fatalities and serious injuries suffered by employees, contractors and the public. Safety improvement initiatives focus on instilling responsible safety behaviour across the organisation, leading towards Eskom's value of Zero Harm.

For more information on operating performance refer to page 34 of the integrated report.

Economic regulation

Eskom's regulatory strategy aims to deliver a price path to support economic growth and improve its financial and business sustainability. Eskom needs long-term revenue certainty and stability to ensure its financial sustainability and to reassure lenders that they will earn a return on investment.

NERSA allowed Eskom additional revenue of R11.2 billion for the 2017 financial year in respect of the RCA application for 2014. However, this still leaves Eskom with an estimated revenue shortfall of R6 billion due to the lower determination by NERSA and the reduction in estimated sales volumes. This revenue shortfall will be made up by increasing sales across the country borders, reprioritising the capital expenditure portfolio and additional cost savings.

Eskom will apply through the MYPD methodology for RCA adjustments for the 2015 and 2016 financial years by July 2016.

NERSA is revising the methodology that will be applicable to the MYPD 4 regulatory cycle. Eskom submitted comments detailing the main concerns and proposals on the NERSA consultation paper. These include establishing a mechanism and criteria for the migration path towards cost-reflectivity. It should also include the price-path slope and timeframe within which cost-reflectivity will be achieved. The ring-fencing of revenue intended to cover the cost of power purchases from IPPs and the recovery of any variances between actual and estimated expenses should also be addressed.

Eskom will submit a new MYPD application once discussions with NERSA have been finalised regarding the revised regulatory methodology. Eskom aims to smooth the impact of potential price increases above inflation over a longer period, as opposed to creating shorter term price fluctuations.

Financial sustainability and liquidity

Eskom and the government are taking several steps to address the current and the future financial sustainability and liquidity of Eskom. These include:

- the current liquidity position (cash and cash equivalents of R28.5 billion, plus investments in securities of R10.2 billion) was R38.7 billion (2015: R17.4 billion)
- the board approved a revised borrowing programme of R327 billion, covering the period 1 April 2016 to 31 March 2021. Committed funding of R31.7 billion or 46% of the funding requirement of R68.5 billion for the 2017 financial year has already been secured at 31 March 2016. Potential funding sources have been identified and plans are in place to secure this funding
- the government injected equity of R23 billion into Eskom during the 2016 financial year
- the government converted the R60 billion subordinated loan into equity during the financial year. The conversion did not result in any cash inflows, but it alleviated the need to repay this loan in the future and removed the need to account for the unwinding of the interest thereon. The largest positive impact of the conversion is the strengthening of the debt/equity ratio and financial gearing of Eskom
- Eskom implemented the Business Productivity Programme (BPP)/DTC programme which aims to deliver cost saving opportunities to assist in closing the revenue shortfall. Savings of R17.5 billion (2015: R8.7 billion) were achieved against a target of R13.4 billion. The inception-to-date savings amounted to R29 billion against a target of R26 billion
- the credit rating of Standard and Poor's remained unchanged. Moody's revised their outlook from stable to negative on 9 May 2016. Fitch downgraded the standalone credit rating of Eskom from B to B- during March 2016, but it remains at investment grade level
- Eskom continues to engage with municipalities as well as local and national government stakeholders, to find amicable business solutions for the payment defaults. The residential revenue management strategy focuses on energy protection through the installation of split metering and the conversion of meters of non-paying credit metering customers to prepaid meters

The concern raised by the external auditors in the prior year relating to the going concern is no longer considered relevant due to the above.

Governance and risk

Changes in the board of directors

Mr Norman Baloyi was removed as a director by the Minister of Public Enterprises on 22 April 2015 due to a breach of fiduciary duties in terms of section 76 of the Companies Act. Mr Tshediso Matona, chief executive, and Ms Tsholofelo Molefe, finance director, reached an agreement with Eskom that resulted in their resignations effective 31 May 2015 and 30 June 2015 respectively.

The shareholder approved the appointment of two new directors, Ms Mariam Cassim and Mr Giovanni Michele Leonardi, a Swiss national, on 25 May 2015. Dr Baldwin Ngubane was appointed as chairman of the board on 1 October 2015, after acting as chairman since March 2015. The minister appointed the group chief executive, Mr Brian Molefe, and the chief financial officer, Mr Anoj Singh, as members of the board effective from 1 October 2015.

Subsequent to year end, Mr Romeo Kumalo and Ms Mariam Cassim resigned as directors on 12 April 2016 and 14 April 2016 respectively.

Changes in the executive committee

Mr Dan Marokane, group executive: group capital, reached an agreement with Eskom that resulted in his resignation effective 1 June 2015.

Mr Brian Molefe was appointed as group chief executive and Mr Anoj Singh as chief financial officer with effect from 25 September 2015, following their secondment from Transnet.

A new executive committee structure was announced on 22 October 2015 to stabilise and strengthen Eskom's leadership to implement the turnaround strategy.

For more information on governance refer to page 99 of the integrated report.

Risks facing Eskom

Eskom's risk profile has changed significantly in recent years, driven by challenges associated with the shortage of electricity supply and financial constraints that are affecting the ability to sustain operations.

Eskom is on a sound operational and financial footing compared to a year ago. The organisation has been stabilised with new leadership and intensified staff engagements.

Liquidity and financial performance

The group's liquidity position has improved dramatically largely due to the equity injection of R23 billion from the shareholder.

Eskom is confident that its financial plan adequately addresses the concerns raised by rating agencies regarding profitability, liquidity and cost containment.

Eskom's financial health is expected to improve slightly in the short term as it completes major investments in new and existing capacity and services debt commitments. The five-year plan will create a platform for Eskom to make a step-change in financial health over the last five years to 2026, while delivering an affordable electricity price path for South Africa.

Operational performance

Plant availability improved during the year from a monthly average of 67.84% in April 2015 to 74.21% in March 2016, and as a result, the reliance on OCGTs reduced considerably. Operating challenges are being addressed by the addition of new capacity and the drive to improve plant availability (EAF) to 80% by 2021.

For more information on integrating risk and resilience refer to page 24 of the integrated report.

Internal control and combined assurance

The board, through the audit and risk committee, ensures that internal controls are effective and adequately reported on for auditing and regulatory purposes. Eskom applies a combined assurance model in line with King III to ensure coordinated assurance activities. This model gives the audit and risk committee an overview of significant risks as well as the effectiveness of critical controls to mitigate these risks. The principles for the combined assurance model are embedded in the combined assurance framework. Eskom's internal audit function is managed by the assurance and forensics department which reports directly to the audit and risk committee.

The directors considered the restatement in the annual financial statements as well as the irregular and fruitless and wasteful expenditure in terms of the Public Finance Management Act (PFMA). They are of the view that, despite these aspects, the control environment is adequate in relation to the preparation of the annual financial statements.

For further information regarding the restatement and irregular and fruitless and wasteful expenditure refer to notes 49 and 52 respectively in the annual financial statements.

Performance in terms of the shareholder compact

The Government of South Africa, represented by the Minister of Public Enterprises, is Eskom's sole shareholder. Each year, in consultation with the shareholder and in line with the PFMA, Eskom agrees on its performance objectives, measures, indicators and targets. Quarterly reports are provided to the shareholder.

Eskom annually prepares a corporate plan to comply with the requirements of the PFMA and National Treasury Regulations. The consolidated corporate plan is submitted to the Department of Public Enterprises (DPE) and National Treasury in February annually. The latest plan covers the five-year period from 1 April 2016 to 31 March 2021.

Performance in terms of the shareholder compact (continued)

The table below sets out Eskom's performance in terms of the key performance indicators (KPIs) in the shareholder compact that was reviewed by the external auditors.

The actual performance against the year end target is indicated as follows:

- ● Actual performance for the year is better than target
- ● Actual performance for the year is worse than target
- ● Actual performance for the year approximates target (within a 5% threshold)

			Company				
Key performance indicator	Ref	Unit	Target 2016		Actual 2016	Actual 2015	Actual 2014
Focus on safety							
Employee lost-time injury rate (LTIR)		index	0.31	●	0.30	0.33	0.31
Sustainable asset base whilst ensuring security of supply							
Internal energy efficiency	11	GWh	1.20	●	1.70	10.40	19.40
Put customer at the centre							
Eskom KeyCare		index	102.00	●	104.30	108.70	108.70
Enhanced MaxiCare		index	93.70	●	96.50	99.80	92.70
Improve operations							
Unplanned capability loss factor (UCLF)	1	%	13.90	●	14.91	15.22	12.61
Energy availability factor (EAF)		%	74.10	●	71.07	73.73	75.13
System average interruption duration index (SAIDI)	12	hours	41.00	●	38.60	36.20	37.00
System average interruption frequency index		events	21.00	●	20.50	19.70	20.20
System minutes lost for events < 1	13	minutes	3.80	●	2.41	2.85	3.05
Deliver capital expansion							
Generation capacity installed and commissioned (commercial operation)		MW	794	●	794	100	n/a
Generation capacity installed: Ingula Unit 3 and 4 first synchronisation in quarter 4		synchronised capacity	yes	●	yes	n/a	n/a
Transmission lines installed		km	341.00	●	345.80	318.60	161.80
Transmission transformer capacity installed and commissioned	14	MVA	2 120	●	2 435	2 090	90
Reduce environmental footprint in existing fleet							
Relative particulate emissions		kg/MWh sent out	0.35	●	0.36	0.37	0.35
Specific water consumption		l/kWh sent out	1.39	●	1.44	1.38	1.35
Implementing coal haulage and the road-to-rail migration plan							
Migration of coal delivery from road to rail (additional tonnage transported on rail)		Mt	13.60	●	13.60	12.60	11.60
Ensure financial sustainability							
Cost of electricity (excluding depreciation)		R/MWh	647.66	●	640.03	610.43	541.92
Interest cover	15	ratio	0.26	●	0.46	0.25	0.52
Debt/equity (including long-term provisions)	16	ratio	2.05	●	1.73	2.70	2.21
Free funds from operations (FFO) as a % of gross debt	17	%	8.87	●	10.48	10.93	9.21
BPP savings	18	R billion	13.40	●	17.45	8.70	2.30
Human capital							
Training spend as % of gross employee benefit costs	2	%	5.00	●	4.45	6.18	7.87
Learner throughput or qualifying	3	number	1 200	●	1 108	424	n/a
Disability equity in total workforce	19	%	2.50	●	2.97	3.12	2.99
Racial equity in senior management (black employees)		%	63.00	●	60.90	61.58	59.50
Racial equity in professionals and middle management (black employees)		%	73.00	●	71.98	72.28	71.20
Gender equity in senior management (female employees)	4	%	32.00	●	28.07	29.83	28.90
Gender equity in professionals and middle management (female employees)	5	%	38.00	●	36.01	36.10	35.80

Key performance indicator	Ref	Unit	Company Target 2016		Actual 2016	Actual 2015	Actual 2014
Economic impact							
Local content contracted (Eskom-wide)	20	%	65.00	●	75.22	25.13	40.80
Local content contracted (new build)	21	%	65.00	●	84.04	33.62	54.60
Percentage of broad-based black economic empowerment spend		% of TMPS	80.00	●	83.08	88.89	93.90
Procurement spend with black-owned suppliers	6	% of TMPS	40.00	●	30.98	34.91	32.70
Procurement spend with black women-owned suppliers	22	% of TMPS	12.00	●	17.72	6.61	7.20
Procurement spend with black youth-owned suppliers	7	% of TMPS	2.00	●	0.82	0.64	1.00
Procurement spend with suppliers owned by black people with disabilities	8	% of TMPS	1.00	●	0.01	–	–
Procurement spend with qualifying small enterprises	9	% of TMPS	15.00	●	4.03	6.74	n/a
Procurement spend with exempted enterprises	10	% of TMPS	15.00	●	4.81	5.12	n/a
Technology transfer							
Acquisition of intellectual property	23	R million	40.00	●	54.00	n/a	n/a
Skills development	24	number of people	20	●	29	n/a	n/a
Job creation	25	number of people	30	●	54	n/a	n/a

The reasons per indicator, where the performance per the shareholder compact is not within the tolerance threshold of 5%, are discussed below:

- ● Exceeded target by more than 5%
- ● Below target by more than 5%

Ref	Key performance indicator	Target 2016		Actual 2016	Reason for actual performance below target by more than 5% threshold
	Improve operations				
1.	Unplanned capability loss factor	13.90	●	14.91	Higher unplanned maintenance required due to partial load losses and boiler tube failures UCLF has improved from a monthly average of 16.15% in April 2015 to 11.48% in March 2016, due to a focus on reducing partial load losses and maintenance improvements
	Human capital				
2.	Training spend as % of gross employee benefit costs	5.00	●	4.45	Robust cost-savings drive through the DTC initiatives impacted training spend
3.	Learner throughput or qualifying	1 200	●	1 108	
4.	Gender equity in senior management (female employees)	32.00	●	28.07	These indicators were negatively impacted by limited opportunities to recruit
5.	Gender equity in professionals and middle management (female employees)	38.00	●	36.01	
	Economic impact				
6.	Procurement spend with black-owned suppliers	40.00	●	30.98	Some large black-owned suppliers delayed the renewing of their B-BBEE certificates, resulting in less spend. Processes need to be enhanced to ensure that the B-BBEE administration is up to date. Eskom will focus on opportunities to increase the coal tonnages with the black-owned entities
7.	Procurement spend with black youth-owned suppliers	2.00	●	0.82	
8.	Procurement spend with suppliers owned by black people with disabilities	1.00	●	0.01	The majority of these vendors have low-value contracts. The procurement spend from these suppliers is therefore small relative to Eskom's total procurement spend. Strategies need to be established to assist these entities to meet the technical and SHEQ requirements. Processes need to be enhanced to ensure that the B-BBEE administration is up to date
9.	Procurement spend with qualifying small enterprises	15.00	●	4.03	
10.	Procurement spend with exempted enterprises	15.00	●	4.81	

Performance in terms of the shareholder compact (continued)

Ref	Key performance indicator	Target 2016		Actual 2016	Reason for actual performance above target by more than 5% threshold
	Sustainable asset base whilst ensuring security of supply				
11.	Internal energy efficiency	1.20	●	1.70	More effective results for projects than initially planned
	Improve operations				
12.	SAIDI	41.00	●	38.60	Continued managerial focus on maintenance and capital investment resulted in a better than targeted performance
13.	Total system minutes lost for events <1 minute	3.80	●	2.41	A new best-ever reported system minutes <1 result was achieved supported by excellent performances with various leading indicators such as the number of line faults, maintenance execution as well as improved plant availability and human performance
	Deliver capital expansion				
14.	Transmission transformer capacity installed and commissioned	2 120	●	2 435	Commissioning of the 315MVA transformer at Kookfontein substation was accelerated due to the availability of an outage, which presented an opportunity to commission the transformer
	Ensure financial sustainability				
15.	Interest cover	0.26	●	0.46	Favourable due to higher earnings before tax and interest than budgeted mainly due to lower primary energy costs, savings on operating costs, offset by reduced revenue. In addition the net finance costs were lower stemming from the changes to the phasing of foreign funding, cancellation of facilities and delays in drawdowns and conversion of subordinated loan from the shareholder to equity
16.	Debt/equity (including long-term provisions)	2.05	●	1.73	Better than target mainly due to the conversion of the R60 billion subordinated loan from the shareholder and receipt of R23 billion equity injection from government
17.	FFO as a % of gross debt	8.87	●	10.48	FFO is higher than the budget as a result of working capital adjustments and favourable cash from operations
18.	BPP savings	13.40	●	17.45	Better performance mainly as a result of savings compared to budget for coal and water related costs
	Human capital				
19.	Disability equity in total workforce	2.50	●	2.97	Eskom initiated a programme to ensure that all facilities are disabled friendly and where necessary reasonable accommodation implemented. As a result more people with disabilities could be employed
	Economic impact				
20.	Local content contracted (Eskom-wide)	65.00	●	75.22	The positive performance is because of management's focus on procurement from local suppliers and improved reporting
21.	Local content contracted (new build)	65.00	●	84.04	
22.	Procurement spend with black women-owned suppliers	12.00	●	17.72	The improvement is due to the new codes effective during the year which recognise spend with suppliers that are 30% owned by black women compared to 50% previously
	Technology transfer				
23.	Acquisition of intellectual property	40.00	●	54.00	These measures were included as a new initiative during the current year. Target setting was problematic resulting in all three measures exceeding their target
24.	Skills development	20	●	29	
25.	Job creation	30	●	54	

Independent auditors' report to Parliament and the shareholder – Minister of Public Enterprises

Report on the financial statements

Introduction

We have audited the consolidated and separate financial statements of Eskom Holdings SOC Ltd and its subsidiaries set out on pages 14 to 105, which comprise the consolidated and separate statements of financial position as at 31 March 2016, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa (PFMA) and the Companies Act of South Africa (Companies Act) and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of Eskom Holdings SOC Ltd and its subsidiaries as at 31 March 2016 and their financial performance and cash flows for the year then ended, in accordance with IFRS and the requirements of the PFMA and the Companies Act.

Emphasis of matter

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

Restatement of corresponding figures

As disclosed in note 49 to the financial statements, the corresponding figures for 31 March 2015 have been restated as a result of a review of the valuation techniques used to value the cross-currency swaps at 31 March 2016.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2016, we have read the report by the audit and risk committee, the statement by the company secretary and the directors' report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements in respect of which we have expressed an unqualified opinion. We have not audited these reports and accordingly do not express an opinion on them.

Report on other legal and regulatory requirements

In accordance with the PAA and the general notice issued in terms thereof, we have a responsibility to report findings on the reported performance information against predetermined objectives of selected objectives presented in the annual report, compliance with legislation and internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

Independent auditors' report to Parliament and the shareholder – Minister of Public Enterprises (continued)

Report on other legal and regulatory requirements (continued)

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected key performance areas presented in the performance in terms of the shareholder compact section in the directors' report as set out on pages 7 to 10 of the financial statements for the year ended 31 March 2016:

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

We evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned key performance areas. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's framework for managing programme performance information.

We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

We did not identify any material findings on the usefulness and reliability of the reported performance information for the selected key performance areas as reported in the Performance in terms of the shareholder compact section of the directors' report.

Additional matter

Although we identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, we draw attention to the following matter:

Achievement of planned targets

Refer to the performance in terms of the shareholder compact section in the directors' report as set out on pages 7 to 10 for information on the achievement of the planned targets for the year.

Compliance with legislation

We performed procedures to obtain evidence that the public entity had complied with legislation regarding financial matters, financial management and other related matters. Our material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Expenditure management

Effective steps were not taken to prevent irregular expenditure amounting to R106 million as disclosed in note 52 to the financial statements, as required by section 51(1)(b)(ii) of the PFMA.

Effective steps were not taken to prevent fruitless and wasteful expenditure, amounting to R93 million as disclosed in note 52 to the financial statements, as required by section 51(1)(b)(ii) of the PFMA.

Procurement and contract management

Eskom applied monetary thresholds contrary to the requirements of the Preterential Procurement Policy Framework Act (PPPFA). The amounts used in determining the appropriate bidding process applicable to specific transactions were exclusive of VAT whereas the requirement is that it should be determined using amounts inclusive of VAT.

Internal control

We considered internal control relevant to our audit of the financial statements, Performance in terms of the Shareholder Compact section of the directors' report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Leadership

The public entity's executive management did not exercise adequate oversight responsibility regarding compliance with applicable laws and regulations which resulted in instances of irregular and fruitless and wasteful expenditure.

Financial and performance management

The public entity's financial statements contained material misstatements that were corrected. This was due to not assessing the reasonableness of valuation models applied on the valuation of financial instruments.

Other reports

We draw attention to the following engagements that could potentially impact on the public entity's financial, performance and compliance related matters. Our opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations

During the financial year under review the group conducted investigations into alleged irregularities, fraud and corruption within the procurement environment. No material findings were identified relating to the investigations completed during the year. At the reporting date, certain investigations are still ongoing.

Audit related services and special audits

As requested by Eskom, the following engagement was conducted for the period 1 April 2015 – 31 March 2016:

- National Treasury Public Entity Consolidation Template

SizweNtsalubaGobodo Inc
Registered auditor

Per A Mthimunye
Chartered Accountant (SA)
Director

31 May 2016

Johannesburg

Statements of financial position

at 31 March 2016

		Group			Company		
			Restated[1]	Restated[1]		Restated[1]	Restated[1]
		2016	2015	2014	2016	2015	2014
	Note	Rm	Rm	Rm	Rm	Rm	Rm
Assets							
Non-current		565 475	500 259	439 782	566 388	493 387	433 353
Property, plant and equipment	8	518 036	455 977	401 373	519 284	457 468	402 207
Intangible assets	9	3 138	2 904	3 016	2 944	2 746	2 810
Future fuel supplies	10	10 502	9 079	8 744	10 502	9 079	8 744
Investment in equity-accounted investees	11	360	348	318	95	95	95
Investment in subsidiaries	12	–	–	–	384	455	2 337
Deferred tax	13	174	230	339	–	–	–
Loans receivable	15	70	8 646	8 654	–	–	–
Derivatives held for risk management	16	27 600	14 303	9 274	27 600	14 303	9 274
Finance lease receivables	17	477	500	520	477	500	520
Payments made in advance	18	2 579	3 004	2 676	2 563	3 003	2 509
Trade and other receivables	19	54	2 787	27	54	3 257	16
Investment in securities	14	2 485	2 481	4 841	2 485	2 481	4 841
Current		86 268	57 686	64 977	87 644	59 442	66 862
Inventories	20	17 821	16 033	12 422	17 641	15 896	12 135
Taxation		93	94	47	–	–	–
Loans receivable	15	10	269	329	6 352	6 553	6 665
Derivatives held for risk management	16	2 582	709	2 812	2 582	709	2 812
Finance lease receivables	17	22	20	18	22	20	18
Payments made in advance	18	3 891	2 505	2 764	3 732	2 261	2 761
Trade and other receivables	19	21 810	16 856	16 578	24 455	18 553	16 882
Investment in securities	14	7 741	6 015	6 066	2 067	2 321	3 319
Financial trading assets	14	3 844	6 322	4 265	2 657	5 143	3 226
Cash and cash equivalents	21	28 454	8 863	19 676	28 136	7 986	19 044
Non-current assets held-for-sale	22	8 942	–	147	148	–	–
Total assets		660 685	557 945	504 906	654 180	552 829	500 215
Equity							
Capital and reserves attributable to owner of the company		180 563	117 164	118 119	172 314	110 957	113 006
Liabilities							
Non-current		404 343	366 146	312 493	403 569	364 164	310 294
Debt securities and borrowings	25	306 970	277 458	234 562	306 901	275 954	233 042
Embedded derivatives	26	5 410	6 647	7 871	5 410	6 646	7 870
Derivatives held for risk management	16	2 862	2 641	2 536	2 862	2 641	2 536
Deferred tax	13	21 000	18 154	18 813	20 621	17 848	18 194
Employee benefit obligations	28	12 405	11 960	9 922	12 094	11 665	9 674
Provisions	29	32 841	31 078	21 157	32 826	31 039	21 093
Finance lease payables	30	3 838	474	488	3 838	637	705
Trade and other payables	31	875	1 015	1 037	875	1 015	1 073
Payments received in advance	27	2 626	2 664	3 589	2 626	2 664	3 589
Deferred income	27	15 516	14 055	12 518	15 516	14 055	12 518
Current		73 971	74 635	74 181	78 297	77 708	76 915
Debt securities and borrowings	25	15 688	19 976	20 258	19 056	22 176	22 227
Embedded derivatives	26	1 615	1 375	1 461	1 615	1 375	1 461
Derivatives held for risk management	16	2 011	2 845	1 197	2 024	2 845	1 197
Employee benefit obligations	28	5 190	3 926	4 561	4 997	3 661	4 256
Provisions	29	11 415	9 972	9 601	11 198	9 807	9 102
Finance lease payables	30	90	14	12	90	70	64
Trade and other payables	31	32 319	27 984	28 531	33 739	29 267	30 062
Payments received in advance	27	3 376	2 157	2 127	3 371	2 145	2 114
Deferred income	27	957	863	774	957	863	774
Taxation		60	24	1	–	–	–
Financial trading liabilities	14	1 250	5 499	5 658	1 250	5 499	5 658
Non-current liabilities held-for-sale	22	1 808	–	113	–	–	–
Total liabilities		480 122	440 781	386 787	481 866	441 872	387 209
Total equity and liabilities		660 685	557 945	504 906	654 180	552 829	500 215

1. *Refer to note 49.*

Income statements

for the year ended 31 March 2016

	Note	Group 2016 Rm	Group Restated[1] 2015 Rm	Company 2016 Rm	Company Restated[1] 2015 Rm
Continuing operations					
Revenue	32	163 395	147 691	163 395	147 691
Other income	33	2 390	4 444	2 471	6 645
Primary energy	34	(84 728)	(83 425)	(84 728)	(83 425)
Employee benefit expense	35	(29 257)	(25 912)	(24 721)	(22 187)
Net impairment loss	36	(1 170)	(3 766)	(1 159)	(3 755)
Other expenses	37	(18 663)	(15 771)	(25 170)	(22 083)
Profit before depreciation and amortisation expense and net fair value loss (EBITDA)		31 967	23 261	30 088	22 886
Depreciation and amortisation expense	38	(16 531)	(14 115)	(16 517)	(14 001)
Net fair value loss on financial instruments, excluding embedded derivatives	39	(1 452)	(4 117)	(1 492)	(4 208)
Net fair value gain on embedded derivatives		997	1 310	996	1 310
Profit before net finance cost		14 981	6 339	13 075	5 987
Net finance cost		(7 919)	(6 109)	(8 776)	(6 769)
Finance income	40	3 447	2 996	2 667	2 360
Finance cost	41	(11 366)	(9 105)	(11 443)	(9 129)
Share of profit of equity-accounted investees after tax	11	43	49	–	–
Profit/(loss) before tax		7 105	279	4 299	(782)
Income tax	42	(2 488)	(37)	(1 697)	160
Profit/(loss) for the year from continuing operations		4 617	242	2 602	(622)
Discontinued operations					
Loss for the year from discontinued operations		–	(42)	–	–
Profit/(loss) for the year[2]		4 617	200	2 602	(622)

Statements of comprehensive income

for the year ended 31 March 2016

	Note	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
Profit/(loss) for the year[2]		4 617	200	2 602	(622)
Other comprehensive income/(loss)		6 508	(1 155)	6 481	(1 162)
Items that may be reclassified subsequently to profit and loss		5 903	(501)	5 884	(525)
Available-for-sale financial assets – net change in fair value		(57)	(63)	(54)	(64)
Cash flow hedges					
Changes in fair value	16	8 955	628	8 955	628
Net amount transferred to profit or loss		(126)	(157)	(126)	(157)
Amortisation of effective portion of terminated cash flow hedges	39	(145)	(100)	(145)	(100)
Ineffective portion of cash flow hedges	39	19	(57)	19	(57)
Net amount transferred to initial carrying amount of hedged items		(603)	(1 136)	(603)	(1 136)
Foreign currency translation differences on foreign operations		21	24	–	–
Income tax thereon	42	(2 287)	203	(2 288)	204
Items that may not be reclassified subsequently to profit and loss		605	(654)	597	(637)
Re-measurement of post-employment medical benefits	28.1	840	(909)	830	(884)
Income tax thereon	42	(235)	255	(233)	247
Total comprehensive income/(loss) for the year[2]		11 125	(955)	9 083	(1 784)

1. *Refer to note 49.*
2. *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 2016

	Attributable to owner of the company							
	Share capital Rm	Equity reserve 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								
Restated balance at 31 March 2014	–	30 520	6 178	50	(9 409)	(6)	90 786	118 119
Previously reported	–	30 520	6 178	50	(7 744)	(6)	90 786	119 784
Prior year restatements, net of tax	–	–	–	–	(1 665)	–	–	(1 665)
Restated profit for the year	–	–	–	–	–	–	200	200
Other comprehensive (loss)/income, net of tax	–	–	(479)	(46)	–	24	(654)	(1 155)
Transfer between reserves	–	–	–	–	555	–	(555)	–
Balance at 31 March 2015	–	30 520	5 699	4	(8 854)	18	89 777	117 164
Profit for the year	–	–	–	–	–	–	4 617	4 617
Other comprehensive income/(loss), net of tax	–	–	5 923	(41)	–	21	605	6 508
Share capital issued	23 000	–	–	–	–	–	–	23 000
Conversion of subordinated loan from the shareholder to share capital	60 000	(30 520)	–	–	–	–	(206)	29 274
Transfer between reserves	–	–	–	–	(7 858)	–	7 858	–
Balance at 31 March 2016	83 000	–	11 622	(37)	(16 712)	39	102 651	180 563
Company								
Restated balance at 31 March 2014	–	30 520	6 178	51	(9 409)	–	85 666	113 006
Previously reported	–	30 520	6 178	51	(7 744)	–	85 666	114 671
Prior year restatements, net of tax	–	–	–	–	(1 665)	–	–	(1 665)
Restated loss for the year	–	–	–	–	–	–	(622)	(622)
Other comprehensive loss, net of tax	–	–	(479)	(46)	–	–	(637)	(1 162)
Transfer between reserves	–	–	–	–	555	–	(555)	–
Common control transfer	–	–	–	–	–	–	(265)	(265)
Balance at 31 March 2015	–	30 520	5 699	5	(8 854)	–	83 587	110 957
Profit for the year	–	–	–	–	–	–	2 602	2 602
Other comprehensive income/(loss), net of tax	–	–	5 923	(39)	–	–	597	6 481
Share capital issued	23 000	–	–	–	–	–	–	23 000
Conversion of subordinated loan from the shareholder to share capital	60 000	(30 520)	–	–	–	–	(206)	29 274
Transfer between reserves	–	–	–	–	(7 858)	–	7 858	–
Balance at 31 March 2016	83 000	–	11 622	(34)	(16 712)	–	94 438	172 314

Share capital and equity reserve

Refer to note 24 for details regarding share capital. The equity reserve comprised the day-one gain on initial recognition of the subordinated loan from the shareholder. The loan was converted to share capital in the current financial year.

