Eskom

ANNUAL FINANCIAL STATEMENTS
31 March 2020

RESTORING TRUST

CONTENTS

The annual financial statements were prepared under the supervision of the chief financial officer (CFO), C Cassim CA(SA). The financial statements have been audited in compliance with section 30 of the Companies Act and approved by the board of directors (board) on 28 October 2020.

The audited financial statements of the group and Eskom as at and for the year ended 31 March 2020 are available for inspection at the company's registered office and were published on 30 October 2020. The full suite of the group's externally published reports, including the financial statements and integrated report, are available at www.eskom.co.za.

DIRECTORS' REPORT

for the year ended 31 March 2020

The directors are pleased to present their report for the year ended 31 March 2020.

Nature of the business

Eskom Holdings SOC Ltd (Eskom) is South Africa's primary electricity supplier that generates, transmits and distributes electricity to local industrial, mining, commercial, agricultural, residential and redistributor (metropolitan and other municipalities) customers as well as to utilities and end-customers in the Southern African Development Community (SADC). Eskom also purchases electricity from independent power producers (IPPs) as well as utilities and private suppliers in the SADC region.

Eskom is a state-owned enterprise, with the minister of the Department of Public Enterprises (DPE) as the shareholder representative. The state is the only shareholder in Eskom.

Eskom's head office is in Johannesburg. The nature of the business of the significant operating subsidiaries is set out in note 13 in the annual financial statements. The business objective of these subsidiaries is mainly for the sole benefit of Eskom.

Overview of the year

A high-level summary of the pertinent issues that characterised the year under review is presented below. Additional information, where relevant, is contained in relevant sections of the directors' report, annual financial statements and integrated report.

The performance for the year was marked by the following key factors that had a negative impact on the business:

- system constraints that lead to loadshedding
- COVID-19 and the downgrade by credit rating agencies
- liquidity constraints and increasing debt levels
- flat sales and an increase in overdue debt

Loadshedding was required on 46 days during the year with unprecedented stage 6 implemented on 9 December 2019. Loadshedding is mostly required when diesel fuel levels at Open Cycle Gas Turbines (OCGT) stations or water levels at pumped storage stations are low, coupled with particularly high levels of unplanned breakdowns of the coal generating plant. Loadshedding has a negative impact on the economy, with the World Bank naming Eskom as the biggest risk to the South African economy.

The President of South Africa declared a National State of Disaster and implemented a nationwide lockdown on 27 March 2020 to reduce the spread of COVID-19, which was declared by the World Health Organisation as a global pandemic on 11 March 2020. The government implemented a risk-adjusted strategy for economic activity which constitutes a five-level approach to the nationwide lockdown, with level 5 being the highest level. The country gradually moved down to the current level 1 on 21 September 2020.

The impact of the lockdown on Eskom's operations was not that severe as the generation and provision of electricity was declared an essential service. It resulted in a significant reduction in electricity demand during the initial lockdown period. The extended lockdown is expected to threaten future sales volumes and the ability of customers to pay, as well as increasing the cost of production.

The downgrade of the sovereign credit rating by Moody's has placed the country at sub-investment grade level across all three internationally recognised credit rating agencies. With Eskom being intrinsically linked to the sovereign, the downgrade will result in an increase in the marginal rate of borrowing for Eskom. Nevertheless, it is expected that the impact on Eskom's issued current debt will be minimal as all transactions are hedged.

Liquidity remains one of the biggest short-term challenges hampering Eskom's ability to achieve financial and operational stability and posing a risk to going concern. Access to cost-effective funding remains restricted, while inadequate price increases granted by the National Energy Regulator of South Africa (NERSA) as well as escalating municipal arrear debt further contribute to liquidity constraints. Eskom has restricted its cash requirements to improve liquidity through targeted savings on operating and capital expenditure. However, cost savings alone will not be sufficient to resolve liquidity constraints and the electricity price must migrate to cost reflectivity.

A focus area for liquidity is to improve the revenue outlook through migrating to cost-reflective tariffs and growing sales. Revenue is determined through the Multi-Year Price Determination (MYPD) methodology regulatory process with NERSA. The tariffs awarded by NERSA for 2020 to 2022 resulted in a substantial revenue shortfall. Eskom is following due process to seek rectification with regard to the unsustainable tariff determination awarded, but this is a drawn-out process with no guaranteed relief.

Revenue increased by 10.9% to R199.5 billion in the current year despite a decrease of 1.3% in sales volume. The growth in revenue is driven by the annual increase in the average electricity price. The allowed tariff increase for 2020 equates to 13.87%, including the liquidation of a portion of the MYPD 3 regulatory clearing account (RCA) balance.

Access to funding in domestic and foreign markets has been restricted due to decreased investor confidence caused by poor financial performance, saturated borrowing capacity and the sovereign's credit rating downgrade. The borrowing programme for 2021 to 2025 envisages Eskom raising debt of R121.9 billion.

Government continues to support Eskom to operate as a going concern and improve liquidity through a government commitment of R112 billion over the next three years. Eskom's liquidity remains constrained, even after taking the government support into account, due to poor long-term financial sustainability arising from an inadequate tariff path. Although the equity support addresses Eskom's liquidity requirements, it does not adequately support its long-term financial sustainability. Eskom is in the process of exploring different options to find an appropriate solution to address this challenge.

The targets in the shareholder compact were achieved for the majority of financial ratios, with better performance of key ratios than the prior year. High levels of debt continue to lead to greater debt servicing requirements. Most notably, cash interest cover and debt service cover ratios remained steady at 0.94 (2019: 0.94) and 0.52 (2019: 0.47) respectively when compared to the previous year. While the performance of these measures was higher than target, they remain below acceptable norms, indicating that cash generated from operating activities is insufficient to cover the cost of servicing debt, thereby prompting the need for government support.

Overall there was a slight improvement in the financial performance from the previous year with earnings before interest, tax, depreciation and amortisation (EBITDA) increasing by R5.6 billion in 2020, primarily as a result of an increase in revenue and the results of cost-curtailment efforts. These improvements were largely offset by an increase in primary energy expenditure.

During the year, savings of R16.3 billion were achieved against a target of R6.2 billion. The main savings were in primary energy costs as well as additional international sales and recovery of lost revenue. Employee benefit costs further contributed to the savings due to underspend on contract labour and normal salary costs due to a lower headcount.

The board concluded, based on the understanding by the shareholder of Eskom's situation and the undertaking of additional support, that Eskom is a going concern. The details considered by the board when assessing Eskom's ability to continue as a going concern are included in note 4.2 in the annual financial statements. It is important that strategies materialise as envisaged subsequent to the going concern assessment period for Eskom to be sustainable into the future.

Mr JA Mabuza was appointed as the interim chairman and acting group chief executive (GCE) from 1 August 2019. Mr Mabuza resigned on 10 January 2020 and the shareholder appointed Prof MW Makgoba as the Interim Chairman with effect from 13 January 2020. Mr A de Ruyter, who has extensive experience in creating and managing high-performing businesses, was appointed as GCE on 6 January 2020.

Progress was made on addressing the audit qualification relating to the completeness of irregular and fruitless and wasteful expenditure. Enhancements to improve the Public Finance Management Act (PFMA) reporting process were implemented. There is unfortunately still work to be done to ensure an unmodified audit opinion as it is a lengthy process to address issues and embed improvements.

Irregular expenditure of R11.2 billion was reported in the current year for the group as Eskom continues with its governance clean up. Transgressions can only be closed once condoned and therefore irregular expenditure will continue to be incurred on open contracts until the related transgressions have been condoned. Fruitless and wasteful expenditure of R2.3 billion and losses due to criminal conduct of R2.2 billion were reported during the year for the group.

Operational performance

Security of supply remains a key concern, with focus on improving the generation plant health and reducing loadshedding while containing costs.

Loadshedding was required on four days in October 2019, two days in November, nine days in December, seven days in January 2020, 17 days in February and seven days in March. Eskom reached an all-time low on 9 December 2019 when it had to implement stage 6 loadshedding because of severe supply constraints as nine generating units were not available and there was a risk of losing additional units at Medupi, Kriel and Kendal power stations due to low coal bunker levels as a result of persistent heavy rainfall. Wet coal, flooded power stations, flooded mines and compromised emissions performance contributed to the largest unplanned capability loss factor (UCLF) figures ever observed by Eskom.

The lockdown resulted in a significant reduction in demand which led to excess capacity and allowed for more short-term maintenance during levels 5 and 4 of the lockdown to address partial load losses. No long duration outages were embarked on during this period to limit the risk of COVID-19 to employees and contractors.

Eskom commenced with the implementation of its long-term coal strategy to address challenges relating to the cost of coal and security of supply. Eskom is pursuing the extension of cost-plus supply contracts to match the remaining life of the related power stations as well as utilising dedicated coal reserves to supply other power stations.

Although the ageing generation fleet is susceptible to unpredictable breakdowns due to legacy issues, apathetic behaviour by some management has exacerbated the situation. Eskom has suspended some power station managers for this reason, pending disciplinary inquiries. There have been engagements with other power station managers to ensure that the previous culture of weak consequence management will no longer be tolerated.

Despite the focus on the challenges in generation, there are also risks in the transmission and distribution environments. A transmission sustainability improvement plan was approved which focuses on the replacement of assets in poor condition, system expansion for growth and reliability, security upgrades and improvement actions for leading risk indicators. A distribution network development plan was developed based on needs identified and includes strengthening and refurbishment projects that will support future growth.

Generation recovery plan

The generation recovery plan aims to allow for fast-tracked improvement in generation performance. Progress has been made in some areas of the plan, but the generation system is expected to remain vulnerable for the next 18 to 24 months, with an increased likelihood of loadshedding. The progress on the implementation of the plan includes:

- *Fix new plant*
  The new plant has not achieved the desired levels of performance and reliability due to plant design deficiencies combined with operational and maintenance inefficiencies. Responsible contractors are being held liable within the provisions of the contracts where relevant.

  An integrated technical solution for the boiler at Medupi unit 3 was implemented and tested during the general inspection outage which started in January 2020. The agreed solutions included modifications to the reheater spray flow, pulse jet fabric filter, gas air heater, milling plant, duct and reheater erosion protection together with boiler optimisation and performance testing. The Kusile power station boiler plant modifications will be executed during the guarantee inspection on unit 3, planned for January 2021. The dual-load rejection defect at Ingula power station was corrected successfully and the units have been rerated to the full design capability of 331MW.

- *Fix load losses and reduce power station trips*
  The generation fleet unit trips have increased in comparison to the previous year. The trip reduction strategies in 2020 focused primarily on Duvha, Kriel, Majuba and Tutuka power stations. Medupi, Kusile, Arnot and Matla power stations are receiving attention in 2021 and have shown an improvement during the first quarter of the new financial year. Full load losses increased mainly due to outage slips and significant incidents.

- *Fix units on long-term forced outages*
  Progress was made during the year with the successful return to service of Duvha unit 1, Lethabo unit 5 and Hendrina unit 6 which were on long-term forced outages. Kendal unit 5 is expected to return to service in April 2021.

Operational performance (continued)

Generation recovery plan (continued)

- *Fix partial losses and boiler tube leaks*
  Performance on partial load losses has deteriorated from the previous year. While identified partial losses have been reduced some of these gains were not always sustainable. Steam and water chemistry control on stations remain a long-term sustainability issue which impacts partial load losses. Plans have been put in place to address the most common contributors to partial load losses. Outage readiness remains a concern and partial load loss gains from units post outage are being monitored. The lockdown as a result of the COVID-19 pandemic, allowed for opportunity to clear some of the partial load losses.

  There were 170 (2019: 154) boiler tube failures during the year, contributing 2.06% (2019: 1.77%) to UCLF. The results of the latest annual boiler tube leak failure compliance review indicate that there has not been an improvement in compliance, which is evident in the poor boiler tube failure performance. Greater emphasis is being placed on improving compliance to achieve sustainable future performance.

- *Fix outage duration and slips*
  The effective execution of an outage is measured based on the reliability of the unit after it has returned to service. The post-outage UCLF deteriorated in 2020 and Eskom is reviewing outage planning and execution measures in order to improve outage readiness and unit performance after the outage.

- *Fix human capital*
  All power station general manager and middle manager positions have been filled. Approval was granted to fill 1 872 vacant positions including 205 plant operators. Progress was made in the recruitment process and Eskom is currently addressing other critical vacancies through a work skills plan and pipelining.

- *Prepare for increased OCGT usage*
  A five-year diesel purchasing agreement was approved, thereby securing diesel supply. Diesel tank levels are maintained well above target.

- *Fix coal stockpiles*
  Coal stock days significantly improved during the year with 14 of the 15 coal power stations at the expected level and all power stations met the grid code requirement. Coal stock levels at the end of the year were at 50 days (2019: 36 days), excluding Medupi and Kusile power stations.

- *Fix environmental issues*
  With coal stock restored to acceptable levels, the focus has shifted from preparing for rain to fix environmental issues and particularly power station emission levels. Emissions control projects consist of refurbishment of existing plant and retrofitting new technologies to reduce particulate matter emissions as well as sulphur and nitrogen oxides. The progress in these areas has been disappointing mainly due to financial constraints.

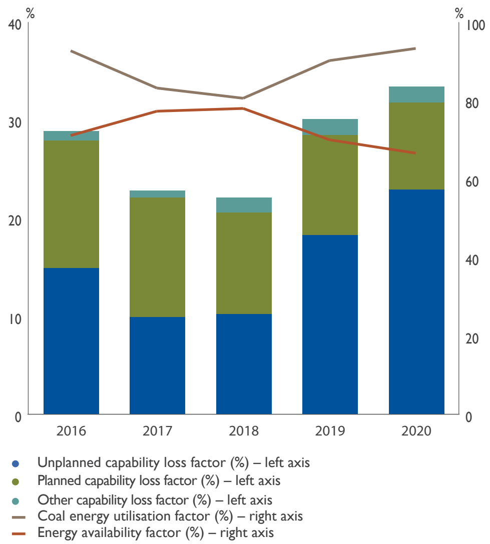
  At year end, 11 coal-fired units were operating in non-compliance with average monthly emissions limits. All eight units at Camden power station were temporarily shut down to mitigate and manage a potential safety and environmental risk resulting from ash dam capacity constraints.

  The generation environmental compliance steering committee was established in June 2020 to address continuous exceedances of atmospheric emissions and poor water usage in the coal-fired fleet.

Technical performance

The energy availability factor of the generating plant decreased from 70.0% in 2019 to 66.6% in the current year because of increased unplanned maintenance of coal-fired plant compared to the prior year. The energy utilisation factor (EUF) increased to 79.0% compared to 77.8% in the prior year indicating that power stations are operating at unsustainably high levels which will impact the future reliability of units due to the stress placed on them. The high EUF was largely due to coal stations running at an average EUF of 93.3% for the year, which is well above the international standard of approximately 75% over the long term.

The graph below reflects the decline in the energy availability factor and coal EUF over the last few years as well as the interrelationship of unplanned, planned and other capability loss factor with the energy availability factor and coal EUF.



Plant failures impacted system reliability and system minutes lost <1 minute performance deteriorated to 4.36 minutes compared to 3.16 minutes in 2019. The performance of the transmission network is impacted by ageing assets and financial constraints which limit Eskom's ability to maintain and refurbish assets. Incidents of tower member and substation theft continue to pose risks for asset failures and network availability.

The duration and frequency of interruptions on the distribution network improved compared to the prior year due to the network performance turnaround plan, which focused on improving elements that contribute significantly to the unplanned system average interruption duration index. The total technical and non-technical distribution line losses increased to 8.79% (2019: 8.47%) largely due to declining sales and escalating electricity theft, with an estimated cost of R2.0 billion (2019: R1.7 billion). Load reduction during peak times has been implemented in areas with a high prevalence of illegal connections to protect Eskom's infrastructure against damage due to overloading.

