Eskom

Reviewed condensed group interim financial statements

for the six months ended 30 September 2018

Contents

The reviewed condensed group interim financial statements for the six months ended 30 September 2018 have been prepared under the supervision of the acting chief financial officer (CFO), C Cassim CA(SA). These condensed group interim financial statements have been independently reviewed by the group's external auditors and were published on 28 November 2018.

Currency of financial statements

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

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

	Average			Reporting date mid-spot rate		
	30 September 2018	31 March 2018	30 September 2017	30 September 2018	31 March 2018	30 September 2017
Euro	15.73	15.21	15.02	16.42	14.64	15.95
United States dollar (USD)	13.38	13.00	13.19	14.17	11.88	13.52
Pound sterling (United Kingdom)	17.78	17.23	17.07	18.45	16.69	18.07
Swiss franc	13.59	13.39	13.55	14.51	12.44	13.92
Japanese yen	0.12	0.12	0.12	0.12	0.11	0.12

Approval of the condensed group interim financial statements

Basis of preparation

The condensed group interim financial statements from page 4 to page 27 for the six months ended 30 September 2018 have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS), the presentation and disclosure requirements of International Accounting Standards (IAS) 34 *Interim financial reporting*, and in the manner required by the Companies Act.

Going concern

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

- noted the positive impact of improved governance processes and internal controls that started with the appointment of the new board and the subsequent action taken under their leadership
- recognises that Eskom is facing various legacy challenges that resulted from mismanagement and corruption in the past. Significant progress has been made towards becoming a trusted state-owned entity, but it will take time to identify all issues and take appropriate corrective action and consequence management
- noted that the rating agencies have a more positive outlook on Eskom, even though the ratings are still at sub-investment grade
- noted that improved investor confidence and access to domestic markets as well as continued foreign support contributed to securing R53 billion of funding in 2019 (73% of the targeted funding of R72 billion for 2019 has already been secured by September 2018)
- considered the impact of the current economic climate and the sovereign's credit ratings on Eskom's ability to raise funds
- reviewed the performance of the group for the period ended 30 September 2018 including the net profit of R671 million (30 September 2017: R6 312 million profit, 31 March 2018: R2 337 million loss)
- considered the impact of the cash flow forecast for the 15 months ending 31 March 2020 and the projected net loss by year end
- considered that Eskom is in a debt reliant liquidity situation that resulted from low tariffs, limited growth in sales, increased costs and the capital programme to increase and replace generating and transmitting capacity
- considered the impact of reduced generation performance, low coal stock levels and the continuous increase in overdue electricity receivables
- considered the impact of the R32.7 billion allowed by the National Energy Regulatory of South Africa (NERSA) on the regulatory clearing accounts for the 2015 to 2017 periods of the MYPD that will result in a once-off increase of 4.41% from 1 April 2019 for four years
- considered the impact of the non-recoverability of long outstanding electricity receivables
- noted that the government has indicated that Eskom plays a strategic role in supporting economic growth and continues to support Eskom as a going concern

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

- the board approved a revised strategy to address Eskom's short- to medium-term challenges and set the organisation up for the electricity industry of the future. The turnaround of Eskom is a journey over time and the successful execution of this strategy is highly dependent on the active involvement of key stakeholders, in particular government. Eskom cannot solve the financial and operational sustainability challenges that it faces alone and the costs thereof will ultimately impact either the electricity consumer or the taxpayer
- continuous engagement is taking place with the shareholder and National Treasury to ensure that the challenges that impact the group's going-concern status are addressed satisfactorily within a reasonable timeframe
- the ministers of Public Enterprises, Energy and Finance are working together to deal with other structural issues at Eskom, including the funding model and other industry challenges identified by the inter-ministerial committee on state-owned enterprises reform
- the turnaround initiatives are expected to deliver positive value in 2019 and will continue with a positive trend into the short- to medium-term to contribute towards the stabilisation of Eskom's performance
- Eskom lodged court proceedings against NERSA around the determination of the 5.23% tariff increase awarded for the 2019 financial year
- the group's cost structures and capital programme are continuously being reviewed to extract cost savings and improve cash flows
- the group's generation capacity is being managed as a key focus area to ensure appropriate steps are being taken to manage the performance challenges
- there is a high focus on implementing the relevant recovery plans to increase the coal stock to acceptable levels
- there is continued focus on implementing relevant strategies in an effort to recover overdue trade receivables
- the group will not embark on any further generation expansion activities in the foreseeable future after the completion of the Kusile power station project
- funding options, with the support of National Treasury, are being pursued to implement the group's borrowing programme
- there is continued focus on the supply chain recovery programme to address the shortcomings relating to the completeness of the irregular expenditure, fruitless and wasteful expenditure and losses due to criminal conduct reporting process in terms of the Public Finance Management Act (PFMA) (resulted in the qualified audit opinion) and the clean-up of the related challenges in the commercial environment

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

Approval

The board is of the opinion, based on the information available to date, that the condensed group interim financial statements fairly present the financial position of the group at 30 September 2018 and the results of the operations and cash flow information for the six months then ended. The condensed group interim financial statements have been approved by the board and signed on its behalf by:

JA Mabuza	**PS Hadebe**	**C Cassim**
Chairman	Group chief executive	Acting chief financial officer
26 November 2018	26 November 2018	26 November 2018

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

Introduction

We have reviewed the accompanying condensed group interim financial statements of Eskom Holdings SOC Ltd set out on pages 4 to 27, which comprise the condensed group statement of financial position at 30 September 2018, and the condensed group income statement, statements of comprehensive income, changes in equity and cash flows for the six months then ended and selected explanatory notes.

The board’s responsibility for the financial statements

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

Auditors’ responsibility for the financial statements

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

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity.* A review of the interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. This standard also requires us to comply with relevant ethical requirements.

A review of interim financial statements in accordance with ISRE 2410 is a limited assurance engagement. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters which might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed group interim financial statements of Eskom for the six months ended 30 September 2018, are not prepared, in all material respects, in accordance with the recognition and measurement requirements of IFRS, the presentation and disclosure requirements of IAS 34 *Interim financial reporting* and the requirements of the Companies Act.

Material uncertainty related to going concern

We draw attention to note 2.1 of the condensed group interim financial statements which indicates that the net profit for the period ended 30 September 2018 was R671 million (30 September 2017: R6 312 million). As stated in note 2.1, these events or conditions indicate that material uncertainty exists that may indicate significant doubt on the group’s ability to continue as a going concern. Our review conclusion is not modified in respect of this matter.

Compliance with laws and regulations

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 17 to the condensed group interim financial statements.

A Mthimunye
SizweNtsalubaGobodo Grant Thornton Inc.
Director
Registered auditor

27 November 2018

20 Morris Street East
Woodmead
2191

Condensed group statement of financial position

at 30 September 2018

	Reviewed 30 September 2018 Rm	Audited 31 March 2018 Rm	Reviewed 30 September 2017 Rm
Assets			
Non-current assets	673 881	658 068	643 351
Property, plant and equipment and intangible assets	645 092	634 593	614 195
Future fuel supplies	6 472	7 157	8 770
Payments made in advance	1 771	1 746	1 500
Derivatives held for risk management and embedded derivatives	19 682	13 705	17 911
Trade, finance lease, loan and other receivables	452	472	562
Other assets	412	395	413
Current assets	78 116	72 122	71 400
Inventories	23 775	24 348	23 021
Taxation	371	149	176
Investments and financial trading assets	9 700	8 340	10 364
Payments made in advance	1 873	1 418	2 496
Derivatives held for risk management and embedded derivatives	1 865	1 873	2 146
Trade, finance lease, loan and other receivables	23 190	20 171	24 690
Cash and cash equivalents	17 342	15 823	8 507
Non-current assets held-for-sale	8 985	8 926	8 823
Total assets	760 982	739 116	723 574
Equity			
Capital and reserves	174 633	170 336	182 618
Liabilities			
Non-current liabilities	511 435	474 353	465 074
Debt securities and borrowings	397 002	348 112	347 584
Derivatives held for risk management and embedded derivatives	7 033	20 004	8 351
Deferred tax	17 401	15 846	20 336
Payments received in advance, contract liabilities and deferred income	22 299	21 562	20 742
Employee benefit obligations	13 698	13 725	13 699
Provisions	43 348	44 370	43 778
Trade, finance lease and other payables	10 654	10 734	10 584
Current liabilities	73 230	92 745	74 202
Debt securities and borrowings	22 211	40 572	19 443
Derivatives held for risk management and embedded derivatives	4 099	6 753	2 709
Employee benefit obligations	4 012	3 244	5 342
Provisions	6 111	5 309	7 627
Payments received in advance, contract liabilities and deferred income	4 640	4 212	5 074
Trade, finance lease and other payables	31 891	32 402	32 534
Taxation	–	4	5
Financial trading liabilities	266	249	1 468
Non-current liabilities held-for-sale	1 684	1 682	1 680
Total liabilities	586 349	568 780	540 956
Total equity and liabilities	760 982	739 116	723 574

