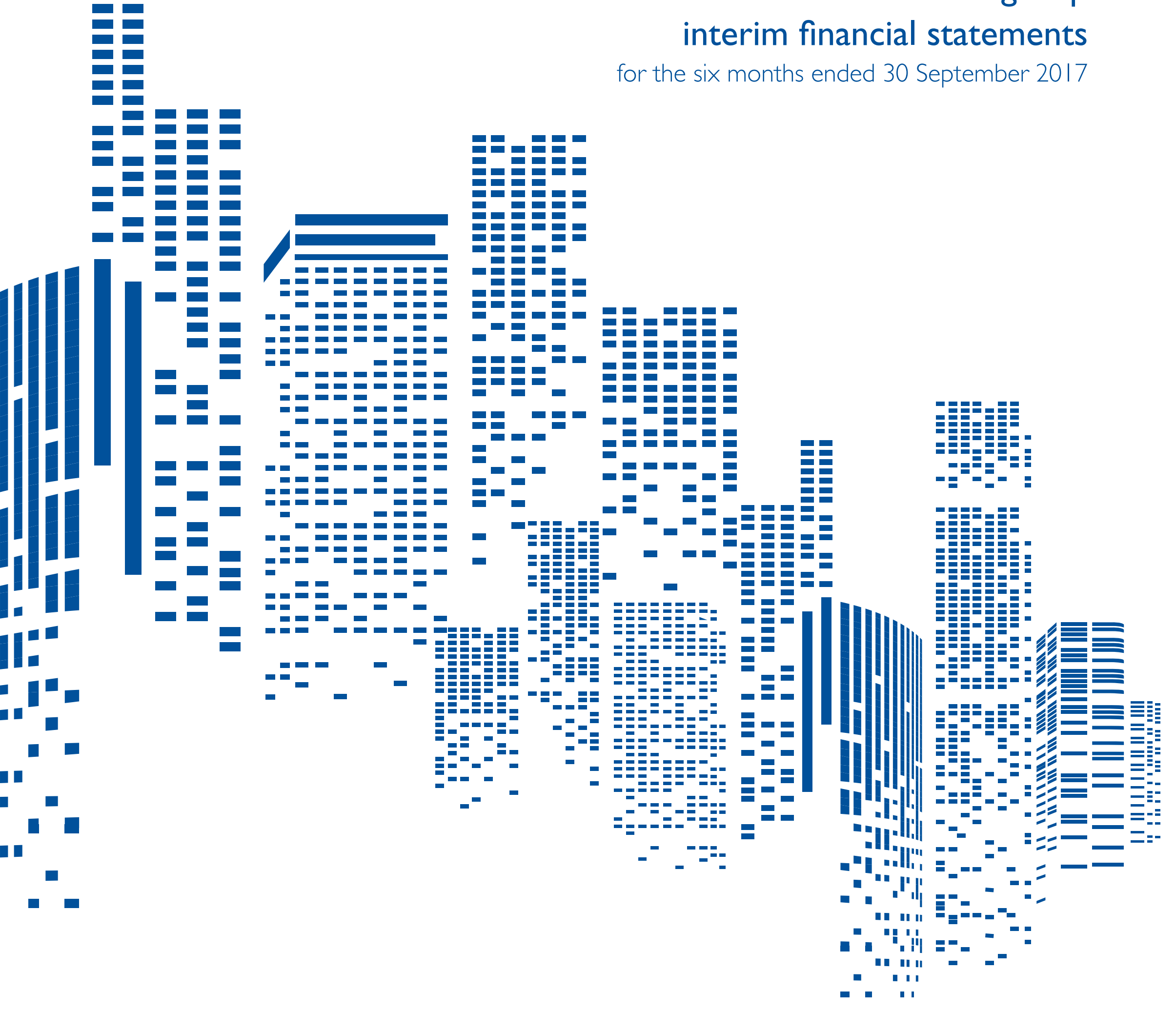
Eskom

Reviewed condensed group interim financial statements

for the six months ended 30 September 2017



Enabling economic growth

Contents

The reviewed condensed group interim financial statements for the six months ended 30 September 2017 have been prepared under the supervision of the acting group chief financial officer, C Cassim CA(SA). These condensed group interim financial statements have been independently reviewed by the group's external auditors and were published on 30 January 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 2017	31 March 2017	30 September 2016	30 September 2017	31 March 2017	30 September 2016
Euro	15.02	15.44	16.32	15.95	14.29	15.46
United States dollar (USD)	13.19	14.05	14.53	13.52	13.37	13.79
Pound sterling (United Kingdom)	17.07	18.42	19.99	18.07	16.67	17.91
Swiss franc	13.55	14.24	14.93	13.92	13.36	14.21
Japanese yen	0.12	0.13	0.14	0.12	0.12	0.14

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 2017 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

Eskom's liquidity for the period under review was adversely impacted by the below inflation tariff increase of 2.2% for the 2018 financial year. The audit qualification on the completeness of irregular expenditure reported at 31 March 2017 in terms of the Public Finance Management Act (PFMA) as well as the governance-related challenges experienced by the organisation had a negative impact on Eskom's access to funding facilities.

