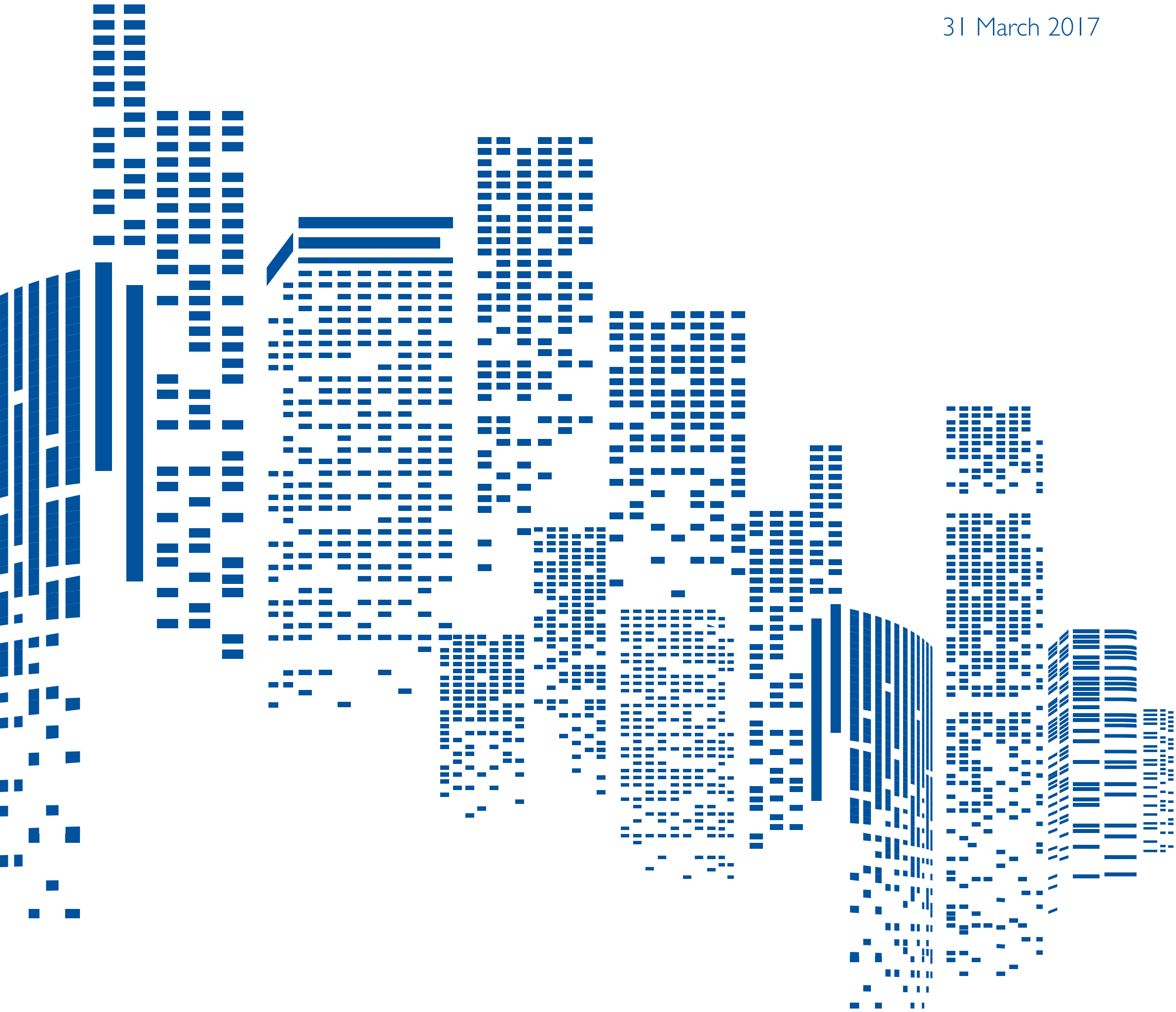
Eskom

Annual financial statements

31 March 2017



Enabling economic growth

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 15 June 2017. The audited financial statements of the group and Eskom as at and for the year ended 31 March 2017 are available for inspection at the company's registered office and on the Eskom website at www.eskom.co.za and were published on 11 July 2017.

Statement of directors' responsibilities and approval

The board of directors (board) is 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 include 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 abovementioned 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 2017 and the cash flow forecast for the 15 months ending 30 June 2018.

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 has 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 2017 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 qualified audit report is presented on page 22. 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 2017 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 by:

Z Khoza
Interim chairman

15 June 2017

A Singh
Chief financial officer

15 June 2017

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 2017.

The role of the committee is defined in its mandate. It covers, among 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 2017 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 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 2018
- regulatory clearing account (RCA) applications for 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. The committee considered in particular the following matters:
  - the restatement in the financial statements as a result of assets transferred from third parties that were not recognised in the correct accounting period
  - valuation of property, plant and equipment; and that no impairment exists
  - valuation and adequacy of long-term provisions
  - the irregular and fruitless and wasteful expenditure reported in terms of the PFMA and the impact thereof on the audit opinion.

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

The committee considered the following:

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

Internal and external audit

The committee considered the following:

- 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
- the quality of the external audit as well as the independence and objectivity of the external auditors including the tenure of the audit firm and the rotation of the engagement partner
- external audit plan, audit budget, actual fee and terms of engagement of the external auditors including adherence to the policy of not allowing the external auditors to provide any non-audit services
- accounting, sustainability and auditing concerns identified as a result of the internal and external audits, including reportable irregularities

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 under the leadership of the senior general manager assurance and forensic are operated effectively
- the combined assurance model is operating 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, supporting the going-concern assumption
- it is satisfied with the audit quality of the external audit as well as the independence and objectivity of the external auditors having considered the matters set out in section 94(8) of the Companies Act

The committee is satisfied, notwithstanding the aspects considered in relation to the annual financial statements, 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 2017 and based on the information provided to it, considers that they comply, in all material respects, with the requirements of the Companies Act, the PFMA and IFRS. The committee concurs that the adoption of the going-concern premise in the preparation of the financial statements is appropriate.

The committee has therefore, at their meeting held on 15 June 2017, recommended the adoption of the financial statements by the board.

Mabude

C Mabude
Chairman (acting)

15 June 2017

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

15 June 2017

Directors' report

for the year ended 31 March 2017

The directors are pleased to present their report for the year ended 31 March 2017.

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. Eskom also purchases electricity from independent power producers (IPPs), as well as buys and sells electricity in the Southern African Development Community (SADC) region.

The company's head office is in Johannesburg. 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

Eskom's turnaround strategy has stabilised the organisation and it has evolved to having excess capacity. The next phase of the strategy will be to grow the business through increased sales and further optimisation of cost thereby minimising the impact of future price increases.

The Design-to-Cost (DTC) strategy aims to move Eskom and South Africa into an era of reliable power supply and excess capacity, while supporting economic growth through moderate price increases. The strategy has been refined during the year and Eskom is ideally positioned to enable the economic recovery of South Africa and drive industrial growth across southern Africa. Eskom delivered on the following objectives:

- ensured reliable electricity supply through improved generation asset performance
- delivered additional capacity from the new build programme
- supported moderate electricity price increases through cost efficiencies across the business
- increased universal access to electricity in South Africa by connecting more than 200 000 new households to the grid
- supported growth in the SADC region by supplying more electricity to neighbouring countries facing drought conditions

Eskom will build on the performance and efficiency improvements and become a more customer-centric organisation that partners with key industrials sectors to increase productivity and electricity consumption to ensure economic growth and job creation.

Eskom is targeting a number of key improvements over the next five years including:

- supporting economic growth by achieving 2.1% growth in local electricity demand by 2020 and 8% growth in export sales by 2021
- reducing primary energy cost by R43 billion through greater efficiencies and industry restructuring
- optimising planned capital expenditure by R25 billion and incorporating a private sector partnership strategy
- driving efficiencies through advanced analytics to achieve a R6 billion EBITDA improvement releasing R105 billion in government guarantees while maintaining a moderate electricity price path

Refer to the integrated report on page 15 for more information.

Financial performance

The group EBITDA of R37.5 billion (2016: R32.8 billion) shows a healthy increase of 14.4% and the EBITDA margin improved further to 21.2% (2016: 20.0%). This improvement is largely due to the electricity price increase of 9.4% and reduced primary energy costs. Even though EBITDA improved substantially, there is a decline in the net profit due to the higher depreciation and net finance cost.

Group revenue amounted to R177.1 billion (2016: R164.2 billion). The electricity sales of 214 121GWh were 0.2% lower than the previous year, although export sales volumes have increased by 12.1% to 15 093GWh (2016: 13 465GWh) mainly due to the drought in southern Africa.

The primary energy costs of R82.8 billion (2016: R84.7 billion) are lower than the prior year. Own generation cost including the environmental levy decreased by 8.5% compared to the previous year with the increase in the purchase cost of coal per ton contained at 3.5%. There was also limited use of the open cycle gas turbines (OCGTs) with R0.3 billion (2016: R8.7 billion) spent on diesel cost. Eskom purchased 11 529GWh (2016: 9 033GWh) at a cost of R19.8 billion (2016: R15.1 billion) from IPPs, reflecting an increase of 30.8% compared to the previous year. The average cost increased to 188c/kWh (2016: 171c/kWh) as proportionately more energy was procured from renewable IPPs at a higher cost than the other IPPs.

The purchase price in the contracts entered with IPPs over the next 15 to 20 years exceeds Eskom's short-run marginal cost and the average price of electricity. Eskom will continue to engage with government and relevant stakeholders to manage the financial and liquidity risks relating to the IPP programme and mitigate any unintended negative impact on Eskom.

The employee benefit expenses increased by 13.4% to R33.2 billion (2016: R29.3 billion). Other operating expenses increased by 26.3% to R23.6 billion (2016: R18.7 billion) and were negatively impacted mainly by the increase in decommissioning provisions relating to the coal mines.

Depreciation increased to R20.3 billion (2016: R16.6 billion) mainly as a result of new plant that was put into commercial operation.

The net fair value loss on financial instruments, excluding embedded derivatives, was R3.3 billion (2016: R1.5 billion). The loss arose as a result of fair value adjustments on derivatives held for risk management offset by gains on the revaluation of foreign borrowings mainly as a result of the appreciation of the rand against foreign currencies.

Changes in the fair value of embedded derivatives continued to impact the group with a fair value gain of R1.6 billion (2016: R1.0 billion) as a result of foreign exchange rate movements, changes in aluminium prices and the unwinding of volumes and interest.

Net finance cost increased by 81.6% to R14.4 billion (2016: R7.9 billion) because of increased finance costs relating to borrowings and provisions as well as a reduction in borrowing cost capitalised due to plant brought into commercial operation.

The group achieved a net profit after tax of R0.9 billion (2016: R5.2 billion) for the year.

Refer to the integrated report on page 74 for more information.

Funding

The group's net cash inflow from operating activities was R45.8 billion (2016: R37.2 billion) for the year, reflecting an increase of 23.1%. The liquidity position, comprising cash and cash equivalents plus investment in securities, was R32.5 billion (2016: R38.7 billion) at 31 March 2017. Eskom also has an additional R6.3 billion committed bank facilities available. The group therefore has access to adequate resources and facilities to continue as a going concern for the foreseeable future.

The board approved a revised borrowing programme of R338 billion for the period 1 April 2017 to 31 March 2022. National Treasury extended the current government guarantee framework agreement to 31 March 2023 thereby enabling Eskom in obtaining its required funding. A total of 53% (excluding the current cash and cash equivalents) of the funding requirement of R71.7 billion for the 2018 financial year has already been secured. Potential funding sources have been identified and plans are in place to secure the rest of the required funding.

Standard & Poor's downgraded Eskom's foreign and local currency credit ratings while Fitch only downgraded Eskom's local currency credit rating during the 2017 financial year. Both rating agencies further downgraded Eskom in April 2017. Moody's also downgraded Eskom's rating to a negative outlook on 13 June 2017.

Eskom was not severely impacted by the credit rating downgrades but may be impacted with increased funding cost in the future, even though the current market conditions remain constructive for funding.

Refer to the integrated report on page 90 for more information.

Economic regulation

NERSA granted Eskom a price increase of 2.2% for 2018. Eskom will focus on further internal cost efficiencies and sales growth programmes to mitigate the shortfall of the below inflation price increase.

Eskom submitted the 2015 regulatory clearing account (RCA) application of R19.2 billion to NERSA in May 2016, while the 2016 RCA application of R23.6 billion was submitted in July 2016. The 2017 RCA application will be submitted in July 2017.

The High Court of South Africa set aside NERSA's decision regarding the 2014 RCA on 16 August 2016 and remitted it back to NERSA. NERSA and Eskom were granted permission to appeal the decision. The court case was held on 4 May 2017 and the Supreme Court of Appeal upheld NERSA and Eskom's appeal on 6 June 2017. Eskom is awaiting feedback from NERSA on the way forward regarding the RCA applications.

NERSA approved Eskom's request for a single-year price increase application for 2019. Eskom submitted a one-year application on 19 April 2017 for consultation to National Treasury and South African Local Government Association. Eskom made a formal application to NERSA on 9 June 2017 and is expecting NERSA's determination before 31 December 2017 for implementation on 1 April 2018.

Refer to the integrated report on page 87 for more information.

Debt management

Arrear municipal debt (including interest) increased from R6.0 billion in 2016 to R9.4 billion at 31 March 2017 and remains unacceptably high despite numerous interventions. The Soweto arrear debt (excluding interest) increased to R5.3 billion (2016: R4.7 billion) at 31 March 2017.

Eskom will continue to implement technologies to prevent tampering with meters and to facilitate the conversion of post-paid customers to prepaid. Eskom is currently installing prepaid meters in Sandton, Midrand, Soweto and Kagiso. Eskom installed 29 599 smart meters during the year in these areas and 13 255 meters were converted to prepaid split metering. Eskom is also engaging with municipalities in two provinces to implement a pilot project to install prepaid electricity meters for their customers.

Refer to the integrated report on page 38 for more information.

Operating performance

The energy availability factor (EAF) improved from 71.07% to 77.30% for the year, exceeding the target of 72.00%. Particulate emissions of 0.30kg/MWhSO improved on the 2016 performance of 0.36kg/MWhSO. Water usage related to power station operations for the year was 1.42ℓ/kWhSO, better than last year's performance of 1.44ℓ/kWhSO.

The combination of improved plant performance, stagnant demand growth and an increase in IPP capacity is expected to result in excess generation capacity over the medium term. Eskom will consider options to manage any surplus generating capacity, including placing units in cold reserve or lean preservation (where units can be fully recalled to meet demand). Any decision to decommission power stations will only be made as a last resort in a way that optimises coal, people and capital costs across the fleet.

The transmission system minute <1 performance target was achieved with a performance of 3.80 (2016: 2.41), notwithstanding the negative impact of a few relatively large incidents involving plant failures during the year and a 1.60 (2016: 1.51) line faults per 100 km performance was achieved against a target of 2.2. The frequency and duration of distribution network incidents were better than target, with interruption frequency showing an improvement from 2016.

The KeyCare and Top Customer KeyCare measures, which measure the satisfaction of large industrial customers, improved during the year.

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 during the year. The number of contractor and public fatalities reduced compared to 2016. Unfortunately, despite Eskom's intense commitment to safety, there were four (2016: four) employee and six (2016: 13) contractor fatalities.

Refer to the integrated report on page 42 for more information.

Capacity expansion programme

Eskom continues with the building of new power stations and high-voltage power lines to meet South Africa's energy demand.

All four units of the Ingula power station achieved commercial operation during the year and Medupi power station unit 5 achieved commercial operation on 3 April 2017. Kusile power station unit 1 was synchronised on 26 December 2016 and Medupi power station unit 4 on 31 May 2017.

During the year, 585.40km of high-voltage transmission lines were installed and substation capacity of 2 300MVA was installed and commissioned, bringing the total since inception capacity expansion programme to 6 747km transmission lines and 34 390MVA substation capacity.

Eskom's Integrated Strategic Electricity Plan (ISEP), completed in March 2017, provides a long-term view of the future generation expansion plan for the country comprising an optimal mix of generation technologies until 2050 to meet customer demand and environmental requirements. ISEP shows a need for new base-load plant by 2028 and a total of 23 700MW is required by 2050 from coal-fired and nuclear plants.

Eskom proceeded with several nuclear programme developments as the majority owner and operator of proposed nuclear power plants in terms of the 2008 Nuclear Energy Policy. The procurement status of the proposed nuclear power plants was granted by the Department of Energy and NERSA in December 2016, but was however set aside by the Western Cape High Court ruling in April 2017 regarding the process followed. All current nuclear procurement activities have therefore been suspended.

Eskom electrified 207 189 (2016: 158 016) households during the year. Eskom aims to ensure universal access through one million electrification connections over the medium term.

Refer to the integrated report on page 53 for more information.

Performance in terms of the shareholder compact

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

Key performance area	Key performance indicator	Note	Unit	Target 2017		Actual 2017	Actual 2016
Focus on safety	Employee lost-time injury rate (excluding occupational diseases) (LTIR)		index	0.30	🟢	0.29	0.28
Improve operations	Planned capability loss factor (PCLF)		%	10.00	🟢	12.14	12.99
	Energy availability factor (EAF)		%	72.00	🟢	77.30	71.07
	System average interruption duration index (SAIDI)		hours	39.00	🟢	38.90	38.60
	System average interruption frequency index (SAIFI)		number	20.00	🟢	18.90	20.50
	System minutes <1		minutes	3.80	🟢	3.80	2.41
Deliver capital expansion	Generation capacity installed and commissioned (commercial operation)		MW	666	🟢	1 332	794
	Distribution capex for strengthening and refurbishment	(a)	R million	3 477	🔴	2 911	2 499
	Transmission lines installed		km	525.00	🟢	585.40	345.80
	Transmission transformer capacity installed and commissioned		MVA	1 800	🟢	2 300	2 435
Compliance capital investments	N–1 compliance – new build		R million	2 024	🟢	3 917	n/a
	Environmental compliance		R million	95	🟢	328	n/a
Reduce environmental footprint in existing fleet	Relative particulate emissions		kg/MWh sent out	0.35	🟢	0.30	0.36
	Water usage	(b)	ℓ/kWh sent out	1.38	🔴	1.42	1.44
Implementing coal haulage and the road-to-rail migration plan	Migration of coal delivery volume from road to rail	(c)	Mt	14.60	🔴	13.20	13.60

Performance in terms of the shareholder compact (continued)

Key performance area	Key performance indicator	Note	Unit	Target 2017	Actual 2017	Actual 2016
Ensure financial sustainability	Average debtors days – municipalities		days	60.99	53.25	42.93
	Average debtors days – top customers	(d)	days	15.32	15.34	15.51
	Average debtors days – large power users (<100GWh per annum)	(e)	days	16.55	16.78	16.24
	Average debtors days – small power users excluding Soweto	(f)	days	47.70	48.75	48.24
	Operating cost per employee		R million per full time employee	3.64	3.49	3.21
	Cash interest cover		ratio	1.71	1.77	1.69
	Debt/equity		ratio	2.42	2.22	1.71
	Free funds from operations (FFO) as % of gross debt		%	8.21	11.30	10.48
	FFO as a % of capex		%	55.75	74.55	64.13
	Coal purchase		R/ton	416.55	393.29	380.09
	Business Productivity Programme savings		R billion	16.99	20.21	17.45
Human capital	Training spend as % of gross employee benefit costs	(g)	%	5.00	4.89	4.45
	Learner intake		number	685	3 048	1 370
	Disability equity in total workforce		%	2.50	3.01	2.97
	Racial equity in senior management (black employees)	(h)	%	72.00	65.77	60.90
	Racial equity in professionals and middle management (black employees)	(i)	%	78.00	73.60	71.98
	Gender equity in senior management (female employees)		%	36.00	36.69	28.07
	Gender equity in professionals and middle management (female employees)	(j)	%	40.00	36.65	36.01
Economic impact	Local content contracted (Eskom-wide)		%	65.00	73.37	75.22
	Local content contracted (new build program)		%	50.00	85.78	84.04
	Procurement spend with broad-based black economic empowerment		% of TMPS	80.00	100.75	83.08
	Procurement spend with black-owned suppliers	(k)	% of TMPS	40.00	36.98	30.98
	Procurement spend with black women-owned suppliers		% of TMPS	12.00	12.67	17.72
	Procurement spend with black youth-owned suppliers	(l)	% of TMPS	2.00	1.25	0.82
	Procurement spend with suppliers owned by black people with disabilities	(m)	% of TMPS	1.00	0.02	0.01
	Procurement spend with qualifying small enterprises	(n)	% of TMPS	15.00	7.67	4.03
	Procurement spend with exempted enterprises	(o)	% of TMPS	15.00	10.15	4.81
Technology transfer	Acquisition of intellectual property		R million	25	31	54
	Skills development		number of people	20	54	29
	Job creation		number of people	30	69	54

The reasons for the target not being achieved are discussed below:

Key performance area	Key performance indicator	Note	Target 2017	Actual 2017	Reason
Deliver capital expansion	Distribution capex for strengthening and refurbishment	(a)	3 477	2 911	The lower capex spend was mainly due to challenges with unsatisfactory contractor performance, delays in securing servitudes and wayleaves as well as community unrest that hampered the construction progress
Reduce environmental footprint in existing fleet	Water usage	(b)	1.38	1.42	The higher water usage was as a result of dry and hot weather conditions as well as lower load factors and inefficiencies at some power stations
Implementing coal haulage and the road-to-rail migration plan	Migration of coal delivery volume from road to rail	(c)	14.60	13.20	The target was not achieved as less coal was produced due to heavy rains. The performance was also influenced by infrastructure failures caused by cable theft, faulty signal equipment and tippler breakdowns
Ensure financial sustainability	Average debtors days – top customers	(d)	15.32	15.34	These targets were not achieved due to the average payments levels that deteriorated marginally during the year as a result of adverse market conditions
	Average debtors days – large power users (<100GWh per annum)	(e)	16.55	16.78	
	Average debtors days – small power users excluding Soweto	(f)	47.70	48.75	
Human capital	Training spend as % of gross employee benefit costs	(g)	5.00	4.89	The target was not met due to the reduction in manpower costs in line with the DTC strategy
	Racial equity in senior management (black employees)	(h)	72.00	65.77	These targets have not been met, even though good progress has been made since the previous year, because of the DTC strategy that limited recruitment opportunities
	Racial equity in professionals and middle management (black employees)	(i)	78.00	73.60	
	Gender equity in professionals and middle management (female employees)	(j)	40.00	36.65	
Economic impact	Procurement spend with black-owned suppliers	(k)	40.00	36.98	The attributable spend with these suppliers and enterprises was below target mainly due to the implementation of the new B-BBEE Codes of Good Practice and exclusion of procurement spend elements that can no longer be considered when calculating the TMPS
	Procurement spend with black youth-owned suppliers	(l)	2.00	1.25	
	Procurement spend with suppliers owned by black people with disabilities	(m)	1.00	0.03	
	Procurement spend with qualifying small enterprises	(n)	15.00	7.70	
	Procurement spend with exempted enterprises	(o)	15.00	10.14	

Risks

Eskom's risk profile has changed significantly in recent years, driven by challenges associated with the regulatory uncertainty, inadequate electricity price increases, credit ratings downgrades, stagnant local sales growth, surplus electricity capacity, increasing cost of IPPs and financial constraints that are affecting the ability to sustain operations.

Refer to the integrated report on page 83 for more information.

Governance

Changes to board of directors

In terms of the Eskom Memorandum of Incorporation, the board shall consist of a minimum of three and maximum of 15 directors with the majority being non-executive directors. There are currently four non-executive directors and one executive director (chief financial officer). It is expected that appointments to the board will be made at the annual general meeting.

The following directors resigned during the year or after year end:

Name	Date of resignation
Mr Romeo Kumalo	12 April 2016
Ms Mariam Cassim	14 April 2016
Ms Nazia Carrim	30 June 2016
Ms Viroshini Naidoo	30 June 2016
Mr Mark Pamensky	25 November 2016
Mr Brian Molefe	31 December 2016
Ms Venete Klein	12 May 2017
Dr Ben Ngubane	12 June 2017

Changes to the executive committee

There have been a number of changes to the executive committee (Exco).

Mr Brian Molefe resigned as a director and retired as the group chief executive (GCE) effective from 31 December 2016.

Mr Matshela Koko served as the interim chief executive from 1 December 2016 to 14 May 2017. The board has provided the shareholder with a list of names for an interim group chief executive and await the final decision. This will in all likelihood follow with another process for the recruitment and appointment of a permanent GCE.

Ms Elsie Pule was appointed as group executive: human resources and Mr Sean Maritz as group executive: information technology effective from 1 June 2016.

Mr Willy Majola was appointed as acting group executive: generation from 1 January 2017. Mr Abram Masango was appointed as group executive: office of the group chief executive and Mr Prish Govender as acting group executive: group capital from 22 March 2017.

Internal control and combined assurance

The board, through the audit and risk committee (ARC), ensures that internal controls are effective and adequately reported on for auditing and regulatory purposes. Eskom applies a combined assurance model in line with the King report on corporate governance to ensure coordinated assurance activities. This model gives the ARC 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 ARC.

PFMA compliance

The independent auditors raised a qualification as the completeness of the irregular expenditure could not be assessed as they were unable to obtain sufficient appropriate evidence timeously to confirm the irregular expenditure in note 52 of the financial statements, noting that the monitoring, reviewing and reporting process has not been adequately designed.

The board noted the findings regarding the irregular expenditure. The root causes of the findings can be categorised mainly into people, process, systems and governance categories. A detailed action plan has been developed to address the specific audit findings in the immediate future while also ensuring that in the longer term, an overall improvement in processes is put in place to avoid the reoccurrence of similar incidents. The details of the PFMA improvement plan are included in the governance review report.

Events after the reporting date

For a description of events after the reporting date refer to note 48 of the annual financial statements.

Eskom governance reviews of procurement processes

Background

The board proactively embarked on a comprehensive review of various reports and matters raised pertaining to perceived governance issues. The reviews did not cover the organisation as a whole, but rather dealt with specific processes, namely procurement and contract management. Furthermore, the areas of focus did not include an end-to-end evaluation of the entire procurement processes, nor did it cover all transactions.

There have been a number of Eskom reviews during the past few years. The following reports relating to procurement and aspects of governance at Eskom have been issued during the period 2015 to 2017:

- investigation into the status of the business and challenges experienced by Eskom; Dentons, 2 July 2015
- State of Capture; Public Protector of South Africa, 4 October 2016
- Coal Quality Management Review; PwC, 26 November 2015
- report on the verification of compliance with National Treasury norms and standards during appointment of Tegeta Exploration and Resources (Pty) Ltd by Eskom; National Treasury (Draft 1: 12 April 2016 and Draft 2: 5 April 2017)

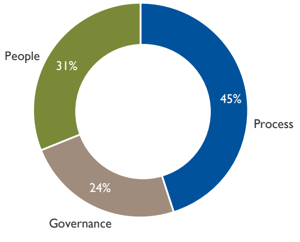
The total value of contracts forming part of the various reports is estimated to be R3.9 billion, R10.3 billion and R424 million for 2015, 2016 and 2017 respectively which translates to approximately 1.28%, 5.26% and 0.15% of the total contracts entered into for the respective years. While these reports covered significant aspects of Eskom's business, it has to be noted that the scope did not cover the entire procurement control environment and therefore the findings and observations should be read in context.

The State of Capture and the National Treasury reports are currently being contested as there is an overlap in terms of the reviews and the recommendations are not conclusive. The control issues that were identified in these reports have been linked to similar control issues identified in the other reports.

The total number of issues identified from these reports was 135 of which 89 were recommended (excluding 14 as included in reports contested) for improvement in the business.

The issues are categorised as relating to governance, people and processes. The common issues within each subcategory were the basis of decisions, conflicting roles and operational effectiveness of controls.

The graph below illustrates the percentage composition of the issues identified in the reports:



The remedial actions only includes those governance issues in the State of Capture and National Treasury reports that are not contested. The recommendations in the two uncontested reports have been implemented in full.

In the interests of continuous improvement and good governance management has and will continue to implement remedial measures to improve the control environment under the oversight of the ARC. Some of the significant improvements made in the intervening period include enhancements of:

- the procurement and policy process
- proactive assurance on significant procurement transactions especially in coal related procurement
- declaration of interest process

The table below sets out the summary of the procurement process issues per control area within

● System of control is adequate/effective
● Some control deficiencies identified
● Components of system of control are ineffective

Control area	Issues identified Number	% of total	Rating after remediation
Coal procurement	31	23	●
Non-coal procurement	26	19	●
Coal contract management	34	25	●
Non-coal contract management	9	7	●
Poor documentation management	4	3	●
Capital projects	7	5	●
Finance	4	3	●
Stakeholder management	1	1	●
Generation	5	4	●
Governance	14	10	●
	135	100	

The 135 issues span across the following control areas with 25% relating to contract management (coal) and 23% on coal procurement. Eskom is actively engaging business and improving business processes to ensure continuous improvement in areas of contract management, coal procurement and procurement governance.

Eskom governance reviews of procurement processes (continued)

Background (continued)

Some successes have been achieved in the primary energy area to allow the business to target a lower annual escalation. Eskom will implement a number of strategic initiatives, which include:

- assessing cost-plus mine capital requirements to resolve the recapitalisation backlog and to enable mine delivery against agreed performance
- negotiating improvements in fixed-price short-, medium- and long-term contract pricing
- engaging coal contractors proactively to avoid potential penalties
- optimising logistics to ensure cost-efficiency improvement
- continue implementing least cost dispatch

To mitigate this exposure, Eskom has over time improved coal quality monitoring, assurance and risk transfer. A number of changes are being considered and will be implemented for all new and renegotiated contracts. These changes are as follows:

- conduct coal quality certifications at the receiving power stations by Eskom appointed and managed laboratory contractors instead of pre-certification occurring at suppliers
- withholding of supplier payments where the quality of coal delivered does not meet contractual specifications
- upfront payment of a quality deposit by suppliers to Eskom

The table below sets out the overall procurement process rating

🟢 System of control is adequate/effective
🟡 Some control deficiencies identified
🔴 Components of system of control are ineffective

Control area	Overall procurement life-cycle rating by assurance and forensic department
Procurement governance and compliance	🟡
Master data management	🟢
Strategic sourcing	
Identifying sourcing projects	🟢
Identify suppliers	🟢
Running sourcing events	🟢
Evaluate responses	🔴
Select suppliers	🟡
Requisitioning/order/receipt of goods and service	
Requisitioning	🟢
Receipt of goods and services	🟢
Supplier performance	🟡
Payment	
Invoicing and payment	🟢
Spend analysis	🟢
Contract management	
Negotiate contract	🟢
Contracting	🟡
Manage	🟡

Way forward

The independent review covered significant aspects of Eskom's procurement process and even though it did not cover the entire control environment, it was concluded that the system of control was adequate and/or effective to enable Eskom to achieve the related business objectives.