Condensed group income statement

for the six months ended 30 September 2018

	Note	Reviewed six months ended 30 September 2018 Rm	Reviewed six months ended 30 September 2017 Rm	Audited year ended 31 March 2018 Rm
Revenue	10	98 104	95 505	177 424
Other income		1 678	730	1 372
Primary energy	11	(46 146)	(41 257)	(85 202)
Employee benefit expense	12	(16 944)	(15 153)	(29 454)
Net impairment reversal/(loss)		594	(679)	(553)
Other expenses		(8 963)	(9 490)	(18 228)
Profit before depreciation and amortisation expense and net fair value (loss)/gain on financial instruments (EBITDA)		28 323	29 656	45 359
Depreciation and amortisation expense		(12 870)	(10 877)	(23 132)
Net fair value (loss)/gain on financial instruments		(821)	105	(1 775)
Profit before net finance cost		14 632	18 884	20 452
Net finance cost		(13 733)	(10 026)	(23 089)
Finance income		1 495	1 865	2 872
Finance cost	13	(15 228)	(11 891)	(25 961)
Share of profit of equity-accounted investees, net of tax		22	26	34
Profit/(loss) before tax		921	8 884	(2 603)
Income tax	14	(250)	(2 572)	266
Profit/(loss) for the period[1]		671	6 312	(2 337)

Condensed group statement of comprehensive income

for the six months ended 30 September 2018

	Reviewed six months ended 30 September 2018 Rm	Reviewed six months ended 30 September 2017 Rm	Audited year ended 31 March 2018 Rm
Profit/(loss) for the period[1]	671	6 312	(2 337)
Other comprehensive income/(loss)	3 632	364	(3 269)
Items that may be reclassified subsequently to profit or loss	3 016	(365)	(4 601)
Available-for-sale reserve	–	1	–
Cash flow hedges	4 157	(505)	(6 357)
Foreign currency translation differences	23	(2)	(25)
Income tax thereon	(1 164)	141	1 781
Items that may not be reclassified subsequently to profit or loss	616	729	1 332
Re-measurement of post-employment medical benefits	848	1 012	1 850
Income tax thereon	(232)	(283)	(518)
Total comprehensive income/(loss) for the period[1]	4 303	6 676	(5 606)

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

Condensed group statement of changes in equity
for the six months ended 30 September 2018

	Share capital Rm	Cash flow hedge reserve Rm	Available-for-sale reserve Rm	Unrealised fair value reserve Rm	Foreign currency translation reserve Rm	Accumulated profit Rm	Total equity Rm
Balance at 31 March 2017	83 000	4 160	6	(11 873)	(6)	100 655	175 942
Profit for the period	–	–	–	–	–	6 312	6 312
Other comprehensive income, net of tax	–	(364)	1	–	(2)	729	364
Transfer between reserves	–	–	–	757	–	(757)	–
Balance at 30 September 2017	83 000	3 796	7	(11 116)	(8)	106 939	182 618
Loss for the period	–	–	–	–	–	(8 649)	(8 649)
Other comprehensive loss, net of tax	–	(4 212)	(1)	–	(23)	603	(3 633)
Transfer between reserves	–	–	–	803	–	(803)	–
Balance at 31 March 2018	83 000	(416)	6	(10 313)	(31)	98 090	170 336
Implementation of IFRS 9	–	–	(6)	–	–	–	(6)
Classification and measurement	–	–	(8)	–	–	–	(8)
Income tax thereon	–	–	2	–	–	–	2
Adjusted balance at 1 April 2018	83 000	(416)	–	(10 313)	(31)	98 090	170 330
Profit for the period	–	–	–	–	–	671	671
Other comprehensive income, net of tax	–	2 993	–	–	23	616	3 632
Transfer between reserves	–	–	–	(3 787)	–	3 787	–
Balance at 30 September 2018	83 000	2 577	–	(14 100)	(8)	103 164	174 633

Condensed group statement of cash flows

for the six months ended 30 September 2018

	Reviewed six months ended 30 September 2018 Rm	Reviewed six months ended 30 September 2017 Rm	Audited year ended 31 March 2018 Rm
Cash flows from operating activities			
Profit/(loss) before tax	921	8 884	(2 603)
Adjustment for non-cash items	26 979	21 477	44 710
Changes in working capital	(808)	(6 724)	(2 448)
Cash generated from operations	27 092	23 637	39 659
Net cash used in derivatives held for risk management	(87)	(1 168)	(1 726)
Finance income received	190	442	393
Finance cost paid	(239)	(33)	(28)
Income taxes paid	(288)	(517)	(724)
Net cash from operating activities	26 668	22 361	37 574
Cash flows used in investing activities			
Disposals of property, plant and equipment and intangible assets	327	172	453
Acquisitions of property, plant and equipment and intangible assets	(17 085)	(25 598)	(49 501)
Acquisitions of future fuel supplies	(89)	(1 235)	(1 618)
Net acquisitions of investments	(1 389)	(1 804)	(1 492)
Cash used in payments made in advance	(37)	(4)	(40)
Cash used in provisions	(539)	(1 689)	(4 788)
Net cash used in derivatives held for risk management	(59)	(252)	(91)
Finance income received	724	731	1 486
Other cash from investing activities	74	16	94
Net cash used in investing activities	(18 073)	(29 663)	(55 497)
Cash flows (used in)/from financing activities			
Debt securities and borrowings raised	34 413	12 553	53 234
Cash used in payments made in advance	(725)	(518)	(929)
Debt securities and borrowings repaid	(27 515)	(7 581)	(12 548)
Net cash from/(used in) derivatives held for risk management	3 528	(259)	(1 824)
Cash used in finance lease payables	(140)	(115)	(246)
Net cash from investments and financial trading instruments	13	6 301	6 804
Finance income received	516	751	1 034
Finance cost paid	(17 705)	(15 673)	(31 909)
Taxes paid	(9)	(20)	(69)
Net cash (used in)/from financing activities	(7 624)	(4 561)	13 547
Net increase/(decrease) in cash and cash equivalents	971	(11 863)	(4 376)
Cash and cash equivalents at beginning of the period	15 823	20 425	20 425
Foreign currency translation	23	(2)	(25)
Effect of movements in exchange rates on cash held	611	5	10
Non-current assets held-for-sale	(86)	(58)	(211)
Cash and cash equivalents at end of the period	17 342	8 507	15 823

Selected notes to the condensed group interim financial statements
for the six months ended 30 September 2018

1. Structure and activities

Eskom Holdings SOC Ltd (Eskom), a state-owned company and holding company of the group, is incorporated and domiciled in the Republic of South Africa. Eskom is a vertically integrated operation that generates, transmits and distributes electricity to local industrial, mining, commercial, agricultural, redistributors (metropolitan and other municipalities) and residential customers and international customers in southern Africa. Eskom also purchases electricity from independent power producers 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.