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

- The board reviewed the performance of the group for the period ended 30 September 2017
- The board noted the cash flow forecast for the 15 months ending 31 December 2018 based on certain assumptions predating the appointment of the current board. The board will continue to review these cash flows as well as the underlying assumptions and principles in detail in preparation for year end
- The tariff increase of 5.23% for the 2019 financial year will have a negative impact on the liquidity of the group
- Eskom is pursuing finalisation of the outstanding regulatory clearing account submissions
- The board will continue to review the group's cost structures and capital programme to improve cash flows
- Eskom is placing renewed focus on the recovery of its trade receivables
- Eskom will not at this stage embark on any further capital expansion activities after the Kusile power station project
- Eskom is continuously engaging the shareholder, the department of Public Enterprises, and National Treasury to ensure that the challenges that Eskom is being faced with are addressed satisfactorily within a reasonable timeframe
- Government has indicated that Eskom is an important component of the economy and continues to support Eskom as a going concern
- The governance related challenges that Eskom has been faced with recently are being addressed mainly through the appointment of a new board and acting group chief executive on 20 January 2018. These appointments will boost investor confidence and significantly improve access to the markets to raise the required funding
- The appointment of a permanent group chief executive and group chief financial officer as well as the finalisation of investigations into suspended executives are key priorities for the board
- The Ministers of Public Enterprises, Energy and Finance will work together under the leadership of the Deputy President of South Africa, to deal with other structural issues at Eskom, which include the funding model and other industry challenges identified by the inter-ministerial committee on state-owned enterprises reform
- The board, with the support of National Treasury, is pursuing funding options to implement the group's borrowing programme
- The current economic climate and the sovereign's credit ratings have been taken into account in assessing Eskom's ability to raise funds
- Eskom implemented a turn-around programme and is in the process of satisfactorily addressing the shortcomings identified to ensure completeness of reported irregular expenditure in terms of the PFMA that resulted in the qualified audit opinion at 31 March 2017

Based on the above, the board is satisfied that the group has access to adequate resources and facilities to be able to continue its operations for the foreseeable future.

Accordingly the board has continued to adopt the going-concern basis in preparing the financial statements.

Approval

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 2017 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:

J Mabuza	**P Hadebe**	**C Cassim**
Chairman	Acting group chief executive	Acting group chief financial officer
26 January 2018	26 January 2018	26 January 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 22, which comprise the condensed group statement of financial position at 30 September 2017, and the condensed group income statement, statements of comprehensive income, changes in equity and cash flows for the six months then ended and selected explanatory notes.

The board's responsibility for the financial statements

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

Auditors' responsibility for the financial statements

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed group interim financial statements of Eskom for the six months ended 30 September 2017, 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.

Emphasis of matter

We draw attention to note 2 of the condensed group interim financial statements, which describes Eskom's liquidity position for the period under review. The audit qualification on the completeness of irregular expenditure reported at 31 March 2017 in terms of the Public Finance Management Act (PFMA) as well as the governance-related challenges experienced by the organisation had a negative impact on Eskom's access to funding facilities.

As stated in note 2, these events, along with other matters as set forth in note 2 indicates aspects that were considered in the assessment of Eskom's ability to continue as a going concern.

Based on these aspects, the board is satisfied that the group has access to adequate resources and facilities to be able to continue its operations for the foreseeable future.

Our review conclusion is not qualified 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 18 to the condensed group interim financial statements.

A Mthimunye
SizweNtsalubaGobodo Inc.
Director
Registered auditor

26 January 2018

20 Morris Street East, Woodmead, 2191

Condensed group statement of financial position

at 30 September 2017

	Reviewed 30 September 2017 Rm	Audited 31 March 2017 Rm	Reviewed[1] 30 September 2016 Rm
Assets			
Non-current assets	643 351	622 331	592 618
Property, plant and equipment and intangible assets	614 195	592 848	557 300
Future fuel supplies	8 770	8 190	8 672
Payments made in advance	1 500	1 938	2 250
Derivatives held for risk management	17 911	16 868	21 800
Trade, finance lease, loan and other receivables	562	536	605
Investment in securities and financial trading assets	–	1 537	1 533
Other assets	413	414	458
Current assets	71 400	78 879	90 282
Inventories	23 021	22 359	20 540
Taxation	176	125	–
Investment in securities and financial trading assets	10 364	13 460	15 387
Payments made in advance	2 496	2 091	2 738
Derivatives held for risk management	2 146	1 000	427
Trade, finance lease, loan and other receivables	24 690	19 419	20 879
Cash and cash equivalents	8 507	20 425	30 311
Non-current assets held-for-sale	8 823	8 799	8 925
Total assets	723 574	710 009	691 825
Equity			
Capital and reserves	182 618	175 942	188 557
Liabilities			
Non-current liabilities	465 074	453 777	427 545
Debt securities and borrowings	347 584	336 770	317 267
Embedded derivatives	2 950	4 032	5 186
Derivatives held for risk management	5 401	6 767	4 544
Deferred tax	20 336	18 067	23 907
Deferred income and payments received in advance	20 742	19 640	18 660
Employee benefit obligations	13 699	13 790	13 664
Provisions	43 778	44 021	33 381
Trade, finance lease and other payables	10 584	10 690	10 936
Current liabilities	74 202	78 607	74 037
Debt securities and borrowings	19 443	18 530	15 653
Embedded derivatives	1 349	1 382	1 708
Derivatives held for risk management	1 360	3 826	4 660
Employee benefit obligations	5 342	7 348	5 607
Provisions	7 627	9 057	8 404
Deferred income and payments received in advance	5 074	4 734	5 838
Trade, finance lease and other payables	32 534	32 028	31 082
Taxation	5	82	–
Financial trading liabilities	1 468	1 620	1 085
Non-current liabilities held-for-sale	1 680	1 683	1 686
Total liabilities	540 956	534 067	503 268
Total equity and liabilities	723 574	710 009	691 825

1. Restated. Refer to note 17.

Condensed group income statement

for the six months ended 30 September 2017

	Note	Reviewed six months ended 30 September 2017 Rm	Reviewed[1] six months ended 30 September 2016 Rm	Audited year ended 31 March 2017 Rm
Revenue	10	95 505	97 461	177 136
Other income		730	752	1 573
Primary energy	11	(41 257)	(40 380)	(82 760)
Employee benefit expense	12	(15 153)	(15 758)	(33 178)
Net impairment loss		(679)	(615)	(1 669)
Other expenses		(9 490)	(9 635)	(23 570)
Profit before depreciation and amortisation expense and net fair value gain/(loss) (EBITDA)		29 656	31 825	37 532
Depreciation and amortisation expense		(10 877)	(10 068)	(20 300)
Net fair value gain/(loss) on financial instruments		105	(1 875)	(1 731)
Profit before net finance cost		18 884	19 882	15 501
Net finance cost		(10 026)	(6 535)	(14 377)
Finance income		1 865	2 766	5 212
Finance cost	13	(11 891)	(9 301)	(19 589)
Share of profit of equity-accounted investees, net of tax		26	18	35
Profit before tax		8 884	13 365	1 159
Income tax	14	(2 572)	(3 822)	(271)
Profit for the period[2]		6 312	9 543	888