Contract management

The board recognises that while significant improvement has been realised there are still areas that require ongoing attention to improve aspects of contract management in a sustainable manner. The initial objectives of the contract management improvement programme will focus on the following key pillars:

Skills, competency and organisational structure

Enhance and develop key skills and competencies in the organisation through continuous training and development. Emphasis of compliance to procedures entrenched with a more effective procurement organisational structure.

Transparency on contract data

Create a central transparency on all contract-related matters ranging from keeping track of the latest contract document (including addendums) as well as all contract-related claims and change management events.

Transparency on contract performance

Create transparency on contract performance (eg delivered coal qualities, delivery timelines) and on consequences triggered by the related contract.

Contract enforcement

Central coordination of enforcing the contract (eg applying pre-agreed incentives and penalties) including feedback-loops of contract/ contractor performance into later procurement actions.

Fraud protection

Establish centrally coordinated approach of fraud detection and fraud protection in international benchmark issues.

Contract management training

Providing training to end users on how to handle and enforce contracts and how to effectively ensure fraud protection.

The contract management improvement programme is as follows:

Phase 1
(July – December 2017)
- Consolidating existing decentralised transparency on all
Eskom's major contracts into a central repository
- Improving fraud detection and fraud protection

Phase 2
(January – June 2018)
- Focus on obtaining contract performance data and comparing that with both the contractor and the employers obligations

Phase 3
(July – December 2018)
- Continuous collection of contract performance data
- Fraud protection will be put into operation
- Creating a stable contracting operating model

Phase 4
(January – June 2019)
- Ensuring sustainability
- Contract owners and contract operators will be trained on new standards

These areas have been prioritised and it is envisaged that a two-year programme will deliver sustainable improvements that will not only elevate Eskom's contract management practice to global best practices but also deliver significant economic value in the form of reduced contract execution costs.

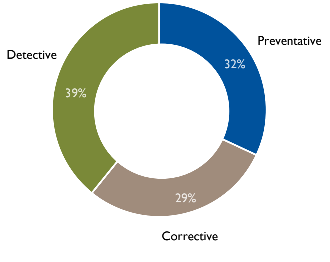
To enhance monitoring of ethics, setting the appropriate tone from the top with applicable consequences is required. This will be achieved by:
- the board and senior management confirming their commitment to an ethics and fraud risk management program in a document made available to all employees, vendors and customers
- the way that Eskom management reacts to instances of unethical behaviour and fraud in order to send a powerful message that acts as a strong deterrent to such behaviour
- requiring employees to periodically confirm their understanding of the code of conduct
- enforce a consistent and fair consequence management across the different organisation and occupational strata
- consider implementing a risk based declaration of interests or conflicts disclosure for high risk and senior category occupations (ie top 400 and all supply chain employees could declare quarterly as opposed to annually)

PFMA reporting

An improvement plan was developed to address PFMA compliance relating to the information in note 52 of the annual financial statements.

The dominant root cause of the control deficiencies is people-related. Focused discipline is also required for closing out corrective action as many of the findings are recurring from the previous financial period. In order to turn the situation around management will direct focus on training and disciplined execution. Management will also focus their effort and attention to enhance monitoring and agility, to the changing legislative requirements. The system and processes are determined to be adequate in the majority of the cases.

Controls for implementation are as follows:



Eskom governance reviews of procurement processes (continued)

PFMA reporting (continued)

The PFMA compliance improvement programme is as follows:

Description of event	Immediate actions	By when	Long-term actions	Assurance and Forensics department actions
Misuse of the quality management panel – placement of contracts without the necessary delegation and procurement procedures not followed	• Two employees have been dismissed (one is a senior manager) • A criminal case was opened with the South African Police Service to investigate possible fraudulent transactions • Civil action against Eskom by one of the main suppliers is being defended • A fidelity claim has been lodged in terms of a commercial crime insurance policy with a cover limit of R3 billion for losses arising from fraudulent or dishonest acts committed by employees. This claim will be concluded once the legal matters have been finalised	Sep 2017	• Improvement in the monitoring of performance by the SHEQ panel service providers with regular inspections and enforcement of consequence management for poor or ineffective delivery • Effective segregation of duties • Reconciliation of task orders to scope, budget, timesheets, invoices and payments, with approval of timesheets by project managers on site • Limiting of long-term task orders and close monitoring of performance to ensure resources are not idle nor unproductive • Training of employees on effective electronic documentation management	• Proactively review the effectiveness of the implementation plans once completed
Awards made to foreign suppliers without having declared their tax status (eg tax clearance certificates etc) – the group commercial department did not communicate the new National Treasury instruction relating to the tax requirement timeously resulting in contracts concluded with foreign suppliers who did not meet the National Treasury tax requirements	• The foreign contracts relating to these transactions have been identified. The buyers will seek condonation for these transactions at the respective tender committees	Aug 2017	• All foreign suppliers to comply with the latest instruction issued in 2017, which requires suppliers to submit various documents to demonstrate compliance to tax requirements. This will be part of the mandatory tender returnables and suppliers who do not comply will be automatically disqualified should they not meet the requirements before the contract is awarded • Compliance section within risk and governance draw up monthly a list of all new foreign established contracts and provide this list to the respective sourcing managers for action and review. The general managers will provide feedback at monthly Manco	• Perform monthly data analytics designed to identify non-compliance and report these findings to management for the purpose of establishing remedial action timeously. This is in addition to the normal audits to determine adherence to management commitments indicated. This will be done monthly commencing July 2017
Various instances non-compliance to the procurement procedure not reported in the PFMA as irregular, mainly relating to splitting of orders and non-declaration of interest	• Buyers to seek condonation • Large purchase order buyers who have transgressed the rules will have their system access suspended and undergo refresher training. Access will be reinstated once training has been completed	Aug 2017	• Where non-compliance is detected, the buyer's access to SAP will be suspended immediately. Access will only be granted after refresher training is complete. Where there is a repeat non-compliance, relevant disciplinary action will be taken	• Perform monthly data analytics designed to identify non-compliance and report these findings to management for the purpose of establishing remedial action timeously. This is in addition to the normal audits to determine adherence to management commitments indicated. This will be done monthly commencing July 2017

Dentons report

Background

The report was published in July 2015 and covers the period April 2015 to July 2015.

This review needs to be considered in the context and the time in which it was initiated.

11 Dec 2014
New board appointed

11 March 2015
Resolution by the board to conduct investigation

20 April 2015
Dentons commence with investigation

25 June 2015
Dentons presented preliminary findings to the board
Board's response: provided information needed by board, no further investigation needed

3 July 2015
Draft report

6 July 2015
Executive summary

9 July 2015
Presentation on report made by Eskom to the Minister of Public Enterprises

21 July 2015
Final report received by the ARC

14 August 2015
ARC recommendations tabled at special board meeting

The board had initiated the review by Dentons as the company was facing generating capacity constraints which resulted in systemic load shedding for the country. This coupled with slower than anticipated new build delivery progress, deteriorating generating plant performance and increasing costs had caused concern for the business.

Eskom was also facing challenges in raising funding resulting in a liquidity risk and a crisis declared in January 2015 with an associated emphasis of matter in the audit opinion in the 2015 annual financial statements.

The objective of the review was to obtain an independent and unfettered view regarding the credibility and correctness of information that Eskom's executive management provides in its reports as it relates to:
- poor performance of generation plant
- delays in bringing the new build assets online
- high costs of primary energy
- financial challenges
- integrity of procurement processes and compliance with legislation and policies
- contract management

The Dentons report made 61 recommendations to strengthen processes across Eskom which spanned across capital, commercial, finance, generation and security.

As part of the conditions attached to the government equity injection, the Dentons report was submitted to the Ministers of Finance and Public Enterprises in December 2015.

Eskom assurance and forensic department has reviewed and provided assurance on the implementation of the recommendations.

Issues identified in the report

It was found that Eskom has documented policies and procedures, but the Dentons report highlighted the execution and compliance with policies and procedures as a problem in the business.

The majority of the 61 recommendations identified by Dentons related to the procurement process.

The graph below demonstrates the focus of the recommendations identified in the report by division:

Procurement	27	• Increase knowledge of procurement processes, strengthen current processes and ensure processes are consistently applied
Finance	5	• Understand drivers of historic cost and develop plans to mitigate these • Ensure reporting lines are maintained • Manage liquidity risk
Generation	8	• Ensure an effective maintenance strategy that is frequently reviewed • Ring-fence maintenance funding
Group capital	13	• Develop internal skills to plan and manage projects • Ensure adequate legal resource allocation
Security	8	• Ensure collaboration within divisions and with external stakeholders (eg SAPS) • Develop an IT security policy
Total	61	

Eskom governance reviews of procurement processes (continued)

Dentons report (continued)

Issues identified in the report (continued)

Stakeholders raised the following issues regarding the Dentons report:

Issue	Comment
There was supposedly more than one version	It is normal with investigative processes that reports produced during the life cycle of the review will change as evidence is gathered which results in the final report at the conclusion of the process
Eskom provided an edited version of the report	Legal counsel advised that the report be released within the Promotion of Access to Information Act process so that third parties can have the opportunity to indicate and justify why information as it may relate to them should not be released as part of the report
The release of the report was delayed with ulterior motives	The board did not deem it in the interest of Eskom to release the report to ensure that employee morale was maintained and focused on the implementation of the recommendations which became part of the turnaround strategy
The investigation was stopped prematurely	The board was of the view that the information in the interim report had realised the objectives of the investigation and that there was no need to continue the investigation. The investigation had confirmed the original assessment of the board relating to the problem areas of the business

Progress

Dentons made 61 recommendations and Eskom has implemented all of these recommendations

Significant shareholder value has been derived from the review as evidenced by the improved performance which stemmed from the turnaround strategy. Key successes achieved to date include:

- no load shedding for more than 22 months
- EAF of 77.3% compared to 69%
- excess capacity of approximately 5600MW
- new build delivering ahead of revised schedule – contributing in excess of 2900MW
- significant improvement in profitability of the group as measured by EBITDA performance
  - improvement of 37% in EBITDA from R24 billion (2015) to R32 billion (2016)

The funding requirement for the 2017 financial year has been secured which reasserted the improved financial position to the auditors. This has avoided any possible emphasis of matter qualification on the going concern assessment this year.

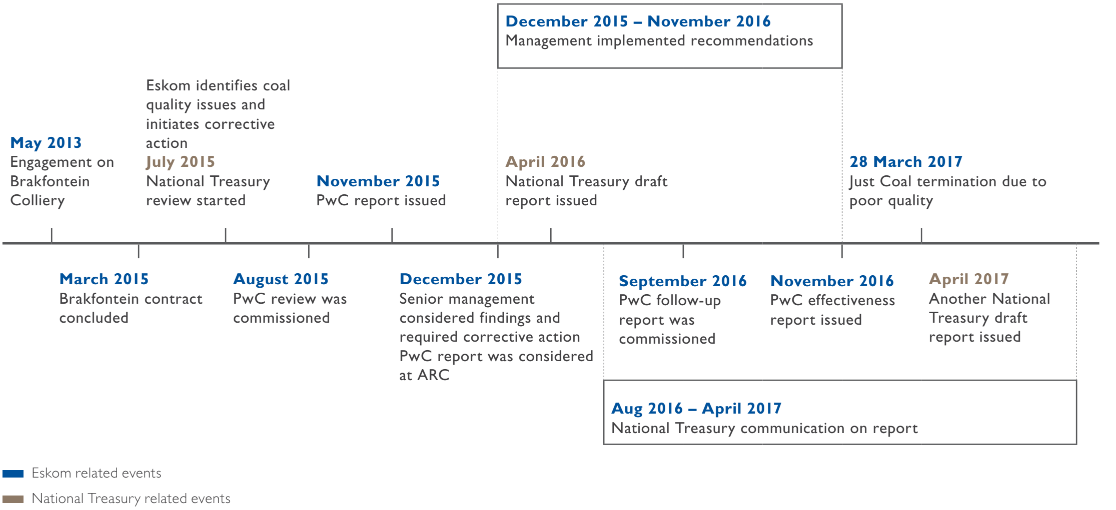
There are ongoing initiatives to improve contract management in the organisation.

Retrospectively the one lesson learnt is that it would have been useful to share the report with a wider range of stakeholders earlier to avoid unnecessary speculation.

PricewaterhouseCoopers (PwC) report

Background

The report was published in November 2015 and an effectiveness report in November 2016.



Eskom has experienced numerous coal quality challenges with various suppliers including long-term tied collieries. Eskom coal costs and contracts have been subject to numerous reviews, both internally and externally, and the timeline is indicative of the main reviews noted in this feedback. In addition, coal costs have increased by more than 15% per annum over the past five years.

The significant increase is attributable to poor performance of cost plus mines and increased medium-term contracts concluded at higher prices due to increased exports. This increase in the cost of coal had a direct impact on the required tariff that Eskom charges its customers in the recent past.

PwC was appointed in 2015 by Eskom to address concerns related to the quality of coal supplied. The review included the process of appointment relating to coal suppliers as well as the coal quality management processes that related to pre-certification of coal quality and Eskom contracted laboratories. The review was across four suppliers namely, Keaton Mining, Tshedza Mining, Universal Coal and Tegeta Exploration and Resources.

The review included identifying the areas of non-conformance, assessing the adequacy of existing protocols and guidelines and developing a "blueprint", including suggested areas for improvements to existing controls to enhance effectiveness.

Issues identified in the report

The graph below demonstrates the focus of the 32 issues identified in the report by category:

Contract management – coal	11	• All processes for coal contracting must be compliant with Eskom procedure
Procurement process – coal	11	• Compliance to processes must be strictly monitored
Procurement process – non-coal	5	• Compliance to processes must be strictly monitored for both coal and non-coal procurement
Document management	4	• Adequate safeguarding of documentation processes
Governance	1	• Oversight on negotiations must be enhanced
Total	32	• All coal supply processes to adhere to the coal procurement strategy/governance requirements

Outcomes and consequences of coal quality issues identified by internal and external audits include:

Date	Event	Outcomes and consequences
July 2015	• Tegeta coal quality concern raised	• Collusion between laboratories and Eskom employees • Tegeta coal was rejected unjustifiably based on reports from laboratories • Tegeta coal supply agreement reinstated • One employee was disciplined and employment contract terminated • One employee still following disciplinary processes • Remaining two employees returned to service • One laboratory returned to service • Services with the other laboratory were terminated
August 2015	• Tegeta coal supply agreement suspended due to quality concerns • Two laboratories suspended • Four employees suspended	
October 2015	• Internal and external audits conducted at the two laboratories	
November 2015	• Non-conformances communicated to one laboratory to correct	
February 2015	• Suspension of one of the laboratories lifted	

Eskom governance reviews of procurement processes (continued)

PricewaterhouseCoopers (PwC) report (continued)

Progress

There have been 28 recommendations established from the 32 issues identified. All of the 28 recommendations have been implemented.

The graph below demonstrates the focus of the recommendations identified in the report by category:

Contract management – coal	9	• All processes for coal contracting must be compliant with Eskom Procedure
Procurement process – coal	10	• Compliance to processes must be strictly monitored
Procurement process – non-coal	5	• Compliance to processes must be strictly monitored for both coal and non-coal procurement
Document management	3	• Adequate safeguarding of documentation processes
Governance	1	• Oversight on negotiations must be enhanced
Total	28	• All coal supply processes to adhere to the coal procurement strategy/governance requirements

Eskom commissioned PwC in 2016 to return and assess the progress against implementation of the recommendations made in 2015. Based on the assessment conducted to date the controls were considered to be adequate and no material gaps were identified.

The following shareholder value was derived:

- total primary energy costs are 2.3% lower than the previous year compared to an average increase of 18.8% over the last five financial years, reversing a significantly negative trend
- coal purchase cost per ton increase was contained to 3.5% which is well below the inflation rate of 6%
- to ensure optimal generation costs Eskom continues to apply the least-cost merit order dispatch of power stations
- coal costs were managed within target and stringent measures implemented to monitor coal quality
- current coal contracting discussions are aligning coal pricing and escalations in line with NERSA coal cost determinants
- coal quality-related load losses reduced by 43% compared to prior year, improving plant availability
- the expected coal requirement of 89% for 2018 to 2022 has been secured
- Eskom continues to manage the price of coal and any emanating risks by engaging the industry on coal quality, in order to ensure receipt of an optimal coal product at the right price

State of Capture report

Background

The report was published in October 2016.

The State of Capture report emanated from complaints lodged against the President on 18 March 2016 by Father S Mayebe (on behalf of the Dominican Order, a group of Catholic priests), and Mr Mmusi Maimane (leader of the Democratic Alliance and the opposition in parliament).

The report considered procurement (specifically the Tegeta Exploration and Resources (Pty) Ltd (Tegeta) transaction) and governance, for example appointment of the board as well as issues relating to conflicts of interest. The report made no recommendations, but did pose a request for a judicial commission of enquiry. Such a review can be initiated by the President only and not by Eskom. To date no judicial commission of enquiry has been instituted.

The board has complied with its duties to manage conflicts of interest as and when these arose in terms of its applicable policies and governing legislation.

The board complied with its fiduciary duty towards the company:

- all contracts were concluded in line with Eskom procurement policies
- all transactions have a clear commercial rationale

The board acted in the best interest of Eskom in concluding the various business transactions as shown in the table illustrating shareholder value derived which follows.

Eskom continues to manage any emanating risks by engaging the industry on coal quality and pricing in order to ensure receipt of an optimal coal product at the right price. Current coal contracting discussions are aligning coal pricing and escalations in line with NERSA coal cost determinants.

Commercial decisions consider security of supply, risks associated with coal costs, and optimal cost of coal continues to be balanced, ensuring that optimal decisions are made in the interests of Eskom and the South African consumer.

Issues identified in the report

The main issue highlighted in the report related to the basis for decisions made as they relate to contracts awarded to Tegeta and perceived conflicts of interest.

The stakeholder comments raised about the State of Capture report are as follows:

Issues	Comments
Basis of business decisions made	Sound business decisions were taken based on business need and commercial viability of transactions
Conflicts of interest	The board carried out its duty of reasonable care
	Directors are required to declare their interests and are accordingly excluded from associated transactions

The Public Protector had conducted the review during 2016 which resulted in the State of Capture report. During the review, the Public Protector had requested information to which Eskom responded and has fully cooperated throughout the review process. It is noted that Eskom was not given an opportunity to respond to the allegations contained in the Public Protector report.

As previously mentioned, the State of Capture report requested a judicial commission of enquiry. To date, the enquiry has not yet been commissioned and can only be requested by the President and is subject to a court process. Therefore Eskom is not at liberty to provide further information as the matter is *sub judice*.

Progress

In terms of Eskom's analysis of its decision, there has been a significant amount of value with Eskom reviewing its coal contracts.

The following shareholder value was derived:

Issues	Value derived	Real benefit R billion
Hendrina Optimum BRP	The benefit of the Tegeta owned Optimum Colliery compared to the Glencore owned Optimum Colliery is calculated based on the difference between the Tegeta real coal price and the revised Glencore offered price for the period from 1 April 2016 until the contract expiry period on 31 December 2018	3.4
Prepayment for Arnot coal	The financial benefit of this transaction is compared to the export parity price of coal delivered to the Arnot power station	0.1
Prepayment for Arnot coal	Had Eskoms anticipated risk materialised and should Eskom not have purchased the 1.26Mt coal, the extreme worst case would have been to run OCGTs to make up for the production shortfall of 2.2 million MWh	5.5
Arnot contract expiration	At the time of expiry the Coal Supply Agreement (CSA) pricing was R1 132/ton. Exxaro offered to extend the contract at an average price of R737/ton excluding capex and closure costs. The comparative export parity price of coal is much lower	7.7
		16.7

National Treasury report of the Tegeta contracts

Background

The first draft of the report on the Tegeta contracts was published in April 2016 and the second draft in April 2017.

National Treasury initiated a review of contracts awarded to Tegeta which has led to two preliminary reports being issued which were followed by two draft reports. The focus of the report is the procurement process followed by Eskom during the sourcing, contract negotiations and conclusion of the CSA with Tegeta.

Eskom obtained a legal opinion and has discerned that the power of investigation and oversight is aimed at enabling National Treasury to investigate and intervene at a general and system-wide level, not that National Treasury must micromanage the details of an entity's procurement or contract management activities on a case-by-case level.

The conclusions regarding the standard of coal, the price paid for it and enforcement of the provision of the coal contract do not relate to any particular provision of the supply chain management (SCM) framework. Though National Treasury is correct that the concept of SCM is not restricted to what it calls the pre-tender and tender phases, the subsequent (post-tender) phase is not currently the subject of detailed regulation by the SCM framework.

As regards the post-tender phase, the framework is confined to matters such as the prescription of standard contracts. National Treasury is unable to point to any provision of the framework that has been breached.

The same goes to the allegations concerning an alleged breach of environmental laws. As far as is relevant to the SCM framework, this amount to an allegation that Eskom failed to enforce certain provisions of its contract with Tegeta that required drainage tests. Eskom must give due regard to that opinion but cannot, in the event of an intractable dispute as to its correctness, be compelled to give effect to it.

Eskom is a state-owned company and has a duty to comply with the PFMA and to cooperate in good faith with the efforts of National Treasury to monitor such compliance. This is indeed the theme of National Treasury's letter which does not rely on an assertion that National Treasury has any powers of compulsion but rather appeals to Eskom's duty as a good constitutional citizen to cooperate with it in the interests of the sound financial management of public funds. Eskom is not disputing this duty and has cooperated fully with National Treasury's investigation despite its misgivings about aspects of it and its apparent direction.

Eskom governance reviews of procurement processes (continued)

National Treasury report of the Tegeta contracts (continued)

Background (continued)

Consequently the board obtained an additional legal opinion relating to the allegations of irregular and fruitless and wasteful expenditure. The opinion noted the following in this regard:

- the board maintains the primary responsibility for the utility's financial and risk management. It is required to take positive steps to maintain and ensure compliance with its SCM framework, including taking disciplinary steps against any employee who contravenes, makes or permits conduct that is inconsistent with the PFMA or Eskom's internal control systems
- based on the allegations in the National Treasury report that the transactions discussed above constitute either fruitless and wasteful or irregular expenditure, National Treasury has not substantiated such claim
- from the legal assessment of the expenditure incurred by Eskom in respect of the three transactions it is reiterated that:
  - there is no contractual basis for the conclusion that any amount paid in excess of R13.50/GJ must be deemed as fruitless and wasteful expenditure. The base price of coal at R13.50/GJ will fluctuate on a monthly basis with reference to the monthly price of diesel utilised for the mining operation and must not be confused with the cost of transportation of coal by either Eskom or the mine regulated separately from the cost of coal
  - in respect of the price difference of R18.68/GJ as opposed to R19.69/GJ for coal from Tegeta only an expenditure that was "without value" or "without substance" not yielding the desired result is considered to be in vain. In that regard, fruitless and wasteful expenditure contemplates paying for goods or services and receiving no value. In this instance that Eskom derived "value" for the coal actually delivered. It can accordingly not be concluded that the expenditure was fruitless and wasteful expenditure by merely relying on a price difference
- no reference was made by National Treasury to any particular contravention by Eskom of applicable legislation in making the advance payment of R659 558 079. Without any clear contravention of the PFMA read with Treasury Regulations, the medium-term mandate and Eskom SCM Policy it cannot simply be concluded that it was an irregular expenditure
- both National Treasury and the Public Protector have inconsistent views on the nature of the expenditure for the advance payment. The Public Protector observed that the advance payment might be fruitless and wasteful expenditure whereas National Treasury maintains that it amounts to irregular expenditure. The Public Protector recorded with reference to an argument for irregular expenditure that "after evaluating the responses received from Eskom, it is clear that they do have the requisite policies in place which provide for a prepayment of coal to be made. This is in line with various agreements put in place by Eskom after the energy crisis in 2008". The conclusion of the Public Protector is in line with our assessment that the expenditure cannot be irregular if there was compliance with Eskom's policies. However, it also does not mean that the expenditure is fruitless and wasteful expenditure when applying the test aforesaid
- without demonstrating that an employee or official of Eskom contravened legislation, including the Eskom SCM policies, made or permitted expenditure inconsistent with the PFMA or Eskom's internal control systems it cannot be concluded that any financial misconduct was made either wilfully or negligently

Issues identified in the report

Issues highlighted in the reports can be categorised into four areas, namely:

- the award of CSA in terms of 2008 mandate
- pricing of coal
- quality of coal
- advance payment

The graph below demonstrates the focus of the issues identified in the report by category:

Compliance to procurement	11	• Contract award not within the ambit of the procurement process. Perception that preference was given to the supplier
Application of the CSA	13	• The management of the contract lacked in terms of enforcement of certain clauses specifically breach
Advance payment	1	• No evidence that the advance payment was used for the funds intended and should be considered as a loan
Optimum penalty	1	• No evidence that the fine due to poor coal supplied was being settled
Total	26	

Matters raised in the National Treasury report are as follows:

Issues	Comments
The award of the contract to supplier	The medium-term mandate approved in 2008 was based on Eskom's procurement policy at the time, which was compliant to the PFMA. The mandate was granted to mitigate security of supply risk that existed in 2008 that lead to load shedding. A similar process was followed for 33 other suppliers allowed for in terms of the medium-term mandate
Pricing of coal	The price of coal was benchmarked and found to be commercially acceptable. The Tegeta price was compared to 10 other suppliers for both road and rail and appeared reasonable
Quality of coal	PwC report in 2016 confirms that the coal quality process controls are effective
Environmental issues (water use license)	Department of Water and Sanitation has the responsibility to enforce the adherence to water usage license conditions, not Eskom. There are no further obligations as the water usage license as per the CSA is valid and in place
The advance payment	The prepayment was made in terms of the approved 2008 mandate in respect of coal prepayments. Several other prepayments to suppliers have been made since 2008. This enabled Eskom to overcome the winter challenge without load shedding and very expensive diesel usage. A 3.5% discount was negotiated with Tegeta for early payment of 5 months which translates into a 7% annual discount. An internal audit verification conducted revealed that the quantum of the prepayment was fully recovered with coal delivered by Tegeta by 31 August 2016

The overall observations were as follows:

- contract management issues identified by National Treasury have been resolved or where outstanding are in the process of being resolved
- Eskom has complied with National Treasury's SCM framework as confirmed by legal opinion
- Eskom will continue to actively engage National Treasury to address any remaining issues
- coal costs were managed within target, and stringent measures implemented to monitor coal quality
- current coal contracting discussions are aligning coal pricing and escalations in line with NERSA coal cost determinants
- Eskom continues to manage the price of coal and any emanating risks by engaging the industry on coal quality, in order to ensure receipt of an optimal coal product at the right price

Conclusion

Eskom has sucessfully implemented all of the uncontested recommendations. Eskom will continue to engage National Treasury in a constructive way forward to finalise its report.

The control areas after implementation of recommendations indicates that only some control deficiencies were identified.

The rating by the assurance and forensic department of the overall procurement process indicate that the system of control is adequate for the overall procurement process. The processes which require attention are being managed with improvement plans. The board recognises that further improvements are needed particularly as the independent auditors raised concerns regarding the procurement environment.

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

Report on the audit of the consolidated and separate financial statements

Qualified opinion

We have audited the consolidated and separate financial statements of Eskom and its subsidiaries (the group) set out on pages 28 to 116, which comprise the consolidated and separate statement of financial position at 31 March 2017, and the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 31 March 2017, and the group's financial performance and cash flows for the year then ended 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).

Basis for qualified opinion

Irregular expenditure

Section 55(2) (b) (i) of the PFMA requires the entity to disclose in a note to the consolidated and separate financial statements particulars of all irregular expenditure that has occurred during the financial year. The group did not have an adequate system for identifying and recognising all irregular expenditure and there were no satisfactory alternative procedures that we could perform to obtain reasonable assurance that all irregular expenditure had been properly recorded in note 52 to the consolidated and separate financial statements. Consequently, we were unable to determine whether any adjustment was necessary to the balance of irregular expenditure stated at R2 996 million (2016: R348 million) in the consolidated and separate financial statements.

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

We are independent of the group in accordance with the Independent Regulatory Board for Auditors' *Code of professional conduct for registered auditors* (IRBA code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA code is consistent with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (parts A and B).

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, are of most significance in our audit of the consolidated and separate financial statements of the group for the year ended 31 March 2017. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole and forming our opinion thereon. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
Valuation of property, plant and equipment Property, plant and equipment comprise 83% of the total assets and have been disclosed in note 8. The group has significant capital expenditure that is currently being invested in. Capital expenditure, especially assets constructed by the group, requires significant consideration on the nature of the costs in order to adhere to the relevant applicable standard. The board of directors conduct the annual assessment on the depreciation method, useful lives, residual values and impairment of items of property, plant and equipment. The annual assessment involves judgements which include determining the useful lives and residual values of assets where there is no comparable asset in the market and the discount rate applied in discounting future cash flows (and the future cash flows themselves). The significant consideration on the nature as well as the quantum of the capitalised costs make the valuation of property, plant and equipment a key audit matter. In addition to this, the assessment of the depreciation method and estimation of the useful lives, residual values and impairment of property, plant and equipment carry elements of judgement making them key audit matters.	Our audit work included the following: • assessing the nature of costs capitalised to property, plant and equipment to test the validity of amounts • evaluating whether the costs capitalised to property, plant and equipment meet the recognition criteria of the applicable standard • consideration on whether capitalisation of costs to property, plant and equipment ceased when the asset was ready for use as intended by the board of directors • consideration of the appropriateness of the disclosure of property, plant and equipment We challenged the assumptions made by the board of directors in assessing the depreciation method, useful lives, residual values and impairment of the items of property, plant and equipment. Our audit work included: • critical evaluation of the process to assess the depreciation method, useful lives, residual values and identification of impairment indicators, and in particular, that the depreciable amount appears appropriate for assets not yet fully depreciated • review the process to identify items of property, plant and equipment carried at zero or R1 book value and their consideration whether or not to adjust accumulated depreciation and appropriateness of the depreciation policy to that class of asset • assessed the future projected cash flows presented to us with particular reference to the price and quantity of coal, operating costs as well as the discount rates to determine whether they are reasonable and supportable given the current economic climate and expected future performance of the cash generating units • key assumptions challenged include those relating to the level that impairment is assessed, being the smallest identifiable group of assets for which independent cash inflows can be identified We did not identify material issues with the assumptions applied by the directors in assessing the depreciation method, useful lives, residual values and impairment of items of property, plant and equipment.