2. Basis of preparation

The reviewed condensed group interim financial statements of Eskom as at and for the six months ended 30 September 2018 comprise the company, its subsidiaries, joint ventures, associates and structured entities (together, the group). The reviewed condensed group interim financial statements do not include all of the information required for full financial statements and should be read in conjunction with the Eskom Holdings SOC Ltd 31 March 2018 group annual financial statements. The annual financial statements of the group as at and for the year ended 31 March 2018 are available for inspection at the company's registered office and on the Eskom website at www.eskom.co.za.

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

The condensed group interim financial statements are prepared on the historical-cost basis except for the following items which are measured at fair value:
- derivatives held for risk management
- embedded derivatives
- certain investments and financial trading assets and liabilities

2.1 Going concern

The board made an assessment of the ability of the group to continue as a going concern in the foreseeable future. The board:
- noted the positive impact of improved governance processes and internal controls that started with the appointment of the new board and the subsequent action taken under their leadership
- recognises that Eskom is facing various legacy challenges that resulted from mismanagement and corruption in the past. Significant progress has been made towards becoming a trusted state-owned entity, but it will take time to identify all issues and take appropriate corrective action and consequence management
- noted that the rating agencies have a more positive outlook on Eskom, even though the ratings are still at sub-investment grade
- noted that improved investor confidence and access to domestic markets as well as continued foreign support contributed to securing R53 billion of funding in 2019 (73% of the targeted funding of R72 billion for 2019 has already been secured by September 2018)
- considered the impact of the current economic climate and the sovereign's credit ratings on Eskom's ability to raise funds
- reviewed the performance of the group for the period ended 30 September 2018 including the net profit of R671 million (30 September 2017: R6 312 million profit, 31 March 2018 R2 337 million loss)
- considered the impact of the cash flow forecast for the 15 months ending 31 March 2020 and the projected net loss by year end
- considered that Eskom is in a debt reliant liquidity situation that resulted from low tariffs, limited growth in sales, increased costs and the capital programme to increase and replace generating and transmitting capacity
- considered the impact of reduced generation performance, low coal stock levels and the continuous increase in overdue electricity receivables
- considered the impact of the R32.7 billion allowed by the National Energy Regulatory of South Africa (NERSA) on the regulatory clearing accounts for the 2015 to 2017 periods of the MYPD that will result in a once-off increase of 4.41% from 1 April 2019 for four years
- considered the impact of the non-recoverability of long outstanding electricity receivables
- noted that the government has indicated that Eskom plays a strategic role in supporting economic growth and continues to support Eskom as a going concern

The challenges that the group is facing are being addressed by the following mitigation strategies and actions:
- the board approved a revised strategy to address Eskom's short- to medium-term challenges and set the organisation up for the electricity industry of the future. The turnaround of Eskom is a journey over time and the successful execution of this strategy is highly dependent on the active involvement of key stakeholders, in particular government. Eskom cannot solve the financial and operational sustainability challenges that it faces alone and the costs thereof will ultimately impact either the electricity consumer or the taxpayer
- continuous engagement is taking place with the shareholder and National Treasury to ensure that the challenges that impact the group's going-concern status are addressed satisfactorily within a reasonable timeframe
- the ministers of Public Enterprises, Energy and Finance are working together to deal with other structural issues at Eskom, including the funding model and other industry challenges identified by the inter-ministerial committee on state-owned enterprises reform
- the turnaround initiatives are expected to deliver positive value in 2019 and will continue with a positive trend into the short- to medium-term to contribute towards the stabilisation of Eskom's performance
- Eskom lodged court proceedings against NERSA around the determination of the 5.23% tariff increase awarded for the 2019 financial year
- the group's cost structures and capital programme are continuously being reviewed to extract cost savings and improve cash flows
- the group's generation capacity is being managed as a key focus area to ensure appropriate steps are being taken to manage the performance challenges
- there is a high focus on implementing the relevant recovery plans to increase the coal stock to acceptable levels
- there is continued focus on implementing relevant strategies in an effort to recover overdue trade receivables
- the group will not embark on any further generation expansion activities in the foreseeable future after the completion of the Kusile power station project

- funding options, with the support of National Treasury, are being pursued to implement the group's borrowing programme
- there is continued focus on the supply chain recovery programme to address the shortcomings relating to the completeness of the irregular expenditure, fruitless and wasteful expenditure and losses due to criminal conduct reporting process in terms of the Public Finance Management Act (PFMA) (resulted in the qualified audit opinion) and the clean-up of the related challenges in the commercial environment

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

3. Significant changes in accounting policies

The accounting policies are consistent with those applied in the audited financial statements as at 31 March 2018 except for the new statements and interpretations of IFRS which have become effective during the six months ended 30 September 2018 as set out below.

3.1 IFRS 9 *Financial instruments*

Eskom has applied IFRS 9 which replaces IAS 39 *Financial instruments: recognition and measurement* from 1 April 2018. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Eskom applied the IFRS 9 exemption allowing financial assets and liabilities to be classified and measured in terms of IAS 39 for the comparative periods ending 30 September 2017 and 31 March 2018. IFRS 9 has been applied in the current period (beginning 1 April 2018) including:

- updating accounting policies
- determining the business model within which financial assets are held on the basis of the facts and circumstances then existing
- determining the carrying amounts of financial assets and liabilities calculated in terms of IFRS 9 and IAS 39 and recognising differences and their related tax impacts in opening retained earnings balances

Eskom has elected as its accounting policy, based on the choice presented in IFRS 9, to defer the application of the IFRS 9 general hedge accounting model. Eskom continues to apply the hedge accounting requirements in IAS 39 to all of its hedging relationships. The disclosure requirements relating to hedge accounting, as presented in IFRS 9, have been implemented.

3.1.1 Classification and measurement

Financial assets

Assets at fair value through profit or loss (FVTPL) are initially measured at fair value. Assets at amortised cost or at fair value through other comprehensive income (FVOCI) are initially measured at fair value plus transaction costs directly attributable to their acquisition. Trade and other receivables without a significant financing component are initially measured at transaction price.

Financial assets are subsequently measured based on their IFRS 9 measurement classification (superseding the IAS 39 classifications). This classification is based on the business model in which the financial assets are managed and their contractual cash flow characteristics.

Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. The hybrid financial instrument as a whole is assessed for classification.

Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities and there was therefore no impact on the group.

Instrument	IAS 39 classification and measurement	IFRS 9 classification	Reason for classification
Loans receivable, finance lease receivables and trade and other receivables	Loans and receivables (amortised cost)	Amortised cost	It was assessed that these balances are managed in terms of the IFRS 9 held-to-collect business model and have met the strictly payments of principal and interest (SPPI) criterion
Derivatives held for risk management (excluding cash flow hedges)	Held-for-trading (FVTPL)	FVTPL	The business model assessment did not support a conclusion that these items are managed on a held-to-collect and/or for sale model and therefore defaulted to FVTPL
Investments and financial trading assets			
• Negotiable certificates of deposit	Available-for-sale (FVOCI)	Amortised cost	It was assessed that these balances are managed in terms of the IFRS 9 held-to-collect business model and have met the SPPI criterion
• Repurchase agreement	Held-for-trading (FVTPL)	Amortised cost	It was assessed that these balances are managed in terms of the IFRS 9 held-to-collect business model and have met the SPPI criterion
• Listed shares	Held-for-trading (FVTPL)	FVTPL	The business model assessment did not support a conclusion that these items are managed on a held-to-collect and/or for sale model and therefore defaulted to FVTPL
• Government bonds	Held-for-trading (FVTPL)	FVTPL	The business model assessment did not support a conclusion that these items are managed on a held-to-collect and/or for sale model and therefore defaulted to FVTPL

3. Significant changes in accounting policies (continued)

3.1 IFRS 9 *Financial instruments* (continued)

3.1.2 Impairment of financial assets

Expected credit loss (ECL) models and methods

IAS 39's incurred loss model is replaced in IFRS 9 with an ECL model. The ECL model applies to financial assets measured at amortised cost and is a probability-weighted estimate of credit losses. Credit losses in terms of IFRS 9 are likely to be recognised earlier than previously in terms of IAS 39.