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 risk of the future interest payments and the principal repayment on bonds and loans (denominated in US dollar, euro and yen).

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.

Statements of cash flows

for the year ended 31 March 2016

		Group		Company	
	Note	2016 Rm	2015 Rm	2016 Rm	2015 Rm
Cash flows from operating activities					
Cash generated from operations	43	34 808	27 528	32 716	25 450
Net cash flows from/(used in) derivatives held for risk management		643	(751)	622	(751)
Interest received		2 322	697	2 322	696
Interest paid		(11)	(10)	(11)	(10)
Income taxes paid		(520)	(153)	–	–
Net cash from operating activities		37 242	27 311	35 649	25 385
Cash flows used in investing activities					
Proceeds from disposal of property, plant and equipment		360	139	302	136
Proceeds from disposal of intangible assets		–	19	–	19
Acquisitions of property, plant and equipment		(53 248)	(51 578)	(53 311)	(50 409)
Acquisitions of intangible assets		(927)	(846)	(853)	(795)
Expenditure on future fuel supplies		(1 754)	(1 999)	(1 754)	(1 999)
Increase in payments made in advance		(274)	(966)	(274)	(966)
Expenditure incurred on provisions		(3 054)	(1 670)	(3 054)	(1 670)
Net cash flows from derivatives held for risk management		771	253	771	253
Increase in investment in securities		(1 862)	(946)	–	–
Net cash flows used in financial trading assets		(24)	(20)	–	–
Decrease in loans receivable		134	77	210	135
Decrease in finance lease receivables		23	20	23	20
Net cash flows from non-current assets and liabilities held-for-sale		–	1	–	–
Proceeds from disposal of subsidiaries and repayment of equity loan		–	14	71	–
Dividends received		32	29	32	19
Dividends received – investment in equity-accounted investees	11	31	19	–	–
Interest received		1 202	1 068	559	465
Net cash used in investing activities		(58 590)	(56 386)	(57 278)	(54 792)
Cash flows from financing activities					
Debt securities and borrowings raised	44	41 052	49 500	41 840	50 559
Payments made in advance to secure debt raised	44	(555)	(187)	(555)	(187)
Debt securities and borrowings repaid	44	(11 123)	(14 429)	(11 013)	(15 251)
Share capital issued		23 000	–	23 000	–
Net cash flows from/(used in) derivatives held for risk management	44	11 847	(1 982)	11 847	(1 982)
Decrease in investment in securities	44	92	3 071	92	3 071
Decrease in finance lease payables	44	(157)	(111)	(99)	(163)
Net cash flows from/(used in) financial trading assets	44	2 544	(2 534)	2 544	(2 534)
Net cash flows (used in)/from financial trading liabilities	44	(4 257)	241	(4 257)	241
Interest received		1 275	1 449	1 250	1 417
Interest paid		(22 791)	(17 064)	(22 944)	(17 106)
Net cash from financing activities		40 927	17 954	41 705	18 065
Net increase/(decrease) in cash and cash equivalents		19 579	(11 121)	20 076	(11 342)
Cash and cash equivalents at beginning of the year		8 863	19 676	7 986	19 044
Foreign currency translation		21	24	–	–
Effect of movements in exchange rates on cash held		75	284	74	284
Cash and cash equivalents transferred to non-current assets and liabilities held-for-sale		(84)	–	–	–
Cash and cash equivalents at end of the year	21	28 454	8 863	28 136	7 986

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. The nature of the businesses of the significant operating subsidiaries is set out in note 12.

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 2016 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.

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:

- investment in securities
- derivatives held for risk management
- financial trading assets
- financial trading liabilities
- embedded derivatives
- non-current assets and liabilities held-for-sale

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

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 51.2.

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. Any interest retained in the former subsidiary is measured at fair value when control is lost.

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. For such purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of non-controlling interests are also recorded in equity.

The group accounts for common control transactions using the book value (predecessor) method of accounting. In applying the book value method, the acquirer in a common control transaction recognises the assets and liabilities acquired using the book values in the financial statements of the relevant entity. Any difference between the consideration paid and the book values of the assets and liabilities acquired is recognised directly in equity. Common control transactions, in which the company is the ultimate parent entity both before and after the transaction, are accounted for at book value in the company's annual financial statements with no gain or loss recognised in profit or loss.

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. When the group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Accounting policies of associates or 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 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 available-for-sale financial assets.

Non-monetary items are measured at historical cost. Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are recognised in other comprehensive income within available-for-sale financial assets.

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 loans and receivables, debt securities and borrowings are presented in profit or loss within net fair value gain/loss on financial instruments, excluding embedded derivatives.

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. Works under construction includes 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.

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 in which they are incurred.

If an item of property, plant and equipment is received from customers, an assessment is made to whether that item of property, plant and equipment can be recognised in accordance with IAS 16 *Property, plant and equipment*. Any related revenue is recognised in accordance with IAS 18 *Revenue*.

Land is 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	6 to 80
• Transmitting	5 to 40
• Distributing	10 to 35
• Test, telecommunication and other plant	3 to 20
Equipment and vehicles	1 to 10

The depreciation method, residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

Gains or losses on disposal of an item of property, plant and equipment is 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. Summary of significant accounting policies (continued)

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.

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.

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. The life of the servitude will remain in force as long as the transmission or distribution line is used to transmit electricity. Normally a servitude will only become impaired if the line to which the servitude is linked is derecognised. In practice, a derecognised line will be refurbished or replaced by a new line and therefore the likelihood of an impairment of a servitude right is remote.

Computer software

Computer software and licences that are acquired have a finite useful life and are measured at cost less accumulated amortisation and impairment losses. If software is integral to the functionality of related equipment, then 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 the estimated useful lives, as follows:

	Years
Computer software	2 to 5
Licences	2 to 5

Amortisation methods, useful lives and residual values 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 their estimated useful life, which is the concession period during which they are available for use (refer to note 23).

2.6 Impairment of non-financial assets

The carrying amounts of non-financial assets, other than inventories, deferred tax assets and tax, 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. Assets that have an indefinite useful life (servitude rights) are tested annually for impairment.

Assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) when assessing for impairment. If any indication of impairment exists the asset's recoverable amount is estimated. 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 cash-generating units. 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 net impairment loss.

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, to the extent that the assets are financed by borrowings. The capitalisation rate applied is the weighted average of the borrowing costs applicable to the borrowings of the entities in the group unless an asset is financed by a specific loan, in which case the specific rate is used.

2.8 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

Prepayments made 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 has 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 of 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 Non-derivative financial instruments

Recognition, measurement and derecognition of financial assets

Non-derivative financial assets comprise investment in securities, financial trading assets, loans receivable, trade and other receivables, finance lease receivables and cash and cash equivalents.

All non-derivative financial assets are recognised on the date of commitment to purchase (trade date). Non-derivative financial assets net of any directly attributable transaction costs are recognised initially at fair value. Directly attributable transaction costs related to financial assets at fair value through profit or loss are recognised in profit or loss on initial recognition when incurred.

When entering into a transaction, the financial instrument is recognised initially at the transaction price which is generally the best indicator of fair value. Where fair value of the financial instrument is different from the transaction price a day-one gain or loss may arise. The day-one gain or loss is immediately recognised in profit or loss (except for embedded derivatives) within net fair value gain/(loss) on financial instruments, excluding embedded derivatives, provided that the fair value has been determined based on market-observable data. If the fair value has not been determined solely 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.

Subsequent to initial recognition, non-derivative financial assets are measured per asset category (as stated below). The appropriate classification of the financial asset is determined at the time of commitment to acquire the financial asset.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the group has transferred substantially all the risks and rewards of ownership. Realised gains or losses on derecognition are determined using the last-in-first-out (LIFO) method.

Financial assets at fair value through profit or loss (held-for-trading)

Held-for-trading assets comprise financial trading assets. Subsequent to initial recognition, changes in the fair value of these financial assets are recognised in profit or loss within net fair value gain/(loss) on financial instruments, excluding embedded derivatives. The group did not designate any financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables comprise trade and other receivables, loans receivable and cash and cash equivalents.

The group's main business activity is the sale of electricity in its licensed areas of supply. Receivables arising from these sales are classified as trade receivables. All other receivables are classified as other receivables.

Cash and cash equivalents comprise balances with local and international banks, monies in call accounts, unsettled deals, short-term assets and money market assets with an original maturity of less than 90 days. Bank overdrafts are included within debt securities and borrowings in current liabilities on the statement of financial position.

2. Summary of significant accounting policies (continued)

2.10 Financial instruments (continued)

2.10.1 Non-derivative financial instruments (continued)

Recognition, measurement and derecognition of financial assets (continued)

Loans and receivables (continued)

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any accumulated impairment losses.

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

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

The group has an allowance for impairment that represents its estimate of incurred losses. This allowance consists of a specific loss component that relates 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 have been renegotiated are initially accounted for as impaired receivables immediately after having been renegotiated. Once a payment history in terms of the renegotiated agreement is established the same impairment assessment as applicable to receivables that have not been renegotiated is applied to assess whether the receivable should be impaired or not. Impairment losses are recognised in profit or loss within net impairment loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Available-for-sale financial assets

Available-for-sale assets comprise investment in securities. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than foreign exchange gains and losses (for monetary items), are recognised in other comprehensive income within available-for-sale financial assets. When the asset is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Recognition, measurement and derecognition of financial liabilities

Non-derivative financial liabilities comprise debt securities and borrowings, financial trading liabilities, finance lease payables and trade and other payables.

Non-derivative financial liabilities are recognised initially at fair value net of any directly attributable transaction costs except for financial liabilities at fair value through profit or loss. Directly attributable transaction costs related to liabilities recognised at fair value through profit or loss are recognised in profit or loss on initial recognition when incurred. Subsequent to initial recognition, non-derivative financial liabilities are measured at amortised cost or fair value as per the relevant liability category.

All non-derivative financial liabilities are recognised on the date of commitment (trade date) and 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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan and are recorded as a prepayment where it is probable that some or all of the facility will be drawdown. The fee paid is deferred until the drawdown occurs and upon drawdown the fee is transferred to the loan facility and then is amortised from the date of first drawdown to final maturity of each facility.

Financial liabilities at fair value through profit or loss (held-for-trading)

Held-for-trading liabilities comprise financial trading liabilities. Subsequent to initial recognition, financial liabilities at fair value through profit or loss continue to be measured at fair value. The group did not designate any financial liabilities at fair value through profit or loss.

Financial liabilities at amortised cost

Financial liabilities at amortised cost comprise debt securities and borrowings (that are not held for trading) and trade and other payables. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Eskom partakes in market-making activities in a bid to reduce the funding cost of the company. Most investors place a premium on the liquidity of bonds and are therefore prepared to accept a lower yield (relative to alternative bonds) to invest in bonds where the issue sizes are large and deemed to be liquid. Eskom bonds used for market-making are accounted for as financial liabilities at amortised cost. The risks of market-making include the anticipated loss on turnover, typically the bid/offer spread thereon, which is partially mitigated through repurchase agreement opportunities. In addition there is the potential negative impact on liquidity which Eskom believes is limited due to the strategy of holding sufficient liquidity buffers as well as a portfolio of liquid government bonds.

2.10.2 Financial guarantees

Financial guarantee liabilities are initially recognised at fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised cost and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities. Financial guarantees are valued initially by taking into account discounted future cash flows adjusted according to the probability of occurrence of the trigger event. The resultant guarantee is raised as a liability, with the costs being charged to profit or loss. The unprovided portion is disclosed as a contingent liability. As a result of using discounted cash flows, interest rate risk may arise due to the possibility of the actual yields on assets being different from the rates assumed in the discounting process.

2.10.3 Derivative financial instruments and hedging activities

Recognition

Derivative instruments are included in the statement of financial position as derivatives held for risk management. Derivatives are classified as held-for-trading instruments, unless they meet the criteria for hedge accounting and have been designated for purposes of applying hedge accounting. Derivatives are initially recognised at fair value and re-measured subsequently at fair value.

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.

Realised and unrealised gains or losses on derivatives used for hedge accounting (cash flow hedging) are recognised in other comprehensive income within cash flow hedges.

A hedging derivative is classified as a non-current asset or liability when the remaining period of the hedged item is more than 12 months; and as a current asset or liability when the remaining period of the hedged item is less than 12 months.

Significant day-one gains and losses are deferred in the statement of financial position (derivatives held for risk management) and amortised over the term of the hedging instrument to profit or loss. Day-one gains and losses on hedging instruments are predominantly a function of the inclusion of credit, liquidity and risk 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 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 cash flow hedges. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within net fair value gain/(loss) on financial instruments, excluding embedded derivatives.

Any cumulative gain or loss existing in other comprehensive income is included in the initial cost of the carrying amount of the asset or liability when the forecast transaction results in the recognition of a non-financial asset or non-financial liability. Gains and losses recognised in the hedging reserve in other comprehensive income will therefore affect profit or loss in the periods during which the relevant non-financial assets are depreciated or finance cost is recognised for the relevant 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. When 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 gain/(loss) on financial instruments, excluding embedded derivatives.

Economic hedging

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

2.10.4 Repurchase and resale agreements

Securities sold subject to repurchase agreements are disclosed in the financial statements as financial trading assets. The liability to the counterparty is recorded as repurchase agreements and is included in financial trading liabilities. Securities purchased under agreements to resell are recorded as repurchase agreements and are included in financial trading assets or in investments in securities. 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.

2.10.5 Embedded derivatives

Recognition

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 included in net fair value gain/(loss) on embedded derivatives in profit or loss. The impact of the fair value gains or losses is taken into account in the calculation of current and deferred taxation.

For details regarding measurement of embedded derivatives refer to note 4.1.

2. Summary of significant accounting policies (continued)

2.11 Future fuel supplies

Coal

Non-refundable advances to suppliers, together with related borrowing costs thereon, are deferred in the statement of financial position within future fuel supplies and amortised against the cost of coal supplied on the basis of the estimated life of the asset procured by the suppliers. Repayable advances to suppliers are capitalised and the related interest earned is credited to profit or loss within finance income. Refunds are repaid in terms of the agreements.

Nuclear

Fuel assemblies in the process of fabrication are stated at cost within future fuel supplies. Hedge accounting is applied to foreign exchange contracts entered into with respect to the purchase of nuclear fuel, with the effective portion being capitalised during the fabrication period.

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, production and conversion costs and other costs incurred in bringing inventory to its present location and condition.

Nuclear fuel

Nuclear fuel is stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out (FIFO) basis. Nuclear fuel consists of raw materials, fabricated fuel assemblies and fuel in reactors. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

2.13 Share capital

Ordinary shares are classified as equity. 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 reversed 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 and
- 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 individual subsidiaries in the group.

2.16 Payments received in advance

Payments received in advance consist mainly of capital contributions received from customers for the construction of assets and government grants received for electrification and energy efficiency initiatives.

Capital contributions received for the construction of regular distribution and transmission assets (with a standard supply) after 30 June 2009 are recognised in profit or loss within other revenue immediately when the customer is connected to the electricity network. Capital contributions received before 30 June 2009 are allocated to deferred income when the customer is connected to the electricity network (refer to note 2.17).

Government grants for energy efficiency initiatives are recognised in profit or loss within other expenses when the related expenses are incurred. Government grants for electrification are recognised in deferred income when the related asset has been connected to the electricity network (refer to note 2.17).

2.17 Deferred income

Capital contributions received from customers

Contributions received in advance from electricity customers up to 30 June 2009 for the construction of regular distribution and transmission assets (with a standard supply) and allocated to deferred income when the related asset has been connected to the electricity network, are credited to profit or loss within other revenue on a straight-line basis over the expected useful lives of the related assets (refer to note 2.16).

Grants

Government grants received relating to the creation of electrification assets are included in liabilities as deferred income and are credited to profit or loss within depreciation and amortisation expense on a straight-line basis over the expected useful lives of the related assets.

2.18 Employee benefit obligations

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.

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 resulting in the full provision being presented as current in the statement of financial position.

An actuarial valuation is performed on an annual basis for occasional and service leave. The accrued liabilities are determined by valuing all future leave expected to be taken and payments expected to be made in respect of benefits up to the valuation date. Allowance has been made in the calculations for the assumed benefit options employees will exercise, as well as salary increases and investment returns up to the date the benefit is received. All actuarial gains or losses and past service costs are recognised in profit or loss within employee benefit expense. The present values of the benefit are determined by using government bonds which have maturities similar to the liability.

Pension benefits

Pension benefits are provided for employees through the Eskom Pension and Provident Fund. Contributions to the fund are based on a percentage of pensionable emoluments and are expensed in the period in which they are incurred. The group accounts for its pension obligations as a defined contribution plan in line with IAS 19 *Employee benefits*. Additional disclosures 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.

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. 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*.

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.

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.

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)

2.19 Provisions

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

Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that 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 cost.

A provision is raised for the estimated decommissioning cost of nuclear and other generation plant and capitalised to the cost of the plant when it is commissioned. 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. Decommissioning costs capitalised to the cost of nuclear or other generation plant are written off on a straight-line basis over the estimated useful life of the plant.

A provision is raised for the estimated cost of closure, pollution control and rehabilitation during and at the end of the life of the mines where a legal or constructive obligation exists to reimburse coal suppliers. Closure, pollution control and rehabilitation costs capitalised are written off over the estimated useful life of the related asset. The cost of current ongoing programmes to prevent and control pollution and to rehabilitate the environment is charged to profit or loss within primary energy as incurred, unless a present legal or constructive obligation exists to recognise such expenditure, in which case a provision is created based on the best estimates available.

A provision is raised for the management of spent nuclear fuel assemblies and radioactive waste which is recognised and measured based on the latest available cost information and is charged to profit or loss within primary energy.

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 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.

Provisions are updated on an annual basis for changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or changes in discount rate. 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 and loss.

2.20 Revenue recognition

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

Revenue is recognised when significant risks and rewards of ownership have passed, the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the group.

Where it is assessed that there is a high probability that the economic benefits related to sales will not materialise, such sales are not recognised.

2.21 Finance income

Finance income comprises interest receivable on loans, advances, trade receivables, finance lease receivables and income from financial market investments. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

2.22 Finance cost

Finance cost comprises interest 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).

2.23 Non-current assets and liabilities held-for-sale

Non-current 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.

2.24 Related-party transactions

IAS 24 *Related party disclosures* provides government-related entities an exemption which eliminates the requirements to disclose information that is costly to gather and of less value to users. The group applies the exemption in respect of its relationship with government-related entities at local levels of government where the transactions and related outstanding balances are not individually or collectively significant.

2.25 Net debt

Gross debt is the aggregate of debt securities and borrowings and finance lease payables. To calculate net debt, gross debt is adjusted for related payments made in advance, derivatives held for risk management and financial trading instruments. Cash and cash equivalents and the investing portfolio of investment in securities are deducted.

3. Capital management and going concern

3.1 Capital management

The objective of capital management is to ensure that Eskom is sustainable over the long term.

Eskom'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.

The government as the sole shareholder and the board have the responsibility to ensure that the group is adequately capitalised to ensure continuity of supply and that the business is attractive to investors to enable Eskom to fund the capacity expansion programme.

There were no changes to Eskom's approach to capital management during the financial year. Eskom manages the following capital reserves:

	Group		Company	
	2016 Rm	2015 Rm	2016 Rm	2015 Rm
Share capital and equity reserve	83 000	30 520	83 000	30 520
Cash flow hedge reserve	11 622	5 699	11 622	5 699
Unrealised fair value reserve	(16 712)	(8 854)	(16 712)	(8 854)
Accumulated profit	102 651	89 777	94 438	83 587
	180 561	117 142	172 348	110 952

The following ratios are monitored and managed:

		Group		Company	
	Unit	2016	2015	2016	2015
Income statement					
EBITDA	Rm	31 967	23 261	30 088	22 886
Electricity revenue per kWh	c/kWh	76.53	68.52	76.53	68.52
At standard tariffs	c/kWh	76.07	67.91	76.07	67.91
Adjusted for impact of embedded derivatives	c/kWh	0.46	0.61	0.46	0.61
Costs per kWh	c/kWh	73.24	68.40	74.54	68.87
Primary energy	c/kWh	39.50	38.57	39.50	38.57
Employee benefit expense	c/kWh	13.64	11.98	11.53	10.26
Net impairment loss	c/kWh	1.23	2.02	1.23	2.01
Net other expenses (including other revenue and other income)	c/kWh	6.79	4.58	9.78	6.48
Depreciation and amortisation expense	c/kWh	7.71	6.53	7.70	6.47
Net fair value loss on financial instruments, excluding embedded derivatives	c/kWh	0.68	1.90	0.70	1.95
Net finance cost	c/kWh	3.69	2.82	4.10	3.13
Statement of financial position					
Gross debt[1]	Rm	359 163	328 909	362 227	329 584
Net debt	Rm	266 772	272 399	270 389	274 191
Gross debt[1]: EBITDA	ratio	11.40	16.08	12.24	16.49
Net debt: equity	ratio	1.48	2.32	1.57	2.47
Statement of cash flows					
FFO	Rm	39 443	36 179	37 954	36 032
FFO as percentage of gross debt	%	10.98	11.00	10.48	10.93
Debt service cover ratio	ratio	1.03	0.87	0.96	0.79
Cash interest cover	ratio	1.83	1.88	1.69	1.67

(a) Share capital and equity reserve

Share capital increased by R60 billion during the year because of the conversion of the subordinated loan from the shareholder to share capital (with a reduction of R30.5 billion in the equity reserve) and with the R23 billion equity injection received from the shareholder. Refer to note 24.

(b) Cash flow hedge reserve

The group applies cash flow hedge accounting on derivatives that meet the criteria for hedge accounting to align the gains and losses of the derivative with the gains and losses of the underlying hedged transactions.

1. *Adjusted to also include the after tax, non-current portions of provisions and employee benefit obligations.*

3. Capital management and going concern (continued)

3.1 Capital management (continued)

(c) Unrealised fair value reserve

The unrealised portion of the net change in fair value financial instruments that have not been designated as cash flow hedging instruments is not distributable and has been reallocated from a distributable reserve (accumulated profit) to a non-distributable reserve.

(d) Accumulated profit

The major items that impact the accumulated profit of Eskom include:
- the revenue received from electricity sales (which is a function of price and sales volumes)
- the cost of operating the electricity business
- the cost of funding the net debt of the business
- the cost of expanding the business to ensure that capacity growth is in line with electricity sales demand (cost of funding and additional depreciation)

Revenue

Eskom uses the Integrated Strategic Electricity Planning process which forecasts the growth in electricity demand for the long term and evaluates the alternative means to meet and manage that demand. This information flows into the planning process. A forward electricity price curve is derived which is an indication of the size of the price increases which Eskom requires to be sustainable over the long term.

The tariff increases for the electricity business are subject to the process laid down by the National Energy Regulator of South Africa (NERSA). The current regulatory framework applicable to Eskom is the multi-year five year determination ending in 31 March 2018.

Eskom did not receive a cost reflective price in the NERSA Multi-Year Price Determination (MYPD) 3 decision which created a revenue shortfall over the MYPD 3 period which has placed strain on the financial and operating sustainability of the group.

Eskom submitted the regulatory clearing account (RCA) application for 2014 (year 1 of MYPD 3) to NERSA in 2015. NERSA announced on 1 March 2016 that the average tariff for standard tariff customers would be increased by 9.4% for the 2017 financial year.

Eskom will submit the RCA applications for the second (2015) and third years (2016) of the MYPD 3 period by July 2016, in accordance with the prevailing MYPD methodology.

Eskom will diversify its revenue in the long term by increasing the amount generated from other markets and activities.

Operating cost

Eskom has implemented the BPP/DTC programmes which aims to deliver cost saving opportunities to assist in closing the revenue shortfall that resulted mainly from the NERSA MYPD 3 price determination.

Savings of R17.5 billion (2015: R8.7 billion) were achieved against a target of R13.4 billion for the year.

Cost of funding the net debt

The board approved a revised borrowing programme of R327 billion for the period 1 April 2016 to 31 March 2021. A total of R31.7 billion or 46% of the funding requirement of R68.5 billion for the 2017 financial year has already been secured at 31 March 2016. Potential funding sources have been identified and plans are in place to secure these funding sources.

Eskom's credit rating is affected by its own financial position as well as the credit rating of the sovereign, which is under threat of a downgrade.

The FFO to gross debt and gross debt to EBITDA ratios play an important role in the credit ratings given to Eskom which in turn influences the cost of funding.

Eskom's credit ratings were as follows:

	Rating		Outlook	
	2016	2015	2016	2015
Standard and Poor's				
Foreign currency	BB+	BB+	Negative	Negative
Local currency	BB+	BB+	Negative	Negative
Moody's				
Foreign currency	Ba1	Ba1	Negative	Stable
Local currency	Ba1	Ba1	Negative	Stable
Fitch Ratings				
Local currency	BBB	BBB+	Stable	Stable

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 whilst 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 issued 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.

Cost of expansion

Eskom's strategy is to optimise the capital expenditure portfolio through prioritisation and cost optimisation.

3.2 Going concern

The board has given particular attention to the assessment of the going concern status of the group and is of the view that the group has access to adequate resources to continue in operational existence for the foreseeable future and to complete its current committed capacity expansion programme.

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.

4.1 Embedded derivatives

Eskom has 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 production price indices that give rise to embedded derivatives.

The embedded derivatives have been divided into three categories:

- commodity and/or foreign currency derivatives
- foreign currency or interest rate derivatives
- United States production price and foreign currency derivatives

Valuation

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

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

- swaps: electricity tariff is swapped for a commodity in a foreign currency
- forwards: electricity tariff or other revenue or expenditure is based on a foreign currency
- options: electricity tariff or other revenue is based on an embedded derivative floor or cap on foreign consumer or production price indices or interest rates. A closed form analytic solution is used to produce various cap and floor strike prices

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, foreign currency rand exchange rates, interest rate differentials, future sales volumes, production price 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 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 contracts or from independent market sources where appropriate. These assumptions are:

- spot and forward commodity prices
- spot and forward foreign currency exchange rates
- spot and forward interest rates
- forecast sales volumes
- spot and foreign production price indices
- liquidity, model risk and other economic factors

The only significant unobservable input is the United States producer price index (PPI).

Valuation assumptions

The forward electricity curve used to value the embedded derivatives at 31 March 2016 is based on the current MYPD 3 approved tariff increase of 9.40% (8% MYPD 3 approved tariff increase and 1.40% relating to RCA adjustment) for 2017 and 8% for 2018, whereafter a forecast return on the regulatory asset base is used until maturity.

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

4. Critical accounting estimates and judgements (continued)

4.1 Embedded derivatives (continued)

Valuation assumptions (continued)

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

2016		Year ended 31 March					
Input	Unit	2016[1]	2017[1]	2018[1]	2019[1]	2020[1]	2021[1]
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 rates	Continuous actual/365 days (%)	7.06	8.24	7.70	7.93	8.09	8.25
Dollar interest rates	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

2015							
Input	Unit	2015[1]	2016[1]	2017[1]	2018[1]	2019[1]	2020[1]
Aluminium	USD per ton	1 792	1 826	1 883	1 940	1 985	2 035
Volatility	Year-on-year (ratio)	0.19	0.19	0.19	0.19	0.19	0.19
Rand interest rates	Continuous actual/365 days (%)	5.61	7.16	6.70	6.93	7.09	7.24
Dollar interest rates	Annual actual/365 days (%)	0.09	0.92	0.81	1.13	1.38	1.57
United States PPI	Year-on-year (%)	(4.98)	2.11	1.87	2.01	1.90	2.33
Rand/USD	Rand per USD	12.50	12.50	14.29	14.29	14.29	16.67

Sensitivity analysis

The approximate change in the value of embedded derivatives if one of the inputs is changed is disclosed in note 5.2 Financial risk management – market risk under currency risk (note 5.2.1), commodity risk (note 5.2.2), interest rate risk (note 5.2.3) and other price risk (note 5.2.5).

The carrying amount of the embedded derivative liabilities for the group is R7 025 million (2015: R8 022 million) and R7 025 million (2015: R8 021 million) for the company. Refer to note 26.

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 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 and company	
	2016 %	2015 %
Discount rate	11.3	8.8
Medical aid inflation	10.1	8.0

Assumptions regarding future mortality have been based on published mortality tables and statistics derived from experience. The current longevities underlying the values of the defined benefit obligation at the reporting date were:

	Group and company			
	2016		2015	
	Male years	Female years	Male years	Female years
Longevity	14.42	20.82	14.42	20.82

The weighted average duration of the defined benefit obligation for the group was 20.9 years (2015: 20.9 years) and for the company was 21.0 years (2015: 21.0 years).