Key audit matter	How the matter was addressed in the audit
Valuation and completeness of assets transferred from customers	
Assets transferred from customers form part of property, plant and equipment disclosed in note 8. The prior year consolidated and separate financial statements have been restated as disclosed in note 49. The restatement is as a result of a prior year error arising from a lack of standard operating proceduresd for the accounting of certain distribution assets that were developed by third parties and transferred to the group in prior periods. Assets transferred from customers are significant and are recognised at fair value. The retrospective fair value determination of assets transferred from customers is impacted by the availability of historical information. Thus assets transferred from customers are a key audit matter.	Our audit work included the following: • assessed the reasonability of the fair value used to account for assets transferred from customers • performed substantive procedures to test the completeness of assets transferred from customers • considered the appropriateness of the disclosure We did not identify material issues relating to the assets transferred from customers.
Valuation of future fuel supplies	
Future fuel supplies are disclosed in note 10. Future fuel supplies are accounted for by the board of directors based on their judgement of the most relevant applicable accounting standard. The accounting of future fuel supplies is unique as it relates to the group's contractual right to coal arising from the agreement with the coal mines. Future fuel supplies include the costs of mine development, equipment and rehabilitation. The board perform an annual assessment of impairment of future fuel supplies. The annual assessment involves judgements on the discount rate applied in discounting future cash flows. Accordingly, the capitalisation of costs and the estimation of the impairment of future fuel supplies, is a key judgement area and thus a key audit matter.	We critically assessed the basis of recognition of future fuel supplies as well as the evaluation by the board of directors of the standard appropriate to account for the contractual right to future coal arising from the agreements with the coal mines. In addition our audit work included the following: • substantive test of costs capitalised • analysed the projected cash flows to determine whether they are reasonable and supportable given the current economic climate and expected future performance of the cash generating units • obtained evidence on the appropriateness of the discount rate used to discount future cash flows • consideration of the appropriateness of the disclosure of future fuel supplies Where necessary we engaged an independent actuarial specialist to evaluate the work performed by the board's expert which included: • subjecting key assumptions to sensitivity analysis The actuarial specialist's independence and competence was assessed when engaged. We did not identify material issues relating to the capitalisation of costs nor the estimation of impairment of future fuel supplies.
Valuation of trade and other receivables	
Trade and other receivables are disclosed in note 19. There is uncertainty relating to the recoverability of some of the municipalities and Soweto debt. The municipalities and Soweto debt have increased along with the allowance for impairment in comparison to the prior year. Accordingly the estimation of the allowance for impairment of municipalities and Soweto debt is a judgement area and thus a key audit matter.	We assessed the validity of material long outstanding municipalities and Soweto debt by considering payments received after year-end and past payment history. The assessment of the appropriateness of the allowance for impairment for municipalities and Soweto debt comprised: • challenged the appropriateness and reasonableness of the impairment loss indicators and assumptions applied by management • consideration of the duration of outstanding debt • consideration and concurrence of the agreed payment terms • verification of security held • consideration of the completeness and accuracy of the disclosures We did not identify material issues with the valuation of trade receivables and assessment of impairment indicators.

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

Key audit matters (continued)

Key audit matter	How the matter was addressed in the audit
Completeness of provisions Provisions are disclosed in note 29 and 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. In addition the following are inputs applicable in the determination of provisions: • estimation of decommissioning costs of nuclear and other generating plants • estimation of expenditure required to settle present obligation • exchange rate fluctuations • discount rates applied to the projected future cash flows Accordingly provisions are considered a key audit matter.	We challenged the assumptions made in determining the provisions amount. Our audit work included: • analysing the future projected cash flows to determine whether they are reasonable and supportable given the current economic climate and expected future performance • obtained evidence on the appropriateness of the discount rate used to discount future cash flows Where necessary we engaged an independent actuarial specialist to evaluate the work performed by the board's expert which included subjecting key assumptions to sensitivity analysis. The actuarial specialist's independence and competence was assessed. In addition to the aforementioned, our audit work included the following: • testing the effectiveness of controls around the identification and evaluation of the legal proceedings • obtaining external legal confirmation for significant legal proceedings • review of minutes and contractual commitments to identify completeness of provisions • consideration of the adequacy of the disclosure for provisions We did not identify material issues on completeness of provisions.
Valuation of complex instruments The disclosure associated with the valuation of complex instruments is set out in note 6.2 – Fair value measurement and disclosure. Fair value measurement of financial instruments significantly affects profit and loss and disclosure in the consolidated and separate statements. Valuation of some financial instruments requires greater judgement and estimation to determine the appropriate valuation techniques and to source relevant and reliable inputs. Due to the complexity of the actuarial assumptions applied and the quantum of some of these financial instruments, this is considered a key judgement area and thus a key audit matter.	We obtained an understanding of the relevant controls in place to evaluate that correct independent market inputs are used in the valuation models. We applied our valuation expertise to a sample of financial instruments and assessed the appropriateness of the valuation models with reference to approaches commonly used. We assessed the judgements and estimates applied by the board against our understanding of current market practice and conditions. We also obtained independently sourced inputs where available. Where necessary, we engaged an independent actuarial specialist to evaluate the work performed by the board's expert, including: • assessing the appropriateness of the financial model used • testing the reasonableness of the inputs into the financial models • assessing the appropriateness of the amount recognised by comparing the model used to industry-models for similar derivatives The actuarial specialist's independence and competence was assessed. We assessed key assumptions and modelling approaches in estimating credit value adjustments and funding value adjustments against current market practice. We evaluated gains or losses on significant settled deals to assess calibration of mark-to-model values, and found management's estimates to be within reasonable ranges.
Going concern Eskom's consolidated and separate financial statements are prepared on the going-concern basis as disclosed in note 3.2. The calculations are based on estimates of future performance and are fundamental to assessing the suitability of the basis adopted for the preparation of the financial statements. The following key judgement areas were considered by the board in determining the appropriateness of the going-concern basis: • the group's and South Africa's credit rating • availability of funding • the group's revenue determination by NERSA • cash flow, budgets and forecast Accordingly, the assumptions used for assessing the applicability of preparing the financial statements on the going-concern basis are considered significant and thus a key audit matter.	We challenged the board's assumptions used to support the preparation of the consolidated and separate financial statements on the going-concern basis. Our assessment included the following audit work: • critically analysed the projected cash flows from the board to determine whether they are reasonable and supportable given the current economic climate and expected future performance of the cash generating units • we tested the veracity of the forecast process with reference to previous forecasts compared to actual performance • we inspected the board's assessment of compliance with debt covenants in light of recent downgrades • we inspected loan agreements to identify any modification of repayment terms • we reviewed the board's planned submissions to and general correspondence with NERSA • we considered the government guarantees provided by National Treasury We did not identify material issues relating to going concern.

Emphasis of matter

We draw attention to the matters below. Our opinion is not modified in respect of these matters.

Restatement of corresponding figures

As disclosed in note 49 to the consolidated and separate financial statements, the corresponding figures for the prior periods have been restated to correct an error as a result of not accounting for certain distribution assets that were developed by third parties and transferred to the group in prior periods at, and for the year ended, 31 March 2017.

Material losses – non-technical revenue losses

As disclosed in note 52.3(c) to the consolidated and separate financial statements, material electricity losses of R1 268 million (2016: R1 217 million) were incurred. These arise mainly from meter tampering and bypasses, illegal connections to the electricity network and illegal vending of electricity.

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

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

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

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

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

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

We also:

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

Report on other and regulatory requirements

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified reportable irregularities in terms of the Auditing Profession Act. We have reported such matters to the Independent Regulatory Board for Auditors. The matter pertaining to the reportable irregularities have been described in note 48 to the financial statements.

Independent auditor's report to Parliament and shareholder – Minister of Public Enterprise (continued)

Report on the audit of the annual performance report

Introduction and scope

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

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

We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance areas presented in *performance in terms of the shareholder compact* section of the directors' report for the year ended 31 March 2017:

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

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

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

Economic impact

Local content contracted: Eskom-wide

We were unable to obtain sufficient appropriate audit evidence for the reported achievement of local content contracted: Eskom wide. This was due to limitations placed on the scope of our work and the lack of sufficient and appropriate audit evidence. We were unable to confirm the reported achievement by alternative means. Consequently, we were unable to determine whether any adjustments were required to the reported achievement of 73.37%.

Local content contracted: new build program

We were unable to obtain sufficient appropriate audit evidence for the reported achievement of local content contracted: new build program. This was due to limitations placed on the scope of our work and the lack of sufficient and appropriate audit evidence. We were unable to confirm the reported achievement by alternative means. Consequently, we were unable to determine whether any adjustments were required to the reported achievement of 85.78%.

Other key performance areas assessed

We did not identify any material findings on the usefulness and reliability of the reported performance information in the remainder and the key performance areas assessed.

Other matters

We draw attention to the matters below. Our opinions are not modified in respect of these matters.

Achievement of planned targets

Refer to the *performance in terms of the shareholder compact* section of the directors' report on pages 7 to 9 for information on the achievement of planned targets for the year and explanations for the under achievement of targets. This information should be considered in the context of the material findings on the reliability of the reported performance information discussed earlier in this report.

Adjustment of material misstatements

We identified material misstatements in the *performance in terms of the shareholder compact* section of the directors' report submitted for auditing. These material misstatements were on the reported performance information of economic impact. As management subsequently corrected only some of the misstatements, we reported material findings on the reliability of the reported performance information discussed earlier in this report.

Report on the audit of compliance with legislation

Introduction and scope

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

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

Expenditure management

Effective steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph.

Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R547 million, as disclosed in note 52 to the annual financial statements, in contravention of section 51(1)(b)(ii) of the PFMA.

Procurement and contract management
Goods, works or service were not always procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA.

Contracts were awarded to and quotations accepted from bidders based on preferential points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.

Contracts and quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order as required by Treasury Regulations 16A9.1(d) and the Preferential Procurement Regulations.

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

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

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

Internal control deficiencies
We considered internal control relevant to our audit of the consolidated and separate financial statements, *performance in terms of the shareholder compact* section of the directors' report and compliance with legislation, however the objective is not to express any form of assurance thereon.

The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the *performance in terms of the shareholder compact* section of the directors' report and the findings on compliance with legislation included in this report:

Leadership
The public entity experienced instability in leadership in the last few years as a result of a number of suspensions, dismissals and resignations in key leadership positions. Instability in top leadership has contributed to the overall decline in the internal control environment.

The accounting authority did not exercise adequate oversight responsibility regarding compliance with applicable legislation and related internal controls.

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

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

Investigations
During the financial year under review the group conducted investigations into alleged irregularities, fraud and corruption within the procurement environment. At the reporting date, certain investigations were still ongoing. The material findings that were identified relating to those investigations completed during the year were as follows:

- an independent consultant investigated allegations of mismanagement and allegations of irregularities in the quality management department as referred to in note 52.1(h) to the consolidated and separate financial statements

Agreed-upon procedure engagements
The following agreed upon procedures engagements were performed:

- National Treasury consolidation template. The report covered the period from 1 April 2016 to 31 March 2017
- Eskom's generation, transmission and distribution activities regulatory financial report. This agreed-upon procedure is performed on behalf of NERSA

Aaron Mthimunye
SizweNtsalubaGobodo Inc.
Director
Registered auditor

23 June 2017

20 Morris East Street, Woodmead 219

Statements of financial position

at 31 March 2017

	Note	Group 2017 Rm	Group Restated[1] 2016 Rm	Group Restated[1] 2015 Rm	Company 2017 Rm	Company Restated[1] 2016 Rm	Company Restated[1] 2015 Rm
Assets							
Non-current		622 331	567 960	502 002	622 683	568 873	495 130
Property, plant and equipment	8	588 867	520 521	457 720	589 479	521 769	459 211
Intangible assets	9	3 981	3 138	2 904	3 817	2 944	2 746
Future fuel supplies	10	8 190	10 502	9 079	8 190	10 502	9 079
Investment in equity-accounted investees	11	364	360	348	95	95	95
Investment in subsidiaries	12	–	–	–	384	384	455
Deferred tax	13	50	174	230	–	–	–
Loans receivable	15	79	70	8 646	–	–	–
Derivatives held for risk management	16	16 868	27 600	14 303	16 868	27 600	14 303
Finance lease receivables	17	448	477	500	448	477	500
Payments made in advance	18	1 938	2 579	3 004	1 856	2 563	3 003
Trade and other receivables	19	9	54	2 787	9	54	3 257
Investment in securities	14	1 537	2 485	2 481	1 537	2 485	2 481
Current		78 879	86 268	57 686	78 797	87 644	59 442
Inventories	20	22 359	17 821	16 033	22 156	17 641	15 896
Taxation		125	93	94	–	–	–
Loans receivable	15	14	10	269	6 187	6 352	6 553
Derivatives held for risk management	16	1 000	2 582	709	1 000	2 582	709
Finance lease receivables	17	26	22	20	26	22	20
Payments made in advance	18	2 091	3 891	2 505	1 958	3 732	2 261
Trade and other receivables	19	19 379	21 810	16 856	20 609	24 455	18 553
Investment in securities	14	10 541	7 741	6 015	5 167	2 067	2 321
Financial trading assets	14	2 919	3 844	6 322	1 730	2 657	5 143
Cash and cash equivalents	21	20 425	28 454	8 863	19 964	28 136	7 986
Non-current assets held-for-sale	22	8 799	8 942	–	70	148	–
Total assets		710 009	663 170	559 688	701 550	656 665	554 572
Equity							
Capital and reserves attributable to owner of the company		175 942	182 352	118 419	165 964	174 103	112 212
Liabilities							
Non-current		453 777	405 039	366 634	453 275	404 265	364 652
Debt securities and borrowings	25	336 770	306 970	277 458	336 690	306 901	275 954
Embedded derivatives	26	4 032	5 410	6 647	4 032	5 410	6 646
Derivatives held for risk management	16	6 767	2 862	2 641	6 767	2 862	2 641
Deferred tax	13	18 067	21 696	18 642	18 090	21 317	18 336
Employee benefit obligations	28	13 790	12 405	11 960	13 458	12 094	11 665
Provisions	29	44 021	32 841	31 078	43 908	32 826	31 039
Finance lease payables	30	9 819	3 838	474	9 819	3 838	637
Trade and other payables	31	871	875	1 015	871	875	1 015
Payments received in advance	27	1 940	2 626	2 664	1 940	2 626	2 664
Deferred income	27	17 700	15 516	14 055	17 700	15 516	14 055
Current		78 607	73 971	74 635	82 311	78 297	77 708
Debt securities and borrowings	25	18 530	15 688	19 976	22 017	19 056	22 176
Embedded derivatives	26	1 382	1 615	1 375	1 382	1 615	1 375
Derivatives held for risk management	16	3 826	2 011	2 845	3 838	2 024	2 845
Employee benefit obligations	28	7 348	5 190	3 926	6 848	4 997	3 661
Provisions	29	9 057	11 415	9 972	8 573	11 198	9 807
Finance lease payables	30	246	90	14	246	90	70
Trade and other payables	31	31 782	32 319	27 984	33 059	33 739	29 267
Payments received in advance	27	3 591	3 376	2 157	3 585	3 371	2 145
Deferred income	27	1 143	957	863	1 143	957	863
Taxation		82	60	24	–	–	–
Financial trading liabilities	14	1 620	1 250	5 499	1 620	1 250	5 499
Non-current liabilities held-for-sale	22	1 683	1 808	–	–	–	–
Total liabilities		534 067	480 818	441 269	535 586	482 562	442 360
Total equity and liabilities		710 009	663 170	559 688	701 550	656 665	554 572

Income statements

for the year ended 31 March 2017

		Group		Company	
	Note	2017 Rm	Restated[1] 2016 Rm	2017 Rm	Restated[1] 2016 Rm
Revenue	32	177 136	164 239	177 136	164 239
Other income	33	1 573	2 390	2 094	2 471
Primary energy	34	(82 760)	(84 728)	(82 760)	(84 728)
Employee benefit expense	35	(33 178)	(29 257)	(27 902)	(24 721)
Net impairment loss	36	(1 669)	(1 170)	(1 629)	(1 159)
Other expenses	37	(23 570)	(18 663)	(30 950)	(25 170)
Profit before depreciation and amortisation expense and net fair value loss (EBITDA)		37 532	32 811	35 989	30 932
Depreciation and amortisation expense	38	(20 300)	(16 633)	(20 277)	(16 619)
Net fair value loss on financial instruments, excluding embedded derivatives	39	(3 342)	(1 452)	(3 203)	(1 492)
Net fair value gain on embedded derivatives		1 611	997	1 611	996
Profit before net finance cost		15 501	15 723	14 120	13 817
Net finance cost		(14 377)	(7 919)	(15 389)	(8 776)
Finance income	40	5 212	3 447	4 290	2 667
Finance cost	41	(19 589)	(11 366)	(19 679)	(11 443)
Share of profit of equity-accounted investees after tax	11	35	43	–	–
Profit/(loss) before tax		1 159	7 847	(1 269)	5 041
Income tax	42	(271)	(2 696)	399	(1 905)
Profit/(loss) for the year[2]		888	5 151	(870)	3 136

Statements of comprehensive income

for the year ended 31 March 2017

		Group		Company	
	Note	2017 Rm	2016 Rm	2017 Rm	2016 Rm
Profit/(loss) for the year[2]		888	5 151	(870)	3 136
Other comprehensive (loss)/income		(7 298)	6 508	(7 269)	6 481
Items that may be reclassified subsequently to profit or loss		(7 464)	5 903	(7 426)	5 884
Available-for-sale financial assets – net change in fair value		60	(57)	50	(54)
Cash flow hedges					
Changes in fair value	16	(9 056)	8 955	(9 056)	8 955
Net amount transferred to profit or loss		(169)	(126)	(169)	(126)
Amortisation of effective portion of terminated cash flow hedges	39	(324)	(145)	(324)	(145)
Ineffective portion of cash flow hedges	39	155	19	155	19
Net amount transferred to initial carrying amount of hedged items		(1 140)	(603)	(1 140)	(603)
Foreign currency translation differences on foreign operations		(45)	21	–	–
Income tax thereon	42	2 886	(2 287)	2 889	(2 288)
Items that may not be reclassified subsequently to profit or loss		166	605	157	597
Re-measurement of post-employment medical benefits	28.1	231	840	218	830
Income tax thereon	42	(65)	(235)	(61)	(233)
Total comprehensive (loss)/income for the year[2]		(6 410)	11 659	(8 139)	9 617

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 2017

	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 2015	–	30 520	5 699	4	(8 854)	18	91 032	118 419
Previously reported	–	30 520	5 699	4	(8 854)	18	89 777	117 164
Prior year restatements, net of tax	–	–	–	–	–	–	1 255	1 255
Restated profit for the year	–	–	–	–	–	–	5 151	5 151
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	104 440	182 352
Profit for the year	–	–	–	–	–	–	888	888
Other comprehensive (loss)/income, net of tax	–	–	(7 462)	43	–	(45)	166	(7 298)
Transfer between reserves	–	–	–	–	4 839	–	(4 839)	–
Balance at 31 March 2017	83 000	–	4 160	6	(11 873)	(6)	100 655	175 942
Company								
Balance at 31 March 2015	–	30 520	5 699	5	(8 854)	–	84 842	112 212
Previously reported	–	30 520	5 699	5	(8 854)	–	83 587	110 957
Prior year restatements, net of tax	–	–	–	–	–	–	1 255	1 255
Restated profit for the year	–	–	–	–	–	–	3 136	3 136
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)	–	96 227	174 103
Loss for the year	–	–	–	–	–	–	(870)	(870)
Other comprehensive (loss)/income, net of tax	–	–	(7 462)	36	–	–	157	(7 269)
Transfer between reserves	–	–	–	–	4 839	–	(4 839)	–
Balance at 31 March 2017	83 000	–	4 160	2	(11 873)	–	90 675	165 964

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 prior 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 2017

		Group		Company	
	Note	2017 Rm	2016 Rm	2017 Rm	2016 Rm
Cash flows from operating activities					
Cash generated from operations	43	47 361	34 808	46 440	32 716
Net cash flows (used in)/from derivatives held for risk management		(1 787)	643	(1 700)	622
Finance income received		1 342	2 322	1 342	2 322
Finance cost paid		(22)	(11)	(22)	(11)
Income taxes paid		(1 053)	(520)	–	–
Net cash from operating activities		45 841	37 242	46 060	35 649
Cash flows used in investing activities					
Proceeds from disposal of property, plant and equipment		398	360	388	302
Acquisitions of property, plant and equipment		(55 823)	(53 248)	(55 136)	(53 311)
Acquisitions of intangible assets		(1 436)	(927)	(1 436)	(853)
Expenditure on future fuel supplies		(639)	(1 754)	(639)	(1 754)
Increase in payments made in advance		(99)	(274)	(99)	(274)
Expenditure incurred on provisions		(6 890)	(3 054)	(6 890)	(3 054)
Net cash flows from derivatives held for risk management		389	771	389	771
Decrease/(increase) in investment in securities		520	(1 862)	–	–
Net cash flows used in financial trading assets		(24)	(24)	–	–
(Increase)/decrease in loans receivable		(18)	134	159	210
Decrease in finance lease receivables		44	23	44	23
Proceeds from repayment of equity loan		–	–	–	71
Dividends received		40	32	32	32
Dividends received – investment in equity-accounted investees	11	31	31	–	–
Finance income received		1 221	1 202	546	559
Net cash used in investing activities		(62 286)	(58 590)	(62 642)	(57 278)
Cash flows from financing activities					
Debt securities and borrowings raised	44	50 994	41 052	51 073	41 840
Payments made in advance to secure debt raised	44	(1 096)	(555)	(1 096)	(555)
Debt securities and borrowings repaid	44	(7 034)	(11 123)	(7 072)	(11 013)
Share capital issued		–	23 000	–	23 000
Net cash flows (used in)/from derivatives held for risk management	44	(7 738)	11 847	(7 738)	11 847
(Increase)/decrease in investment in securities	44	(2 031)	92	(2 031)	92
Decrease in finance lease payables	44	(139)	(157)	(139)	(99)
Net cash flows from financial trading assets	44	889	2 544	889	2 544
Net cash flows from/(used in) financial trading liabilities	44	482	(4 257)	482	(4 257)
Finance income received		2 365	1 275	2 328	1 250
Finance cost paid		(28 788)	(22 791)	(28 888)	(22 944)
Taxes paid		(49)	–	(49)	–
Net cash from financing activities		7 855	40 927	7 759	41 705
Net (decrease)/increase in cash and cash equivalents		(8 590)	19 579	(8 823)	20 076
Cash and cash equivalents at beginning of the year		28 454	8 863	28 136	7 986
Foreign currency translation		(45)	21	–	–
Effect of movements in exchange rates on cash held		647	75	651	74
Non-current assets held-for-sale		(41)	(84)	–	–
Cash and cash equivalents at end of the year	21	20 425	28 454	19 964	28 136

Cash flow allocation

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

Investment in securities and financial trading asset

Cash flows related to the insurance portfolio are disclosed in the investing activities section of the statement of cash flows. Cash flows related to the market-making and investing portfolios are disclosed in the financing activities section. Refer to note 14.

Derivatives held for risk management

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

Payments made in advance

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

Provisions

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

Finance income and costs

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

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 IPPs and international suppliers in southern Africa. These represent the significant activities of the group. The business focus of the subsidiaries is primarily to support the electricity business. The nature of the businesses of the significant operating subsidiaries is set out in note 12.

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 2017 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

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.

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. Summary of significant accounting policies (continued)

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 and are only capable of operating in the manner intended by management when they are installed.

Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. When part of an asset is being replaced, the carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the financial period incurred.

Items of property, plant and equipment transferred from customers are recognised in terms of IFRIC 18 *Transfers of Assets from Customers*. The items of property, plant and equipment are initially recognised at fair value in accordance with IAS 16 *Property, plant and equipment* and any revenue is recognised in accordance with IAS 18 *Revenue* within 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.

2.5 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 any accumulated 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 within the scope of IAS 36 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. 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 specific borrowings, in which case the specific rate is used.

2.8 Leases

Finance leases – where the group is the lessee

Finance lease payables comprise mainly 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.

2. Summary of significant accounting policies (continued)

2.8 Leases (continued)

Operating leases

Leases where substantially all of the risks and rewards of ownership are not transferred are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss within other expenses on a straight-line basis over the period of the lease. Payments received under operating leases are recognised in profit or loss within other income on a straight-line basis over the period of the lease.

2.9 Payments made in advance

Securing debt raised

Payments are made in advance to lenders for the commitment and issuing fees incurred in raising debt. Refer to note 2.10.1.

Environmental rehabilitation trust fund

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

Other

Other payments made in advance comprise mainly payments made to suppliers to reserve manufacturing capacity for the future construction of assets. These amounts will be used as partial settlement towards the future amounts payable to the suppliers. There is no contractual right to receive a refund in cash or another financial instrument from the suppliers. In the event of default or non-performance, there are performance bonds in place that can be used to recover outstanding payments in advance.

2.10 Financial instruments

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

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.

Financial assets classified as 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.

Subsequent to initial recognition, loans and receivables (excluding cash and cash equivalents) are measured at amortised cost using the effective interest rate method, less any accumulated impairment losses. Cash and cash equivalents are measured at amortised cost using the effective interest method.

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 initially recognised at fair value. Any directly attributable transaction costs are included in the initial recognition of non-derivative financial liabilities 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 recorded as a payment made in advance where it is probable that some or all of the facility will be drawn down. Refer to note 2.9. The fees paid are recognised as transaction costs upon drawdown and then amortised to profit or loss within finance costs from the date of first drawdown to final maturity of each facility.

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.

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.

2. Summary of significant accounting policies (continued)

2.10 Financial instruments (continued)

2.10.3 Derivative financial instruments and hedging activities (continued)

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.

Significant day-one gains and losses are deferred in the statement of financial position (derivatives held for risk management) and amortised on a straight-line basis over the term of the hedging instrument to profit or loss. Unamortised day-one gains and losses will be written off to profit or loss should the related financial instrument be derecognised (extinguished) before maturity date. Day-one gains and losses on hedging instruments are predominantly a function of the inclusion of credit, liquidity and 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 realised and unrealised portion of the changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income within 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 where the hedged item is a non-financial asset is included in the initial cost of the carrying amount of the asset when the forecast transaction results in the recognition of a non-financial asset. Gains and losses recognised in the cash flow hedge reserve in other comprehensive income will affect profit or loss in the periods during which the relevant non-financial assets are expensed to profit or loss.

Any cumulative gain or loss existing in other comprehensive income where the hedged item is a financial liability is taken to profit or loss within finance cost or net fair value gain/(loss) on financial instruments, excluding embedded derivatives when the cash flows occur on the hedged financial liability.

When a hedging instrument expires, is sold or a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in other comprehensive income until the forecast transaction occurs. If a forecast transaction is still expected to occur, the cumulative gains or losses in other comprehensive income are reclassified from equity to profit or loss in the same periods during which the hedged forecast cash flows affect profit or loss. If a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to profit or loss within net fair value 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

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.

Refer to note 4.1 for details regarding measurement of embedded derivatives.

2.11 Future fuel supplies

Coal

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

Nuclear

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

2.12 Inventories

Coal, liquid fuel, maintenance spares and consumables

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and includes expenditure incurred in acquiring inventories and other costs in bringing inventory to its present location and condition as well as the cost of ongoing programmes to rehabilitate the environment and other closure cost for active mines that is charged to profit or loss within primary energy as the coal is consumed.

Nuclear fuel

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

2.13 Share capital

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

2.14 Income tax

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

2.15 Deferred tax

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

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss 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 legal entities 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 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 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. Summary of significant accounting policies (continued)

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.

2.19 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 costs.

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

The main categories of provisions include the following:

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

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

A provision is also raised for the management of fuel assemblies and radioactive waste which is recognised and measured based on the latest available cost information. The cost for the fuel assemblies is included in the cost of inventory while the fuel is in the reactor. The cost relating to radioactive waste is charged to profit or loss within primary energy.

Mine-related closure, pollution control and rehabilitation

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

Coal-related obligations

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

Other

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

2.20 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 measured reliably 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, 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 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 and the balance of investment in securities and cash and cash equivalents is then 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.

The government as the sole shareholder and the board have the responsibility to ensure that the group is adequately capitalised and that the business is attractive to investors.

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.

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

		Group		Company	
	Note	2017 Rm	2016 Rm	2017 Rm	2016 Rm
Share capital	24	83 000	83 000	83 000	83 000
Accumulated profit		100 655	104 440	90 675	96 227
Net debt	44	327 559	266 772	331 427	270 389
		511 214	454 212	505 102	449 616
Facilities available – debt securities and borrowings[1]		46 808	59 987	46 808	59 987

(a) Share capital

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

(b) Accumulated profit

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 on 31 March 2018.

NERSA granted Eskom a tariff increase of 2.2% for 2018.

Eskom submitted the 2015 regulatory clearing account (RCA) application of R19.2 billion to NERSA in May 2016, while the 2016 RCA application of R23.6 billion was submitted in July 2016. The 2017 RCA application will be submitted in July 2017.

The High Court of South Africa set aside NERSA's decision regarding the 2014 RCA on 16 August 2016 and remitted it back to NERSA. NERSA and Eskom were granted permission to appeal the decision. The court case was held on 4 May 2017 and the Supreme Court of Appeal upheld NERSA and Eskom's appeal on 6 June 2017. Eskom is awaiting feedback from NERSA on the way forward regarding the RCA applications.

NERSA approved Eskom's request for a single-year price increase application for 2019. Eskom submitted a one-year application on 19 April 2017 for consultation to National Treasury and the South African Local Government Association. Eskom made a formal application to NERSA on 9 June 2017 and is expecting NERSA's determination before 31 December 2017 for implementation 1 April 2018.

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

Operating cost

Eskom continues to implement the DTC programme which aim to deliver cost saving opportunities to assist in closing the revenue shortfall that resulted mainly from the NERSA MYPD 3 price determination.

Savings of R20.0 billion (2016: R17.5 billion) were achieved against a target of R17 billion for the year.

The following income statement measures are monitored by management:

	Group		Company	
	2017 %	2016 %	2017 %	2016 %
EBITDA margin	21.19	19.98	20.32	18.83
Net profit margin	0.50	3.14	(0.49)	1.91

Management has targeted achievement of a 35% EBITDA margin to ensure sufficient profitability to meet net debt costs.