Condensed group statement of comprehensive income

for the six months ended 30 September 2017

	Reviewed six months ended 30 September 2017 Rm	Reviewed six months ended 30 September 2016 Rm	Audited year ended 31 March 2017 Rm
Profit for the period[2]	6 312	9 543	888
Other comprehensive income/(loss)	364	(3 338)	(7 298)
Items that may be reclassified subsequently to profit or loss	(365)	(3 039)	(7 464)
Available-for-sale financial assets	1	56	60
Cash flow hedges	(505)	(4 262)	(10 365)
Foreign currency translation differences on foreign operations	(2)	(10)	(45)
Income tax thereon	141	1 177	2 886
Items that may not be reclassified subsequently to profit or loss	729	(299)	166
Re-measurement of post-employment medical benefits	1 012	(415)	231
Income tax thereon	(283)	116	(65)
Total comprehensive income/(loss) for the period[2]	6 676	6 205	(6 410)

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 2017

	Reviewed six months ended 30 September 2017 Rm	Reviewed six months ended 30 September 2016 Rm	Audited year ended 31 March 2017 Rm
Balance at beginning of the period	175 942	182 352	182 352
Previously reported	175 942	180 563	182 352
Prior period restatements, net of tax	–	1 789	–
Total comprehensive income/(loss) for the period	6 676	6 205	(6 410)
Balance at end of the period	182 618	188 557	175 942
Comprising			
Share capital	83 000	83 000	83 000
Cash flow hedge reserve	3 796	8 553	4 160
Available-for-sale reserve	7	3	6
Unrealised fair value reserve	(11 116)	(15 911)	(11 873)
Foreign currency translation reserve	(8)	29	(6)
Accumulated profit	106 939	112 883	100 655
Total equity	182 618	188 557	175 942

Condensed group statement of cash flows

for the six months ended 30 September 2017

	Reviewed six months ended 30 September 2017 Rm	Reviewed six months ended 30 September 2016 Rm	Audited year ended 31 March 2017 Rm
Cash flows from operating activities			
Profit before tax	8 884	13 365	1 159
Adjustment for non-cash items	21 477	21 323	47 932
Changes in working capital	(6 724)	(2 611)	(1 730)
Cash generated from operations	23 637	32 077	47 361
Net cash flows used in derivatives held for risk management	(1 168)	(382)	(1 787)
Interest received	442	592	1 342
Interest paid	(33)	(17)	(22)
Income taxes paid	(517)	(337)	(1 053)
Net cash from operating activities	22 361	31 933	45 841
Cash flows used in investing activities			
Proceeds from disposal of property, plant and equipment and intangible assets	172	86	398
Acquisitions of property, plant and equipment and intangible assets	(25 598)	(26 000)	(57 259)
Expenditure on future fuel supplies	(1 235)	(304)	(639)
Net cash flows (used in)/from investment in securities and financial trading assets	(1 804)	(22)	496
Increase in payments made in advance	(4)	(118)	(99)
Expenditure incurred on provisions	(1 689)	(4 296)	(6 890)
Net cash flows (used in)/from derivatives held for risk management	(252)	780	389
Interest received	731	581	1 221
Other cash flows from investing activities	16	31	97
Net cash used in investing activities	(29 663)	(29 262)	(62 286)
Cash flows (used in)/from financing activities			
Debt securities and borrowings raised	12 553	21 910	50 994
Payments made in advance to secure balances raised	(518)	(626)	(1 096)
Debt securities and borrowings repaid	(7 581)	(4 248)	(7 034)
Net cash flows used in derivatives held for risk management	(259)	(2 502)	(7 738)
Decrease in finance lease payables	(115)	(21)	(139)
Decrease/(increase) in investment in securities and financial trading assets and liabilities	6 301	(2 755)	(660)
Interest received	751	1 473	2 365
Interest paid	(15 673)	(14 082)	(28 788)
Taxes paid	(20)	–	(49)
Net cash (used in)/from financing activities	(4 561)	(851)	7 855
Net (decrease)/increase in cash and cash equivalents	(11 863)	1 820	(8 590)
Cash and cash equivalents at beginning of the period	20 425	28 454	28 454
Foreign currency translation	(2)	(10)	(45)
Effect of movements in exchange rates on cash held	5	22	647
Non-current assets held-for-sale	(58)	25	(41)
Cash and cash equivalents at end of the period	8 507	30 311	20 425

Selected notes to the condensed group interim financial statements

for the six months ended 30 September 2017

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 industrial, mining, commercial, agricultural, redistributor (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 2017 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 2017 group annual financial statements. The annual financial statements of the group as at and for the year ended 31 March 2017 are available for inspection at the company's registered office and on the Eskom website at www.eskom.co.za.

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

The condensed group interim financial statements are prepared on the historical-cost basis except for the following items which are measured at fair value:

- derivatives held for risk management
- embedded derivatives
- investment in securities
- financial trading assets
- financial trading liabilities

Eskom's liquidity for the period under review was adversely impacted by the below inflation tariff increase of 2.2% for the 2018 financial year. The audit qualification on the completeness of irregular expenditure reported at 31 March 2017 in terms of the Public Finance Management Act (PFMA) as well as the governance-related challenges experienced by the organisation had a negative impact on Eskom's access to funding facilities.