Eskom recorded no employee fatalities for the first time in 15 years (2019: three). Despite commitment to safety and focus on Zero Harm there were nine (2019: four) contractor and 17 (2019: 22) public fatalities. A further concern is an increase in physical threat to employees and contractors working in public areas due to community unrest.

Capacity expansion programme

The capacity expansion programme started in 2005 to build new power stations and reinstate mothballed power stations to increase installed generation capacity by 17 384MW, as well as increase high-voltage transmission power lines by 9 756km and transmission substation capacity by 42 470MVA. The inception to March 2020 installed generation capacity increased by 12 338MW, transmission lines by 7 976km and substation capacity by 37 690MVA. The programme is expected to be completed by 2024, with an expected cost of R558.1 billion excluding borrowing costs.

Medupi units 3 and 2 were commissioned during the year, adding installed capacity of 1 588MW to the national grid. Kusile units 2 and 3 were not commissioned during the year as originally expected due to the defects correction process. The Medupi and Kusile power stations are expected to be completed by 2021 and 2024 respectively.

Construction of transmission lines is behind schedule due to various challenges such as site instability, poor contractor performance, construction problems and contractual issues. During the year, 127.9km of high-voltage transmission lines and 250MVA of substation capacity were installed and commissioned.

Progress was made on the electrification programme during the year with 163 613 (2019: 191 585) households connected.

Refer to page 84 of the integrated report for more information.

Financial performance

Turnaround plan

The progress against the four pillars of the 2019 turnaround plan includes:

- *Financial support from the Government of South Africa (government)*
  National Treasury provided R49 billion in equity support to Eskom in 2020. The funds may only be used to settle debt and interest payments in terms of the equity conditions attached to the support. The liquidity reserves improved to R23 billion in 2020 as a result of the support combined with payments of R5.3 billion that were delayed from 31 March 2020 to 1 April 2020 due to information technology (IT) technical issues.

  Government has committed R112 billion support over the next three years with R56 billion for 2021, R33 billion for 2022 and R23 billion for 2023.

- *Cost curtailment*
  During the year, savings of R16.3 billion were achieved against a target of R6.2 billion, mainly as a result of coal inventory optimisation, reduced sundry expenses, revenue recovery initiatives and increased revenue from international customers.

  Employee benefit expense was a large component of EBITDA. Given the socio-economic conditions of the country, the shareholder indicated its lack of support for an aggressive headcount reduction. A voluntary separation package was offered to non-core and not-critical employees as well as all employees aged between 60 and 62 to reduce manpower costs. As a result, 163 employees exited the organisation in March 2020, 21 in April 2020 and one in June 2020 at a total cost of R286 million, with a payback period of just over one year.

  Cumulative cash savings targeted over the next three years amounts to R55.8 billion, comprising operating expenditure of R32.3 billion, capital expenditure of R12.4 billion and working capital of R11.1 billion.

- *Tariff increases through NERSA*
  Eskom needed tariff increases of 17.1%, 15.4% and 15.5% for 2020 to 2022, but NERSA only granted increases of 9.4%, 8.1% and 5.2% respectively, thereby resulting in revenue shortfalls. Eskom is seeking rectification regarding the unsustainable tariff determination awarded.

  The status of the court proceedings that Eskom has lodged against NERSA are as follows:

  – Revenue decision for 2020 to 2022 (MYPD 4): The court ruled that the revenue decision for the MYPD 4 determination made by NERSA where the equity injection was incorrectly deducted is reviewed and set aside. It requires Eskom to recover the R69 billion in a phased manner over a three-year period, starting in the 2022 financial year. NERSA has applied for leave to appeal the phasing of the recovery. The appeal was granted on 6 October 2020.
  – Revenue decision for 2019: The court determined that the revenue decision was procedurally unfair, irrational, unreasonable and unlawful. Eskom submitted a supplementary application to NERSA to recover costs had a lawful decision been made. NERSA decided to undertake a public consultation process and it is envisaged that a final outcome will be determined by NERSA on 26 February 2021.

Financial performance (continued)

Turnaround plan (continued)

- *Tariff increases through NERSA (continued)*
  - RCA decision for 2015 to 2017 (MYPD 3): The judgement sets aside the RCA decisions and accepts that Eskom put forward a case for relief in areas where NERSA did not implement its methodology and past precedent. NERSA is required to urgently reconsider its RCA balance decision. NERSA decided to undertake a public consultation process and it is envisaged that a final outcome will be determined by NERSA on 26 February 2021.
  - RCA decision for 2018: Eskom submitted its founding affidavit on the review to NERSA on 9 April 2020. NERSA indicated that it would oppose this review application.

  Furthermore, NERSA made a determination of R13.3 billion in May 2020 on the RCA balance for the 2019 financial year in response to Eskom's application of R27.3 billion which resulted in a shortfall of R14 billion. There is evidence of continued incorrect application of the MYPD methodology. It is crucial that NERSA provide cost-reflective tariffs for the long-term sustainability of Eskom.

- *Functional separation of Eskom into individual entities*
  The president announced in February 2019 that the unbundling of Eskom is a priority activity towards electricity market structure reform in South Africa. DPE released the "Roadmap for Eskom in a reformed electricity supply industry" in October 2019 and envisaged three subsidiaries under Eskom Holdings SOC Ltd, namely generation, transmission and distribution.

  Prior to legal unbundling, a number of matters need to be clarified to manage the risk associated with the process and ensure that the new entities would be sustainable. Among these are finalising the revenue models and debt allocation, engagement with lenders to ensure that the process does not trigger debt covenants, labour consultations as well as regulatory and legislative changes.

  Eskom has embarked on a process to separate the three line businesses (namely generation, transmission and distribution) into standalone businesses under Eskom Holdings through divisionalisation as a first step to unbundling as it is the least risky approach.

  All three businesses will be divisionalised simultaneously to ensure that the divisions will be able to operate as standalone businesses and to further mitigate the risks to debt and lender security and the asset base.

  Progress on the functional separation of Eskom is discussed below:

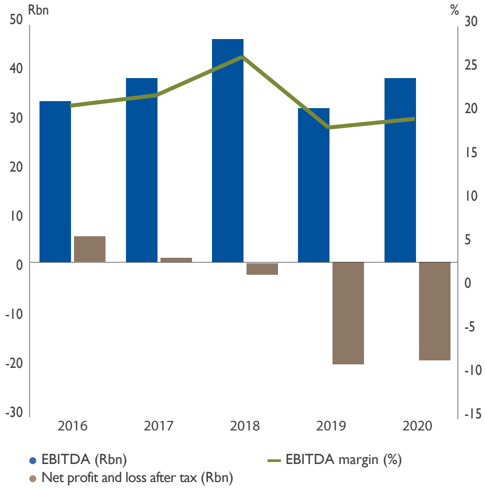
Aspect	Comment
Programme management	Eskom set up a turnaround management office to drive the implementation of Eskom's turnaround plan and appointed Mr V Tuku on 1 July 2020 to lead the team. Each division has established a project management office and divisional governance frameworks to execute the objectives within their divisions
Process	Divisional boards with associated managing directors, comprising Eskom employees, have been set up in generation, transmission and distribution. Eskom's GCE, CFO, chief operating officer and group executive (GE): human resources are members of these boards, which are chaired by the GCE. The divisional boards are mandated to operate the divisions as independent entities while aligning to the group strategy. The divisional boards hold the divisional management accountable on strategy implementation, business performance and functional compliance. The divisional boards are operational whilst the delegation of authority for these boards and their subcommittees is being finalised The internal energy trading process was reinstated to enable transfer pricing together with corporate cost allocations to divisions. Internal power purchase and energy supply agreements were signed between transmission, the various power stations, distribution and the southern African energy division
People	Corporate staff in IT, security, human resources, finance and procurement who previously serviced operating divisions centrally now report directly to the relevant division. Revised structures to accommodate the movement of staff and the relevant delegation of authority were approved
IT systems and finance	An analysis has been done of the IT systems that are impacted to inform the detailed implementation plan and a roadmap is being prepared A finance journey map has been developed which will be refined over time. The tax provisions applicable to the unbundling transaction may result in adverse tax implications. Eskom plans to submit a request to National Treasury for a tax provision that addresses the unbundling of Eskom
Business and operating models	Work has commenced on updating the business and operating models. The business models for divisionalisation are at an advanced stage. The Executive committee (Exco) will be engaged on these models which will guide the operating models The functional leader model has been adopted as the operating model. The role of the corporate centre will be that of a functional leader, by giving direction and setting policies. Corporate or strategic servicing functions will be provided to leverage economies of scale and skills. This will entrench a values-driven organisation aiming for a high-performance culture and excellent governance

Performance

Eskom's financial health has been deteriorating over the past few years and is not at an acceptable level. The financial performance for the year improved slightly with most of the financial ratios better than in 2019, but still far below acceptable norms.

The net loss after tax for 2020 was R20.5 billion, reflecting a slight improvement of R0.4 billion from the previous year.

The graph below reflects a steady growth in the EBITDA and EBITDA margin with a dip in 2019 as well as a decline in the net profit and loss after tax.



Revenue increased by R19.6 billion to R199.5 billion in the current year mainly due to the tariff allowed by NERSA, which was offset by the sales volume decline of 1.3% to 205 635GWh in the current year despite efforts to grow sales volumes. The decline in sales volume was mainly due to lower local sales to the mining and industrial sectors as a result of the downscaling of operations and depressed commodity prices, which was marginally offset by higher international sales. Revenue was also negatively impacted by revenue not recognised of R10.2 billion as the collectability criteria was not met, with R4.1 billion of revenue recognised from customers on the cash basis. Supply constraints also had a negative effect on demand and sales volumes. Eskom's average electricity price amounted to 101.86c/kWh, compared to 90.01c/kWh for the prior year.

Eskom is working with government to address deteriorating sales volumes by identifying possible solutions to make the electricity supply industry more reliable, sustainable and competitive, including incentive pricing to optimise electricity sales to energy-intensive customers and stimulate local sales.

Primary energy costs increased by R12.6 billion to R112.1 billion in the current year. Coal usage costs were the main contributing factor with an increase of R7.9 billion mainly due to coal price escalations. IPP costs increased by R3.1 billion, international purchases by R1.0 billion and OCGTs by R0.6 billion largely due to increased production from these sources to avoid or minimise the impact of loadshedding.

Employee benefit expenses decreased by R0.2 billion to R33.0 billion in the current year, which is mainly attributable to a reduction in headcount from 46 665 in 2019 to 44 772 in 2020. The headcount reduced as a result of natural attrition and the moratorium on external appointments (except for core, critical and scarce positions as approved by the board). The impact of the voluntary separation packages will only be reflected in 2021 as the employees left at the end of the financial year. The prior year expenses were restated by R0.1 billion as the post-employment medical aid obligation is now accrued for from the early retirement age of 55.

Other operating expenditure increased by R0.5 billion mainly due to a net write off of R3.5 billion as well as related borrowing costs of R0.5 billion as a result of potential overpayments to contractors involved in the construction of the Kusile power station as well as a reduction in the decommissioning provisions of R4.6 billion as the long-term discount rate increased.

In the prior year, accelerated depreciation for four units at Komati power station occurred and units at the Hendrina and Komati power stations were placed in cold reserve. These are the main reasons for the decrease in depreciation and amortisation expense of R1.9 billion in 2020.

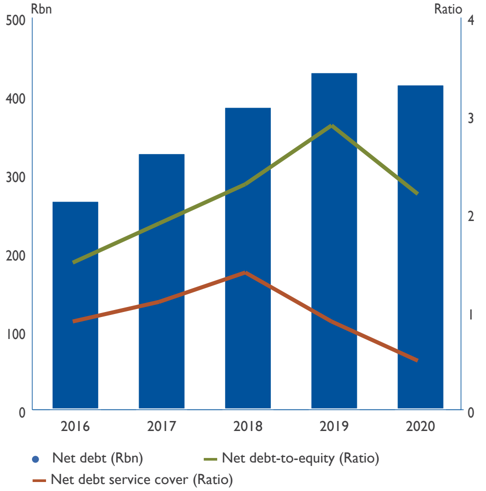
Net finance cost increased by R3.5 billion in the current year which represents an 12.7% increase, as a result of the increase in debt securities and borrowings and the impact of a higher weighted average cost of debt.

The financial health ratios relating to the statement of financial position improved slightly, with the net debt-to-equity ratio at 2.2 in the current year compared to 2.9 in the prior year. The net debt decreased by R15.6 billion during the year to R415.2 billion and equity increased by R35.9 billion to R185.9 billion, mainly resulting from equity support of R49 billion received from government which was offset by the net loss for the year.

Financial performance (continued)

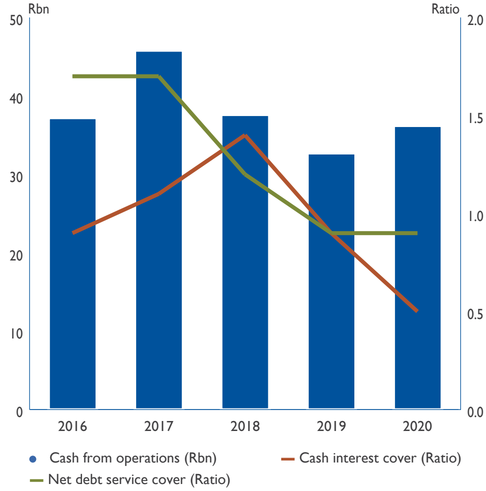
Performance (continued)

The graph below reflects the movement in net debt as well as the slight improvement in the debt-to-equity ratio and the decline in the net debt service cover ratio over the last few years.



The net cash from operations of R36.2 billion (2019: R32.7 billion) during the year was not sufficient to service debt and fund general capital expenditure. Capital expenditure and the shortfall on debt service commitments are funded by debt raised and government support. The investment activities decreased by R9.2 billion to R27.0 billion in 2020 as the capital expansion programme is nearing completion.

The graph below shows the movement in cash from operations and the decrease in cash interest cover and net debt service cover over the last few years.

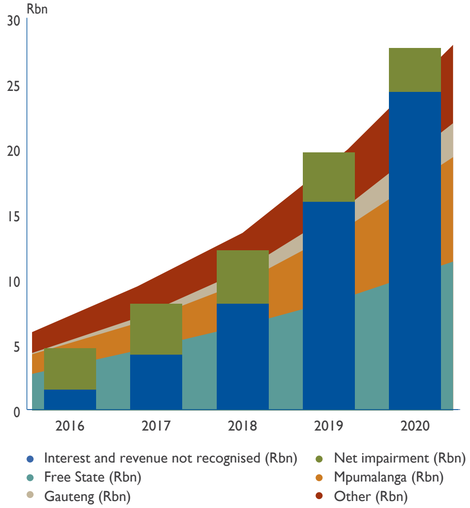


The total gross overdue debt increased by R7.8 billion to R43.5 billion of which municipalities represents 64% and Soweto 29%. The total gross municipal overdue debt was R28.0 billion in 2020 of which the Free State owed 41%, Mpumalanga 29% and Gauteng 9%.

A new municipal debt management strategy was approved, which comprises three key objectives, namely to reduce and/or eliminate overdue debt, stop defaulting where it occurs and prevent defaulting by paying customers. A total of 48 active payment agreements were in place with defaulting municipalities at year end with only 20 agreements being honoured. There are 29 legal cases against defaulting municipalities and Eskom has been interdicted from interrupting supply to 16 of the top 20 defaulting municipalities. Eskom started issuing summons for debt owed and is pursuing the attachment of municipal assets. Eskom tries to set a tone of no tolerance, however external interventions hamper progress.