(c) Net debt

The board approved a revised borrowing programme of R338 billion for the period 1 April 2017 to 31 March 2022. Committed funding of R32 billion or 45% of the funding requirement of R71.7 billion for the 2018 financial year has already been secured at 31 March 2017. Potential funding sources have been identified and plans are in place to secure this funding.

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

	Group		Company	
	2017 Ratio	2016 Ratio	2017 Ratio	2016 Ratio
Net debt: equity	1.86	1.46	2.00	1.55
Net debt: EBITDA	8.73	8.13	9.21	8.74
Net debt interest cover ratio	1.34	2.56	1.20	2.21

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

	Rating		Outlook	
	2017	2016	2017	2016
Standard and Poor's				
Foreign currency	BB-	BB+	Negative	Negative
Local currency	BB-	BB+	Negative	Negative
Moody's				
Foreign currency	Ba1	Ba1	Negative	Negative
Local currency	Ba1	Ba1	Negative	Negative
Fitch Ratings				
Foreign currency	–	–	Negative	Stable
Local currency	BBB	BBB	Negative	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 bonds.

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

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

3.2 Going concern

The board 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 producer price indices that give rise to embedded derivatives.

The embedded derivatives consist of the following categories:

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

Valuation

Valuation techniques are used to determine the fair value as there is no active market for embedded derivatives. The fair value is determined by fair valuing the whole agreement and deducting from it the fair value of the host agreement. The valuation methods include:

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

4. Critical accounting estimates and assumptions (continued)

4.1 Embedded derivatives (continued)

Valuation (continued)

A forward electricity price curve is used to value the host agreement and the derivative agreement is valued by using market forecasts of future commodity prices, foreign currency rand exchange rates, interest rate differentials, forecast sales volumes, and production price and liquidity, 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 agreements or from independent market sources where appropriate. 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 2017 was based on the current MYPD 3 approved tariff increase of 2.20% for the 2018 financial year and a flat rate of 8% thereafter until maturity.

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

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

2017		Year ended 31 March					
Input	Unit	2017[1]	2018[1]	2019[1]	2020[1]	2021[1]	2022[1]
Aluminium	USD per ton	1 962	1 978	2 003	2 028	2 055	2 088
Volatility	Year-on-year (ratio)	0.17	0.17	0.17	0.17	0.17	0.17
Rand interest rates	Continuous actual/365 days (%)	7.20	8.06	7.25	7.35	7.55	7.67
Dollar interest rates	Annual actual/365 days (%)	1.09	1.82	1.62	1.81	1.96	2.08
United States PPI	Year-on-year (%)	3.61	1.87	1.70	2.36	1.33	1.76
Rand/USD	Rand per USD	13.37	14.23	14.96	15.78	16.72	17.69

2016							
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

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 and company is R5 414 million (2016: R7 025 million). 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 credit method. This method treats the accrued service liability separately from the current cost liability. The accrued service liability (on the valuation assumptions) is based on the completed service to the valuation date and the current cost liability is the cost of providing the benefit over the next year.

Valuation assumptions

The principal actuarial assumptions used were:

	Group and company	
	2017 %	2016 %
Discount rate	11.2	11.3
Medical aid inflation	9.9	10.1

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			
	2017		2016	
	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 20.2 years (2016: 20.9 years) and for the company was 20.3 years (2016: 21.0 years).

Sensitivity analysis

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

		Group				Company			
	Change in assumption	2017 increase Rm	2017 decrease Rm	2016 increase Rm	2016 decrease Rm	2017 increase Rm	2017 decrease Rm	2016 increase Rm	2016 decrease Rm
Effect on aggregate current service cost and finance cost									
Discount rate	1%	(230)	293	(211)	270	(227)	289	(208)	266
Medical aid inflation	1%	460	(357)	421	(326)	452	(351)	413	(320)
Future mortality	1 year	63	(63)	58	(57)	62	(62)	56	(56)
Effect on post-employment medical benefits obligation									
Discount rate	1%	(1 937)	2 470	(1 752)	2 233	(1 895)	2 418	(1 711)	2 183
Medical aid inflation	1%	2 435	(1 941)	2 199	(1 755)	2 383	(1 899)	2 150	(1 714)
Future mortality	1 year	405	(404)	365	(365)	395	(394)	356	(356)

The carrying amount of the post-employment medical benefits liability for the group is R14 261 million (2016: R12 816 million) and R13 917 million (2016: R12 495 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.

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).

4. Critical accounting estimates and assumptions (continued)

4.3 Occasional and service leave (continued)

Valuation assumptions

The principal actuarial assumptions used were:

	Group and company	
	2017 %	2016 %
Discount rate	11.2	11.3
General price inflation	7.9	8.1
Salary increases	9.4	9.6
Leave usage	4.0	4.0

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

Sensitivity analysis

Based on current experience, 4% (2016: 4%) of the leave is utilised. If the rate at which leave is taken is 8% (2016: 8%), then the liability will increase by R69 million (2016: R64 million).

The carrying amount of the occasional and service leave liability for the group is R1 368 million (2016: R1 266 million) and R1 296 million (2016: R1 198 million) for the company.

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 real discount rate used for these provisions was 3.3% (2016: 4.9%) for the group and company.

Estimated payment dates

The estimated payment dates of the costs are:

	Group and company	
	2017	2016
Nuclear plant	2026 – 2041	2026 – 2041
Coal and pumped storage plants	2024 – 2098	2024 – 2083
Spent nuclear fuel	2018 – 2105	2019 – 2105
Mine-related closure, pollution control and rehabilitation	2018 – 2076	2017 – 2074

Sensitivity analysis

The carrying amount of the decommissioning, mine closure and rehabilitation provision would be an estimated R6 178 million (2016: R4 047 million) lower had the real discount rate used in the calculation of the provision increased by 1% and R8 137 million (2016: R5 315 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 R41 999 million (2016: R29 596 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 8.7% (2016: 8.8%) for the group and company.

The estimated payment dates of the costs are between 2018 and 2020 (2016: 2017 and 2020).

Sensitivity analysis

The carrying amount of the coal-related obligations would be an estimated R250 million (2016: R277 million) lower had the anticipated commissioning dates been one month earlier than estimated and R240 million (2016: R262 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 R4 695 million (2016: R5 554 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 (ARC). 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 ARC 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) manages credit risk arising from the treasury department's activities in the financial markets with the objective of maximising the rate of return on investments while not exceeding approved levels of credit risk exposure. It is chaired by the chief financial officer and reports on a quarterly basis to Exco and the ARC.

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.

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.1 Financial instruments mainly managed by the treasury function (continued)

The following are monitored and reported on:
- aggregate credit risk exposure
- limits utilisation including any breaches
- hold-limit exceptions
- risk profile changes
- risk concentrations

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	2017 Rm	2016 Rm	2017 Rm	2016 Rm
Investment in securities					
AAA		3 522	3 771	3 522	3 771
AA		8 556	6 455	3 182	781
Maximum credit exposure	14	12 078	10 226	6 704	4 552
Financial trading assets					
Maximum credit exposure		1 730	2 657	1 730	2 657
A1+		1 162	2 082	1 162	2 082
A1		563	546	563	546
Unrated		5	29	5	29
No credit exposure		1 189	1 187	–	–
	14	2 919	3 844	1 730	2 657
Derivatives held for risk management					
AAA		–	1 217	–	1 217
AA		12 045	17 763	12 045	17 763
A1+		420	1 883	420	1 883
A+		3 577	7 851	3 577	7 851
A		1 020	–	1 020	–
A1		373	270	373	270
A-		433	1 161	433	1 161
A2		–	37	–	37
Maximum credit exposure	16	17 868	30 182	17 868	30 182
Cash and cash equivalents					
Maximum credit exposure		20 413	28 452	19 952	28 134
A1+		14 439	19 670	14 020	19 358
A1		3 238	8 775	3 238	8 775
A2		7	–	7	–
A3		2 675	–	2 675	–
Unrated		54	7	12	1
No credit exposure		12	2	12	2
	21	20 425	28 454	19 964	28 136

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

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. Certain international customers may be required to pay upfront based on their credit risk.

Local large power users

Local large power users comprise South African redistributors (metros and municipalities), commercial, industrial and mining customers usually with supplies above 100kVA. Payment terms are individually negotiated and are normally at a maximum of 15 days. They are individually assessed for impairment based on their overall individual risk.

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

Certain municipalities continued to fall into arrears during the course of the financial year. Monitoring of these municipality payment levels continues to receive ongoing management attention and remains a high priority focus area. Interventions pursued included entering into special payment arrangements and following the Promotion 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.

Other interventions include considering:
- restricting supply to non-paying municipalities if set maximum demand levels are exceeded
- interrupt electricity supply to the non-paying municipalities where no recovery plan could be presented and agreed upon between Eskom and the municipal entity
- placing non-paying municipalities on a pre-payment option

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)

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. All new customers will preferably be on prepayment terms.

Soweto receivables are an identified high-credit risk area subject to specific credit risk management. The collection of revenue from customers in Soweto remains a challenge. The enhancement of credit control strategies and monitoring of payment levels in this area continue to receive management attention. The payment levels expressed as a percentage of billed revenue (excluding interest) for the year was 16% (2016: 18%). 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.

An analysis of trade receivables days outstanding is presented below:

	Carrying amount	Not impaired[1]					Impaired				
		Not past due	Days past due 0-15	16-45	46-75	>75	Not past due	Days past due 0-15	16-45	46-75	>75
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Group and company											
2017											
Individually assessed for impairment											
International	1 582	806	–	–	–	–	189	86	203	288	10
Gross	1 704	806	–	–	–	–	189	86	203	288	132
Impairment	(122)	–	–	–	–	–	–	–	–	–	(122)
Local large power users – municipalities	7 207	1 284	–	–	–	–	4 421	188	390	100	824
Gross	11 102	1 284	–	–	–	–	4 430	781	1 782	379	2 446
Impairment	(3 895)	–	–	–	–	–	(9)	(593)	(1 392)	(279)	(1 622)
Local large power users – other	7 149	6 971	69	20	2	4	16	2	8	4	53
Gross	7 560	6 971	69	20	2	4	27	4	22	12	429
Impairment	(411)	–	–	–	–	–	(11)	(2)	(14)	(8)	(376)

	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	655	8	10	4	633
Gross	4 205	47	62	5	4 091
Impairment	(3 550)	(39)	(52)	(1)	(3 458)
Local small power users – other	1 784	1 474	142	7	161
Gross	2 465	1 524	175	39	727
Impairment	(681)	(50)	(33)	(32)	(566)
	18 377				

	Carrying amount	Not impaired[1]					Impaired				
		Not past due	Days past due				Not past due	Days past due			
	Rm	Rm	0-15 Rm	16-45 Rm	46-75 Rm	>75 Rm	Rm	0-15 Rm	16-45 Rm	46-75 Rm	>75 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)

	Carrying amount	Not past due	Days past due		
	Rm	Rm	0-30 Rm	31-60 Rm	>60 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				

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

	Fair value of security held relating to:			Security called upon	Renegotiated balances
	Impaired receivables Rm	Not-impaired receivables Rm	Total Rm	Rm	Rm
2017					
International	–	5	5	–	–
Local large power users	346	5 790	6 136	11	3 575
Municipalities	330	132	462	–	3 564
Other	16	5 658	5 674	11	11
Local small power users	53	1 893	1 946	58	58
Soweto	11	–	11	–	1
Other	42	1 893	1 935	58	57
	399	7 688	8 087	69	3 633

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
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

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. There were no significant overdue or distressed balances relating to finance lease receivables in the current or previous financial year. Security in the form of bank guarantees is required from customers before the asset is constructed and is in place for a maximum period of 14 years to cover irrecoverable costs in the event of early termination of the supply contract. In addition, the premium supply equipment serves as security for the outstanding finance lease receivable balance.

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

	Note	Group and company 2017 Rm	2016 Rm
AA+		30	–
A+		–	30
A		8	6
BBB+		–	3
Unrated		436	460
Maximum credit exposure	17	474	499

(c) Financial guarantees issued
The group's maximum exposure as a result of financial guarantees issued was R99 million (2016: R151 million) and R1 186 million (2016: R1 262 million) for the company. Refer to note 45.1 for more information on financial guarantees issued.

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 three and 12 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 R1 611 million (2016: R997 million). The embedded derivative liabilities are R5 414 million (2016: R7 025 million) for the group and 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.

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.

5. Financial risk management (continued)

5.2 Market risk (continued)

5.2.1 Currency risk (continued)

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
2017									
Group									
Assets									
Cash and cash equivalents	–	265	–	–	–	–	–	–	–
Liabilities									
Debt securities and borrowings	(2 794)	(6 588)	–	(9 955)	–	–	–	–	–
Trade and other payables	(84)	(55)	(2)	–	(20)	–	–	(1)	(1)
Gross statement of financial position exposure	(2 878)	(6 378)	(2)	(9 955)	(20)	–	–	(1)	(1)
Estimated forecast purchases[1]	(977)	(200)	(18)	(250)	(236)	(2)	(1)	(2)	(4)
Gross exposure	(3 855)	(6 578)	(20)	(10 205)	(256)	(2)	(1)	(3)	(5)
Derivatives held for risk management[2]	3 876	6 571	20	10 196	246	1	1	3	3
Net exposure	21	(7)	–	(9)	(10)	(1)	–	–	(2)
Company									
Assets									
Cash and cash equivalents	–	265	–	–	–	–	–	–	–
Liabilities									
Debt securities and borrowings	(2 794)	(6 588)	–	(9 955)	–	–	–	–	–
Trade and other payables	(84)	(55)	(2)	–	(20)	–	–	(1)	(1)
Gross statement of financial position exposure	(2 878)	(6 378)	(2)	(9 955)	(20)	–	–	(1)	(1)
Estimated forecast purchases[1]	(957)	(198)	(16)	(250)	(236)	(2)	(1)	(2)	(4)
Gross exposure	(3 835)	(6 576)	(18)	(10 205)	(256)	(2)	(1)	(3)	(5)
Derivatives held for risk management[2]	3 856	6 569	18	10 196	246	1	1	3	3
Net exposure	21	(7)	–	(9)	(10)	(1)	–	–	(2)
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)

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

	One unit of the selected currency to the rand				R1.00 to the selected currency			
	Annual average		Reporting date mid-spot rate		Annual average		Reporting date mid-spot rate	
	2017	2016	2017	2016	2017	2016	2017	2016
EUR	15.44	15.21	14.29	16.77	0.06	0.07	0.07	0.06
USD	14.05	13.79	13.37	14.71	0.07	0.07	0.07	0.07
GBP	18.42	20.74	16.67	21.13	0.05	0.05	0.06	0.05
CHF	14.24	14.15	13.36	15.35	0.07	0.07	0.07	0.07
JPY	0.13	0.12	0.12	0.13	7.69	8.33	8.33	7.69
SEK	1.62	1.63	1.50	1.82	0.62	0.61	0.67	0.55
CAD	10.71	10.48	10.05	11.41	0.09	0.10	0.10	0.09
AUD	10.58	10.11	10.21	11.32	0.09	0.10	0.10	0.09
NOK	1.68	1.66	1.56	1.78	0.60	0.60	0.64	0.56

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			
	2017		2016	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Profit/(loss), excluding embedded derivatives				
Total exposure	46	(46)	87	(87)
Rand/euro exposure	57	(57)	52	(52)
Rand/USD exposure	(10)	10	26	(26)
Rand/other currency	(1)	1	9	(9)
Equity, excluding embedded derivatives				
Total exposure	287	(287)	362	(362)
Rand/euro exposure	115	(115)	159	(159)
Rand/USD exposure	142	(142)	201	(201)
Rand/other currency	30	(30)	2	(2)
Profit/(loss) – embedded derivatives				
Rand/USD exposure	96	(91)	106	(103)

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.

5. Financial risk management (continued)

5.2 Market risk (continued)

5.2.2 Commodity risk (continued)

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			
	2017		2016	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Profit/(loss), including embedded derivatives[1]				
Aluminium price	74	(74)	87	(87)

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 derivatives held for risk management. 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.

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			
	2017		2016		2017		2016	
	+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	66	(71)	18	(15)	11	(16)	(29)	33
Rand interest rates	260	(277)	322	(339)	206	(222)	275	(291)
EUR interest rates	(55)	56	(70)	71	(55)	56	(70)	71
USD interest rates	(136)	146	(225)	244	(136)	146	(225)	244
Other currency interest rates	(3)	4	(9)	9	(4)	4	(9)	9
Equity, excluding embedded derivatives								
Total exposure	(1 573)	1 565	(2 410)	2 624	(1 573)	1 565	(2 410)	2 624
Rand interest rates	3 483	(3 714)	3 102	(3 316)	3 483	(3 714)	3 102	(3 316)
EUR interest rates	(1 287)	1 263	(1 003)	1 086	(1 287)	1 263	(1 003)	1 086
USD interest rates	(3 739)	3 997	(4 474)	4 818	(3 739)	3 997	(4 474)	4 818
Other currency interest rates	(30)	19	(35)	36	(30)	19	(35)	36
Profit/(loss) – embedded derivatives[1]								
Total exposure	102	(131)	147	(162)	102	(131)	147	(162)
Rand interest rates	346	(376)	468	(497)	346	(376)	468	(497)
USD interest rates	(244)	245	(321)	335	(244)	245	(321)	335

Fixed and floating rate debt

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

	Group			
	2017		2016	
	fixed %	floating %	fixed %	floating %
Continuing operations	76	24	80	20

5.2.4 Equity price risk

Equity price risk arises from investments listed on the Johannesburg Stock Exchange. Changes in the fair value of equity securities held by the group will fluctuate because of changes in market prices, caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded on the market.

The investment policy is approved by the Escap board and monitored by the Escap audit 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			
	2017		2016	
	Rm	portfolio %	Rm	portfolio %
Banks, financial services and insurance	277	23	267	22
Basic materials and resources	167	14	143	12
Consumer goods and services	525	44	527	44
Other	220	19	250	22
	1 189	100	1 187	100

A 1% increase or decrease in share prices would have increased/decreased profit or loss by R12 million (2016: 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.

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			
	2017		2016	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Profit/(loss) – embedded derivatives[1]	(41)	34	(135)	134
Electricity tariffs	(150)	149	(263)	258
United States PPI	109	(115)	128	(124)

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

5. Financial risk management (continued)

5.3 Liquidity risk

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

The objective of the group's liquidity and funding management is to ensure that all foreseeable operational, capital expansion and loan commitment expenditure can be met under both normal and stressed conditions. The group has adopted an overall statement of financial position approach, which consolidates all sources and uses of liquidity, while aiming to maintain a balance between liquidity, profitability and interest rate considerations.

The management of group liquidity and funding risk is centralised in the treasury department in accordance with practices and limits set by the Exco and the board. The group's liquidity and funding management process includes:

- projecting cash flows and considering the cash required by the group and optimising the short-term liquidity as well as the long-term funding
- monitoring financial position liquidity ratios
- maintaining a diverse range of funding sources with adequate back-up facilities
- managing the concentration and profile of debt maturities
- actively managing the funding risk by evaluating optimal entry points into the various markets per the official borrowing programme
- maintaining liquidity and funding contingency plans

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

The guarantees are administratively managed by the treasury department. Updated guarantee schedules are compiled every month, taking cognisance of any changed risk factors, and are submitted to each of the committees for consideration and action, if necessary. Risk factors and assumptions affecting probability calculations are reassessed twice a year and presented to the above committees.

Eskom's guarantees are diverse and unlinked, such that a trigger event for any one guarantee is unlikely to precipitate a trigger event in respect of other guarantees.

Given that there would be forewarning of payments required in terms of the other guarantees, and considering the amounts of the guarantees, it is expected that Eskom will be able to raise the required liquidity to effect any required payments.

5.3.1 Key liquidity indicators

		Group		Company	
	Unit	2017	2016	2017	2016
Weighted average term to maturity of debt securities and borrowings	years	8.06	8.63	8.06	8.63
Working capital ratio	ratio	0.85	0.83	0.86	0.86
Cash interest cover ratio	ratio	1.82	1.83	1.77	1.69
Debt service cover ratio	ratio	1.37	1.14	1.37	1.09
Liquid assets	Rm	32 503	38 680	26 668	32 688

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

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

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

5.3.2 Primary sources of funding and unused facilities

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

	ZAR		EUR		USD	
	2017 m	2016 m	2017 m	2016 m	2017 m	2016 m
Facilities available						
Export credit agencies	–	–	523	845	195	195
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	–	–
Kreditanstalt für Wiederaufbau – Hermes	–	–	234	289	–	–
Deutsche Bank – Hermes	–	–	14	20	–	–
Export-Import Bank of the United States	–	–	–	–	195	195
Development financing institutions	4 761	2 505	384	503	1 513	1 921
World Bank	–	–	–	–	884	1 280
African Development Bank	3 304	232	212	331	256	256
Clean technology fund – African Development Bank	–	–	–	–	58	64
Clean technology fund – World Bank	–	–	–	–	215	221
European Investment Bank	–	–	75	75	–	–
Kreditanstalt für Wiederaufbau	–	–	–	–	100	100
Agence Française de Développement	1 457	2 273	97	97	–	–
General banking facilities	6 250	3 750	–	–	–	–
	11 011	6 255	907	1 348	1 708	2 116
Funds received during the year						
Export credit agencies	–	–	322	71	–	289
Banque Nationale de Paris Paribas – Servizi Assicurativi del Commercio Estero	–	–	261	–	–	–
Kreditanstalt für Wiederaufbau – Hermes	–	–	55	68	–	–
Deutsche Bank – Hermes	–	–	6	3	–	–
Export-Import Bank of the United States	–	–	–	–	–	289
Development financing institutions	3 036	7 145	119	470	1 883	291
World Bank[1]	–	–	–	–	396	291
African Development Bank[2]	2 220	84	119	–	975	–
Development Bank of South Africa[3]	–	3 000	–	–	–	–
Clean technology fund – World Bank[4]	–	–	–	–	6	–
Clean technology fund – African Development Bank[4]	–	–	–	–	6	–
Kreditanstalt für Wiederaufbau[5]	–	3 935	–	–	–	–
Agence Française de Développement[4, 6]	816	126	–	–	–	–
Deutsche Bank guaranteed by Multilateral Investment Guarantee Agency[7]	–	–	–	470	–	–
China Development Bank[8]	–	–	–	–	500	–
	3 036	7 145	441	541	1 883	580
Government guarantees						
Available	134 767	168 546	–	–	–	–
Domestic multi-term note programme	38 774	44 951	–	–	–	–
General guarantees	95 993	123 595	–	–	–	–
Used during the year	33 779	22 643	–	–	–	–
Domestic multi-term note programme	6 177	4 823	–	–	–	–
General guarantees	27 602	17 820	–	–	–	–

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.*
8. *Funds received were for the Medupi power station and Matla mine.*

5. Financial risk management (continued)

5.3 Liquidity risk (continued)

5.3.3 Contractual cash flows

The table below 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 are a point in time calculation that are impacted by market conditions at that time.

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

	Note	Carrying amount			Cash flows				
		Non-current	Current	Total	Nominal inflow/ outflow	0-3 months	4-12 months	1-5 years	> 5 years
		Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2017									
Group									
Financial assets									
Investment in securities	14	1 537	10 541	12 078	12 417	2 317	8 451	1 649	–
Loans receivable	15	79	14	93	93	4	9	80	–
Derivatives held for risk management	16	16 868	1 000	17 868	28 691	676	190	9 924	17 901
Finance lease receivables	17	448	26	474	873	21	63	326	463
Trade and other receivables	19	9	19 358	19 367	19 367	17 469	1 889	9	–
Financial trading assets[1]	14	–	2 919	2 919	2 927	1 616	1 193	118	–
Cash and cash equivalents	21	–	20 425	20 425	20 425	20 425	–	–	–
		18 941	54 283	73 224	84 793	42 528	11 795	12 106	18 364
Financial liabilities									
Debt securities and borrowings	25	336 770	18 530	355 300	712 664	7 109	30 377	212 867	462 311
Derivatives held for risk management	16	6 767	3 826	10 593	9 869	2 323	5 618	8 903	(6 975)
Finance lease payables	30	9 819	246	10 065	30 864	518	1 563	8 531	20 252
Trade and other payables	31	871	31 143	32 014	32 016	28 441	2 696	727	152
Financial trading liabilities[1]	14	–	1 620	1 620	2 191	1 291	20	120	760
Financial guarantees	45	–	1	1	99	99	–	–	–
		354 227	55 366	409 593	787 703	39 781	40 274	231 148	476 500
Company									
Financial assets									
Investment in securities	14	1 537	5 167	6 704	7 043	1 691	3 703	1 649	–
Loans receivable	15	–	6 187	6 187	6 329	2 735	3 594	–	–
Derivatives held for risk management	16	16 868	1 000	17 868	28 691	676	190	9 924	17 901
Finance lease receivables	17	448	26	474	873	21	63	326	463
Trade and other receivables	19	9	20 609	20 618	20 618	19 001	1 608	9	–
Financial trading assets[1]	14	–	1 730	1 730	1 738	1 616	4	118	–
Cash and cash equivalents	21	–	19 964	19 964	19 964	19 964	–	–	–
		18 862	54 683	73 545	85 256	45 704	9 162	12 026	18 364
Financial liabilities									
Debt securities and borrowings	25	336 690	22 017	358 707	716 070	10 595	30 377	212 787	462 311
Derivatives held for risk management	16	6 767	3 838	10 605	9 882	2 334	5 620	8 903	(6 975)
Finance lease payables	30	9 819	246	10 065	30 864	518	1 563	8 531	20 252
Trade and other payables	31	871	32 519	33 390	33 389	30 902	1 608	727	152
Financial trading liabilities[1]	14	–	1 620	1 620	2 191	1 291	20	120	760
Financial guarantees	45	–	2	2	1 186	1 186	–	–	–
		354 147	60 242	414 389	793 582	46 826	39 188	231 068	476 500

	Note	Carrying amount Non-current Rm	Current Rm	Total Rm	Nominal inflow/ outflow Rm	Cash flows 0-3 months Rm	4-12 months Rm	1-5 years Rm	> 5 years Rm
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	21 839	20 878	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	126 294	54 657	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	24 510	23 847	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	128 192	58 265	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.*

6. Accounting classification and fair value

6.1 Accounting classification

	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total Rm
2017							
Group							
Financial assets							
Investment in securities	14	–	–	12 078	–	–	12 078
Government bonds		–	–	3 523	–	–	3 523
Negotiable certificates of deposit		–	–	8 555	–	–	8 555
Loans receivable	15	–	93	–	–	–	93
Derivatives held for risk management	16	832	–	–	–	17 036	17 868
Foreign exchange contracts		761	–	–	–	30	791
Cross-currency swaps		61	–	–	–	17 006	17 067
Commodity forwards		1	–	–	–	–	1
Credit default swaps		9	–	–	–	–	9
Finance lease receivables	17	–	–	–	–	474	474
Trade and other receivables	19	–	19 367	–	–	–	19 367
Financial trading assets	14	2 919	–	–	–	–	2 919
Repurchase agreements		1 617	–	–	–	–	1 617
Listed shares		1 189	–	–	–	–	1 189
Government bonds		113	–	–	–	–	113
Cash and cash equivalents	21	–	20 425	–	–	–	20 425
Bank balances		–	14 736	–	–	–	14 736
Unsettled deals		–	12	–	–	–	12
Fixed deposits		–	5 677	–	–	–	5 677
		3 751	39 885	12 078	–	17 510	73 224
Financial liabilities							
Debt securities and borrowings	25	–	–	–	355 300	–	355 300
Eskom bonds		–	–	–	139 255	–	139 255
Promissory notes		–	–	–	54	–	54
Commercial paper		–	–	–	5 627	–	5 627
Eurorand zero coupon bonds		–	–	–	5 049	–	5 049
Foreign bonds		–	–	–	53 524	–	53 524
Development financing institutions		–	–	–	107 800	–	107 800
Export credit facilities		–	–	–	33 228	–	33 228
Other loans		–	–	–	10 763	–	10 763
Embedded derivatives	26	–	–	–	–	5 414	5 414
Derivatives held for risk management	16	2 647	–	–	–	7 946	10 593
Foreign exchange contracts		1 497	–	–	–	1 506	3 003
Cross-currency swaps		572	–	–	–	6 440	7 012
Commodity forwards		18	–	–	–	–	18
Credit default swaps		560	–	–	–	–	560
Finance lease payables	30	–	–	–	–	10 065	10 065
Trade and other payables	31	–	–	–	32 014	–	32 014
Financial trading liabilities	14	1 620	–	–	–	–	1 620
Short-sold government bonds		326	–	–	–	–	326
Repurchase agreements		1 294	–	–	–	–	1 294
		4 267	–	–	387 314	23 425	415 006

	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total Rm
2017							
Company							
Financial assets							
Investment in securities	14	–	–	6 704	–	–	6 704
Government bonds		–	–	3 523	–	–	3 523
Negotiable certificates of deposit		–	–	3 181	–	–	3 181
Loans receivable	15	–	6 187	–	–	–	6 187
Derivatives held for risk management	16	832	–	–	–	17 036	17 868
Foreign exchange contracts		761	–	–	–	30	791
Cross-currency swaps		61	–	–	–	17 006	17 067
Commodity forwards		1	–	–	–	–	1
Credit default swaps		9	–	–	–	–	9
Finance lease receivables	17	–	–	–	–	474	474
Trade and other receivables	19	–	20 618	–	–	–	20 618
Financial trading assets	14	1 730	–	–	–	–	1 730
Repurchase agreements		1 617	–	–	–	–	1 617
Government bonds		113	–	–	–	–	113
Cash and cash equivalents	21	–	19 964	–	–	–	19 964
Bank balances		–	14 275	–	–	–	14 275
Unsettled deals		–	12	–	–	–	12
Fixed deposits		–	5 677	–	–	–	5 677
		2 562	46 769	6 704	–	17 510	73 545
Financial liabilities							
Debt securities and borrowings	25	–	–	–	358 707	–	358 707
Eskom bonds		–	–	–	139 255	–	139 255
Promissory notes		–	–	–	54	–	54
Commercial paper		–	–	–	7 238	–	7 238
Eurorand zero coupon bonds		–	–	–	5 049	–	5 049
Foreign bonds		–	–	–	53 524	–	53 524
Development financing institutions		–	–	–	107 800	–	107 800
Export credit facilities		–	–	–	33 228	–	33 228
Other loans		–	–	–	12 559	–	12 559
Embedded derivatives	26	–	–	–	–	5 414	5 414
Derivatives held for risk management	16	2 659	–	–	–	7 946	10 605
Foreign exchange contracts		1 509	–	–	–	1 506	3 015
Cross-currency swaps		572	–	–	–	6 440	7 012
Commodity forwards		18	–	–	–	–	18
Credit default swaps		560	–	–	–	–	560
Finance lease payables	30	–	–	–	–	10 065	10 065
Trade and other payables	31	–	–	–	33 390	–	33 390
Financial trading liabilities	14	1 620	–	–	–	–	1 620
Short-sold government bonds		326	–	–	–	–	326
Repurchase agreements		1 294	–	–	–	–	1 294
		4 279	–	–	392 097	23 425	419 801