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

- The board reviewed the performance of the group for the period ended 30 September 2017
- The board noted the cash flow forecast for the 15 months ending 31 December 2018 based on certain assumptions predating the appointment of the current board. The board will continue to review these cash flows as well as the underlying assumptions and principles in detail in preparation for year end
- The tariff increase of 5.23% for the 2019 financial year will have a negative impact on the liquidity of the group
- Eskom is pursuing finalisation of the outstanding regulatory clearing account submissions
- The board will continue to review the group's cost structures and capital programme to improve cash flows
- Eskom is placing renewed focus on the recovery of its trade receivables
- Eskom will not at this stage embark on any further capital expansion activities after the Kusile power station project
- Eskom is continuously engaging the shareholder, the department of Public Enterprises, and National Treasury to ensure that the challenges that Eskom is being faced with are addressed satisfactorily within a reasonable timeframe
- Government has indicated that Eskom is an important component of the economy and continues to support Eskom as a going concern
- The governance related challenges that Eskom has been faced with recently are being addressed mainly through the appointment of a new board and acting group chief executive on 20 January 2018. These appointments will boost investor confidence and significantly improve access to the markets to raise the required funding
- The appointment of a permanent group chief executive and group chief financial officer as well as the finalisation of investigations into suspended executives are key priorities for the board
- The Ministers of Public Enterprises, Energy and Finance will work together under the leadership of the Deputy President of South Africa, to deal with other structural issues at Eskom, which include the funding model and other industry challenges identified by the inter-ministerial committee on state-owned enterprises reform
- The board, with the support of National Treasury, is pursuing funding options to implement the group's borrowing programme
- The current economic climate and the sovereign's credit ratings have been taken into account in assessing Eskom's ability to raise funds
- Eskom implemented a turn-around programme and is in the process of satisfactorily addressing the shortcomings identified to ensure completeness of reported irregular expenditure in terms of the PFMA that resulted in the qualified audit opinion at 31 March 2017

Based on the above, the board is satisfied that the group has access to adequate resources and facilities to be able to continue its operations for the foreseeable future.

Accordingly the board has continued to adopt the going-concern basis in preparing the financial statements.

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

for the six months ended 30 September 2017

3. Significant accounting policies

The accounting policies are consistent with those applied in the audited financial statements as at 31 March 2017 except for the revised statements and interpretations of IFRS which have become effective during the six months ended 30 September 2017. These changes had no or minimal impact on the interim financial statements.

4. Critical accounting estimates and judgements

The significant estimates and judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were substantially the same as those applied to the financial statements as at and for the year ended 31 March 2017.

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 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
30 September 2016 (reviewed)									
External revenue	–	–	921	5 847	90 693	–	662	(662)	97 461
Inter-segment revenue/recoveries	62 715	5 918	13 849	5 097	(87 402)	(65)	5 890	(6 002)	–
Total revenue	62 715	5 918	14 770	10 944	3 291	(65)	6 552	(6 664)	97 461
Profit/(loss) before tax	7 592	2 058	4 122	(221)	1 230	(2 127)	1 446	(735)	13 365
Income tax	–	–	–	–	–	–	(4 021)	199	(3 822)
Profit/(loss) for the period	7 592	2 058	4 122	(221)	1 230	(2 127)	(2 575)	(536)	9 543
Segment assets	209 673	47 520	77 871	11 327	18 377	239 902	109 887	(22 732)	691 825
Segment liabilities	48 550	1 592	29 827	13 262	16 557	14 506	401 004	(22 030)	503 268
31 March 2017 (audited)									
External revenue	–	8	1 912	10 729	164 487	–	1 212	(1 212)	177 136
Inter-segment revenue/recoveries	116 030	7 600	22 262	12 859	(158 365)	(173)	12 412	(12 625)	–
Total revenue	116 030	7 608	24 174	23 588	6 122	(173)	13 624	(13 837)	177 136
Profit/(loss) before tax	(2 207)	115	1 939	(1 505)	3 119	(2 911)	4 010	(1 401)	1 159
Income tax	–	–	–	–	–	–	(655)	384	(271)
Profit/(loss) for the period	(2 207)	115	1 939	(1 505)	3 119	(2 911)	3 355	(1 017)	888
Segment assets	219 654	51 235	80 376	10 835	16 974	260 776	91 193	(21 034)	710 009
Segment liabilities	60 775	1 960	30 147	13 470	13 840	14 663	419 065	(19 853)	534 067

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 2017 nor in the comparative periods presented.

7. Dividend paid

No dividend was paid to the shareholder during the six months ended 30 September 2017 nor in the comparative periods presented.

8. Significant events and transactions

The following significant movements occurred in the six months ended 30 September 2017:

8.1 Property, plant and equipment

Property, plant and equipment increased by R21.4 billion as a result of the continuing capital expansion programme. Finance cost capitalised reduced to R8.7 billion for the six months ended 30 September 2017 compared to R9.5 billion for the comparative six months ended 30 September 2016 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

There was an increase in net derivative assets held for risk management of R6.0 billion since 31 March 2017 mainly because of the significant devaluation of the rand, in particular against the euro.

8.3 Trade and other receivables

Trade and other receivables increased by R5.3 billion mainly as a result of municipalities' payment terms that were extended from a maximum of 15 to 30 days. In addition, certain municipalities continue to not pay their outstanding accounts within the agreed payment terms.

8.4 Cash and cash equivalents

Cash and cash equivalents decreased by R11.9 billion as a result of reduced available debt funding as well as the impact of the below inflation tariff increase of 2.2% for the 2018 financial year. This also impacted the investment in securities and financial trading assets that reduced by R4.6 billion.

8.5 Re-measurement of post-employment medical benefits

The actuarial gain of R1.0 billion on the post-employment medical benefits provision that was recognised in the statement of comprehensive income resulted from increases in the estimated long-term discount and medical aid inflation rates which led to a net discount rate of 1.7% compared to 1.3% used at 31 March 2017.

8.6 Contingent liabilities

Eskom was notified by its reinsurers of their intention to pursue legal proceedings to recover R1.7 billion relating to a settlement for the replacement of damaged plant where they are of the view that Eskom has failed to fulfil its undertakings in terms of the settlement agreement between Eskom and the reinsurers. The legal process regarding this matter is ongoing.