Loss allowances are measured on either of the following bases:
- 12-month ECLs result from possible default events within 12 months of the reporting date
- lifetime ECLs result from possible default events over the entire expected life of a financial instrument

Instrument	Criteria used for assessment of ECL measurement			ECL measurement at reporting date
	12-month ECL	Lifetime ECL		
	Stage 1 Low risk	Stage 2 Significant increase in credit risk	Stage 3 Credit impaired/default	
Trade and other receivables	Not applicable	The group has elected to measure loss allowances at an amount equal to the lifetime ECLs	When the financial asset is more than 90 days past due	Lifetime
Finance lease and loans receivable	Where credit risk is assessed to be low	When the financial asset is more than 30 days past due	When the financial asset is more than 90 days past due	12-month
Investments and financial trading assets and cash and cash equivalents	When the counterpart's credit rating is equivalent to the globally understood definition of investment grade	When the counterpart's credit risk rating is below investment grade	When assessed that the counterpart is unlikely to pay its obligations	12-month

3.1.3 Finance income on financial assets

Finance income is calculated by applying the effective interest rate method to the gross carrying amount of non-credit impaired financial assets (ie at the amortised cost of the financial asset before adjusting for any expected credit loss allowance). The finance income on credit-impaired financial assets is calculated by applying the effective interest rate to the amortised cost of the credit-impaired financial assets (ie the gross carrying amount less the allowance for ECLs).

3.1.4 Financial impact

The loss allowance calculated in terms of IAS 39 on 31 March 2018 was not materially different to that determined in terms of IFRS 9 on its initial application on 1 April 2018. The impact on finance income as a result of the reclassification of repurchase agreements from FVTPL to amortised cost is immaterial. The impact of the changes in classification of the negotiable certificate of deposit balances is set out below:

	IAS 39 Rm	Reclassification adjustment Rm	IFRS 9 Rm
Balances at 1 April 2018			
Investments and financial trading assets	8 340	(8)	8 332
Equity	170 336	(6)	170 330
Deferred tax liability	15 846	(2)	15 844

3.2 IFRS 15 *Revenue from contracts with customers*

Eskom has applied IFRS 15 (replacing IAS 18 *Revenue*, IAS 11 *Construction contracts* and related interpretations) from 1 April 2018. It establishes a comprehensive framework for determining whether, how much and when revenue is recognised.

IFRS 15 requires revenue to be recognised when a customer obtains control of the goods or services being supplied. The amount of revenue recognised is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

Eskom has adopted IFRS 15 using the modified retrospective transition election (with the completed contract practical expedient). Under the modified retrospective method:
- the comparative period data is presented, as previously reported under IAS 18, IAS 11 and related interpretations
- IFRS 15 has been applied to new and existing contracts that were not completed at the date of initial application
- no cumulative adjustment was recognised in retained earnings as at 1 April 2018 as all contracts were considered completed as defined as at 31 March 2018

3.2.1 Revenue activities

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

Revenue activity	Nature and timing of satisfaction of performance obligation, including significant payment terms	Revenue recognition in terms of: IAS 18	IFRS 15
Electricity sales	Performance obligation is settled when electricity is supplied to the customer. Most customers pay for electricity after consumption and have between 15 and 45 days to pay. Some customers prepay for electricity	Revenue was recognised when electricity was consumed by the customer	No change compared to IAS 18. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Eskom recognises revenue when it transfers control over a product or service to a customer
		Where it was assessed that there was a high probability that the economic benefits related to sales would not materialise, such sales were not recognised	Customers that fail the collectability criterion will be accounted for on the cash basis (ie revenue will be recognised only when cash is received)
Connection charges (included in other revenue)	Paid by customers to Eskom before construction begins of distribution and transmission assets that would not have been built were it not for the need to connect these customers to the grid	Amounts received before 30 June 2009 were allocated to deferred income when the customer was connected to the electricity network. The upfront connection fees were recognised in profit or loss within revenue on a straight-line basis over the expected useful lives of the related assets	No change
		Amounts received after 30 June 2009 were recognised as revenue when the customer was connected to the electricity network	Upfront connection fees received for connections completed from 1 April 2018 are transferred from payments received in advance to deferred income when the customer is connected to the electricity network. The deferred income is recognised in profit or loss within revenue on a straight-line basis over the estimated customer relationship period of 25 years
Other (included in other revenue)	Ad hoc requests for services that are distinct from the sale of electricity or the connection of customers to the grid	Recognised when the service is completed	No change

3.2.2 Financial impact

In the income statement for the six months ended 30 September 2018 there was a reduction of R2 973 million in revenue and an impairment reversal of R1 254 million, as a result of some customers now being accounted for on a cash basis.

4. Critical accounting estimates and judgements

The significant estimates and judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were substantially the same as those applied to the financial statements as at and for the year ended 31 March 2018 other than those set out below:

4.1 IFRS 9 *Financial instruments*

4.1.1 ECL

The ECL is calculated using the following formula:

ECL = exposure x PD (probability of default) x LGD (loss given default) x expected lifetime

The exposure is the amount outstanding less any collateral. The PD measures the likelihood that the amount outstanding becomes more than 90 days past due. The LGD measures the expected credit loss in the event that the outstanding amount is more than 90 days overdue.

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

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

Financial asset balance	Model details
International electricity receivables	The PD estimates are based on the sovereign rating of the country using an external rating scale. The external rating scale is mapped to an internal rating scale and a fitted PD. The LGD approach is based on a default approach that banks may use to estimate their capital requirements
Local large and small power user electricity receivables (excluding municipalities)	ECLs have been calculated using a provision matrix which utilises a transition matrix and post default recoveries. A transition matrix is used to estimate PDs per days past due bucket and recoveries post default to calculate an LGD. The historical loss rates were calculated and applied to groups of trade receivables with similar characteristics. The PD and exposure amount relates to the relevant days past due bucket
Municipality electricity receivables	A scorecard approach was followed. Key financial ratios were calculated based on their latest signed annual financial statements. The PD model was developed using a logistic regression approach and was considered in the development of the LGD model
Other receivables, finance lease receivables and loans receivable	The ECL has been calculated based on an approach that banks may use to categorise counterparties based on their size. Credit ratings have been assigned to these categories which is then used to determine the PD. The LGD approach is based on a default approach that banks may use to estimate their capital requirements
Investments and financial trading assets	The PD estimates are based on the credit rating of the counterparty. The external rating scale is mapped to an internal rating scale and a fitted PD. The LGD approach is based on a default approach that banks may use to estimate their capital requirements

Credit risk rating groupings

The ECL calculation for municipal electricity, international electricity and other (non-electricity) receivables applied a PD based on credit ratings as determined by ratings agencies. The grouping of these balances by credit rating has been summarised as follows:

Credit rating grouping	Risk grouping
BBB- to AAA	Low risk
B- to BB+	Medium risk
Below BB+	High risk

