Eskom

REVIEWED CONDENSED GROUP INTERIM FINANCIAL STATEMENTS

for the six months ended 30 September 2019

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The reviewed condensed group interim financial statements for the six months ended 30 September 2019 have been prepared under the supervision of the 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 2019.

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 2019	31 March 2019	30 September 2018	30 September 2019	31 March 2019	30 September 2018
Euro	16.23	15.92	15.73	16.53	16.26	16.42
United States dollar (USD)	14.52	13.76	13.38	15.16	14.48	14.17
Pound sterling (United Kingdom)	18.26	18.05	17.78	18.67	18.93	18.45
Swiss franc	14.62	13.89	13.59	15.21	14.55	14.51
Japanese yen	0.13	0.12	0.12	0.14	0.13	0.12

APPROVAL OF THE CONDENSED GROUP INTERIM FINANCIAL STATEMENTS

Basis of preparation

The condensed group interim financial statements from pages 4 to 22 for the six months ended 30 September 2019 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:

- recognised that Eskom continues to face various challenges that resulted from mismanagement and corruption. Significant progress has been made in cleaning-up irregularities and improving processes, but it is taking time to identify all issues and take appropriate corrective action and consequence management
- noted that there is a need to secure funding of R46 billion in 2020 (64% of the funding for 2020 has already been secured by November 2019)
- considered the impact of the current economic climate and the sovereign's credit ratings on Eskom's ability to raise funds, including that the rating agencies have expressed a more cautious outlook on Eskom
- reviewed the performance of the group for the period ended 30 September 2019 including the net profit after tax of R1 325 million and the net current liabilities of R13 059 million
- noted the further deterioration of some of the group's financial indicators
- considered the impact of the cash flow forecast for the 18 months ending 31 March 2021 and the projected net loss pre-tax for 2020
- considered that Eskom is in a debt reliant liquidity situation that resulted from low tariffs, stagnant and contracting sales volumes, increased costs and the capital programme to increase and replace generating and transmitting capacity
- considered the impact of reduced generation performance and the continuous increase in overdue electricity receivables (including the impact of non-recoverability of long outstanding electricity receivables)

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

- continuous engagement is taking place with the shareholder and National Treasury to ensure that the challenges that impact the group's going-concern status are addressed satisfactorily within a reasonable timeframe
- government continues to support Eskom to operate as a going concern given the strategic role that Eskom plays in pursuit of government objectives, with support of R49 billion in the current year and R56 billion in 2021 as follows:
  - government support of R23 billion per year for 2020 to 2022 has been announced in the 2019 budget by the Minister of Finance of which R13.5 billion has been provided in April 2019
  - the Special Appropriation Act enacted in November 2019 allocated additional government support of R26 billion in 2020 and R33 billion in 2021. The board will manage the conditions relating to this allocation
- the special paper on Eskom released by the Department of Public Enterprises (DPE) on 20 October 2019 provides a degree of clarity on the role that Eskom will play in the unfolding future of the country's electricity supply industry
- the board continues with the process to separate the business into the main line divisions (functional unbundling of Eskom) in line with the special paper. Plans are being developed to determine the process of legal unbundling in terms of timing and implications of the implementation including legislative changes, legal structure and ownership as well as addressing Eskom's debt challenge including the impact of loan covenants
- Eskom lodged court proceedings against the National Energy Regulator of South Africa (NERSA) for the following:
  - deduction of R23 billion per annum support from government in 2020 to 2022 in the NERSA multi-year price determination (MYPD) 4 tariff determination. The court hearing date is set for December 2019
  - determination of the 5.23% tariff increase awarded for the 2019 financial year. The court hearing is expected to take place in January 2020
  - incorrect application of the methodology for the 2015 to 2017 regulatory clearing account decisions. The court hearing is expected to take place in February 2020
- the group's cost structures and capital programme are continuously being reviewed to extract cost savings and improve cash flows
- the group's generation capacity is being managed as a key focus area to ensure appropriate steps are being taken to manage the performance challenges
- there is continued focus on implementing relevant strategies in an effort to recover overdue trade receivables through the inter-ministerial task team
- the group will not embark on any large scale expansion activities after the completion of Kusile power station
- funding options, with the support of National Treasury, are being pursued to implement the group's borrowing programme
- there is continued focus to address the shortcomings relating to the completeness of the irregular as well as fruitless and wasteful expenditure reporting process in terms of the Public Finance Management Act (PFMA) (resulted in the qualified audit opinion in recent years) and the clean-up of the related challenges in the commercial environment

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

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 2019 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:

SN Mabaso-Koyana
Audit and risk committee chairman

25 November 2019

JA Mabuza
Interim executive chairman and acting group chief executive

25 November 2019

C Cassim
Chief financial officer

25 November 2019

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 22, which comprise the condensed group statement of financial position at 30 September 2019, and the condensed group income statement, statements of comprehensive income, changes in equity and cash flows for the six months then ended and 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 (ISRE) 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 2019, 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 and the requirements of the Companies Act.

Material uncertainty related to going concern

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

We draw attention to note 2.1 of the condensed group interim financial statements which indicates that the group's current liabilities exceed its current assets by R13 059 million. As stated in note 2.1, the debt reliant liquidity position, the deterioration of some of the group's financial indicators, the impact of reduced generation performance along with other matters, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern.

Compliance with legislation

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 matters pertaining to the reportable irregularities have been described in note 18 to the condensed group interim financial statements.