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.

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

for the six months ended 30 September 2017

		Reviewed six months ended 30 September 2017 Rm	Reviewed six months ended 30 September 2016 Rm	Audited year ended 31 March 2017 Rm
10.	**Revenue**			
	Electricity	94 752	96 474	175 094
	Other	753	987	2 042
		95 505	97 461	177 136
	There was a reduction in electricity demand during the six month period mainly as a result of a contraction in the local economy and structural changes in electricity demand including customers turning to own supply. Electricity revenue of R2 643 million (30 September 2016: R2 395 million; 31 March 2017: R3 196 million) was not recognised as it was assessed that there is a high probability that the related economic benefits will not materialise. Eskom continues to actively pursue recovery of these amounts.			
11.	**Primary energy**			
	Own generation costs	27 341	26 018	52 042
	Environmental levy	4 061	4 167	8 086
	International electricity purchases	1 397	1 396	2 681
	Independent power producers	8 392	8 697	19 757
	Other	66	102	194
		41 257	40 380	82 760
12.	**Employee benefit expense**			
	Gross employee benefit expense	16 710	17 461	36 833
	Capitalised to property, plant and equipment	(1 557)	(1 703)	(3 655)
		15 153	15 758	33 178
13.	**Finance cost**			
	Gross finance cost	20 597	18 783	37 822
	Capitalised to property, plant and equipment	(8 706)	(9 482)	(18 233)
		11 891	9 301	19 589

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

	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						
Investment in securities and financial trading assets	3 158	–	7 206	–	–	10 364
Government bonds	36	–	–	–	–	36
Listed shares	1 296	–	–	–	–	1 296
Negotiable certificates of deposit	–	–	7 206	–	–	7 206
Repurchase agreements	1 826	–	–	–	–	1 826
Derivatives held for risk management	1 595	–	–	–	18 462	20 057
Commodity forwards	1	–	–	–	–	1
Credit default swaps	9	–	–	–	–	9
Cross-currency swaps	23	–	–	–	18 207	18 230
Foreign exchange contracts	1 562	–	–	–	255	1 817
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
Commercial paper	–	–	–	3 105	–	3 105
Development financing institutions	–	–	–	113 536	–	113 536
Eskom bonds	–	–	–	141 169	–	141 169
Eurorand zero coupon bonds	–	–	–	5 371	–	5 371
Export credit facilities	–	–	–	36 362	–	36 362
Foreign bonds	–	–	–	54 182	–	54 182
Other loans	–	–	–	13 302	–	13 302
Embedded derivatives	–	–	–	–	4 299	4 299
Derivatives held for risk management	1 048	–	–	–	5 713	6 761
Commodity forwards	8	–	–	–	–	8
Credit default swaps	448	–	–	–	–	448
Cross-currency swaps	513	–	–	–	5 593	6 106
Foreign exchange contracts	79	–	–	–	120	199
Trade, finance lease and other payables	–	–	–	31 642	9 950	41 592
Finance lease payables	–	–	–	–	9 950	9 950
Trade and other payables[2]	–	–	–	31 642	–	31 642
Financial trading liabilities	1 468	–	–	–	–	1 468
Repurchase agreements	385	–	–	–	–	385
Short-sold government bonds	1 083	–	–	–	–	1 083
	2 516	–	–	398 669	19 962	421 147

1. Amount disclosed in statement of financial position include VAT receivable.
2. Amount disclosed in statement of financial position include VAT payable.

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 2017 (audited)						
Financial assets						
Investment in securities and financial trading assets	2 919	–	12 078	–	–	14 997
Government bonds	113	–	3 523	–	–	3 636
Listed shares	1 189	–	–	–	–	1 189
Negotiable certificates of deposit	–	–	8 555	–	–	8 555
Repurchase agreements	1 617	–	–	–	–	1 617
Derivatives held for risk management	832	–	–	–	17 036	17 868
Commodity forwards	1	–	–	–	–	1
Credit default swaps	9	–	–	–	–	9
Cross-currency swaps	61	–	–	–	17 006	17 067
Foreign exchange contracts	761	–	–	–	30	791
Trade, finance lease, loan and other receivables	–	19 460	–	–	474	19 934
Loans receivable	–	93	–	–	–	93
Finance lease receivables	–	–	–	–	474	474
Trade and other receivables[1]	–	19 367	–	–	–	19 367
Cash and cash equivalents	–	20 425	–	–	–	20 425
Bank balances	–	14 736	–	–	–	14 736
Fixed deposits	–	5 677	–	–	–	5 677
Unsettled deals	–	12	–	–	–	12
	3 751	39 885	12 078	–	17 510	73 224
Financial liabilities						
Debt securities and borrowings	–	–	–	355 300	–	355 300
Commercial paper	–	–	–	5 627	–	5 627
Development financing institutions	–	–	–	107 800	–	107 800
Eskom bonds	–	–	–	139 255	–	139 255
Eurorand zero coupon bonds	–	–	–	5 049	–	5 049
Export credit facilities	–	–	–	33 228	–	33 228
Foreign bonds	–	–	–	53 524	–	53 524
Promissory notes	–	–	–	54	–	54
Other loans	–	–	–	10 763	–	10 763
Embedded derivatives	–	–	–	–	5 414	5 414
Derivatives held for risk management	2 647	–	–	–	7 946	10 593
Commodity forwards	18	–	–	–	–	18
Credit default swaps	560	–	–	–	–	560
Cross-currency swaps	572	–	–	–	6 440	7 012
Foreign exchange contracts	1 497	–	–	–	1 506	3 003
Trade, finance lease and other payables	–	–	–	32 014	10 065	42 079
Finance lease payables	–	–	–	–	10 065	10 065
Trade and other payables[2]	–	–	–	32 014	–	32 014
Financial trading liabilities	1 620	–	–	–	–	1 620
Repurchase agreements	1 294	–	–	–	–	1 294
Short-sold government bonds	326	–	–	–	–	326
	4 267	–	–	387 314	23 425	415 006

1. Amount disclosed in statement of financial position include VAT receivable.
2. Amount disclosed in statement of financial position include VAT payable.