	Not credit impaired			Credit impaired			Total		
	Gross carrying amount Rm	Impairment loss allowance Rm	Book value Rm	Gross carrying amount Rm	Impairment loss allowance Rm	Book value Rm	Gross carrying amount Rm	Impairment loss allowance Rm	Book value Rm
Electricity receivables									
International	1 344	(11)	1 333	411	(16)	395	1 755	(27)	1 728
Medium risk	597	(2)	595	198	(5)	193	795	(7)	788
High risk	747	(9)	738	213	(11)	202	960	(20)	940
Local large power users – municipalities	7 985	(443)	7 542	4 962	(2 668)	2 294	12 947	(3 111)	9 836
Low risk	6 497	(3)	6 494	16	–	16	6 513	(3)	6 510
Medium risk	823	(12)	811	56	(3)	53	879	(15)	864
High risk	665	(428)	237	4 890	(2 665)	2 225	5 555	(3 093)	2 462
Local large power users – other	7 987	(107)	7 880	170	(98)	72	8 157	(205)	7 952
0 – 30 days	7 787	(4)	7 783	–	–	–	7 787	(4)	7 783
30 – 90 days	200	(103)	97	–	–	–	200	(103)	97
More than 90 days	–	–	–	170	(98)	72	170	(98)	72
Local small power users – Soweto									
More than 90 days	–	–	–	4 298	(3 555)	743	4 298	(3 555)	743
Local small power users – other	2 105	(96)	2 009	733	(599)	134	2 838	(695)	2 143
0 – 30 days	1 836	(27)	1 809	–	–	–	1 836	(27)	1 809
30 – 90 days	269	(69)	200	–	–	–	269	(69)	200
More than 90 days	–	–	–	733	(599)	134	733	(599)	134
Other receivables	396	(4)	392	572	(228)	344	968	(232)	736
Medium risk	396	(4)	392	367	(26)	341	763	(30)	733
High risk	–	–	–	205	(202)	3	205	(202)	3
	19 817	(661)	19 156	11 146	(7 164)	3 982	30 963	(7 825)	23 138

The ECLs for all other financial assets were determined to be immaterial.

4.2 IFRS 15 *Revenue from contracts with customers*

4.2.1 Customer relationship period of connection charges

The connection charge provides Eskom's customers with future access to electricity supply at the point of delivery over an estimated customer relationship period. The determination of Eskom's customer relationship period refers to the approximate period an individual customer will remain connected to the grid for electricity consumption at the point of delivery. Eskom considered, *inter alia*, assumptions about the life-cycle of the distribution network used to supply electricity to customers to estimate the customer relationship period to be 25 years.

4.2.2 Collectability of amounts receivable

IFRS 15 requires that revenue be recognised if, at the time of sale, it is believed that the revenue is likely to be recovered from the customer. The collectability criterion is not met for contracts with customers with a a low net payment history, for which Eskom does not have the ability to manage its credit risk due to external facts and circumstances (for example socio-economic and political reasons). Eskom will revert to cash accounting for these contracts. IFRS 15 will be applied for all the other customer contracts where the collectability criterion is met and any risk of collectability will be reflected in the ECL recognised in terms of IFRS 9.

5. Segment information

	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
30 September 2018 (reviewed)									
External revenue	–	165	184	4 086	93 669	–	767	(767)	98 104
Inter-segment revenue/ recoveries	68 811	2 797	12 169	9 274	(92 857)	(73)	5 579	(5 700)	–
Total revenue	68 811	2 962	12 353	13 360	812	(73)	6 346	(6 467)	98 104
Profit/(loss) before tax	(2 950)	(452)	723	(507)	2 355	719	1 235	(202)	921
Income tax	–	–	–	–	–	–	(304)	54	(250)
Profit/(loss) for the period	(2 950)	(452)	723	(507)	2 355	719	931	(148)	671
Segment assets	312 564	52 097	87 678	10 176	20 886	215 489	85 864	(23 772)	760 982
Segment liabilities	58 370	1 592	31 351	13 846	13 856	11 536	478 442	(22 644)	586 349
30 September 2017 (reviewed)									
External revenue	–	–	685	4 825	89 995	–	567	(567)	95 505
Inter-segment revenue/ recoveries	64 676	4 839	12 487	5 718	(87 538)	(62)	6 473	(6 593)	–
Total revenue	64 676	4 839	13 172	10 543	2 457	(62)	7 040	(7 160)	95 505
Profit/(loss) before tax	3 123	495	1 943	(613)	1 910	105	1 951	(30)	8 884
Income tax	–	–	–	–	–	–	(2 580)	8	(2 572)
Profit/(loss) for the period	3 123	495	1 943	(613)	1 910	105	(629)	(22)	6 312
Segment assets	302 801	52 292	82 395	10 664	22 195	200 331	76 037	(23 141)	723 574
Segment liabilities	59 445	1 517	30 522	13 706	13 588	13 681	430 439	(21 942)	540 956
31 March 2018 (audited)									
External revenue	–	252	1 993	9 480	165 699	–	1 473	(1 473)	177 424
Inter-segment revenue/ recoveries	118 250	8 513	21 510	13 504	(161 471)	(107)	11 994	(12 193)	–
Total revenue	118 250	8 765	23 503	22 984	4 228	(107)	13 467	(13 666)	177 424
Profit/(loss) before tax	(3 069)	(573)	1 628	(1 388)	628	(3 086)	3 008	249	(2 603)
Income tax	–	–	–	–	–	–	343	(77)	266
Profit/(loss) for the period	(3 069)	(573)	1 628	(1 388)	628	(3 086)	3 351	172	(2 337)
Segment assets	319 432	52 570	86 049	10 523	17 590	199 519	74 961	(21 528)	739 116
Segment liabilities	59 164	1 538	30 058	13 681	14 272	11 987	458 628	(20 548)	568 780

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

6.1 Debt securities and borrowings

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

6.2 Share capital

There was no change in share capital during the six months ended 30 September 2018 nor in the comparative periods presented.

7. Dividend paid

No dividend was paid to the shareholder during the six months ended 30 September 2018 nor in the comparative periods presented.

8. Significant events and transactions

The following significant movements occurred in the six months ended 30 September 2018:

8.1 Property, plant and equipment

Property, plant and equipment increased by R10.5 billion as a result of the continuing capital expansion programme. Finance cost capitalised reduced to R7.6 billion for the six months ended 30 September 2018 compared to R8.7 billion for the comparative six months ended 30 September 2017, because of generating and transmitting plant that has been transferred into commercial operation and therefore the related finance cost no longer qualifies for capitalisation.

8.2 Derivatives held for risk management and debt securities and borrowings

The weakening of the rand, predominantly against the euro and USD, was the main reason for the increase of R19.5 billion in derivatives held for risk management (net asset) from 31 March 2018. Simultaneously, it was the main reason for the increase in debt securities and borrowings of R30.5 billion from 31 March 2018 apart from the additional debt of R6.9 billion raised during the period.

8.3 Embedded derivatives

The embedded derivative liability at 30 September 2018 also reduced by R2.1 billion as a result of the weakening of the rand against the USD.

8.4 Other income

Other income for the period ended 30 Sepetmber 2018 includes R902 million recovered from McKinsey and Company (McKinsey) for professional services.

9. Seasonality of interim results

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

	Reviewed six months ended 30 September 2018 Rm	Reviewed six months ended 30 September 2017 Rm	Audited year ended 31 March 2018 Rm
10. Revenue			
Redistributors[1]	40 548	40 068	70 234
Invoiced to customers	44 855	42 432	72 935
Amounts not meeting revenue recognition criteria	(5 037)	(2 447)	(3 059)
Recognised on a cash received basis	730	83	358
Residential	2 872	2 880	5 435
Invoiced to customers	3 166	3 159	6 011
Amounts not meeting revenue recognition criteria	(294)	(279)	(576)
Industrial	19 396	17 654	33 996
Mining	15 041	14 930	26 277
Commercial	6 726	6 393	11 726
Agricultural	4 137	3 989	8 154
International	4 129	4 859	9 530
Other customers	1 691	1 811	3 330
Post-paid electricity sales	94 540	92 584	168 682
Prepaid electricity sales	4 447	4 228	8 395
Total electricity sales	98 987	96 812	177 077
Other	518	800	2 519
Gross revenue	99 505	97 612	179 596
Capitalised to property, plant and equipment	(1 401)	(2 107)	(2 172)
	98 104	95 505	177 424

Sales of electricity to local customers are included in the group customer services operating segment. International sales are included in the energy purchases/sales segment. Other revenue consists of connection charges and ad hoc sundry revenue. Connection charges mainly occur within the transmission and distribution operating segments.