The total gross overdue debt for Soweto decreased by R0.6 billion to R12.7 billion. The payment level has improved to 20.5% from 12.5% in 2019 largely due to the conversion of conventional meter customers to prepaid meters resulting in fewer billed customers.

The graph below reflects the increase in the overdue municipal debt per province and the breakdown between the net impairment and interest and revenue not recognised since 2016.



The board has noted that Eskom cannot continue to fund the Pebble Bed Modular Reactor SOC Ltd (PBMR) in its current state of care and maintenance and resolved to dispose of PBMR and its subsidiaries to avoid any further expenses. Negotiations are in progress to explore the option of transferring the PBMR to the South African Nuclear Energy Corporation SOC Limited.

Funding

Eskom raised R50.9 billion against a target of R46.2 billion in 2020. New funding of R35.9 billion was secured through cash drawdowns and a R15 billion credit facility agreement was extended with a consortium of banks. The sustainability of Eskom's liquidity position and medium-term ability to raise funds remains at risk.

The debt repayment profile, based on existing debt, is pressured over the short and long term with debt repayments of R197 billion and interest payments of approximately R145 billion over the next five years and maturities extending to 2052. These redemptions and interest payments can only be met with government support combined with cost-reflective tariffs.

Eskom uses a government guarantee of R350 billion to secure funding. The committed and drawn down funding against the guarantee for 2020 was R324 billion, with R26 billion available for further use.

The new five-year borrowing programme for 2021 to 2025 envisaged that Eskom would raise R121.9 billion, which represents a decrease of R85.5 billion compared to the previous five-year borrowing programme. This demonstrates Eskom's intention to limit further growth in debt securities and borrowings as well as related debt servicing costs. The funding plan for 2021 is R30.8 billion of which R19.6 billion was committed at 30 September 2020.

The successful execution of this plan is contingent on fair regulatory tariffs, improved investor confidence, additional government support and the ability to improve the balance sheet by effectively reducing current debt levels. South Africa's credit rating downgrade, the lack of diversification of funding sources and increased financing costs due to the current financial environment are constraints that pose a threat to the effective execution of the programme.

Refer to page 59 of the integrated report for more information.

Governance and compliance

The board remains committed to rooting out financial mismanagement, malfeasance and maladministration, the elimination of which is critical to restore transparent and effective governance. Governance breaches arose from years of exposure to fraud, corruption, unethical business practices, conflict of interest in procurement, non-compliance with policies and procedures and irregular expenditure. In order to restore Eskom's reputation and improve financial and operational sustainability, various actions have been taken to address corporate governance related breaches, including:

- *Lifestyle audits*
  The first phase of the lifestyle audits, which was performed on executive and senior management, has been completed and 34 high-risk cases have been handed over to the Special Investigating Unit (SIU) for further investigation. The second phase targets lower occupational levels through lifestyle reviews. A detailed independent lifestyle audit will be conducted where the results of the preliminary lifestyle review indicate potential red flags. Approximately 3 800 employees have been identified for an in-depth review.

- *Delegation of authority framework*
  The delegation of authority framework was reviewed during the year to enhance accountability and ensure that risks, associated with governance and transactional oversight, are managed effectively.

Governance and compliance (continued)

- *Ethics, fraud and consequence management*
  An anti-fraud and corruption integration committee was established to monitor the progress on governance clean-up and related matters. A fraud awareness e-learning programme was launched to enhance prevention of fraud and corruption across the organisation. An anti-fraud and corruption awareness programme was also part of supplier forums conducted during the year as suppliers are key stakeholders in the fight against fraud and corruption.

- *Investigations and disciplinary action involving employees*
  A total of 118 new cases were reported through whistle-blowing channels during the year. Eskom concluded 202 investigations relating to whistle-blowing cases during the year of which 54 were fraud, 49 corruption and 99 related to irregularities. Disciplinary action was recommended for 41% of cases and 256 cases are still active at year end. During the disciplinary processes, 60 employees resigned and 18 employees were dismissed due to fraud and corruption.

  The trend from the investigations concluded during the year indicated failure to declare and manage conflicts of interest, failure to obtain permission to perform private work and payment for goods not delivered.

  General procurement irregularities include incorrect procurement processes followed, issuing of purchase orders and billing for resources. The failures occurred mainly because of management and operational override of internal controls. Disciplinary action was taken, where appropriate, and internal control measures were reviewed and enhanced.

- *Investigations into suppliers*
  A supplier review committee was re-established during the year. The committee is responsible for instituting disciplinary action against suppliers, including the suspension and termination of contracts where non-compliance with Eskom's procurement and supply chain management procedures has been identified. At 30 September 2020, 57 recommendations of supplier sanctions were considered by the committee based on findings from forensic investigations.

The finalisation of investigations into former executives suspected of misconduct remains a priority. Two former senior employees were arrested on corruption-related charges in December 2019. Eskom and the SIU issued summons in August 2020 to recover money from three former board members and four former executives relating to a prepayment to a former supplier, Tegeta Exploration and Resources (Pty) Ltd.

Eskom submitted a claim of R5 billion against the Optimum Coal Mine (Pty) Ltd business rescue practitioners for pre- and post-business rescue penalties. This has subsequently been reduced to R1.3 billion after an arbitration ruling.

Eskom and the SIU are investigating potential overpayments to a number of contractors involved in the construction of the Kusile power station. At this stage, Eskom identified the possibility of overpayments of approximately R4 billion. Based on the progress of the investigations into these matters, R3.5 billion of expenditure previously capitalised to the cost of plant was written off as well as related borrowing cost of R0.5 billion. The necessary recovery processes are being instituted upon conclusion of the investigations and quantification of the overpayments in line with the normal processes followed for variation orders and compensation events.

Eskom continues to support government and law enforcement agencies with investigations into violations of law and recovery of monies lost using criminal and civil processes. Criminal convictions and the recovery of financial losses are dependent on the successful prosecution by law enforcement agencies and the justice system which is a lengthy process.

The Standing Committee on Public Accounts (SCOPA) conducted an oversight visit at Kusile and Medupi power stations during the year. SCOPA then presented 23 recommendations to parliament to address its findings and concerns, ranging from progress on the overdue new build programme to addressing Eskom's governance challenges. These recommendations are consistent with the board's plan to root out corruption and Eskom is in the process of addressing the recommendations.

Despite the continued focus on the governance clean-up and some success in this area, there is still a long way to go. A key concern is to ensure that changes implemented are sustainable and lead to a reduction in transgressions.

The board remains committed to the implementation of King IV™, together with an overall improvement in governance and ethics, to align the organisation with its stated values. The board concedes that certain of the King IV™ principles need to be effectively implemented once the governance improvement has been completed.

PFMA compliance

Irregular expenditure

New instances of irregularities have been detected as Eskom continues with its governance clean up exercise, which are then investigated and appropriately addressed. Approximately 42% of the irregular expenditure of R11.2 billion reported in 2020 related to new transgressions due to the contravention of various national legislative requirements.

A loss control department is being established in compliance with new National Treasury instructions. The department will be responsible for conducting assessments and investigations into all occurrences of irregular as well as fruitless and wasteful expenditure. It will also oversee consequence management including disciplinary actions, condonations and recovery of losses.

The supply chain recovery programme focused on the implementation of corrective action to mitigate the occurrence of irregular expenditure so that adequate systems and processes are in place to monitor and report all information required in terms of the PFMA. Numerous initiatives were implemented during the year, including:

- enhancement of internal processes and controls to eliminate circumventing of procurement processes. Checklists have been embedded into systems to ensure that the applicable controls and workflows are complied with before conclusion of a transaction in line with legislative and compliance requirements
- analysis of purchase orders and monitoring of procurement plans to determine trends indicating possible abuse of low-value procurement mechanisms. Where anomalies are identified, business is required to take the necessary action to prevent a recurrence
- implementation of a price check tool and e-auction system to ensure that transactions are based on market-related prices and that potential service providers are able to compete fairly

- proactive reviews of newly established contracts, modifications and deviations. In instances where potential irregular expenditure is identified, an investigation is conducted and the necessary condonation process implemented, if required. Disciplinary action is taken against employees implicated in wrongdoing and civil action and recovery measures are pursued where applicable

Training on the revised PFMA reporting procedures and guidelines was rolled out in conjunction with these initiatives, with the aim of eliminating any ambiguities that may arise from different interpretations of governance frameworks.

Irregular transactions are considered by internal delegated approval authorities and submitted to National Treasury for condonation. National Treasury is yet to approve the majority of the condonation requests submitted. Unfortunately, expenditure on affected contracts will only cease to be irregular once condoned or upon expiry of the contract. Resources were made available to National Treasury to fast-track condonations.

Fruitless and wasteful expenditure and criminal conduct

Fruitless and wasteful expenditure of R2.3 billion (2019: R0.6 billion) was reported during the year. Eskom implemented procedures, effective from 1 November 2019, to ensure compliance with the framework issued by National Treasury on fruitless and wasteful expenditure. A schedule with details of each incident, including corrective and preventive measures instituted, has been submitted to National Treasury.

Losses due to criminal conduct of R2.2 billion (2019: 2.0 billion) were reported during the year of which R2.0 billion (2019: R1.7 billion) related to non-technical energy losses including energy theft. It remains a challenge to address losses due to criminal conduct and Eskom continues to co-operate with all regulatory bodies and law enforcement agencies in dealing with matters of a criminal nature.

Board and executive committee changes

The board shall, in terms of the memorandum of incorporation, consist of a minimum of three and maximum of 15 directors, with the majority being non-executive directors. There is a need for the appointment of more suitably qualified directors, especially taking into account the challenges that the organisation is facing.

The following changes to the non-executive directors occurred during the year and subsequent to year end:

Non-executive directors	Comment
JA Mabuza	Appointed as interim chairman and acting GCE on 1 August 2019 Resigned on 10 January 2020
MW Makgoba	Appointed as interim chairman on 13 January 2020
RSN Dabengwa	Resigned on 23 July 2020
SN Mabaso-Koyana	Resigned on 31 January 2020

The following changes to the Exco occurred during the year and subsequent to year end:

Executive committee members	Comment
AM de Ruyter	Appointed as GCE on 6 January 2020
F Burn	Appointed as general manager: information technology on 15 May 2020
PS Hadebe	Resigned on 31 July 2019
ND Harris	Appointed as acting general manager: information technology on 19 May 2019 and acted until 14 May 2020
V Tuku	Appointed as GE: transformation management office on 1 July 2020
SJ Mthembu	Resigned on 31 December 2019
N Zibi	Resigned on 17 May 2019

Refer to page 11 of the integrated report for more information.

Human resources

A people plan was developed and approved by the board in June 2019 in response to the electricity market structure reform in South Africa. The plan outlines the human resources journey over the next three years with the primary focus being to drive a culture of performance and accountability, build critical capabilities across the organisation, increase employee morale and productivity as well as manage employee benefit costs.

The board is mindful of the prevailing low staff morale as a result of Eskom's poor reputation, lack of incentive bonuses and continued uncertainty around the impact of the restructuring. Initiatives are in place to rebuild employee morale and give employees an opportunity to provide feedback to leadership.

Workforce optimisation

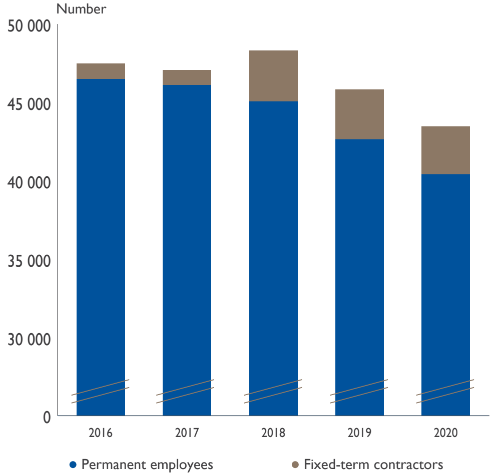
Workforce planning is a business-driven process with the aim to match the workforce to business requirements and ensuring that the organisation is the right size to improve efficiencies, performance and productivity.

The headcount reduced by 1 893 to 44 772 in the current year due to natural attrition as well as adherence to the moratorium on external appointments, with the exception of the appointment of core and critical employees as approved by the board. Eskom prioritises retention of critical workforce segments when reducing headcount.

Human resources (continued)

Workforce optimisation (continued)

The graph below reflects the decrease in the employee numbers since 2016.



Natural attrition, overtime management and enhanced productivity levels are key levers to achieve a reduction in employee benefit costs. Initiatives to manage manpower cost drivers and employee productivity levels are ongoing in addition to the progress made to reduce the headcount through natural attrition.

Building critical capabilities

A key human resource challenge is to ensure that the workforce is adequately skilled given the moratorium on external recruitment in response to financial challenges. Focus is placed on recruitment of critical and core staff in support of the generation recovery plan.

Internal talent boards are used to identify high-performing individuals and staff developmental needs, perform succession planning for the critical workforce and actively manage talent pools in line with the workforce plan and transformation objectives. This seeks to reduce the need for external recruitment.

Eskom remained committed to skills development despite the current financial constraints. The training spend of R1.1 billion (2019: R1.2 billion) in 2020 is 3.67% (2019: 3.85%) of gross manpower costs. The learner pipeline was 1 517 with the majority of learners being developed within the distribution and generation divisions. Only learner plant operators were appointed permanently as they form part of the generation core and critical skill requirement. The further study programme enables building of skills in future sourcing pools and expanding leadership skills. A total of 182 (2019: 854) employees were enrolled in the current year with various academic institutions to obtain qualifications directly related to their line of work.

Aligning transformation targets

Employment equity remains one of the key initiatives through which meaningful transformation can be realised. Eskom continues to make progress in ensuring equitable representation of the workforce at all levels which reflects the demographics of the country.

All equity targets improved from the prior year, even though gender and racial equity at middle management levels as well as racial equity at senior management levels were not achieved due to financial constraints and the moratorium on external recruitment. The disability equity target was not achieved. Opportunities that arise at senior management and middle management levels will continue to be targeted and reserved for women and persons with disabilities. Progress has been made in ensuring that the buildings and facilities cater for the needs of employees with disabilities

Staff management during the national lockdown

A change management and engagement plan was developed as part of Eskom's COVID-19 response strategy to ensure that employees, contractors, communities, organised labour and other key stakeholders are timeously informed and engaged, while building resilience and driving behaviour modification to address the challenges as a result of the pandemic. A COVID-19 hotline was established for employees to voice any questions, concerns or suggestions about COVID-19 or inform Eskom of any potential COVID-19 exposure.

A national register of critical staff who may be required to commute or live on site was compiled. Approximately 10 554 essential staff were identified and issued with permits to commute during the lockdown; 15 213 critical staff were required to remain at home on standby; and 19 162 employees were required to work from home or remain at home if work cannot be done remotely. Overall, the aim was to have minimal employees and contractors on site.

Eskom recorded 1 982 positive cases at 14 October 2020, consisting of 1 677 employees and 305 contractors, with 1 808 recoveries. Sadly, 27 employees and two contractors have succumbed to the disease.

Refer to page 116 of the integrated report for more information.

Shareholder compact performance

The table below sets out Eskom's performance measured against the shareholder compact that was reviewed by the external auditors. The external audit opinion relating to this review is detailed on page 22. All the key performance indicators (KPIs) in the compact refer to the Eskom company, with the exception of the lost-time injury rate and the finance measures which reflects the group. The 2020 targets were revised, where applicable, in accordance with the shareholder compact addendum signed by the Minister of Public Enterprises on 1 April 2019.