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
30 September 2016 (reviewed)						
Financial assets						
Investment in securities and financial trading assets	3 465	–	13 455	–	–	16 920
Government bonds	356	–	3 530	–	–	3 886
Listed shares	1 209	–	–	–	–	1 209
Negotiable certificates of deposit	–	–	9 925	–	–	9 925
Repurchase agreements	1 900	–	–	–	–	1 900
Derivatives held for risk management	195	–	–	–	22 032	22 227
Commodity forwards	11	–	–	–	–	11
Credit default swaps	9	–	–	–	–	9
Cross-currency swaps	69	–	–	–	22 014	22 083
Foreign exchange contracts	106	–	–	–	18	124
Trade, finance lease, loan and other receivables	–	20 904	–	–	462	21 366
Loans receivable	–	94	–	–	–	94
Finance lease receivables	–	–	–	–	462	462
Trade and other receivables[1]	–	20 810	–	–	–	20 810
Cash and cash equivalents	–	30 311	–	–	–	30 311
Bank balances	–	20 195	–	–	–	20 195
Fixed deposits	–	10 339	–	–	–	10 339
Unsettled deals	–	(223)	–	–	–	(223)
	3 660	51 215	13 455	–	22 494	90 824
Financial liabilities						
Debt securities and borrowings	–	–	–	332 920	–	332 920
Commercial paper	–	–	–	3 979	–	3 979
Development financing institutions	–	–	–	83 969	–	83 969
Eskom bonds	–	–	–	138 652	–	138 652
Eurorand zero coupon bonds	–	–	–	4 747	–	4 747
Export credit facilities	–	–	–	37 067	–	37 067
Foreign bonds	–	–	–	55 188	–	55 188
Promissory notes	–	–	–	50	–	50
Other loans	–	–	–	9 268	–	9 268
Embedded derivatives	–	–	–	–	6 894	6 894
Derivatives held for risk management	5 173	–	–	–	4 031	9 204
Commodity forwards	1	–	–	–	–	1
Credit default swaps	1 180	–	–	–	–	1 180
Cross-currency swaps	943	–	–	–	3 067	4 010
Foreign exchange contracts	3 049	–	–	–	964	4 013
Trade, finance lease and other payables	–	–	–	30 513	10 183	40 696
Finance lease payables	–	–	–	–	10 183	10 183
Trade and other payables[2]	–	–	–	30 513	–	30 513
Financial trading liabilities	1 085	–	–	–	–	1 085
Repurchase agreements	1 010	–	–	–	–	1 010
Short-sold government bonds	75	–	–	–	–	75
	6 258	–	–	363 433	21 108	390 799

1. Amount disclosed in statement of financial position include VAT receivable.
2. Amount disclosed in statement of financial position include VAT payable.

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 2017 nor in the comparative periods presented.

The valuation techniques used are as follows:

Level 1: Quoted prices (unadjusted) in active markets

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

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

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

15. Accounting classification and fair value (continued)

15.2 Fair value (continued)

The fair value hierarchy of financial instruments is as follows:

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
30 September 2017 (reviewed)				
Financial assets				
Investment in securities and financial trading assets	1 332	9 032	–	10 364
Government bonds	36	–	–	36
Listed shares	1 296	–	–	1 296
Negotiable certificates of deposit	–	7 206	–	7 206
Repurchase agreements	–	1 826	–	1 826
Derivatives held for risk management	–	20 057	–	20 057
Commodity forwards	–	1	–	1
Credit default swaps	–	9	–	9
Cross-currency swaps	–	18 230	–	18 230
Foreign exchange contracts	–	1 817	–	1 817
Financial liabilities				
Embedded derivatives	–	–	4 299	4 299
Derivatives held for risk management	–	6 761	–	6 761
Commodity forwards	–	8	–	8
Credit default swaps	–	448	–	448
Cross-currency swaps	–	6 106	–	6 106
Foreign exchange contracts	–	199	–	199
Financial trading liabilities	1 083	385	–	1 468
Repurchase agreements	–	385	–	385
Short-sold government bonds	1 083	–	–	1 083
31 March 2017 (audited)				
Financial assets				
Investment in securities and financial trading assets	4 825	10 172	–	14 997
Government bonds	3 636	–	–	3 636
Listed shares	1 189	–	–	1 189
Negotiable certificates of deposit	–	8 555	–	8 555
Repurchase agreements	–	1 617	–	1 617
Derivatives held for risk management	–	17 868	–	17 868
Commodity forwards	–	1	–	1
Credit default swaps	–	9	–	9
Cross-currency swaps	–	17 067	–	17 067
Foreign exchange contracts	–	791	–	791
Financial liabilities				
Embedded derivatives	–	–	5 414	5 414
Derivatives held for risk management	–	10 593	–	10 593
Commodity forwards	–	18	–	18
Credit default swaps	–	560	–	560
Cross-currency swaps	–	7 012	–	7 012
Foreign exchange contracts	–	3 003	–	3 003
Financial trading liabilities	326	1 294	–	1 620
Repurchase agreements	–	1 294	–	1 294
Short-sold government bonds	326	–	–	326

15. Accounting classification and fair value (continued)

15.2 Fair value (continued)

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
30 September 2016 (reviewed)				
Financial assets				
Investment in securities and financial trading assets	5 095	11 825	–	16 920
Government bonds	3 886	–	–	3 886
Listed shares	1 209	–	–	1 209
Negotiable certificates of deposit	–	9 925	–	9 925
Repurchase agreements	–	1 900	–	1 900
Derivatives held for risk management	–	22 227	–	22 227
Commodity forwards	–	11	–	11
Credit default swaps	–	9	–	9
Cross-currency swaps	–	22 083	–	22 083
Foreign exchange contracts	–	124	–	124
Financial liabilities				
Embedded derivatives	–	–	6 894	6 894
Derivatives held for risk management	–	9 204	–	9 204
Commodity forwards	–	1	–	1
Credit default swaps	–	1 180	–	1 180
Cross-currency swaps	–	4 010	–	4 010
Foreign exchange contracts	–	4 013	–	4 013
Financial trading liabilities	75	1 010	–	1 085
Repurchase agreements	–	1 010	–	1 010
Short-sold government bonds	75	–	–	75

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.