1. *Represents metropolitan and municipal customers.*

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

for the six months ended 30 September 2018

		Reviewed six months ended 30 September 2018 Rm	Reviewed six months ended 30 September 2017 Rm	Audited year ended 31 March 2018 Rm
11.	**Primary energy**			
	Own generation costs	29 385	27 341	54 896
	Environmental levy	4 063	4 061	8 061
	International electricity purchases	1 905	1 397	2 768
	Independent power producers	10 793	8 392	19 317
	Other	–	66	160
		46 146	41 257	85 202
12.	**Employee benefit expense**			
	Gross employee benefit expense	18 631	16 710	32 655
	Capitalised to property, plant and equipment	(1 687)	(1 557)	(3 201)
		16 944	15 153	29 454
13.	**Finance cost**			
	Gross finance cost	22 855	20 597	41 508
	Capitalised to property, plant and equipment	(7 627)	(8 706)	(15 547)
		15 228	11 891	25 961

14. Income tax

Income tax for the interim period is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year which is applied to the pre-tax income of the interim period.

15. Accounting classification and fair value

15.1 Accounting classification

	Fair value through profit or loss Rm	Amortised cost Rm	Other assets and liabilities Rm	Total Rm
30 September 2018 (reviewed)				
Financial assets				
Investments and financial trading assets	1 407	8 293	–	9 700
Negotiable certificates of deposit	–	8 236	–	8 236
Repurchase agreements	–	57	–	57
Listed shares	1 303	–	–	1 303
Government bonds	104	–	–	104
Derivatives held for risk management	1 358	–	20 189	21 547
Foreign exchange contracts	1 213	–	193	1 406
Cross-currency swaps	72	–	19 996	20 068
Commodity forwards	46	–	–	46
Credit default swaps	9	–	–	9
Inflation-linked swaps	18	–	–	18
Trade, finance lease, loan and other receivables	–	23 210	423	23 633
Loans receivable	–	72	–	72
Finance lease receivables	–	–	423	423
Trade and other receivables[1]	–	23 138	–	23 138
Cash and cash equivalents	–	17 342	–	17 342
Bank balances	–	5 710	–	5 710
Unsettled deals	–	54	–	54
Fixed deposits	–	11 578	–	11 578
	2 765	48 845	20 612	72 222
Financial liabilities				
Debt securities and borrowings	–	419 213	–	419 213
Eskom bonds	–	149 196	–	149 196
Commercial paper	–	1 249	–	1 249
Eurorand zero coupon bonds	–	6 075	–	6 075
Foreign bonds	–	78 306	–	78 306
Development financing institutions	–	133 107	–	133 107
Export credit facilities	–	34 023	–	34 023
Floating rate notes	–	3 982	–	3 982
Other loans	–	13 275	–	13 275
Embedded derivatives	–	–	3 203	3 203
Derivatives held for risk management	2 469	–	5 460	7 929
Foreign exchange contracts	1 656	–	197	1 853
Cross-currency swaps	354	–	5 263	5 617
Commodity forwards	3	–	–	3
Credit default swaps	429	–	–	429
Inflation-linked swaps	27	–	–	27
Trade, finance lease and other payables	–	30 688	9 679	40 367
Finance lease payables	–	–	9 679	9 679
Trade and other payables[1]	–	30 688	–	30 688
Financial trading liabilities	266	–	–	266
Short-sold government bonds	55	–	–	55
Repurchase agreements	211	–	–	211
	2 735	449 901	18 342	470 978

1. *VAT receivable and payable to the South African Revenue Service is not included in this figure as it is not a financial instrument.*

15. Accounting classification and fair value (continued)

15.1 Accounting classification (continued)

	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total Rm
31 March 2018 (audited)						
Financial assets						
Investments and financial trading assets	1 501	–	6 839	–	–	8 340
Negotiable certificates of deposit	–	–	6 839	–	–	6 839
Repurchase agreements	9	–	–	–	–	9
Listed shares	1 333	–	–	–	–	1 333
Government bonds	159	–	–	–	–	159
Derivatives held for risk management	245	–	–	–	15 333	15 578
Foreign exchange contracts	152	–	–	–	36	188
Cross-currency swaps	61	–	–	–	15 297	15 358
Commodity forwards	17	–	–	–	–	17
Credit default swaps	15	–	–	–	–	15
Trade, finance lease, loan and other receivables	–	20 163	–	–	437	20 600
Loans receivable	–	81	–	–	–	81
Finance lease receivables	–	–	–	–	437	437
Trade and other receivables[1]	–	20 082	–	–	–	20 082
Cash and cash equivalents	–	15 823	–	–	–	15 823
Bank balances	–	15 778	–	–	–	15 778
Unsettled deals	–	45	–	–	–	45
	1 746	35 986	6 839	–	15 770	60 341
Financial liabilities						
Debt securities and borrowings	–	–	–	388 684	–	388 684
Eskom bonds	–	–	–	146 172	–	146 172
Commercial paper	–	–	–	2 275	–	2 275
Eurorand zero coupon bonds	–	–	–	5 711	–	5 711
Foreign bonds	–	–	–	47 608	–	47 608
Development financing institutions	–	–	–	119 854	–	119 854
Export credit facilities	–	–	–	31 735	–	31 735
Floating rate notes	–	–	–	2 005	–	2 005
Other loans	–	–	–	33 324	–	33 324
Embedded derivatives	–	–	–	–	5 291	5 291
Derivatives held for risk management	3 593	–	–	–	17 873	21 466
Foreign exchange contracts	2 643	–	–	–	638	3 281
Cross-currency swaps	858	–	–	–	17 235	18 093
Credit default swaps	92	–	–	–	–	92
Trade, finance lease and other payables	–	–	–	32 431	9 819	42 250
Finance lease payables	–	–	–	–	9 819	9 819
Trade and other payables[1]	–	–	–	32 431	–	32 431
Financial trading liabilities	249	–	–	–	–	249
Short-sold government bonds	8	–	–	–	–	8
Repurchase agreements	241	–	–	–	–	241
	3 842	–	–	421 115	32 983	457 940

1. *VAT receivable and payable to the South African Revenue Service is not included in this figure as it is not a financial instrument.*

	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total Rm
30 September 2017 (reviewed)						
Financial assets						
Investments and financial trading assets	3 158	–	7 206	–	–	10 364
Negotiable certificates of deposit	–	–	7 206	–	–	7 206
Repurchase agreements	1 826	–	–	–	–	1 826
Listed shares	1 296	–	–	–	–	1 296
Government bonds	36	–	–	–	–	36
Derivatives held for risk management	1 595	–	–	–	18 462	20 057
Foreign exchange contracts	1 562	–	–	–	255	1 817
Cross-currency swaps	23	–	–	–	18 207	18 230
Commodity forwards	1	–	–	–	–	1
Credit default swaps	9	–	–	–	–	9
Trade, finance lease, loan and other receivables	–	24 777	–	–	448	25 225
Loans receivable	–	87	–	–	–	87
Finance lease receivables	–	–	–	–	448	448
Trade and other receivables[1]	–	24 690	–	–	–	24 690
Cash and cash equivalents – bank balances	–	8 507	–	–	–	8 507
	4 753	33 284	7 206	–	18 910	64 153
Financial liabilities						
Debt securities and borrowings	–	–	–	367 027	–	367 027
Eskom bonds	–	–	–	141 169	–	141 169
Commercial paper	–	–	–	3 105	–	3 105
Eurorand zero coupon bonds	–	–	–	5 371	–	5 371
Foreign bonds	–	–	–	54 182	–	54 182
Development financing institutions	–	–	–	113 536	–	113 536
Export credit facilities	–	–	–	36 362	–	36 362
Other loans	–	–	–	13 302	–	13 302
Embedded derivatives	–	–	–	–	4 299	4 299
Derivatives held for risk management	1 048	–	–	–	5 713	6 761
Foreign exchange contracts	79	–	–	–	120	199
Cross-currency swaps	513	–	–	–	5 593	6 106
Commodity forwards	8	–	–	–	–	8
Credit default swaps	448	–	–	–	–	448
Trade, finance lease and other payables	–	–	–	31 642	9 950	41 592
Finance lease payables	–	–	–	–	9 950	9 950
Trade and other payables[1]	–	–	–	31 642	–	31 642
Financial trading liabilities	1 468	–	–	–	–	1 468
Short-sold government bonds	1 083	–	–	–	–	1 083
Repurchase agreements	385	–	–	–	–	385
	2 516	–	–	398 669	19 962	421 147

1. *VAT receivable and payable to the South African Revenue Service is not included in this figure as it is not a financial instrument.*

15. Accounting classification and fair value (continued)

15.2 Fair value

The relevant disclosure for assets and liabilities that are measured at fair value in the statement of financial position and for fair value measurement using significant unobservable inputs (level 3) are provided below.