A Mthimunye
SizweNtsalubaGobodo Grant Thornton Inc.
Director
Registered auditor

27 November 2019

20 Morris East Street, Woodmead, 2191

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

at 30 September 2019

	Reviewed 30 September 2019 Rm	Audited 31 March 2019 Rm	Reviewed[1] 30 September 2018 Rm
Assets			
Non-current	692 591	685 153	673 920
Property, plant and equipment and intangible assets	659 734	655 562	645 131
Future fuel supplies	4 922	6 471	6 472
Payments made in advance	1 610	1 734	1 771
Derivatives held for risk management and embedded derivatives	25 508	20 582	19 682
Trade, finance lease, loan and other receivables	390	414	452
Other assets	427	390	412
Current	82 493	63 994	77 753
Inventories	32 716	26 482	23 412
Taxation	203	102	371
Investments and financial trading assets	11 358	9 725	9 700
Payments made in advance	1 700	1 541	1 873
Derivatives held for risk management and embedded derivatives	2 596	2 080	1 865
Trade, finance lease, loan and other receivables	26 106	22 033	23 190
Cash and cash equivalents	7 814	2 031	17 342
Assets held-for-sale	8 811	8 871	8 985
Total assets	783 895	758 018	760 658
Equity			
Capital and reserves	168 747	153 094	174 397
Liabilities			
Non-current	518 120	495 194	511 347
Debt securities and borrowings	410 290	387 208	397 002
Derivatives held for risk management and embedded derivatives	5 247	7 008	7 033
Deferred tax	9 025	8 350	17 313
Payments received in advance, contract liabilities and deferred income	23 828	23 333	22 299
Employee benefit obligations	13 980	13 546	13 698
Provisions	45 309	45 588	43 348
Trade and other payables and lease liabilities	10 441	10 161	10 654
Current	95 552	108 051	73 230
Debt securities and borrowings	43 917	53 402	22 211
Derivatives held for risk management and embedded derivatives	2 784	3 466	4 099
Employee benefit obligations	4 022	3 244	4 012
Provisions	5 732	5 662	6 111
Payments received in advance, contract liabilities and deferred income	4 949	4 858	4 640
Trade and other payables and lease liabilities	33 967	37 181	31 891
Financial trading liabilities	181	238	266
Liabilities held-for-sale	1 476	1 679	1 684
Total liabilities	615 148	604 924	586 261
Total equity and liabilities	783 895	758 018	760 658

1. Restated. Refer to note 17.

CONDENSED GROUP INCOME STATEMENT

for the six months ended 30 September 2019

	Note	Reviewed six months ended 30 September 2019 Rm	Reviewed[1] six months ended 30 September 2018 Rm	Audited year ended 31 March 2019 Rm
Revenue	10	107 502	98 104	179 892
Other income		677	1 678	2 150
Primary energy	11	(52 018)	(46 146)	(99 488)
Employee benefit expense	12	(16 454)	(16 944)	(33 272)
Impairment of assets		(781)	594	431
Other expenses		(8 334)	(9 023)	(18 214)
Profit before depreciation and amortisation expense and net fair value and foreign exchange loss on financial instruments (EBITDA)		30 592	28 263	31 499
Depreciation and amortisation expense		(13 503)	(12 870)	(29 756)
Net fair value and foreign exchange loss on financial instruments		(480)	(821)	(3 409)
Profit/(loss) before net finance cost		16 609	14 572	(1 666)
Net finance cost		(14 804)	(13 733)	(27 517)
Finance income		1 258	1 495	2 722
Finance cost	13	(16 062)	(15 228)	(30 239)
Share of profit of equity-accounted investees, net of tax		40	22	35
Profit/(loss) before tax		1 845	861	(29 148)
Income tax	14	(520)	(234)	8 419
Profit/(loss) for the period[2]		1 325	627	(20 729)

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 September 2019

	Reviewed six months ended 30 September 2019 Rm	Reviewed six months ended 30 September 2018 Rm	Audited year ended 31 March 2019 Rm
Profit/(loss) for the period[2]	1 325	627	(20 729)
Other comprehensive income	828	3 632	3 685
Items that may be reclassified subsequently to profit or loss	639	3 016	2 433
Cash flow hedges	855	4 157	3 309
Foreign currency translation differences	24	23	50
Income tax thereon	(240)	(1 164)	(926)
Items that may not be reclassified subsequently to profit or loss	189	616	1 252
Re-measurement of post-employment medical benefits	263	848	1 737
Income tax thereon	(74)	(232)	(485)
Total comprehensive income/(loss) for the period[2]	2 153	4 259	(17 044)

1. Restated. Refer to note 17.
2. A nominal amount is attributable to the non-controlling interest in the group. The remainder is attributable to the owner of the group.

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2019

	Share capital Rm	Cash flow hedge reserve Rm	Unrealised fair value reserve Rm	Foreign currency translation reserve Rm	Accumulate profit Rm	Total equity Rm
Balance at 31 March 2018	83 000	(416)	(10 313)	(31)	97 898	170 138
Restated profit for the period[1]	–	–	–	–	627	627
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)	102 928	174 397
Loss for the period	–	–	–	–	(21 356)	(21 356)
Other comprehensive income, net of tax	–	(610)	–	27	636	53
Transfer between reserves	–	–	459	–	(459)	–
Balance at 31 March 2019	83 000	1 967	(13 641)	19	81 749	153 094
Profit for the period	–	–	–	–	1 325	1 325
Other comprehensive income, net of tax	–	615	–	24	189	828
Share capital issued	13 500	–	–	–	–	13 500
Transfer between reserves	–	–	(713)	–	713	–
Balance at 30 September 2019	96 500	2 582	(14 354)	43	83 976	168 747