15. Accounting classification and fair value (continued)

15.2 Fair value (continued)

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 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

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

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

Movement in the fair value measurement

	Embedded derivatives Rm
Balance at 31 March 2016	7 025
Net fair value gain	(131)
Balance at 30 September 2016	6 894
Net fair value gain	(1 480)
Balance at 31 March 2017	5 414
Net fair value gain	(1 115)
Balance at 30 September 2017	4 299

15. Accounting classification and fair value (continued)

15.2 Fair value (continued)

Fair value hierarchy – level 3: Embedded derivatives (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:

		Reviewed 30 September 2017		Audited 31 March 2017		Reviewed 30 September 2016	
	Unit change	Increase Rm	Decrease Rm	Increase Rm	Decrease Rm	Increase Rm	Decrease Rm
Aluminium price	1%	69	(69)	74	(74)	78	(78)
Rand interest rate	100 basis points	294	(328)	346	(376)	454	(489)
Dollar interest rate	100 basis points	(222)	214	(244)	245	(303)	309
Electricity tariffs	1%	(157)	156	(150)	149	(277)	273
US PPI	1%	114	(128)	109	(115)	153	(156)
Rand/USD	1%	94	(86)	96	(91)	104	(98)

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 2016	(41)	24	(17)
Day-one loss recognised	(611)	–	(611)
Amortised to profit or loss	36	(24)	12
Loss at 30 September 2016	(616)	–	(616)
Day-one loss recognised	(151)	–	(151)
Amortised to profit or loss	40	–	40
Loss 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)

16. Material events subsequent to 30 September 2017

Board appointments

A new board was appointed for Eskom on 8 December 2017 comprising Mr Z Khoza (chairperson), Dr P Naidoo, Mr G Leonardi, Dr P Molokwane, Mr S Dingaan, Dr B Makhubela, Mr S Gounden, Prof M Makgoba and Prof T Mongalo.

Subsequently a new board was announced for Eskom on 20 January 2018 replacing the board appointed on 8 December 2017. The new board comprised of Mr J Mabuza (chairperson), Mr S Dabengwa, Ms S Mabaso-Koyana, Mr M Lamberti, Prof T Mongalo, Prof M Makgoba, Ms B Mavuso, Ms N Magubane, Dr R Crompton, Mr G Sebulela, Dr P Molokwane, Dr B Makhubela and Ms J Molisane.

Interim group chief executive

Mr S Maritz was appointed as interim group chief executive on 6 October 2017 replacing Mr JA Dladla whom resumed his former role as chief executive officer of Eskom Rotek Industries SOC Ltd.

Mr P Hadebe was appointed on 20 January 2018 as the acting group chief executive replacing Mr S Maritz. Government has directed the board to appoint a permanent group chief executive and group chief financial officer within the next three months.

Group chief financial officer

The board, through the Chairman, accepted the resignation of Mr A Singh as the group chief financial officer effective 22 January 2018. Mr C Cassim continues as the acting group chief financial officer.

Eskom's credit rating

Moody's downgraded Eskom's long-term credit rating on 26 January 2018 from Ba3 to B1, mainly because of Eskom's deteriorating liquidity and the ability of government to provide direct equity support. They see the recent interventions, including the appointment of the new board, as favourable in bolstering the credit quality of Eskom.

17. Restatement of comparatives

Eskom restated the financial statements at 30 September 2016 in line with the restatement that was done at 31 March 2017 because it did not account correctly for certain distribution assets that were developed by third parties and transferred to Eskom in prior periods. This error was corrected as a prior period restatement by accounting for the assets that were transferred to Eskom in terms of the requirements of IFRIC 18 *Transfers of assets from customers*. The distribution assets were recognised in terms of IAS 16 *Property, plant and equipment* as property, plant and equipment at fair value and the related revenue was recognised in terms of IAS 18 *Revenue*.

The impact of the restatement for the period ended 30 September 2016 was as follows:

	Previously reported Rm	Adjustments Rm	Restated Rm
Statement of financial position at 30 September 2016			
Assets			
Non-current assets			
Property, plant and equipment and intangible assets	554 555	2 745	557 300
Equity			
Capital and reserves	186 581	1 976	188 557
Liabilities			
Non-current liabilities			
Deferred tax	23 138	769	23 907
Income statement for the period ended 30 September 2016			
Revenue	97 131	330	97 461
Profit before depreciation and amortisation expense and net fair value (loss)/gain (EBITDA)	31 495	330	31 825
Depreciation and amortisation expense	(9 998)	(70)	(10 068)
Profit before tax	13 105	260	13 365
Income tax	(3 749)	(73)	(3 822)
Profit for the period	9 356	187	9 543

18. General

Matters relating to the 31 March 2017 annual financial statements

Eskom received an audit qualification on its annual financial statements at 31 March 2017 as the auditors could not express an opinion on the completeness of the irregular expenditure reported in the notes to the annual financial statements in terms of the PFMA. A recovery programme to address the shortcomings in the procurement environment has been implemented and is progressing well.

A reportable irregularity was raised by the auditors in the 31 March 2017 annual financial statements relating to the early retirement agreement between Eskom and Mr B Molefe. The matter was considered by the High court and the court ruled on 25 January 2018 against Mr Molefe. The pension agreement was set aside and the court ordered that Mr Molefe pay back all pension payments made to him.