6. Accounting classification and fair value (continued)

6.1 Accounting classification (continued)

	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total Rm
2016							
Group							
Financial assets							
Investment in securities	14	–	–	10 226	–	–	10 226
Government bonds		–	–	3 769	–	–	3 769
Negotiable certificates of deposit		–	–	6 457	–	–	6 457
Loans receivable	15	–	80	–	–	–	80
Derivatives held for risk management	16	1 130	–	–	–	29 052	30 182
Foreign exchange contracts		1 008	–	–	–	1 151	2 159
Cross-currency swaps		82	–	–	–	27 901	27 983
Commodity forwards		31	–	–	–	–	31
Credit default swaps		9	–	–	–	–	9
Finance lease receivables	17	–	–	–	–	499	499
Trade and other receivables	19	–	21 839	–	–	–	21 839
Financial trading assets	14	3 844	–	–	–	–	3 844
Repurchase agreements		2 044	–	–	–	–	2 044
Listed shares		1 187	–	–	–	–	1 187
Government bonds		613	–	–	–	–	613
Cash and cash equivalents	21	–	28 454	–	–	–	28 454
Bank balances		–	28 452	–	–	–	28 452
Unsettled deals		–	2	–	–	–	2
		4 974	50 373	10 226	–	29 551	95 124
Financial liabilities							
Debt securities and borrowings	25	–	–	–	322 658	–	322 658
Eskom bonds		–	–	–	126 466	–	126 466
Promissory notes		–	–	–	46	–	46
Commercial paper		–	–	–	4 822	–	4 822
Eurorand zero coupon bonds		–	–	–	4 462	–	4 462
Foreign bonds		–	–	–	58 815	–	58 815
Development financing institutions		–	–	–	82 976	–	82 976
Export credit facilities		–	–	–	37 597	–	37 597
Other loans		–	–	–	7 474	–	7 474
Embedded derivatives	26	–	–	–	–	7 025	7 025
Derivatives held for risk management	16	2 928	–	–	–	1 945	4 873
Foreign exchange contracts		1 482	–	–	–	106	1 588
Cross-currency swaps		382	–	–	–	1 839	2 221
Credit default swaps		1 064	–	–	–	–	1 064
Finance lease payables	30	–	–	–	–	3 928	3 928
Trade and other payables	31	–	–	–	32 922	–	32 922
Financial trading liabilities	14	1 250	–	–	–	–	1 250
Short-sold government bonds		227	–	–	–	–	227
Repurchase agreements		1 023	–	–	–	–	1 023
		4 178	–	–	355 580	12 898	372 656

	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total Rm
2016							
Company							
Financial assets							
Investment in securities	14	–	–	4 552	–	–	4 552
Government bonds		–	–	3 769	–	–	3 769
Negotiable certificates of deposit		–	–	783	–	–	783
Loans receivable	15	–	6 352	–	–	–	6 352
Derivatives held for risk management	16	1 130	–	–	–	29 052	30 182
Foreign exchange contracts		1 008	–	–	–	1 151	2 159
Cross-currency swaps		82	–	–	–	27 901	27 983
Commodity forwards		31	–	–	–	–	31
Credit default swaps		9	–	–	–	–	9
Finance lease receivables	17	–	–	–	–	499	499
Trade and other receivables	19	–	24 509	–	–	–	24 509
Financial trading assets	14	2 657	–	–	–	–	2 657
Repurchase agreements		2 044	–	–	–	–	2 044
Government bonds		613	–	–	–	–	613
Cash and cash equivalents	21	–	28 136	–	–	–	28 136
Bank balances		–	28 134	–	–	–	28 134
Unsettled deals		–	2	–	–	–	2
		3 787	58 997	4 552	–	29 551	96 887
Financial liabilities							
Debt securities and borrowings	25	–	–	–	325 957	–	325 957
Eskom bonds		–	–	–	126 466	–	126 466
Promissory notes		–	–	–	46	–	46
Commercial paper		–	–	–	6 431	–	6 431
Eurorand zero coupon bonds		–	–	–	4 462	–	4 462
Foreign bonds		–	–	–	58 815	–	58 815
Development financing institutions		–	–	–	82 976	–	82 976
Export credit facilities		–	–	–	37 597	–	37 597
Other loans		–	–	–	9 164	–	9 164
Embedded derivatives	26	–	–	–	–	7 025	7 025
Derivatives held for risk management	16	2 941	–	–	–	1 945	4 886
Foreign exchange contracts		1 495	–	–	–	106	1 601
Cross-currency swaps		382	–	–	–	1 839	2 221
Credit default swaps		1 064	–	–	–	–	1 064
Finance lease payables	30	–	–	–	–	3 928	3 928
Trade and other payables	31	–	–	–	34 435	–	34 435
Financial trading liabilities	14	1 250	–	–	–	–	1 250
Short-sold government bonds		227	–	–	–	–	227
Repurchase agreements		1 023	–	–	–	–	1 023
		4 191	–	–	360 392	12 898	377 481

6. Accounting classification and fair value (continued)

6.2 Fair value

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 to which the fair value hierarchy that the resulting fair value estimate should be classified.

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

Fair value hierarchy

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

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

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

Eskom corporate bonds have been transferred from level 1 to level 2 as it is considered that the bonds are not actively trading in the current economic circumstances. There were no other 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
Loans receivable, debt securities and borrowings, finance lease receivables and payables, negotiable certificates of deposit (investment in securities) and repurchase agreement assets and liabilities (financial trading assets and liabilities)	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 cash and cash equivalents	Fair values have not been disclosed for financial instruments where the carrying amounts are a reasonable approximation of fair value

Level 3: Inputs not based on observable market data (unobservable inputs)
Level 3 items are fair valued using unobservable inputs. 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
2017								
Assets measured at fair value								
Investment in securities	3 523	8 555	–	12 078	3 523	3 181	–	6 704
Government bonds	3 523	–	–	3 523	3 523	–	–	3 523
Negotiable certificates of deposit	–	8 555	–	8 555	–	3 181	–	3 181
Derivatives held for risk management	–	17 868	–	17 868	–	17 868	–	17 868
Foreign exchange contracts	–	791	–	791	–	791	–	791
Cross-currency swaps	–	17 067	–	17 067	–	17 067	–	17 067
Commodity forwards	–	1	–	1	–	1	–	1
Credit default swaps	–	9	–	9	–	9	–	9
Financial trading assets	1 302	1 617	–	2 919	113	1 617	–	1 730
Repurchase agreements	–	1 617	–	1 617	–	1 617	–	1 617
Listed shares	1 189	–	–	1 189	–	–	–	–
Government bonds	113	–	–	113	113	–	–	113
Assets not measured at fair value								
Loans receivable	–	93	–	93	–	6 187	–	6 187
Finance lease receivables	–	474	–	474	–	474	–	474
Liabilities measured at fair value								
Embedded derivatives	–	–	5 414	5 414	–	–	5 414	5 414
Derivatives held for risk management	–	10 593	–	10 593	–	10 605	–	10 605
Foreign exchange contracts	–	3 003	–	3 003	–	3 015	–	3 015
Cross-currency swaps	–	7 012	–	7 012	–	7 012	–	7 012
Commodity forwards	–	18	–	18	–	18	–	18
Credit default swaps	–	560	–	560	–	560	–	560
Financial trading liabilities	326	1 294	–	1 620	326	1 294	–	1 620
Short-sold government bonds	326	–	–	326	326	–	–	326
Repurchase agreements	–	1 294	–	1 294	–	1 294	–	1 294
Liabilities not measured at fair value								
Debt securities and borrowings	–	335 238	–	335 238	–	338 644	–	338 644
Eskom bonds	–	132 274	–	132 274	–	132 274	–	132 274
Promissory notes	–	74	–	74	–	74	–	74
Commercial paper	–	5 636	–	5 636	–	7 246	–	7 246
Eurorand zero coupon bonds	–	5 088	–	5 088	–	5 088	–	5 088
Foreign bonds	–	54 746	–	54 746	–	54 746	–	54 746
Development financing institutions	–	94 787	–	94 787	–	94 787	–	94 787
Export credit facilities	–	33 519	–	33 519	–	33 519	–	33 519
Other loans	–	9 114	–	9 114	–	10 910	–	10 910
Finance lease payables	–	11 240	–	11 240	–	11 240	–	11 240

6. Accounting classification and fair value (continued)

6.2 Fair value (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
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
Finance lease receivables	–	499	–	499	–	499	–	499
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

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

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

7. **Segment information** (continued)

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

	Generation Rm	Transmission Rm	Distribution Rm	Energy purchases/ sales Rm	Group customer services Rm	Group capital Rm	All other segments Rm	Reallocation and inter-segment transactions Rm	Group Rm
2017									
External revenue	–	8	1 912	10 729	164 487	–	1 212	(1 212)	177 136
Inter-segment revenue/recoveries	116 030	7 600	22 262	12 859	(158 365)	(173)	12 412	(12 625)	–
Total revenue	116 030	7 608	24 174	23 588	6 122	(173)	13 624	(13 837)	177 136
Other income	537	223	467	–	113	549	636	(952)	1 573
Primary energy	(60 128)	–	–	(22 438)	(194)	–	–	–	(82 760)
Employee benefit expense	(9 703)	(1 763)	(8 781)	(72)	(1 627)	(774)	(10 458)	–	(33 178)
Impairment loss	(22)	(19)	(355)	(124)	(1 131)	(263)	(548)	–	(2 462)
Impairment loss reversals and bad debt recovered	9	–	9	–	123	644	8	–	793
Other expenses	(25 439)	(2 072)	(8 784)	(8)	(2 944)	253	2 329	13 095	(23 570)
Profit/(loss) before depreciation and amortisation expense and net fair value gain/(loss) (EBITDA)	21 284	3 977	6 730	946	462	236	5 591	(1 694)	37 532
Depreciation and amortisation expense	(12 905)	(2 257)	(3 321)	(638)	(6)	(85)	(1 235)	147	(20 300)
Net fair value gain/(loss) on financial instruments, excluding embedded derivatives	324	401	(141)	(1)	(41)	(3 961)	81	(4)	(3 342)
Net fair value gain on embedded derivatives	–	–	–	–	1 611	–	–	–	1 611
Profit/(loss) before net finance (cost)/income	8 703	2 121	3 268	307	2 026	(3 810)	4 437	(1 551)	15 501
Net finance (cost)/income	(10 910)	(2 006)	(1 329)	(1 812)	1 093	899	(462)	150	(14 377)
Finance income	1 170	126	316	29	1 320	922	1 314	15	5 212
Finance cost	(12 080)	(2 132)	(1 645)	(1 841)	(227)	(23)	(1 776)	135	(19 589)
Share of profit of equity-accounted investees	–	–	–	–	–	–	35	–	35
(Loss)/profit before tax	(2 207)	115	1 939	(1 505)	3 119	(2 911)	4 010	(1 401)	1 159
Income tax	–	–	–	–	–	–	(655)	384	(271)
(Loss)/profit for the year	(2 207)	115	1 939	(1 505)	3 119	(2 911)	3 355	(1 017)	888
Other information									
Segment assets	219 654	51 235	80 376	10 835	16 974	260 706	82 100	(21 034)	700 846
Investment in equity-accounted investees	–	–	–	–	–	–	364	–	364
Non-current assets held-for-sale	–	–	–	–	–	70	8 729	–	8 799
Total assets	219 654	51 235	80 376	10 835	16 974	260 776	91 193	(21 034)	710 009
Total liabilities	60 775	1 960	30 147	13 470	13 840	14 663	419 065	(19 853)	534 067
Capital expenditure	12 627	1 041	9 038	6 277	2	34 494	3 554	(455)	66 578

	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	2 465	8 105	153 660	–	1 251	(1 251)	164 239
Inter-segment revenue/ recoveries	110 963	7 345	20 243	10 954	(149 216)	(87)	11 205	(11 407)	–
Total revenue	110 963	7 354	22 708	19 059	4 444	(87)	12 456	(12 658)	164 239
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)	19 419	4 056	6 948	224	419	(1 144)	3 152	(263)	32 811
Depreciation and amortisation expense	(10 152)	(1 634)	(3 200)	(136)	(8)	(238)	(1 392)	127	(16 633)
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	9 175	2 431	3 775	110	1 446	(3 469)	2 389	(134)	15 723
Net finance (cost)/income	(6 494)	(1 559)	(1 061)	(295)	724	132	392	242	(7 919)
Finance income	886	187	180	8	946	–	1 113	127	3 447
Finance cost	(7 380)	(1 746)	(1 241)	(303)	(222)	132	(721)	115	(11 366)
Share of profit of equity-accounted investees	–	–	–	–	–	–	43	–	43
Profit/(loss) before tax	2 681	872	2 714	(185)	2 170	(3 337)	2 824	108	7 847
Income tax	–	–	–	–	–	–	(2 657)	(39)	(2 696)
Profit/(loss) for the year	2 681	872	2 714	(185)	2 170	(3 337)	167	69	5 151
Other information									
Segment assets	182 994	46 018	75 690	5 257	15 862	249 630	103 722	(25 305)	653 868
Investment in equity-accounted investees	–	–	–	–	–	–	360	–	360
Non-current assets held-for-sale	–	–	–	–	–	148	8 794	–	8 942
Total assets	182 994	46 018	75 690	5 257	15 862	249 778	112 876	(25 305)	663 170
Total liabilities	48 513	1 789	27 671	6 581	15 509	18 859	387 013	(25 117)	480 818
Capital expenditure	12 791	1 067	8 693	3 492	2	31 126	3 846	(689)	60 328

7. Segment information (continued)

	Group			
	Revenue		Non-current assets	
Geographical information	2017 Rm	2016 Rm	2017 Rm	2016 Rm
South Africa	166 454	156 183	603 184	536 912
Foreign countries	10 682	8 056	156	188
	177 136	164 239	603 340	537 100

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

		2017								2016
			Plant							
	Note	Land, buildings and facilities Rm	Gene-rating Rm	Trans-mitting Rm	Distri-buting Rm	Spares and other Rm	Equip-ment and vehicles Rm	Work under construc-tion Rm	Total Rm	Total Rm
Group										
Carrying value at beginning of the year		7 061	137 893	35 569	61 146	13 066	5 304	260 482	520 521	457 720
Cost		8 710	198 638	47 983	97 501	14 511	14 451	262 377	644 171	567 269
Accumulated depreciation and impairment losses		(1 649)	(60 745)	(12 414)	(36 355)	(1 445)	(9 147)	(1 895)	(123 650)	(109 549)
Additions		34	6 490	293	585	395	2 179	55 166	65 142	59 401
Commissioning of assets constructed		798	47 692	6 263	9 303	71	291	(64 418)	–	–
Basis adjustment – cash flow hedge reserve		–	–	–	–	–	–	(627)	(627)	(603)
Finance cost capitalised	41	–	–	–	–	–	–	18 233	18 233	19 426
Provisions capitalised	29	–	3 737	–	–	–	–	3 516	7 253	2 909
Transfers from/(to) non-current assets held-for-sale		78	–	–	–	–	–	–	78	(148)
Disposals and writeoffs		(40)	(142)	(92)	(23)	(34)	(81)	(246)	(658)	(691)
Depreciation		(105)	(13 226)	(2 106)	(3 965)	(93)	(1 096)	–	(20 591)	(16 706)
Net impairment loss[1]	36	–	–	–	–	(1)	(21)	(462)	(484)	(787)
Carrying value at end of the year		7 826	182 444	39 927	67 046	13 404	6 576	271 644	588 867	520 521
Cost		9 572	253 950	54 412	107 320	14 905	16 336	273 996	730 491	644 171
Accumulated depreciation and impairment losses		(1 746)	(71 506)	(14 485)	(40 274)	(1 501)	(9 760)	(2 352)	(141 624)	(123 650)

	Note	2017 Land, buildings and facilities Rm	2017 Plant Generating Rm	2017 Plant Transmitting Rm	2017 Plant Distributing Rm	2017 Plant Spares and other Rm	2017 Equipment and vehicles Rm	2017 Work under construction Rm	2017 Total Rm	2016 Total Rm
Company										
Carrying value at beginning of the year		6 916	138 803	35 633	61 325	13 066	4 403	261 623	521 769	459 211
Cost		8 488	200 080	48 053	97 726	14 511	12 460	263 518	644 836	568 287
Accumulated depreciation and impairment losses		(1 572)	(61 277)	(12 420)	(36 401)	(1 445)	(8 057)	(1 895)	(123 067)	(109 076)
Additions		34	6 523	338	632	395	1 424	55 160	64 506	59 464
Commissioning of assets constructed		797	47 692	6 263	9 303	71	266	(64 392)	–	–
Basis adjustment – cash flow hedge reserve		–	–	–	–	–	–	(627)	(627)	(603)
Finance cost capitalised	41	–	–	–	–	–	–	18 233	18 233	19 426
Provisions capitalised	29	–	3 737	–	–	–	–	3 516	7 253	2 909
Transfers from/(to) non-current assets held-for-sale		78	–	–	–	–	–	–	78	(148)
Disposals and writeoffs		(40)	(142)	(92)	(23)	(34)	(74)	(246)	(651)	(973)
Depreciation		(104)	(13 332)	(2 129)	(3 990)	(93)	(950)	–	(20 598)	(16 730)
Net impairment loss[1]	36	–	–	–	–	(1)	(21)	(462)	(484)	(787)
Carrying value at end of the year		7 681	183 281	40 013	67 247	13 404	5 048	272 805	589 479	521 769
Cost		9 348	255 509	54 527	107 592	14 905	13 604	275 157	730 642	644 836
Accumulated depreciation and impairment losses		(1 667)	(72 228)	(14 514)	(40 345)	(1 501)	(8 556)	(2 352)	(141 163)	(123 067)

	Note	Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
Carrying value of leased assets		9 149	3 528	9 149	3 528
Generating plant		8 994	3 357	8 994	3 357
Spares and other plant		155	171	155	171
The total depreciation charge for property, plant and equipment is disclosed in profit or loss in the following categories:		20 591	16 706	20 598	16 730
Depreciation and amortisation expense	38	20 575	16 693	20 582	16 717
Primary energy		16	13	16	13

	Group and company 2017 %	Group and company 2016 %
Average rates of finance cost capitalised to qualifying assets:		
General borrowings	9.75	9.77
Specific borrowings	9.12	8.79

9. Intangible assets

	Note	2017 Rights Rm	2017 Computer software Rm	2017 Concession assets Rm	2017 Total Rm	2016 Total Rm
Group						
Carrying value at beginning of the year		2 186	764	188	3 138	2 904
Cost		2 406	6 259	296	8 961	8 084
Accumulated amortisation and impairment losses		(220)	(5 495)	(108)	(5 823)	(5 180)
Additions and transfers		498	938	–	1 436	927
Amortisation	38	–	(561)	(32)	(593)	(693)
Carrying value at end of the year		2 684	1 141	156	3 981	3 138
Cost		2 904	7 093	261	10 258	8 961
Accumulated amortisation and impairment losses		(220)	(5 952)	(105)	(6 277)	(5 823)
Company						
Carrying value at beginning of the year		2 186	758	–	2 944	2 746
Cost		2 406	5 941	–	8 347	7 539
Accumulated amortisation and impairment losses		(220)	(5 183)	–	(5 403)	(4 793)
Additions and transfers		498	938	–	1 436	853
Amortisation	38	–	(563)	–	(563)	(655)
Carrying value at end of the year		2 684	1 133	–	3 817	2 944
Cost		2 904	6 765	–	9 669	8 347
Accumulated amortisation and impairment losses		(220)	(5 632)	–	(5 852)	(5 403)

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 2017 Coal Rm	2017 Nuclear Rm	2017 Total Rm	2016 Total Rm
Carrying value at beginning of the year		8 656	1 846	10 502	9 079
Net additions		228	411	639	1 749
Provisions capitalised	29	747	–	747	2 442
Writeoff of mine assets		(119)	–	(119)	(1 903)
Basis adjustment – cash flow hedge reserve		–	(513)	(513)	–
Transfer to inventories	20	(1 825)	(1 241)	(3 066)	(865)
Carrying value at end of the year		7 687	503	8 190	10 502

11. Investment in equity-accounted investees

	Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
Balance at beginning of the year	360	348	95	95
Share of profit after tax	35	43	–	–
Dividends received	(31)	(31)	–	–
Balance at end of the year	364	360	95	95

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

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

Name	Main business	Country of incorporation	2017 Interest held %	2017 Group Share of post-tax profit/(loss) for the year Rm	2017 Company Investment at cost Rm	2016 Interest held %	2016 Group Share of post-tax profit/(loss) for the year Rm	2016 Company Investment at cost Rm
Directly held								
Motraco – Mozambique Transmission Company SARL[1]	Electricity transmission	Mozambique	33	46	95	33	47	95
Indirectly held								
Trans Africa Projects (Pty) Ltd	Engineering services	South Africa	50	(11)		50	(4)	
				35			43	

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

12. Investment in subsidiaries

Name	Main business	Country of incorporation	2017 Issued/ stated share capital R	2017 Interest held %	2017 Company Investment at cost Rm	2016 Issued/ stated share capital R	2016 Interest held %	2016 Company Investment at cost Rm
Directly held								
Escap SOC Ltd	Insurance	South Africa	379 500 000	100	380	379 500 000	100	380
Eskom Development Foundation NPC	Corporate social investment	South Africa	–	100	–	–	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	–[2]	99 000	100	–[2]
Eskom Finance Company SOC Ltd[3]	Finance (employee housing loans)	South Africa	4 000	100	–[2]	4 000	100	–[2]
PN Energy Services SOC Ltd	Not trading	South Africa	1 500 000	100	4	1 500 000	100	4
					384			384
Indirectly held								
Eskom Rotek Industries SOC Ltd	Construction and abnormal load transportation	South Africa	1	100		1	100	
Eskom Uganda Ltd[1]	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[3, 4]	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	
South Dunes Coal Terminal SOC Ltd	Coal exports	South Africa	2 900	69		2 667	75	

The shareholding in South Dunes Coal Terminal SOC Ltd decreased as a result of additional shares issued during the year. All subsidiaries continue to be accounted for as previously assessed as there has not been any change in the outcome of the control assessment.

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

1. *Issued/stated capital in foreign currency. Year end is 31 December.*
2. *Nominal.*
3. *Classified as held-for-sale. Refer to note 22.*
4. *Nqaba is a securitisation vehicle.*

13. Deferred tax

		Note	Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
13.1	**Deferred tax assets**					
	Balance at beginning of the year		174	230	–	–
	Transfer from profit or loss	42	(124)	(56)	–	–
	Balance at end of the year		50	174	–	–
	Comprising		50	174	–	–
	Property, plant and equipment		–	135	–	–
	Provisions		50	16	–	–
	Tax losses		–	22	–	–
	Investment in securities		–	1	–	–
13.2	**Deferred tax liabilities**					
	Balance at beginning of the year		21 696	18 642	21 317	18 336
	Transfer from profit or loss	42	(944)	2 098	(399)	1 905
	Transfer from statement of comprehensive income	42	(2 821)	2 522	(2 828)	2 521
	Conversion of subordinated loan from the shareholder to share capital		–	(1 445)	–	(1 445)
	Non-current assets held-for-sale		136	(121)	–	–
	Balance at end of the year		18 067	21 696	18 090	21 317
	Comprising		18 067	21 696	18 090	21 317
	Property, plant and equipment		59 664	49 459	59 393	48 933
	Inventories		90	2 205	90	2 206
	Provisions		(22 955)	(17 557)	(22 670)	(17 394)
	Tax losses		(14 982)	(10 215)	(14 982)	(10 215)
	Embedded derivative liabilities		(1 516)	(1 966)	(1 516)	(1 967)
	Investment in securities		2	18	1	(13)
	Cash flow hedges		1 664	4 567	1 665	4 567
	Payments received in advance		(3 984)	(4 833)	(3 984)	(4 832)
	Employee benefit obligations		84	18	93	32
	Unused tax losses available for offset against future taxable income		53 507	36 561	53 507	36 482

14. Investment in securities and financial trading instruments

Portfolio	Managed by	Purpose
Market-making	Treasury	Facilitate market liquidity in Eskom bonds to reduce the cost of borrowing
Investing	Treasury	Investment of surplus funds from operations or financing raised before capital expenditure commences
Insurance	Escap	Investments in terms of short-term insurance regulations in South Africa to maintain adequate ring-fenced capital reserves

		2017				2016			
		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	–	3 523	–	3 523	–	3 769	–	3 769
	Negotiable certificates of deposit	–	3 181	5 374	8 555	–	783	5 674	6 457
		–	6 704	5 374	12 078	–	4 552	5 674	10 226
	Maturity analysis	–	6 704	5 374	12 078	–	4 552	5 674	10 226
	Non-current	–	1 537	–	1 537	–	2 485	–	2 485
	Current	–	5 167	5 374	10 541	–	2 067	5 674	7 741
	Company								
	Government bonds	–	3 523	–	3 523	–	3 769	–	3 769
	Negotiable certificates of deposit	–	3 181	–	3 181	–	783	–	783
		–	6 704	–	6 704	–	4 552	–	4 552
	Maturity analysis	–	6 704	–	6 704	–	4 552	–	4 552
	Non-current	–	1 537	–	1 537	–	2 485	–	2 485
	Current	–	5 167	–	5 167	–	2 067	–	2 067
14.2	**Financial trading assets**								
	Group								
	Repurchase agreements	1 617	–	–	1 617	2 044	–	–	2 044
	Eskom bonds	810	–	–	810	1 479	–	–	1 479
	Government bonds	807	–	–	807	565	–	–	565
	Listed shares	–	–	1 189	1 189	–	–	1 187	1 187
	Government bonds	113	–	–	113	613	–	–	613
		1 730	–	1 189	2 919	2 657	–	1 187	3 844
	Company								
	Repurchase agreements	1 617	–	–	1 617	2 044	–	–	2 044
	Eskom bonds	810	–	–	810	1 479	–	–	1 479
	Government bonds	807	–	–	807	565	–	–	565
	Government bonds	113	–	–	113	613	–	–	613
		1 730	–	–	1 730	2 657	–	–	2 657

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)

	2017				2016			
	Market-making Rm	Investing Rm	Insurance Rm	Total Rm	Market-making Rm	Investing Rm	Insurance Rm	Total Rm
14.3 Financial trading liabilities								
Group and company								
Short-sold government bonds	326	–	–	326	227	–	–	227
Repurchase agreements	1 294	–	–	1 294	1 023	–	–	1 023
Eskom bonds	64	–	–	64	118	–	–	118
Government bonds	1 230	–	–	1 230	905	–	–	905
	1 620	–	–	1 620	1 250	–	–	1 250

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

	Group		Company	
	2017 Rm	2016 Rm	2017 Rm	2016 Rm
Subsidiary loans	–	–	6 187	6 352
Other	93	80	–	–
	93	80	6 187	6 352
Maturity analysis	93	80	6 187	6 352
Non-current	79	70	–	–
Current	14	10	6 187	6 352

16. Derivatives held for risk management

	2017					2016				
	Foreign exchange contracts Rm	Cross-currency swaps Rm	Commo-dity forwards Rm	Credit default swaps Rm	Total Rm	Foreign exchange contracts Rm	Cross-currency swaps Rm	Commo-dity forwards Rm	Credit default swaps Rm	Total Rm
Group										
Net asset/(liability) at beginning of the year	571	25 762	31	(1 055)	25 309	(1 769)	11 778	7	(490)	9 526
Net fair value (loss)/gain	(12 166)	(15 445)	(39)	504	(27 146)	9 073	20 837	39	(565)	29 384
Income statement	(10 067)	(8 488)	(39)	504	(18 090)	5 885	15 070	39	(565)	20 429
Statement of comprehensive income	(2 099)	(6 957)	–	–	(9 056)	3 188	5 767	–	–	8 955
Finance income accrued	–	(24)	–	–	(24)	–	(291)	–	(49)	(340)
Cash paid/(received)	9 383	(238)	(9)	–	9 136	(6 733)	(6 562)	(15)	49	(13 261)
Net (liability)/asset at end of the year	(2 212)	10 055	(17)	(551)	7 275	571	25 762	31	(1 055)	25 309
Hedge exposure covered	(2 212)	10 055	(17)	(551)	7 275	571	25 762	31	(1 055)	25 309
Debt securities and borrowings	(316)	10 055	–	(551)	9 188	(766)	25 762	–	(1 055)	23 941
Other	(1 896)	–	(17)	–	(1 913)	1 337	–	31	–	1 368
Assets										
Economic hedging	761	61	1	9	832	1 008	82	31	9	1 130
Cash flow hedging	30	17 006	–	–	17 036	1 151	27 901	–	–	29 052
	791	17 067	1	9	17 868	2 159	27 983	31	9	30 182
Maturity analysis	791	17 067	1	9	17 868	2 159	27 983	31	9	30 182
Non-current	–	16 868	–	–	16 868	–	27 600	–	–	27 600
Current	791	199	1	9	1 000	2 159	383	31	9	2 582
Liabilities										
Economic hedging	1 497	572	18	560	2 647	1 482	382	–	1 064	2 928
Cash flow hedging	1 506	6 440	–	–	7 946	106	1 839	–	–	1 945
	3 003	7 012	18	560	10 593	1 588	2 221	–	1 064	4 873
Maturity analysis	3 003	7 012	18	560	10 593	1 588	2 221	–	1 064	4 873
Non-current	–	6 207	–	560	6 767	–	1 798	–	1 064	2 862
Current	3 003	805	18	–	3 826	1 588	423	–	–	2 011
Notional amount	m	m	m	m	m	m	m	m	m	m
EUR	2 470	1 399	–	–	3 869	2 340	1 036	–	–	3 376
USD	1 284	5 693[1]	–	–	6 977	706	4 891[1]	–	–	5 597
GBP	20	–	–	–	20	54	–	–	–	54
JPY	245	9 892	–	–	10 137	254	12 366	–	–	12 620
SEK	246	–	–	–	246	51	–	–	–	51
AUD	1	–	–	–	1	2	–	–	–	2
CHF	1	–	–	–	1	2	–	–	–	2
CAD	3	–	–	–	3	4	–	–	–	4
NOK	3	–	–	–	3	3	–	–	–	3
ZAR	–	–	336	3 972	4 308	–	–	468	6 868	7 336