Actual performance against the year-end target is indicated as follows:

🟢 Actual performance for the year met or exceeded the target

🔴 Actual performance for the year did not meet the target

Key performance indicator	Ref	Unit	Target 2020		Actual 2020	Actual 2019
Focus on safety						
Lost time injury rate (employee)[1]		index	0.34	🟢	0.30	0.31
Improve plant operations						
Energy availability factor	(a)	%	71.50	🔴	66.64	69.95
Planned capability loss factor	(b)	%	9.50	🔴	8.92	10.18
Unplanned partial load losses	(c)	average MW	3 500	🔴	4 651	3 443
Unplanned automatic grid seperations trips	(d)	number of trips	560	🔴	594	517
Post philosophy outage unplanned capability loss factor	(e)	%	17.00	🔴	29.91	17.05
System minutes lost	(f)	minutes	3.53	🔴	4.36	3.16
Transmission technical energy losses savings		MWh	8 422	🟢	32 890	n/a
Payment levels excluding Soweto interest	(g)	%	96.70	🔴	96.24	95.79
Distribution total energy losses	(h)	%	8.00	🔴	8.79	8.47
Total electrification connections	(i)	number	177 000	🔴	163 613[2]	191 585
System average interruption duration index		hours	38.00	🟢	36.90	38.00
Primary energy optimisation						
Migration of coal delivery from road to rail	(j)	Mt	10.60	🔴	7.50	8.20
Coal purchase rand/ton		% increase	20.00	🟢	16.30	14.06
Reduce environmental footprint in existing fleet						
Relative particulate emissions	(k)	kg/MWh sent out	0.33	🔴	0.47	0.47
Specific water usage	(l)	ℓ/kWh sent out	1.35	🔴	1.42	1.41
Deliver capital expansion						
Generation capacity installed and commissioned (commercial operation)		MW	1 588	🟢	1 588	–
Transmission lines installed	(m)	km	155.00	🔴	127.90	378.70
Transmission transformer capacity installed and commissioned		MVA	250	🟢	250	540
Ensure financial sustainability[3]						
EBITDA		R million	34 386	🟢	36 998	31 417
Cash interest cover		ratio	0.65	🟢	0.94	0.94
Debt service cover		ratio	0.29	🟢	0.52	0.47
Disposal of the EFC	(n)	R million	6 104	🔴	–	n/a
Savings from turnaround initiatives		R million	6 213	🟢	16 287	n/a
Socio-economic impact: human capital						
Learner intake: artisans	(o)	number	92	🔴	91	–
Learner intake: engineers		number	16	🟢	16	10
Learner intake: technicians		number	11	🟢	11	3
Learner intake: sector-specific		number	–	🟢	–	8
Training spend as % of gross manpower costs	(p)	%	3.75	🔴	3.67	3.85
Industrialisation and localisation						
Preferential procurement	(q)	% of TMPS	75.00	🔴	61.57	54.41
Local content contracted (Eskom-wide)		%	80.00	🟢	92.84	91.51
Competitive supplier development programme	(r)	% of total capital procurement spend	30.00	🔴	0.03	n/a
B-BBEE score		number	8	🟢	7	–
Enterprise and supplier development	(s)	R million	5.00	🔴	4.59	n/a
Research and development		% of NERSA-allocated spend	80.00	🟢	84.94	80.31

1. *Includes occupational disease.*
2. *Includes 45 292 rollover connections.*
3. *Prior year information has been restated. Refer to note 50 in the annual financial statements.*

Shareholder compact performance (continued)

The reasons for the targets that were not achieved are discussed below:

Ref	Key performance indicator	Target 2020	Actual 2020	Reason
Improve plant operations				
(a)	Energy availability factor	71.50	66.64	Low availability of generating units resulted in an increase in unplanned maintenance due to high levels of both full and partial unplanned load losses which caused a low energy availability factor
(b)	Planned capability loss factor	9.50	8.92	Planned maintenance was negatively impacted by an increase in unplanned maintenance undertaken during the year in order to maintain critical plant systems and address unplanned load losses
(c)	Unplanned partial load losses	3 500	4 651	Factors that lead to unplanned partial load losses included steam and water chemistry control issues, poor maintenance practices, lack of outage readiness and plant not being maintained due to spares and refurbishment contracts that were not in place and other procurement delays
(d)	Unplanned automatic grid separations trips	560	594	Trip performance was impacted by numerous factors including critical vacancies, unavailability of maintenance spares, lack of suitable training for technical staff, backlog of capability testing after major planned outages and execution of planned outage scope
(e)	Post philosophy outage unplanned capability loss factor	17.00	29.91	The main contributors to the post-outage unplanned losses that occurred within 60 days after a unit returned from an outage for interim repairs and mini and general overhauls were boiler, turbine, electrical and draught plant related losses
(f)	System minutes lost	3.53	4.36	Performance has been negatively impacted by incidents at both new and older assets that were considered to be in good condition. Ongoing theft of tower members and substation equipment continued to be a risk for asset failures and network availability. Other risks that impact performance include ageing assets, poor outage management and associated network vulnerabilities
(g)	Payment levels excluding Soweto interest	96.70	96.24	The top 20 defaulting municipalities had a negative impact on payment levels with a 42% payment level on billed revenue for the year
(h)	Distribution total energy losses	8.00	8.79	The non-technical component of losses increased due to ghost vending, meter tampering and illegal connections across all sectors. The technical component of losses was due to the ageing distribution networks which are often constrained and overloaded. The increase in low-voltage sales, through electrification projects, also degraded network performance
(i)	Total electrification connections	177 000	163 613	Key challenges that negatively impacted on connection delivery include delays in procurement and material deliveries, design issues and other external factors, such as business forum engagements, community unrest and reduced funding from the Department of Mineral Resources and Energy (DMRE)
Primary energy optimisation				
(j)	Migration of coal delivery from road to rail	10.60	7.50	Less coal was transported by rail mainly due to suspended rail operations at Majuba power station due to a fire in December 2019, which caused damage to the conveyor and silo infrastructure
Reduce environmental footprint in existing fleet				
(k)	Relative particulate emissions	0.33	0.47	Poor performance of relative particulate emissions was largely attributable to high emissions at Kendal power station due to damaged electrostatic precipitators and four other power stations that experienced periods of poor performance during the year
(l)	Specific water usage	1.35	1.42	Water consumption was negatively impacted by inadequate water management practices and operational inefficiencies at power stations resulting from water leaks, overflowing tanks, low load factors, unit trips and boiler filling

Ref	Key performance indicator	Target 2020	Actual 2020	Reason
Deliver capital expansion				
(m)	Transmission lines installed	155.00	127.90	Site instability, poor contractor performance and construction and contractual issues had a negative impact on the transmission lines installed
Ensure financial sustainability				
(n)	Disposal of the EFC	6 104	–	Delays in updated approval processes resulted in the revision of the disposal date to 2021. A request for proposal was released to interested parties in February 2020
Socio-economic impact: human capital				
(o)	Learner intake: artisans	92	91	The full complement of learners was recruited by February 2020, but one learner artisan subsequently resigned
(p)	Training spend as % of gross manpower costs	3.75	3.67	Expenditure was curtailed on external training due to financial constraints. Employees were developed through on-the-job, internal learning and development opportunities as well as further study programmes
Industrialisation and localisation				
(q)	Preferential procurement	75.00	61.57	The procurement target was negatively impacted by increased spending with non-compliant suppliers due to expired B-BBEE certificates. The calculation of total measurable procurement spend (TMPS) also includes spending on IPP contracts that are not B-BBEE compliant and which Eskom has no control over as these contracts were concluded in terms of RE-IPP programme by the DMRE. The overall performance would have improved to approximately 73% of TMPS had IPP expenditure been excluded
(r)	Competitive supplier development programme	30.00	0.03	Performance in the competitive supplier development programme (CSDP) was negatively affected by the measurement criteria finalisation delays, with the criteria only approved in November 2019. The CSDP performance will remain a challenge going forward as it is largely dependent on contracted expenditure on major capital projects, which have existing contracts in place and are close to completion. Eskom's annual project plan cannot accommodate investing 30% of capital procurement expenditure on CSDP and financial constraints further limit opportunities
(s)	Enterprise and supplier development	5.00	4.59	The success of enterprise and supplier development initiatives was negatively impacted by funding constraints and delays in finalising the measurement criteria

Reportable irregularities

Limited progress has been made in clearing the reportable irregularities reported by the external auditors in the prior year, as most items will remain open until all related aspects are concluded, such as the finalisation of court cases or conclusion of investigations by external parties. Detailed progress on reportable irregularities can be found in note 54 of the annual financial statements.

Events after the reporting date

Events after the reporting date are discussed in note 49 of the annual financial statements.

Approval

The group annual financial statements for the year ended 31 March 2020 were prepared under the supervision of the CFO, C Cassim CA(SA), and approved by the board and signed on its behalf by:

MW Makgoba
Interim chairman

28 October 2020

AM de Ruyter
Group chief executive

28 October 2020

C Cassim
Chief financial officer

28 October 2020

REPORT OF THE AUDIT AND RISK COMMITTEE

Mandate and terms of reference

The audit and risk committee (the committee) presents its report in terms of the requirements of the PFMA, the Companies Act (section 94(7)(f)) and in accordance with the King IV™ Report on Corporate Governance for South Africa for the financial year ended 31 March 2020.

The role of the committee is defined in its mandate. It covers, among others, its statutory duties and assistance to the board with the oversight of financial and non-financial reporting and disclosure, internal control systems, risk management, internal and external audit functions and combined assurance, including technology and information governance. The committee also performs the functions required by the Companies Act on behalf of the wholly-owned subsidiaries of the group, with the exception of Escap SOC Ltd (Escap). Information about the mandate, membership composition and attendance of meetings of the committee is set out in the 2020 integrated report under the governance, leadership and ethics as well as supplementary information sections.

The committee has adopted appropriate formal terms of reference as its audit and risk committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities contained therein.

The group is applying a combined assurance model to ensure coordinated assurance activities. The committee oversees the assurance activities and the establishment of effective systems of internal control to provide reasonable assurance that the group's financial and non-financial objectives are achieved and that the preparation of the group's suite of externally published reports (as detailed in the integrated report) is in accordance with the frameworks and standards set out within those reports.

Execution of functions

Oversight of financial and non-financial reporting and disclosure

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

- considered whether the annual financial statements met the fair presentation requirements of the PFMA, Companies Act and International Financial Reporting Standards (IFRS)
- considered the appropriateness of key judgements, estimates and the accounting treatment applied to significant transactions in the annual financial statements
- sought the input and views of the external auditors and encouraged rigorous challenging of control, accounting and disclosure matters
- considered matters relating to cost savings, budgeting and forecasting, future funding and taxation
- overseen the risk management function including the process of identifying significant risks and opportunities and the resulting mitigation strategies

The following significant matters were considered:

Significant matter	Committee review and conclusion
Impact of the COVID-19 outbreak on financial reporting	The committee reflected on the impact of the COVID-19 pandemic and resultant lockdown on reporting. The committee considered management's assessment of the impact of the outbreak and the various financial reporting considerations that were taken into account, including the impact on the going-concern and the impairment assessments of non-financial and financial assets as discussed in note 3
Going-concern assessment	The committee continued to monitor the group's liquidity and solvency closely because of the financial position and related challenges and concluded that it was not trading recklessly at any time during the year. The committee acknowledged that Eskom cannot solve its problems alone, but needs support from the shareholder. The committee recognised the continued support from government
	The committee considered the key aspects taken into account in the going-concern assessment as discussed in note 4.2 as well as scenarios that might impact the going-concern assessment. The committee critically assessed the liquidity of Eskom using the latest cash flow forecasts, including servicing of debt in the next 12 months and stress-tested the forecasts using lower electricity prices, changes to capital activities and reducing costs. The committee considered Eskom's financial ratios that reflect an overall negative trend. The committee concluded, after examining the forecast and stress-tested scenarios and considering Eskom's ability to raise funding in the current market conditions, that the going-concern basis of accounting was appropriate only with support from government. The committee recommended the adoption of the going-concern basis of preparation by the group to the board based on the critical factors as disclosed in note 4.2
Governance	The committee acknowledged that improvement is required in respect of compliance with applicable laws and regulations. Roles, responsibilities and authority of external governance role players also need to be clarified
	Steps are being taken to sufficiently strengthen Eskom's leadership. Permanent appointments were made in certain key executive positions, including the group chief executive and the group company secretary. The board requested the shareholder to fill the board vacancies to ensure that all committees are adequately capacitated to fulfil their mandates. This is particularly relevant for the audit and risk committee where the current membership of only three members is not adequate for the size and risks associated with Eskom as well as the planned separation of the committee into separate audit and risk committees

Significant matter	Committee review and conclusion
Governance (continued)	The current leadership's priority remains turning Eskom around. Progress has been made towards restoring Eskom's ethical culture and governance practices. The committee continued its focus on monitoring the status and action taken on addressing key matters arising from investigations, reportable irregularities and past corporate governance breaches, including: • implementing reviews of conflicts of interest and the second phase of lifestyle audits, targeting all employees below senior management level, based on risk analysis • enhancing commercial governance processes to ensure robust scrutiny and strengthening the delegation of authority framework • strengthening ethics and fraud frameworks and enhancing the focus on consequence management • instituting disciplinary charges against employees and suppliers, and taking legal action, where appropriate • investigating and terminating supplier contracts implicated in irregularities, fraud and corruption
Information required by the PFMA and the impact thereof on the audit opinion	The committee continued to place significant focus on addressing the shortcomings in the completeness of information required by the PFMA. The supply chain recovery programme was concluded in July 2019, leading to improvement in the identification, reporting and addressing of PFMA matters, even though there are still challenges that need to be addressed. The emphasis has now shifted to maintenance and monitoring of PFMA reporting. Refer to the directors' report for further information on addressing the PFMA reporting challenges
Recovery of overdue trade receivables (arrear debt)	The committee considered the actions taken by Eskom to address municipal, Soweto and international arrear debt, including continued plans to roll out split metering on a prepaid basis, impose payment agreements, enforce Eskom's rights to restrict, interrupt and terminate supply, issue summonses and pursue the attachment of assets The board approved the write-back of non-compliant *in duplum* interest and prescribed debt relating to Soweto receivables. A new municipal debt management strategy was approved to reduce and/or eliminate overdue debt, stop defaulting where it occurs, and prevent future defaulting by paying customers The committee, however, recognises that the challenges regarding the recovery of outstanding receivables cannot be solved by Eskom alone. The continued support and cooperation from government and other stakeholders are crucial to address the root causes of the problem. It is critical that these challenges are addressed through the Eskom political task team and its multidisciplinary revenue committee, which are focusing on the implementation of the recommendations of the former inter-ministerial task team
Valuation of property, plant and equipment and assessment for possible impairment	The committee assessed the appropriateness of the cash generating units (CGU) for the group. The committee also considered that impairment indicators such as damaged plant and the impact of lower than expected electricity tariffs on future cash flows have been appropriately taken into account in the impairment assessment. The committee interrogated the underlying assumptions and estimates used in the calculation of the recoverable amount of the CGUs and confirm that there is no impairment required on property, plant and equipment The committee considered the possible accounting impact of alleged overpayments to suppliers that are currently being investigated as well as the re-assessment of costs eligible for capitalisation and are satisfied that the relevant accounting adjustments have been made. The committee acknowledge that Eskom is continuing with the investigating processes and will consider the impact on the financial statements if similar overpayments are identified and confirmed in the future
Valuation and adequacy of long-term decommissioning provisions	The committee considered the briefings on the decommissioning and rehabilitation provisions, including the governance framework applied, the movement in provisions over time and the key assumptions and discount rates used. Detailed annual reviews are done by external experts on a rotation basis to re-assess the relevant decommissioning and rehabilitation liabilities against the latest international practices and benchmarks as well as compliance to legislation. The committee interrogated the underlying assumptions used in determining the decommissioning provisions to assess the adequacy thereof
Valuation and adequacy of employee benefit obligations	The committee considered the briefings and reports on the employee benefit obligations, including the key assumptions and discount rates used in the annual actuarial valuations. The committee interrogated the accounting interpretations and considered expert advice in this regard including from legal counsel. The committee is satisfied with the accounting treatment of the post-employment medical benefits that resulted in the prior year adjustment The Eskom Pension and Provident Fund (EPPF) has always been accounted for as a defined contribution plan in terms of IAS 19. There were no perceived changes necessitating a review of this classification. The committee considered the position paper prepared by management as well as the independent legal opinions and advice obtained and is satisfied with the accounting treatment of the EPPF and the relevant disclosure in the annual financial statements in notes 2.17, 5.7 and 29.4
Internal control over financial reporting, including information technology general controls	The committee monitored the effectiveness of the control environment through feedback on the results of the combined assurance activities from management, assurance and forensics (internal audit) and the external auditors. The committee scrutinised the significant risk areas and their associated remediation plans and mitigating controls implemented, including those relating to segregation of duties, access management, security of confidential data, cyber risk, information technology infrastructure, application issues and third-party supplier management. The committee focused on specific control issues, in particular, the controls relating to PFMA reporting and investigations into fraudulent activities. The committee concluded that the internal control environment is satisfactory, even though improvement is necessary in certain areas including PFMA reporting and contract management

The matters listed above are considered to be key focus areas for the committee in the next financial year and will be monitored and reported on in future.