The hearing relating to the allegations that Mr M Koko had a potential conflict of interest with regards to his stepdaughter's holding in Impulse International (Pty) Ltd concluded that Mr Koko was not guilty and he returned to work in January 2018. Mr Koko obtained an interim order from the Labour Court on 26 January 2018 restraining Eskom from dismissing him. Mr Koko's case is scheduled to be heard by the Labour Court on 6 February 2018.

Matters relating to period ending 30 September 2017

The independent auditors of Eskom raised reportable irregularities (RI) in terms of section 45 of the Auditing Profession Act in relation to the following matters:

Parliamentary inquiry into Eskom

There is currently a parliamentary inquiry 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.

The board cannot comment on the correctness of the statements made by individuals while the inquiry is still ongoing and will review the findings and take appropriate action if necessary once the inquiry has been concluded.

Contracts with McKinsey and Company (McKinsey) and Trillian Management Consultancy (Trillian)

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 use of Trillian as a sub-contractor to McKinsey is being investigated.

The related contract with McKinsey has been cancelled and the board is pursuing recovery from McKinsey in order to minimise the loss to Eskom. Senior executives were suspended to allow for the investigations to be completed. Some executives have subsequently resigned or have been dismissed.

18. General (continued)

Matters relating to period ending 30 September 2017 (continued)

Guarantee issued to Tegeta Exploration & Resources (Pty) Ltd (Tegeta)

The group chief financial officer approved a three-month guarantee on behalf of Eskom to Tegeta which is in contravention of PFMA. There was no financial loss to Eskom as the guarantee was not called on. The board accepted the resignation of Mr A Singh effective from 22 January 2018.

External services provided to the company secretary

Certain services provided to the company secretary by an external servicer are being investigated. The company secretary has been suspended and the disciplinary process is underway. Eskom is in the process of reviewing its business relationship with the supplier. Eskom did not suffer any financial loss.

Removal of the group chief financial officer as director

There are certain alleged discrepancies relating to the removal of the group chief financial officer as a director which are being investigated.

Administrative matters

Eskom did not timeously update directors' records with the Companies and Intellectual Property Commission. In addition, certain minutes of the board and its sub-committees were not timeously approved. These matters have been addressed appropriately and preventative processes are being implemented to prevent any reoccurrence.

19. New standards and interpretations

Eskom is in the process of implementing the statements that will be applicable in the 2019 financial year as follows:

Topic	Summary of requirements	Impact
IFRS 9 *Financial instruments* (1 January 2018)	IFRS 9 replaces IAS 39 *Financial instruments: recognition and measurement*. It retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income IFRS 9 also replaces the rule-based hedge accounting requirements in IAS 39. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually uses for risk management purposes IFRS 9 includes an expected credit loss model for calculating impairment on financial assets. This replaces the incurred loss model used under IAS 39	The group is preparing for the transition to IFRS 9 with effect from 1 April 2018 and has developed a detailed plan to assess the impact of IFRS 9 on initial adoption as well as thereafter. A detailed review of a representative sample of contracts is being analysed to determine the impact, if any, on the classification of financial assets. Derivatives held for risk management are currently classified as fair value through profit and loss and this classification is not expected to change in terms of IFRS 9. The adoption of IFRS 9 is not expected to change the classification of financial liabilities significantly. The impact on the presentation of fair value changes for financial liabilities designated at fair value through profit and loss will be considered and amendments will be made if deemed necessary. An expected credit loss data readiness assessment and gap analysis are being performed to assess the implications on trade and finance lease receivables in order to define the modelling approach and methodology. An assessment of the potential impact of accounting for hedges in terms of IFRS 9 will be undertaken to determine if the hedge accounting requirements of IAS 39 will continue to be applied. Hedges will be qualitatively and quantitatively assessed to ensure that the hedge accounting relationships are aligned with the group's risk management objectives and strategy if it is decided to adopt the general hedging model in terms of IFRS 9. The hedge documentation (hedge effectiveness testing, determination of hedge ratio and an analysis of the sources of ineffectiveness) will also be updated in line with the changes. The group will assess the cost of hedging relating to its various hedging strategies to determine if any changes are required as a result of adopting IFRS 9. It will also be assessed whether any additional risk management strategies will qualify for hedge accounting. Financial statement disclosures will be updated to ensure compliance with IFRS 7 and IFRS 9 requirements including the implications of adoption of the various transition options.

19. New standards and interpretations (continued)

Topic	Summary of requirements	Impact
IFRS 15 *Revenue from contracts with customers* (1 January 2018)	IFRS 15 replaces the two main revenue recognition standards, IAS 18 *Revenue* and IAS 11 *Construction contracts* and their related interpretations IFRS 15 provides a single control-based revenue recognition model and clarifies the principles for recognising revenue from contracts with customers. The core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers IFRS 15 will be applied retrospectively subject to the application of the transitional provisions (includes modified retrospective approach)	The group progressed with the quantification of the impact of adopting IFRS 15 in the 2019 financial year. It identified its key performance obligations to be the sale of electricity, the upfront capital contributions, the transportation of third-party energy over the Eskom network and services relating to recoverable work. Electricity revenue will be recognised over time as a series of performance events and no material change from the current revenue recognition pattern is expected to arise from the adoption of IFRS 15. Upfront capital contributions received from customers prior to 30 June 2009 are credited to profit or loss over the expected useful lives of the related assets. Contributions received after 30 June 2009 are recognised in profit or loss when the customer is connected to the electricity network. IFRS 15 could change this accounting treatment. The possible impact is being assessed. The revenue earned from transportation of third-party energy over the Eskom network will be recognised at a point in time or as a series of performance events depending on the circumstances and no material change is expected from the adoption of IFRS 15. Eskom is in the process of assessing the possible impact of the adoption of IFRS 15 relating to recoverable work. An important factor currently under consideration, in conjunction with the IFRS 9 implementation project, is the impact of the collectability recognition criterion within IFRS 15. Eskom is assessing the impact of the more extensive disclosure requirements of IFRS 15 on its financial statements.

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