1. *Includes forward starting cross-currency swaps of USD300 million (2016: USD300 million).*

16. Derivatives held for risk management (continued)

	2017					2016				
	Foreign exchange contracts Rm	Cross-currency swaps Rm	Commo-dity forwards Rm	Credit default swaps Rm	Total Rm	Foreign exchange contracts Rm	Cross-currency swaps Rm	Commo-dity forwards Rm	Credit default swaps Rm	Total Rm
Company										
Net asset/(liability) at beginning of the year	558	25 762	31	(1 055)	25 296	(1 769)	11 778	7	(490)	9 526
Net fair value (loss)/gain	(12 078)	(15 445)	(39)	504	(27 058)	9 039	20 837	39	(565)	29 350
Income statement	(9 979)	(8 488)	(39)	504	(18 002)	5 851	15 070	39	(565)	20 395
Statement of comprehensive income	(2 099)	(6 957)	–	–	(9 056)	3 188	5 767	–	–	8 955
Finance income accrued	–	(24)	–	–	(24)	–	(291)	–	(49)	(340)
Cash paid/(received)	9 296	(238)	(9)	–	9 049	(6 712)	(6 562)	(15)	49	(13 240)
Net (liability)/asset at end of the year	(2 224)	10 055	(17)	(551)	7 263	558	25 762	31	(1 055)	25 296
Hedge exposure covered	(2 224)	10 055	(17)	(551)	7 263	558	25 762	31	(1 055)	25 296
Debt securities and borrowings	(316)	10 055	–	(551)	9 188	(766)	25 762	–	(1 055)	23 941
Other	(1 908)	–	(17)	–	(1 925)	1 324	–	31	–	1 355
Assets										
Economic hedging	761	61	1	9	832	1 008	82	31	9	1 130
Cash flow hedging	30	17 006	–	–	17 036	1 151	27 901	–	–	29 052
	791	17 067	1	9	17 868	2 159	27 983	31	9	30 182
Maturity analysis	791	17 067	1	9	17 868	2 159	27 983	31	9	30 182
Non-current	–	16 868	–	–	16 868	–	27 600	–	–	27 600
Current	791	199	1	9	1 000	2 159	383	31	9	2 582
Liabilities										
Economic hedging	1 509	572	18	560	2 659	1 495	382	–	1 064	2 941
Cash flow hedging	1 506	6 440	–	–	7 946	106	1 839	–	–	1 945
	3 015	7 012	18	560	10 605	1 601	2 221	–	1 064	4 886
Maturity analysis	3 015	7 012	18	560	10 605	1 601	2 221	–	1 064	4 886
Non-current	–	6 207	–	560	6 767	–	1 798	–	1 064	2 862
Current	3 015	805	18	–	3 838	1 601	423	–	–	2 024
Notional amount	m	m	m	m	m	m	m	m	m	m
EUR	2 451	1 399	–	–	3 850	2 317	1 036	–	–	3 353
USD	1 283	5 693[1]	–	–	6 976	705	4 891[1]	–	–	5 596
GBP	18	–	–	–	18	53	–	–	–	53
JPY	245	9 892	–	–	10 137	254	12 366	–	–	12 620
SEK	246	–	–	–	246	51	–	–	–	51
AUD	1	–	–	–	1	2	–	–	–	2
CHF	1	–	–	–	1	2	–	–	–	2
CAD	3	–	–	–	3	4	–	–	–	4
NOK	3	–	–	–	3	3	–	–	–	3
ZAR	–	–	336	3 972	4 308	–	–	468	6 868	7 336

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

	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
The periods in which the cash flows of derivatives designated as cash flow hedges are expected to occur are:						
2017						
Forward exchange contracts						
Assets	30	30	23	7	–	–
Liabilities	(1 506)	(1 494)	(686)	(808)	–	–
Cross-currency swaps						
Assets	17 006	27 356	(21)	(56)	9 880	17 553
Liabilities	(6 440)	(6 333)	(422)	(4 300)	(8 531)	6 920
	9 090	19 559	(1 106)	(5 157)	1 349	24 473
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
The periods in which the cash flows associated with derivatives are expected to impact profit or loss are:						
2017						
Forward exchange contracts						
Assets	30	7 332	23	7	351	6 951
Liabilities	(1 506)	(1 494)	(686)	(808)	–	–
Cross-currency swaps						
Assets	17 006	27 356	(21)	(56)	9 880	17 553
Liabilities	(6 440)	(6 333)	(422)	(4 300)	(8 531)	6 920
	9 090	26 861	(1 106)	(5 157)	1 700	31 424
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

16. Derivatives held for risk management (continued)

Ineffective cash flow hedges

During the year a loss of R155 million (2016: R19 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 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)
Day-one loss recognised	(762)	–	(762)
Amortised to profit or loss	76	(24)	52
Loss at 31 March 2017	(727)	–	(727)

17. Finance lease receivables

	Group and company					
	2017			2016		
	Gross receivables Rm	Unearned finance income Rm	Present value Rm	Gross receivables Rm	Unearned finance income Rm	Present value Rm
Non-current	789	(341)	448	832	(355)	477
Between one and five years	326	(191)	135	316	(198)	118
After five years	463	(150)	313	516	(157)	359
Current						
Within one year	84	(58)	26	80	(58)	22
	873	(399)	474	912	(413)	499

The average implicit interest rate for the group and company was 13% (2016: 13%).

18. Payments made in advance

	2017				2016
	Securing debt raised Rm	Environmental rehabilitation trust fund Rm	Other Rm	Total Rm	Total Rm
Group					
Balance at beginning of the year	1 460	882	4 128	6 470	5 509
Payments made	1 096	–	760	1 856	3 922
Expense recognised	–	–	(516)	(516)	(432)
Transferred to the statement of financial position	(1 177)	–	(2 604)	(3 781)	(2 529)
Balance at end of the year	1 379	882	1 768	4 029	6 470
Maturity analysis	1 379	882	1 768	4 029	6 470
Non-current	903	882	153	1 938	2 579
Current	476	–	1 615	2 091	3 891
Company					
Balance at beginning of the year	1 460	882	3 953	6 295	5 264
Payments made	1 096	–	732	1 828	3 884
Expense recognised	–	–	(477)	(477)	(324)
Transferred to the statement of financial position	(1 177)	–	(2 655)	(3 832)	(2 529)
Balance at end of the year	1 379	882	1 553	3 814	6 295
Maturity analysis	1 379	882	1 553	3 814	6 295
Non-current	903	882	71	1 856	2 563
Current	476	–	1 482	1 958	3 732

19. Trade and other receivables

	2017			2016		
	Gross value Rm	Allowance for impairment Rm	Carrying value Rm	Gross value Rm	Allowance for impairment Rm	Carrying value Rm
Group						
Financial instruments						
Trade receivables						
International	1 704	(122)	1 582	1 533	–	1 533
Local large power users	18 662	(4 306)	14 356	16 748	(3 577)	13 171
Municipalities	11 102	(3 895)	7 207	9 861	(3 214)	6 647
Other	7 560	(411)	7 149	6 887	(363)	6 524
Local small power users	6 670	(4 231)	2 439	6 677	(4 186)	2 491
Soweto	4 205	(3 550)	655	4 141	(3 549)	592
Other	2 465	(681)	1 784	2 536	(637)	1 899
	27 036	(8 659)	18 377	24 958	(7 763)	17 195
Other receivables	1 078	(88)	990	4 715	(71)	4 644
Reinsurance	–	–	–	3 414	–	3 414
Sundry	1 078	(88)	990	1 301	(71)	1 230
	28 114	(8 747)	19 367	29 673	(7 834)	21 839
Non-financial instruments						
VAT	21	–	21	25	–	25
	28 135	(8 747)	19 388	29 698	(7 834)	21 864
Maturity analysis			19 388			21 864
Non-current			9			54
Current			19 379			21 810

19. Trade and other receivables (continued)

	2017 Gross value Rm	2017 Allowance for impairment Rm	2017 Carrying value Rm	2016 Gross value Rm	2016 Allowance for impairment Rm	2016 Carrying value Rm
Company						
Trade receivables						
International	1 704	(122)	1 582	1 533	–	1 533
Local large power users	18 662	(4 306)	14 356	16 748	(3 577)	13 171
Municipalities	11 102	(3 895)	7 207	9 861	(3 214)	6 647
Other	7 560	(411)	7 149	6 887	(363)	6 524
Local small power users	6 670	(4 231)	2 439	6 677	(4 186)	2 491
Soweto	4 205	(3 550)	655	4 141	(3 549)	592
Other	2 465	(681)	1 784	2 536	(637)	1 899
	27 036	(8 659)	18 377	24 958	(7 763)	17 195
Other receivables	2 311	(70)	2 241	7 375	(61)	7 314
	29 347	(8 729)	20 618	32 333	(7 824)	24 509
Maturity analysis			20 618			24 509
Non-current			9			54
Current			20 609			24 455

	Note	Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
Reconciliation of movements in allowance for impairment					
Balance at beginning of the year		7 834	7 493	7 824	7 480
Impairment loss	36	1 302	830	1 289	823
Reversal of impairment loss	36	(143)	(464)	(140)	(457)
Writeoffs		(246)	(25)	(244)	(22)
Balance at end of the year		8 747	7 834	8 729	7 824

20. Inventories

	Note	2017 Coal and liquid fuel Rm	2017 Nuclear fuel Rm	2017 Maintenance spares and consumables Rm	2017 Total Rm	2016 Total Rm
Group						
Carrying value at beginning of the year		8 696	1 541	7 584	17 821	16 033
Additions		44 318	–	12 022	56 340	63 717
Transfer from future fuel supplies	10	1 825	1 241	–	3 066	865
Provisions capitalised	29	137	59	–	196	198
Expensed to the income statement		(43 460)	(712)	(10 892)	(55 064)	(62 981)
Net impairment loss	36	–	–	–	–	(11)
		11 516	2 129	8 714	22 359	17 821
Company						
Carrying value at beginning of the year		8 696	1 541	7 404	17 641	15 896
Additions		44 318	–	9 005	53 323	62 562
Transfer from future fuel supplies	10	1 825	1 241	–	3 066	865
Provisions capitalised	29	137	59	–	196	198
Expensed to the income statement		(43 460)	(712)	(7 898)	(52 070)	(61 869)
Net impairment loss	36	–	–	–	–	(11)
		11 516	2 129	8 511	22 156	17 641

21. Cash and cash equivalents

	Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
Bank balances	14 736	28 452	14 275	28 134
Unsettled deals	12	2	12	2
Fixed deposits	5 677	–	5 677	–
	20 425	28 454	19 964	28 136

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 2018.

Eskom Finance Company SOC Ltd (EFC)

The disposal of the assets and liabilities was not concluded at 31 March 2017 because of circumstances beyond Eskom's control. Eskom remains committed to the disposal and it is expected that the disposal will be completed by 31 March 2018.

	2017				2016
	Land, buildings and facilities Rm	Eskom Finance Company Rm	Reallocation and inter-company transactions Rm	Total Rm	Total Rm
Statements of financial position					
Group					
Assets					
Non-current	70	8 477	–	8 547	8 627
Property, plant and equipment	70	–	–	70	149
Loans receivable	–	8 460	–	8 460	8 476
Trade and other receivables	–	3	–	3	2
Deferred tax	–	14	–	14	–
Current	–	329	(77)	252	315
Loans receivable	–	172	–	172	213
Taxation	–	13	–	13	15
Trade and other receivables	–	2	–	2	1
Cash and cash equivalents	–	142	(77)	65	86
Total assets	70	8 806	(77)	8 799	8 942
Liabilities					
Non-current	–	1 083	–	1 083	1 352
Debt securities and borrowings	–	1 083	–	1 083	1 231
Deferred tax	–	–	–	–	121
Current	–	6 791	(6 191)	600	456
Debt securities and borrowings	–	6 779	(6 187)	592	444
Trade and other payables	–	12	(4)	8	12
Total liabilities	–	7 874	(6 191)	1 683	1 808
Company					
Assets					
Non-current					
Property, plant and equipment	70	–	–	70	148

23. Service concession arrangements

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

Eskom Uganda Ltd (Eskom Uganda) entered into an operation and maintenance agreement with Uganda Electricity Generation Company Ltd (UEGCL) in 2002, which is linked to a power purchase agreement concluded with Uganda Electricity Transmission Company Ltd (UETCL). In terms of the agreements, Eskom Uganda operates and maintains two hydro-electric power stations in Uganda, from which it supplies electricity to UETCL. The dams, powerhouses, related switchyard facilities, high voltage substations, land and movable property together constitute the 'energy assets' in terms of the agreement. The concession period is 20 years (ending in December 2023).

Eskom Uganda is entitled to receive revenue from UETCL, based on electricity supplied at tariffs regulated by the Electricity Regulatory Authority of Uganda. It also receives a fee to cover it for investment in additional energy assets where required. This has been recognised as an intangible asset.

The plant remains the property of 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.

	2017 Rm	2016 Rm
Income statements		
Revenue	215	211
Profit for the year before tax	59	53
Taxation	(17)	(23)
Profit for the year after tax	42	30
Statements of financial position		
Assets		
Intangible assets	156	188
Taxation	–	1
Inventories	25	31
Payments made in advance	1	8
Trade and other receivables	46	58
Cash and cash equivalents	42	6
	270	292
Liabilities		
Debt securities and borrowings	19	25
Deferred tax	16	24
Provisions	12	10
Employee benefit obligations	3	8
Trade and other payables	29	33
Taxation	1	–
	80	100

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

24. Share capital

	Group and company	
	2017 Shares	2016 Shares
Authorised ordinary shares	100 000 000 000	100 000 000 000
Issued ordinary shares		
Balance at beginning of the year	83 000 000 001	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	83 000 000 001

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.

25. Debt securities and borrowings

	Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
Eskom bonds	139 255	126 466	139 255	126 466
Promissory notes	54	46	54	46
Commercial paper	5 627	4 822	7 238	6 431
Eurorand zero coupon bonds	5 049	4 462	5 049	4 462
Foreign bonds	53 524	58 815	53 524	58 815
Development financing institutions	107 800	82 976	107 800	82 976
Export credit facilities	33 228	37 597	33 228	37 597
Other loans	10 763	7 474	12 559	9 164
	355 300	322 658	358 707	325 957
Maturity analysis	355 300	322 658	358 707	325 957
Non-current	336 770	306 970	336 690	306 901
Current	18 530	15 688	22 017	19 056

	Currency	Security number	Interest rate 2017 %	Interest rate 2016 %	Nominal 2017 m	Nominal 2016 m	Maturity date	Group Carrying value 2017 Rm	Group Carrying value 2016 Rm	Company Carrying value 2017 Rm	Company Carrying value 2016 Rm
Eskom bonds								139 255	126 466	139 255	126 466
	ZAR	ES18[1]	9.40	9.06	2 481	9 577	Apr 18	2 581	10 009	2 581	10 009
	ZAR	ECN20	10.01	9.98	5 000	2 500	Mar 20	4 979	2 486	4 979	2 486
	ZAR	E170[2]	10.13	10.10	8 812	11 203	Aug 21	9 784	12 709	9 784	12 709
	ZAR	ECN22	10.17	10.16	5 000	2 500	Mar 22	4 945	2 467	4 945	2 467
	ZAR	ES23[1]	9.41	9.36	15 875	12 213	Jan 23	16 584	12 829	16 584	12 829
	ZAR	ECN24	10.37	10.33	5 000	2 500	Mar 24	4 922	2 461	4 922	2 461
	ZAR	ES26[1]	9.21	9.03	25 055	19 826	Apr 26	23 995	19 068	23 995	19 068
	ZAR	EL28[1]	2.55	2.55	4 169	3 941	May 28	5 695	5 055	5 695	5 055
	ZAR	EL29[1]	1.90	1.90	3 684	3 700	Nov 29	4 780	4 500	4 780	4 500
	ZAR	EL30[1]	2.30	2.30	3 656	3 700	Jul 30	4 458	4 224	4 458	4 224
	ZAR	EL31[1]	2.10	2.10	4 001	3 740	Jun 31	4 653	4 068	4 653	4 068
	ZAR	ECN32	2.95	2.95	5 000	2 500	Mar 32	5 452	2 541	5 452	2 541
	ZAR	ES33[1]	8.95	8.96	29 429	29 563	Sep 33	25 913	25 923	25 913	25 923
	ZAR	EL36[1]	2.25	2.25	3 750	3 741	Jan 36	4 246	3 970	4 246	3 970
	ZAR	EL37[1]	2.25	2.25	3 650	3 250	Jan 37	4 071	3 425	4 071	3 425
	ZAR	ES42[1]	9.94	9.87	13 476	11 797	Apr 42	12 197	10 731	12 197	10 731
Promissory notes[2]								54	46	54	46
	ZAR	PN07	15.34	15.34	20	20	Apr 17	12	11	12	11
	ZAR	PN08	15.08	15.08	20	20	Apr 17	11	9	11	9
	ZAR	PN09	14.80	14.80	35	35	Apr 17	16	14	16	14
	ZAR	PN10	14.61	14.61	35	35	Apr 17	15	12	15	12
Commercial paper								5 627	4 822	7 238	6 431
	ZAR	ESN10U[1]	8.17	–	500	–	Jul 17	489	–	489	–
	ZAR	ESN11U[1]	8.13	–	500	–	Jul 17	488	–	488	–
	ZAR	ESN12U[1]	8.03	–	1 000	–	Sep 17	962	–	962	–
	ZAR	n/a[3]	7.97	7.35	5 459	6 629	Mar 18[4]	3 688	4 822	5 299	6 431
Eurorand zero coupon bonds[2]								5 049	4 462	5 049	4 462
	ZAR	n/a	13.93	13.93	2 000	2 000	Dec 18	1 592	1 397	1 592	1 397
	ZAR	n/a	13.33	13.33	8 000	8 000	Aug 27	2 180	1 924	2 180	1 924
	ZAR	n/a	11.89	11.89	7 500	7 500	Dec 32	1 277	1 141	1 277	1 141
Balance carried forward to the next page								149 985	135 796	151 596	137 405

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		Nominal		Maturity date	Group Carrying value		Company Carrying value	
			2017 %	2016 %	2017 m	2016 m		2017 Rm	2016 Rm	2017 Rm	2016 Rm
Balance carried forward from previous page								149 985	135 796	151 596	137 405
Foreign bonds								53 524	58 815	53 524	58 815
	USD	n/a	5.75	5.75	1 750	1 750	Jan 21	23 453	25 862	23 453	25 862
	USD	n/a	6.75	6.75	1 000	1 000	Aug 23	13 400	14 727	13 400	14 727
	USD	n/a	7.13	7.13	1 250	1 250	Feb 25	16 671	18 226	16 671	18 226
Development financing institutions[1]								107 800	82 976	107 800	82 976
	USD	n/a[2]	3.01	–	500	–	Dec 19	6 639	–	6 639	–
	USD	n/a[2]	3.73	–	965	–	Aug 21	12 620	–	12 620	–
	ZAR	n/a[2]	8.70	8.33	1 533	1 667	Aug 28	1 549	1 682	1 549	1 682
	USD	n/a[2]	2.51	2.01	223	242	Aug 28	2 993	3 576	2 993	3 576
	EUR	n/a[2]	2.11	2.11	3	3	Dec 28	43	51	43	51
	EUR	n/a[2]	–	0.20	613	539	Aug 29	8 764	9 042	8 764	9 042
	ZAR	n/a[2]	7.58	7.15	8 773	9 364	Aug 29	8 880	9 475	8 880	9 475
	ZAR	n/a[2]	10.10	10.10	3 935	3 935	Sep 29	3 926	3 937	3 926	3 937
	ZAR	n/a	10.37	10.37	15 000	15 000	Jan 31	15 246	15 244	15 246	15 244
	EUR	n/a[2]	1.50	1.50	470	470	Mar 31	6 476	7 737	6 476	7 737
	USD	n/a[2]	1.66	1.02	9	9	Aug 31	118	134	118	134
	ZAR	n/a	7.74	7.43	1 380	1 474	Mar 32	1 389	1 479	1 389	1 479
	USD	n/a[2]	3.73	–	10	10	Aug 36	122	–	122	–
	ZAR	n/a	11.12	–	2 117	–	Aug 36	2 092	–	2 092	–
	USD	n/a[2]	1.67	0.90	217	119	May 38	2 915	1 758	2 915	1 758
	ZAR	n/a[2]	9.16	9.23	30 129	25 973	May 38	31 252	26 944	31 252	26 944
	ZAR	n/a[2]	9.85	8.77	1 705	950	Nov 40	1 744	969	1 744	969
	USD	n/a[2]	0.25	0.25	35	29	May 51	467	424	467	424
	USD	n/a[2]	0.25	0.25	42	36	Aug 51	565	524	565	524
Export credit facilities[1]								33 228	37 597	33 228	37 597
	JPY	n/a	1.59	1.59	9 892	12 366	May 22	1 178	1 612	1 178	1 612
	EUR	n/a	0.72	0.90	84	97	Sep 23	1 146	1 568	1 146	1 568
	EUR	n/a	0.66	0.82	12	14	Jul 24	170	227	170	227
	EUR	n/a	4.72	5.08	927	763	Jan 27	12 427	12 374	12 427	12 374
	EUR	n/a	2.50	2.56	804	716	Jul 27	8 960	11 402	8 960	11 402
	ZAR	n/a	9.90	9.15	1 911	1 978	Jul 27	1 785	1 847	1 785	1 847
	USD	n/a	2.32	2.32	508	590	Mar 31	7 562	8 567	7 562	8 567
Other loans								10 763	7 474	12 559	9 164
	ZAR	n/a	10.10	9.07	1 000	1 000	Aug 23	1 015	1 013	1 015	1 013
	ZAR	n/a	9.40	8.69	3 650	2 150	Mar 24	3 657	2 155	3 657	2 155
	ZAR	n/a	10.83	10.18	4 350	2 600	Aug 24	4 424	2 648	4 424	2 648
	ZAR	n/a	12.80	12.80	1 500	1 500	Oct 24	1 587	1 589	1 587	1 589
	ZAR	n/a[3]	7.17	7.09	1 876	1 758	On demand	–	–	1 876	1 759
	ZAR	n/a	–	–	80	69	On demand	80	69	–	–
								355 300	322 658	358 707	325 957

26. Embedded derivatives

	2017			2016
	Commodity and/or foreign currency Rm	United States PPI and foreign currency Rm	Total Rm	Total Rm
Group and company				
Liability at beginning of the year	6 900	125	7 025	8 022
Net fair value (gain)/loss	(1 910)	299	(1 611)	(997)
Liability at end of the year	4 990	424	5 414	7 025
Maturity analysis	4 990	424	5 414	7 025
Non-current	3 613	419	4 032	5 410
Current	1 377	5	1 382	1 615

27. Payments received in advance and deferred income

		2017				2016
	Note	Upfront capital contribu-tions Rm	Government grant Rm	Other Rm	Total Rm	Total Rm
27.1 Payments received in advance						
Group						
Balance at beginning of the year		4 610	1 257	135	6 002	4 821
Payments received		1 022	3 096	98	4 216	4 223
Transfers to the statement of financial position		(53)	(3 367)	–	(3 420)	(2 460)
Deferred income	27.2	(25)	(3 367)	–	(3 392)	(2 460)
Other		(28)	–	–	(28)	–
Income recognised		(1 180)	(4)	(83)	(1 267)	(582)
Balance at end of the year		4 399	982	150	5 531	6 002
Maturity analysis		4 399	982	150	5 531	6 002
Non-current		1 937	–	3	1 940	2 626
Current		2 462	982	147	3 591	3 376
Company						
Balance at beginning of the year		4 610	1 257	130	5 997	4 809
Payments received		1 022	3 096	92	4 210	4 222
Transfers to the statement of financial position		(53)	(3 367)	–	(3 420)	(2 460)
Deferred income	27.2	(25)	(3 367)	–	(3 392)	(2 460)
Other		(28)	–	–	(28)	–
Income recognised		(1 180)	(4)	(78)	(1 262)	(574)
Balance at end of the year		4 399	982	144	5 525	5 997
Maturity analysis		4 399	982	144	5 525	5 997
Non-current		1 937	–	3	1 940	2 626
Current		2 462	982	141	3 585	3 371

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

	Note	2017 Upfront capital contributions Rm	2017 Government grant Rm	2017 Other Rm	2017 Total Rm	2016 Total Rm
27.2 Deferred income						
Group and company						
Balance at beginning of the year		2 708	13 765	–	16 473	14 918
Transfers from payments received in advance	27.1	25	3 367	–	3 392	2 460
Income recognised		(154)	(868)	–	(1 022)	(905)
Balance at end of the year		2 579	16 264	–	18 843	16 473
Maturity analysis		2 579	16 264	–	18 843	16 473
Non-current		2 419	15 281	–	17 700	15 516
Current		160	983	–	1 143	957

28. Employee benefit obligations

	Note	2017 Post-employment medical benefits Rm	2017 Leave Rm	2017 Annual and performance bonus Rm	2017 Other Rm	2017 Total Rm	2016 Total Rm
Group							
Balance at beginning of the year		12 816	1 968	2 090	721	17 595	15 886
Raised/(reversed) to income statement		596	888	3 534	337	5 355	2 822
Raised		596	888	3 549	337	5 370	3 333
Reversed		–	–	(15)	–	(15)	(511)
Reversed to other comprehensive income		(231)	–	–	–	(231)	(840)
Finance cost	41	1 493	–	–	59	1 552	1 158
Cash paid		(413)	(674)	(2 046)	–	(3 133)	(1 431)
Balance at end of the year		14 261	2 182	3 578	1 117	21 138	17 595
Maturity analysis		14 261	2 182	3 578	1 117	21 138	17 595
Non-current		13 790	–	–	–	13 790	12 405
Current		471	2 182	3 578	1 117	7 348	5 190
Company							
Balance at beginning of the year		12 495	1 829	2 052	715	17 091	15 326
Raised/(reversed) to income statement		587	835	3 212	337	4 971	2 824
Raised		587	835	3 227	337	4 986	3 245
Reversed		–	–	(15)	–	(15)	(421)
Reversed to other comprehensive income		(218)	–	–	–	(218)	(830)
Finance cost	41	1 456	–	–	59	1 515	1 130
Cash paid		(403)	(643)	(2 007)	–	(3 053)	(1 359)
Balance at end of the year		13 917	2 021	3 257	1 111	20 306	17 091
Maturity analysis		13 917	2 021	3 257	1 111	20 306	17 091
Non-current		13 458	–	–	–	13 458	12 094
Current		459	2 021	3 257	1 111	6 848	4 997

		Group		Company	
		2017 Rm	2016 Rm	2017 Rm	2016 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	596	583	587	573
	Finance cost	1 493	1 120	1 456	1 092
	The amounts recognised in other comprehensive income are:				
	Re-measurements of post-employment medical benefits (actuarial (gain)/loss)	(231)	(840)	(218)	(830)
	Financial assumptions	(222)	(869)	(214)	(848)
	Experience adjustments	(9)	29	(4)	18

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 R471 million and the company R459 million in contributions to this plan in the 2018 financial year.

	Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
Expected maturity analysis of undiscounted post-employment medical benefits:				
Within one year	471	411	459	401
Between one and two years	518	452	505	441
Between two and five years	2 084	1 783	2 030	1 734
After five years	282 240	263 091	278 348	259 083
	285 313	265 737	281 342	261 659

Risks

The medical aid benefits are administered by funds that are legally separated from the group. The boards of the funds are required by law to act in the best interest of the plan participants and are responsible for setting 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 and therefore increases in life expectancy will result in an increase in the plans' liabilities

The expected current service cost for the 2018 financial year is estimated at R656 million for the group and R646 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.

28.4 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 2017 (previous valuation at 31 March 2016). The actuarial present value of retirement benefits at 31 March 2017 was R112 718 million (2016: R102 678 million), while the fair value of the fund's assets was R131 558 million (2016: R128 012 million).

28. Employee benefit obligations (continued)

28.4 Pension benefits (continued)

	Group 2017 %	Group 2016 %	Company 2017 %	Company 2016 %
Valuation assumptions				
The principal actuarial assumptions used were:				
Long-term investment return before tax	11.20	11.30	11.20	11.30
Future general salary increases	9.40	9.60	9.40	9.60
Future pension increases (inflation)	7.90	8.10	7.90	8.10

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

29. Provisions

	Note	2017 Power station-related environmental restoration[1] Nuclear plant Rm	2017 Power station-related environmental restoration[1] Other generating plant Rm	2017 Mine-related closure, pollution control and rehabilitation[1] Rm	2017 Coal-related obligations[2] Rm	2017 Other Rm	2017 Total Rm	2016 Total Rm
Group								
Balance at beginning of the year		12 677	8 339	8 580	5 554	9 106	44 256	41 050
Charged to income statement		2 214	926	1 363	488	716	5 707	(893)
Raised		–	69	841	218	801	1 929	1 459
Reversed		(539)	–	–	–	(85)	(624)	(2 000)
Change in discount rate		2 753	857	522	270	–	4 402	(352)
Capitalised to property, plant and equipment	8	1 409	2 328	–	–	3 516	7 253	2 909
Raised		–	41	–	–	3 915	3 956	6 050
Reversed		–	(199)	–	–	(399)	(598)	(2 780)
Change in discount rate		1 409	2 486	–	–	–	3 895	(361)
Capitalised to future fuel supplies	10	–	–	747	–	–	747	2 442
Raised		–	–	91	–	–	91	2 606
Reversed		–	–	(105)	–	–	(105)	(113)
Change in discount rate		–	–	761	–	–	761	(51)
Capitalised to inventories	20	59	–	137	–	–	196	198
Raised		59	–	137	–	–	196	219
Reversed		–	–	–	–	–	–	(21)
Finance cost	41	1 577	1 050	897	230	4	3 758	2 588
Cash paid		(286)	–	(18)	(1 577)	(6 958)	(8 839)	(4 038)
Balance at end of the year		17 650	12 643	11 706	4 695	6 384	53 078	44 256
Maturity analysis		17 650	12 643	11 706	4 695	6 384	53 078	44 256
Non-current		17 415	12 643	11 452	2 299	212	44 021	32 841
Current		235	–	254	2 396	6 172	9 057	11 415

	Note	2017						2016
		Power station-related environmental restoration[1]		Mine-related closure, pollution control and rehabilitation[1]	Coal-related obligations[2]	Other	Total	Total
		Nuclear plant	Other generating plant					
		Rm	Rm	Rm	Rm	Rm	Rm	Rm
Company								
Balance at beginning of the year		12 677	8 339	8 580	5 554	8 874	44 024	40 846
Raised/(reversed) to income statement		2 214	926	1 363	488	333	5 324	(1 031)
Raised		–	69	841	218	414	1 542	1 185
Reversed		(539)	–	–	–	(81)	(620)	(1 865)
Change in discount rate		2 753	857	522	270	–	4 402	(351)
Capitalised to property, plant and equipment	8	1 409	2 328	–	–	3 516	7 253	2 909
Raised		–	41	–	–	3 915	3 956	6 050
Reversed		–	(199)	–	–	(399)	(598)	(2 780)
Change in discount rate		1 409	2 486	–	–	–	3 895	(361)
Capitalised to future fuel supplies	10	–	–	747	–	–	747	2 442
Raised		–	–	91	–	–	91	2 606
Reversed		–	–	(105)	–	–	(105)	(113)
Change in discount rate		–	–	761	–	–	761	(51)
Capitalised to inventories	20	59	–	137	–	–	196	198
Raised		59	–	137	–	–	196	219
Reversed		–	–	–	–	–	–	(21)
Finance cost	41	1 577	1 050	897	230	–	3 754	2 583
Cash paid		(286)	–	(18)	(1 577)	(6 936)	(8 817)	(3 923)
Balance at end of the year		17 650	12 643	11 706	4 695	5 787	52 481	44 024
Maturity analysis		17 650	12 643	11 706	4 695	5 787	52 481	44 024
Non-current		17 415	12 643	11 452	2 299	99	43 908	32 826
Current		235	–	254	2 396	5 688	8 573	11 198

30. Finance lease payables

Group and company

	2017			2016		
	Gross payables	Future finance charges	Present value	Gross payables	Future finance charges	Present value
	Rm	Rm	Rm	Rm	Rm	Rm
Non-current	28 783	(18 964)	9 819	8 898	(5 060)	3 838
Between one and five years	8 531	(7 098)	1 433	3 298	(2 619)	679
After five years	20 252	(11 866)	8 386	5 600	(2 441)	3 159
Current						
Within one year	2 081	(1 835)	246	682	(592)	90
	30 864	(20 799)	10 065	9 580	(5 652)	3 928

The average implicit interest rate for the group and company was 15% (2016:16%). The lease payables are payable on a monthly basis over a maximum period of 15 years.