1. *Forward curve based on financial years.*

Sensitivity analysis

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

		Group				Company			
	Change in assumption	2016 increase Rm	2016 decrease Rm	2015 increase Rm	2015 decrease Rm	2016 increase Rm	2016 decrease Rm	2015 increase Rm	2015 decrease Rm
Effect on aggregate current service cost and finance cost									
Discount rate	1%	(211)	270	(177)	226	(208)	266	(174)	223
Medical aid inflation	1%	421	(326)	371	(285)	413	(320)	365	(280)
Future mortality	1 year	58	(57)	48	(48)	56	(56)	47	(47)
Effect on post-employment medical benefits obligation									
Discount rate	1%	(1 752)	2 233	(1 780)	2 295	(1 711)	2 183	(1 739)	2 244
Medical aid inflation	1%	2 199	(1 755)	2 252	(1 778)	2 150	(1 714)	2 202	(1 737)
Future mortality	1 year	365	(365)	361	(361)	356	(356)	353	(352)

The carrying amount of the post-employment medical benefits liability for the group is R12 816 million (2015: R12 325 million) and R12 495 million (2015: R12 022 million) for the company. Refer to note 28.

The above sensitivity analyses are based on a change in an assumption while all other assumptions remain constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the present value of the defined benefit obligation is calculated with the projected unit credit method at the end of the reporting period which is recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

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	
	2016 %	2015 %
Discount rate	11.3	8.8
General price inflation	8.1	6.0
Salary increases	9.6	7.5
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, only 4% (2015: 4%) of the leave is utilised. If the rate at which leave is taken is 8% (2015: 8%), then the liability will increase by R64 million (2015: R61 million).

The carrying amount of the occasional and service leave liability for the group is R1 266 million (2015: R1 237 million) and R1 198 million (2015: R1 175 million) for the company.

4. Critical accounting estimates and judgements (continued)

4.4 Decommissioning, mine closure and rehabilitation

Provision is made for the estimated decommissioning cost of nuclear and other generation plant and for the management of nuclear fuel assemblies and radioactive waste. Provision is made for the estimated mine-related closure, pollution control and rehabilitation costs at the end of the life of the mines, where a constructive and contractual obligation exists to pay coal suppliers.

Valuation

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

Valuation assumptions

The discount rate used for these provisions was 4.9% (2015: 4.7%) for the group and company.

Estimated payment dates

The estimated payment dates of the costs are:

	Group and company	
	2016	2015
Nuclear plant	2026 – 2041	2026 – 2041
Coal and pumped storage plants	2024 – 2083	2018 – 2074
Spent nuclear fuel	2019 – 2105	2018 – 2105
Mine-related closure, pollution control and rehabilitation	2017 – 2074	2016 – 2073

Sensitivity analysis

The carrying amount of the decommissioning, mine closure and rehabilitation provision would be an estimated R4 047 million (2015: R3 875 million) lower had the real discount rate used in the calculation of the provision increased by 1% and R5 315 million (2015: R4 885 million) higher had the real discount rate decreased by 1%.

The carrying amount of the decommissioning, mine closure and rehabilitation liabilities for the group and company is R29 596 million (2015: R24 152 million). Refer to note 29.

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 8.8% (2015: 4.7%) for the group and company.

The estimated payment dates of the costs are between 2017 and 2020 (2015: 2016 and 2020).

Sensitivity analysis

The carrying amount of the coal-related obligations would be an estimated R277 million (2015: R268 million) lower had the anticipated commissioning dates been one month earlier than estimated and R262 million (2015: R283 million) higher had the anticipated commissioning dates been one month later than estimated.

The carrying amount of coal-related obligations liabilities for the group and company is R5 554 million (2015: R7 954 million). Refer to note 29.

5. Financial risk management

Eskom's integrated risk and resilience management process enables management to effectively 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 of directors (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

5.1.1 Financial instruments mainly managed by the treasury function

The asset and liability committee (Alco) (the role of the treasury committee has been incorporated into 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 whilst 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:
- assess the credit quality of counterparties and approve credit limits based on this assessment
- monitor the adherence to credit limits
- approve methodologies for the management of counterparty exposure
- ensure that, where applicable, transactions with counterparties are supported by trading agreements
- facilitate and manage 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 Financial instruments mainly managed by the treasury function (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

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 done with banks with a minimum credit rating of AA.

An analysis per credit rating level (as determined by rating agencies) of the following balances is presented below:

		Group		Company	
	Note	2016 Rm	2015 Rm	2016 Rm	2015 Rm
Investment in securities					
AAA		3 771	2 562	3 771	2 562
AA		6 455	3 694	781	–
AA-		–	2 240	–	2 240
Maximum credit exposure	14	10 226	8 496	4 552	4 802
Financial trading assets					
Maximum credit exposure		2 657	5 143	2 657	5 143
A1+		2 082	3 913	2 082	3 913
A1		546	1 225	546	1 225
Unrated		29	5	29	5
No credit exposure		1 187	1 179	–	–
	14	3 844	6 322	2 657	5 143
Derivatives held for risk management					
AAA		1 217	1 096	1 217	1 096
AA		17 763	9 935	17 763	9 935
A1+		1 883	385	1 883	385
A+		7 851	3 389	7 851	3 389
A1		270	199	270	199
A-		1 161	–	1 161	–
A2		37	8	37	8
Maximum credit exposure	16	30 182	15 012	30 182	15 012
Cash and cash equivalents					
Maximum credit exposure		28 452	9 964	28 134	9 087
A1+		19 670	5 042	19 358	4 234
A1		8 775	4 898	8 775	4 850
Unrated		7	24	1	3
No credit exposure		2	(1 101)	2	(1 101)
	21	28 454	8 863	28 136	7 986

5.1.2 Financial instruments managed by various divisions and subsidiaries

(a) 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. These include:

- 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

The decision to impair overdue amounts is assessed on the probability of recovery based on the individual customer's credit risk profile and on the credit profile of the customer portfolio.

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
- local large power users
- local small power users

International customers

Electricity supply agreements are entered into with key international customers who comprise utility companies and governments of neighbouring countries. Their payment terms are between 10 and 45 days. They are individually assessed for impairment.

International customers are not required to provide any security unless they default on their payment terms as they generally represent a low credit risk.

Local large power users

Local large power users comprise South African redistributors (municipalities), commercial, industrial and mining customers usually with supplies above 100kVA. Payment terms are individually negotiated up to a maximum of 15 days. They are individually assessed for impairment.

Municipalities are not required to provide any security and are reassessed based on their payment history to determine if any security is necessary. Where a large power user has an acceptable credit rating from an approved rating agency the provision of a security is waived.

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 to 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. Interventions mandated by the collaboration war room that are currently being investigated include:

- restriction of supply to non-paying municipalities if set maximum demand levels are exceeded
- prioritise load shedding to the non-paying municipalities when emergencies are declared, for stage 1 load shedding and during daily evening peak periods
- limit electricity supply to the non-paying municipalities in line with what they are paying on a monthly basis
- placing non-paying municipalities on a prepayment option

Local small power users

These 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.

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 18% (2015: 16%). 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.

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.2 Financial instruments managed by various divisions and subsidiaries (continued)

(a) Trade and other receivables (continued)

Trade receivables (continued)

An analysis of days outstanding is presented below:

	Carrying amount	Not impaired[1]					Impaired				
		Not past due	Days past due				Not past due	Days past due			
			0-15	16-45	46-75	>75		0-15	16-45	46-75	>75
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Group and company											
2016											
Individually assessed for impairment											
International	1 533	845	528	152	8	–	–	–	–	–	–
Gross	1 533	845	528	152	8	–	–	–	–	–	–
Impairment	–	–	–	–	–	–	–	–	–	–	–
Local large power users – municipalities	6 647	4 157	65	42	–	–	1 015	70	295	208	795
Gross	9 861	4 157	65	42	–	–	1 096	200	553	348	3 400
Impairment	(3 214)	–	–	–	–	–	(81)	(130)	(258)	(140)	(2 605)
Local large power users – other	6 524	6 212	180	38	1	4	22	5	11	3	48
Gross	6 887	6 212	180	38	1	4	37	6	20	8	381
Impairment	(363)	–	–	–	–	–	(15)	(1)	(9)	(5)	(333)
								Not past due	Days past due		
									0-30	31-60	>60
								Rm	Rm	Rm	Rm
Collectively assessed for impairment											
Local small power users – Soweto	592							18	8	8	558
Gross	4 141							45	43	39	4 014
Impairment	(3 549)							(27)	(35)	(31)	(3 456)
Local small power users – other	1 899							1 422	148	44	285
Gross	2 536							1 466	178	76	816
Impairment	(637)							(44)	(30)	(32)	(531)
	17 195										

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.*

	Carrying amount	Not impaired[1]					Impaired				
		Not past due	Days past due				Not past due	Days past due			
			0-15	16-45	46-75	>75		0-15	16-45	46-75	>75
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Group and company											
2015											
Individually assessed for impairment											
International	826	764	62	–	–	–	–	–	–	–	–
Gross	841	764	62	–	–	–	–	–	–	–	15
Impairment	(15)	–	–	–	–	–	–	–	–	–	(15)
Local large power users – municipalities	6 047	3 964	43	74	1	–	933	110	154	178	590
Gross	9 367	3 964	43	74	1	–	933	222	246	373	3 511
Impairment	(3 320)	–	–	–	–	–	–	(112)	(92)	(195)	(2 921)
Local large power users – other	6 103	5 851	199	13	2	20	3	3	5	1	6
Gross	6 144	5 851	199	13	2	20	8	5	8	2	36
Impairment	(41)	–	–	–	–	–	(5)	(2)	(3)	(1)	(30)

	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	523	136	132	165	90
Gross	4 068	162	173	183	3 550
Impairment	(3 545)	(26)	(41)	(18)	(3 460)
Local small power users – other	1 728	1 278	136	39	275
Gross	2 237	1 316	164	71	686
Impairment	(509)	(38)	(28)	(32)	(411)
	15 227				

Security is held for trade receivables consisting of guarantees and deposits. Some balances 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:

	Fair value of security held relating to:			Security called upon	Renegotiated balances
	Impaired receivables	Not-impaired receivables	Total		
	Rm	Rm	Rm	Rm	Rm
2016					
International	–	3	3	–	–
Local large power users	79	5 122	5 201	88	933
Municipalities	46	237	283	1	920
Other	33	4 885	4 918	87	13
Local small power users	52	1 822	1 874	57	49
Soweto	12	42	54	–	2
Other	40	1 780	1 820	57	47
	131	6 947	7 078	145	982

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 Financial instruments managed by various divisions and subsidiaries (continued)

(a) Trade and other receivables (continued)

Trade receivables (continued)

	Fair value of security held relating to: Impaired receivables Rm	Not-impaired receivables Rm	Total Rm	Security called upon Rm	Renegotiated balances Rm
2015					
International	–	3	3	–	–
Local large power users	8	4 413	4 421	15	130
Municipalities	–	297	297	–	123
Other	8	4 116	4 124	15	7
Local small power users	38	1 590	1 628	54	64
Soweto	12	–	12	–	7
Other	26	1 590	1 616	54	57
	46	6 006	6 052	69	194

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. Long outstanding debt or amounts handed over to debt collectors were considered for impairment.

(b) 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 as well as monitoring the customer for signs of financial stress including business rescue or bankruptcy. 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.

	Note	Group and company 2016 Rm	2015 Rm
A+		–	115
BBB+		3	38
BBB		30	25
BBB-		7	3
BB+		–	6
BB-		31	–
Unrated		428	333
Maximum credit exposure	17	499	520

(c) Loans receivable

Home loans are made available to qualifying employees in the group via the Eskom Finance Company SOC Ltd (EFC) group. Credit risk policies, developed in line with the National Credit Act, are in place which require various criteria to be met prior to the approval of a loan. These criteria include the valuation of the property, affordability of the loan repayments and credit history of the employee. Loans advanced were repayable over an average period of 27 years in 2015. Persons who are no longer in the employ of the group are required to settle their loans with EFC within 90 days of leaving the group's service.

The assets and liabilities of EFC have been reclassified as held-for-sale in the 2016 financial year.

	Group					Company				
	Carrying amount	Not past due	Days past due			Carrying amount	Not past due	Days past due		
			0-30	31-60	>60			0-30	31-60	>60
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2016										
Loan to subsidiary	–	–	–	–	–	6 352	6 352	–	–	–
Gross	–	–	–	–	–	6 352	6 352	–	–	–
Impairment	–	–	–	–	–	–	–	–	–	–
Other	80	80	–	–	–	–	–	–	–	–
Gross	80	80	–	–	–	–	–	–	–	–
Impairment	–	–	–	–	–	–	–	–	–	–
	80	80	–	–	–	6 352	6 352	–	–	–
2015										
Home loans – non-defaulting employees	7 690	7 573	42	18	57	–	–	–	–	–
Gross	7 694	7 552	43	19	80	–	–	–	–	–
Impairment	(4)	21	(1)	(1)	(23)	–	–	–	–	–
Home loans – other	969	969	–	–	–	–	–	–	–	–
Gross	990	990	–	–	–	–	–	–	–	–
Impairment	(21)	(21)	–	–	–	–	–	–	–	–
Loan to subsidiary	–	–	–	–	–	6 553	6 553	–	–	–
Gross	–	–	–	–	–	6 553	6 553	–	–	–
Impairment	–	–	–	–	–	–	–	–	–	–
Other	256	241	–	1	14	–	–	–	–	–
Gross	273	258	–	1	14	–	–	–	–	–
Impairment	(17)	(17)	–	–	–	–	–	–	–	–
	8 915	8 783	42	19	71	6 553	6 553	–	–	–

Impairment assessments are performed to evaluate the credit risk exposure. The assessment focuses on whether there is evidence that the debtor is in financial difficulty, including bankruptcy, and consequently may breach their loan contract.

The risk of default by employees is reduced as the monthly instalments are deducted from their salaries. In the event of default, the debtor is notified verbally and in writing. If payment has not been received for a period exceeding three months, a legal process to foreclose on the loan is initiated and the property is sold by public auction or repossessed. Should the property be sold by public auction, a reserve value is set that takes into account the value of the property, arrear rates and taxes, legal costs and commissions payable. If the reserve value is not achieved, the property is repossessed and is held for resale.

Loans are not extended where the purchase price of the property exceeds its open market value. The weighted average loan amount as a percentage of the total home loan book at 31 March 2016 was 0.01% (2015: 0.01%).

Security is held for home loan receivables consisting of mortgage bonds. Balances past their original due dates may be renegotiated. Where renegotiated terms are not met, the original payment terms are reapplied. At 31 March 2015 the carrying amount of home loans secured by home loans was R8 659 million.

Nqaba Finance 1 (RF) Ltd (Nqaba), a structured entity, maintains a residential mortgage-backed securitisation programme that converts eligible loan assets into marketable securities that are traded on the Johannesburg Stock Exchange (JSE) debt market. Nqaba is consolidated in the annual financial statements of the EFC group. EFC is a preferential shareholder of Nqaba which entitles it to all the residual profits (residual cash after provision for secured creditors and noteholders).

EFC provides a first-loss credit enhancement loan equal to 14.87% (2015: 14.87%) of the notes in issue. At 31 March 2016 the loan was R290 million (2015: R290 million). As the servicer of Nqaba, EFC earns a servicing fee equal to 0.15% (2015: 0.15%) of the quarterly outstanding loan book balance. At the end of the financial year, the net asset value of Nqaba was R47 million (2015: R42 million).

(d) Financial guarantees issued

The group's maximum exposure as a result of financial guarantees issued was R151 million (2015: R158 million) and R1 262 million (2015: R1 289 million) for the company (refer to note 45.1 for more information on financial guarantees issued).

5. Financial risk management (continued)

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.

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 the 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 (USD) or foreign production price indices. This gives rise to embedded derivatives that require separation as a result of the different characteristics of the embedded derivative and the host contract. The remaining contractual periods are between four and 13 years.

The net impact on profit or loss because of changes in the fair value of the embedded derivatives for the group and company is a fair value gain of R997 million (2015: R1 310 million). At 31 March 2016, the embedded derivative liabilities were R7 025 million (2015: R8 022 million) for the group and R7 025 million (2015: R8 021 million) for the company.

The valuation methods and inputs are discussed in the accounting policies (refer to note 2.10.5) and the valuation assumptions 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 South African Reserve Bank (SARB) regulations.

Loans receivable

Market risk arises in respect of loans receivable from changes in interest rates and market prices. Market risk is monitored, analysed and reported by the EFC finance, assurance and risk committee. A strategy aimed at protecting the EFC group from changes in market risk that may have a negative impact on earnings has been implemented. Funds to finance operations are raised over the short term, usually for periods of three to six months, but not exceeding one year. This enables the pricing of assets to be matched with changes in the pricing of liabilities. The cost of funding is based on prevailing conditions in the South African money market. Rates charged on outstanding loan receivables are based on movements in the SARB repurchase rate. EFC has been reclassified as held-for-sale in the 2016 financial year.

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	AUD m	CHF m	CAD m	NOK m
2016									
Group									
Assets									
Cash and cash equivalents	470	2	–	–	–	–	–	–	–
Liabilities									
Debt securities and borrowings	(2 614)	(5 029)	–	(12 441)	–	–	–	–	–
Trade and other payables	(197)	(169)	(38)	(7)	(23)	–	–	(3)	–
Gross statement of financial position exposure	(2 341)	(5 196)	(38)	(12 448)	(23)	–	–	(3)	–
Estimated forecast purchases[1]	(1 049)	(144)	(15)	(248)	(32)	(3)	(1)	(2)	(6)
Gross exposure	(3 390)	(5 340)	(53)	(12 696)	(55)	(3)	(1)	(5)	(6)
Derivatives held for risk management[2]	3 382	5 338	54	12 695	51	2	2	4	3
Net exposure	(8)	(2)	1	(1)	(4)	(1)	1	(1)	(3)
Company									
Assets									
Cash and cash equivalents	470	2	–	–	–	–	–	–	–
Liabilities									
Debt securities and borrowings	(2 614)	(5 029)	–	(12 441)	–	–	–	–	–
Trade and other payables	(175)	(169)	(37)	(7)	(23)	–	–	(3)	–
Gross statement of financial position exposure	(2 319)	(5 196)	(37)	(12 448)	(23)	–	–	(3)	–
Estimated forecast purchases[1]	(1 049)	(144)	(15)	(248)	(32)	(3)	(1)	(2)	(6)
Gross exposure	(3 368)	(5 340)	(52)	(12 696)	(55)	(3)	(1)	(5)	(6)
Derivatives held for risk management[2]	3 360	5 338	53	12 695	51	2	2	4	3
Net exposure	(8)	(2)	1	(1)	(4)	(1)	1	(1)	(3)
2015									
Group									
Liabilities									
Debt securities and borrowings	(2 317)	(4 969)	–	(14 930)	–	–	–	(1)	–
Trade and other payables	(230)	(37)	(53)	(15)	(24)	–	–	(1)	(1)
Gross statement of financial position exposure	(2 547)	(5 006)	(53)	(14 945)	(24)	–	–	(2)	(1)
Estimated forecast purchases[1]	(1 183)	(227)	(15)	(860)	(36)	(1)	(14)	(2)	–
Gross exposure	(3 730)	(5 233)	(68)	(15 805)	(60)	(1)	(14)	(4)	(1)
Derivatives held for risk management[2]	3 721	5 226	68	15 805	48	–	14	3	1
Net exposure	(9)	(7)	–	–	(12)	(1)	–	(1)	–
Company									
Liabilities									
Debt securities and borrowings	(2 317)	(4 969)	–	(14 930)	–	–	–	(1)	–
Trade and other payables	(229)	(37)	(52)	(15)	(24)	–	–	(1)	(1)
Gross statement of financial position exposure	(2 546)	(5 006)	(52)	(14 945)	(24)	–	–	(2)	(1)
Estimated forecast purchases[1]	(1 183)	(227)	(15)	(860)	(36)	(1)	(14)	(2)	–
Gross exposure	(3 729)	(5 233)	(67)	(15 805)	(60)	(1)	(14)	(4)	(1)
Derivatives held for risk management[2]	3 720	5 226	66	15 805	48	–	14	3	1
Net exposure	(9)	(7)	(1)	–	(12)	(1)	–	(1)	–

1. *Represents future purchases contracted for.*
1. *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			
	Average		Reporting date mid-spot rate		Average		Reporting date mid-spot rate	
	2016	2015	2016	2015	2016	2015	2016	2015
EUR	15.21	13.98	16.77	13.07	0.07	0.07	0.06	0.08
USD	13.79	11.07	14.71	12.18	0.07	0.09	0.07	0.08
GBP	20.74	17.81	21.13	18.01	0.05	0.06	0.05	0.06
CHF	14.15	11.91	15.35	12.51	0.07	0.08	0.07	0.08
JPY	0.12	0.10	0.13	0.10	8.33	10.00	7.69	10.00
SEK	1.63	1.52	1.82	1.41	0.61	0.66	0.55	0.71
CAD	10.48	9.73	11.41	9.57	0.10	0.10	0.09	0.10
AUD	10.11	9.65	11.32	9.26	0.10	0.10	0.09	0.11
NOK	1.66	1.66	1.78	1.50	0.60	0.60	0.56	0.67

Sensitivity analysis

The group is mainly exposed to the euro and United States dollar. The sensitivity analysis has been performed on the same basis as the prior year. The analysis assumes that all other variables, in particular interest rates, remain constant and are as follows:

	Group and company			
	2016		2015	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Profit/(loss), excluding embedded derivatives				
Total exposure	406	(406)	335	(335)
Rand/euro exposure	236	(236)	231	(231)
Rand/USD exposure	161	(161)	92	(92)
Rand/other currency	9	(9)	12	(12)
Equity, excluding embedded derivatives				
Total exposure	152	(152)	140	(140)
Rand/euro exposure	138	(138)	125	(125)
Rand/USD exposure	13	(13)	15	(15)
Rand/other currency	1	(1)	–	–
Profit/(loss) – embedded derivatives				
Rand/USD exposure	106	(103)	127	(123)

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

Commodities used directly

Eskom purchases coal that is used in the generation of electricity from mines and is exposed to price and supply risks. Eskom has entered into long-term supply agreements with mines to ensure continuous supply of coal. In the fixed price contracts the price escalation is linked to an index, whereas Eskom pays for all the operational and other related costs of the collieries where the contracts are on a cost-plus basis. These contracts are monitored closely and managed to ensure costs are maintained within acceptable levels. Coal requirements above those of the fixed price and cost-plus long-term contracts are supplied via short- to medium-term contracts which could have a transport element included in the purchase price.

There is also price risk exposure in the long-term primary energy water supply agreements entered into with the Department of Water Affairs (DWA) where Eskom pays for a portion of the operational costs incurred by DWA on certain of the water schemes.

Eskom is exposed to price risk on the diesel that is used for the generation of electricity at its OCGT power stations. The price of diesel is a function of the crude oil and USD exchange rates.

Commodities used indirectly

There was no material exposure where commodities formed a part of plant, equipment or inventory at year end. Eskom currently does not hedge its exposure to steel as no economic viable hedging instruments exist.

Sensitivity analysis

The group is exposed mainly to changes in the aluminium price. The sensitivity analysis has been performed on the same basis as the prior year. The analysis assumes that all other variables remain constant and the possible impact on profit or loss is:

	Group and company			
	2016		2015	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Profit/(loss), including embedded derivatives[1]				
Aluminium price	87	(87)	104	(104)

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.

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 forward exchange contracts. Borrowings and debt securities issued 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 assumes that all other variables, in particular spot foreign exchange rates, remain constant. The calculation excludes borrowing costs capitalised in terms of the group's accounting policy. The analysis relates to variable-rate instruments and has been performed on the same basis as the prior year.

1. *Impact on profit or loss is before calibration adjustment.*

5. Financial risk management (continued)

5.2 Market risk (continued)

5.2.3 Interest rate risk (continued)

Sensitivity analysis (continued)

The simulation is performed on a monthly basis to verify that the maximum loss potential is within the limit set by management. The results of the simulation are included in the table below.

The ZAR and the USD interest rates are used in determining the fair value of embedded derivatives. The sensitivity analysis below indicates the impact on profit or loss if these rates change. The sensitivity analysis assumes that all other variables remain constant and has been prepared on the same basis as for the prior year.

	Group				Company			
	2016		2015		2016		2015	
	+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), excluding embedded derivatives								
Total exposure	–	3	(44)	48	(47)	51	(53)	57
Rand interest rates	273	(284)	225	(238)	226	(236)	216	(229)
EUR interest rates	(70)	71	(59)	60	(70)	71	(59)	60
USD interest rates	(194)	210	(195)	212	(194)	210	(195)	212
Other currency interest rates	(9)	6	(15)	14	(9)	6	(15)	14
Equity, excluding embedded derivatives								
Total exposure	(2 908)	3 149	(1 612)	1 951	(2 908)	3 149	(1 594)	1 933
Rand interest rates	1 309	(1 372)	1 742	(1 639)	1 309	(1 372)	1 760	(1 657)
EUR interest rates	(871)	936	(841)	889	(871)	936	(841)	889
USD interest rates	(3 314)	3 566	(2 478)	2 671	(3 314)	3 566	(2 478)	2 671
Other currency interest rates	(32)	19	(35)	30	(32)	19	(35)	30
Profit/(loss) – embedded derivatives[1]								
Total exposure	147	(162)	223	(258)	147	(162)	223	(258)
Rand interest rates	468	(497)	659	(709)	468	(497)	659	(709)
USD interest rates	(321)	335	(436)	451	(321)	335	(436)	451

Fixed and floating rate debt

The proportion of fixed versus floating rate debt at 31 March was:

	Group and company			
	2016		2015	
	fixed %	floating %	fixed %	floating %
Continuing operations	80	20	82	18

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 mandate is stipulated by the Eskom board and is monitored by the Escap investment committee. Exposure to market risk is limited through diversification and by applying strict investment criteria.

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

	Group			
	2016		2015	
	Rm	portfolio %	Rm	portfolio %
Banks, financial services and insurance	267	22	298	25
Basic materials and resources	143	12	233	20
Consumer goods and services	527	44	465	39
Other	250	22	183	16
	1 187	100	1 179	100

A 1% increase or decrease in share prices would have increased/decreased profit or loss by R12 million (2015: R12 million). There will be no impact on equity. The analysis assumes that all other variables remain constant and is performed on the same basis as for the prior year.

1. *Impact on profit or loss is before calibration adjustment.*

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.

The following is the sensitivity analysis of the change in the value of the embedded derivatives (relating to customised pricing agreements) as a result of changes in electricity tariffs and the United States PPI. The analysis assumes that all other variables remain constant and the possible impact on profit or loss is:

	Group and company			
	2016		2015	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Profit/(loss), including embedded derivatives[1]	(135)	134	(416)	400
Electricity tariffs	(263)	258	(568)	553
United States PPI	128	(124)	152	(153)

5.3 Liquidity risk

Liquidity risk can arise from mismatches in the timing of cash flows from revenue and capital and operational outflows. Funding risk arises when the necessary liquidity to fund illiquid asset positions, such as building new electricity capacity, cannot be obtained at the expected terms and when required.

The objective of the group's liquidity and funding management is to ensure that all foreseeable operational, capital expansion and loan commitment expenditure can be met under both normal and stressed conditions. The group has adopted an overall 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 Treasury 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 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, overdraft facilities (for which there was no requirement to use), undrawn loans, commercial paper facilities and unutilised government guarantees are in place as indicated in the table. All figures are quoted on notional amounts.

1. *Impact on profit or loss is before calibration adjustment.*

5. Financial risk management (continued)

5.3 Liquidity risk (continued)

5.3.1 Primary sources of funding and unused facilities (continued)

	ZAR 2016 m	ZAR 2015 m	EUR 2016 m	EUR 2015 m	USD 2016 m	USD 2015 m	JPY 2016 m	JPY 2015 m
Facilities available								
Export credit agencies	–	–	845	921	195	483	–	–
Crédit Agricole Corporate and Investment Bank – Coface	–	–	44	44	–	–	–	–
Banque Nationale de Paris Paribas – Coface	–	–	231	231	–	–	–	–
Banque Nationale de Paris Paribas – Servizi Assicurativi del Commercio Estero	–	–	261	261	–	–	–	–
Kreditanstalt für Wiederaufbau – Hermes	–	–	289	357	–	–	–	–
Deutsche Bank – Hermes	–	–	20	28	–	–	–	–
Export-Import Bank of the United States	–	–	–	–	195	483	–	–
Development financing institutions	2 505	7 377	503	503	1 921	2 214	–	–
World Bank	–	–	–	–	1 280	1 572	–	–
African Development Bank	232	316	331	331	256	256	–	–
Development Bank of South Africa	–	3 000	–	–	–	–	–	–
Clean technology fund – African Development Bank	–	–	–	–	64	65	–	–
Clean technology fund – World Bank	–	–	–	–	221	221	–	–
European Investment Bank	–	–	75	75	–	–	–	–
Kreditanstalt für Wiederaufbau	–	3 935	–	–	100	100	–	–
Agence Française de Développement	2 273	126	97	97	–	–	–	–
Government guarantees	168 546	191 189	–	–	–	–	–	–
Domestic multi-term note programme	44 951	49 774	–	–	–	–	–	–
General guarantees	123 595	141 415	–	–	–	–	–	–
General banking facilities	3 750	1 450	–	–	–	–	–	–
	174 801	200 016	1 348	1 424	2 116	2 697	–	–
Funds received during the year								
Export credit agencies	–	–	71	100	289	16	–	906
Japan Bank for International Cooperation	–	–	–	–	–	–	–	906
Kreditanstalt für Wiederaufbau – Hermes	–	–	68	85	–	–	–	–
Deutsche Bank – Hermes	–	–	3	15	–	–	–	–
Export-Import Bank of the United States	–	–	–	–	289	16	–	–
Development financing institutions	7 145	3 607	470	103	291	766	–	–
World Bank[1]	–	–	–	–	291	703	–	–
African Development Bank[2]	84	–	–	100	–	5	–	–
Development Bank of South Africa[3]	3 000	3 000	–	–	–	–	–	–
Clean technology fund – World Bank[4]	–	–	–	–	–	28	–	–
Clean technology fund – African Development Bank[4]	–	–	–	–	–	30	–	–
Kreditanstalt für Wiederaufbau[5]	3 935	–	–	–	–	–	–	–
Agence Française de Développement[4, 6]	126	607	–	3	–	–	–	–
Deutsche Bank guaranteed by Multilateral Investment Guarantee Agency[7]	–	–	470	–	–	–	–	–
	7 145	3 607	541	203	580	782	–	906
Government guarantees used during the year	22 643	15 151	–	–	–	–	–	–
Domestic multi-term note programme	4 823	10 176	–	–	–	–	–	–
General guarantees	17 820	4 975	–	–	–	–	–	–

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.*
3. *Funds received were for bridging finance for the capacity expansion programme.*
4. *Funds received were for the Sere wind farm project.*
5. *Funds received were for Eskom renewable grid integration and transmission strengthening.*
6. *Funds received were for concentrated solar power projects.*
7. *Funds received were for transmission lines and grid strengthening, substations and independent power producer integration.*

5.3.2 Key indicators used for liquidity management

Duration

Management has set minimum duration limits to manage the debt and borrowings maturity profile. Group policy is to ensure that the external debt portfolio (excluding the trade portfolio) has a minimum duration of five years. The duration limits are independently monitored and reported to Alco on a monthly basis and to the Exco and the audit and risk committee on a quarterly basis.