REPORT OF THE AUDIT AND RISK COMMITTEE (continued)

Execution of functions (continued)

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

The committee considered the following:

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

Internal and external audit

The committee considered the following:

- audit charter, annual audit plan, independence, effectiveness, coordination with external auditors and performance of the assurance and forensic department
- appointment of the external auditors in terms of the Companies Act, Johannesburg Stock Exchange (JSE) listings' requirements and all other applicable legal and regulatory requirements
- the quality of the external audit as well as the independence and objectivity of the external auditors including the tenure of the audit firm and the rotation of the engagement partner
- external audit plan, audit budget, actual fee and terms of engagement of the external auditors including adherence to the policy of not allowing the external auditors to provide any non-audit services
- accounting, sustainability and auditing concerns identified as a result of the internal and external audits, including reportable irregularities

Opinion

The committee is of the opinion, based on the information and explanations provided by management and the assurance and forensic department during the year and at year end and discussions with the independent external auditors, that:

- the expertise, resources and experience of the finance function under the leadership of the chief financial officer are adequate
- the system and process of risk management is adequate even though the effectiveness thereof needs to be improved
- the compliance framework is adequate and there is continued focus on the application thereof, especially in terms of PFMA requirements and contract management
- the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements and accountability for assets and liabilities is maintained
- the internal audit charter approved by the committee was adhered to
- the expertise, resources and experience of the assurance and forensic department are adequate
- the assurance and forensic department, under the leadership of a general manager, is operating effectively
- the combined assurance model is adequate
- the information contained in the integrated report is reliable and does not contradict the information in the annual financial statements
- Eskom and the group have access to adequate resources, facilities and support from government to be able to continue their operations for the foreseeable future, supporting the going-concern assumption
- it is satisfied with the audit quality of the external audit as well as the independence and objectivity of the external auditors having considered the matters set out in section 94(8) of the Companies Act. SizweNtsalubaGobodo Grant Thornton has been appointed as external auditors since 2015. The lead engagement partner for 2020 is N Ngobese after the previous partner was rotated after a five-year engagement period.

The committee is satisfied, notwithstanding the aspects considered in relation to the annual financial statements including the PFMA reporting challenges, that nothing significant has come to the attention of the committee to indicate any material breakdown in the functioning of the controls, procedures and systems during the year under review and that the controls are still appropriate to ensure compliance with the requirements of the Companies Act, the PFMA and IFRS.

Recommendation of the annual financial statements

The committee has evaluated the annual financial statements of Eskom and the group for the year ended 31 March 2020 and, based on the information provided to it, considers that they comply, in all material respects, with the requirements of the Companies Act, the PFMA and IFRS. The committee concurs that the adoption of the going-concern premise in the preparation of the annual financial statements is appropriate.

The committee has therefore, at its meeting held on 28 October 2020, recommended the adoption of the financial statements by the board.

PE Molokwane
Chairman

28 October 2020

STATEMENT BY COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act of South Africa, I certify that the company has filed with the Companies and Intellectual Property Commission all such returns and notices in terms of this Act, and all such returns appear to be true, correct and up to date.

M Manjingolo
Company secretary

28 October 2020

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT AND THE SHAREHOLDER – MINISTER OF PUBLIC ENTERPRISES ON ESKOM HOLDINGS SOC LTD AND ITS SUBSIDIARIES

Report on the audit of the consolidated and separate financial statements

Qualified opinion

We have audited the consolidated and separate financial statements of Eskom Holdings SOC Ltd and its subsidiaries (the group) set out on pages 26 to 122, which comprise the consolidated and separate statement of financial position as at 31 March 2020 and consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 31 March 2020, and the group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standard (IFRS) and the requirements of the Companies Act of South Africa (Companies Act) and the Public Finance Management Act of South Africa (PFMA).

Basis for qualified opinion

Irregular expenditure

The irregular expenditure includes amounts emanating from the modifications to contracts which were not conducted as required in terms of the PFMA. In addition, irregular expenditure was not fully recorded in the notes to the financial statements. We were unable to determine the full extent of the understatement of the irregular expenditure disclosed in terms of section 55(2)(b)(i) of the PFMA stated at R33 055 million (2019: R22 111 million) and R23 429 million (2019: R14 688 million) in the consolidated and separate financial statements respectively, as it was impractical to do so.

Context for the opinion

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

We are independent of the group in accordance with sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of professional conduct for Registered Auditors* (revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants* (including International Independence Standards) respectively.

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

Material uncertainty relating to going concern

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

We draw attention to note 4.2 in the consolidated and separate financial statements, which indicates that for the year ended 31 March 2020 the group incurred a loss of R20 502 million (2019: R20 930 million). The group's current liabilities exceed its current assets by R16 515 million (2019: R45 174 million). As stated in note 4.2, the current and prior year losses, deterioration of most of the group's financial indicators, the impact of reduced generation performance along with other matters as set forth in note 4.2, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern.

Emphasis of matter

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

Restatement of corresponding figures

As disclosed in note 50 to the consolidated and separate financial statements, the corresponding figures for the prior periods have been restated to correct prior period errors on accounting for post-employment medical benefits, impairment of trade receivables and capitalisation of costs incurred during construction of plant for the group in prior periods at, and for the year ended, 31 March 2020.

Material losses – electricity

As disclosed in note 53.3(b) to the consolidated and separate financial statements, estimated non-technical revenue losses of R1 977 million (2019: R1 741 million) were incurred mainly due to meter tampering and bypasses, illegal connections to the electricity network and illegal vending of electricity.

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT AND THE SHAREHOLDER – MINISTER OF PUBLIC ENTERPRISES ON ESKOM HOLDINGS SOC LTD AND ITS SUBSIDIARIES (continued)

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

Key audit matters

Key audit matters are those matters which, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole and in forming our opinion, and we do not provide a separate opinion or conclusion on these matters.

Key audit matter	How the matter was addressed in the audit
Impairment assessment – property, plant and equipment As disclosed in note 2.6 and note 37.2 of the notes to the consolidated and separate financial statements, the group's property, plant and equipment (PPE) has been tested for impairment in terms of IAS 36 *Impairment of assets.* The directors assessed the recoverable amount of the CGU through determination of the value-in-use amount which was compared to the carrying amount The directors performed an assessment of the impairment of the PPE by conducting a major defect analysis exercise at Medupi, Kusile and Ingula power stations to ascertain the extent of damage and repairs that would need to be carried out and the plant's expected performance. The purpose of the exercise was to determine the financial and technical accounting implications and treatment of the impairments/scrapping relating to the aforementioned power stations placed into commercial operation by the entity. Due to the complexity of the estimation techniques used in quantifying these defects as well as the degree of subjectivity involved in the process, impairment was considered to be a key audit matter.	Our audit work included the following: • assessed the assumptions and judgement in determining the cash generating unit (CGU) • obtained the discounted cash flow models underlying the recoverable amount of the CGUs as prepared by directors and • tested the accuracy of the models and inputs used including the weighted average cost of capital expected inflation rates and growth rates • challenged the assumptions used by the directors for the discounted cash flows • engaged a valuation professional, independent engineering, transaction advisors to assist us with our assessment of the reasonability of the models • assessed the reasonableness of the future projected cash flows used in the models Based on the results of the work performed, we accepted the directors' valuation techniques.
Valuation of complex financial instruments The valuation of complex financial instruments requires significant judgement by the directors in the application of valuation methodologies as well as the determination of key assumptions relating to inputs other than unadjusted quoted prices in active markets that Eskom Treasury can access at the measurement date. The financial instruments impacted by these judgemental assumptions include: • complex derivative financial instruments (primarily those which are longer dated and valued with reference to unobservable inputs) As the impact of these valuation methodologies and inputs significantly affects the measurement of the financial instrument and financial risks in the financial statements, the valuation of the complex financial instruments was considered a key audit matter.	Our audit work included the following: • engaged our expert regarding the valuation of the complex financial instruments • tested the design, implementation and operating effectiveness of the relevant financial reporting controls relating to valuations • evaluated the technical and practical appropriateness and accuracy of valuation methodologies (including key assumptions made and modelling approaches adopted) applied by the directors with reference to market practice, practical constraints on the ability to apply the methodologies to the instruments being valued and for consistency with prior periods • recalculated the fair values selected financial instruments • assessed the appropriateness and sensitivity of unobservable market rates, projected cash flows and valuation adjustments with reference to the best available independent information Based on the results of work performed, we are satisfied that the assumptions used in valuing these instruments are reasonable and appropriate.
Costs incurred during construction of assets – property, plant and equipment As disclosed in note 9 of the notes to the consolidated and separate financial statements, the group's PPE includes assets under construction. The assets under construction are accounted for in accordance with IAS 16. There is significant judgement applied by the directors in deciding which compensation events claims should be capitalised in terms of IAS 16. The significant consideration on the nature as well as the quantum of the capitalised costs makes the valuation of property, plant and equipment a key audit matter.	Our audit work included the following: • obtained an understanding of the accounting policy applied by the directors in the capitalisation of compensation events • challenged the directors' rationale for the capitalisation of the compensation events claims considered to be directly attributable to the development of the PPE • assessed the experience and capabilities of the engineers who assess the contractors' compensation events • reviewed the reports of the directors' experts on compensation events claims • assessed the journals processed by the directors as prompted by the exceptions noted Based on the results of our work performed, we are satisfied that the audit procedures performed mitigated the risk of material misstatements on the capitalisation of the compensation events claims.

Key audit matter	How the matter was addressed in the audit
Loan covenants compliance As disclosed in note 26 of the notes to the consolidated and separate financial statements, the group is highly leveraged with total debt securities and borrowings of R483 682 million at 31 March 2020 and has to comply with certain financial and non-financial covenants. In accordance with the terms of agreements for loans and borrowings, the group should maintain and comply with certain financial and non-financial covenants. Analysing compliance with covenants is one of the matters of most significance in our audit because it may have a significant impact on the going concern assumption used in the preparation of the consolidated and separate financial statements and on the maturity classification of liabilities in the consolidated and separate statement of financial position. Therefore, compliance with financial and non-financial covenants is considered a key audit matter.	Our audit work included the following: • inspected the terms of agreements for loans and borrowings including covenant ratios and event of default definitions • analysed the terms of waivers provided by lenders to the extent applicable • reviewed the directors' calculations of covenant ratios • recalculated the covenant calculations and reconciled input data used in the calculations with data in the consolidated and separate financial statements prepared in accordance with IFRS • compared the maturity classification of loans and borrowings as current or non-current liabilities with the results of analysis of compliance with covenants on relevant loans and borrowings Based on the results of our work performed, we are satisfied that the entity has complied with its covenants.
Post-employment benefit plan As disclosed in the notes 2.17 and note 29.4 of the notes to the consolidated and separate financial statements, the post-employment benefit plan managed by the Eskom Pension and Provident Fund (EPPF) has been accounted for as a defined contribution fund. The EPPF is registered as a defined benefit fund, however the rule that relates to the funding of deficit refers to the amendment of the rules so that the benefits may be reduced or the contributions increased at the occurrence of that event at a future date. This created the uncertainty of existence of the liability for Eskom to fund the deficit. The directors performed an assessment of the accounting treatment for EPPF and based on the critical judgement and estimates determined that the EPPF should continue to be accounted for as a defined contribution plan. The accounting policy was revised and additional disclosures included in the notes to the consolidated and separate financial statements. The accounting for the EPPF was considered a key matter due to critical judgement and estimates made by the directors.	Our audit work included the following: • obtained the EPPF rules of the fund and assessed the accounting treatment of the fund in terms of IAS 19 • we considered the following: – the defined benefit formula – the nature of the scheme and the participating employers – the requirements of the rules relating to funding of the shortfall when is arises • obtained a legal opinion on whether or not Eskom is liable to make good a shortfall or have any entitlement towards a surplus in the fund • reviewed the financial statements of the EPPF to confirm that the members are paid out in terms of the benefit formula as per the rules • reperformed the actuarial calculations using our actuarial specialists • assessed that there was no uncertainty on the existence of the liability that arose through the members rendering of services entitles the members to the benefits as defined in the rules • assessed that there was no measurement uncertainty as to the measurement of the net asset or net liability. The actuarial valuation was performed using a projected unit credit method and disclosed. • assessed that the outcome uncertainty existed as the rules provided that the contributions may be increased with consent of the employer when the shortfall arises Based on the results of our work performed, we concluded that: • EPPF met the criteria for defined benefit fund in terms of IAS 19 and should have been classified and accounted for as such • we assessed the impact of the classification as defined contribution fund in the financial statements and concluded that due to the fund being in surplus position there was no liability or asset to recognise in the current or prior year • sufficient disclosure was provided in the financial statements in accordance with the Conceptual Framework when dealing with existence uncertainty of assets or liabilities as the directors had made judgements that there is uncertainty on existence of the obligation to fund the shortfall.

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT AND THE SHAREHOLDER – MINISTER OF PUBLIC ENTERPRISES ON ESKOM HOLDINGS SOC LTD AND ITS SUBSIDIARIES (continued)

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

Responsibilities of the accounting authority for the consolidated and separate financial statements

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

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

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

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

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

In addition to our responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, we also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the accounting authority with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified reportable irregularities in terms of the Auditing Profession Act. We have reported such matters to the Independent Regulatory Board for Auditors. The matter pertaining to the reportable irregularities have been described in note 54.1 to the consolidated and separate financial statements.

Report on the audit of the annual performance report

Introduction and scope

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

Our procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the group. We have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. Our procedures do not examine whether the actions taken by the group enabled service delivery. Our procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, our findings do not extend to these matters. We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the shareholder compact performance section of the directors' report of the group for the year ended 31 March 2020:

- improve plant operations (page 13).

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

We did not identify any material findings on the usefulness and reliability of the reported performance information for this key performance area, Improve plant operations.