1. Restated. Refer to note 17.

CONDENSED GROUP STATEMENT OF CASH FLOWS

for the six months ended 30 September 2019

	Reviewed six months ended 30 September 2019 Rm	Reviewed six months ended 30 September 2018 Rm	Audited year ended 31 March 2019 Rm
Cash flows from operating activities			
Profit/(loss) before tax	1 845	861	(29 148)
Adjustment for non-cash items	28 899	26 979	58 712
Changes in working capital	(11 150)	(760)	3 693
Cash generated from operations	19 594	27 080	33 257
Net cash from/(used in) derivatives held for risk management	179	(87)	(172)
Finance income received	152	190	245
Finance cost paid	(20)	(239)	(277)
Income taxes paid	(230)	(288)	(313)
Net cash from operating activities	19 675	26 656	32 740
Cash flows used in investing activities			
Disposals of property, plant and equipment and intangible assets	439	327	566
Acquisitions of property, plant and equipment and intangible assets	(10 727)	(17 073)	(34 530)
Acquisitions of future fuel supplies	(747)	(89)	(548)
Disposals of insurance investments	4 775	8 034	10 669
Acquisitions of insurance investments	(6 481)	(9 423)	(12 025)
Payments made in advance	(6)	(37)	(9)
Cash used in provisions	(376)	(539)	(1 707)
Net cash used in derivatives held for risk management	(301)	(59)	(166)
Finance income received	814	724	1 411
Other cash from investing activities	111	74	137
Net cash used in investing activities	(12 499)	(18 061)	(36 202)
Cash flows used in financing activities			
Debt securities and borrowings raised	15 934	34 413	58 914
Payments made in advance	(197)	(725)	(1 179)
Debt securities and borrowings repaid	(11 450)	(27 515)	(34 455)
Share capital issued	13 500	–	–
Net cash from derivatives held for risk management	447	3 528	1 219
Cash used in lease liabilities	(185)	(140)	(357)
Net cash (used in)/from financial trading instruments	(58)	13	(19)
Finance income received	265	516	858
Finance cost paid	(19 567)	(17 705)	(35 845)
Taxes paid	(29)	(9)	(69)
Net cash used in financing activities	(1 340)	(7 624)	(10 933)
Net increase/(decrease) in cash and cash equivalents	5 836	971	(14 395)
Cash and cash equivalents at beginning of the period	2 031	15 823	15 823
Foreign currency translation	24	23	50
Effect of movements in exchange rates on cash held	86	611	620
Assets and liabilities held-for-sale	(163)	(86)	(67)
Cash and cash equivalents at end of the period	7 814	17 342	2 031

NOTES TO THE CONDENSED GROUP INTERIM FINANCIAL STATEMENTS

for the six months ended 30 September 2019

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 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.

2. Basis of preparation

The reviewed condensed group interim financial statements of Eskom as at and for the six months ended 30 September 2019 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 2019 group annual financial statements. The annual financial statements of the group as at and for the year ended 31 March 2019 are available for inspection at the company's registered office and on the Eskom website at www.eskom.co.za.

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:

- recognised that Eskom continues to face various challenges that resulted from mismanagement and corruption. Significant progress has been made in cleaning-up irregularities and improving processes, but it is taking time to identify all issues and take appropriate corrective action and consequence management
- noted that there is a need to secure funding of R46 billion in 2020 (64% of the funding for 2020 has already been secured by November 2019)
- considered the impact of the current economic climate and the sovereign's credit ratings on Eskom's ability to raise funds, including that the rating agencies have expressed a more cautious outlook on Eskom
- reviewed the performance of the group for the period ended 30 September 2019 including the net profit after tax of R1 325 million and the net current liabilities of R13 059 million
- noted the further deterioration of some of the group's financial indicators
- considered the impact of the cash flow forecast for the 18 months ending 31 March 2021 and the projected net loss pre-tax for 2020
- considered that Eskom is in a debt reliant liquidity situation that resulted from low tariffs, stagnant and contracting sales volumes, increased costs and the capital programme to increase and replace generating and transmitting capacity
- considered the impact of reduced generation performance and the continuous increase in overdue electricity receivables (including the impact of non-recoverability of long outstanding electricity receivables)

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

- continuous engagement is taking place with the shareholder and National Treasury to ensure that the challenges that impact the group's going-concern status are addressed satisfactorily within a reasonable timeframe
- government continues to support Eskom to operate as a going concern given the strategic role that Eskom plays in pursuit of government objectives, with support of R49 billion in the current year and R56 billion in 2021 as follows:
  - government support of R23 billion per year for 2020 to 2022 has been announced in the 2019 budget by the Minister of Finance of which R13.5 billion has been provided in April 2019
  - the Special Appropriation Act enacted in November 2019 allocated additional government support of R26 billion in 2020 and R33 billion in 2021. The board will manage the conditions relating to this allocation
- the special paper on Eskom released by the DPE on 20 October 2019 provides a degree of clarity on the role that Eskom will play in the unfolding future of the country's electricity supply industry
- the board continues with the process to separate the business into the main line divisions (functional unbundling of Eskom) in line with the special paper. Plans are being developed to determine the process of legal unbundling in terms of timing and implications of the implementation including legislative changes, legal structure and ownership as well as addressing Eskom's debt challenge including the impact of loan covenants
- Eskom lodged court proceedings against NERSA for the following:
  - deduction of R23 billion per annum support from government in 2020 to 2022 in the NERSA MYPD 4 tariff determination. The court hearing date is set for December 2019
  - determination of the 5.23% tariff increase awarded for the 2019 financial year. The court hearing is expected to take place in January 2020
  - incorrect application of the methodology for the 2015 to 2017 regulatory clearing account decisions. The court hearing is expected to take place in February 2020
- the group's cost structures and capital programme are continuously being reviewed to extract cost savings and improve cash flows
- the group's generation capacity is being managed as a key focus area to ensure appropriate steps are being taken to manage the performance challenges

- there is continued focus on implementing relevant strategies in an effort to recover overdue trade receivables through the inter-ministerial task team
- the group will not embark on any large scale expansion activities after the completion of Kusile power station
- funding options, with the support of National Treasury, are being pursued to implement the group's borrowing programme
- there is continued focus to address the shortcomings relating to the completeness of the irregular as well as fruitless and wasteful expenditure reporting process in terms of the PFMA (resulted in the qualified audit opinion in recent years) and the clean-up of the related challenges in the commercial environment

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

3. Significant changes in accounting policies

The accounting policies are consistent with those applied in the audited financial statements as at 31 March 2019 except for the impact of IFRS 16 *Leases* which has become effective during the six months ended 30 September 2019 as set out below.

Eskom has applied IFRS 16 (replacing 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*) from 1 April 2019. It sets out principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting

Lessor accounting remains substantially unchanged in terms of IFRS 16. Leases continue to be classified as operating or finance leases using similar principles as in IAS 17. IFRS 16 therefore did not have any impact on leases where the group is the lessor.

Lessee accounting

Lessee accounting in terms of IAS 17

The group classified leases as finance or operating leases at commencement of the lease. Leases were classified as finance leases if they transferred substantially all of the risks and rewards of ownership of the leased asset to the lessee. All other leases were classified as operating leases.

Finance leases were capitalised at commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (finance costs) and reducing the lease payable.

For operating leases, payments were recognised as an expense in profit or loss on a straight-line basis over the lease term.