The duration (a weighted average term to maturity measure based on future cash flows) of the debt (including cross-currency and interest rate swaps) measured at fair value at 31 March was:

	Group and company	
	2016 Years	2015 Years
Continuing operations	8.63	11.00

Liquid assets

Liquid assets are investments identified as having the potential to be quickly converted into cash. The liquid assets were:

		Group		Company	
	Note	2016 Rm	2015 Rm	2016 Rm	2015 Rm
Investment in securities	14.1	10 226	8 496	4 552	4 802
Cash and cash equivalents	21	28 454	8 863	28 136	7 986
		38 680	17 359	32 688	12 788

Capital expenditure ratio

The capital expenditure ratio[1] measures whether there are liquid funds available to invest in capital expenditure. The capital expenditure ratio for the period was:

	Group		Company	
	2016 %	2015 %	2016 %	2015 %
Continuing operations	64	53	60	50

5.3.3 Contractual cash flows

The table on the next page indicates 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 are presented as gross inflows and outflows even though physically they are settled simultaneously. Contractual cash flows are a function of forward exchange rates and forward interest rates and is a point in time calculation that is 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.

1. The ratio is calculated as cash generated from operations divided by cash expenditures on property, plant and equipment and intangible assets.

5. Financial risk management (continued)

5.3 Liquidity risk (continued)

5.3.3 Contractual cash flows (continued)

	Note	Carrying amount Non-current Rm	Current Rm	Total Rm	Cash flows Nominal inflow/ outflow Rm	0-3 months Rm	4-12 months Rm	1-5 years Rm	> 5 years Rm
2016									
Group									
Financial assets									
Investment in securities	14	2 485	7 741	10 226	10 700	1 807	6 177	2 716	–
Loans receivable	15	70	10	80	79	3	7	55	14
Derivatives held for risk management	16	27 600	2 582	30 182	60 031	1 437	897	17 002	40 695
Finance lease receivables	17	477	22	499	912	20	60	316	516
Trade and other receivables	19	54	21 785	21 839	21 758	20 797	907	54	–
Financial trading assets[1]	14	–	3 844	3 844	4 279	2 058	1 221	544	456
Cash and cash equivalents	21	–	28 454	28 454	28 454	28 454	–	–	–
		30 686	64 438	95 124	126 213	54 576	9 269	20 687	41 681
Financial liabilities									
Debt securities and borrowings	25	306 970	15 688	322 658	698 133	6 403	26 386	186 216	479 128
Derivatives held for risk management	16	2 862	2 011	4 873	4 416	841	3 434	1 686	(1 545)
Finance lease payables	30	3 838	90	3 928	9 580	170	512	3 298	5 600
Trade and other payables	31	875	32 047	32 922	32 748	27 117	4 471	915	245
Financial trading liabilities[1]	14	–	1 250	1 250	1 721	1 028	17	95	581
Financial guarantees	45	–	1	1	151	151	–	–	–
		314 545	51 087	365 632	746 749	35 710	34 820	192 210	484 009
Company									
Financial assets									
Investment in securities	14	2 485	2 067	4 552	5 025	42	2 267	2 716	–
Loans receivable	15	–	6 352	6 352	6 486	2 725	3 761	–	–
Derivatives held for risk management	16	27 600	2 582	30 182	60 031	1 437	897	17 002	40 695
Finance lease receivables	17	477	22	499	912	20	60	316	516
Trade and other receivables	19	54	24 455	24 509	24 484	23 821	608	55	–
Financial trading assets[1]	14	–	2 657	2 657	3 092	2 058	34	544	456
Cash and cash equivalents	21	–	28 136	28 136	28 136	28 136	–	–	–
		30 616	66 271	96 887	128 166	58 239	7 627	20 633	41 667
Financial liabilities									
Debt securities and borrowings	25	306 901	19 056	325 957	701 298	9 637	26 386	186 147	479 128
Derivatives held for risk management	16	2 862	2 024	4 886	4 429	854	3 434	1 686	(1 545)
Finance lease payables	30	3 838	90	3 928	9 580	170	512	3 298	5 600
Trade and other payables	31	875	33 560	34 435	34 293	29 657	3 476	915	245
Financial trading liabilities[1]	14	–	1 250	1 250	1 721	1 028	17	95	581
Financial guarantees	45	–	2	2	1 262	1 262	–	–	–
		314 476	55 982	370 458	752 583	42 608	33 825	192 141	484 009

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

	Note	Carrying amount Non-current Rm	Current Rm	Total Rm	Cash flows Nominal inflow/ outflow Rm	0-3 months Rm	4-12 months Rm	1-5 years Rm	> 5 years Rm
2015									
Group									
Financial assets									
Investment in securities	14	2 481	6 015	8 496	8 906	573	5 744	2 589	–
Loans receivable	15	8 646	269	8 915	21 065	264	785	3 790	16 226
Derivatives held for risk management	16	14 303	709	15 012	30 424	484	48	(3 129)	33 021
Finance lease receivables	17	500	20	520	1 078	21	64	339	654
Trade and other receivables	19	2 787	16 811	19 598	19 732	16 284	527	2 920	1
Financial trading assets[1]	14	–	6 322	6 322	6 339	5 065	1 184	18	72
Cash and cash equivalents	21	–	8 863	8 863	8 863	8 863	–	–	–
		28 717	39 009	67 726	96 407	31 554	8 352	6 527	49 974
Financial liabilities									
Debt securities and borrowings	25	250 837	19 976	270 813	559 616	6 232	27 789	112 395	413 200
Subordinated loan from shareholder	25	26 621	–	26 621	146 356	–	–	–	146 356
Derivatives held for risk management	16	2 641	2 845	5 486	4 323	1 071	3 027	526	(301)
Finance lease payables	30	474	14	488	1 267	25	74	390	778
Trade and other payables	31	1 015	27 404	28 419	28 658	23 744	3 657	901	356
Financial trading liabilities[1]	14	–	5 499	5 499	5 617	4 863	21	215	518
Financial guarantees	45	–	1	1	158	158	–	–	–
		281 588	55 739	337 327	745 995	36 093	34 568	114 427	560 907
Company									
Financial assets									
Investment in securities	14	2 481	2 321	4 802	5 212	14	2 609	2 589	–
Loans receivable	15	–	6 553	6 553	6 684	2 720	3 964	–	–
Derivatives held for risk management	16	14 303	709	15 012	30 424	484	48	(3 129)	33 021
Finance lease receivables	17	500	20	520	1 078	21	64	339	654
Trade and other receivables	19	3 257	18 553	21 810	21 990	17 224	1 329	3 436	1
Financial trading assets[1]	14	–	5 143	5 143	5 160	5 065	5	18	72
Cash and cash equivalents	21	–	7 986	7 986	7 986	7 986	–	–	–
		20 541	41 285	61 826	78 534	33 514	8 019	3 253	33 748
Financial liabilities									
Debt securities and borrowings	25	249 333	22 176	271 509	560 313	12 432	23 790	111 035	413 056
Subordinated loan from shareholder	25	26 621	–	26 621	146 356	–	–	–	146 356
Derivatives held for risk management	16	2 641	2 845	5 486	4 323	1 071	3 027	526	(301)
Finance lease payables	30	637	70	707	1 526	43	128	574	781
Trade and other payables	31	1 015	28 773	29 788	30 029	26 083	2 689	901	356
Financial trading liabilities[1]	14	–	5 499	5 499	5 617	4 863	21	215	518
Financial guarantees	45	–	2	2	1 289	1 289	–	–	–
		280 247	59 365	339 612	749 453	45 781	29 655	113 251	560 766

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

6. Accounting classification, fair value and fair value hierarchy

6.1 Accounting classification and fair value

	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total carrying amount Rm	Total fair value Rm
2016								
Group								
Financial assets								
Investment in securities	14	–	–	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]	15	–	80	–	–	–	80	80
Derivatives held for risk management	16	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]	17	–	–	–	–	499	499	499
Trade and other receivables[1]	19	–	21 839	–	–	–	21 839	21 839
Financial trading assets	14	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	21	–	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	25	–	–	–	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
Eurorand 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	26	–	–	–	–	7 025	7 025	7 025
Derivatives held for risk management	16	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]	30	–	–	–	–	3 928	3 928	3 928
Trade and other payables[1]	31	–	–	–	32 922	–	32 922	32 922
Financial trading liabilities	14	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.*

	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total carrying amount Rm	Total fair value Rm
2016								
Company								
Financial assets								
Investment in securities	14	–	–	4 552	–	–	4 552	4 552
Government bonds		–	–	3 769	–	–	3 769	3 769
Negotiable certificates of deposit		–	–	783	–	–	783	783
Loans receivable[1]	15	–	6 352	–	–	–	6 352	6 352
Derivatives held for risk management	16	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]	17	–	–	–	–	499	499	499
Trade and other receivables[1]	19	–	24 509	–	–	–	24 509	24 509
Financial trading assets	14	2 657	–	–	–	–	2 657	2 657
Repurchase agreements		2 044	–	–	–	–	2 044	2 044
Government bonds		613	–	–	–	–	613	613
Cash and cash equivalents	21	–	28 136	–	–	–	28 136	28 136
Bank balances		–	28 134	–	–	–	28 134	28 134
Unsettled deals		–	2	–	–	–	2	2
		3 787	58 997	4 552	–	29 551	96 887	96 887
Financial liabilities								
Debt securities and borrowings	25	–	–	–	325 957	–	325 957	286 069
Eskom bonds		–	–	–	126 466	–	126 466	120 216
Promissory notes		–	–	–	46	–	46	45
Commercial paper		–	–	–	6 431	–	6 431	6 431
Eurorand 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		–	–	–	9 164	–	9 164	8 213
Embedded derivatives	26	–	–	–	–	7 025	7 025	7 025
Derivatives held for risk management	16	2 941	–	–	–	1 945	4 886	4 886
Foreign exchange contracts		1 495	–	–	–	106	1 601	1 601
Cross-currency swaps		382	–	–	–	1 839	2 221	2 221
Credit default swaps		1 064	–	–	–	–	1 064	1 064
Finance lease payables[1]	30	–	–	–	–	3 928	3 928	3 928
Trade and other payables[1]	31	–	–	–	34 435	–	34 435	34 435
Financial trading liabilities	14	1 250	–	–	–	–	1 250	1 250
Short-sold government bonds		227	–	–	–	–	227	227
Repurchase agreements		1 023	–	–	–	–	1 023	1 023
		4 191	–	–	360 392	12 898	377 481	337 593

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

6. Accounting classification, fair value and fair value hierarchy (continued)

6.1 Accounting classification and fair value (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 carrying amount Rm	Total fair value Rm
2015								
Group								
Financial assets								
Investment in securities	14	–	–	8 496	–	–	8 496	8 496
Government bonds		–	–	4 802	–	–	4 802	4 802
Negotiable certificates of deposit		–	–	3 694	–	–	3 694	3 694
Loans receivable[1]	15	–	8 915	–	–	–	8 915	7 474
Secured by mortgages		–	8 659	–	–	–	8 659	7 315
Other		–	256	–	–	–	256	159
Derivatives held for risk management	16	1 231	–	–	–	13 781	15 012	15 012
Foreign exchange contracts		501	–	–	–	84	585	585
Cross-currency swaps		713	–	–	–	13 697	14 410	14 410
Commodity forwards		8	–	–	–	–	8	8
Credit default swaps		9	–	–	–	–	9	9
Finance lease receivables[2]	17	–	–	–	–	520	520	520
Trade and other receivables[2]	19	–	19 598	–	–	–	19 598	19 598
Financial trading assets	14	6 322	–	–	–	–	6 322	6 322
Repurchase agreements		5 084	–	–	–	–	5 084	5 084
Listed shares		1 179	–	–	–	–	1 179	1 179
Government bonds		59	–	–	–	–	59	59
Cash and cash equivalents	21	–	8 863	–	–	–	8 863	8 863
Bank balances		–	5 959	–	–	–	5 959	5 959
Unsettled deals		–	(1 101)	–	–	–	(1 101)	(1 101)
Fixed deposits		–	4 005	–	–	–	4 005	4 005
		7 553	37 376	8 496	–	14 301	67 726	66 285
Financial liabilities								
Debt securities and borrowings	25	–	–	–	297 434	–	297 434	269 195
Eskom bonds		–	–	–	112 103	–	112 103	114 838
Promissory notes		–	–	–	40	–	40	47
Commercial paper		–	–	–	7 531	–	7 531	7 377
Eurorand zero coupon bonds		–	–	–	3 942	–	3 942	3 594
Foreign bonds		–	–	–	48 670	–	48 670	48 585
Development financing institutions		–	–	–	62 447	–	62 447	49 691
Export credit facilities		–	–	–	28 488	–	28 488	27 966
Subordinated loan from shareholder		–	–	–	26 621	–	26 621	12 420
Other loans		–	–	–	7 592	–	7 592	4 677
Embedded derivatives	26	–	–	–	–	8 022	8 022	8 022
Derivatives held for risk management	16	1 335	–	–	–	4 151	5 486	5 486
Foreign exchange contracts		824	–	–	–	1 530	2 354	2 354
Cross-currency swaps		11	–	–	–	2 621	2 632	2 632
Commodity forwards		1	–	–	–	–	1	1
Credit default swaps		499	–	–	–	–	499	499
Finance lease payables[2]	30	–	–	–	–	488	488	488
Trade and other payables[2]	31	–	–	–	28 419	–	28 419	28 419
Financial trading liabilities	14	5 499	–	–	–	–	5 499	5 499
Short-sold government bonds		493	–	–	–	–	493	493
Repurchase agreements		5 006	–	–	–	–	5 006	5 006
		6 834	–	–	325 853	12 661	345 348	317 109

1. *The fair value of loans receivable is based on what a market participant would be willing to pay to acquire the loans on the assumption that this participant would not have the ability to deduct repayments from the group's payroll thus increasing the probability of default resulting in a lower fair value than Eskom'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.*

	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total carrying amount Rm	Total fair value Rm
2015								
Company								
Financial assets								
Investment in securities								
Government bonds	14	–	–	4 802	–	–	4 802	4 802
Loans receivable[1]	15	–	6 553	–	–	–	6 553	6 553
Derivatives held for risk management	16	1 231	–	–	–	13 781	15 012	15 012
Foreign exchange contracts		501	–	–	–	84	585	585
Cross-currency swaps		713	–	–	–	13 697	14 410	14 410
Commodity forwards		8	–	–	–	–	8	8
Credit default swaps		9	–	–	–	–	9	9
Finance lease receivables[1]	17	–	–	–	–	520	520	520
Trade and other receivables[1]	19	–	21 810	–	–	–	21 810	21 810
Financial trading assets	14	5 143	–	–	–	–	5 143	5 143
Repurchase agreements		5 084	–	–	–	–	5 084	5 084
Government bonds		59	–	–	–	–	59	59
Cash and cash equivalents	21	–	7 986	–	–	–	7 986	7 986
Bank balances		–	5 082	–	–	–	5 082	5 082
Unsettled deals		–	(1 101)	–	–	–	(1 101)	(1 101)
Fixed deposits		–	4 005	–	–	–	4 005	4 005
		6 374	36 349	4 802	–	14 301	61 826	61 826
Financial liabilities								
Debt securities and borrowings	25	–	–	–	298 130	–	298 130	269 890
Eskom bonds		–	–	–	112 103	–	112 103	114 838
Promissory notes		–	–	–	40	–	40	47
Commercial paper		–	–	–	7 027	–	7 027	6 873
Eurorand zero coupon bonds		–	–	–	3 942	–	3 942	3 594
Foreign bonds		–	–	–	48 670	–	48 670	48 585
Development financing institutions		–	–	–	62 447	–	62 447	49 691
Export credit facilities		–	–	–	28 488	–	28 488	27 966
Subordinated loan from shareholder		–	–	–	26 621	–	26 621	12 420
Other loans		–	–	–	8 792	–	8 792	5 876
Embedded derivatives	26	–	–	–	–	8 021	8 021	8 021
Derivatives held for risk management	16	1 335	–	–	–	4 151	5 486	5 486
Foreign exchange contracts		824	–	–	–	1 530	2 354	2 354
Cross-currency swaps		11	–	–	–	2 621	2 632	2 632
Commodity forwards		1	–	–	–	–	1	1
Credit default swaps		499	–	–	–	–	499	499
Finance lease payables[1]	30	–	–	–	–	707	707	707
Trade and other payables[1]	31	–	–	–	29 788	–	29 788	29 788
Financial trading liabilities	14	5 499	–	–	–	–	5 499	5 499
Short-sold government bonds		493	–	–	–	–	493	493
Repurchase agreements		5 006	–	–	–	–	5 006	5 006
		6 834	–	–	327 918	12 879	347 631	319 391

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

6. Accounting classification, fair value and fair value hierarchy (continued)

6.1 Accounting classification and fair value (continued)

Valuation processes

The group has established a control framework with respect to 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. 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 will be determined by each participant in the different principal markets. The principal markets are:

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

6.2 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. The valuation technique used for cross-currency swaps has been improved during the year. There were no changes in the valuation techniques applied for the other instruments. 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 financial 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 year.

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
Non-derivatives	A discounted cash flow technique is used, which uses expected cash flows and a market-related discount rate
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
Trade and other receivables and payables, and finance lease receivables and payables	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 (embedded derivative for measurement and disclosure and government loan for disclosure). Refer to note 26 for a movement reconciliation and to notes 4.1 and 5.2 for information regarding the valuation techniques and assumptions used.

The fair value hierarchy of financial instruments is as follows:

	Group				Company			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2016								
Assets measured at fair value								
Investment in securities	3 769	6 457	–	10 226	3 769	783	–	4 552
Government bonds	3 769	–	–	3 769	3 769	–	–	3 769
Negotiable certificates of deposit	–	6 457	–	6 457	–	783	–	783
Derivatives held for risk management	–	30 182	–	30 182	–	30 182	–	30 182
Foreign exchange contracts	–	2 159	–	2 159	–	2 159	–	2 159
Cross-currency swaps	–	27 983	–	27 983	–	27 983	–	27 983
Commodity forwards	–	31	–	31	–	31	–	31
Credit default swaps	–	9	–	9	–	9	–	9
Financial trading assets	1 800	2 044	–	3 844	613	2 044	–	2 657
Repurchase agreements	–	2 044	–	2 044	–	2 044	–	2 044
Listed shares	1 187	–	–	1 187	–	–	–	–
Government bonds	613	–	–	613	613	–	–	613
Assets not measured at fair value								
Loans receivable	–	80	–	80	–	6 352	–	6 352
Loans to subsidiaries	–	–	–	–	–	6 352	–	6 352
Other	–	80	–	80	–	–	–	–
Finance lease receivables	–	499	–	499	–	499	–	499
Trade and other receivables	–	21 839	–	21 839	–	24 509	–	24 509
Cash and cash equivalents	–	28 454	–	28 454	–	28 136	–	28 136
Bank balances	–	28 452	–	28 452	–	28 134	–	28 134
Unsettled deals	–	2	–	2	–	2	–	2
	5 569	89 555	–	95 124	4 382	92 505	–	96 887
Liabilities measured at fair value								
Embedded derivatives	–	–	7 025	7 025	–	–	7 025	7 025
Derivatives held for risk management	–	4 873	–	4 873	–	4 886	–	4 886
Foreign exchange contracts	–	1 588	–	1 588	–	1 601	–	1 601
Cross-currency swaps	–	2 221	–	2 221	–	2 221	–	2 221
Credit default swaps	–	1 064	–	1 064	–	1 064	–	1 064
Financial trading liabilities	227	1 023	–	1 250	227	1 023	–	1 250
Short-sold government bonds	227	–	–	227	227	–	–	227
Repurchase agreements	–	1 023	–	1 023	–	1 023	–	1 023
Liabilities not measured at fair value								
Debt securities and borrowings	120 216	162 554	–	282 770	120 216	165 853	–	286 069
Eskom bonds	120 216	–	–	120 216	120 216	–	–	120 216
Promissory notes	–	45	–	45	–	45	–	45
Commercial paper	–	4 822	–	4 822	–	6 431	–	6 431
Eurorand zero coupon bonds	–	3 358	–	3 358	–	3 358	–	3 358
Foreign bonds	–	54 739	–	54 739	–	54 739	–	54 739
Development financing institutions	–	58 602	–	58 602	–	58 602	–	58 602
Export credit facilities	–	34 465	–	34 465	–	34 465	–	34 465
Other loans	–	6 523	–	6 523	–	8 213	–	8 213
Finance lease payables	–	3 928	–	3 928	–	3 928	–	3 928
Trade and other payables	–	32 922	–	32 922	–	34 435	–	34 435
	120 443	205 300	7 025	332 768	120 443	210 125	7 025	337 593

6. Accounting classification, fair value and fair value hierarchy (continued)

6.2 Fair value hierarchy (continued)

	Group				Company			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2015								
Assets measured at fair value								
Investment in securities	4 802	3 694	–	8 496	4 802	–	–	4 802
Government bonds	4 802	–	–	4 802	4 802	–	–	4 802
Negotiable certificates of deposit	–	3 694	–	3 694	–	–	–	–
Derivatives held for risk management	–	15 012	–	15 012	–	15 012	–	15 012
Foreign exchange contracts	–	585	–	585	–	585	–	585
Cross-currency swaps	–	14 410	–	14 410	–	14 410	–	14 410
Commodity forwards	–	8	–	8	–	8	–	8
Credit default swaps	–	9	–	9	–	9	–	9
Financial trading assets	1 238	5 084	–	6 322	59	5 084	–	5 143
Repurchase agreements	–	5 084	–	5 084	–	5 084	–	5 084
Listed shares	1 179	–	–	1 179	–	–	–	–
Government bonds	59	–	–	59	59	–	–	59
Assets not measured at fair value								
Loans receivable	–	7 474	–	7 474	–	6 553	–	6 553
Secured by mortgages	–	7 315	–	7 315	–	–	–	–
Loans to subsidiaries	–	–	–	–	–	6 553	–	6 553
Other	–	159	–	159	–	–	–	–
Finance lease receivables	–	520	–	520	–	520	–	520
Trade and other receivables	–	19 598	–	19 598	–	21 810	–	21 810
Cash and cash equivalents	–	8 863	–	8 863	–	7 986	–	7 986
Bank balances	–	5 959	–	5 959	–	5 082	–	5 082
Unsettled deals	–	(1 101)	–	(1 101)	–	(1 101)	–	(1 101)
Fixed deposits	–	4 005	–	4 005	–	4 005	–	4 005
	6 040	60 245	–	66 285	4 861	56 965	–	61 826
Liabilities measured at fair value								
Embedded derivatives	–	–	8 022	8 022	–	–	8 021	8 021
Derivatives held for risk management	–	5 486	–	5 486	–	5 486	–	5 486
Foreign exchange contracts	–	2 354	–	2 354	–	2 354	–	2 354
Cross-currency swaps	–	2 632	–	2 632	–	2 632	–	2 632
Commodity forwards	–	1	–	1	–	1	–	1
Credit default swaps	–	499	–	499	–	499	–	499
Financial trading liabilities	493	5 006	–	5 499	493	5 006	–	5 499
Short-sold government bonds	493	–	–	493	493	–	–	493
Repurchase agreements	–	5 006	–	5 006	–	5 006	–	5 006
Liabilities not measured at fair value								
Debt securities and borrowings	114 838	141 937	12 420	269 195	114 838	142 632	12 420	269 890
Eskom bonds	114 838	–	–	114 838	114 838	–	–	114 838
Promissory notes	–	47	–	47	–	47	–	47
Commercial paper	–	7 377	–	7 377	–	6 873	–	6 873
Eurorand zero coupon bonds	–	3 594	–	3 594	–	3 594	–	3 594
Foreign bonds	–	48 585	–	48 585	–	48 585	–	48 585
Development financing institutions	–	49 691	–	49 691	–	49 691	–	49 691
Export credit facilities	–	27 966	–	27 966	–	27 966	–	27 966
Subordinated loan from shareholder	–	–	12 420	12 420	–	–	12 420	12 420
Other loans	–	4 677	–	4 677	–	5 876	–	5 876
Finance lease payables	–	488	–	488	–	707	–	707
Trade and other payables	–	28 419	–	28 419	–	29 788	–	29 788
	115 331	181 336	20 442	317 109	115 331	183 619	20 441	319 391

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:

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 functions. These functions operate and maintain the transmission network for transmitting electricity and is responsible for the energy efficiency programmes
Distribution	Distribution consists of nine provincial operating units. These units provide, operate and maintain the distribution network for distributing electricity
Energy purchases/sales	The Southern African energy and Energy planning and market development segments have been aggregated. 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 capacity expansion 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

As a consequence of the group's changing operational environment and circumstances the activities relating to the Southern African energy and Energy planning and market development segments have increased above the quantitative thresholds for determining a reportable segment in terms of IFRS 8. The prior year's segment report has been restated in line with the revised reportable segment structure.

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.