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

		Group		Company	
		2017 Rm	2016 Rm	2017 Rm	2016 Rm
31.	**Trade and other payables**				
	Financial instruments	32 014	32 922	33 390	34 435
	Trade and other payables	20 830	22 586	21 747	23 995
	Accruals	7 602	7 170	8 061	7 275
	Deposits	3 582	3 166	3 582	3 165
	Non-financial instruments				
	VAT	639	272	540	179
		32 653	33 194	33 930	34 614
	Maturity analysis	32 653	33 194	33 930	34 614
	Non-current	871	875	871	875
	Current	31 782	32 319	33 059	33 739
32.	**Revenue**				
	Electricity	175 094	161 688	175 094	161 688
	Other	2 042	2 551	2 042	2 551
		177 136	164 239	177 136	164 239

Electricity revenue of R3 196 million (2016: R1 647 million) was not recognised as it was assessed that there is a high probability that the related economic benefits will not materialise. In addition, R271 million (2016: 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).

		Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
33.	**Other income**				
	Insurance proceeds	–	917	812	1 393
	Services income	256	355	–	–
	Management fee income	–	–	146	117
	Operating lease income	296	262	231	226
	Dividend income	40	32	32	32
	Sale of scrap	202	134	201	134
	Other	779	690	672	569
		1 573	2 390	2 094	2 471
34.	**Primary energy**				
	Own generation costs	52 042	57 594	52 042	57 594
	Environmental levy	8 086	8 120	8 086	8 120
	International electricity purchases	2 681	3 660	2 681	3 660
	Independent power producers	19 757	15 106	19 757	15 106
	Other	194	248	194	248
		82 760	84 728	82 760	84 728

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

	Note	Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
35. Employee benefit expense					
Salaries		22 112	20 092	20 277	18 517
Overtime		2 310	1 970	1 933	1 657
Post-employment medical benefits		596	583	587	573
Leave		888	675	835	635
Annual and performance bonus		4 236	2 140	3 740	2 133
Pension benefits		2 463	2 089	2 251	1 943
Direct costs of employment		32 605	27 549	29 623	25 458
Direct training and development		150	147	125	117
Temporary and contract staff costs		2 952	3 124	738	843
Other staff costs		1 126	1 703	1 071	1 569
Gross employee benefit expense		36 833	32 523	31 557	27 987
Capitalised to property, plant and equipment		(3 655)	(3 266)	(3 655)	(3 266)
		33 178	29 257	27 902	24 721
36. Net impairment loss					
Impairment		2 462	1 644	2 417	1 623
Property, plant and equipment	8	1 128	789	1 128	789
Inventories	20	–	11	–	11
Loans receivable		32	14	–	–
Trade and other receivables	19	1 302	830	1 289	823
Reversal		(787)	(469)	(784)	(459)
Property, plant and equipment	8	(644)	(2)	(644)	(2)
Loans receivable		–	(3)	–	–
Trade and other receivables	19	(143)	(464)	(140)	(457)
Bad debts recovered		(6)	(5)	(4)	(5)
		1 669	1 170	1 629	1 159
37. Other expenses					
Managerial, technical and other fees		1 351	563	1 325	505
Operating lease expense		940	1 117	375	412
Auditors' remuneration[1]		119	94	109	80
Net loss on disposal of property, plant and equipment		260	358	263	494
Government grant		–	–	–	–
Income		–	(23)	–	(23)
Expenses incurred		–	23	–	23
Repairs and maintenance, transport and other expenses		20 900	16 531	28 878	23 679
		23 570	18 663	30 950	25 170
38. Depreciation and amortisation expense					
Depreciation of property, plant and equipment	8	20 575	16 693	20 582	16 717
Amortisation of intangible assets	9	593	693	563	655
Deferred income recognised (government grant)	27	(868)	(753)	(868)	(753)
		20 300	16 633	20 277	16 619

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

		Note	Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
39.	**Net fair value loss on financial instruments, excluding embedded derivatives**					
	(Loss)/gain on instruments carried at fair value		(18 038)	20 463	(17 928)	20 445
	Financial trading assets		(79)	156	(57)	172
	Financial trading liabilities		131	(122)	131	(122)
	Derivatives held for risk management	16	(18 090)	20 429	(18 002)	20 395
	Gain/(loss) on foreign currency translation of instruments carried at amortised cost		14 527	(22 041)	14 556	(22 063)
	Trade and other receivables		(3)	–	(3)	(2)
	Cash and cash equivalents		647	75	651	74
	Trade and other payables		431	(407)	456	(426)
	Debt securities and borrowings		13 452	(21 709)	13 452	(21 709)
	Amounts recycled from cash flow hedge reserve		169	126	169	126
	Amortisation of effective portion of terminated cash flow hedges		324	145	324	145
	Ineffective portion of cash flow hedges		(155)	(19)	(155)	(19)
			(3 342)	(1 452)	(3 203)	(1 492)
40.	**Finance income**					
	Investment in securities		1 001	723	518	347
	Loans receivable		885	825	483	446
	Finance lease receivables		59	65	59	65
	Trade and other receivables		1 349	951	1 349	951
	Cash and cash equivalents		1 918	883	1 881	858
			5 212	3 447	4 290	2 667
41.	**Finance cost**					
	Debt securities and borrowings		25 872	23 242	26 003	23 333
	Eskom bonds		12 598	10 202	12 598	10 202
	Promissory notes		7	6	7	6
	Commercial paper		489	587	492	573
	Eurorand zero coupon bonds		587	520	587	520
	Foreign bonds		3 662	3 637	3 662	3 637
	Development financing institutions		5 895	4 777	5 895	4 777
	Export credit facilities		1 643	1 560	1 643	1 560
	Subordinated loan from shareholder		–	1 208	–	1 208
	Other loans		991	745	1 119	850
	Derivatives held for risk management		4 439	3 151	4 439	3 151
	Employee benefit obligations	28	1 552	1 158	1 515	1 130
	Provisions	29	3 758	2 588	3 754	2 583
	Finance lease payables		1 922	387	1 922	406
	Trade and other payables		279	266	279	266
	Gross finance cost		37 822	30 792	37 912	30 869
	Capitalised to property, plant and equipment	8	(18 233)	(19 426)	(18 233)	(19 426)
			19 589	11 366	19 679	11 443

42. Income tax

	Note	Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
Current tax		1 091	542	–	–
Deferred tax	13	(820)	2 154	(399)	1 905
Reversal of temporary differences		3 925	6 017	4 367	5 917
Tax losses		(4 745)	(3 863)	(4 766)	(4 012)
		271	2 696	(399)	1 905

	2017 Before tax Rm	2017 Tax Rm	2017 Net of tax Rm	2016 Before tax Rm	2016 Tax Rm	2016 Net of tax Rm
Income tax recognised in other comprehensive income						
Group						
Available-for-sale financial assets						
Net change in fair value	60	(17)	43	(57)	16	(41)
Cash flow hedges	(10 365)	2 903	(7 462)	8 226	(2 303)	5 923
Changes in fair value	(9 056)	2 536	(6 520)	8 955	(2 507)	6 448
Net amount transferred to profit or loss	(169)	48	(121)	(126)	35	(91)
Net amount transferred to initial carrying amount of hedged items	(1 140)	319	(821)	(603)	169	(434)
Foreign currency translation differences	(45)	–	(45)	21	–	21
Re-measurement of post-employment medical benefits	231	(65)	166	840	(235)	605
	(10 119)	2 821	(7 298)	9 030	(2 522)	6 508
Company						
Available-for-sale financial assets						
Net change in fair value	50	(14)	36	(54)	15	(39)
Cash flow hedges	(10 365)	2 903	(7 462)	8 226	(2 303)	5 923
Changes in fair value	(9 056)	2 536	(6 520)	8 955	(2 507)	6 448
Net amount transferred to profit or loss	(169)	48	(121)	(126)	35	(91)
Net amount transferred to initial carrying amount of hedged items	(1 140)	319	(821)	(603)	169	(434)
Re-measurement of post-employment medical benefits	218	(61)	157	830	(233)	597
	(10 097)	2 828	(7 269)	9 002	(2 521)	6 481

	2017 Rm	2017 %	2016 Rm	2016 %
Reconciliation between standard and effective tax rate				
Group				
Taxation expense at standard rate	325	28.00	2 197	28.00
Non-taxable income[1]	(255)	(22.00)	(34)	(0.43)
Expenses not deductible for tax purposes[1]	201	17.38	533	6.79
Taxation expense per the income statement	271	23.38	2 696	34.36
Company				
Taxation (income)/expense at standard rate	(355)	28.00	1 412	28.00
Non-taxable income[1]	(238)	18.75	(28)	(0.56)
Expenses not deductible for tax purposes[1]	194	(15.31)	521	10.35
Taxation (income)/expense per the income statement	(399)	31.44	1 905	37.79

1. *Expenses not deductible for tax purposes in 2016 includes impairment raised of R199 million for possible fruitless and wastefull expenditure. Non-taxable income in 2017 includes reversal of R180 million of the impairment raised in 2016.*

43. Cash generated from operations

	Group		Company	
	2017 Rm	2016 Rm	2017 Rm	2016 Rm
Profit/(loss) before tax	1 159	7 847	(1 269)	5 041
Adjustments for:	47 932	29 162	47 985	29 980
Depreciation and amortisation expense	20 300	16 633	20 277	16 619
Depreciation expense – primary energy	16	13	16	13
Net impairment loss (excluding bad debts recovered)	1 675	1 175	1 633	1 164
Net fair value loss on financial instruments including embedded derivatives	1 731	455	1 592	496
Net loss on disposal of property, plant and equipment	260	358	263	494
Transfer of assets from customers	(628)	(844)	(628)	(844)
Writeoff of mine assets	119	1 903	119	1 903
Dividend income	(40)	(32)	(32)	(32)
Increase in employee benefit obligations	5 355	2 822	4 971	2 824
Increase/(decrease) in provisions	5 707	(893)	5 324	(1 031)
Decrease in deferred income	(154)	(152)	(154)	(152)
Payments made in advance recognised in profit or loss	516	432	477	324
Payments received in advance recognised in profit or loss	(1 267)	(582)	(1 262)	(574)
Finance income	(5 212)	(3 447)	(4 290)	(2 667)
Finance cost	19 589	11 366	19 679	11 443
Share of loss of equity-accounted investees	(35)	(43)	–	–
Non-current assets and liabilities held-for-sale	–	(2)	–	–
	49 091	37 009	46 716	35 021
Changes in working capital:	(1 730)	(2 201)	(276)	(2 305)
Increase in payments made in advance	(661)	(3 093)	(633)	(3 055)
Increase in inventories	(1 140)	(500)	(1 117)	(457)
Decrease/(increase) in trade and other receivables	1 696	(4 269)	3 115	(4 753)
(Decrease)/increase in trade and other payables	(759)	3 853	(871)	3 966
Expenditure incurred on employee benefit obligations	(3 133)	(1 431)	(3 053)	(1 359)
Expenditure incurred on provisions	(1 949)	(984)	(1 927)	(869)
Increase in payments received in advance	4 216	4 223	4 210	4 222
	47 361	34 808	46 440	32 716

44. Net debt reconciliation

	Debt securities and borrowings[1]	Finance lease payables[2]	Investment in securities[3]	Financial trading assets[4]	Financial trading liabilities[5]	Derivatives held for risk management[6]	Payments made in advance[7]	Cash and cash equivalents[8]	Net debt
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Group									
Balance at 1 April 2015	297 434	488	(4 802)	(5 143)	5 499	(10 828)	(1 386)	(8 863)	272 399
Net cash increase/(decrease)	29 929	(157)	92	2 544	(4 257)	11 847	(555)	(19 579)	19 864
Non-cash movements	(4 705)	3 597	158	(58)	8	(24 960)	481	–	(25 479)
Foreign currency translation	–	–	–	–	–	–	–	(21)	(21)
Effect of movements in exchange rates on cash held	–	–	–	–	–	–	–	(75)	(75)
Non-current assets and liabilities held-for-sale	–	–	–	–	–	–	–	84	84
Balance at 31 March 2016	322 658	3 928	(4 552)	(2 657)	1 250	(23 941)	(1 460)	(28 454)	266 772
Net cash increase/(decrease)	43 960	(139)	(2 031)	889	482	(7 738)	(1 096)	8 590	42 917
Non-cash movements	(11 318)	6 276	(121)	38	(112)	22 491	1 177	–	18 431
Foreign currency translation	–	–	–	–	–	–	–	45	45
Effect of movements in exchange rates on cash held	–	–	–	–	–	–	–	(647)	(647)
Non-current assets and liabilities held-for-sale	–	–	–	–	–	–	–	41	41
Balance at 31 March 2017	355 300	10 065	(6 704)	(1 730)	1 620	(9 188)	(1 379)	(20 425)	327 559
Company									
Balance at 1 April 2015	298 130	707	(4 802)	(5 143)	5 499	(10 828)	(1 386)	(7 986)	274 191
Net cash increase/(decrease)	30 827	(99)	92	2 544	(4 257)	11 847	(555)	(20 076)	20 323
Non-cash movements	(3 000)	3 320	158	(58)	8	(24 960)	481	–	(24 051)
Effect of movements in exchange rates on cash held	–	–	–	–	–	–	–	(74)	(74)
Balance at 31 March 2016	325 957	3 928	(4 552)	(2 657)	1 250	(23 941)	(1 460)	(28 136)	270 389
Net cash increase/(decrease)	44 001	(139)	(2 031)	889	482	(7 738)	(1 096)	8 823	43 191
Non-cash movements	(11 251)	6 276	(121)	38	(112)	22 491	1 177	–	18 498
Effect of movements in exchange rates on cash held	–	–	–	–	–	–	–	(651)	(651)
Balance at 31 March 2017	358 707	10 065	(6 704)	(1 730)	1 620	(9 188)	(1 379)	(19 964)	331 427

1. *Refer to note 25.*
2. *Refer to note 30.*
3. *Refer to the investing portfolio section of note 14.1.*
4. *Refer to the market-making portfolio section of note 14.2.*
5. *Refer to the market-making portfolio section of note 14.3.*
6. *Refer to note 16 (hedge exposure covering debt securities and borrowings).*
7. *Refer to note 18 (securing debt raised).*
8. *Refer to note 21.*

45. Guarantees and contingent liabilities

45.1 Financial guarantees

Long-term debt raised by Motraco

Motraco, a private joint venture company between Eskom, Electricidade de Mocambique and Swaziland Electricity Board, owns transmission lines connecting the South African, Mozambican and Swaziland national grids to establish a secure source of electrical power for the Mozal aluminium smelter in Maputo, Mozambique. Motraco has raised debt as part of these operations maturing on 30 April 2019. Eskom has guaranteed a portion of this debt.

The guarantees would be triggered if Motraco was unable to meet its obligations in terms of the long-term debt agreement. The risk of default resulting from the political risk in Mozambique is mitigated through a guarantee arranged with an established international insurance company, which specialises in facilitating investments in high risk, low income countries.

	Unit	Group 2017	Group 2016	Company 2017	Company 2016
Guarantee issued	USDm	7	10	7	10
Default probability	%	1.05	0.40	1.05	0.40
Financial guarantee	Rm	99	151	99	151
Unprovided portion, disclosed as a contingent liability	Rm	98	150	98	150
Provision	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.

	Unit	Group 2017	Group 2016	Company 2017	Company 2016
Unsecured portion of loan book	%	–	–	0.34	1.00
Default probability of unsecured portion of loan book	%	–	–	26.00	26.00
Secured portion of loan book	%	–	–	99.66	99.00
Default probability of secured portion of loan book	%	–	–	0.01	0.01
Financial guarantee	Rm	–	–	1 087	1 111
Unprovided portion, disclosed as a contingent liability	Rm	–	–	1 086	1 110
Provision	Rm	–	–	1	1

Changes in variables will not have a significant impact on profit or loss.

Summary of financial guarantees

	Unit	Group 2017	Group 2016	Company 2017	Company 2016
Unprovided portion, disclosed as a contingent liability	Rm	98	150	1 184	1 260
Long-term debt raised by Motraco	Rm	98	150	98	150
EFC loans to group employees	Rm	–	–	1 086	1 110
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	99	151	1 186	1 262

	Unit	Group 2017	Group 2016	Company 2017	Company 2016
45.2 Other guarantees					
Guarantees to South African Revenue Services (SARS) for customs duty					
Customs duty and import VAT are normally due upon declaration of imported goods at the port of entry (harbour or airport). SARS allows Eskom up to a maximum of 37 days after declaration date before the customs duty and import VAT must be settled on the deferment account. SARS requires Eskom to provide a bank guarantee to secure the debt when it becomes due.					
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 (EPPF)					
Eskom has indemnified the EPPF against any loss resulting from negligence, dishonesty or fraud by the fund's officers or trustees.					
45.3 Other contingent liabilities					
Legal claims					
Legal claims are in process against Eskom as a result of disputes with various parties. On the basis of the evidence available it appears that no obligation is present. The claims are disclosed as a contingent liability and amounted to	Rm	16	107	16	107

46. Commitments

	Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
46.1 Capital expenditure				
Contracted capital expenditure	50 473	62 530	50 076	61 943
Within one year	20 434	32 709	20 037	32 123
One and five years	30 039	29 821	30 039	29 820
Capital expenditure excludes finance costs capitalised and foreign currency fluctuations.				
The capital 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:	238	223	224	223
Within one year	125	117	113	117
One to five years	113	106	111	106
As lessor				
The future minimum lease payments receivable under non-cancellable operating leases are:	118	167	115	164
Within one year	57	52	55	52
One to five years	61	114	60	112
After five years	–	1	–	–

47. Related-party transactions and balances

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

Related parties also include subsidiaries, associates and joint ventures of the group and post-retirement benefit plans for the benefit of employees. It also includes key management personnel of Eskom or its shareholder and close family members of these related parties. Key management personnel for Eskom include the group's board of directors and the Exco. Disclosure of related-party transactions with key management personnel is included in note 50.

The following transactions were carried out with related parties:

		Group		Company	
	Note	2017 Rm	2016 Rm	2017 Rm	2016 Rm
Transactions					
Sales of goods and services[1]		10 918	10 192	11 917	11 746
National departments		1 427	1 162	1 427	1 162
Public entities		6 309	6 015	6 309	6 015
Subsidiaries, associates and joint ventures		3 182	3 015	4 181	4 569
Government grant funding received for electrification					
National departments		3 096	3 191	3 096	3 191
Purchases of goods and services[1]		8 511	9 130	19 772	19 944
Constitutional institutions		5	5	5	5
National departments		1 939	1 842	1 938	1 841
Public entities		3 938	5 023	2 770	4 376
Subsidiaries, associates and joint ventures		166	171	12 808	11 779
Eskom Pension and Provident Fund	35	2 463	2 089	2 251	1 943
Finance income		1 364	611	1 847	1 057
National departments		286	311	286	311
Public entities		1 078	300	1 078	300
Subsidiaries, associates and joint ventures		–	–	483	446
Finance cost[2]		8 355	7 129	8 632	7 355
National departments		6	1 231	6	1 231
Public entities		8 150	5 740	8 150	5 740
Subsidiaries, associates and joint ventures		–	–	277	226
Eskom Pension and Provident Fund		199	158	199	158
Dividend income					
Subsidiaries, associates and joint ventures		31	31	31	31
Lease income		60	57	63	61
National departments		2	–	2	–
Public entities		58	57	58	57
Subsidiaries, associates and joint ventures		–	–	3	4
Lease expenses		6	–	7	–
Public entities		6	–	6	–
Subsidiaries, associates and joint ventures		–	–	1	–
Finance lease finance cost					
Subsidiaries, associates and joint ventures		–	–	–	19
Environmental levy					
Public entities	34	8 086	8 120	8 086	8 120

	Note	Group 2017 Rm	Group 2016 Rm	Company 2017 Rm	Company 2016 Rm
Outstanding balances (due by related parties)					
Receivables and amounts owed by related parties		1 117	1 810	2 329	7 961
National departments		130	148	130	148
Public entities		693	1 396	528	1 268
Subsidiaries, associates and joint ventures		294	266	1 671	6 545
Loans receivable					
Subsidiaries, associates and joint ventures[3]		–	–	6 187	6 352
Indirect transactions – assets at nominal value					
National departments		3 575	4 379	3 575	4 379
Total due by related parties		4 692	6 189	12 091	18 692
Cash and cash equivalents					
Public entities		8 872	15 298	8 872	15 298
Outstanding balances (due to related parties)					
Debt securities and borrowings		123 141	110 481	126 628	113 849
National departments		123	63	123	63
Public entities		120 385	108 024	120 385	108 024
Subsidiaries, associates and joint ventures[4]		–	–	3 487	3 368
Eskom Pension and Provident Fund		2 633	2 394	2 633	2 394
Payables[5] and amounts owed to related parties		2 127	2 828	4 794	5 232
Constitutional institutions		5	–	5	–
National departments		443	1 309	443	1 309
Public entities		1 488	1 360	1 328	1 093
Subsidiaries, associates and joint ventures		28	8	2 855	2 679
Eskom Pension and Provident Fund		163	151	163	151
Payments received in advance		918	1 568	918	1 568
National departments		918	1 259	918	1 259
Public entities		–	309	–	309
Indirect transactions – liabilities at nominal value					
National departments		423	270	423	270
Total due to related parties		126 609	115 147	132 763	120 919
Guarantees					
Guarantees received and used					
Guarantees received – national departments		350 000	350 000	350 000	350 000
Domestic multi-term note programme		150 000	150 000	150 000	150 000
General guarantees		200 000	200 000	200 000	200 000
Guarantees used – national departments		215 233	181 454	215 233	181 454
Domestic multi-term note programme		111 226	105 049	111 226	105 049
General guarantees		104 007	76 405	104 007	76 405
Guarantees still available	5.3	134 767	168 546	134 767	168 546
Guarantees issued		281	333	1 367	1 443
National departments	45.2	183	183	183	183
Subsidiaries, associates and joint ventures	45.1	98	150	1 184	1 260

Commitments

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

1. *Goods and services are bought and sold to related parties at an arm's length basis at market-related prices.*
2. *Bonds are bearer instruments and it is therefore unknown if the initial counterparty still holds the bonds. Transactions in the secondary market where Eskom is not the counterparty are therefore excluded.*
3. *The effective interest rate on the loans to subsidiaries is 7.99% (2016: 7.34%).*
4. *Refer to note 25 for effective interest rate and maturity date relating to intercompany instruments.*
5. *Purchase transactions with related parties are on an arm's length basis with payment terms of 30 days from invoice date.*

48. Events after the reporting date

Group chief executive (GCE) – Mr Brian Molefe

Mr Brian Molefe left the employ of Eskom on the basis of the early retirement agreement between himself and the board. Consequently, he resigned as a director and retired as the GCE, effective 31 December 2016. Subsequent to a request by the Minister of Public Enterprises on 23 April 2017, having due consideration of the legal ramifications, the board resolved to rescind its purported approval of Mr Molefe's early retirement and Mr Molefe returned as GCE on 15 May 2017. On 31 May 2017 the Minister of Public Enterprises directed the board to rescind its decision to reinstate Mr Molefe as the GCE of Eskom. The board complied with this directive on 2 June 2017 and advised Mr Molefe formally thereof. Mr Molefe has instituted an urgent application in the Labour Court asserting that the rescission of his reappointment was unlawful.

The Eskom Pension and Provident Fund advised Eskom on 15 June 2017 that the amount of R30 million paid to the fund in relation to Mr Molefe's early retirement agreement will only be refunded to the company pursuant to a court order. The impact of the transactions will be considered as part of the annual financial statements for the year ending 31 March 2018.

In addition, the independent auditors of Eskom raised a reportable irregularity (RI) in terms of section 45 of the Auditing Profession Act in relation to the above matter. This matter will be resolved pending the outcome of the court case mentioned above.

Allegations against interim chief execitive

The board instructed Cliffe Dekker Hofmeyr (CDH) on 28 March 2017 to conduct a forensic and legal investigation in respect of the various articles concerning the potential conflict of interest relating to Mr Koko's stepdaughter's shareholding in Impulse International (Pty) Ltd (Impulse International). CDH appointed an independent auditing firm, Nkonki Incorporated, to assist with the forensic investigation.

The objective of the investigation was to ascertain whether the allegations could be corroborated or substantiated by evidence. The legal and forensic team presented its findings to the ARC on 13 June 2017 and submitted a formal report on 14 June 2017.

The investigations have been concluded and findings were deliberated on by the board in June 2017. The appropriate sanction was agreed on and issued by the board.

An RI in terms of section 45 of the Auditing Profession Act was raised by independent auditors in relation to this matter.

Changes to board

Ms Venete Klein resigned as director on 12 May 2017 and the chairman, Dr Baldwin Ngubane, resigned as chairman of the board and director on 12 June 2017. Mr Zethembe Khoza was appointed as interim chairman of the board.

NERSA revenue determination

Eskom submitted its 2019 revenue application to NERSA on 9 June 2017 requesting an increase of 19.9%.

NERSA and Eskom appealed the decision by the Gauteng High Court. The Supreme Court of Appeal upheld the appeal in favour of NERSA and Eskom in their judgement on 6 June 2017. Eskom is awaiting feedback from NERSA regarding the way forward on the 2015 and 2016 RCAs amounting to R19.2 billion and R23.6 billion respectively.

Eskom credit rating

Standard & Poor's and Fitch downgraded Eskom's long-term foreign and local currency ratings to B+ and BB+ respectively in April 2017. Eskom's long-term foreign and local currency debt ratings were downgraded by Moody's on 13 June 2017 from Ba1 to Ba2 with a negative outlook. The downgrade follows their decision to downgrade the sovereign long-term foreign and local currency debt ratings by one notch from Baa2 to Baa3 with a negative outlook on 9 June 2017.

Eskom has secured 53% of the required funding for the 2018 financial year and is positive that it will be able to secure the remaining funding for the year. The downgrade will have a minimal impact initially but will impact future cost and availability of funding. The current liquidity levels are healthy.

49. Restatement of comparatives

Eskom did not account correctly for certain distribution assets that were developed by third parties and transferred to Eskom in prior periods. This error was corrected in the 2017 annual financial statements as a prior period restatement by accounting for the assets that were transferred to Eskom in terms of the requirements of IFRIC 18 *Transfers of assets from customers*. The distribution assets were recognised in terms of IAS 16 *Property, plant and equipment* as property, plant and equipment at fair value and the related revenue was recognised in terms of IAS 18.

The impact of the restatement is as follows:

	2016			2015		
	Previously reported Rm	Adjustments Rm	Restated Rm	Previously reported Rm	Adjustments Rm	Restated Rm
Statements of financial position at 31 March						
Group						
Assets						
Non-current						
Property, plant and equipment	518 036	2 485	520 521	455 977	1 743	457 720
Equity						
Capital and reserves attributable to owner of the company	180 563	1 789	182 352	117 164	1 255	118 419
Liabilities						
Non-current						
Deferred tax	21 000	696	21 696	18 154	488	18 642
Company						
Assets						
Non-current						
Property, plant and equipment	519 284	2 485	521 769	457 468	1 743	459 211
Equity						
Capital and reserves attributable to owner of the company	172 314	1 789	174 103	110 957	1 255	112 212
Liabilities						
Non-current						
Deferred tax	20 621	696	21 317	17 848	488	18 336
Income statements for the year ended 31 March 2016						
Group						
Revenue	163 395	844	164 239			
Profit before depreciation and amortisation expense and net fair value loss (EBITDA)	31 967	844	32 811			
Depreciation and amortisation expense	(16 531)	(102)	(16 633)			
Profit before tax	7 105	742	7 847			
Income tax	(2 488)	(208)	(2 696)			
Profit for the year	4 617	534	5 151			
Company						
Revenue	163 395	844	164 239			
Profit before depreciation and amortisation expense and net fair value loss (EBITDA)	30 088	844	30 932			
Depreciation and amortisation expense	(16 517)	(102)	(16 619)			
Profit before tax	4 299	742	5 041			
Income tax	(1 697)	(208)	(1 905)			
Profit for the year	2 602	534	3 136			

Eskom's 2016 annual financial statements included a restatement resulting from a review in the valuation technique used to determine the fair value of cross-currency swaps that were held for risk management. Eskom would like to clarify that this restatement was as a result of a prior period error. The error was accounted for retrospectively and full disclosure was provided as required in terms of IAS 8 *Accounting policies, changes in accounting estimates and errors* in the 2016 annual financial statements. The restatement resulted in a decrease of R5 billion in retained earnings at 31 March 2015 and a reduction in net profit after tax of R3.4 billion for the year ended 31 March 2015.