Lessee accounting in terms of IFRS 16

The group applies a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

Right-of-use assets

The group recognises a right-of-use asset at lease commencement (the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease term. Right-of-use assets are assessed for impairment.

Lease liabilities

The group recognises a lease liability at lease commencement measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments and any variable lease payments that depend on an index or a rate.

Variable lease payments that do not depend on an index or rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

The group uses the incremental borrowing rate at lease commencement to calculate the present value of lease payments if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for lease payments made. The carrying amount of lease liabilities is remeasured if there is a change in the lease term, the in-substance fixed lease payments or the assessment of the intention to purchase the underlying asset.

The incremental borrowing rate requires a degree of judgement regarding the determination of an appropriate discount rate for the lease term. The discount rate is based on borrowings of a similar term which takes into account current market conditions.

Short-term leases and leases of low-value assets

The group applies the short-term lease recognition exemption to leases with a term of less than 12 months. The group applies the lease of low-value assets recognition exemption to leases with a value of less than R75 000. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

3. Significant changes in accounting policies (continued)

Lessee accounting (continued)

Transition

The group adopted IFRS 16 using the modified retrospective method where the retrospective cumulative effect of initially applying the standard was recognised at the date of initial application on 1 April 2019.

The group elected to use the practical expedient on transition that allows the group not to reassess whether a contract contains a lease on initial application for contracts that existed at transition date. The group therefore applied the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 on 1 April 2019.

The following specific requirements and practical expedients on transition have been applied by the group:

Lessee accounting of leases previously classified as finance leases

The group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (ie the right-of-use assets and lease liabilities are equal to the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 April 2019.

Lessee accounting of leases previously classified as operating leases

The group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use asset for leases were recognised on transition based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised.

Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the average incremental borrowing rate at the date of initial application of 9.06%.

The group also applied the available practical expedients on transition whereby it:
- used a single discount rate to a portfolio of leases with reasonably similar characteristics
- applied the short-term leases exemption to leases with lease terms that were ending within 12 months of initial application. The group accounted for those leases in the same way as short-term leases as described earlier

Financial impact of adoption of IFRS 16

Lease commitments reconciliation

	Rm
Operating lease commitments at 31 March 2019	176
Effect of discounting	(9)
	167
Short-term leases	28
Right-of-use lease liabilities	139

Righ-of-use assets and lease liabilities movement reconciliation

	Right-of-use assets				Lease liabilities
	Land, buildings and facilities	Plant Generating	Plant Spares and other	Total	
	Rm	Rm	Rm	Rm	Rm
Carrying value at 1 April 2019	–	7 718	123	7 841	9 462
Impact of adoption of IFRS 16[1]	132	–	–	132	139
Depreciation	(37)	(319)	(6)	(362)	–
Finance costs	–	–	–	–	710
Lease payments (capital and finance cost)	–	–	–	–	(895)
Carrying value at 30 September 2019	95	7 399	117	7 611	9 416

1. The adoption of IFRS 16 also resulted in a charge of R7 million to trade and other payables relating to operating lease smoothing balances that had been recognised in terms of IAS 17.

Composition of lease liabilities

	30 September 2019 Gross payables Rm	Future finance charges Rm	Carrying value Rm
Non-current	17 584	(8 583)	9 001
Between one and five years	6 928	(4 825)	2 103
After five years	10 656	(3 758)	6 898
Current			
Within one year	1 792	(1 377)	415
	19 376	(9 960)	9 416

Short-term and low-value asset leases
The expense recognised for the six months ended 30 September 2019 relating to short-term leases was R496 million. There were no leases of low-value assets.

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 2019.

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 2019 (reviewed)									
External revenue	–	9	952	6 094	100 447	–	872	(872)	107 502
Inter-segment revenue/ recoveries	72 396	5 056	12 827	8 221	(98 302)	(90)	5 544	(5 652)	–
Total revenue	72 396	5 065	13 779	14 315	2 145	(90)	6 416	(6 524)	107 502
Profit/(loss) before tax	(219)	121	1 704	(456)	1 599	(2 155)	761	490	1 845
Income tax	–	–	–	–	–	–	(382)	(138)	(520)
Profit/(loss) for the period	(219)	121	1 704	(456)	1 599	(2 155)	379	352	1 325
Segment assets	333 431	55 771	91 446	10 071	22 529	210 838	82 183	(22 374)	783 895
Segment liabilities	61 443	1 684	32 207	13 841	13 555	12 378	503 173	(23 133)	615 148
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	1 175	(202)	861
Income tax	–	–	–	–	–	–	(288)	54	(234)
Profit/(loss) for the period	(2 950)	(452)	723	(507)	2 355	719	887	(148)	627
Segment assets	312 564	52 097	87 678	10 176	20 886	215 489	85 540	(23 772)	760 658
Segment liabilities	58 370	1 592	31 351	13 846	13 856	11 536	478 354	(22 644)	586 261
31 March 2019 (audited)									
External revenue	–	215	2 118	8 171	169 388	–	1 377	(1 377)	179 892
Inter-segment revenue/ recoveries	125 449	3 548	16 905	21 855	(167 417)	(133)	11 252	(11 459)	–
Total revenue	125 449	3 763	19 023	30 026	1 971	(133)	12 629	(12 836)	179 892
Profit/(loss) before tax	(23 954)	(4 026)	(3 696)	(1 347)	1 629	(1 203)	1 567	1 882	(29 148)
Income tax	–	–	–	–	–	–	8 837	(418)	8 419
Profit/(loss) for the period	(23 954)	(4 026)	(3 696)	(1 347)	1 629	(1 203)	10 404	1 464	(20 729)
Segment assets	310 101	54 751	90 205	9 247	19 094	227 054	68 430	(20 864)	758 018
Segment liabilities	64 667	1 800	31 825	14 339	13 273	11 939	488 352	(21 271)	604 924

Eskom is in the process of functional unbundling. As a result, segmentation, as well as the transfer pricing and overhead methodologies are being refined.