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
2016									
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
Other income	1 495	150	368	2	125	100	659	(509)	2 390
Primary energy	(65 714)	–	–	(18 766)	(248)	–	–	–	(84 728)
Employee benefit expense	(8 015)	(1 538)	(7 790)	(70)	(1 515)	(613)	(9 716)	–	(29 257)
Impairment loss	(80)	–	(31)	(92)	(696)	(712)	(33)	–	(1 644)
Impairment loss reversals and bad debt recovered	5	–	19	106	334	–	10	–	474
Other expenses	(19 235)	(1 910)	(8 326)	(15)	(2 025)	168	(224)	12 904	(18 663)
Profit/(loss) before depreciation and amortisation expense and net fair value (loss)/gain (EBITDA)	18 992	3 943	6 670	219	398	(1 144)	3 152	(263)	31 967
Depreciation and amortisation expense	(10 152)	(1 634)	(3 098)	(136)	(8)	(238)	(1 392)	127	(16 531)
Net fair value (loss)/gain on financial instruments, excluding embedded derivatives	(92)	9	27	22	39	(2 087)	628	2	(1 452)
Net fair value gain on embedded derivatives	–	–	–	–	996	–	1	–	997
Profit/(loss) before net finance (cost)/income	8 748	2 318	3 599	105	1 425	(3 469)	2 389	(134)	14 981
Net finance (cost)/income	(6 494)	(1 559)	(1 061)	(295)	724	132	392	242	(7 919)
Finance income	33	22	45	8	946	–	2 266	127	3 447
Finance cost	(6 527)	(1 581)	(1 106)	(303)	(222)	132	(1 874)	115	(11 366)
Share of profit of equity-accounted investees	–	–	–	–	–	–	43	–	43
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 year	2 254	759	2 538	(190)	2 149	(3 337)	375	69	4 617
Other information									
Segment assets	182 994	46 018	73 205	5 257	15 862	249 630	103 722	(25 305)	651 383
Investment in equity-accounted investees	–	–	–	–	–	–	147	213	360
Non-current assets held-for-sale	–	–	–	–	–	148	8 794	–	8 942
Total assets	182 994	46 018	73 205	5 257	15 862	249 778	112 663	(25 092)	660 685
Total liabilities	48 513	1 789	27 671	6 581	15 509	18 859	386 317	(25 117)	480 122
Capital expenditure	12 791	1 067	7 849	3 492	2	31 126	3 846	(689)	59 484

	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
2015									
Continuing operations									
External revenue	–	125	1 210	6 326	140 030	–	1 112	(1 112)	147 691
Inter-segment revenue/recoveries	102 072	5 877	18 903	6 743	(133 595)	–	9 613	(9 613)	–
Total revenue	102 072	6 002	20 113	13 069	6 435	–	10 725	(10 725)	147 691
Other income	5 009	477	670	–	120	115	606	(2 553)	4 444
Primary energy	(69 981)	–	–	(13 133)	(309)	(2)	–	–	(83 425)
Employee benefit expense	(7 034)	(1 379)	(6 864)	(62)	(1 414)	(577)	(8 582)	–	(25 912)
Impairment loss	(88)	(3)	(7)	(1)	(2 701)	(23)	(1 082)	–	(3 905)
Impairment loss reversals and bad debt recovered	7	6	10	–	101	3	12	–	139
Other expenses	(17 365)	(2 047)	(8 675)	(29)	(1 930)	197	1 622	12 456	(15 771)
Profit/(loss) before depreciation and amortisation expense and net fair value (loss)/gain (EBITDA)	12 620	3 056	5 247	(156)	302	(287)	3 301	(822)	23 261
Depreciation and amortisation expense	(8 029)	(1 448)	(2 904)	(1)	(8)	(57)	(1 768)	100	(14 115)
Net fair value (loss)/gain on financial instruments, excluding embedded derivatives	(514)	(251)	(31)	103	(53)	(3 007)	(358)	(6)	(4 117)
Net fair value gain on embedded derivatives	–	–	–	–	1 310	–	–	–	1 310
Profit/(loss) before net finance (cost)/income	4 077	1 357	2 312	(54)	1 551	(3 351)	1 175	(728)	6 339
Net finance (cost)/income	(5 476)	(1 080)	(851)	–	497	(26)	587	240	(6 109)
Finance income	13	9	47	–	692	–	2 062	173	2 996
Finance cost	(5 489)	(1 089)	(898)	–	(195)	(26)	(1 475)	67	(9 105)
Share of profit of equity-accounted investees	–	–	–	–	–	–	49	–	49
(Loss)/profit before tax	(1 399)	277	1 461	(54)	2 048	(3 377)	1 811	(488)	279
Income tax	–	–	–	–	–	–	97	(134)	(37)
(Loss)/profit for the year from continuing operations	(1 399)	277	1 461	(54)	2 048	(3 377)	1 908	(622)	242
Discontinued operations									
Loss for the year from discontinued operations	–	–	–	–	–	–	(42)	–	(42)
(Loss)/profit for the year	(1 399)	277	1 461	(54)	2 048	(3 377)	1 866	(622)	200

7. Segment information (continued)

	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
2015									
Other information									
Segment assets	131 558	39 671	69 632	1 006	14 488	249 059	74 519	(22 336)	557 597
Investment in equity-accounted investees	–	–	–	–	–	–	150	198	348
Total assets	131 558	39 671	69 632	1 006	14 488	249 059	74 669	(22 138)	557 945
Total segment liabilities	44 480	1 536	24 868	2 554	16 372	16 121	356 823	(21 973)	440 781
Capital expenditure	11 449	2 842	6 615	–	9	29 753	1 420	(1 025)	51 063

	Group			
	Revenue		Non-current assets	
Geographical information	2016 Rm	2015 Rm	2016 Rm	2015 Rm
South Africa	155 339	141 384	534 427	471 178
Foreign countries	8 056	6 307	188	134
	163 395	147 691	534 615	471 312

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	2016 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	2015 Total Rm
Group										
Carrying value at beginning of the year		6 237	87 483	30 047	55 180	7 836	5 190	264 004	455 977	401 373
Cost		7 665	141 272	41 018	87 699	9 269	13 324	265 135	565 382	497 669
Accumulated depreciation and impairment losses		(1 428)	(53 789)	(10 971)	(32 519)	(1 433)	(8 134)	(1 131)	(109 405)	(96 296)
Additions		34	3 924	23	819	1 303	1 030	51 424	58 557	50 217
Commissioning of assets constructed		1 185	56 762	7 189	6 354	4 043	314	(75 847)	–	–
Transfer from equity		–	–	–	–	–	–	(603)	(603)	(795)
Finance cost capitalised	41	–	–	–	–	–	–	19 426	19 426	17 389
Provisions capitalised	29	–	(292)	–	–	–	–	3 201	2 909	3 033
Transfers to non-current assets held-for-sale		(148)	–	–	–	–	–	–	(148)	–
Disposals and writeoffs		(4)	(37)	(210)	(51)	(19)	(34)	(336)	(691)	(250)
Depreciation		(243)	(9 947)	(1 480)	(3 641)	(97)	(1 196)	–	(16 604)	(13 840)
Net impairment loss[1]	36	–	–	–	–	–	–	(787)	(787)	(1 150)
Carrying value at end of the year		7 061	137 893	35 569	58 661	13 066	5 304	260 482	518 036	455 977
Cost		8 710	198 638	47 983	94 770	14 511	14 451	262 377	641 440	565 382
Accumulated depreciation and impairment losses		(1 649)	(60 745)	(12 414)	(36 109)	(1 445)	(9 147)	(1 895)	(123 404)	(109 405)

1. *Impairment relates mainly to expenses that are deemed possible fruitless and wasteful expenditure.*

8. Property, plant and equipment (continued)

	Note	2016 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	2015 Total Rm
Company										
Carrying value at beginning of the year		6 124	88 335	30 083	55 340	7 865	4 684	265 037	457 468	402 207
Cost		7 476	142 514	41 058	87 895	9 334	11 955	266 168	566 400	497 181
Accumulated depreciation and impairment losses		(1 352)	(54 179)	(10 975)	(32 555)	(1 469)	(7 271)	(1 131)	(108 932)	(94 974)
Additions		31	4 103	53	848	1 291	821	51 473	58 620	49 059
Commissioning of assets constructed		1 155	56 762	7 189	6 354	4 043	285	(75 788)	–	–
Common control asset transfer		–	–	–	–	–	–	–	–	1 774
Transfer from equity		–	–	–	–	–	–	(603)	(603)	(795)
Finance cost capitalised	41	–	–	–	–	–	–	19 426	19 426	17 389
Provisions capitalised	29	–	(292)	–	–	–	–	3 201	2 909	3 033
Transfers to non-current assets held-for-sale		(148)	–	–	–	–	–	–	(148)	–
Disposals and writeoffs		(4)	(37)	(210)	(51)	(34)	(301)	(336)	(973)	(239)
Depreciation		(242)	(10 068)	(1 482)	(3 651)	(99)	(1 086)	–	(16 628)	(13 811)
Net impairment loss[1]	36	–	–	–	–	–	–	(787)	(787)	(1 149)
Carrying value at end of the year		6 916	138 803	35 633	58 840	13 066	4 403	261 623	519 284	457 468
Cost		8 488	200 080	48 053	94 995	14 511	12 460	263 518	642 105	566 400
Accumulated depreciation and impairment losses		(1 572)	(61 277)	(12 420)	(36 155)	(1 445)	(8 057)	(1 895)	(122 821)	(108 932)

	Note	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
Carrying value of leased assets		3 528	184	3 528	483
Generating plant		3 357	–	3 357	–
Spares and other plant		171	184	171	202
Equipment and vehicles		–	–	–	281
The total depreciation charge for property, plant and equipment is disclosed in profit or loss in the following categories:		16 604	13 840	16 628	13 811
Depreciation and amortisation expense	38	16 591	13 827	16 615	13 798
Primary energy		13	13	13	13

	Group and company 2016 %	Group and company 2015 %
Average rates of finance cost capitalised to qualifying assets:		
General borrowings	9.77	9.63
Specific borrowings	8.79	8.40

Details of land and buildings are available for examination at the registered offices of the respective businesses. None of the assets are encumbered or held as security.

1. *Impairment relates mainly to expenses that are deemed possible fruitless and wasteful expenditure.*

9. Intangible assets

	Note	2016 Rights Rm	2016 Computer software Rm	2016 Concession assets Rm	2016 Total Rm	2015 Total Rm
Group						
Carrying value at beginning of the year		1 792	978	134	2 904	3 016
Cost		2 012	5 857	215	8 084	7 291
Accumulated depreciation and impairment losses		(220)	(4 879)	(81)	(5 180)	(4 275)
Additions and transfers		394	463	70	927	846
Disposals and writeoffs		–	–	–	–	(19)
Amortisation	38	–	(677)	(16)	(693)	(939)
Carrying value at end of the year		2 186	764	188	3 138	2 904
Cost		2 406	6 259	296	8 961	8 084
Accumulated depreciation and impairment losses		(220)	(5 495)	(108)	(5 823)	(5 180)
Company						
Carrying value at beginning of the year		1 792	954	–	2 746	2 810
Cost		2 012	5 527	–	7 539	6 748
Accumulated depreciation and impairment losses		(220)	(4 573)	–	(4 793)	(3 938)
Additions and transfers		394	459	–	853	795
Common control asset transfer		–	–	–	–	14
Disposals and writeoffs		–	–	–	–	(19)
Amortisation	38	–	(655)	–	(655)	(854)
Carrying value at end of the year		2 186	758	–	2 944	2 746
Cost		2 406	5 941	–	8 347	7 539
Accumulated depreciation and impairment losses		(220)	(5 183)	–	(5 403)	(4 793)

Rights have been assessed for impairment as they have an indefinite useful life. The recoverable amount of the rights is based on the fair value less costs of disposal. The fair value is based on current prices which have been derived from the most recent comparable market transactions for similar servitude rights (level 2 fair value hierarchy).

10. Future fuel supplies

	Note	Group and company 2016 Coal Rm	2016 Nuclear Rm	2016 Total Rm	2015 Total Rm
Carrying value at beginning of the year		8 732	347	9 079	8 744
Net additions		250	1 499	1 749	1 999
Provisions capitalised	29	2 442	–	2 442	524
Writeoff of mine assets		(1 903)	–	(1 903)	–
Transfer from equity		–	–	–	(341)
Transfer to inventories		(865)	–	(865)	(1 847)
Carrying value at end of the year		8 656	1 846	10 502	9 079

11. Investment in equity-accounted investees

	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
11.1 Investment in joint ventures				
Balance at beginning of the year	348	318	95	95
Share of profit after tax	43	49	–	–
Dividends received	(31)	(19)	–	–
Balance at end of the year	360	348	95	95

The group's investments in the joint ventures are not considered to be 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 %	Post-tax profit for the year 2016 Rm	Post-tax profit for the year 2015 Rm
Group					
2016					
Directly held					
Motraco – Mozambique Transmission Company SARL[1]	Electricity transmission	Mozambique	33	47	45
Indirectly held					
Trans Africa Projects (Pty) Ltd	Engineering services	South Africa	50	(4)	4
				43	49

SDR/United Engineers Joint Venture has been liquidated on 24 August 2015.

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.

11.2 Investment in associates

The carrying value of investment in associates is Rnil (2015: Rnil). The group has investments in Uitenhage Electricity Supply Company (Pty) Ltd (Uitesco) which ceased trading in 2008 and is in the process of being wound up and Western Power Corridor Company (Pty) Ltd (Westcor) that is dormant.

12. Investment in subsidiaries

	Company 2016 Rm	Company 2015 Rm
Shares at cost	384	384
Indebtedness	–	71
	384	455

1. *Issued/stated capital in foreign currency. Year end is 31 December.*

Name	Main business	Country of incorporation	Issued/ stated share capital R	Interest held %	Investment at cost Rm	Indebtedness Rm
Directly held						
2016						
Escap SOC Ltd	Insurance	South Africa	379 500 000	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	99 000	100	–[1]	–
Eskom Finance Company SOC Ltd[2]	Finance (employee housing loans)	South Africa	4 000	100	–[1]	–
Natal Navigation Collieries and Estate Company SOC Ltd	Property holding	South Africa	771 425	100	–	–
PN Energy Services SOC Ltd	Not trading	South Africa	1 500 000	100	4	–
					384	–
2015						
Escap SOC Ltd	Insurance	South Africa	379 500 000	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	99 000	100	–[1]	71[3]
Eskom Finance Company SOC Ltd	Finance (employee housing loans)	South Africa	4 000	100	–[1]	–
Natal Navigation Collieries and Estate Company SOC Ltd	Property holding	South Africa	771 425	100	–	–
PN Energy Services SOC Ltd	Not trading	South Africa	1 500 000	100	4	–
					384	71

Name	Main business	Country of incorporation	2016 Issued/ stated share capital R	2016 Interest held %	2015 Issued/ stated share capital R	2015 Interest held %
Indirectly held						
Eskom Rotek Industries SOC Ltd[4]	Construction and abnormal load transportation	South Africa	1	100	1	100
Eskom Uganda Ltd[5]	Operations management	Uganda	100	100	100	100
Golang Coal SOC Ltd	Coal exports	South Africa	1 000	67	1 000	67
Nqaba Finance 1 (RF) Ltd[2, 6]	Residential backed mortgage securities	South Africa	100	100	100	100
Pebble Bed Modular Reactor SOC Ltd	Reactor driven generation project	South Africa	100	100	100	100
Rosherville Properties SOC Ltd	Properties	South Africa	1	100	1	100
Rotek Industries SOC Ltd[4]	Maintenance and services	South Africa	–	–	4 000	100
South Dunes Coal Terminal SOC Ltd[7]	Coal exports	South Africa	2 667	75	4 000	50

1. *Nominal.*
2. *Classified as held-for-sale. Refer to note 22.*
3. *The equity loan of Eskom Enterprises SOC Ltd was interest free.*
4. *The operations of Rotek Industries SOC Ltd and Roschcon SOC Ltd have been amalgamated effective from 1 April 2015 and are now trading as Eskom Rotek Industries SOC Ltd. Roschon SOC Ltd was renamed to Eskom Rotek Industries SOC Ltd and Rotek Industries SOC Ltd was deregistered on 26 May 2015.*
5. *Issued/stated capital in foreign currency. Year end is 31 December.*
6. *Nqaba is a securitisation vehicle.*
7. *The shareholding in South Dunes Coal Terminal SOC Ltd increased while the total equity for the group remained unchanged as a result of restructuring during the year.*

12. Investment in subsidiaries (continued)

All the subsidiaries continue to be accounted for as previously assessed as there has not been any change in the control assessment.

The group does not have any subsidiaries with a material non-controlling interest.

The following subsidiaries are dormant:
- Eskom Enterprises Global West Africa (process of liquidation)
- Nempskom Communications Ltd (process of liquidation)

Technology Services International SOC Ltd was deregistered on 18 June 2015.

13. Deferred tax

			Group		Company	
		Note	2016 Rm	2015 Rm	2016 Rm	2015 Rm
13.1	**Deferred tax assets**					
	Balance at beginning of the year		230	339	–	–
	Transfer from profit or loss	42	(56)	(109)	–	–
	Balance at end of the year		174	230	–	–
	Comprising		174	230	–	–
	Property, plant and equipment		135	(29)	–	–
	Provisions		16	90	–	–
	Tax losses		22	169	–	–
	Investment in securities		1	–	–	–
13.2	**Deferred tax liabilities**					
	Balance at beginning of the year		18 154	18 813	17 848	18 194
	Transfer from profit or loss	42	1 890	(201)	1 697	(160)
	Transfer from statement of comprehensive income	42	2 522	(458)	2 521	(451)
	Conversion of subordinated loan from the shareholder to share capital		(1 445)	–	(1 445)	–
	Common control transfer of assets		–	–	–	265
	Transfer to non-current assets held-for-sale		(121)	–	–	–
	Balance at end of the year		21 000	18 154	20 621	17 848
	Comprising		21 000	18 154	20 621	17 848
	Property, plant and equipment		49 343	42 390	48 816	41 959
	Inventories		2 205	2 187	2 206	2 187
	Provisions		(17 557)	(14 800)	(17 394)	(14 700)
	Tax losses		(10 795)	(6 578)	(10 794)	(6 574)
	Embedded derivative liabilities		(1 966)	(2 246)	(1 967)	(2 246)
	Investment in securities		18	2	(13)	2
	Cash flow hedges		4 567	2 264	4 567	2 264
	Payments received in advance		(4 833)	(4 844)	(4 832)	(4 843)
	Employee benefit obligations		18	(221)	32	(201)
	Unused tax losses available for offset against future taxable income		38 632	24 096	38 550	23 479

14. Investment in securities and financial trading instruments

Portfolio	Managed by	Purpose
Market-making	Treasury	Reduce the cost of borrowing
Investing	Treasury	Temporary investments where funds have been received but have not yet been spent
Insurance	Escap	Investments in terms of short-term insurance regulations in South Africa to maintain adequate ring-fenced capital reserves

	2016				2015			
	Market-making Rm	Investing Rm	Insurance Rm	Total Rm	Market-making Rm	Investing Rm	Insurance Rm	Total Rm
14.1 Investment in securities								
Group								
Government bonds	–	3 769	–	3 769	–	4 802	–	4 802
Negotiable certificates of deposit	–	783	5 674	6 457	–	–	3 694	3 694
	–	4 552	5 674	10 226	–	4 802	3 694	8 496
Maturity analysis	–	4 552	5 674	10 226	–	4 802	3 694	8 496
Non-current	–	2 485	–	2 485	–	2 481	–	2 481
Current	–	2 067	5 674	7 741	–	2 321	3 694	6 015
Company								
Government bonds	–	3 769	–	3 769	–	4 802	–	4 802
Negotiable certificates of deposit	–	783	–	783	–	–	–	–
	–	4 552	–	4 552	–	4 802	–	4 802
Maturity analysis	–	4 552	–	4 552	–	4 802	–	4 802
Non-current	–	2 485	–	2 485	–	2 481	–	2 481
Current	–	2 067	–	2 067	–	2 321	–	2 321
14.2 Financial trading assets								
Group								
Repurchase agreements	2 044	–	–	2 044	5 084	–	–	5 084
Eskom bonds	1 479	–	–	1 479	2 323	–	–	2 323
Government bonds	565	–	–	565	2 761	–	–	2 761
Listed shares	–	–	1 187	1 187	–	–	1 179	1 179
Government bonds	613	–	–	613	59	–	–	59
	2 657	–	1 187	3 844	5 143	–	1 179	6 322
Company								
Repurchase agreements	2 044	–	–	2 044	5 084	–	–	5 084
Eskom bonds	1 479	–	–	1 479	2 323	–	–	2 323
Government bonds	565	–	–	565	2 761	–	–	2 761
Government bonds	613	–	–	613	59	–	–	59
	2 657	–	–	2 657	5 143	–	–	5 143

Collateral held

Eskom purchased both Eskom and government bonds from approved counterparties and has committed to resell this 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 on 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.

14. Investment in securities and financial trading instruments (continued)

14.3 Financial trading liabilities

	2016				2015			
	Market-making Rm	Investing Rm	Insurance Rm	Total Rm	Market-making Rm	Investing Rm	Insurance Rm	Total Rm
Group								
Short-sold government bonds	227	–	–	227	493	–	–	493
Repurchase agreements	1 023	–	–	1 023	5 006	–	–	5 006
Eskom bonds	118	–	–	118	1 555	–	–	1 555
Government bonds	905	–	–	905	3 451	–	–	3 451
	1 250	–	–	1 250	5 499	–	–	5 499
Company								
Short-sold government bonds	227	–	–	227	493	–	–	493
Repurchase agreements	1 023	–	–	1 023	5 006	–	–	5 006
Eskom bonds	118	–	–	118	1 555	–	–	1 555
Government bonds	905	–	–	905	3 451	–	–	3 451
	1 250	–	–	1 250	5 499	–	–	5 499

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 on 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. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

15. Loans receivable

	2016			2015		
	Gross value Rm	Allowance for impairment Rm	Carrying value Rm	Gross value Rm	Allowance for impairment Rm	Carrying value Rm
Group						
Home loans – non-defaulting employees	–	–	–	7 694	(4)	7 690
Home loans – other	–	–	–	990	(21)	969
Other	80	–	80	273	(17)	256
	80	–	80	8 957	(42)	8 915
Maturity analysis			80			8 915
Non-current			70			8 646
Current			10			269
Company						
Loans to subsidiaries	6 352	–	6 352	6 553	–	6 553
Maturity analysis			6 352			6 553
Non-current			–			–
Current			6 352			6 553

	Group 2016 Rm	Group 2015 Rm
Reconciliation of movements in allowance for impairment		
Balance at beginning of the year	42	35
Net impairment loss	11	14
Writeoffs	(18)	(7)
Transfer to non-current assets held-for-sale	(35)	–
Balance at end of the year	–	42

16. Derivatives held for risk management

	2016					2015				
	Foreign exchange contracts Rm	Cross-currency swaps Rm	Commodity forwards Rm	Credit default swaps Rm	Total Rm	Foreign exchange contracts Rm	Cross-currency swaps Rm	Commodity forwards Rm	Credit default swaps Rm	Total Rm
Group										
Net (liability)/asset at beginning of the year	(1 769)	11 778	7	(490)	9 526	1 638	6 663	51	1	8 353
Net fair value gain/(loss)	9 073	20 837	39	(565)	29 384	(6 033)	5 522	(53)	(496)	(1 060)
Income statement	5 885	15 070	39	(565)	20 429	(4 723)	3 584	(53)	(496)	(1 688)
Statement of comprehensive income	3 188	5 767	–	–	8 955	(1 310)	1 938	–	–	628
Finance income accrued	–	(291)	–	(49)	(340)	1	(251)	–	5	(245)
Cash (received)/paid	(6 733)	(6 562)	(15)	49	(13 261)	2 625	(156)	9	–	2 478
Net asset/(liability) at end of the year	571	25 762	31	(1 055)	25 309	(1 769)	11 778	7	(490)	9 526
Hedge exposure covered	571	25 762	31	(1 055)	25 309	(1 769)	11 778	7	(490)	9 526
Debt securities and borrowings	(766)	25 762	–	(1 055)	23 941	(460)	11 778	–	(490)	10 828
Other	1 337	–	31	–	1 368	(1 309)	–	7	–	(1 302)
Assets										
Economic hedging	1 008	82	31	9	1 130	501	713	8	9	1 231
Cash flow hedging	1 151	27 901	–	–	29 052	84	13 697	–	–	13 781
	2 159	27 983	31	9	30 182	585	14 410	8	9	15 012
Maturity analysis	2 159	27 983	31	9	30 182	585	14 410	8	9	15 012
Non-current	–	27 600	–	–	27 600	–	14 303	–	–	14 303
Current	2 159	383	31	9	2 582	585	107	8	9	709
Liabilities										
Economic hedging	1 482	382	–	1 064	2 928	824	11	1	499	1 335
Cash flow hedging	106	1 839	–	–	1 945	1 530	2 621	–	–	4 151
	1 588	2 221	–	1 064	4 873	2 354	2 632	1	499	5 486
Maturity analysis	1 588	2 221	–	1 064	4 873	2 354	2 632	1	499	5 486
Non-current	–	1 798	–	1 064	2 862	–	2 142	–	499	2 641
Current	1 588	423	–	–	2 011	2 354	490	1	–	2 845
Notional amount	m	m	m	m	m	m	m	m	m	m
EUR	2 340	1 036	–	–	3 376	2 571	1 143	–	–	3 714
USD	706	4 891[1]	–	–	5 597	1 784	3 412	–	–	5 196
GBP	54	–	–	–	54	68	–	–	–	68
JPY	254	12 366	–	–	12 620	911	14 840	–	–	15 751
SEK	51	–	–	–	51	48	–	–	–	48
AUD	2	–	–	–	2	–	–	–	–	–
CHF	2	–	–	–	2	14	–	–	–	14
CAD	4	–	–	–	4	3	–	–	–	3
NOK	3	–	–	–	3	1	–	–	–	1
ZAR	–	–	468	6 868	7 336	–	–	482	6 868	7 350

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

16. Derivatives held for risk management (continued)

	2016					2015				
	Foreign exchange contracts Rm	Cross-currency swaps Rm	Commodity forwards Rm	Credit default swaps Rm	Total Rm	Foreign exchange contracts Rm	Cross-currency swaps Rm	Commodity forwards Rm	Credit default swaps Rm	Total Rm
Company										
Net (liability)/asset at beginning of the year	(1 769)	11 778	7	(490)	9 526	1 638	6 663	51	1	8 353
Net fair value gain/(loss)	9 039	20 837	39	(565)	29 350	(6 033)	5 522	(53)	(496)	(1 060)
Income statement	5 851	15 070	39	(565)	20 395	(4 723)	3 584	(53)	(496)	(1 688)
Statement of comprehensive income	3 188	5 767	–	–	8 955	(1 310)	1 938	–	–	628
Finance income accrued	–	(291)	–	(49)	(340)	1	(251)	–	5	(245)
Cash (received)/paid	(6 712)	(6 562)	(15)	49	(13 240)	2 625	(156)	9	–	2 478
Net asset/(liability) at end of the year	558	25 762	31	(1 055)	25 296	(1 769)	11 778	7	(490)	9 526
Hedge exposure covered	558	25 762	31	(1 055)	25 296	(1 769)	11 778	7	(490)	9 526
Debt securities and borrowings	(766)	25 762	–	(1 055)	23 941	(460)	11 778	–	(490)	10 828
Other	1 324	–	31	–	1 355	(1 309)	–	7	–	(1 302)
Assets										
Economic hedging	1 008	82	31	9	1 130	501	713	8	9	1 231
Cash flow hedging	1 151	27 901	–	–	29 052	84	13 697	–	–	13 781
	2 159	27 983	31	9	30 182	585	14 410	8	9	15 012
Maturity analysis	2 159	27 983	31	9	30 182	585	14 410	8	9	15 012
Non-current	–	27 600	–	–	27 600	–	14 303	–	–	14 303
Current	2 159	383	31	9	2 582	585	107	8	9	709
Liabilities										
Economic hedging	1 495	382	–	1 064	2 941	824	11	1	499	1 335
Cash flow hedging	106	1 839	–	–	1 945	1 530	2 621	–	–	4 151
	1 601	2 221	–	1 064	4 886	2 354	2 632	1	499	5 486
Maturity analysis	1 601	2 221	–	1 064	4 886	2 354	2 632	1	499	5 486
Non-current	–	1 798	–	1 064	2 862	–	2 142	–	499	2 641
Current	1 601	423	–	–	2 024	2 354	490	1	–	2 845
Notional amount	m	m	m	m	m	m	m	m	m	m
EUR	2 317	1 036	–	–	3 353	2 571	1 143	–	–	3 714
USD	705	4 891[1]	–	–	5 596	1 784	3 412	–	–	5 196
GBP	53	–	–	–	53	68	–	–	–	68
JPY	254	12 366	–	–	12 620	911	14 840	–	–	15 751
SEK	51	–	–	–	51	48	–	–	–	48
AUD	2	–	–	–	2	–	–	–	–	–
CHF	2	–	–	–	2	14	–	–	–	14
CAD	4	–	–	–	4	3	–	–	–	3
NOK	3	–	–	–	3	1	–	–	–	1
ZAR	–	–	468	6 868	7 336	–	–	482	6 868	7 350

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

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

Derivative instrument	Financial risk hedged	Exposure
Foreign exchange contracts	Currency	Electricity generation activity purchases and loans denominated in foreign currencies
Cross-currency swaps	Currency and interest rate	Foreign fixed rate bonds and other foreign fixed or floating borrowings
Commodity forwards	Market	Electricity sales in terms of agreements where the sales price is influenced by the market price for aluminium
Credit default swaps	Credit	Credit event or event of default by Eskom on bonds issued

Cash flow hedges

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. 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
2016						
Forward exchange contracts						
Assets	1 151	1 237	507	730	–	–
Liabilities	(106)	(143)	(80)	(63)	–	–
Cross-currency swaps						
Assets	27 901	56 385	(52)	22	16 905	39 510
Liabilities	(1 839)	(2 304)	(146)	(2 316)	(1 296)	1 454
	27 107	55 175	229	(1 627)	15 609	40 964
2015						
Forward exchange contracts						
Assets	84	91	20	71	–	–
Liabilities	(1 530)	(1 498)	(405)	(1 093)	–	–
Cross-currency swaps						
Assets	13 697	27 929	2	(193)	(3 174)	31 294
Liabilities	(2 621)	(1 587)	(143)	(1 604)	(289)	449
	9 630	24 935	(526)	(2 819)	(3 463)	31 743
The periods in which the cash flows associated with derivatives are expected to impact profit and loss are:						
2016						
Forward exchange contracts						
Assets	1 151	7 240	507	730	179	5 824
Liabilities	(106)	(143)	(80)	(63)	–	–
Cross-currency swaps						
Assets	27 901	56 385	(52)	22	16 905	39 510
Liabilities	(1 839)	(2 304)	(146)	(2 316)	(1 296)	1 454
	27 107	61 178	229	(1 627)	15 788	46 788
2015						
Forward exchange contracts						
Assets	84	91	20	71	–	–
Liabilities	(1 530)	(5 206)	(405)	(1 093)	(118)	(3 590)
Cross-currency swaps						
Assets	13 697	27 929	2	(193)	(3 174)	31 294
Liabilities	(2 621)	(1 587)	(143)	(1 604)	(289)	449
	9 630	21 227	(526)	(2 819)	(3 581)	28 153

16. Derivatives held for risk management (continued)

Ineffective cash flow hedges

During the year a loss of R19 million (2015: a gain of R57 million) was recognised in profit or loss as ineffectiveness arising from cash flow hedges (refer to note 39). There were no transactions for which cash flow hedge accounting had to be ceased in the current or comparative financial years as a result of highly probable cash flows no longer being expected to occur.

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.