Other matters

We draw attention to the following matter below with regards to the shareholder compact performance section in the directors' report:

Achievement of planned targets

Refer to the shareholder compact performance section of the directors' report on pages 13 to 15 for information on the achievement of planned targets for the year.

Report on the audit of compliance with legislation

Introduction and scope

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

The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and/or supported by full and proper records, as required by section 55 (1)(a) and (b) of the PFMA. Material misstatements of non-current assets, current assets, liabilities and expenditure identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently.

Expenditure management

Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for the qualified opinion the full extent of the irregular expenditure could not be quantified. Most of the irregular expenditure disclosed in the financial statements was caused by modifications to contracts.

Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R2 868 million, as disclosed in note 53.2 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. Most of the fruitless and wasteful expenditure was caused by the poor facilitation of project management. Fruitless and wasteful expenditure amounting to R840 million was incurred on the construction of residential flats to accommodate artisans for the Kusile project as the building cannot be utilised for the intended purpose and R1 247 million was incurred due to shortcomings in project management.

Procurement and contract management

Sufficient appropriate audit evidence could not be obtained that all awards to suppliers on established panels were in accordance with legislative requirements, as proper record keeping of such awards was not maintained. Similar limitations were also reported in the prior year.

Some of the goods, works or services were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA. Similar non-compliance was also reported in the prior year.

Some of the contracts and quotations were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations. Similar non-compliance was also reported in the prior year.

Some of the tenders which failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable in accordance with Preferential Procurement Regulations 5(6).

Some of the tenders which achieved the minimum qualifying score for functionality criteria were not evaluated further in accordance with Preferential Procurement Regulations 5(7).

Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act, CIDB regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year.

Sufficient appropriate audit evidence could not be obtained that some of the bid documentation for procurement of commodities designated for local content and production, stipulated the minimum threshold for local production and content, as required by the 2017 Preferential Procurement Regulation 8(2).

Report on the audit of compliance with legislation (continued)

Introduction and scope (continued)

Procurement and contract management (continued)

Sufficient appropriate audit evidence could not be obtained that some of the commodities designated for local content and production, were procured from suppliers who submitted a declaration on local production and content as required by the 2017 Preferential Procurement Regulation.

Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production, were procured from suppliers who met the prescribed minimum threshold for local production and content, as required by the 2017 Preferential Procurement Regulation 8(5).

Sufficient appropriate audit evidence could not be obtained that members of the accounting authority whose close family members, partners or associates had a private or business interest in contracts awarded by the entity disclosed such interest, as required by PFMA section 50(3)(a).

Sufficient appropriate audit evidence could not be obtained that persons in service of the entity who had a private or business interest in contracts awarded by the entity had not participated in the process relating to that contract as required by PFMA section 50(3)(b).

Consequence management

We were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 51(1)(e)(iii) of the PFMA. This was due to investigations not being initiated and failure to maintain proper and complete records as evidence to support that investigations were initiated.

Disciplinary steps were not taken against the officials who had incurred and/or permitted fruitless and wasteful expenditure, as required by section 51(1)(e)(iii) of the PFMA.

We were unable to obtain sufficient appropriate audit evidence that allegations of financial misconduct committed by members of the accounting authority and officials were investigated as required by treasury regulation 33.1.3 and 33.1.1 respectively. This was due to a failure to maintain proper and complete records as evidence to support the investigations into allegations of financial misconduct committed by members of the accounting authority and officials.

We were unable to obtain sufficient appropriate audit evidence that allegations of theft/fraud/extortion/forgery/uttering a forged document which exceeded R100 000 were reported to the South African Police Service, as required by section 34(1) of the Prevention and Combating of Corrupt Activities Act. Similar limitation was also reported in the prior year.

Governance and oversight

The company secretary did not ensure that the minutes of all shareholders meetings, board meetings and the meetings of any committees of the directors, or of the company's audit committee, were properly recorded, as required by section 88(2)(d) of the Companies Act. Similar non-compliance was also reported in the prior years.

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Internal control deficiencies

We considered internal control relevant to our audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, our objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the findings on compliance with legislation included in this report.

The accounting authorities initiatives implemented during the year to provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity are in progress and have not, in all circumstances, resulted in the intended outcomes.

The accounting authority did not exercise adequate oversight responsibility regarding compliance with applicable legislation and related internal controls that resulted in the lack of proper procurement and contract management processes as well as effective consequence management practices. Action plans developed to address internal control deficiencies were not, in all instances, adequate.

Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.

The accounting authority did not fill the vacancy of a chairperson of the audit and risk committee, who resigned during the year, with a member that has the requisite financial skills, as there was no member appointed to the accounting authority by the executive authority, who possesses the requisite skills.

Other reports

We draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the group's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of our opinion on the consolidated and separate financial statements or our findings on non-compliance with legislation.

Matters under investigation

During the financial year under review the regulatory authorities and the accounting authority conducted investigations into alleged irregularities, fraud and corruption within the procurement environment and other areas of the entity. As at the reporting date, some of these investigations were still ongoing and we could not determine the extent of the impact of the outcomes of these investigations to the consolidated and separate financial statements. As disclosed in note 54.2 to the financial statements, various matters are reported to be under investigation.

Agreed-upon procedures engagements

Agreed-upon procedure engagements were performed on the following:

- National Treasury consolidation template that covered the period from 1 April 2019 to 31 March 2020.
- Eskom's generation, transmission and distribution activities regulatory financial report. This agreed-upon procedure is performed on behalf of NERSA.

Auditor tenure

In terms of the IRBA rule published in Government Gazette Number 39475 dated 4 December 2015, I report that SizweNtsalubaGobodo Grant Thornton has been the auditor of Eskom Holdings SOC Ltd for six years.

Nkanyiso Ngobese
SizweNtsalubaGobodo Grant Thornton
Director
Registered auditor

30 October 2020

20 Morris East Street, Woodmead, 2191

STATEMENTS OF FINANCIAL POSITION

at 31 March 2020

	Note	Group 2020 Rm	Group Restated[1] 2019 Rm	Group Restated[1] 2018 Rm	Company 2020 Rm	Company Restated[1] 2019 Rm	Company Restated[1] 2018 Rm
Assets							
Non-current		697 893	683 956	656 852	698 596	684 381	657 225
Property, plant and equipment	9	653 359	650 440	629 433	654 395	651 036	629 944
Intangible assets	10	3 830	3 925	3 945	3 558	3 706	3 803
Future fuel supplies	11	4 295	6 471	7 157	4 295	6 471	7 157
Investment in equity-accounted investees	12	397	373	372	95	95	95
Investment in subsidiaries	13	–	–	–	384	384	384
Deferred tax	14	115	17	23	–	–	–
Loans receivable	16	27	40	63	–	–	–
Derivatives held for risk management	17	33 918	20 582	13 705	33 918	20 582	13 705
Finance lease receivables	18	338	374	408	338	374	408
Payments made in advance	19	1 614	1 734	1 746	1 613	1 733	1 729
Current		116 404	62 877	71 177	110 947	59 592	69 585
Inventories	21	33 573	26 482	24 348	33 330	26 251	24 122
Taxation		140	102	149	–	–	–
Loans receivable	16	27	26	18	5 937	6 071	6 201
Derivatives held for risk management	17	23 718	2 080	1 873	23 718	2 080	1 875
Finance lease receivables	18	34	31	29	34	31	29
Payments made in advance	19	1 398	1 541	1 418	1 395	1 460	1 328
Trade and other receivables	20	22 391	20 859	19 179	24 067	22 020	20 483
Insurance investments	15	11 981	9 563	8 172	–	–	–
Financial trading assets	15	152	162	168	152	162	168
Cash and cash equivalents	22	22 990	2 031	15 823	22 314	1 517	15 379
Assets held-for-sale	23	8 642	8 871	8 926	–	–	40
Total assets		822 939	755 704	736 955	809 543	743 973	726 850
Equity							
Capital and reserves		185 863	149 978	167 237	169 421	135 399	155 003
Liabilities							
Non-current		502 684	495 996	475 291	501 364	495 046	474 699
Debt securities and borrowings	26	408 151	387 208	348 112	408 107	387 161	348 060
Embedded derivatives	27	5	1 365	3 434	5	1 365	3 434
Derivatives held for risk management	17	1 802	5 643	16 570	1 802	5 643	16 570
Deferred tax	14	3 678	7 138	14 641	2 724	6 601	14 471
Employee benefit obligations	29	13 530	15 560	15 868	13 232	15 224	15 509
Provisions	30	41 300	45 588	44 370	41 278	45 558	44 359
Lease liabilities	31	8 875	9 130	9 533	8 873	9 130	9 533
Trade and other payables	32	411	1 031	1 201	411	1 031	1 201
Payments received in advance	28	2 355	2 038	1 766	2 355	2 038	1 766
Contract liabilities and deferred income	28	22 577	21 295	19 796	22 577	21 295	19 796
Current		132 919	108 051	92 745	138 758	113 528	97 148
Debt securities and borrowings	26	75 531	53 402	40 572	80 107	57 886	44 525
Embedded derivatives	27	1 131	2 069	1 857	1 131	2 069	1 857
Derivatives held for risk management	17	1 139	1 397	4 896	1 143	1 397	4 896
Employee benefit obligations	29	3 293	3 244	3 244	3 018	2 976	2 992
Provisions	30	5 991	5 662	5 309	5 933	5 556	5 194
Lease liabilities	31	475	332	286	474	332	286
Trade and other payables	32	40 175	36 849	32 116	41 761	38 208	32 944
Payments received in advance	28	3 430	3 359	3 003	3 437	3 367	2 996
Contract liabilities and deferred income	28	1 540	1 499	1 209	1 540	1 499	1 209
Taxation		–	–	4	–	–	–
Financial trading liabilities	15	214	238	249	214	238	249
Liabilities held-for-sale	23	1 473	1 679	1 682	–	–	–
Total liabilities		637 076	605 726	569 718	640 122	608 574	571 847
Total equity and liabilities		822 939	755 704	736 955	809 543	743 973	726 850

INCOME STATEMENTS

for the year ended 31 March 2020

	Note	Group 2020 Rm	Group Restated[1] 2019 Rm	Company 2020 Rm	Company Restated[1] 2019 Rm
Revenue	33	199 468	179 892	199 468	179 892
Other income	34	1 238	2 150	1 819	3 073
Primary energy	35	(112 119)	(99 488)	(112 119)	(99 488)
Employee benefit expense	36	(32 976)	(33 183)	(27 590)	(27 532)
Impairment of financial assets	37	936	107	929	89
Impairment of other assets	37	(875)	153	(875)	153
Other expenses	38	(18 674)	(18 214)	(26 251)	(27 019)
Profit before depreciation and amortisation expense and net fair value and foreign exchange loss (EBITDA)		36 998	31 417	35 381	29 168
Depreciation and amortisation expense	39	(27 779)	(29 738)	(27 693)	(29 644)
Net fair value and foreign exchange loss on financial instruments	40	(4 592)	(3 409)	(4 227)	(3 368)
Profit/(loss) before net finance cost		4 627	(1 730)	3 461	(3 844)
Net finance cost		(31 252)	(27 732)	(32 541)	(28 888)
Finance income	41	2 610	2 722	1 468	1 679
Finance cost	42	(33 862)	(30 454)	(34 009)	(30 567)
Share of profit of equity-accounted investees after tax	12	63	35	–	–
Loss before tax		(26 562)	(29 427)	(29 080)	(32 732)
Income tax	43	6 060	8 497	6 740	9 341
Loss for the year[2]		(20 502)	(20 930)	(22 340)	(23 391)

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 March 2020

	Note	Group 2020 Rm	Group Restated[1] 2019 Rm	Company 2020 Rm	Company Restated[1] 2019 Rm
Loss for the year[2]		(20 502)	(20 930)	(22 340)	(23 391)
Other comprehensive income		7 387	3 869	7 362	3 787
Items that may be reclassified subsequently to profit or loss		4 836	2 433	4 858	2 383
Cash flow hedges					
Changes in fair value	17	7 557	2 964	7 557	2 964
Net amount transferred to profit or loss		(444)	626	(444)	626
Amortisation of effective portion of terminated cash flow hedges	40	(325)	(324)	(325)	(324)
Ineffective portion of cash flow hedges	40	(119)	950	(119)	950
Net amount transferred to initial carrying amount of hedged items		(366)	(281)	(366)	(281)
Foreign currency translation differences on foreign operations		(22)	50	–	–
Income tax thereon	43	(1 889)	(926)	(1 889)	(926)
Items that may not be reclassified subsequently to profit or loss		2 551	1 436	2 504	1 404
Re-measurement of post-employment medical benefits	29	3 546	1 992	3 478	1 949
Income tax thereon	43	(995)	(556)	(974)	(545)
Total comprehensive loss for the year[2]		(13 115)	(17 061)	(14 978)	(19 604)

1. Refer to note 50.
2. A nominal amount is attributable to the non-controlling interest in the group. The remainder is attributable to the owner of the company.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 March 2020

	Share capital Rm	Cash flow hedge reserve Rm	Available-for-sale reserve Rm	Unrealised fair value reserve Rm	Foreign currency translation reserve Rm	Accumulated profit Rm	Total equity Rm
Group							
Balance at 31 March 2018	83 000	(416)	6	(10 313)	(31)	94 991	167 237
Previously reported	83 000	(416)	6	(10 313)	(31)	98 090	170 336
Prior year restatements, net of tax[1]	–	–	–	–	–	(3 099)	(3 099)
Adoption of IFRS 9 and 15	–	–	(6)	–	–	(192)	(198)
Restated loss for the year[1]	–	–	–	–	–	(20 930)	(20 930)
Restated other comprehensive income, net of tax[1]	–	2 383	–	–	50	1 436	3 869
Transfer between reserves	–	–	–	(3 328)	–	3 328	–
Balance at 31 March 2019	83 000	1 967	–	(13 641)	19	78 633	149 978
Loss for the year	–	–	–	–	–	(20 502)	(20 502)
Other comprehensive income, net of tax	–	4 858	–	–	(22)	2 551	7 387
Share capital issued	49 000	–	–	–	–	–	49 000
Transfer between reserves	–	–	–	(3 971)	–	3 971	–
Balance at 31 March 2020	132 000	6 825	–	(17 612)	(3)	64 653	185 863
Company							
Balance at 31 March 2018	83 000	(416)	–	(10 313)	–	82 732	155 003
Previously reported	83 000	(416)	–	(10 313)	–	85 804	158 075
Prior year restatements, net of tax[1]	–	–	–	–	–	(3 072)	(3 072)
Restated loss for the year[1]	–	–	–	–	–	(23 391)	(23 391)
Restated other comprehensive income, net of tax[1]	–	2 383	–	–	–	1 404	3 787
Transfer between reserves	–	–	–	(3 328)	–	3 328	–
Balance at 31 March 2019	83 000	1 967	–	(13 641)	–	64 073	135 399
Loss for the year	–	–	–	–	–	(22 340)	(22 340)
Other comprehensive income, net of tax	–	4 858	–	–	–	2 504	7 362
Share capital issued	49 000	–	–	–	–	–	49 000
Transfer between reserves	–	–	–	(3 971)	–	3 971	–
Balance at 31 March 2020	132 000	6 825	–	(17 612)	–	48 208	169 421

Share capital

Refer to note 25 for details regarding share capital.

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments (forward exchange contracts and cross-currency swaps) related to hedged transactions that have not yet occurred. The cross-currency swap hedges foreign exchange rate and interest rate risk of the future interest payments and the principal repayment on bonds and loans (denominated in US dollar, euro and yen). The reserve includes an unamortised gain of R406 million (2019: R731 million) relating to the effective portion of terminated hedges that is amortised to the income statement over the remaining life of the underlying hedged item.