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 is 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

There was no change in the valuation technique applied. The hierarchy levels are defined as follows:

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

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

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

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)

The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfers have occurred. There were no transfers between level 1, 2 or 3 of the fair value hierarchy during the six months ended 30 September 2018 nor in the comparative periods presented.

The valuation techniques used are as follows:

Level 1: Quoted prices (unadjusted) in active markets

The fair values of financial instruments traded in active markets are based on quoted market prices at the reporting date. A market is regarded as active when it is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The quoted market price used for financial assets held by the group is the current bid price. For financial liabilities included in level 1, the current ask price is used. Instruments included in level 1 comprise listed investments classified as FVTPL.

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

Financial instrument	Fair value determination
Derivatives held for risk management	Valuation determined with reference to broker quotes as well as use of discounted cash flow and option pricing models. Broker quotes are tested for reasonableness by discounting expected future cash flows using a market interest rate for a similar instrument at the measurement date Valuations of cross-currency swaps include the credit risk of Eskom (known as debit value adjustment) and counterparties (known as credit value adjustment) where appropriate. A stochastic modelling approach is followed where the expected future exposure to credit risk for Eskom and its counterparties (considering default probabilities and recovery rates derived from market data) is modelled
Non-derivatives	A discounted cash flow technique is used, which uses expected cash flows and a market-related discount rate

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

Level 3 items are fair valued using unobservable inputs. The fair value hierarchy of financial instruments is as follows:

	Level 1 Rm	Level 2 Rm	Level 3 Rm
30 September 2018 (reviewed)			
Financial assets			
Investments and financial trading assets	1 407	8 293	–
Negotiable certificates of deposit	–	8 236	–
Repurchase agreements	–	57	–
Listed shares	1 303	–	–
Government bonds	104	–	–
Derivatives held for risk management	–	21 547	–
Foreign exchange contracts	–	1 406	–
Cross-currency swaps	–	20 068	–
Commodity forwards	–	46	–
Credit default swaps	–	9	–
Inflation-linked swaps	–	18	–
Financial liabilities			
Embedded derivatives	–	–	3 203
Derivatives held for risk management	–	7 929	–
Foreign exchange contracts	–	1 853	–
Cross-currency swaps	–	5 617	–
Commodity forwards	–	3	–
Credit default swaps	–	429	–
Inflation-linked swaps	–	27	–
Financial trading liabilities	55	211	–
Short-sold government bonds	55	–	–
Repurchase agreements	–	211	–
31 March 2018 (audited)			
Financial assets			
Investments and financial trading assets	1 492	6 848	–
Negotiable certificates of deposit	–	6 839	–
Repurchase agreements	–	9	–
Listed shares	1 333	–	–
Government bonds	159	–	–
Derivatives held for risk management	–	15 578	–
Foreign exchange contracts	–	188	–
Cross-currency swaps	–	15 358	–
Commodity forwards	–	17	–
Credit default swaps	–	15	–
Financial liabilities			
Embedded derivatives	–	–	5 291
Derivatives held for risk management	–	21 466	–
Foreign exchange contracts	–	3 281	–
Cross-currency swaps	–	18 093	–
Credit default swaps	–	92	–
Financial trading liabilities	8	241	–
Short-sold government bonds	8	–	–
Repurchase agreements	–	241	–

15. Accounting classification and fair value (continued)

15.2 Fair value (continued)

	Level 1 Rm	Level 2 Rm	Level 3 Rm
30 September 2017 (reviewed)			
Financial assets			
Investments and financial trading assets	1 332	9 032	–
Negotiable certificates of deposit	–	7 206	–
Repurchase agreements	–	1 826	–
Listed shares	1 296	–	–
Government bonds	36	–	–
Derivatives held for risk management	–	20 057	–
Foreign exchange contracts	–	1 817	–
Cross-currency swaps	–	18 230	–
Commodity forwards	–	1	–
Credit default swaps	–	9	–
Financial liabilities			
Embedded derivatives	–	–	4 299
Derivatives held for risk management	–	6 761	–
Foreign exchange contracts	–	199	–
Cross-currency swaps	–	6 106	–
Commodity forwards	–	8	–
Credit default swaps	–	448	–
Financial trading liabilities	1 083	385	–
Short-sold government bonds	1 083	–	–
Repurchase agreements	–	385	–

Fair value hierarchy – level 3: 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.

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

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 (US PPI).

Valuation assumptions

The forward electricity price used to value the embedded derivatives was based on an annual increase of 8% from 2019 until maturity. Another key estimate in the valuation of embedded derivatives includes the forecast US PPI which is based on an internal model which simulates US PPI using other observable market prices such as the South African consumer price index and Rand/USD forward exchange rates.

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:

		Period ended 30 September 2018 (reviewed)					
Input	Unit	2018	2019	2020	2021	2022	2023
Aluminium	USD per ton	2 012	2 068	2 129	2 182	2 226	2 266
Volatility	Year-on-year (ratio)	0.19	0.19	0.19	0.19	0.19	0.19
Rand interest rate	Continuous actual/365 days (%)	6.46	7.85	7.81	7.52	7.73	7.91
Dollar interest rate	Annual actual/365 days (%)	2.44	2.71	3.00	3.02	3.06	3.07
US PPI	Year-on-year (%)	4.54	2.05	1.73	2.01	2.11	2.12
Rand/USD	Rand per USD	14.17	14.54	15.21	15.86	16.67	17.59

		Period ended 31 March 2018 (audited)					
Input	Unit	2018	2019	2020	2021	2022	2023
Aluminium	USD per ton	2 008	2 037	2 071	2 097	2 122	2 154
Volatility	Year-on-year (ratio)	0.16	0.16	0.16	0.16	0.16	0.16
Rand interest rate	Continuous actual/365 days (%)	6.76	7.46	6.71	6.84	6.99	7.12
Dollar interest rate	Annual actual/365 days (%)	2.09	2.67	2.59	2.67	2.71	2.73
US PPI	Year-on-year (%)	3.66	1.89	2.07	1.85	1.89	2.06
Rand/USD	Rand per USD	11.88	12.46	12.90	13.46	14.09	14.79

		Period ended 30 September 2017 (reviewed)					
Input	Unit	2017	2018	2019	2020	2021	2022
Aluminium	USD per ton	2 107	2 116	2 159	2 195	2 222	2 249
Volatility	Year-on-year (ratio)	0.15	0.15	0.15	0.15	0.15	0.15
Rand interest rate	Continuous actual/365 days (%)	6.77	7.27	7.12	6.81	6.95	7.11
Dollar interest rate	Annual actual/365 days (%)	1.20	1.58	1.80	1.79	1.89	1.98
US PPI	Year-on-year (%)	3.98	1.96	1.90	2.07	1.45	2.21
Rand/USD	Rand per USD	13.52	13.91	14.65	15.33	16.14	17.03

Movement in the fair value measurement

	Embedded derivatives Rm
Balance at 31 March 2017	5 414
Net fair value gain	(1 115)
Balance at 30 September 2017	4 299
Net fair value loss	992
Balance at 31 March 2018	5 291
Net fair value gain	(2 088)
Balance at 30 September 2018	3 203