	Group and company		
	Cross-currency swaps Rm	Credit default swaps Rm	Total Rm
Gain/(loss) at 31 March 2014	861	(79)	782
Day-one (loss)/gain recognised	(17)	98	81
Amortised to profit or loss	(112)	5	(107)
Gain at 31 March 2015	732	24	756
Day-one loss recognised	(306)	–	(306)
Amortised to profit or loss	(467)	–	(467)
(Loss)/gain at 31 March 2016	(41)	24	(17)

17. Finance lease receivables

	Group and company					
	2016			2015		
	Gross receivables Rm	Unearned finance income Rm	Present value of minimum lease payments Rm	Gross receivables Rm	Unearned finance income Rm	Present value of minimum lease payments Rm
Non-current	832	(355)	477	993	(493)	500
Between one and five years	316	(198)	118	339	(230)	109
After five years	516	(157)	359	654	(263)	391
Current						
Within one year	80	(58)	22	85	(65)	20
	912	(413)	499	1 078	(558)	520

The average implicit interest rate for the group and company was 13% (2015: 13%).

18. Payments made in advance

	2016				2015
	Securing debt raised	Environmental rehabilitation trust fund	Other	Total	Total
	Rm	Rm	Rm	Rm	Rm
Group					
Balance at beginning of the year	1 386	757	3 366	5 509	5 440
Payments made	555	125	3 242	3 922	2 066
Expense recognised	–	–	(432)	(432)	(533)
Transferred to the statement of financial position	(481)	–	(2 048)	(2 529)	(1 464)
Balance at end of the year	1 460	882	4 128	6 470	5 509
Maturity analysis	1 460	882	4 128	6 470	5 509
Non-current	814	882	883	2 579	3 004
Current	646	–	3 245	3 891	2 505
Company					
Balance at beginning of the year	1 386	757	3 121	5 264	5 270
Payments made	555	125	3 204	3 884	1 988
Expense recognised	–	–	(324)	(324)	(530)
Transfer to the statement of financial position	(481)	–	(2 048)	(2 529)	(1 464)
Balance at end of the year	1 460	882	3 953	6 295	5 264
Maturity analysis	1 460	882	3 953	6 295	5 264
Non-current	814	882	867	2 563	3 003
Current	646	–	3 086	3 732	2 261

19. Trade and other receivables

	2016			2015		
	Gross value	Allowance for impairment	Carrying value	Gross value	Allowance for impairment	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm
Group						
Financial instruments						
Trade receivables						
International	1 533	–	1 533	841	(15)	826
Local large power users	16 748	(3 577)	13 171	15 511	(3 361)	12 150
Municipalities	9 861	(3 214)	6 647	9 367	(3 320)	6 047
Other	6 887	(363)	6 524	6 144	(41)	6 103
Local small power users	6 677	(4 186)	2 491	6 305	(4 054)	2 251
Soweto	4 141	(3 549)	592	4 068	(3 545)	523
Other	2 536	(637)	1 899	2 237	(509)	1 728
	24 958	(7 763)	17 195	22 657	(7 430)	15 227
Other receivables	4 715	(71)	4 644	4 434	(63)	4 371
Reinsurance	3 414	–	3 414	2 755	–	2 755
Sundry	1 301	(71)	1 230	1 679	(63)	1 616
	29 673	(7 834)	21 839	27 091	(7 493)	19 598
Non-financial instruments						
VAT	25	–	25	45	–	45
	29 698	(7 834)	21 864	27 136	(7 493)	19 643
Maturity analysis			21 864			19 643
Non-current			54			2 787
Current			21 810			16 856

19. Trade and other receivables (continued)

	2016 Gross value Rm	2016 Allowance for impairment Rm	2016 Carrying value Rm	2015 Gross value Rm	2015 Allowance for impairment Rm	2015 Carrying value Rm
Company						
Trade receivables						
International	1 533	–	1 533	841	(15)	826
Local large power users	16 748	(3 577)	13 171	15 511	(3 361)	12 150
Municipalities	9 861	(3 214)	6 647	9 367	(3 320)	6 047
Other	6 887	(363)	6 524	6 144	(41)	6 103
Local small power users	6 677	(4 186)	2 491	6 305	(4 054)	2 251
Soweto	4 141	(3 549)	592	4 068	(3 545)	523
Other	2 536	(637)	1 899	2 237	(509)	1 728
	24 958	(7 763)	17 195	22 657	(7 430)	15 227
Other receivables	7 375	(61)	7 314	6 633	(50)	6 583
	32 333	(7 824)	24 509	29 290	(7 480)	21 810
Maturity analysis			24 509			21 810
Non-current			54			3 257
Current			24 455			18 553

	Note	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
Reconciliation of movements in allowance for impairment					
Balance at beginning of the year		7 493	5 725	7 480	5 710
Impairment loss	36	830	2 728	823	2 721
Reversal of impairment loss	36	(464)	(103)	(457)	(99)
Writeoffs		(25)	(857)	(22)	(852)
Balance at end of the year		7 834	7 493	7 824	7 480
20. Inventories					
Coal and liquid fuel		8 696	6 492	8 696	6 492
Nuclear fuel		1 541	2 011	1 541	2 011
Maintenance spares and consumables		7 584	7 530	7 404	7 393
		17 821	16 033	17 641	15 896
21. Cash and cash equivalents					
Bank balances[1]		28 452	5 959	28 134	5 082
Unsettled deals[2]		2	(1 101)	2	(1 101)
Fixed deposits		–	4 005	–	4 005
		28 454	8 863	28 136	7 986

1. *Includes an amount of Rnil (2015: R54 million) in PBMR that is subject to a restriction prohibiting the transfer of the cash within the group or to the shareholder.*
2. *The credit balance relates to unsettled short-term trading assets accounted for in terms of trade date accounting where the cash flow occurs after 31 March.*

22. Non-current assets and liabilities held-for-sale

Eskom residential properties

Certain residential properties that are regarded as surplus to Eskom's operational needs have been presented as held-for-sale in line with the decision by the shareholder to dispose of non-core assets. The properties will be disposed of in the open market and it is expected that the disposal of these properties will be concluded by 31 March 2017.

Eskom Finance Company SOC Ltd

The assets and liabilities of EFC have been presented as held-for-sale in line with the decision by the shareholder to dispose of non-core assets and is expected to be completed by 31 March 2017.

	2016				
	Group				Company
	Land, buildings and facilities Rm	Eskom Finance Company Rm	Reallocation and inter-company transactions Rm	Total Rm	Land, buildings and facilities Rm
Statements of financial position					
Assets					
Non-current	148	8 493	(14)	8 627	148
Property, plant and equipment	148	1	–	149	148
Loans receivable	–	8 476	–	8 476	–
Trade and other receivables	–	2	–	2	–
Deferred tax	–	14	(14)	–	–
Current	–	376	(61)	315	–
Loans receivable	–	213	–	213	–
Taxation	–	15	–	15	–
Trade and other receivables	–	1	–	1	–
Cash and cash equivalents	–	147	(61)	86	–
Total assets	148	8 869	(75)	8 942	148
Liabilities					
Non-current	–	1 231	121	1 352	–
Debt securities and borrowings	–	1 231	–	1 231	–
Deferred tax	–	–	121	121	–
Current	–	6 826	(6 370)	456	–
Debt securities and borrowings	–	6 796	(6 352)	444	–
Trade and other payables	–	30	(18)	12	–
Total liabilities	–	8 057	(6 249)	1 808	–

23. Service concession arrangements

The group operates a service concession for the generation and transmission of electricity through its operations in Uganda. The group operated a service concession arrangement in Mali (EEM) which was disposed of during the 2015 financial year (liquidated on 24 February 2015).

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 UEGCL 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.

23. Service concession arrangements (continued)

	Eskom Uganda		EEM
	2016 Rm	2015 Rm	2015 Rm
Income statements			
Revenue	211	138	66
Profit/(loss) for the year before tax	53	12	(42)
Taxation	(23)	(9)	–
Profit/(loss) for the year after tax	30	3	(42)
Statements of financial position			
Assets			
Intangible assets	188	134	–
Taxation	1	–	–
Inventories	31	26	–
Payments made in advance	8	6	–
Trade and other receivables	58	33	–
Cash and cash equivalents	6	22	–
	292	221	–
Liabilities			
Debt securities and borrowings	25	21	–
Deferred tax	24	19	–
Embedded derivatives	–	1	–
Provisions	10	9	–
Employee benefit obligations	8	4	–
Taxation	–	2	–
Trade and other payables	33	22	–
	100	78	–

The underlying assets are included in the respective asset categories in the statement of financial position.

24. Share capital

	Group and company	
	2016 Shares	2015 Shares
Authorised ordinary shares	100 000 000 000	1 000
Issued ordinary shares		
Balance at beginning of the year	1	1
Conversion of subordinated loan from the shareholder to share capital	60 000 000 000	–
Share capital issued	23 000 000 000	–
Balance at end of the year	83 000 000 001	1

Eskom converted its existing authorised ordinary share capital of 1 000 shares with a par value of R1 each into no par value shares and increased the authorised ordinary shares from 1 000 to 100 billion shares.

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

The shareholder approved the conversion of the subordinated loan from the shareholder to share capital. The conversion resulted in the derecognition of the equity portion of the compound instrument and the issue of 60 billion shares during the year to the shareholder.

Eskom also received a R23 billion government equity injection during the year for which 23 billion shares were issued.

25. Debt securities and borrowings

	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
Eskom bonds	126 466	112 103	126 466	112 103
Promissory notes	46	40	46	40
Commercial paper	4 822	7 531	6 431	7 027
Eurorand zero coupon bonds	4 462	3 942	4 462	3 942
Foreign bonds	58 815	48 670	58 815	48 670
Development financing institutions	82 976	62 447	82 976	62 447
Export credit facilities	37 597	28 488	37 597	28 488
Subordinated loan from shareholder	–	26 621	–	26 621
Other loans	7 474	7 592	9 164	8 792
	322 658	297 434	325 957	298 130
Maturity analysis	322 658	297 434	325 957	298 130
Non-current	306 970	277 458	306 901	275 954
Current	15 688	19 976	19 056	22 176

	Currency	Security number	Interest rate 2016 %	Interest rate 2015 %	Nominal 2016 m	Nominal 2015 m	Maturity date	Group Carrying value 2016 Rm	Group Carrying value 2015 Rm	Company Carrying value 2016 Rm	Company Carrying value 2015 Rm
Eskom bonds								126 466	112 103	126 466	112 103
	ZAR	EL15[1]	–	2.96	–	2 047	Jun 15	–	2 741	–	2 741
	ZAR	ES15[1]	–	7.77	–	2 224	Aug 15	–	2 239	–	2 239
	ZAR	ES18[1]	9.06	9.04	9 577	9 689	Apr 18	10 009	10 146	10 009	10 146
	ZAR	ECN20	9.98	–	2 500	–	Mar 20	2 486	–	2 486	–
	ZAR	E170[2]	10.10	10.09	11 203	11 285	Aug 21	12 709	13 029	12 709	13 029
	ZAR	ECN22	10.16	–	2 500	–	Mar 22	2 467	–	2 467	–
	ZAR	ES23[1]	9.36	9.33	12 213	11 537	Jan 23	12 829	12 172	12 829	12 172
	ZAR	ECN24	10.33	–	2 500	–	Mar 24	2 461	–	2 461	–
	ZAR	ES26[1]	9.03	8.99	19 826	18 782	Apr 26	19 068	18 036	19 068	18 036
	ZAR	EL28[1]	2.55	2.21	3 941	3 900	May 28	5 055	4 768	5 055	4 768
	ZAR	EL29[1]	1.90	1.80	3 700	3 700	Nov 29	4 500	4 281	4 500	4 281
	ZAR	EL30[1]	2.30	2.29	3 700	3 700	Jul 30	4 224	4 015	4 224	4 015
	ZAR	EL31[1]	2.10	2.16	3 740	3 700	Jun 31	4 068	3 824	4 068	3 824
	ZAR	ECN32	2.95	–	2 500	–	Mar 32	2 541	–	2 541	–
	ZAR	ES33[1]	8.96	9.30	29 563	27 211	Sep 33	25 923	23 953	25 923	23 953
	ZAR	EL36[1]	2.25	2.23	3 741	2 565	Jan 36	3 970	2 585	3 970	2 585
	ZAR	EL37[1]	2.25	2.26	3 250	2 431	Jan 37	3 425	2 438	3 425	2 438
	ZAR	ES42[1]	9.87	9.96	11 797	8 739	Apr 42	10 731	7 876	10 731	7 876
Promissory notes[2]								46	40	46	40
	ZAR	PN07	15.34	15.34	20	20	Aug 20	11	9	11	9
	ZAR	PN08	15.08	15.08	20	20	Aug 21	9	8	9	8
	ZAR	PN09	14.80	14.80	35	35	Aug 22	14	12	14	12
	ZAR	PN10	14.61	14.61	35	35	Aug 23	12	11	12	11
Commercial paper								4 822	7 531	6 431	7 027
	ZAR	n/a	–	7.10	–	316	May 15	–	319	–	–
	ZAR	n/a[3]	7.35	6.43	6 629	7 190	Mar 17[4]	4 822	5 857	6 431	7 027
	ZAR	n/a	–	7.29	–	429	May 16	–	432	–	–
	ZAR	n/a	–	7.16	–	382	May 17	–	385	–	–
	ZAR	n/a	–	7.27	–	400	May 18	–	400	–	–
	ZAR	n/a	–	10.54	–	136	May 20	–	138	–	–
Eurorand zero coupon bonds[2]								4 462	3 942	4 462	3 942
	ZAR	n/a	13.93	13.93	2 000	2 000	Dec 18	1 397	1 226	1 397	1 226
	ZAR	n/a	13.33	13.33	8 000	8 000	Aug 27	1 924	1 697	1 924	1 697
	ZAR	n/a	11.89	11.89	7 500	7 500	Dec 32	1 141	1 019	1 141	1 019
Balance carried forward to the next page								135 796	123 616	137 405	123 112

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

25. Debt securities and borrowings (continued)

	Currency	Security number	Interest rate 2016 %	Interest rate 2015 %	Nominal 2016 m	Nominal 2015 m	Maturity date	Group Carrying value 2016 Rm	Group Carrying value 2015 Rm	Company Carrying value 2016 Rm	Company Carrying value 2015 Rm
Balance carried forward from previous page								135 796	123 616	137 405	123 112
Foreign bonds								58 815	48 670	58 815	48 670
	USD	n/a	5.75	5.75	1 750	1 750	Jan 21	25 862	21 427	25 862	21 427
	USD	n/a	6.75	6.75	1 000	1 000	Aug 23	14 727	12 168	14 727	12 168
	USD	n/a	7.13	7.13	1 250	1 250	Feb 25	18 226	15 075	18 226	15 075
Development financing institutions[1]								82 976	62 447	82 976	62 447
	ZAR	n/a[2]	8.33	7.45	1 667	1 800	Aug 28	1 682	1 815	1 682	1 815
	USD	n/a[2]	2.01	–	242	–	Aug 28	3 576	–	3 576	–
	EUR	n/a[2]	2.11	2.11	3	3	Dec 28	51	39	51	39
	EUR	n/a[2]	0.20	0.38	539	579	Aug 29	9 042	7 572	9 042	7 572
	ZAR	n/a[2]	7.15	6.24	9 364	9 970	Aug 29	9 475	10 069	9 475	10 069
	ZAR	n/a[2]	10.10	–	3 935	–	Sep 29	3 937	–	3 937	–
	ZAR	n/a	10.37	9.90	15 000	12 000	Jan 31	15 244	12 221	15 244	12 221
	EUR	n/a[2]	1.50	–	470	–	Mar 31	7 737	–	7 737	–
	ZAR	n/a[2]	8.77	8.73	950	855	Jun 31	969	872	969	872
	USD	n/a[2]	1.02	1.49	9	271	Aug 31	134	3 195	134	3 195
	ZAR	n/a	7.43	6.51	1 474	1 568	Mar 32	1 479	1 573	1 479	1 573
	USD	n/a[2]	0.90	0.63	119	68	May 38	1 758	835	1 758	835
	ZAR	n/a[2]	9.23	9.11	25 973	22 688	May 38	26 944	23 360	26 944	23 360
	USD	n/a[2]	0.25	0.25	29	29	May 51	424	352	424	352
	USD	n/a[2]	0.25	0.25	36	35	Aug 51	524	544	524	544
Export credit facilities[1]								37 597	28 488	37 597	28 488
	JPY	n/a	1.59	1.60	12 366	14 840	May 22	1 612	1 493	1 612	1 493
	EUR	n/a	0.90	1.02	97	112	Sep 23	1 568	1 446	1 568	1 446
	EUR	n/a	0.82	1.04	14	15	Jul 24	227	196	227	196
	EUR	n/a	5.08	5.07	763	845	Jan 27	12 374	10 529	12 374	10 529
	EUR	n/a	2.56	2.61	716	753	Jul 27	11 402	9 220	11 402	9 220
	ZAR	n/a	9.15	8.08	1 978	1 966	Jul 27	1 847	1 778	1 847	1 778
	USD	n/a	2.32	2.32	590	317	Mar 31	8 567	3 826	8 567	3 826
Subordinated loan from shareholder								–	26 621	–	26 621
	ZAR	n/a	–	7.52	–	5 000	Dec 38	–	2 542	–	2 542
	ZAR	n/a	–	8.95	–	5 000	Mar 39	–	2 294	–	2 294
	ZAR	n/a	–	9.43	–	7 500	Jun 39	–	3 215	–	3 215
	ZAR	n/a	–	9.15	–	7 500	Sep 39	–	3 319	–	3 319
	ZAR	n/a	–	9.57	–	7 500	Dec 39	–	3 182	–	3 182
	ZAR	n/a	–	9.52	–	7 500	Mar 40	–	3 230	–	3 230
	ZAR	n/a	–	9.54	–	5 000	Jun 40	–	2 176	–	2 176
	ZAR	n/a	–	8.58	–	5 000	Sep 40	–	2 344	–	2 344
	ZAR	n/a	–	9.03	–	5 000	Dec 40	–	2 233	–	2 233
	ZAR	n/a	–	9.81	–	5 000	Mar 41	–	2 086	–	2 086
Other loans								7 474	7 592	9 164	8 792
	ZAR	n/a	–	8.11	–	37	Jul 16	–	37	–	–
	ZAR	n/a	10.18	10.18	2 600	2 600	Jul 20	2 648	2 647	2 648	2 647
	ZAR	n/a	8.69	8.18	2 150	2 150	Dec 21	2 155	2 154	2 155	2 154
	ZAR	n/a	9.07	8.85	1 000	1 000	Aug 23	1 013	1 013	1 013	1 013
	ZAR	n/a	12.80	12.80	1 500	1 500	Oct 24	1 589	1 588	1 589	1 588
	ZAR	n/a[3]	7.09	5.61	1 758	1 390	On demand	–	–	1 759	1 390
	ZAR	n/a	–	–	69	153	On demand	69	153	–	–
								322 658	297 434	325 957	298 130

1. *Latest in a range of maturity dates is indicated for these instruments.*
2. *Government guaranteed.*
3. *Includes, inter alia, instruments issued to subsidiaries.*

26. Embedded derivatives

	2016				2015
	Commodity and/or foreign currency Rm	Foreign currency or interest rate Rm	United States PPI and foreign currency Rm	Total Rm	Total Rm
Group					
Liability at beginning of the year	7 589	1	432	8 022	9 332
Net fair value gain	(689)	(1)	(307)	(997)	(1 310)
Liability at end of the year	6 900	–	125	7 025	8 022
Maturity analysis	6 900	–	125	7 025	8 022
Non-current	5 287	–	123	5 410	6 647
Current	1 613	–	2	1 615	1 375
Company					
Liability at beginning of the year	7 589	–	432	8 021	9 331
Net fair value gain	(689)	–	(307)	(996)	(1 310)
Liability at end of the year	6 900	–	125	7 025	8 021
Maturity analysis	6 900	–	125	7 025	8 021
Non-current	5 287	–	123	5 410	6 646
Current	1 613	–	2	1 615	1 375

27. Payments received in advance and deferred income

		2016				2015
	Note	Upfront capital contributions Rm	Government grant Rm	Other Rm	Total Rm	Total Rm
27.1 Payments received in advance						
Group						
Balance at beginning of the year		4 355	302	164	4 821	5 716
Payments received		816	3 332	75	4 223	4 460
Transfers to the statement of financial position		(88)	(2 372)	–	(2 460)	(4 180)
Deferred income	27.2	(88)	(2 372)	–	(2 460)	(2 420)
Trade and other payables		–	–	–	–	(1 760)
Income recognised		(473)	(5)	(104)	(582)	(1 175)
Balance at end of the year		4 610	1 257	135	6 002	4 821
Maturity analysis		4 610	1 257	135	6 002	4 821
Non-current		2 618	–	8	2 626	2 664
Current		1 992	1 257	127	3 376	2 157
Company						
Balance at beginning of the year		4 355	302	152	4 809	5 703
Payments received		816	3 332	74	4 222	4 450
Transfers to the statement of financial position		(88)	(2 372)	–	(2 460)	(4 180)
Deferred income	27.2	(88)	(2 372)	–	(2 460)	(2 420)
Trade and other payables		–	–	–	–	(1 760)
Income recognised		(473)	(5)	(96)	(574)	(1 164)
Balance at end of the year		4 610	1 257	130	5 997	4 809
Maturity analysis		4 610	1 257	130	5 997	4 809
Non-current		2 618	–	8	2 626	2 664
Current		1 992	1 257	122	3 371	2 145

27. Payments received in advance and deferred income (continued)

	Note	2016 Upfront capital contributions Rm	2016 Government grant Rm	2016 Other Rm	2016 Total Rm	2015 Total Rm
27.2 Deferred income						
Group and company						
Balance at beginning of the year		2 772	12 146	–	14 918	13 292
Transfers from payments received in advance	27.1	88	2 372	–	2 460	2 420
Income recognised		(152)	(753)	–	(905)	(794)
Balance at end of the year		2 708	13 765	–	16 473	14 918
Maturity analysis		2 708	13 765	–	16 473	14 918
Non-current		2 549	12 967	–	15 516	14 055
Current		159	798	–	957	863

28. Employee benefit obligations

	Notes	2016 Post-employment medical benefits Rm	2016 Leave Rm	2016 Annual and performance bonus Rm	2016 Other Rm	2016 Total Rm	2015 Total Rm
Group							
Balance at beginning of the year		12 325	1 943	933	685	15 886	14 483
Raised/(reversed) to income statement		583	675	1 564	–	2 822	2 625
Raised		583	675	2 075	–	3 333	2 804
Reversed		–	–	(511)	–	(511)	(179)
(Reversed)/raised to other comprehensive income		(840)	–	–	–	(840)	909
Finance cost	41	1 120	–	–	38	1 158	1 060
Cash paid		(372)	(650)	(407)	(2)	(1 431)	(3 191)
Balance at end of the year		12 816	1 968	2 090	721	17 595	15 886
Maturity analysis		12 816	1 968	2 090	721	17 595	15 886
Non-current		12 405	–	–	–	12 405	11 960
Current		411	1 968	2 090	721	5 190	3 926
Company							
Balance at beginning of the year		12 022	1 813	814	677	15 326	13 930
Raised/(reversed) to income statement		573	635	1 616	–	2 824	2 435
Raised		573	635	2 037	–	3 245	2 614
Reversed		–	–	(421)	–	(421)	(179)
Raised/(reversed) to other comprehensive income		(830)	–	–	–	(830)	884
Finance cost	41	1 092	–	–	38	1 130	1 034
Cash paid		(362)	(619)	(378)	–	(1 359)	(2 957)
Balance at end of the year		12 495	1 829	2 052	715	17 091	15 326
Maturity analysis		12 495	1 829	2 052	715	17 091	15 326
Non-current		12 094	–	–	–	12 094	11 665
Current		401	1 829	2 052	715	4 997	3 661

	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
28.1 Post-employment medical benefits				
The group has anticipated expenditure in terms of continued contributions to medical aid subscriptions in respect of qualifying employees who retire.				
The amounts recognised in profit or loss are:				
Employee benefit expense	583	473	573	465
Finance cost	1 120	1 024	1 092	998
The amounts recognised in other comprehensive income are:				
Re-measurements of post-employment medical benefits (actuarial (gain)/loss)	(840)	909	(830)	884
Demographic assumptions	–	(88)	–	(87)
Financial assumptions	(869)	949	(848)	927
Experience adjustments	29	48	18	44

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 R411 million and the company R401 million in contributions to this plan in the 2017 financial year.

Expected maturity analysis of undiscounted post-employment medical benefits:	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
Within one year	411	365	401	357
One to two years	452	393	441	384
Two to five years	1 783	1 496	1 734	1 458
After five years	263 091	112 335	259 083	110 299
	265 737	114 589	261 659	112 498

Risks

The post-employment obligation is 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 certain 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, so increases in life expectancy will result in an increase in the plans' liabilities

The expected current service cost for the 2017 financial year is estimated at R596 million for the group and R587 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 Annual and performance bonus

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

The performance bonus is based on the performance of the company and employees.

28. Employee benefit obligations (continued)

	Group		Company	
	2016 Rm	2015 Rm	2016 Rm	2015 Rm
28.4 Pension benefits				
The net benefit asset at the reporting date is not accounted for in the financial statements. The rules of the Eskom Pension and Provident Fund (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 EPPF is registered in terms of the Pension Funds Act. All employees are members of the fund. Contributions comprise 20.8% of pensionable emoluments of which members pay 7.3%. The assets of the fund are held separately from those of the group in respect of funds under the control of the trustees.				
The fund was valued actuarially on the IAS 19 *Employee benefits* basis on 31 March 2016 (previous valuation at 31 March 2015). The actuarial present value of retirement benefits at 31 March 2016 was R102 678 million (2015: R99 820 million), while the fair value of the fund's assets was R128 012 million (2015: R118 174 million).				
Valuation assumptions				
The principal actuarial assumptions used were:				
Long-term investment return before tax (%)	11.30	8.80	11.30	8.80
Future general salary increases (%)	9.60	7.50	9.60	7.50
Future pension increases (inflation) (%)	8.10	6.00	8.10	6.00

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

Power station-related environmental restoration – nuclear plant
Provision made for the estimated decommissioning cost of nuclear plant and for the management of nuclear fuel assemblies and radioactive waste. Refer to note 4.4.

Power station-related environmental restoration – other generating plant
Provision made for the estimated decommissioning cost of all other generating plant. Refer to note 4.4.

Mine-related closure, pollution control and rehabilitation
Provision made for the estimated cost of closure, pollution control, rehabilitation and mine employee benefits at the end of the life of the mines, where a constructive and contractual obligation exists to pay coal suppliers. Refer to note 4.4.

Coal-related obligations
The provision relates to new build related coal obligations. Refer to note 4.5.

Other
Includes provision made for contractual obligations to maintain and restore the infrastructure under service concession arrangements, onerous contracts, compensation events and guarantees.

	Note	2016 Power station-related environmental restoration Nuclear plant Rm	2016 Power station-related environmental restoration Other generating plant Rm	2016 Mine-related closure, pollution control and rehabilitation Rm	2016 Coal-related obligations Rm	2016 Other Rm	2016 Total Rm	2015 Total Rm
Group								
Balance at beginning of the year		10 982	7 705	5 465	7 954	8 944	41 050	30 758
Charged to income statement		600	(23)	165	(1 727)	92	(893)	7 450
Capitalised to property, plant and equipment	8	(158)	(134)	(32)	–	3 233	2 909	3 033
Raised		–	176	–	–	5 874	6 050	5 088
Reversed		–	(108)	(31)	–	(2 641)	(2 780)	(2 535)
Change in discount rate		(158)	(202)	(1)	–	–	(361)	480
Capitalised to future fuel	10	–	–	2 442	–	–	2 442	524
Raised		–	–	2 606	–	–	2 606	410
Reversed		–	–	(113)	–	–	(113)	(7)
Change in discount rate		–	–	(51)	–	–	(51)	121
Capitalised to inventory		96	–	102	–	–	198	86
Raised		96	–	123	–	–	219	125
Reversed		–	–	(21)	–	–	(21)	(39)
Finance cost	41	1 157	791	468	167	5	2 588	2 877
Cash paid		–	–	(30)	(840)	(3 168)	(4 038)	(3 678)
Balance at end of the year		12 677	8 339	8 580	5 554	9 106	44 256	41 050
Maturity analysis		12 677	8 339	8 580	5 554	9 106	44 256	41 050
Non-current		12 677	8 339	7 675	3 924	226	32 841	31 078
Current		–	–	905	1 630	8 880	11 415	9 972
Company								
Balance at beginning of the year		10 982	7 705	5 465	7 954	8 740	40 846	30 195
Raised/(reversed) to income statement		600	(23)	165	(1 727)	(46)	(1 031)	7 694
Capitalised to property, plant and equipment		(158)	(134)	(32)	–	3 233	2 909	3 033
Raised		–	176	–	–	5 874	6 050	5 088
Reversed		–	(108)	(31)	–	(2 641)	(2 780)	(2 535)
Change in discount rate		(158)	(202)	(1)	–	–	(361)	480
Capitalised to future fuel		–	–	2 442	–	–	2 442	524
Raised		–	–	2 606	–	–	2 606	410
Reversed		–	–	(113)	–	–	(113)	(7)
Change in discount rate		–	–	(51)	–	–	(51)	121
Capitalised to inventory		96	–	102	–	–	198	86
Raised		96	–	123	–	–	219	125
Reversed		–	–	(21)	–	–	(21)	(39)
Finance cost	41	1 157	791	468	167	–	2 583	2 875
Cash paid		–	–	(30)	(840)	(3 053)	(3 923)	(3 561)
Balance at end of the year		12 677	8 339	8 580	5 554	8 874	44 024	40 846
Maturity analysis		12 677	8 339	8 580	5 554	8 874	44 024	40 846
Non-current		12 677	8 339	7 675	3 924	211	32 826	31 039
Current		–	–	905	1 630	8 663	11 198	9 807

30. Finance lease payables

	2016 Gross payables Rm	2016 Future finance charges Rm	2016 Present value Rm	2015 Gross payables Rm	2015 Future finance charges Rm	2015 Present value Rm
Group						
Non-current	8 898	(5 060)	3 838	1 168	(694)	474
Between one and five years	3 298	(2 619)	679	390	(307)	83
After five years	5 600	(2 441)	3 159	778	(387)	391
Current						
Within one year	682	(592)	90	99	(85)	14
	9 580	(5 652)	3 928	1 267	(779)	488
Company						
Non-current	8 898	(5 060)	3 838	1 355	(718)	637
Between one and five years	3 298	(2 619)	679	574	(331)	243
After five years	5 600	(2 441)	3 159	781	(387)	394
Current						
Within one year	682	(592)	90	171	(101)	70
	9 580	(5 652)	3 928	1 526	(819)	707

The average implicit interest rate for the group and company was 16% (2015: 18%).