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

	Reviewed six months ended 30 September 2019 Shares	Audited year ended 31 March 2019 Shares	Reviewed six month ended 30 September 2018 Shares
Authorised ordinary shares	100 000 000 000	100 000 000 000	100 000 000 000
Issued ordinary shares			
Balance at beginning of the year	83 000 000 001	83 000 000 001	83 000 000 001
Share capital issued	13 500 000 000	–	–
Balance at end of the year	96 500 000 001	83 000 000 001	83 000 000 001

7. Dividend paid

No dividend was paid to the shareholder during the six months ended 30 September 2019 nor in the comparative periods presented.

8. Significant events and transactions

The following significant movements occurred in the six months ended 30 September 2019:

8.1 Foreign exchange impact on derivatives held for risk management and debt securities and borrowings

The impact of the weakening of the rand against major currencies increased debt securities and borrowings by R7.7 billion and the net asset position in derivatives held for risk management by R5.6 billion.

8.2 Share capital issued

Refer to note 2.1 and 6.2 for details about share capital issued in the period.

9. Seasonality of interim results

The sale of electricity is subject to seasonal fluctuations where revenue and consequently electricity receivables are 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 2019 Rm	Reviewed six months ended 30 September 2018 Rm	Audited year ended 31 March 2019 Rm
10.	**Revenue**			
	Redistributors	44 703	40 548	71 265
	Invoiced to customers	48 594	44 855	77 231
	Amounts not meeting revenue recognition criteria	(5 793)	(5 037)	(8 438)
	Recognised on a cash received basis	1 902	730	2 472
	Residential	3 152	2 872	5 490
	Invoiced to customers	3 406	3 166	5 966
	Amounts not meeting revenue recognition criteria	(254)	(294)	(476)
	Industrial	20 294	19 396	36 168
	Mining	16 911	15 041	26 550
	Commercial	7 687	6 726	12 385
	Agricultural	4 858	4 137	8 682
	International	6 151	4 129	8 241
	Other customers	2 001	1 846	3 279
	Post-paid electricity sales	105 757	94 695	172 060
	Prepaid electricity sales	4 817	4 447	8 645
	Total electricity sales	110 574	99 142	180 705
	Other	1 134	363	2 580
	Gross revenue	111 708	99 505	183 285
	Capitalised to property, plant and equipment	(4 206)	(1 401)	(3 393)
		107 502	98 104	179 892
11.	**Primary energy**			
	Own generation costs	33 985	29 385	62 991
	Environmental levy	3 873	4 063	7 805
	International electricity purchases	1 993	1 905	3 740
	Independent power producers	12 167	10 793	24 952
		52 018	46 146	99 488
12.	**Employee benefit expense**			
	Gross employee benefit expense	17 727	18 631	36 658
	Capitalised to property, plant and equipment	(1 273)	(1 687)	(3 386)
		16 454	16 944	33 272
13.	**Finance cost**			
	Gross finance cost	24 341	22 855	45 617
	Capitalised to property, plant and equipment	(8 279)	(7 627)	(15 378)
		16 062	15 228	30 239

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

	30 September 2019 (reviewed)			
	Fair value through profit or loss Rm	Amortised cost Rm	Other assets and liabilities Rm	Total Rm
Financial assets				
Investments and financial trading assets	1 700	9 658	–	11 358
Negotiable certificates of deposit	–	9 599	–	9 599
Repurchase agreements	–	59	–	59
Listed shares	1 597	–	–	1 597
Government bonds	103	–	–	103
Derivatives held for risk management and embedded derivatives	1 521	–	26 583	28 104
Foreign exchange contracts	1 406	–	39	1 445
Cross-currency swaps	30	–	26 544	26 574
Commodity forwards	2	–	–	2
Credit default swaps	9	–	–	9
Inflation-linked swaps	74	–	–	74
Trade, finance lease, loan and other receivables	–	26 104	391	26 495
Loans receivable	–	56	–	56
Finance lease receivables	–	–	391	391
Trade and other receivables	–	26 048	–	26 048
Cash and cash equivalents	–	7 814	–	7 814
Bank balances	–	5 389	–	5 389
Fixed deposits	–	2 425	–	2 425
	3 221	43 576	26 974	73 771
Financial liabilities				
Debt securities and borrowings	–	454 207	–	454 207
Eskom bonds	–	154 777	–	154 777
Commercial paper	–	931	–	931
Eurorand zero coupon bonds	–	4 673	–	4 673
Foreign bonds	–	83 783	–	83 783
Development financing institutions	–	147 967	–	147 967
Export credit facilities	–	30 090	–	30 090
Floating rate notes	–	4 046	–	4 046
Other loans	–	27 940	–	27 940
Derivatives held for risk management and embedded derivatives	804	–	7 227	8 031
Foreign exchange contracts	262	–	94	356
Cross-currency swaps	210	–	4 875	5 085
Commodity forwards	4	–	–	4
Credit default swaps	296	–	–	296
Inflation-linked swaps	32	–	–	32
Embedded derivatives	–	–	2 258	2 258
Trade and other payables and lease liabilities	–	32 271	9 416	41 687
Lease liabilities	–	–	9 416	9 416
Trade and other payables	–	32 271	–	32 271
Financial trading liabilities	181	–	–	181
Short-sold government bonds	56	–	–	56
Repurchase agreements	125	–	–	125
	985	486 478	16 643	504 106