Unrealised fair value reserve

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

Foreign currency translation reserve

The foreign currency translation reserve comprises exchange differences resulting from the translation of the results and financial position of foreign operations.

Accumulated profit

Accumulated profit is the amount of cumulative profit retained in the business after tax. No dividend has been proposed in the current or prior year. There are no restrictions on the distribution of dividends.

Non-controlling interest

The non-controlling interest in the group is a nominal amount.

1. Refer to note 50.

STATEMENTS OF CASH FLOWS

for the year ended 31 March 2020

	Note	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
Cash flows from operating activities					
Cash generated from operations	44	36 338	33 257	34 474	32 323
Net cash used in derivatives held for risk management		(81)	(172)	(78)	(174)
Finance income received		377	245	377	245
Finance cost paid		(60)	(277)	(59)	(276)
Income taxes paid		(367)	(313)	–	–
Net cash from operating activities		36 207	32 740	34 714	32 118
Cash flows used in investing activities					
Disposals of property, plant and equipment		508	566	498	566
Acquisitions of property, plant and equipment		(24 009)	(34 087)	(24 479)	(34 474)
Acquisitions of intangible assets		(260)	(443)	(153)	(343)
Acquisitions of future fuel supplies		(1 261)	(548)	(1 261)	(548)
Disposals of insurance investments		9 188	10 669	–	–
Acquisitions of insurance investments		(11 930)	(12 025)	–	–
Payments made in advance		(2)	(9)	(2)	(9)
Cash used in provisions		(846)	(1 707)	(846)	(1 707)
Net cash used in derivatives held for risk management		(120)	(166)	(120)	(166)
Net cash from loans receivable		12	25	150	96
Cash from finance lease receivables		54	29	54	29
Dividends received		66	49	46	35
Dividends received – investment in equity-accounted investees	12	39	34	–	–
Finance income received		1 550	1 411	511	506
Net cash used in investing activities		(27 011)	(36 202)	(25 602)	(36 015)
Cash flows from/(used in) financing activities					
Debt securities and borrowings raised	45	32 036	58 914	32 124	59 364
Payments made in advance	45	(642)	(1 179)	(642)	(1 179)
Debt securities and borrowings repaid	45	(31 511)	(34 455)	(31 599)	(34 332)
Share capital issued	25	49 000	–	49 000	–
Net cash from derivatives held for risk management	45	1 843	1 219	1 843	1 219
Cash used in lease liabilities	45	(423)	(357)	(422)	(357)
Net cash from financial trading assets	45	9	10	9	10
Net cash used in financial trading liabilities	45	(33)	(29)	(33)	(29)
Finance income received		597	858	558	820
Finance cost paid		(39 111)	(35 845)	(39 205)	(36 035)
Taxes paid		(84)	(69)	(84)	(69)
Net cash from/(used in) financing activities		11 681	(10 933)	11 549	(10 588)
Net increase/(decrease) in cash and cash equivalents		20 877	(14 395)	20 661	(14 485)
Cash and cash equivalents at beginning of the year		2 031	15 823	1 517	15 379
Foreign currency translation		(22)	50	–	–
Effect of movements in exchange rates on cash held		136	620	136	620
Assets and liabilities held-for-sale		(32)	(67)	–	3
Cash and cash equivalents at end of the year	22	22 990	2 031	22 314	1 517

Cash flow allocation

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

Derivatives held for risk management

Derivatives held for risk management are classified as operating, investing or financing activities based on the allocation of the cash flows of the underlying hedged item. Refer to note 17.

Payments made in advance

Payments made in advance that relate to the raising of debt securities and borrowings are classified as financing activities. Payments related to the acquisition of property, plant and equipment and intangible assets are allocated to investing activities. All other payments made in advance are deemed operational in nature and are therefore included within operating activities. Refer to note 19.

Provisions

Cash flows related to provisions for environmental restoration and mine-related closure, pollution control and rehabilitation, where the cost of property, plant and equipment as well as future fuel supplies includes environmental rehabilitation costs, are classified as investing activities. All other provisions are operational in nature and are classified as operating activities. Refer to note 30.

Finance income and costs

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

1. General information

Eskom Holdings SOC Ltd (Eskom), a state-owned company and holding company of the group, is incorporated and domiciled in the Republic of South Africa. Eskom is a vertically integrated operation that generates, transmits and distributes electricity to 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. The nature of the businesses of the significant operating subsidiaries is set out in note 13.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these separate and consolidated financial statements are set out below.

2.1 Basis of preparation and measurement

Statement of compliance

The consolidated financial statements of Eskom at and for the year ended 31 March 2020 comprise the company, its subsidiaries, joint ventures, associates and structured entities (together the group). The separate and consolidated financial statements have been prepared in accordance with IFRS and in the manner required by the PFMA and the Companies Act. The financial statements have been prepared on the going-concern basis and were approved for issue by the board on 26 October 2020.

Basis of measurement

The separate and consolidated financial statements are prepared on the historical-cost basis except for the following items which are measured at fair value:

- derivatives held for risk management
- embedded derivatives
- certain investments and financial trading assets and liabilities

Functional and presentation currency

The consolidated financial statements are presented in South African Rand (rounded to the nearest million unless otherwise stated), which is the company's functional currency and the presentation currency of the group.

Changes in accounting policies and comparability

The group has consistently applied the accounting policies to all periods presented in these consolidated financial statements except for new or revised statements and interpretations implemented during the year. The nature and effect of new standards and interpretations are discussed in note 52.2.

2.2 Consolidation

Subsidiaries

Subsidiaries are consolidated from the date on which control is transferred to the group until the date that control ceases. Investments in subsidiaries are accounted for at cost less impairment losses in the separate financial statements of the company. When the group ceases to have control of an entity, it derecognises the assets and liabilities of the subsidiary and any components of equity. Any resulting gain or loss is recognised in profit or loss.

The accounting policies of the subsidiaries have been adjusted, where necessary, to ensure consistency with the policies adopted by the group.

Investment in equity-accounted investees

Investments in equity-accounted investees (associates and joint ventures) are accounted for at cost less impairment losses in the separate financial statements of the company and on the equity method of accounting in the financial statements of the group. The group's share of post-acquisition profits or losses of these investments is recognised in profit or loss within share of profit of equity-accounted investees, and its share of post-acquisition movements in other comprehensive income is recognised directly in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Accounting policies of associates and joint ventures have been adjusted where necessary to ensure consistency with the policies adopted by the group. If the financial statements of the associate or joint venture were prepared as of a different date to that of the group (maximum of three months difference), adjustments were made to the group financial statements for significant transactions and events that occurred between the date of the financial statements of the associate or joint venture and the date of the financial statements of the group.

2.3 Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when recognised in other comprehensive income for qualifying cash flow hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences relating to changes in the amortised cost are recognised in profit or loss and other changes in the carrying amount are recognised within fair value through other comprehensive income.

Non-monetary items are measured at historical cost.

Foreign loans are initially recognised at the exchange rate prevailing at transaction date and are translated at spot rate at every reporting date. Foreign exchange gains and losses that relate to financial assets and liabilities at amortised cost are presented in profit or loss within net fair value and foreign exchange gain/loss on financial instruments.

Foreign operations

The assets and liabilities of foreign operations (including fair value adjustments arising on acquisition) are translated to rand at the prevailing exchange rates at the reporting date. The income and expenses of foreign operations are translated to rands at the average exchange rate. Foreign currency differences arising as a result of these transactions are recognised in other comprehensive income within the foreign currency translation reserve.

2.4 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes environmental rehabilitation costs, borrowing costs and transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency transactions. Work under construction includes the cost of materials and direct labour and any other directly attributable costs incurred in bringing an item of property, plant and equipment to its present location and condition. Significant parts of an item of property, plant and equipment that have different useful lives are accounted for as separate items (major components). Spare parts classified as strategic and critical spares are recognised as property, plant and equipment and are only capable of operating in the manner intended by management when they are installed. Items of property, plant and equipment transferred from customers are initially recognised at fair value in accordance with International Accounting Standard (IAS) 16 *Property, plant and equipment* and any related revenue is recognised in accordance with IFRS 15 *Revenue from contracts with customers*, within revenue.

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

Owned land and spare parts are not depreciated. Depreciation on other owned assets is calculated using the straight-line method to allocate cost over the estimated useful lives (limited to residual values). Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful life of the assets. The useful lives of owned and right-of-use assets are as follows:

	Owned Years	Right-of-use Years
Buildings and facilities	10 to 40	2 to 5
Plant		
• Generating	2 to 80	2 to 15
• Transmitting	5 to 40	n/a
• Distributing	5 to 35	n/a
• Other	3 to 40	40
Equipment and vehicles	2 to 15	2 to 5

The depreciation method, residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date. The estimation of the useful lives of property, plant and equipment is based on historical performance as well as expectations about future use and therefore requires a degree of judgement.

Gains or losses on the disposal or writeoff of an item of property, plant and equipment are recognised in profit or loss within other income or other expenses. Projects in works under construction that have been discontinued are written off and included in other expenses.

2.5 Intangible assets

Research and development

Research expenditure is recognised as an expense as incurred.

Development expenditure (relating to the design and testing of new or improved products) is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss within other expenses. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs previously capitalised that have been discontinued are written off and included in other expenses.

Capitalised development costs are amortised from the point at which the asset is ready for use on a straight-line basis over its useful life. Subsequent to initial recognition, the capitalised development costs are measured at cost less accumulated amortisation and impairment losses.

Rights

Rights consist mainly of servitudes and rights of way under power lines. A servitude right is granted to Eskom for an indefinite period (useful life) and is therefore not amortised.

Computer software

Computer software and licences acquired have a finite useful life and are measured at cost less accumulated amortisation and any accumulated impairment losses. If software is integral to the functionality of related equipment, it is capitalised as part of the equipment. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Amortisation is calculated using the straight-line method to allocate costs over their estimated useful lives of between 3 to 10 years. Amortisation methods and useful lives of assets are reviewed at each reporting date and adjusted if appropriate.

2. Summary of significant accounting policies (continued)

2.5 Intangible assets (continued)

Concession assets

Concession assets consist of the right to charge for the usage of the infrastructure under service concession arrangements. The capital expenditure incurred in respect of the service concession arrangements (fair value at initial recognition), including borrowing costs on qualifying capital expenditures, is capitalised (refer to note 2.7) and amortised over the estimated useful life of the concession asset, which is the concession period during which it is available for use (refer to note 24). Subsequent to initial recognition, the concession assets are measured at cost less accumulated amortisation and impairment losses.

2.6 Impairment of non-financial assets

The carrying amounts of non-financial assets within the scope of IAS 36 *Impairment of assets* are assessed at each reporting date to determine whether there is any indication of impairment. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or if there are indicators of impairment. Assets that have an indefinite useful life (rights) are tested annually for impairment.

Assets are grouped at the lowest levels for which there are separately identifiable cash flows, the cash generating unit (CGU), that are largely independent of cash inflows when assessing for impairment. Eskom is regarded as a CGU as it is a vertically integrated regulated business with no largely independent cash flows. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets that were subject to impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment losses or reversals are recognised in profit or loss within impairment of other assets.

2.7 Capitalisation of borrowing costs

Borrowing costs attributable to the construction of qualifying assets are capitalised as part of the cost of these assets over the period of construction, until the asset is substantially ready for its intended use. All other borrowing costs are expensed in the period in which they occur.

Borrowing costs for qualifying assets financed by specific borrowings are capitalised using the actual interest expense incurred. Borrowing costs for qualifying assets that are not financed by specific borrowings are capitalised at the weighted average of the borrowing costs (capitalisation rate) using the borrowings applicable to the entities in the group.

2.8 Leases

The group assesses at contract inception whether a contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lessee accounting in terms of IFRS 16

The group recognises right-of-use assets relating to the right to use the underlying assets and lease liabilities for the lease payments except for short-term leases and leases of low-value assets, where the recognition exemption is applied.

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. Refer to note 2.4 for details regarding the depreciation of right-of-use assets and to note 2.6 regarding assessment for impairment of right-of-use assets.

Lease liabilities

The group recognises a lease liability at the commencement of a lease at the present value of the lease payments that have to be made over the lease term. The lease payments include fixed payments. There are no variable lease payments that would impact the determination of the lease payments.

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

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 modification, a change in the lease term or a change of the in-substance fixed lease payments.

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 also applies the lease of low-value assets recognition exception 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.

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.

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

Lessor accounting

Finance leases – where the group is the lessor

Finance lease receivables mainly comprise premium power supply equipment contracts.

The present value of the lease payments is recognised as a receivable when property, plant and equipment are leased out under a finance lease. The difference between the gross receivable and the present value of the receivable is disclosed as unearned finance income within finance lease receivables. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return. Finance lease receivables are assessed for impairment and derecognised in accordance with the requirements for financial assets.

Operating leases

Leases where substantially all of the risks and rewards of ownership are not transferred are classified as operating leases. Payments received under operating leases are recognised in profit or loss within other income on a straight-line basis over the period of the lease.

2.9 Payments made in advance

Securing debt raised

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

Environmental rehabilitation trust fund

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

Other

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

2.10 Financial instruments

2.10.1 Financial assets (excluding derivatives)

Classification

The appropriate classification of a financial asset is determined on acquisition of the financial asset and is based on:

- whether the contractual terms of the financial asset gives rise to contractual cash flows that are solely payments of principal and interest; and
- the objective of the business model in which the financial asset is held at a portfolio level that best reflects the way the business is managed

Financial assets are not reclassified subsequent to their initial recognition unless the group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The group may irrevocably designate a financial asset on initial recognition that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The group may also irrevocably elect on initial recognition of an equity investment that is not held for trading to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

The group did not designate any financial assets at fair value through profit or loss and has not elected to present equity investments at fair value through other comprehensive income.

Financial assets are classified into the following categories:

Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding
- it is held within a business model whose objective is to hold assets to collect contractual cash flows

Fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding
- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets

Fair value through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

2. Summary of significant accounting policies (continued)

2.10 Financial instruments (continued)

2.10.1 Financial assets (excluding derivatives) (continued)

Measurement

Initial recognition

Financial assets are initially measured at fair value on the date of commitment to purchase (trade date). The transaction price is generally the best indicator of fair value. If a contract with a customer has a significant financing component, the related financial asset is initially measured at the transaction price excluding the time value of money.

Where the fair value of a financial asset is different to the transaction price, a day-one gain or loss may arise. If the fair value has been determined based on market-observable data the whole day-one gain or loss is recognised immediately in profit or loss. If the fair value has not been based on market-observable data the day-one gain or loss is deferred in the statement of financial position and amortised over the term of the instrument in profit or loss.

Any directly attributable transaction costs are included in the initial measurement of financial assets except for financial assets at fair value through profit or loss where directly attributable transaction costs are recognised in profit or loss.

After initial recognition

Amortised cost

Financial assets at amortised cost are measured at amortised cost after initial recognition using the effective interest rate method less any accumulated impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are measured at fair value after initial recognition. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairments are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income.

Fair value through profit or loss

Financial assets at fair value through profit or loss are measured at fair value after initial recognition. Changes in the fair value after initial recognition (including any interest or dividend income) are recognised in profit or loss.

Impairment

Loss allowances are recognised for expected credit losses on financial assets measured at amortised cost or fair value through other comprehensive income. Loss allowances are calculated using the general or simplified approach.