	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
31. Trade and other payables				
Financial instruments	32 922	28 419	34 435	29 788
Trade and other payables	22 586	21 335	23 995	22 146
Accruals	7 170	4 384	7 275	4 942
Deposits	3 166	2 700	3 165	2 700
Non-financial instruments				
VAT	272	580	179	494
	33 194	28 999	34 614	30 282
Maturity analysis	33 194	28 999	34 614	30 282
Non-current	875	1 015	875	1 015
Current	32 319	27 984	33 739	29 267
32. Revenue				
Electricity revenue	161 688	146 268	161 688	146 268
Other revenue	1 707	1 423	1 707	1 423
	163 395	147 691	163 395	147 691

Electricity revenue of R1 647 million (2015: R597 million) was not recognised as it was assessed that there is a high probability that the related economic benefits will not materialise. In addition R175 million of previously not recognised revenue has now been recognised in the current year. Eskom continues to actively pursue recovery of these amounts. Refer to note 5.1.2 (a)

	Note	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
33. Other income					
Insurance proceeds		917	2 732	1 393	5 111
Services income		355	213	–	–
Insurance premium income		79	116	–	–
Management fee income		–	–	117	261
Operating lease income		262	275	226	219
Dividend income		32	29	32	19
Sale of scrap		134	186	134	186
Other income		611	893	569	849
		2 390	4 444	2 471	6 645

	Note	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
34. Primary energy					
Own generation costs		57 594	61 630	57 594	61 630
Environmental levy		8 120	8 353	8 120	8 353
International electricity purchases		3 660	3 679	3 660	3 679
Independent power producers		15 106	9 453	15 106	9 453
Other		248	310	248	310
		84 728	83 425	84 728	83 425

Own generating costs relates to the cost of coal, uranium, water and liquid fuels that are used in the generation of electricity. Eskom use a combination of short-, medium- and long-term agreements with suppliers for coal purchases and long-term agreements with the DWA to reimburse the department for the cost incurred in supplying water to Eskom.

	Note	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
35. Employee benefit expense					
Salaries		20 092	18 681	18 517	17 446
Overtime		1 970	1 682	1 657	1 446
Post-employment medical benefits		583	473	573	465
Leave		675	767	635	714
Annual and performance bonus		2 140	1 383	2 133	1 256
Pension benefits		2 089	1 976	1 943	1 845
Direct costs of employment		27 549	24 962	25 458	23 172
Direct training and development		147	197	117	176
Temporary and contract staff costs		3 124	2 743	843	883
Other staff costs		1 703	1 016	1 569	962
Gross employee benefit expense		32 523	28 918	27 987	25 193
Capitalised to property, plant and equipment		(3 266)	(3 006)	(3 266)	(3 006)
		29 257	25 912	24 721	22 187

	Note	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
36. Net impairment loss					
Impairment		1 644	3 905	1 623	3 882
Property, plant and equipment	8	789	1 157	789	1 156
Inventories		11	5	11	5
Loans receivable	15	14	15	–	–
Trade and other receivables	19	830	2 728	823	2 721
Reversal		(469)	(132)	(459)	(120)
Property, plant and equipment	8	(2)	(7)	(2)	(7)
Inventories		–	(21)	–	(14)
Loans receivable	15	(3)	(1)	–	–
Trade and other receivables	19	(464)	(103)	(457)	(99)
Bad debts recovered		(5)	(7)	(5)	(7)
		1 170	3 766	1 159	3 755

		Note	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
37.	**Other expenses**					
	Managerial, technical and other fees		563	715	505	678
	Direct research and development		38	35	38	35
	Operating lease expense		1 117	1 397	412	753
	Auditors' remuneration[1]		94	97	80	84
	Net loss on disposal of property, plant and equipment		358	111	494	103
	Government grant		–	–	–	–
	Income		(23)	(209)	(23)	(209)
	Expenses incurred		23	209	23	209
	Repairs and maintenance, transport and other expenses		16 493	13 416	23 641	20 430
			18 663	15 771	25 170	22 083
38.	**Depreciation and amortisation expense**					
	Depreciation of property, plant and equipment	8	16 591	13 827	16 615	13 798
	Amortisation of intangible assets	9	693	939	655	854
	Deferred income recognised (government grant)	27	(753)	(651)	(753)	(651)
			16 531	14 115	16 517	14 001
39.	**Net fair value loss on financial instruments, excluding embedded derivatives**					
	Financial trading assets		156	232	172	112
	Financial trading liabilities		(122)	(329)	(122)	(329)
	Derivatives held for risk management	16	20 429	(1 688)	20 395	(1 688)
	Trade and other receivables		–	15	(2)	13
	Cash and cash equivalents		75	284	74	284
	Trade and other payables		(407)	141	(426)	172
	Debt securities and borrowings		(21 709)	(2 929)	(21 709)	(2 929)
	Amount recycled from statement of comprehensive income		126	157	126	157
	Amortisation of effective portion of terminated cash flow hedges		145	100	145	100
	Ineffective portion of cash flow hedges		(19)	57	(19)	57
			(1 452)	(4 117)	(1 492)	(4 208)
40.	**Finance income**					
	Investment in securities		723	739	347	513
	Loans receivable		825	799	446	422
	Finance lease receivables		65	68	65	68
	Trade and other receivables		951	677	951	676
	Cash and cash equivalents		883	713	858	681
			3 447	2 996	2 667	2 360

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

		Note	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
41.	**Finance cost**					
	Debt securities and borrowings		23 242	19 699	23 333	19 731
	Eskom bonds		10 202	9 381	10 202	9 381
	Promissory notes		6	5	6	5
	Commercial paper		587	677	573	627
	Eurorand zero coupon bonds		520	458	520	458
	Foreign bonds		3 637	2 041	3 637	2 041
	Development financing institutions		4 777	3 192	4 777	3 192
	Export credit facilities		1 560	1 345	1 560	1 345
	Subordinated loan from shareholder		1 208	2 228	1 208	2 228
	Other loans		745	372	850	454
	Derivatives held for risk management		3 151	2 496	3 151	2 496
	Employee benefit obligations	28	1 158	1 060	1 130	1 034
	Provisions	29	2 588	2 877	2 583	2 875
	Finance lease payables		387	87	406	107
	Trade and other payables		266	275	266	275
	Gross finance cost		30 792	26 494	30 869	26 518
	Capitalised to property, plant and equipment	8	(19 426)	(17 389)	(19 426)	(17 389)
			11 366	9 105	11 443	9 129
42.	**Income tax**					
	Current tax		542	129	–	–
	Deferred tax	13	1 946	(92)	1 697	(160)
	Reversal of temporary differences		6 017	2 377	5 917	2 481
	Tax losses		(4 071)	(2 469)	(4 220)	(2 641)
			2 488	37	1 697	(160)

	2016 Before tax Rm	2016 Tax Rm	2016 Net of tax Rm	2015 Before tax Rm	2015 Tax Rm	2015 Net of tax Rm
Income tax recognised in other comprehensive income						
Group						
Available-for-sale financial assets						
Net change in fair value	(57)	16	(41)	(63)	17	(46)
Cash flow hedges	8 226	(2 303)	5 923	(665)	186	(479)
Changes in fair value	8 955	(2 507)	6 448	628	(176)	452
Net amount transferred to profit or loss	(126)	35	(91)	(157)	44	(113)
Net amount transferred to initial carrying amount of hedged items	(603)	169	(434)	(1 136)	318	(818)
Foreign currency translation differences	21	–	21	24	–	24
Re-measurement of post-employment medical benefits	840	(235)	605	(909)	255	(654)
	9 030	(2 522)	6 508	(1 613)	458	(1 155)
Company						
Available-for-sale financial assets						
Net change in fair value	(54)	15	(39)	(64)	18	(46)
Cash flow hedges	8 226	(2 303)	5 923	(665)	186	(479)
Changes in fair value	8 955	(2 507)	6 448	628	(176)	452
Net amount transferred to profit or loss	(126)	35	(91)	(157)	44	(113)
Net amount transferred to initial carrying amount of hedged items	(603)	169	(434)	(1 136)	318	(818)
Re-measurement of post-employment medical benefits	830	(233)	597	(884)	247	(637)
	9 002	(2 521)	6 481	(1 613)	451	(1 162)

42. Income tax (continued)

	2016		2015	
	Rm	%	Rm	%
Reconciliation between standard and effective tax rate				
Group				
Taxation expense at standard rate	1 989	28.00	78	28.00
Non-taxable income	(34)	(0.48)	(182)	(65.07)
Expenses not deductible for tax purposes	533	7.50	197	70.10
Deferred tax asset previously not recognised	–	–	(56)	(19.77)
Taxation expense per the income statement	2 488	35.02	37	13.26
Company				
Taxation expense/(income) at standard rate	1 204	28.00	(219)	28.00
Non-taxable income	(28)	(0.66)	(131)	16.80
Expenses not deductible for tax purposes	521	12.13	190	(24.34)
Taxation expense/(income) per the income statement	1 697	39.47	(160)	20.46

43. Cash generated from operations

	Group		Company	
	2016 Rm	2015 Rm	2016 Rm	2015 Rm
Profit before tax	7 105	279	4 299	(782)
Adjustments for:	29 904	36 117	30 722	36 879
Depreciation and amortisation expense	16 531	14 115	16 517	14 001
Depreciation expense – primary energy	13	13	13	13
Net impairment loss (excluding bad debts recovered)	1 175	3 773	1 164	3 762
Net fair value gain on financial instruments including embedded derivatives	455	2 807	496	2 898
Net loss on disposal of property, plant and equipment	358	111	494	103
Writeoff of mine assets	1 903	–	1 903	–
Dividend income	(32)	(29)	(32)	(19)
Increase in employee benefit obligations	2 822	2 625	2 824	2 435
(Decrease)/increase in provisions	(893)	7 450	(1 031)	7 694
Decrease in deferred income	(152)	(143)	(152)	(143)
Payments made in advance recognised in profit or loss	432	533	324	530
Payments received in advance recognised in profit or loss	(582)	(1 175)	(574)	(1 164)
Finance income	(3 447)	(2 996)	(2 667)	(2 360)
Finance cost	11 366	9 105	11 443	9 129
Share of loss of equity-accounted investees	(43)	(49)	–	–
Non-current assets and liabilities held-for-sale	(2)	(23)	–	–
	37 009	36 396	35 021	36 097
Changes in working capital:	(2 201)	(8 868)	(2 305)	(10 647)
Increase in payments made in advance	(3 093)	(913)	(3 055)	(835)
(Increase)/decrease in inventories	(500)	894	(457)	831
Increase in trade and other receivables	(4 269)	(5 468)	(4 753)	(7 261)
Increase/(decrease) in trade and other payables	3 853	(2 642)	3 966	(2 984)
Expenditure incurred on employee benefit obligations	(1 431)	(3 191)	(1 359)	(2 957)
Expenditure incurred on provisions	(984)	(2 008)	(869)	(1 891)
Increase in payments received in advance	4 223	4 460	4 222	4 450
	34 808	27 528	32 716	25 450

44. Net debt reconciliation

	Debt securities and borrowings Rm	Payments made in advance Rm	Derivatives held for risk management Rm	Investment in securities Rm	Financial trading assets Rm	Financial trading liabilities Rm	Finance lease payables Rm	Cash and cash equivalents Rm	Net debt Rm
Group									
Balance at 1 April 2014	254 820	(1 457)	(7 438)	(8 160)	(3 226)	5 658	500	(19 676)	221 021
Net cash increase/ (decrease)	35 071	(187)	(1 982)	3 071	(2 534)	241	(111)	11 121	44 690
Non-cash movements	7 543	258	(1 408)	287	617	(400)	99	–	6 996
Foreign currency translation	–	–	–	–	–	–	–	(24)	(24)
Effect of movements in exchange rates on cash held	–	–	–	–	–	–	–	(284)	(284)
Balance at 31 March 2015	297 434	(1 386)	(10 828)	(4 802)	(5 143)	5 499	488	(8 863)	272 399
Net cash increase/ (decrease)	29 929	(555)	11 847	92	2 544	(4 257)	(157)	(19 579)	19 864
Non-cash movements	(4 705)	481	(24 960)	158	(58)	8	3 597	–	(25 479)
Foreign currency translation	–	–	–	–	–	–	–	(21)	(21)
Effect of movements in exchange rates on cash held	–	–	–	–	–	–	–	(75)	(75)
Cash and cash equivalents transferred to non-current assets held-for-sale	–	–	–	–	–	–	–	84	84
Balance at 31 March 2016	322 658	(1 460)	(23 941)	(4 552)	(2 657)	1 250	3 928	(28 454)	266 772
Company									
Balance at 1 April 2014	255 269	(1 457)	(7 438)	(8 160)	(3 226)	5 658	769	(19 044)	222 371
Net cash increase/ (decrease)	35 308	(187)	(1 982)	3 071	(2 534)	241	(163)	11 342	45 096
Non-cash movements	7 553	258	(1 408)	287	617	(400)	101	–	7 008
Effect of movements in exchange rates on cash held	–	–	–	–	–	–	–	(284)	(284)
Balance at 31 March 2015	298 130	(1 386)	(10 828)	(4 802)	(5 143)	5 499	707	(7 986)	274 191
Net cash increase/ (decrease)	30 827	(555)	11 847	92	2 544	(4 257)	(99)	(20 076)	20 323
Non-cash movements	(3 000)	481	(24 960)	158	(58)	8	3 320	–	(24 051)
Effect of movements in exchange rates on cash held	–	–	–	–	–	–	–	(74)	(74)
Balance at 31 March 2016	325 957	(1 460)	(23 941)	(4 552)	(2 657)	1 250	3 928	(28 136)	270 389

45. Guarantees and contingent liabilities

	Unit	Group 2016	Group 2015	Company 2016	Company 2015
Eskom issues guarantees for strategic and business purposes to facilitate other business transactions.					
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.					
Guarantee issued	USDm	10	13	10	13
Default probability	%	0.40	0.43	0.40	0.43
Financial guarantee	Rm	151	158	151	158
Unprovided portion, disclosed as a contingent liability	Rm	150	157	150	157
Provision (refer to note 29)	Rm	1	1	1	1
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.					
Unsecured portion of loan book	%	–	–	1.00	2.00
Default probability of unsecured portion of loan book	%	–	–	26.00	27.00
Secured portion of loan book	%	–	–	99.00	98.00
Default probability of secured portion of loan book	%	–	–	0.01	0.01
Financial guarantee	Rm	–	–	1 111	1 131
Unprovided portion, disclosed as a contingent liability	Rm	–	–	1 110	1 130
Provision (refer to note 29)	Rm	–	–	1	1
Changes in variables will not have a significant impact on profit or loss.					
Summary of financial guarantees					
Unprovided portion, disclosed as a contingent liability	Rm	150	157	1 260	1 287
Long-term debt raised by Motraco	Rm	150	157	150	157
EFC loans to group employees	Rm	–	–	1 110	1 130
Amounts provided in other provisions	Rm	1	1	2	2
Long-term debt raised by Motraco	Rm	1	1	1	1
EFC loans to group employees	Rm	–	–	1	1
Total guarantees	Rm	151	158	1 262	1 289

	Unit	Group 2016	Group 2015	Company 2016	Company 2015
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). The SARS allows Eskom up to a maximum of 37 days after declaration date before the customs duty and import VAT must be settled on the deferment account. SARS requires Eskom to provide a bank guarantee to secure the debt when it becomes due.					
All conditions of the deferral of the customs duty and import VAT have been met. The total amount disclosed as a contingent liability amounted to	Rm	183	183	183	183
Eskom Pension and Provident Fund					
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					
Legal claims are in process against Eskom as a result of contractual disputes with various parties. On the basis of the evidence available it appears that no obligation is present. The claims are disclosed as a contingent liability and amounted to	Rm	107	34	107	34

46. Commitments

	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
46.1 Capital expenditure				
Contracted capital expenditure	62 530	82 916	61 943	82 260
Due within one year	32 709	35 505	32 123	34 984
Due between one and five years	29 821	45 934	29 820	45 799
Due after five years	–	1 477	–	1 477
Capital expenditure excludes finance costs capitalised and foreign currency fluctuations. This expenditure will be financed through debt and internally generated funds. The capital programme will be reviewed and reprioritised by management in line with the funds available.				
46.2 Operating leases				
As lessee				
The future minimum lease payments payable under non-cancellable operating leases are:	223	213	223	214
Within one year	117	131	117	132
One to five years	106	82	106	82
As lessor				
The future minimum lease payments receivable under non-cancellable operating leases are:	167	212	164	213
Within one year	52	50	52	50
One to five years	114	162	112	163
Due after five years	1	–	–	–

47. Related-party transactions

The group is wholly owned by its shareholder, the government, represented by the DPE.

Eskom (and its subsidiaries) are classified as Schedule 2 public entities in terms of the PFMA.

Eskom's government related parties include national departments (including the shareholder), constitutional institutions, public entities (schedule 1, 2 and 3) and local government (including municipalities).

Related parties also comprise subsidiaries of Eskom, 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.

The list of public entities in the national sphere of government is provided by National Treasury on its website www.treasury.gov.za. It also provides the names of subsidiaries of public entities.

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 50.

The following transactions were carried out with related parties:

	Note	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
Transactions					
Sales of goods and services[1]		88 032	79 641	89 586	85 053
National departments		1 173	983	1 173	974
Local government		77 824	70 344	77 824	70 344
Public entities		6 020	5 509	6 020	5 492
Eskom subsidiaries		–	–	1 554	5 438
Joint venture in which Eskom is a partner		3 015	2 805	3 015	2 805
Government grant funding received for electrification		3 331	3 064	3 331	3 064
National departments		3 191	3 064	3 191	3 064
Public entities		140	–	140	–
Purchases of goods and services[2]		10 088	10 573	20 897	20 003
National departments		1 688	1 740	1 687	1 738
Local government		1 117	1 159	1 112	1 148
Public entities		5 023	5 436	4 376	5 372
Eskom subsidiaries		–	–	11 608	9 638
Joint venture in which Eskom is a partner		171	262	171	262
Other related parties	35	2 089	1 976	1 943	1 845
Finance income		1 438	1 243	1 884	1 665
National departments		311	472	311	472
Local government		827	585	827	585
Public entities		300	186	300	186
Eskom subsidiaries		–	–	446	422
Finance cost[3]		7 152	7 095	7 378	7 265
National departments		1 231	2 304	1 231	2 304
Local government		23	16	23	16
Public entities		5 740	4 677	5 740	4 677
Eskom subsidiaries		–	–	226	170
Other related parties		158	98	158	98
Dividend income					
Joint venture in which Eskom is a partner		31	19	–	–
Lease income		52	55	56	59
Public entities		52	55	52	55
Eskom subsidiaries		–	–	4	4
Lease expenses		1	2	1	1
Local government		1	–	1	–
Public entities		–	2	–	1
Finance lease finance cost					
Eskom subsidiaries		–	–	19	20
Environmental levy					
Public entities	34	8 120	8 353	8 120	8 353

1. *Goods and services are sold to related parties at an arm's length basis at market-related prices.*
2. *Goods and services are bought from related parties at an arm's length basis at market-related prices.*
3. *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.*

	Note	Group 2016 Rm	Group 2015 Rm	Company 2016 Rm	Company 2015 Rm
Outstanding balances (due by related parties)					
Receivables and amounts owed by related parties		13 245	11 689	19 396	16 754
National departments		148	96	148	93
Local government		11 435	9 974	11 435	9 974
Public entities		1 396	1 367	1 268	1 222
Eskom subsidiaries		–	–	6 279	5 213
Joint venture in which Eskom is a partner		266	252	266	252
Payments made in advance		–	34	–	37
Public entities		–	34	–	34
Eskom subsidiaries		–	–	–	3
Loans receivable					
Eskom subsidiaries[1]		–	–	6 352	6 553
Indirect transactions – assets at nominal value					
National departments		4 379	4 580	4 379	4 580
Total due by related parties		17 624	16 303	30 127	27 924
Cash and cash equivalents					
Other related parties		15 298	–	15 298	–
Outstanding balances (due to related parties)					
Debt securities and borrowings		110 839	153 531	114 207	156 090
National departments		63	60 152	63	60 152
Subordinated loan from shareholder	25	–	60 000	–	60 000
Other		63	152	63	152
Local government		358	27	358	27
Public entities		108 024	90 675	108 024	90 675
Eskom subsidiaries[2]		–	–	3 368	2 559
Other related parties		2 394	2 677	2 394	2 677
Payables[3] and amounts owed to related parties		2 812	4 074	5 216	6 268
National departments		1 155	1 922	1 155	1 922
Local government		138	73	138	73
Public entities		1 360	1 888	1 093	1 751
Eskom subsidiaries		–	–	2 671	2 331
Joint venture in which Eskom is a partner		8	50	8	50
Other related parties		151	141	151	141
Payments received in advance		1 581	421	1 581	421
National departments		1 259	301	1 259	301
Local government		13	13	13	13
Public entities		309	107	309	107
Indirect transactions – liabilities at nominal value					
National departments		270	534	270	534
Total due to related parties		115 502	158 560	121 274	163 313
Guarantees					
Guarantees received and used					
Guarantees received – National departments		350 000	350 000	350 000	350 000
Domestic multi-term note programme		150 000	100 000	150 000	100 000
General guarantees		200 000	250 000	200 000	250 000
Guarantees used – National departments		181 454	158 811	181 454	158 811
Domestic multi-term note programme		105 049	100 226	105 049	100 226
General guarantees		76 405	58 585	76 405	58 585
Guarantees still available	5.3	168 546	191 189	168 546	191 189
Guarantees issued		333	340	1 443	1 470
National departments	45.2	183	183	183	183
Eskom subsidiaries	45.1	–	–	1 110	1 130
Joint venture in which Eskom is a partner	45.1	150	157	150	157

Commitments

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

1. *Refer to note 25 for effective interest rate and maturity date relating to intercompany instruments.*
2. *The effective interest rate on the loans from subsidiaries is 7.09% (2015: 6.03%).*
3. *Purchase transactions with related parties are at an arm's length basis with payment terms of 30 days from invoice date.*

48. Events after the reporting date

There were no significant events after the reporting date.

49. Restatement of comparatives

Change in measurement basis of cross-currency swaps classified as derivatives held for risk management.

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.

As the improvements in the valuation technique are relevant to determine the fair value in prior years and given the size of the adjustments related to prior years, the prior year financial statements have been restated.

The impact of the restatement is as follows:

	Group			Company		
	Previously reported Rm	Adjustments Rm	Restated Rm	Previously reported Rm	Adjustments Rm	Restated Rm
Statements of financial position at 31 March 2015						
Assets						
Non-current						
Derivatives held for risk management	19 242	(4 939)	14 303	19 242	(4 939)	14 303
Equity						
Capital and reserves attributable to owner of the company	122 247	(5 083)	117 164	116 040	(5 083)	110 957
Liabilities						
Non-current						
Derivatives held for risk management	520	2 121	2 641	520	2 121	2 641
Deferred tax	20 131	(1 977)	18 154	19 825	(1 977)	17 848
Income statements for the year ended 31 March 2015						
Continuing operations						
Profit before depreciation and amortisation expense and net fair value gain/(loss) (EBITDA)	23 261	–	23 261	22 886	–	22 886
Depreciation and amortisation expense	(14 115)	–	(14 115)	(14 001)	–	(14 001)
Net fair value gain/(loss) on financial instruments excluding embedded derivatives	630	(4 747)	(4 117)	539	(4 747)	(4 208)
Net fair value gain on embedded derivatives	1 310	–	1 310	1 310	–	1 310
Profit before net finance cost	11 086	(4 747)	6 339	10 734	(4 747)	5 987
Net finance cost	(6 109)	–	(6 109)	(6 769)	–	(6 769)
Finance income	2 996	–	2 996	2 360	–	2 360
Finance cost	(9 105)	–	(9 105)	(9 129)	–	(9 129)
Share of profit of equity-accounted investees, net of tax	49	–	49	–	–	–
Profit before tax	5 026	(4 747)	279	3 965	(4 747)	(782)
Income tax	(1 366)	1 329	(37)	(1 169)	1 329	160
Profit for the year from continuing operations	3 660	(3 418)	242	2 796	(3 418)	(622)
Discontinued operations						
Loss for the year from discontinued operations	(42)	–	(42)	–	–	–
Profit for the year	3 618	(3 418)	200	2 796	(3 418)	(622)

50. Directors' remuneration[1]

Remuneration philosophy

Eskom links management remuneration to the performance of the organisation and an individual's contribution. Market factors are also crucial as rewards and remuneration must be kept at levels that will assist Eskom in retaining key leadership skills. Basic salary is augmented by short- and long-term incentives.

International and local benchmarks are considered to ensure executive packages are aligned with those offered by companies of similar stature to Eskom. Eskom aims to remunerate in line with the median of the market to recruit and retain the best management team to lead the business.

The executive remuneration strategy is constantly reviewed to stay aligned with the DPE remuneration guidelines and abreast with best practices.

People and governance committee

The people and governance committee assists the board to apply policy relating to the remuneration of directors and executives as set by Eskom's shareholder. The policy also covers the nomination of executives for senior positions and conditions of service.

The committee enhances business performance by:

- approving, guiding and influencing key human resources policies and strategies
- monitoring compliance with the Employment Equity Act
- guiding strategies to achieve equity in Eskom, and
- approving the principles governing reward and incentive schemes

Non-executive directors

Remuneration of non-executive directors is benchmarked against the norms for companies of similar size and is in line with guidelines issued by the shareholder. Remuneration proposals from the people and governance committee regarding non-executive directors' remuneration are forwarded to the board. The board then makes recommendations to the shareholder.

Non-executive directors receive a fixed monthly fee and are reimbursed for out-of-pocket expenses incurred in fulfilling their duties.

Executive management committee members

The committee makes recommendations to the board concerning the remuneration of the chief executive, and approves the remuneration of the other Exco members (group executives). The remuneration is considered in accordance with a framework approved by the shareholder. The board recommendation on the remuneration of the chief executive has to be approved by the shareholder.

Factors influencing the remuneration of the Exco members include level of skill, experience, contribution to organisational performance and success of the group. Remuneration includes a basic package and short- and long-term incentives.

Every year, the people and governance committee reviews the structure of these packages to ensure there is an appropriate balance between fixed and variable remuneration and short- and long-term incentives and rewards.

The group chief executive and chief financial officer have term contracts. The group executives have permanent employment contracts based on Eskom's standard conditions of service.

Remuneration structure

The remuneration of the Exco members includes the following components:

Guaranteed amount

They receive a guaranteed pay package with remuneration based on cost to company. This comprises a fixed cash portion and compulsory benefits (medical aid, life cover and pension). The guaranteed amount is reviewed annually to keep remuneration in line with the market.

Short-term incentives

These reward the achievement of individual predetermined performance objectives and targets (these are linked to the shareholder compact) as set by the group chief executive in performance contracts with each Exco member. The people and governance committee approves the targets set for the group chief executive.

The short-term incentive scheme is calculated as a percentage of pensionable earnings.

Long-term incentives

These are designed to attract, retain and reward the Exco members for meeting the organisational objectives set by the shareholder. A market benchmarked long-term incentive scheme has been approved by the shareholder effective from 1 April 2005.

Long-term incentive scheme

A number of performance shares (award performance shares) were awarded to the Exco members on 1 April 2013, 2014 and 2015.

The value of the performance shares is deemed to be R1 at grant date, and is escalated at a money market rate to determine the value at reporting date.

1. *Includes remuneration of the group chief executive, chief financial officer and Exco members (group executives who are senior executives but not directors of Eskom).*

50. Directors' remuneration (continued)

Remuneration structure (continued)

Long-term incentives (continued)

Long-term incentive scheme (continued)

The board has set performance conditions in line with the Eskom corporate plan and shareholder compact over a three-year performance period. Performance covers financial and non-financial targets in areas such as ensuring business sustainability of Eskom, ensuring reliability of supply to all South Africans, ensuring that future power needs for South Africa are adequately provided for and supporting the developmental objectives of South Africa, with an agreed weighting in each category.

Awards only vest if and to the extent that, these targets are met. Potential vesting percentages range from 0% to 100%. A threshold and a stretch target are set for each measure, with an expected (on target) vesting of 50%.

Performance parameters aligned with the shareholder compact and corporate plan are complemented by a set of gatekeeper conditions. If gatekeeper requirements are not met, the board at its discretion may adjust the vesting percentages even though targets have been met.