	31 March 2019 (audited)			
	Fair value through profit or loss	Amortised cost	Other assets and liabilities	Total
	Rm	Rm	Rm	Rm
Financial assets				
Investments and financial trading assets	1 720	8 005	–	9 725
Negotiable certificates of deposit	–	7 946	–	7 946
Repurchase agreements	–	59	–	59
Listed shares	1 617	–	–	1 617
Government bonds	103	–	–	103
Derivatives held for risk management and embedded derivatives	1 378	–	21 284	22 662
Foreign exchange contracts	1 281	–	20	1 301
Cross-currency swaps	49	–	21 264	21 313
Credit default swaps	9	–	–	9
Inflation-linked swaps	39	–	–	39
Trade, finance lease, loan and other receivables	–	21 989	405	22 394
Loans receivable	–	66	–	66
Finance lease receivables	–	–	405	405
Trade and other receivables	–	21 923	–	21 923
Cash and cash equivalents	–	2 031	–	2 031
Bank balances	–	2 018	–	2 018
Unsettled deals	–	13	–	13
	3 098	32 025	21 689	56 812
Financial liabilities				
Debt securities and borrowings	–	440 610	–	440 610
Eskom bonds	–	152 283	–	152 283
Commercial paper	–	1 105	–	1 105
Eurorand zero coupon bonds	–	4 399	–	4 399
Foreign bonds	–	79 963	–	79 963
Development financing institutions	–	135 661	–	135 661
Export credit facilities	–	31 782	–	31 782
Floating rate notes	–	4 047	–	4 047
Other loans	–	31 370	–	31 370
Derivatives held for risk management and embedded derivatives	1 139	–	9 335	10 474
Foreign exchange contracts	471	–	88	559
Cross-currency swaps	322	–	5 813	6 135
Credit default swaps	305	–	–	305
Inflation-linked swaps	41	–	–	41
Embedded derivatives	–	–	3 434	3 434
Trade, finance lease and other payables	–	36 785	9 462	46 247
Finance lease payables	–	–	9 462	9 462
Trade and other payables	–	36 785	–	36 785
Financial trading liabilities	238	–	–	238
Short-sold government bonds	57	–	–	57
Repurchase agreements	181	–	–	181
	1 377	477 395	18 797	497 569

15. Accounting classification and fair value (continued)

15.1 Accounting classification (continued)

	30 September 2018 (reviewed)			
	Fair value through profit or loss Rm	Amortised cost Rm	Other assets and liabilities Rm	Total Rm
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 and embedded derivatives	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	–	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
Derivatives held for risk management and embedded derivatives	2 469	–	8 663	11 132
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
Embedded derivatives	–	–	3 203	3 203
Trade, finance lease and other payables	–	30 688	9 679	40 367
Finance lease payables	–	–	9 679	9 679
Trade and other payables	–	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

15.2 Fair value

Valuation processes and principal markets

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

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

The group is involved in various principal markets because of the unique funding activities undertaken where the fair value is determined by each participant in the different principal markets. The principal markets include capital and money markets, development financing institutions and export credit agencies.

Valuation techniques and levels

Financial instrument	Valuation technique
Level 1: Quoted prices (unadjusted) in active markets	
Investments and financial trading assets (listed shares and government bonds) and financial trading liabilities (short-sold government bonds)	Quoted bid price in active markets. A market is regarded as active when it is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis
Level 2: Observable inputs other than quoted prices included within level 1	
Financial trading liabilities (repurchase agreements)	A discounted cash flow technique is used which uses expected cash flows and a market-related discount rate
Derivatives held for risk management	Valuation determined with reference to broker quotes as well as use of discounted cash flow and option pricing models. Broker quotes are tested for reasonableness by discounting expected future cash flows using a market interest rate for a similar instrument at the measurement date Valuations of cross-currency swaps include the credit risk of Eskom (known as debit value adjustment) and counterparties (known as credit value adjustment) where appropriate. A stochastic modelling approach is followed where the expected future exposure to credit risk for Eskom and its counterparties (considering default probabilities and recovery rates derived from market data) is modelled
Level 3: Unobservable inputs	
Embedded derivative liabilities	Fair valued using unobservable inputs

There were no changes in the valuation techniques applied nor transfers between level 1, 2 or 3 of the fair value hierarchy during the six months ended 30 September 2019 nor in the comparative periods presented.

15. Accounting classification and fair value (continued)

15.2 Fair value (continued)

Fair value hierarchy

The fair value hierarchy of financial instruments that are measured at fair value in the statement of financial position is as follows:

	30 September 2019 (reviewed)			31 March 2019 (audited)			30 September 2018 (reviewed)		
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Financial assets									
Investments and financial trading assets	1 700	–	–	1 720	–	–	1 407	–	–
Listed shares	1 597	–	–	1 617	–	–	1 303	–	–
Government bonds	103	–	–	103	–	–	104	–	–
Derivatives held for risk management and embedded derivatives	–	28 104	–	–	22 662	–	–	21 547	–
Foreign exchange contracts	–	1 445	–	–	1 301	–	–	1 406	–
Cross-currency swaps	–	26 574	–	–	21 313	–	–	20 068	–
Commodity forwards	–	2	–	–	–	–	–	46	–
Credit default swaps	–	9	–	–	9	–	–	9	–
Inflation-linked swaps	–	74	–	–	39	–	–	18	–
Financial liabilities									
Derivatives held for risk management and embedded derivatives	–	5 773	2 258	–	7 040	3 434	–	7 929	3 203
Foreign exchange contracts	–	356	–	–	559	–	–	1 853	–
Cross-currency swaps	–	5 085	–	–	6 135	–	–	5 617	–
Commodity forwards	–	4	–	–	–	–	–	3	–
Credit default swaps	–	296	–	–	305	–	–	429	–
Inflation-linked swaps	–	32	–	–	41	–	–	27	–
Embedded derivatives	–	–	2 258	–	–	3 434	–	–	3 203
Financial trading liabilities	56	125	–	57	181	–	55	211	–
Short-sold government bonds	56	–	–	57	–	–	55	–	–
Repurchase agreements	–	125	–	–	181	–	–	211	–

Fair value level 3 disclosures (embedded derivatives)

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

Valuation techniques

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

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

The forecast cash flow is determined and then discounted at the relevant interest rate curve. The net present value of the cash flows is then converted at the rand/foreign currency spot rate to the reporting currency. The fair value of the embedded derivative is adjusted, where applicable, to take into account the inherent uncertainty relating to the future cash flows of embedded derivatives such as liquidity, model risk and other economic factors. The important assumptions are obtained either with reference to the contractual provisions of the relevant agreements or from independent market sources where appropriate. The only significant unobservable input is the United States producer price index (PPI).