50. Directors' remuneration[1]

Remuneration philosophy
Eskom's executive remuneration strategy is continuously reviewed to ensure alignment with the DPE remuneration guidelines and to keep abreast of best practices.

Eskom participates in various external remuneration surveys 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 remuneration practice also covers the nomination of executives for senior positions.

People and governance committee
The people and governance committee assists the board in applying the director and executive remuneration practice as determined by the shareholder.

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

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

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 people and governance committee makes recommendations regarding the remuneration of the group chief executive to the board for consideration. The board then recommends the remuneration to the shareholder for approval.

The committee approves the remuneration of the other Exco members (group executives) in line with a framework approved by the shareholder. Factors that influence the remuneration of the Exco members include level of skill, experience, contribution to organisational performance and success of the group. The remuneration is linked to the performance of the organisation and an individual's own contribution.

The remuneration includes a guaranteed package and short- and long-term incentives. The people and governance committee reviews the structure of these packages annually 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
The group executives receive a guaranteed package including certain benefits. The guaranteed amount is reviewed annually to keep remuneration in line with the market.

Short-term incentive scheme
The short-term incentive scheme rewards the achievement of individual predetermined performance objectives and targets (linked to the shareholder compact) as determined by the group chief executive in individual performance contracts. The objectives and targets determined for the group chief executive are approved by the people and governance committee.

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

Long-term incentive scheme
The long-term incentive scheme is designed to attract, retain and reward the Exco members for meeting the organisational objectives determined by the shareholder over a three-year period.

Long-term incentive scheme
Performance shares (award performance shares) were awarded to the Exco members on 1 April 2014, 2015 and 2016.

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.

Performance conditions and targets have been determined by the board over a three-year performance period in line with the corporate plan and shareholder compact with an agreed weighting in each category. Conditions include financial and non-financial targets in areas such as ensuring business sustainability and reliability of electricity supply, providing for the future power needs and supporting the developmental objectives of South Africa.

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% and a cap of 100%.

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

The vesting of the award performance shares is also 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 2014 vested on 31 March 2017 with an expected vesting rate over the three-year period of 49.42% due to the achievement of non-financial performance conditions. The board applied its discretion and reduced the vesting percentage to 44.42%. The cash value of the vested shares is payable in June 2017 at R1.25 per share based on the money market rate. Shares awarded on 1 April 2013 were redeemed during the year.

Shares vested on 31 March 2017 (with comparative status at 31 March 2016) are:

Name	Award performance shares vested on 31 March 2017 Number	Award performance shares vested on 31 March 2017 at a rate of 44.42%[2] Number	Award performance shares payable at R1.25 per share R'000	Award performance shares vested on 31 March 2016 Number	Award performance shares vested on 31 March 2016 at a rate of 34.48%[2] Number	Award performance shares payable at R1.23 per share R'000
T Govender	2 423 818	1 076 660	1 346	2 185 983	753 727	927
MM Koko	2 028 856	901 218	1 127	1 677 295	578 331	711
AA Masango	1 526 406	678 030	848	1 028 088	354 485	436
A Noah	2 407 391	1 069 363	1 337	2 171 168	748 619	921
MM Ntsokolo	2 759 328	1 225 693	1 532	2 488 574	858 060	1 055
EM Pule	1 686 820	749 285	937	1 597 367	550 772	677

Share awards – vesting

The current estimated vesting values of the award performance shares are R1.26 per share for the 1 April 2015 awards (vesting 31 March 2018) and R1.26 for the April 2016 awards (vesting 31 March 2019). 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 percentages of 50% for the 1 April 2015 and 50% for the 1 April 2016 awards, are estimates.

	Shares awarded on 1 April 2016			Shares awarded on 1 April 2015		
Name	Outstanding award performance shares vesting on 31 March 2019 Number	Award performance shares vesting on 31 March 2019 at a rate of 50% Number	Award performance shares payable in June 2019 at R1.26 per share R'000	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
B Molefe[4]	10 718 400	5 359 200	6 753	10 718 400[3]	5 359 200	6 753
A Singh	6 450 325	3 225 163	4 064	6 450 325[3]	3 225 163	4 064
T Govender	2 702 801	1 351 401	1 703	2 574 094	1 287 047	1 622
MM Koko	3 263 501	1 631 751	2 056	2 693 304	1 346 652	1 697
S Maritz	2 646 000	1 323 000	1 667	–	–	–
AA Masango	2 866 500	1 433 250	1 806	1 624 104	812 052	1 023
A Noah	2 684 480	1 342 240	1 691	2 556 648	1 278 324	1 611
MM Ntsokolo	3 076 945	1 538 473	1 938	2 930 405	1 465 203	1 846
EM Pule	2 646 000	1 323 000	1 667	1 791 402	895 701	1 129

The details of the long-term incentive plan are:

	Award on 1 April 2016	Award on 1 April 2015
Number of shares awarded[3]	37 054 952	31 338 682
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%

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).*
2. *The people and governance committee applied their discretion and reduced the vesting rate from 49.42% to 44.42% (2016: 44.48% to 34.48%).*
3. *Revised and backdated shares relating to the 1 April 2015 grant were awarded to B Molefe (3 215 520 shares) and A Singh (2 580 445 shares) during the year.*
4. *Mr Molefe qualifies for the grants vested in 2018 and 2019 based on the terms of the long-term incentive scheme.*

50. Directors' remuneration (continued)

Long-term incentive scheme (continued)

Reconciliation of movements in long-term incentive plan performance shares

	2017 Shares	2016 Shares
Outstanding at beginning of the year	49 523 812	43 959 547
Granted during the year[1]	42 850 917	25 542 717
Changes in Exco during the year	–	2 192 881
Forfeited during the year	–	(4 488 092)
Settled during the year	(11 148 475)	(17 683 241)
Outstanding at end of the year	81 226 254	49 523 812
Carrying amount of liability (R'000)	25 917	14 380
Intrinsic value of liabilities relating to vested rights (R'000)	7 125	4 728

Details of emoluments paid

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

Name	2017 Directors' fees R'000	2017 Salaries[2] R'000	2017 Short-term bonus payment[3] R'000	2017 Long-term bonus payment[4] R'000	2017 Other payments[5] R'000	2017 Total R'000	2016 Total R'000
Non-executive directors	6 420	–	–	–	19	6 439	6 656
BS Ngubane[6]	1 234	–	–	–	19	1 253	1 154
NT Baloyi[7]	–	–	–	–	–	–	47
N Carrim[8]	189	–	–	–	–	189	598
M Cassim[9]	56	–	–	–	–	56	463
ZW Khoza[10]	839	–	–	–	–	839	651
VJ Klein	872	–	–	–	–	872	670
R Kumalo[11]	57	–	–	–	–	57	531
G Leonardi[12]	665	–	–	–	–	665	310
C Mabude	918	–	–	–	–	918	683
DV Naidoo[8]	194	–	–	–	–	194	610
P Naidoo	924	–	–	–	–	924	540
MV Pamensky[13]	472	–	–	–	–	472	399
Executive directors	–	10 866	3 989	–	1 254	16 109	29 042
B Molefe[14]	–	6 029	2 110	–	732	8 871	9 467
A Singh[15]	–	4 837	1 879	–	522	7 238	4 550
TJ Matona[16]	–	–	–	–	–	–	7 008
TBL Molefe[17]	–	–	–	–	–	–	8 017
Exco members (group executives)	–	23 915	8 851	5 035	1 165	38 966	39 628
P Govender[18]	–	88	–	–	–	88	–
T Govender	–	3 303	1 385	927	120	5 735	5 188
M Koko[19]	–	3 885	1 496	711	79	6 171	5 098
SJ Lennon[20]	–	–	–	–	–	–	1 065
ET Mabelane[21]	–	–	–	–	–	–	1 251
WF Majola[22]	–	592	–	–	9	601	–
S Maritz[23]	–	2 625	1 138	308	155	4 226	–
DL Marokane[24]	–	–	–	–	–	–	8 268
AA Masango[25]	–	3 413	1 290	436	225	5 364	2 804
A Noah	–	3 196	1 091	921	94	5 302	4 986
MM Ntsokolo	–	3 663	1 346	1 055	199	6 263	5 755
EM Pule[26]	–	3 150	1 105	677	284	5 216	4 235
NS Veleti[27]	–	–	–	–	–	–	978
Total directors and group executives	6 420	34 781	12 840	5 035	2 438	61 514	75 326

	2017 R'000	2016 R'000
Housing loans to Exco members at 31 March		
ET Mabelane	635	678
AA Masango	511	526
EM Pule	84	135
P Govender	3 741	–
	4 971	1 339

The interest rate on the loans from EFC at 31 March 2017 was 8.75% (2016: 8.50%). The loans are repayable over a maximum period of 30 years. On resignation the terms and conditions of the loans are renegotiated.

No fees were paid to Eskom board and Exco members who serve on the boards of Eskom subsidiaries, except for EFC where the fees were paid to Eskom Holdings SOC Ltd.

The following board and Exco members were directors of EFC:

	2017 R'000	2016 R'000
TBL Molefe[17]	–	5
A Singh	10	10
EM Pule	20	10

1. *Revised and backdated shares relating to the 1 April 2015 grant were awarded to B Molefe (3 215 520 shares) and A Singh (2 580 445 shares) during the year.*
2. *Includes medical aid and pension fund contributions.*
3. *Short-term incentive bonus awarded for the 2017 financial year to be approved by the shareholder.*
4. *Long-term incentive bonus scheme – Grant 9, which vested on 31 March 2016 was paid in July 2016.*
5. *Fees related to telephone costs, security services and operating vehicle expenditure.*
6. *Appointed as the acting chairman on 1 April 2015 and chairman on 1 October 2016.*
7. *Resigned on 30 April 2015.*
8. *Resigned on 30 June 2016.*
9. *Appointed on 25 May 2015. Resigned on 14 April 2016.*
10. *Acted as the chief executive from 11 March 2015 to 17 April 2015.*
11. *Resigned on 12 April 2016.*
12. *Appointed on 25 May 2015.*
13. *Resigned on 25 November 2016.*
14. *Acted as group chief executive from 20 April 2015 and appointed as group chief executive on 25 September 2015. Stepped down on 31 December 2016.*
15. *Acted as chief financial officer from 1 August 2015 and appointed as chief financial officer on 25 September 2015.*
16. *Resigned as chief executive and executive director on 30 June 2015.*
17. *Resigned as finance director and executive director on 30 June 2015.*
18. *Appointed acting group executive: group capital from 22 March 2017.*
19. *Appointed as group executive: generation on 1 November 2015 and appointed as acting chief executive from 1 December 2016.*
20. *Retired on 31 March 2015.*
21. *Acted as group executive: commercial and technology from 12 March 2015 to 31 October 2015.*
22. *Appointed acting group executive: generation from 1 January 2017.*
23. *Appointed group executive: information technology from 1 June 2016.*
24. *Resigned on 31 May 2015.*
25. *Acted as group executive: group capital from 12 March 2015, appointed as group executive: group capital on 1 November 2015 and appointed as group executive to the office of the chief executive on 22 March 2017.*
26. *Acting as group executive: human resources and appointed as group executive: human resources from 1 June 2016.*
27. *Acted as chief financial officer from 12 March 2015 to 31 August 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	Impact
Amendments to IAS 7 *Disclosure initiative* (1 January 2017)	The amendments introduce new disclosure for changes in liabilities arising from financing activities, by providing a reconciliation between the opening and closing balances	Immaterial impact. Net debt reconciliation has already been presented previously
Amendments to IAS 12 *Recognition of deferred tax assets for unrealised losses* (1 January 2017)	The amendments clarify the requirements for recognition of deferred tax assets arising from unrealised losses on debt instruments measured at fair value	Immaterial impact. Deferred tax assets have already been accounted for in line with the amendment
IFRS 9 *Financial instruments* (1 January 2018)	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	The group is currently in the process of evaluating the detailed requirements of the standard to assess the impact on the financial statements The initial assessment indicates that the classification and measurement of financial assets are not expected to change significantly, while Eskom's hedge accounting methodology will be significantly impacted. The requirements relating to the impairment of financial assets will have an impact on the provision for impairment of trade and other receivables
IFRS 15 *Revenue from contracts with customers* (1 January 2018)	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	Eskom currently recognises electricity revenue when the risks and rewards of ownership have passed to the customer. IFRS 15 will require that revenue be recognised when control of electricity that is being sold is transferred to the customer. This control will transfer as a series of performance events over the course of a contract where the customer will be able to benefit from the consumption of electricity at the same time that Eskom supplies the electricity. Revenue measured will therefore change from being point-in-time to over time which may lead to a change in the revenue recognition pattern

Topic	Summary of requirements	Impact
IFRS 15 *Revenue from contracts with customers* (continued)	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 (includes modified retrospective approach)	Upfront capital contributions received from customers prior to 30 June 2009 are credited to profit or loss over the expected useful lives of the related assets. Contributions received after 30 June 2009 are recognised in profit or loss when the customer is connected to the electricity network. The upfront capital contributions provide a material right to the customer in terms of IFRS 15 where the amount of the right would be recognised over the estimated life of the customer. This will lead to a change in the revenue recognition pattern
IFRS 16 *Leases* (1 January 2019)	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	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 2017. The nature and effect of the changes are as follows:

Topic	Summary of requirements	Impact
Amendment to IFRS 11 *Joint arrangements* regarding acquisition of an interest in a joint operation (1 January 2016)	The amendment provides guidance on how to account for the acquisition of an interest in a joint venture operation that constitutes a business. An investor has to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business	Not applicable
Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture (1 January 2016)	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 whereas 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	Not applicable
Amendments to IAS 1 *Disclosure initiative* (1 January 2016)	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	Immaterial impact. Presentation and disclosure have been refined where applicable
Amendment to IAS 27 *Separate financial statements* regarding the equity method (1 January 2016)	The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements	Immaterial impact. The group entities continue to account for investments in subsidiaries, joint ventures and associates at cost in their separate financial statements
Annual improvements 2014 (effective date) (1 January 2016)	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*	Not applicable

52. Information required by the Public Finance Management Act

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 in terms of the significance and materiality framework agreed with the shareholder.

52.1 Irregular expenditure

	Note	Group and company 2017 Rm	Group and company 2016 Rm
Balance at beginning of the year		348	418
Current year expenditure		4 043	106
Amounts condoned		(1 084)	(146)
Amounts not recoverable (not condoned)		(311)	(30)
Balance at end of the year		2 996	348
Age analysis		2 996	348
Current year		2 992	38
Prior years		4	310
Comprising			
B2B engineering tools expenditure incurred without PFMA approval	(a)	–	310
Balance at beginning of the year		310	310
Amounts not recoverable (not condoned)		(310)	–
Purchase of land without investment committee approval	(b)	–	–
Balance at beginning of the year		–	108
Amounts condoned		–	(108)
Breach of PPPFA: monetary thresholds – incorrect tender process applied	(c)	92	11
Balance at beginning of the year		11	–
Current year expenditure		95	41
Amounts condoned		(13)	–
Amounts not recoverable (not condoned)		(1)	(30)
Breach of the NEMA	(d)	–	7
Balance at beginning of the year		7	–
Current year expenditure		–	7
Amounts condoned		(7)	–
Use of labour broker – internal processes not followed	(e)	–	10
Balance at beginning of the year		10	–
Current year expenditure		–	10
Amounts condoned		(10)	–
Professional services contract – internal processes not followed		–	–
Current year expenditure		–	36
Amounts condoned		–	(36)
Tender processes not adhered to – commitments made before approval	(f)	56	1
Balance at beginning of the year		1	–
Current year expenditure		549	3
Amounts condoned		(494)	(2)
Procurement of services – incorrect classification as an emergency	(g)	8	4
Balance at beginning of the year		4	–
Current year expenditure		4	4
Quality management – tender process not followed and insufficient delegation of authority			
Current year expenditure	(h)	1 560	–
Breach of PPPFA – tax clearance certificates	(i)	987	–
Current year expenditure		1 453	–
Amounts condoned		(466)	–
Non-compliance with CIDB regulations	(j)	8	–
Current year expenditure		97	–
Amounts condoned		(89)	–
Breach of PFMA – use of sole source			
Current year expenditure	(k)	96	–
Breach of PFMA – tender processes not adhered to			
Current year expenditure	(l)	189	–
Various other instances		–	5
Balance at beginning of the year		5	–
Current year expenditure		–	5
Amounts condoned		(5)	–

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

52.1 Irregular expenditure (continued)

(a) B2B engineering tools expenditure incurred without PFMA approval

The matter regarding the expenditure incurred on the B2B Engineering Tools project of R310 million before PFMA approval was reported in 2015. The expenditure was subsequently derecognised by the board in accordance with the National Treasury Guideline issued on 19 April 2016.

(b) Purchase of land without investment committee approval

The matter regarding the purchase of land without investment committee approval was reported in 2015. The irregular expenditure incurred has been condoned by the relevant authority and has therefore been removed from the register of irregular expenditure.

(c) Breach of PPPFA: monetary thresholds – incorrect tender process applied

Irregular expenditure of R95 million was incurred in breach of the Preferential Procurement Policy Framework Act (PPPFA) as follows:

- the PPPFA requires that monetary thresholds to determine the appropriate point-scoring criteria applicable to specific transactions be considered inclusive of VAT. Eskom erroneously applied the thresholds exclusive of VAT. Certain procurement was therefore done using the incorrect point-scoring criteria and resulted in a breach of PPPFA. Irregular expenditure incurred on affected transactions amounted to R95 million (2016: R11 million) of which R13 million was condoned in 2017, including R11 million reported in 2016. An amount of R92 million was awaiting condonation at 31 March 2017. Eskom is ensuring that regular reviews are conducted and that buyers are made aware and retrained on the supply chain management procedure
- Eskom's exemption from the PPPFA expired on 7 December 2012. Eskom paid R0.4 million (2016: R30 million) during the year 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 at the time and Eskom continued to meet its obligations in terms of these contracts. All the affected transactions took place in the normal course of business and were subject to Eskom's approved procurement policy in force at the time

(d) Breach of NEMA

Eskom unlawfully 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). An amount of R7 million was incurred on the portion of the line constructed in contravention of the National Environmental Management Act (NEMA). Eskom rectified the breach and received the required authorisation from DEA on 2 September 2016. Eskom paid a penalty of R1 million imposed by DEA. Disciplinary action was concluded against three employees involved.

(e) Use of labour broker – internal processes not followed

Eskom processes were not followed for the procurement of certain goods and services through a labour broker. The senior managers concerned were disciplined and the labour broker instructed to discontinue sundry payments. The expenditure was condoned and no further action is required.

(f) Tender processes not adhered to – commitments made before approval

Irregular expenditure of R549 million comprising 245 incidents was incurred as a result of non-adherence to internal procurement processes and employees contravening the Eskom Delegation of Authority. Incidents totalling R56 million are awaiting condonation.

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

Services procured to the value of R4 million (2016: R4 million) were incorrectly classified as an emergency in the procurement process. This matter will be submitted for condonation in 2018.

(h) Quality management – tender process not followed and insufficient delegation of authority

Irregular expenditure estimated at R1 560 million was incurred because of the placement of contracts without proper delegation of authority or without following established processes during the 2008-2015 financial years.

Multi-disciplinary investigations were conducted into indications of mismanagement and allegations of irregularities in the quality management department. Possible fruitless and wasteful expenditure of R886 million regarding this matter was reported in 2016.

A further investigation was recently finalised by an independent external company with the following outcome:

- identification of irregular expenditure of R1 560 million because of the placement of contracts without proper delegation of authority or without following established processes during the 2008-2015 financial years with the bulk of the payments made on these contracts occurring in the 2013 and 2014 financial years
- estimated fruitless and wasteful expenditure of R510 million compared to the original estimate of R886 million reported in 2016. Refer to 52.2(a)
- losses due to criminal conduct of R2 million. Refer to 52.3(b)

Actions taken to date include the following:

- two employees have been dismissed (one is a senior manager)
- a criminal case was opened with the South African Police Service to investigate possible fraudulent transactions
- civil action against Eskom by one of the main suppliers is being defended
- a fidelity claim has been lodged in terms of a commercial crime insurance policy with a cover limit of R3 billion for losses arising from fraudulent or dishonest acts committed by employees. This claim will be concluded once the legal matters have been finalised

Further disciplinary, civil and/or criminal action as appropriate will be considered against other parties involved, including action to recover losses.

The following contract management process improvements have been implemented:

- improvement in the monitoring of performance by the SHEQ panel service providers with regular inspections and enforcement of consequence management for poor or ineffective delivery
- effective segregation of duties
- reconciliation of task orders to scope, budget, timesheets, invoices and payments, with approval of timesheets by project managers on site
- limiting of long-term task orders and close monitoring of performance to ensure resources are not idle nor unproductive
- training of employees on effective electronic documentation management

(i) Breach of PPPFA – tax clearance certificates

PPPFA regulations require that tenders may only be awarded to a person whose tax matters have been declared to be in order by SARS. SARS only issues such a confirmation to a person registered as a taxpayer. Three contracts with an award value of R340 million were reported as being under investigation in 2016. A further R126 million was incurred on these contracts during the year. They were confirmed as irregular in 2017 since no SARS declaration was found to be obtained at the time of award and were condoned during the year. There were 59 contracts that were similarly affected during 2017. Irregular expenditure of R987 million was incurred on these contracts during the year and is awaiting condonation.

(j) Non-compliance with CIDB regulations

Construction Industry Development Board (CIDB) regulations specify the different levels of grading that contractors must have based on the value of the contracts to be awarded (not a requirement for World Bank-funded contracts). Expenditure of R89 million was identified and condoned during the year on two foreign contracts awarded in terms of World Bank funding where the grading level was not in line with CIDB regulations. A further R8 million was incurred on a contract for which tender invitations were not advertised on the CIDB website as per the CIDB Regulation 24.

(k) Breach of PFMA – use of sole source

There were three incidents of irregular expenditure totalling R96 million where the use of sole sources could not be adequately justified.

(l) Breach of PFMA – tender processes not adhered to

There were 11 incidents of irregular expenditure totalling R189 million where approved supply chain management processes were not adhered to.

(m) Irregular expenditure under investigation

There are numerous additional instances of procurement that are subject to investigation, namely:

- tender processes not adhered to including breaches of delegation of authority
- incorrect PPPFA points thresholds applied
- non-compliance with CIDB regulations
- lack of supporting documentation including tax clearance certificates
- award made to a company on a sole source basis which might not comply with the criteria of sole source and contract amount determined on a contingency fee basis
- non-declaration of conflicts of interest by employees and tenderers giving rise to a risk of undue influence
- contract information not reflected correctly in the reporting system

These matters are being investigated and will be disclosed in a subsequent period should they prove to be irregular.

(n) Relevant authority for condonations

Condonations are currently approved by the relevant internal governance committee unless it is specifically required to be approved by National Treasury. Eskom is awaiting clarification from National Treasury on whether a relevant government department responsible for a particular piece of legislation must approve condonation of a breach relating to that legislation.

52.2 Fruitless and wasteful expenditure

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

There was one (2016: one) major incident of fruitless and wasteful expenditure incurred by the group during the year that exceeded the materiality threshold of R25 million. This matter is carried forward from 2016.

Fruitless and wasteful expenditure incurred by the quality management department

An investigation by an independent external party confirmed fruitless and wasteful expenditure estimated at R510 million compared to the original estimate of R886 million reported in the previous financial year. Refer to 52.1(h).

(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 R37 million (2016: R93 million) comprising 210 (2016: 655) incidents of which 10 incidents accounted for R22 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 84 incidents of alleged fruitless and wasteful expenditure under investigation, of which none is expected to 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. Information required by the Public Finance Management Act (continued)

52.3 Criminal conduct

(a) Theft of conductors, cabling and related equipment

Losses due to conductor theft, cabling and related equipment totalled R70 million (2016: R85 million), involving 5 734 incidents (2016: 5 161 incidents). Actions to combat these losses are managed by the Eskom Network Equipment Crime Committee in collaboration with other affected state-owned companies and the South African Police Services. The combined effort resulted in 235 (2016: 229) arrests and R5 million (2016: R5 million) worth of stolen material was recovered.

(b) Fraud

Eskom concluded 15 (2016: 14) investigations into fraud during the reporting period involving R24 million (2016: R33 million), including a R2 million loss due to criminal conduct on the quality management matter. Refer to note 52.1(h). 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.

(c) Non-technical revenue losses

Non-technical losses are estimated at R1.3 billion (2016: R1.2 billion). These arise mainly from meter tampering and bypasses, illegal connections to the electricity network and illegal vending of electricity.

Interventions to reduce non-technical energy losses:

- implementation of technologies in the form of smart/split meters with protective enclosures to prevent access to the meter
- disconnection of illegal connections, meter tampers and imposition of penalties (tamper fines)
- estimation and recovery of revenue for historic unaccounted energy where tampered metering installations are encountered
- revision of supply group codes on prepaid meters to prevent the use of illegal prepaid vouchers
- investigations and prosecution of criminals perpetrating electricity theft through the sale of illegal prepaid vouchers, illegal electrification and meter tampering services
- customer education, social mobilisation and partnership campaigns to drive behaviour change

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 R554 billion (2016: R310 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.

	2017			2016		
	Historical cost Rm	Adjustments Rm	After revaluation Rm	Historical cost Rm	Adjustments Rm	After revaluation Rm
Summarised group statements of financial position						
Assets						
Property, plant and equipment	588 867	76 747	665 614	520 521	71 140	591 661
Other assets	121 142	–	121 142	142 649	–	142 649
	710 009	76 747	786 756	663 170	71 140	734 310
Equity and liabilities						
Total equity	175 942	55 258	231 200	182 352	51 221	233 573
Deferred tax	18 067	21 489	39 556	21 696	19 919	41 615
Other liabilities	516 000	–	516 000	459 122	–	459 122
	710 009	76 747	786 756	663 170	71 140	734 310
Summarised group income statements						
Profit before depreciation and amortisation expense, net impairment loss and other expenses	61 040	–	61 040	52 189	–	52 189
Depreciation and amortisation expense	(20 300)	(7 250)	(27 550)	(16 633)	(2 965)	(19 598)
Net impairment loss	(1 669)	484	(1 185)	(1 170)	787	(383)
Other expenses	(23 570)	(85)	(23 655)	(18 663)	(134)	(18 797)
Profit/(loss) before net finance cost	15 501	(6 851)	8 650	15 723	(2 312)	13 411
Net finance cost	(14 377)	(18 233)	(32 610)	(7 919)	(19 426)	(27 345)
Share of profit of equity-accounted investees, net of tax	35	–	35	43	–	43
Profit/(loss) before tax	1 159	(25 084)	(23 925)	7 847	(21 738)	(13 891)
Income tax	(271)	7 024	6 753	(2 696)	6 087	3 391
Profit/(loss) for the year	888	(18 060)	(17 172)	5 151	(15 651)	(10 500)
Summarised group statements of comprehensive income						
Profit/(loss) for the year	888	(18 060)	(17 172)	5 151	(15 651)	(10 500)
Other comprehensive (loss)/income	(7 298)	22 097	14 799	6 508	(63 844)	(57 336)
Revaluation reserve raised/(reversed)	–	30 690	30 690	–	(88 672)	(88 672)
Other items of other comprehensive (loss)/income	(10 119)	–	(10 119)	9 030	–	9 030
Income tax thereon	2 821	(8 593)	(5 772)	(2 522)	24 828	22 306
Total comprehensive (loss)/income for the year	(6 410)	4 037	(2 373)	11 659	(79 495)	(67 836)

Appendix – Acronyms, abbreviations and definitions

Accounting, audit and other financial terms

DRC	Depreciated Replacement Cost
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
FFO	Free Funds from Operations
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
EFC	Eskom Finance Company SOC Ltd
EPPF	Eskom Pension and Provident Fund
Escap	Escap SOC Ltd
Eskom	Eskom Holdings SOC Ltd
Eskom Uganda	Eskom Uganda Ltd
group	Eskom Holdings SOC Ltd and its subsidiaries
Motraco	Mozambique Transmission Company SARL
Nqaba	Nqaba Finance 1 (RF) Ltd
UEGCL	Uganda Electricity Generation Company Ltd
UETCL	Uganda Electricity Transmission Company Ltd

Legislation

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

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
ARC	Audit and Risk Committee
Board	Board of directors
CA(SA)	Chartered Accountant of South Africa
CDH	Cliffe Dekker Hofmeyer
CIDB	Construction Industry Development Board
DEA	Department of Environmental Affairs
DPE	Department of Public Enterprises
DTC	Design-To-Cost
EAF	Energy Availability Factor
Exco	Executive Management Committee
IDM	Integrated Demand Management
IPP	Independent Power Producer
ISEP	Integrated Strategic Electricity Plan
KPI	Key Performance Indicator
LTIR	Lost-Time Injury Rate
MYPD	Multi-Year Price Determination
NCD	Negotiable Certificates of Deposit
NERSA	National Energy Regulator of South Africa
OCGT	Open Cycle Gas Turbine
PwC	PricewaterhouseCoopers
RCA	Regulatory Clearing Account
SADC	Southern African Development Community
SCM	Supply chain management
SHEQ	Safety, Health, Environment Quality
SARB	South African Reserve Bank
SARS	South African Revenue Services
TASK	Tunes Assessment of Skills and Knowledge
TMPS	Total Measured Procurement Spend

Appendix – Acronyms, abbreviations and definitions (continued)

Definitions

EBITDA	Revenue plus other income minus primary energy minus employee benefit expense minus net impairment loss minus other expenses
EBITDA margin	EBITDA divided by revenue
Net profit margin	Net profit divided by revenue
Net debt	Debt securities and borrowings plus finance lease payables minus investment in securities (investing portfolio) minus financial trading assets (market-making portfolio) plus financial trading liabilities (market-making portfolio) plus derivative liabilities held for risk management (used to hedge other items of net debt) minus derivative assets held for risk management (used to hedge other items of net debt) minus payments made in advance (used to secure borrowings raised) minus cash and cash equivalents
Net interest on net debt	Net finance costs arising on net debt balances
Net debt interest cover ratio	Profit before net finance cost divided by net debt net interest
Working capital current assets	Inventories plus payments made in advance (current) plus trade and other receivables (current) plus taxation asset
Working capital current liabilities	Trade and other payables (current) plus payments received in advance (current) plus provisions (current) plus employee benefit obligations (current) plus taxation liability
Working capital ratio	Working capital current assets divided by working capital current liabilities
Liquid assets	Investment in securities (investing portfolio) plus cash and cash equivalents

Refer to the integrated report for definitions relating to the shareholder compact key performance indicators on page 101.

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