15. Accounting classification and fair value (continued)

15.2 Fair value (continued)

Sensitivity analysis

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

	Unit change	Reviewed 30 September 2018 increase Rm	Reviewed 30 September 2018 decrease Rm	Audited 31 March 2018 increase Rm	Audited 31 March 2018 decrease Rm	Reviewed 30 September 2017 increase Rm	Reviewed 30 September 2017 decrease Rm
Aluminium price	1%	46	(46)	47	(47)	69	(69)
Rand interest rate	100 basis points	211	(193)	262	(294)	294	(328)
Dollar interest rate	100 basis points	(105)	111	(183)	176	(222)	214
Electricity tariffs	1%	(70)	70	(69)	68	(157)	156
US PPI	1%	105	(111)	110	(120)	114	(128)
Rand/USD	1%	69	(63)	77	(68)	94	(86)

15.3 Day-one gain/loss

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

	Cross-currency swaps Rm	Credit default swaps Rm	Total Rm
(Loss)/gain at 31 March 2017	(727)	–	(727)
Day-one loss recognised	(95)	–	(95)
Amortised to profit or loss	56	–	56
Loss at 30 September 2017	(766)	–	(766)
Amortised to profit or loss	59	–	59
Loss at 31 March 2018	(707)	–	(707)
Day-one loss recognised	(153)	(27)	(180)
Amortised to profit or loss	63	1	64
Loss at 30 September 2018	(797)	(26)	(823)

16. Material events subsequent to 30 September 2018

Changes to the board and exco

Mr J Sebulela resigned from the board on 19 October 2018.

The resignation of Mr T Govender (group executive (GE): generation) was announced on 15 October 2018 effective 31 January 2019.

Mr A Masango (GE: group capital) was placed on suspension on 15 November 2018 pending an investigation into various allegations of impropriety against him relating to the Kusile power station build project. He subsequently resigned on 16 November 2018.

Corporate strategy

A revised strategy has been approved by the board on 12 November 2018.

17. Reportable irregularities

The external auditors raised reportable irregularities, in terms of section 45 of the Auditing Profession Act for the periods ending 31 March 2017, 30 September 2017, 31 March 2018 and 30 September 2018. The board continues with the process to close out all open reportable irregularities. The finalisation of some irregularities depends on external investigations and the outcome of court cases. The status of all open reportable irregularities as at 30 September 2018 is as follows:

Description	Action	Status
Reportable irregularities – 31 March 2017		
There were allegations that an early retirement agreement between Eskom and the former group chief executive (GCE) (B Molefe) was irregular	• the High Court again ruled against the former GCE. The former GCE appealed the High Court decision to the Supreme Court of Appeal. The date for the hearing of his appeal is yet to be determined	Open, pending the outcome of the appeal
Reportable irregularities – 30 September 2017		
A parliamentary inquiry was held into perceived maladministration, governance and procurement issues at Eskom. Certain representations made by previous and current directors and officials indicated that there could have been a breach of fiduciary duties in terms of the requirements of the Companies Act	• implicated directors and employees have resigned or have been suspended • the findings will be reviewed and corrective action taken, if necessary, once the final report on the inquiry is received	Open, pending receipt of the final parliamentary inquiry
Eskom procured the services of McKinsey through its sole source supplier process and as a result a competitive bidding process was not followed In addition, the subcontracting of Trillian Management Consultancy (Trillian) by McKinsey did not follow the procurement process	• executives and senior management resigned • criminal charges lodged against relevant employees • terminated business relationship with McKinsey and Trillian • McKinsey repaid R902 million plus interest of R99 million • full recovery from Trillian is being pursued • hearing for the High Court is set down for 5-7 December 2018	Closed, McKinsey Open, Trillian – pending completion of recovery process
Certain services provided by Cliffe Dekker Hofmeyr to the former company secretary (CS) (S Daniels) were questionable in terms of Eskom rules	• the former CS was dismissed • the business relationship with the supplier was terminated • Eskom is considering lodging charges against the supplier and with relevant regulatory bodies	Open, pending finalisation of legal process
Minutes of the board and its sub-committees were not timeously approved	• the tracking and monitoring of the implementation of board's decision needs to be refined	Open, pending improvements in minutes approval process demonstrated
Eskom did not timeously update directors' records with the Companies and Intellectual Property Commission (CIPC)	• the changes were lodged with CIPC	Open, pending update of CIPC records

17. Reportable irregularities (continued)

Description	Action	Status
Reportable irregularities – 31 March 2018 There were allegations that the former CFO (A Singh) and former interim GCE (S Maritz) breached their fiduciary duties by contractually and financially binding Eskom to a facilitation fee with Huarong Asset Financing	• the former CFO and interim GCE resigned • the agreement was not binding • there was no financial loss to Eskom • communicated to Huarong that Eskom will not honour an agreement concluded without the requisite shareholder and National Treasury approval • Eskom is in the process of assessing the legal implications of the transaction	Open, pending outcome of final legal assessment
The former chief procurement officer (CPO) (E Mabelane), former GE: group capital (A Masango), former acting GE: group capital (P Govender) and former CS (S Daniels) approved payments to Trillian without the existence of a contract thereby breaching their fiduciary duties	• the implicated executives, senior management and CS resigned or were dismissed • full recovery from Trillian is being pursued	Open, pending completion of recovery process
There were allegations that the former CPO (J Pillay) and other senior officials in procurement were involved in acts of misconduct involving EOH Holdings Ltd (EOH)	• the CPO and two employees resigned • investigation finalised • conflict of interest confirmed against the former CPO	Open, pending finalisation of supplier reconsideration process
There were allegations that Eskom incorrectly procured services from Bizz Tracers (Pty) Ltd through the sole source supplier process Subsequent to 31 March 2018, further suppliers were identified where services were incorrectly procured through the sole source supplier process	• the former GE: security resigned • the matter is currently under investigation • appropriate action will be taken against relevant employees, if found guilty, once the investigation is completed	Open, pending finalisation of investigation
It is alleged that the former CS (S Daniels) and the former interim GCE (MM Koko) distributed confidential Eskom documentation to a third party	• the former CS was dismissed and the former interim GCE resigned • investigation regarding allegations against former interim GCE is in progress	Closed, former CS Open, pending finalisation of former interim GCE investigation
Reportable irregularities – 30 September 2018 A member of the board and Audit and Risk committee (J Sebulela) did not declare a conflict of interest and did not recuse himself on deliberations involving the supplier (EOH)	• the board member resigned • the tender process was withdrawn	Open, pending finalisation of governance processes in terms of the PFMA
Legal fees were paid on behalf of certain former board members which were not directly related to their roles as directors of Eskom	• the board members resigned • investigation is in progress • recovery will be pursued if appropriate	Open, pending finalisation of investigation and recovery process

18. New standards and interpretations

Eskom is in the process of implementing the following standard that will be applicable in the 2020 financial year:

Topic	Summary of requirements	Comment
IFRS 16 *Leases* (1 January 2019)	IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an arrangement contains a lease*, SIC-15 *Operating leases – incentives* and SIC-27 *Evaluating the substance of transactions involving the legal form of a lease* Lessee accounting IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation 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 Lessees will need to apply judgement in deciding on the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee IFRS 16 can be applied using either a retrospective approach or a modified retrospective approach with optional practical expedients for lessees. The lessee will have to apply any elections consistently to all of its leases When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition Lessor accounting IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating or finance leases, and to account for those two types of leases differently IFRS 16 also requires enhanced disclosures to be provided about a lessor's risk exposure, particularly to residual value risk	The group is preparing for the transition to IFRS 16 with effect from 1 April 2019 and has developed a detailed plan to assess the impact of IFRS 16 on initial adoption as well as thereafter A detailed review of a representative sample of contracts is being analysed to determine the impact of the new lease definition under IFRS 16 The new standard may potentially result in additional assets and liabilities to be recognised. The quantification of the impact will be performed as part of the implementation project Financial statement disclosures will be updated to ensure compliance with IFRS 16 requirements, including the implications of adoption of the various transition options

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