Valuation assumptions

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

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

		Period ended 30 September 2019 (reviewed)					
Input	Unit	2019	2020	2021	2022	2023	2024
Aluminium	USD per ton	1 717	1 748	1 836	1 922	2 009	2 092
Volatility	Year-on-year (ratio)	0.18	0.18	0.18	0.18	0.18	0.18
Rand interest rate	Continuous actual/365 days (%)	6.59	7.15	6.97	6.61	6.74	6.88
Dollar interest rate	Annual actual/365 days (%)	2.13	2.11	1.92	1.60	1.54	1.52
United States PPI	Year-on-year (%)	(1.63)	1.78	1.84	1.80	2.29	1.46
Rand/USD	Rand per USD	15.16	15.54	16.35	17.18	18.17	19.29
Electricity price increase	Year-on-year (%)	5.23	13.87	8.76	5.01	8.00	8.00

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

		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
United States 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
Electricity price increase	Year-on-year (%)	2.20	5.23	8.00	8.00	8.00	8.00

Sensitivity analysis

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

			Reviewed 30 September 2019		Audited 31 March 2019		Reviewed 30 September 2018	
Input	Unit	Change in assumption	increase Rm	decrease Rm	increase Rm	decrease Rm	increase Rm	decrease Rm
Aluminium	USD per ton	1%	19	(19)	32	(32)	46	(46)
Rand interest rate	Continuous actual/365 days (%)	100 basis points	123	(141)	154	(171)	211	(193)
Dollar interest rate	Continuous actual/365 days (%)	100 basis points	(101)	97	(117)	115	(105)	111
United States PPI	Index	1%	90	(97)	86	(90)	105	(111)
Rand/USD	Rand per USD	1%	41	(35)	53	(48)	69	(63)
Electricity price increase	Rand per kWh	1%	(18)	18	(17)	17	(70)	70

15. Accounting classification and fair value (continued)

15.2 Fair value (continued)

Fair value level 3 disclosures (embedded derivatives) (continued)

Movement in balances

	Embedded derivative liability Rm
Balance at 31 March 2018	5 291
Net fair value gain	(2 088)
Balance at 30 September 2018	3 203
Net fair value loss	231
Balance at 31 March 2019	3 434
Net fair value gain	(1 176)
Balance at 30 September 2019	2 258

15.3 Day-one gain/loss

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

	Cross-currency swaps Rm	Inflation-linked swaps Rm	Total Rm
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)
Day-one loss recognised	(427)	–	(427)
Amortised to profit or loss	78	1	79
Loss at 31 March 2019	(1 146)	(25)	(1 171)
Day-one loss recognised	(90)	–	(90)
Amortised to profit or loss	89	2	91
Loss at 30 September 2019	(1 147)	(23)	(1 170)

16. Material events subsequent to 30 September 2019

DPE announced on 18 November 2019 that Mr A de Ruyter had been appointed as the group chief executive (GCE) effective from 15 January 2020.

17. Restatement of comparatives

The interim financial statements for the period ended 30 September 2018 omitted to account for the impact of adopting IFRS 15 on certain revenue contracts in Eskom's subsidiaries. This was identified and corrected in the 2019 annual financial statements. The impact of this error on the income statement for the period ended 30 September 2018 is as follows:

	Previously reported Rm	Adjustments Rm	Restated Rm
Statement of financial position at 30 September 2018			
Assets			
Property, plant and equipment and intangible assets	645 092	39	645 131
Inventories	23 775	(363)	23 412
Equity			
Capital and reserves	174 633	(236)	174 397
Liabilities			
Deferred tax	17 401	(88)	17 313
Income statement for the period ended 30 September 2018			
Other expenses	(8 963)	(60)	(9 023)
Profit before tax	921	(60)	861
Income tax	(250)	16	(234)
Profit for the period	671	(44)	627

18. Reportable irregularities

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

The table below reflects the status of the reportable irregularities at 30 September 2019. The discussion focuses on items that were open at the previous year end.

Description	Action	Status
Reportable irregularities – 31 March 2017		
• there were allegations that an early retirement agreement between Eskom and the former GCE (B Molefe) was irregular	• the Democratic Alliance and Solidarity Trade Union successfully brought an application in the Gauteng Division of the High Court to set aside the early retirement agreement between Eskom and the former GCE • the former GCE appealed the High Court decision to the Supreme Court of Appeal • the Supreme Court of Appeal dismissed the appeal in April 2019 • the former GCE subsequently appealed the matter to the Constitutional Court, which also dismissed the case • the Eskom Pension and Provident Fund (EPPF) issued a letter of demand to the former GCE in April 2019 for payment of the amounts ordered by the High Court, to date payment is outstanding • EPPF advised Eskom that it approached the court for an order empowering it to repay the early retirement to Eskom as the current court orders did not empower it to do so • the Hawks are currently investigating the matter	• open, pending repayment of the early retirement settlement
Reportable irregularities – 30 September 2017		
• a parliamentary inquiry was held into perceived maladministration, governance and procurement issues at Eskom. Certain representations made by previous and current directors and officials indicated that there could have been a breach of fiduciary duties in terms of the requirements of the Companies Act	• Eskom investigated and action was taken, including relevant reporting where appropriate, against those implicated in the parliamentary inquiry • some of the implicated employees resigned or their employment was terminated • criminal charges were lodged against relevant employees • the final report on the inquiry was adopted by the Portfolio Committee on Public Enterprises on 28 November 2018 • the findings of the report, which were not conclusive, have been analysed. The report recommended that the findings and evidence be submitted to the Judicial Commission of Inquiry into Allegations of State Capture (Zondo Commission) for further investigation • the Zondo Commission is ongoing and Eskom is participating in this process	• open, pending finalisation and conclusion by the Zondo Commission
• the subcontracting of Trillian Management Consultancy (Trillian) by McKinsey did not follow the correct procurement process • a further issue relating to this matter was raised on 31 March 2018 where the former chief procurement officer (CPO) (E Mabelane), former group executive (GE): group capital (A Masango), former acting GE: group capital (P Govender) and former company secretary (S Daniels) approved payments to Trillian without the existence of a contract thereby breaching their fiduciary duties	• executives and senior management resigned • criminal charges were lodged against relevant employees • the business relationship with McKinsey and Trillian was terminated • information was provided to the Hawks for investigation • the High Court ruled against Trillian on 18 June 2019 and ordered it to repay R595 million to Eskom • Trillian applied for leave to appeal to the Supreme Court of Appeal	• open, pending completion of the recovery process