The following gatekeeper conditions can trigger a review of vesting percentages:
- if the LTIR is greater than 0.35
- if the sustainability committee gives an unfavourable safety report
- if Eskom's audited financial statements show a financial loss
- if the auditors qualify Eskom's financial statements
- if a significant PFMA contravention occurs

The vesting period for award performance shares is three years from the date of grant. At the end of that period, the people and governance committee decides on the amounts to be paid in line with:
- the percentage of award performance shares that vest, based on the performance conditions achieved
- the value of the award performance shares based on the grant value, escalated at a money market rate

In addition to the performance conditions, vesting of award performance shares is dependent on the scheme participant remaining in Eskom's employment throughout the vesting period. The award lapses if employment ceases during the vesting period (other than for permitted reasons).

Share awards – vested

Award performance shares awarded on 1 April 2013 vested on 31 March 2016 with an expected vesting rate over the three-year period of 44.48% due to the achievement of non-financial performance conditions. The cash value of the vested shares is payable in June 2016 at R1.23 per share based on the money market rate. Shares awarded on 1 April 2012 were redeemed during the year.

Shares vested on 31 March 2016 (with comparative status at 31 March 2015) are:

Name	Award performance shares vested on 31 March 2016 Number	Award performance shares vested on 31 March 2016 at a rate of 34.48%[1] Number	Award performance shares payable at R1.23 per share R'000	Award performance shares vested on 31 March 2015 Number	Award performance shares vested on 31 March 2015 at a rate of 42.06%[1] Number	Award performance shares payable at R1.20 per share R'000
TBL Molefe	–	–	–	1 829 776	769 604	924
T Govender	2 185 983	753 727	927	2 185 983	919 424	1 103
MM Koko	1 677 295	578 331	711	1 677 294	705 470	847
SJ Lennon	–	–	–	2 109 869	887 411	1 065
DL Marokane	–	–	–	2 658 316	1 118 088	1 342
AA Masango	1 028 088	354 485	436	964 894	405 834	487
A Noah	2 171 168	748 619	921	2 171 168	913 193	1 096
MM Ntsokolo	2 488 574	858 060	1 055	2 488 574	1 046 694	1 256
EM Pule	1 597 367	550 772	677	1 597 367	671 853	806

Share awards – vesting

The current estimated vesting values of the award performance shares are R1.24 per share for the 1 April 2014 awards (vesting 31 March 2017) and R1.26 for the April 2015 awards (vesting 31 March 2018). The value of the performance shares allocated does not take into account the impact of performance conditions over the applicable three-year performance periods. The vesting percentage of 50% for the 1 April 2014 and 50% for the 1 April 2015 awards, are estimates.

1. The people and governance committee applied its discretion and reduced the vesting rate from 44.48% to 34.48% (2015: 47.06% to 42.06%).

Name	Shares awarded on 1 April 2015 Outstanding award performance shares vesting on 31 March 2018 Number	Award performance shares vesting on 31 March 2018 at a rate of 50% Number	Award performance shares payable in June 2018 at R1.26 per share R'000	Shares awarded on 1 April 2014 Outstanding award performance shares vesting on 31 March 2017 Number	Award performance shares vesting on 31 March 2017 at a rate of 50% Number	Award performance shares payable in June 2017 at R1.24 per share R'000
B Molefe	7 502 880	3 751 440	4 727	–	–	–
A Singh	3 869 880	1 934 940	2 438	–	–	–
T Govender	2 574 094	1 287 047	1 622	2 423 818	1 211 909	1 503
MM Koko	2 693 304	1 346 652	1 697	2 028 856	1 014 428	1 258
AA Masango	1 624 104	812 052	1 023	1 526 407	763 204	946
A Noah	2 556 648	1 278 324	1 611	2 407 391	1 203 696	1 493
MM Ntsokolo	2 930 405	1 465 203	1 846	2 759 328	1 379 664	1 711
EM Pule	1 791 402	895 701	1 129	1 686 820	843 410	1 046

The details of the schemes are:

	Long-term incentive plan	Long-term incentive plan
Date of grant	1 April 2015	1 April 2014
Number of shares awarded	25 542 717	12 832 620
Contractual life	Three years	Three years
Vesting conditions	Variable vesting depending on the achievement of performance conditions	Variable vesting depending on the achievement of performance conditions
Method of settlement	Cash	Cash
Expected attrition of employee (%)	–	–
Expected outcome of performance conditions (%)	50%	50%

Reconciliation of performance share movements	Long-term incentive plan 2016 Number	Long-term incentive plan 2015 Number
Outstanding at beginning of the year	43 959 547	58 755 334
Granted during the year	25 542 717	12 832 620
Changes in Exco during the year	2 192 881	4 239 555
Forfeited during the year	(4 488 092)	(5 618 788)
Settled during the year	(17 683 241)	(26 249 174)
Outstanding at end of the year	49 523 812	43 959 547
Carrying amount of liability (R'000)	14 380	15 072
Intrinsic value of liabilities relating to vested rights (R'000)	4 728	8 925

50. Directors' remuneration (continued)

Details of emoluments paid

The following schedule sets out the emoluments due to the directors of Eskom for the current year:

Name	2016 Directors fees R'000	2016 Salaries[1] R'000	2016 Short-term bonus payment[2] R'000	2016 Long-term bonus payment[3] R'000	2016 Other payments[4] R'000	2016 Total R'000	2015 Total R'000
Non-executive directors	6 651	–	–	–	5	6 656	9 998
BS Ngubane[5, 6]	1 152	–	–	–	2	1 154	180
NT Baloyi[5, 7]	47	–	–	–	–	47	172
N Carrim[5]	598	–	–	–	–	598	178
M Cassim[8]	463	–	–	–	–	463	–
BL Fanaroff[9]	–	–	–	–	–	–	351
RMQ Gungubele[9]	–	–	–	–	–	–	328
ZW Khoza[5, 10]	649	–	–	–	2	651	180
VJ Klein[5]	670	–	–	–	–	670	183
R Kumalo[5]	531	–	–	–	–	531	143
G Leonardi[8]	310	–	–	–	–	310	–
N Lesela[9]	–	–	–	–	–	–	370
B Luthuli[9]	–	–	–	–	–	–	407
C Mabude[11]	683	–	–	–	–	683	587
Y Masithela[9]	–	–	–	–	–	–	351
MC Matjila[9, 12]	–	–	–	–	–	–	3 043
B Mehlomakulu[9]	–	–	–	–	–	–	370
ME Mkwanazi[9]	–	–	–	–	–	–	370
DV Naidoo[5]	609	–	–	–	1	610	172
P Naidoo[5]	540	–	–	–	–	540	180
MV Pamensky[5]	399	–	–	–	–	399	122
SPQ Sedibe[9]	–	–	–	–	–	–	370
ZA Tsotsi[13]	–	–	–	–	–	–	1 590
DEL Zondo[9]	–	–	–	–	–	–	351
Executive directors	–	12 992	3 937	924	12 167	30 020	8 056
B Molefe[14]	–	6 973	2 469	–	25	9 467	–
A Singh[15]	–	3 072	1 468	–	10	4 550	–
TJ Matona[16]	–	1 000	–	–	6 008	7 008	3 033
TBL Molefe[17]	–	1 008	–	924	6 085	8 017	4 904
NS Veleti[18]	–	939	–	–	39	978	119
Exco members (group executives)	–	18 533	5 438	8 002	6 677	38 650	32 556
T Govender	–	3 064	972	1 103	49	5 188	4 396
EL Johnson[19]	–	–	–	–	–	–	3 899
M Koko[20]	–	3 206	980	847	65	5 098	3 761
SJ Lennon[21]	–	–	–	1 065	–	1 065	4 468
ET Mabelane[22]	–	1 251	–	–	–	1 251	114
DL Marokane[23]	–	670	–	1 342	6 256	8 268	5 437
AA Masango[24]	–	1 250	956	487	111	2 804	119
A Noah	–	3 044	796	1 096	50	4 986	4 337
MM Ntsokolo	–	3 489	919	1 256	91	5 755	4 959
EM Pule[25]	–	2 559	815	806	55	4 235	1 066
Total directors and group executives	6 651	31 525	9 375	8 926	18 849	75 326	50 610

1. *Includes medical aid and pension fund contributions.*
2. *Short-term incentive bonus awarded for the 2016 financial year.*
3. *Long-term incentive bonus scheme – Grant 8, which vested on 31 March 2015 was paid in June 2015.*
4. *Fees related to security services, operating vehicle expenditure and seperation packages.*
5. *Appointed on 11 December 2014.*
6. *Appointed as the acting chairman of the board on 1 April 2015 and chairman on 1 October 2016.*
7. *Resigned on 30 April 2015.*
8. *Appointed on 25 May 2015.*
9. *Conclusion of board term in December 2014.*
10. *Acted as the chief executive from 11 March 2015 to 17 April 2015.*
11. *Re-appointed to the board on 11 December 2014.*
12. *Acted as interim chief executive from 1 April 2014 to 30 September 2014.*
13. *Resigned as chairman of the board on 30 March 2015.*
14. *Acted as group chief executive from 20 April 2015 and appointed as group chief executive on 25 September 2015.*
15. *Acted as chief financial officer from 1 August 2015 and appointed as chief financial officer on 25 September 2015.*
16. *Appointed as chief executive and executive director on 1 October 2014. Resigned as chief executive and executive director on 30 June 2015.*
17. *Resigned as finance director and executive director on 30 June 2015.*
18. *Acted as chief financial officer from 12 March 2015 to 31 August 2015.*
19. *Resigned on 31 October 2014.*
20. *Acted as group executive: commercial and technology from 1 May 2014 and appointed as group executive: commercial and technology on 1 December 2014 (now group executive generation).*
21. *Retired on 31 March 2015.*
22. *Acted as group executive: commercial and technology from 12 March 2015 to 31 October 2015*
23. *Resigned on 31 May 2015.*
24. *Acted as group executive: group capital from 12 March 2015 and appointed as group executive group capital on 1 November 2015.*
25. *Acting as group executive: human resources from 1 November 2014.*

	2016 R'000	2015 R'000
Housing loans to Exco members at 31 March		
T Govender	–	1 773
ET Mabelane	678	720
AA Masango	526	541
EM Pule	135	182
	1 339	3 216

The interest rate on the loan from EFC at 31 March 2016 was 8.50% (2015: 7.50%). The loans are repayable over a maximum period of 30 years[1].

The following board and Exco members were directors of Eskom directly held subsidiary companies. Fees paid for attendance of meetings were all paid to Eskom Holdings.

	2016 R'000	2015 R'000
Eskom Enterprises SOC Ltd[2]		
T Govender	–	–
DL Marokane[3]	–	–
TBL Molefe[4]	–	–
MM Ntsokolo	–	–
Escap SOC Ltd[5]		
EL Johnson[6]	–	–
TBL Molefe[7]	–	36
DL Marokane[8]	–	–
A Singh[9]	–	–
Eskom Finance Company SOC Ltd[5]		
TBL Molefe[10]	5	5
NS Veleti[11]	–	10
A Singh[12]	10	–
EM Pule	10	–

1. *On resignation the terms and conditions of the loan are renegotiated.*
2. *Paid by Eskom.*
3. *Resigned on 26 June 2015.*
4. *Resigned on 1 July 2015.*
5. *Fees paid to Eskom.*
6. *Resigned on 31 October 2014.*
7. *Resigned on 11 July 2015.*
8. *Appointed on 26 January 2015 and resigned on 1 June 2015.*
9. *Appointed on 15 October 2015.*
10. *Resigned on 1 July 2015.*
11. *Resigned on 1 October 2015.*
12. *Appointed on 21 October 2015.*

51. New standards and interpretations

51.1 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.

Topic	Summary of requirements	Effective date	Impact
Amendment to IFRS 11 *Joint arrangements* regarding acquisition of an interest in a joint operation	The amendment provides guidance on how to account for the acquisition of an interest in a joint venture operation that constitutes a business. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business	1 January 2016	Not applicable – impact immaterial
Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture	The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary	1 January 2016	Not applicable – impact immaterial
Amendments to IAS 1 *Disclosure initiative*	The amendments clarify existing requirements in IAS 1 by providing additional guidance when judgement is applied to meet the presentation and disclosure requirements in IFRS. The amendments do not affect recognition and measurement and should not result in the reassessment of the judgements made about presentation and disclosure in prior periods	1 January 2016	Impact immaterial. Presentation and disclosure will be refined
Amendment to IAS 27 *Separate financial statements* regarding the equity method	The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements	1 January 2016	Impact immaterial. The group entities will continue to account for investments in subsidiaries, joint ventures and associates at cost in their separate financial statements
Annual improvements 2014	The improvements amend standards from the 2012-2014 reporting cycle. The changes affect IFRS 5 *Non-current assets held-for-sale and discontinued operations*, IFRS 7 *Financial instruments: disclosure*, IAS 19 *Employee benefits* and IAS 34 *Interim financial reporting*	1 January 2016	Not applicable – impact immaterial
IFRS 9 *Financial instruments*	IFRS 9 replaces IAS 39 *Financial instruments: recognition and measurement.* It retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income IFRS 9 also replaces the rule-based hedge accounting requirements in IAS 39. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually uses for risk management purposes IFRS 9 includes an expected credit loss model for calculating impairment on financial assets. This replaces the incurred loss model used under IAS 39 The adoption of IFRS 9 is not expected to change the measurement of financial assets and liabilities significantly, but will require a review of the current classification of financial assets and liabilities	1 January 2018	The group is currently in the process of evaluating the detailed requirements of the standard to assess the impact on the financial statements

Topic	Summary of requirements	Effective date	Impact
IFRS 15 *Revenue from contracts with customers*	IFRS 15 replaces the two main revenue recognition standards, IAS 18 *Revenue* and IAS 11 *Construction contracts* and their related interpretations IFRS 15 provides a single control-based revenue recognition model and clarifies the principles for recognising revenue from contracts with customers. The core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers IFRS 15 will be applied retrospectively subject to the application of the transitional provisions	1 January 2018	Eskom commenced with a preliminary assessment of IFRS 15. The assessment focused on analysing the customer electricity supply agreements and existing accounting practices against the new revenue recognition model. The preliminary evaluation is currently in progress and the quantitative impact is yet to be finalised
IFRS 16 *Leases*	IFRS 16 supersedes 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* **Lessee accounting** IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. 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 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 of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion 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 IFRS 16 contains disclosure requirements for lessees. 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 **Lessor accounting** IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk	1 January 2019	The group is currently in the process of evaluating the detailed requirements of the standard to assess the impact on the financial statements

51. New standards and interpretations (continued)

51.2 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 2016. The nature and effect of the changes are as follows:

Topic	Summary of requirements	Effective date	Impact
Annual improvements 2012	These improvements amend standards from the 2010-2012 reporting cycle. The changes affect IFRS 2 *Share based payments*, IFRS 3 *Business combinations*, IFRS 8 *Operating segments*, IFRS 13 *Fair value*, IAS 16 *Property, plant and equipment* and IAS 24 *Related party disclosures*	1 July 2014	Impact immaterial
Annual improvements 2013	These improvements amend standards from the 2011-2013 reporting cycle. The changes affect IFRS 1 *First time adoptions of IFRSs,* IFRS 3 *Business combinations*, IFRS 13 *Fair value* and IAS 40 *Investment property*	1 July 2014	Impact immaterial
Amendment to IAS 19 *Employee benefits* regarding employee or third party contributions to defined benefit plans	The amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service	1 July 2014	Impact immaterial

52. Information required by the Public Finance Management Act

In terms of the significance and materiality framework agreed with the shareholder, any losses due to criminal conduct or irregular or fruitless and wasteful expenditure, that individually (or collectively where items are closely related) exceed R25 million, must be reported.

52.1 Irregular expenditure

	Note	Group and company 2016 Rm	2015 Rm
Balance at beginning of the year		418	–
Current year expenditure		106	712
Back 2 Basics Programme	(a)	–	310
Land purchase	(b)	–	108
Breach of PPPFA	(c)	41	287
Breach of NEMA	(d)	7	–
Use of labour broker – internal processes not followed	(e)	10	–
Professional services contract – internal processes not followed	(f)	36	–
Commitments made before approval	(g)	3	–
Procurement of services – incorrect classification as an emergency	(h)	4	–
Various other instances		5	7
Amounts condoned		(146)	(4)
Condoned in prior year		–	(4)
Land purchase	(b)	(108)	–
Professional services contract	(f)	(36)	–
Commitments made before approval	(g)	(2)	–
		378	708
Amounts recoverable (not condoned)		–	–
Amounts not recoverable (not condoned)		(30)	(290)
Breach of PPPFA	(c)	(30)	(287)
Immaterial/minor incidence – preventative and corrective measures in place		–	(3)
Irregular expenditure awaiting condonation		348	418
Comprising		348	418
B2B Engineering Tools		310	310
Land purchase		–	108
Breach of PPPFA		11	–
Breach of NEMA		7	–
Use of labour broker		10	–
Commitments made before approval		1	–
Procurement of services – incorrect classification as an emergency		4	–
Various other instances		5	–
Age analysis		348	418
Current year		38	418
Prior years		310	–

(a) Back 2 Basics Programme engineering tools

The expenditure of R310 million on the Back 2 Basics engineering tools project was derecognised by the board on 19 April 2016 within the provisions of the National Treasury Guideline of April 2015. The matter is still reflected in the closing balance of irregular expenditure at 31 March 2016 as derecognition occurred after year end.

(b) Purchase of land without investment committee approval

The irregular expenditure incurred has been condoned by the relevant authority and has therefore been removed from the register of irregular expenditure.

(c) Preferential Procurement Policy Framework Act

The expenditure of R41 million that was incurred during the year in breach of the PPPFA consists of the following:

- Eskom's exemption from the PPPFA expired on 7 December 2012. Eskom paid R30 million (2015: R287 million) for the year ended 31 March 2016 on contracts that were entered into between 8 December 2012 and 31 March 2013 that were inconsistent with the requirements of the PPPFA. These contracts were not recalled or corrected and Eskom will continue to meet its obligations under these contracts until they expire. All these transactions took place in the normal course of business and were subject to Eskom's approved procurement policy in force at that time.
- Eskom applied monetary thresholds contrary to the requirements of the PPPFA. The amounts used in determining the appropriate bidding process applicable to specific transactions were exclusive of VAT whereas the requirement is that it should be determined using amounts inclusive of VAT. Certain procurement was therefore done using the incorrect bidding process resulting in irregular expenditure being incurred on affected transactions amounting to R11 million. The total population of affected transactions is currently under investigation to determine if any more contracts have been affected. Eskom is ensuring that regular reviews are conducted and that buyers are made aware and retrained on the supply chain management procedure. Condonation of any instances of irregular expenditure will be sought during the 2017 financial year.

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

52.1 Irregular expenditure (continued)

(d) Breach of the National Environmental Management Act (NEMA)

Eskom commenced with construction activities for a 132 kV power line in the Eastern Cape Province along a route that was not authorised by the Department of Environmental Affairs (DEA). Eskom subsequently applied for rectification to DEA in terms of NEMA and paid a penalty of R1 million imposed by DEA. Disciplinary action was concluded against three employees involved. The amount reported is the cost of the portion of line that was constructed along the unauthorised route.

(e) Use of labour broker

Eskom processes were not followed for the procurement of certain goods and services through a labour broker. The senior managers concerned were disciplined. The expenditure was condoned on 25 April 2016. The matter is still reflected in the closing balance of irregular expenditure at 31 March 2016 as the condonation occurred after year end.

(f) Professional services contract

A contract was awarded for the procurement of professional engineering services to assist in assessing options for the recovery of unit 3 of Duvha power station following its failure on 30 March 2014. This contract was awarded by way of the emergency procurement process, but it was subsequently determined that the standard process should have been followed. The irregular expenditure was condoned by the tender committee on 23 September 2015.

(g) Commitments made before approval

An analysis of condonation records identified purchase orders totalling R3 million that were placed before tender committee approval was received. All condonation records are being reviewed to determine if any more such incidents have occurred, including items still awaiting condonation.

(h) Procurement of services – incorrect classification as an emergency

Laboratory services procured for certification of coal quality were incorrectly classified as an emergency within the procurement process. Condonation will be sought during the 2017 financial year.

(i) Irregular expenditure under investigation

Incidents of possible irregular expenditure currently under investigation are as follows:

- Confirmation of tax compliance status for foreign suppliers – the PPPFA regulations require that tenders may only be awarded to a person whose tax matters have been declared to be in order by the SARS. Three contracts awarded to foreign suppliers, amounting to R340 million, have been identified to date where their tax compliance status at the time of award is being investigated. All awards made during the year to foreign suppliers are being investigated to determine the extent of contracts that may be affected
- Grading for construction contractors – Construction Industry Development Board (CIDB) Regulations specify the different levels of grading that contractors must have based on the value of the contract to be awarded. This is not a requirement for World Bank-funded contracts. Expenditure to the value of R111 million was identified to date on one foreign contract awarded in terms of World Bank funding where the grading level was not in line with CIDB regulations. All construction contract awards made during the year are being investigated to determine the extent of contractors who had no or an inappropriate CIDB grading level at the date of award, including those awarded in terms of World Bank funding. The inconsistency between the CIDB regulations and World Bank funding requirements is being followed up to determine the most appropriate way forward
- Non-declaration of interests by certain employees – goods and services were procured from entities in which employees had an interest but they either did not declare this timeously or did not obtain approval for private work in accordance with the applicable procedures. The instances are being investigated to determine if a conflict of interest existed, and if so, the impact thereof

It is possible that the above matters may not qualify as irregular expenditure once the investigations are concluded.

52.2 Fruitless and wasteful expenditure

(a) Incidents of fruitless and wasteful expenditure above the materiality threshold

There was one (2015: nil) major incident of fruitless and wasteful expenditure incurred by the group during the year that exceeded the materiality threshold of R25 million.

Fruitless and wasteful expenditure incurred by the quality management department

Eskom initiated multi-disciplinary investigations into indications of mismanagement and allegations of irregularities in the quality management department. The aggregate value of the expenses incurred is R1.4 billion of which value-adding activities amounted to R500 million.

The initial outcome of the investigations indicated possible fruitless and wasteful expenditure of R886 million. The total fruitless and wasteful expenditure will be quantified when the investigations are finalised.

Actions taken to date include:

- initial investigations led to the dismissal of two employees (includes a senior manager)
- civil litigation is currently underway against one of the main suppliers
- a fidelity claim has been lodged against Eskom insurance for losses arising from fraudulent or dishonest acts committed by employees (cover limit of R3 billion)

Further disciplinary, civil and/or criminal action will be considered against all parties involved based on the findings of the independent forensic investigation that is currently in progress.

(b) Incidents of fruitless and wasteful expenditure below the materiality threshold

Total fruitless and wasteful expenditure which individually or collectively (where items are closely related) were below the materiality threshold was R93 million (2015: R51 million) comprising 655 (2015: 606) incidents of which 25 incidents accounted for R80 million. Management continues to institute preventive and corrective measures, including disciplinary action, as considered appropriate.

(c) Fruitless and wasteful expenditure under investigation

There are currently 96 incidents of alleged fruitless and wasteful expenditure under investigation, of which one may exceed the materiality threshold of R25 million. The nature and extent of potential losses incurred cannot be reasonably ascertained at this stage. It is important to note that these are allegations and many of these occurrences may not qualify as fruitless and wasteful expenditure upon conclusion of the investigations.

52.3 Criminal conduct

(a) Theft of conductors, cabling and related equipment

Losses due to conductor theft, cabling and related equipment totalled R85 million (2015: R102 million), involving 5 161 incidents (2015: 5 680 incidents). Actions to combat these losses are managed by the Eskom Network Equipment Crime Committee in collaboration with affected state owned enterprises and the South African Police Services. The combined effort resulted in 229 (2015: 297) arrests and R5 million (2015: R11 million) worth of stolen material was recovered.

(b) Fraud

Eskom concluded 14 (2015: 23) investigations into fraud during the reporting period involving R33 million (2015: R40 million). The existing internal control measures in the affected areas as well as similar areas have been reviewed and enhanced. Disciplinary, criminal as well as civil proceedings have been instituted against those involved.

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 R310 billion (2015: R206 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 fully phased in by NERSA.

	2016			2015		
	Historical cost Rm	Adjustments Rm	After revaluation Rm	Historical cost Rm	Adjustments Rm	After revaluation Rm
Summarised group statements of financial position at 31 March 2016						
Assets						
Property, plant and equipment	518 036	71 140	589 176	455 977	181 551	637 528
Other assets	142 649	–	142 649	101 968	–	101 968
	660 685	71 140	731 825	557 945	181 551	739 496
Equity and liabilities						
Total equity	180 563	51 221	231 784	117 164	130 717	247 881
Deferred tax liabilities	21 000	19 919	40 919	18 154	50 834	68 988
Other liabilities	459 122	–	459 122	422 627	–	422 627
	660 685	71 140	731 825	557 945	181 551	739 496
Summarised group income statements for the year ended 31 March 2016						
Profit before depreciation and amortisation expense, net impairment loss and other expenses	51 345	–	51 345	39 991	–	39 991
Depreciation and amortisation expense	(16 531)	(2 965)	(19 496)	(14 115)	(10 119)	(24 234)
Net impairment loss	(1 170)	787	(383)	(3 766)	1 149	(2 617)
Other expenses	(18 663)	(134)	(18 797)	(15 771)	(102)	(15 873)
Profit/(loss) before net finance cost	14 981	(2 312)	12 669	6 339	(9 072)	(2 733)
Net finance cost	(7 919)	(19 426)	(27 345)	(6 109)	(17 389)	(23 498)
Share of profit of equity-accounted investees, net of tax	43	–	43	49	–	49
Profit/(loss) before tax	7 105	(21 738)	(14 633)	279	(26 461)	(26 182)
Income tax	(2 488)	6 087	3 599	(37)	7 409	7 372
Profit/(loss) for the year from continuing operations	4 617	(15 651)	(11 034)	242	(19 052)	(18 810)
Profit for the year from discontinued operations	–	–	–	(42)	–	(42)
Profit/(loss) for the year	4 617	(15 651)	(11 034)	200	(19 052)	(18 852)
Summarised group statements of comprehensive income for the year ended 31 March 2016						
Profit/(loss) for the year	4 617	(15 651)	(11 034)	200	(19 052)	(18 852)
Other comprehensive income/(loss)	6 508	(63 844)	(57 336)	(1 155)	31 086	29 931
Revaluation reserve (reversed)/raised	–	(88 672)	(88 672)	–	43 175	43 175
Other items of other comprehensive income/(loss)	9 030	–	9 030	(1 613)	–	(1 613)
Income tax thereon	(2 522)	24 828	22 306	458	(12 089)	(11 631)
Total comprehensive income/(loss) for the year	11 125	(79 495)	(68 370)	(955)	12 034	11 079

Appendix – Acronyms and abbreviations

Accounting and other financial terms	
CVA	Credit Value Adjustment
DRC	Depreciated Replacement Cost
DVA	Debit Value Adjustment
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
FFO	Free Funds From Operations
FIFO	First-In-First-Out
IAS	International Accounting Standard/(s)
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard/(s)
ISA	International Standards of Auditing
LIFO	Last-In-First-Out
PPI	Producer Price Index
R	Rand
Rm	Rand millions
SIC	Standing Interpretations Committee of the International Accounting Standards Committee
VAT	Value Added Tax

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
EEM	Eskom Energie Manantali s.a
EFC	Eskom Finance Company SOC Ltd
EPPF	Eskom Pension and Provident Fund
Escap	Escap SOC Ltd
Eskom	Eskom Holdings SOC Ltd
Eskom Enterprises	Eskom Enterprises 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
PBMR	Pebble Bed Modular Reactor SOC Ltd
UEGCL	Uganda Electricity Generation Company Ltd
UETCL	Uganda Electricity Transmission Company Ltd
Uitesco	Uitenhage Electricity Supply Company (Pty) Ltd

Legislation	
Companies Act	Companies Act, No.71 of 2008
NEMA	National Environmental Management Act, No. 107 of 1998
PAA	Public Audit Act, No. 25 of 2004
PFA	Pension Funds Act, No 24 of 1956
PFMA	Public Finance Management Act, No. 1 of 1999
PPPFA	Preferential Procurement Policy Framework Act, No. 5 of 2000

Appendix – Acronyms and abbreviations (continued)

Measures	
GWh	Gigawatt hour
kg	Kilogram
km	Kilometre
kVA	kilovolt-ampere
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
B-BBEE	Broad-Based Black Economic Empowerment
BNP	Banque Nationale de Paris
Board	Board of directors
BPP	Business Productivity Programme
CA(SA)	Chartered Accountant of South Africa
CIDB	Construction Industry Development Board
DEA	Department of Environmental Affairs
DPE	Department of Public Enterprises
DTC	Design-to-cost
DWA	Department of Water Affairs
EAF	Energy Availability Factor
Exco	Executive Management Committee
IDM	Integrated Demand Management
IPP	Independent Power Producer
IRP	Integrated resource plan
ISO	International Standards Organisation
JSE	Johannesburg Stock Exchange
King III	King Code of Governance Principles and the King Report of Governance
KPI	Key Performance Indicator
LTIR	Lost Time Injury Rate
MoU	Memorandum of Understanding
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
SAIDI	System Average Interruption Duration Index
SARB	South African Reserve Bank
SARS	South African Revenue Services
TASK	Tunes Assessment of Skills and Knowledge
TMPS	Total measured procurement spend
UCLF	Unplanned Capability Loss Factor

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