18. Reportable irregularities (continued)

Description	Action	Status
Reportable irregularities – 30 September 2017 (continued)		
• the former CFO (A Singh) approved a guarantee on behalf of Eskom to Tegeta Exploration and Resources (Pty) Ltd in December 2015 in contravention of the PFMA without proper delegation of authority	• the former CFO resigned • the guarantee was not called on and expired on 31 March 2017 • guarantee fees were incurred and reported as fruitless and wasteful expenditure in terms of the PFMA • the cost incurred will be recovered from the former CFO	• open, pending recovery of guarantee fees
Reportable irregularities – 31 March 2018		
• there were allegations that the former CFO (A Singh) and former interim GCE (S Maritz) breached their fiduciary duties by contractually and financially binding Eskom to a facilitation fee with Huarong Asset Financing	• the former CFO and interim GCE resigned • the agreement was not binding as the required formal approval from the DPE and National Treasury was not obtained • there was no financial loss to Eskom • it was communicated to Huarong that Eskom would not honour any agreement as it is considered not binding • the matter was discussed at the Zondo Commission	• open, awaiting conclusion of Zondo Commission
• there were allegations that Eskom incorrectly procured services from Bizz Tracers (Pty) Ltd through the sole source supplier process • subsequent to 31 March 2018, further suppliers were identified where services were incorrectly procured through the sole source supplier process	• the GE: security resigned • the investigation into the matter was finalised and the findings from the investigation are being actioned • letters of demand were issued to relevant suppliers for recovery of monies paid	• open, pending addressing of findings and finalisation of recovery process
Reportable irregularities – 30 September 2018		
• legal fees were paid on behalf of certain former board members that were not directly related to their roles as directors of Eskom	• the former board members resigned • it was confirmed that legal fees had been paid on behalf of BS Ngubane, MV Pamensky and DV Naidoo • letters of demand and summons were issued to former board members for recovery of fees paid	• open, pending finalisation of recovery process
Reportable irregularities – 31 March 2019		
• there was non-compliance in terms of the broad-based black economic empowerment (B-BBEE) Act as Eskom's compliance report and annual financial statements were not submitted timeously as required • Eskom did not apply the relevant code of good practice in terms of the B-BBEE Act when evaluating a request for proposal and in the award made to Dongfang Electrical Corporation Limited	• the relevant submissions were made as required • procedures have been put in place to ensure that the relevant submissions are submitted timeously • a court application has been made to set aside the tender award made to Dongfang	• open, pending confirmation of annual compliance assessment by B-BBEE commissioner as well as addressing findings of non-compliance

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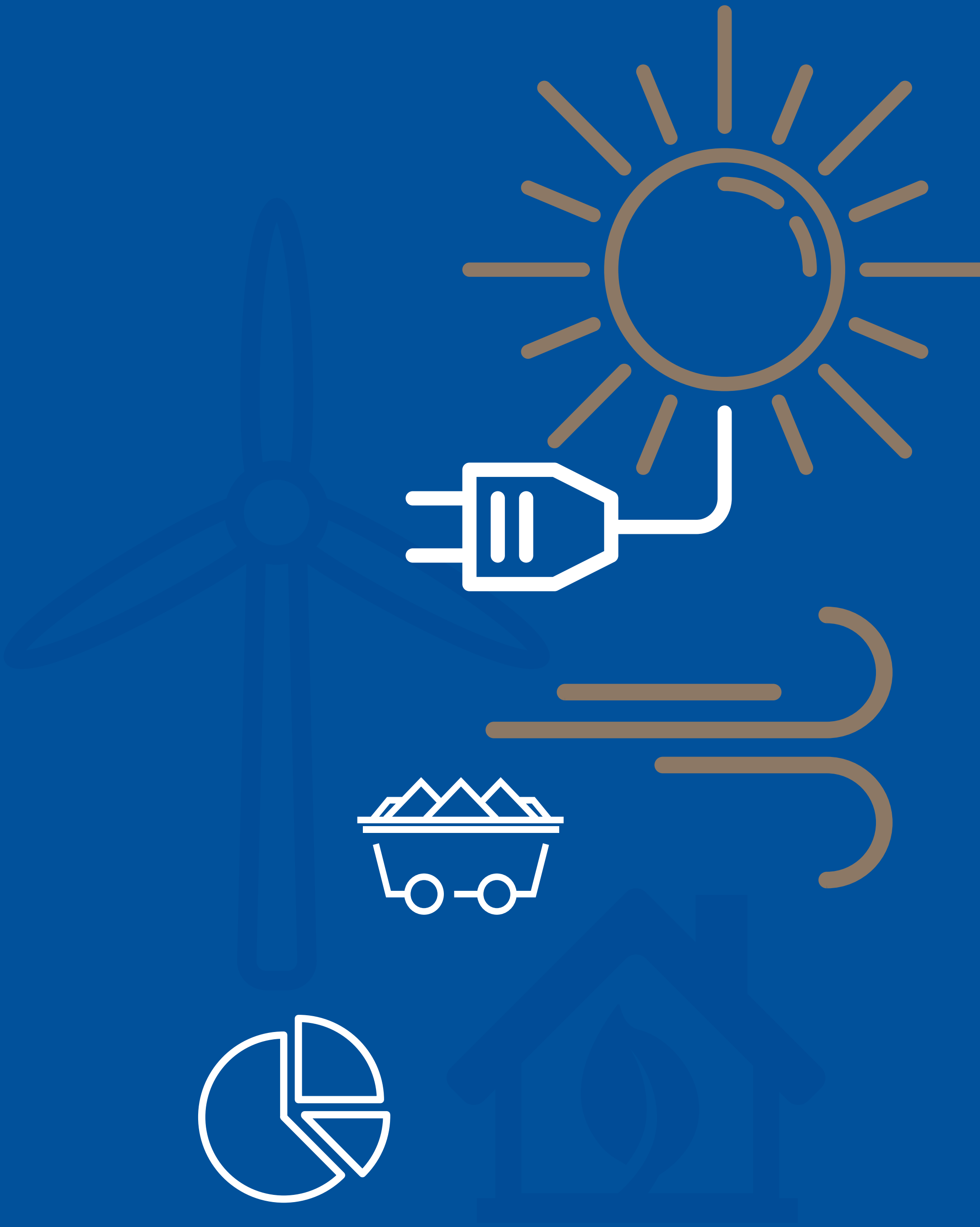

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