The general approach requires impairment to be measured using a 12-month or lifetime expected credit loss. The lifetime expected credit loss method will be used if, after initial recognition, there is a significant increase in the credit risk of a financial asset or if it becomes credit-impaired. The simplified approach requires impairment to be measured using a lifetime expected credit loss. The simplified approach is applied to trade and other receivables.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the group is exposed to credit risk. 12-month expected credit losses are the portion of the expected credit loss resulting from default events that are possible within 12 months after reporting date (or a shorter period if the expected life of the instrument is less than 12 months). Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Expected credit losses are probability-weighted estimates of credit losses. Credit losses are measured as the difference between the cash flows due in accordance with the contract and the cash flows expected to be received discounted at the effective interest rate of the financial asset.

All financial assets subject to impairment are monitored to assess whether they have been subject to a significant increase in credit risk after initial recognition. There will be a significant increase in credit risk when:

- payments are more than 30 days past due, or
- a significant qualitative event has occurred

Where it is assessed that a counterparty's credit risk has increased significantly from its initial low risk designation, the related asset is moved from stage 1 to stage 2.

An assessment is performed at each reporting date to determine whether financial assets subject to impairment are credit-impaired. A financial asset is credit-impaired when there is observable evidence that one or more event has occurred that has had a detrimental impact on the estimated future cash flows expected to flow from the asset such as:

- significant financial difficulty of the borrower, issuer or customer
- a breach of contract such as a default (where the counterparty is unlikely to pay its obligations) or being more than 90 days past due
- restructuring of a loan or advance on terms that the group would not otherwise consider
- it is probable that the borrower or customer will enter bankruptcy or other financial reorganisation
- the disappearance of an active market for a security because of financial difficulties

Where the counterparty is assessed to be credit-impaired, the related asset is disclosed in stage 3.

Expected credit loss models and methods

Instrument	Criteria used for assessment of expected credit loss measurement		
	12-month expected credit loss	Lifetime expected credit loss	
	Stage 1 Low credit risk	Stage 2 Not credit-impaired or significant increase in credit risk	Stage 3 Credit impaired or default
Trade and other receivables	Not applicable (simplified approach applied and therefore use lifetime expected credit loss)	Elected to measure loss allowances at an amount equal to the lifetime expected credit losses	Financial asset more than 90 days past due
Finance lease, loans receivable and financial guarantees	Credit risk is assessed as low (where the credit risk rating assigned is equivalent to the globally understood definition of investment grade)	Financial asset more than 30 days past due	Financial asset more than 90 days past due
Investments and financial trading assets and cash and cash equivalents	Credit risk is assessed as low (where the credit risk rating assigned is equivalent to the globally understood definition of investment grade)	Significant increase in credit risk since initial recognition but there is no objective evidence of loss (ie the counterparty is still considered likely to pay its obligations)	There is objective evidence that the counterparty is unlikely to pay its obligations

Derecognition

Financial assets are derecognised when the right to receive cash flows from the assets has expired or substantially all the risks and rewards of ownership have transferred from the group. Realised gains or losses on derecognition are determined using the last-in-first-out (LIFO) method. Gains and losses, including those accumulated in other comprehensive income, are recognised in profit or loss.

The gross carrying amount of a financial asset is written off when the group has no reasonable expectation of recovering a financial asset.

2.10.2 Financial liabilities (excluding derivatives)

Classification

Financial liability balances have been classified as either amortised cost or other liabilities.

Measurement

Initial recognition

Financial liabilities are measured at fair value on the date of commitment (trade date). Where financial liabilities are carried at amortised cost, transaction costs are included in the value of the financial liability. Where financial liabilities are carried at fair value through profit or loss, transaction costs are recognised in profit or loss. Fees paid on the establishment of loan facilities are recorded as a payment made in advance where it is probable that some or all of the facility will be drawn down. Refer to note 2.9. The fees paid are recognised as transaction costs upon drawdown and then amortised to profit or loss within finance costs from the date of first drawdown to final maturity of each facility.

After initial recognition

Financial liabilities at amortised cost are measured at amortised cost using the effective interest method. Financial liabilities classified as at fair value through profit or loss are measured at fair value. The group did not designate any financial liabilities at fair value through profit or loss.

Derecognition

Financial liabilities are derecognised when the obligation expires, is discharged or cancelled, or there is a substantial modification to the terms of the liability. Realised gains and losses are determined using the LIFO method.

2.10.3 Derivatives held for risk management

Classification and measurement

These balances are not managed on a held-to-collect and/or for sale business model and the default classification and measurement is therefore at fair value through profit or loss unless they meet the criteria for, and have been designated as, cash flow hedges.

Economic hedges

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

Cash flow hedges

The relationship between hedging instruments and hedged items as well as risk management objectives and the strategy for undertaking various hedging transactions are documented at the inception of a transaction. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

It is expected that the values of the hedging instrument and hedged item will move in opposite directions as a result of the hedged risks (foreign exchange and interest rate risks).

The hedge ratio is based on a hedging instrument with the same notional amount in currency terms as the hedged item or portion thereof designated for hedge accounting. This results in a hedge ratio of 1:1 or 100%.

2. Summary of significant accounting policies (continued)

2.10 Financial instruments (continued)

2.10.3 Derivatives held for risk management (continued)

Classification and measurement (continued)

Cash flow hedges (continued)

Significant day-one gains and losses are deferred in the statement of financial position (derivatives held for risk management) and amortised on a straight-line basis over the term of the hedging instrument to profit or loss. Unamortised day-one gains and losses are written off to profit or loss if the related financial instrument is derecognised (extinguished) before maturity date. Day-one gains and losses on hedging instruments are predominantly a function of the inclusion of credit, liquidity and other risks in the terms of the trading instrument. These risks are not included in the determination of a hypothetical derivative used to measure fair value movements in a hedged item and are therefore excluded from any hedge accounting relationships.

The effective realised and unrealised portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income within the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within net fair value and foreign exchange gain/loss on financial instruments.

Cumulative gains or losses existing in other comprehensive income where the hedged item is a non-financial asset are included in the initial carrying amount of the asset when the forecast transaction results in the recognition of a non-financial asset. Gains and losses recognised in the cash flow hedge reserve in other comprehensive income will affect profit or loss in the periods during which the relevant non-financial assets are expensed to profit or loss.

Cumulative gains or losses existing in other comprehensive income where the hedged item is a financial liability are taken to profit or loss within finance cost or net fair value and foreign exchange gain/loss on financial instruments when the cash flows occur on the hedged financial liability.

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

Sources of ineffectiveness include the following:

- period mismatches between the hedging instrument and hedged item
- the fair value of the hedging instrument at the hedge relationship designation date (if not zero)
- the fair value or cash flow of the hedged item and hedging instrument are dependent on different variables

2.10.4 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.

Embedded derivatives that are not separated from the host contract are effectively accounted for as part of the hybrid instrument. Non-option based derivatives are separated on terms that result in a fair value of zero at the date of inception. Option-based derivatives are separated on the terms stated in the contracts and will not necessarily have a fair value equal to zero at the initial recognition of the embedded derivative resulting in day-one gains or losses. These day-one gains or losses are recognised over the period of the agreement. The fair value will depend on the strike price at inception.

The determination of the host contract of an electricity contract (which includes an embedded derivative) is based on the standard electricity tariff specified in the contract and where no standard tariff is specified, the tariff that would best fit the profile of such a customer.

The changes in fair value of embedded derivatives are recognised in profit or loss within net fair value and foreign exchange gain/loss on financial instruments. The impact of the fair value gains or losses is taken into account in the calculation of current and deferred taxation.

2.10.5 Repurchase and resale agreements

Repurchase agreements are included in financial trading liabilities or financial trading assets dependent on whether securities are bought or sold. Agreements to resell securities are recorded as repurchase agreements and included in financial trading assets when the securities are bought for market-making activities. The difference between the sale and repurchase price or purchase and resale price is treated as interest accrued over the life of the repurchase or resale agreement using the effective-yield method.

2.10.6 Financial guarantees

Financial guarantees are contracts that require the group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially measured at fair value and subsequently at the loss allowance calculated in accordance with IFRS 9 *Financial instruments*.

2.11 Future fuel supplies

Coal

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

Nuclear

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

2.12 Inventories

Coal, liquid fuel, maintenance spares and consumables

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

Nuclear fuel

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

2.13 Share capital

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

2.14 Income tax

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

2.15 Deferred tax

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

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- temporary differences relating to investments in subsidiaries and associates to the extent that the group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is also recognised in respect of temporary differences arising on the assets and provisions created in respect of decommissioning and nuclear waste management and closure, pollution control and rehabilitation. Future taxable profits are determined based on business plans for legal entities in the group.

2.16 Payments received in advance, contract liabilities and deferred income

Customer connections

Customer connections arise when customers make a contribution to Eskom to construct regular distribution and transmission assets or when the constructed assets are transferred to Eskom to connect customers to the electricity network. Contributions are made in advance, in terms of a financing agreement or the completed assets are transferred to Eskom.

Customer connections received in advance are initially recognised as payments received in advance.

The related customer connections that arise when customers transferred distribution and transmission assets to Eskom to connect to the electricity network are accounted for when the customer hands over the completed assets to Eskom.

Connections for electricity customers that were connected after 1 April 2018 (transition date to IFRS 15)

When the connection provides the customer with a material right, the connection is allocated to deferred income (contract liabilities) when the customer is connected to the electricity network. The deferred income is recognised in profit or loss within revenue on a straight-line basis over the estimated customer relationship period as the connection provides the customer with a material right of renewal that extends the revenue recognition period beyond the initial contractual period.

When the connection does not provide the electricity customer with a material right, the connection is recognised in full in profit or loss within revenue when the customer is connected to the electricity network.

Connections for electricity customers that were connected after 30 June 2009 but before 1 April 2018

Connections were recognised in profit or loss when the customer was connected to the electricity network in terms of IFRIC 18 *Transfers of assets from customers*.

Connections for electricity customers that were connected before 30 June 2009

Connections were allocated to deferred income when the customer was connected to the electricity network. The deferred income is recognised in profit or loss within revenue on a straight-line basis over the expected useful lives of the related assets.

Refer to note 2.19 for revenue recognition of connections.

2. Summary of significant accounting policies (continued)

2.16 Payments received in advance, contract liabilities and deferred income (continued)

Grants

Government grants for electrification are initially recognised in payments received in advance and allocated to deferred income when the related asset has been connected to the electricity network. The deferred income is recognised in profit or loss within depreciation and amortisation expense on a straight-line basis over the expected useful lives of the related assets.

2.17 Employee benefit obligations

Post-employment medical benefits

All permanent employees qualify for post-employment medical benefits, except for new employees appointed on or after 1 June 2003 at a managerial level. The entitlement to post-employment medical benefits is conditional on the employee remaining in service up to retirement when the employee qualifies for the full benefit. Retirement includes any early retirement from age 55 up to normal retirement at age 65.

The group accounts for its post-employment medical benefits obligation as a defined benefit plan in line with IAS 19. The post-employment medical benefits plan is unfunded. The cost to the employer, in the form of employer contributions, is actuarially determined by using the projected unit credit method at reporting date. The present value of the obligation is determined by using government bonds which have maturities similar to the liability. Provision is made for the estimated cost over the period until the date of early retirement at age 55 when further service by the employee will lead to no material amount of further benefits to the employee. Actuarial gains or losses are recognised in other comprehensive income within re-measurements of post-employment medical benefits. Interest and other expenses related to these benefits are recognised in profit or loss.

Occasional and service leave

The liability for occasional and service leave is of a long-term nature in terms of IAS 19 as it is not expected to be settled wholly within 12 months after the reporting period, but there is no unconditional right to defer settlement for at least 12 months after the reporting period. The full provision is therefore presented as current in the statement of financial position.

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

Annual and performance bonus

The annual and performance bonus is a short-term employee benefit which is expensed as the related services are provided. A liability is recognised for the amount expected to be paid if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. A liability for annual bonuses is accrued on a proportionate basis as services are rendered. A liability for performance bonus is raised on the estimated amount payable in terms of the incentive scheme, which is based on the business and employees' performance in the applicable year.

Pension benefits

Details of the pension benefits

All permanent employees of the group are members of the Eskom Pension and Provident Fund (EPPF) in terms of its rules and conditions. Pension benefits are provided to all pensioners of the fund in terms of the rules of the fund.

The EPPF is registered as a defined benefit fund in terms of the requirements of the Pension Funds Act. The assets of the fund are legally separated from the group and are managed by an independent board of trustees who has to act in the best interests of the plan participants.

Eskom Holdings SOC Ltd is the majority employer in the EPPF. Other employers include Eskom Rotek Industries SOC Ltd. The fund is measured as a whole and there is currently no policy in place for proportionate allocation of net assets to individual entities of the group.

Contributions currently comprise 20.8% of pensionable emoluments of which 12.25% is contributed by the employer and 7.3% by members.

Pension benefits currently provided by the EPPF is based on a defined formula of 1.085/600 of the final average emoluments and pensionable service period. The formula does not limit the benefits payable to the assets and contributions made to the fund. However, the rules of the fund state that any deficit on the valuation of the fund will be funded by increases in future contributions (if consented to by the employer) or reductions in pensioner benefits (as agreed by the members).

If there is a substantial surplus on the valuation of the fund, future contributions may be decreased or pensioner benefits may be improved as determined and appropriated by the trustees of the fund.

Classification

Although the promised benefits to the members are not limited to the assets available in the fund as well as the contributions made as in a normal defined contribution plan in terms of IAS 19, a judgement was made to classify the EPPF as a defined contribution plan in terms of IAS 19 because of the following considerations:

- the group pays a fixed contribution to the fund and has no legal or constructive obligation to make good a shortfall should it arise
- an independent legal opinion during the year confirmed that Eskom has no legal obligation to fund any shortfall that may arise
- as the fund has been in a net asset position since its commencement, Eskom has not previously provided any additional contributions to meet the benefits payable as per the benefit formula

The classification as a defined contribution plan is consistent with the prior period classification.

However, as the rules provide Eskom the right to consent to an increase in contributions, it created uncertainty as to the existence of the obligation, ie as the fund rules provide for the future option of an increase in contributions should a deficit arise, the fund could be assessed as a defined benefit fund. If the fund had to be accounted for as a defined benefit fund, the relevant disclosure has been made in note 29.4. The impact on the financial statements would be immaterial as the fund is in a net asset position.

Contributions to the fund are expensed in the period in which they have been incurred.

2.18 Provisions

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

The valuation of long-term provisions requires a degree of judgement regarding the future cash flows and the timing thereof. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision due to the passage of time is recognised as finance costs.

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

The main categories of provisions include the following:

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

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

A provision is also raised for the management of fuel assemblies and radioactive waste, which is recognised and measured based on the latest available cost information and spent fuel management methodologies. The costing and methodologies are revised on a regular basis to ensure alignment with the requirements of the National Nuclear Regulator of South Africa. The cost for the fuel assemblies is included in the cost of inventory while the fuel is in the reactor. The cost relating to radioactive waste is charged to profit or loss within primary energy.

Mine-related closure, pollution control and rehabilitation

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

Coal-related obligations

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

Other

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

2.19 Revenue from contracts with customers

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

Revenue is recognised when a customer obtains control of the goods or services supplied. The amount of revenue recognised is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Eskom has a statutory obligation to charge value added tax (VAT), payable to the South African Revenue Service (SARS), when an invoice is created. The VAT is contractually recoverable from the customer and is included in trade and also receivables (refer to note 20).

Customers that fail the collectability criterion are accounted for on a cash basis and revenue is only recognised when cash is received (refer to note 5.5). An invoice is still raised for sales to these customers which gives rise to a related VAT entry that is allocated to trade and other receivables, even though the transaction price is not recognised in terms of IFRS 15. When cash is received from the customer, the transaction price is recognised in profit or loss within revenue, and the related payment for VAT is allocated against the trade and other receivables balance.

2. Summary of significant accounting policies (continued)

2.19 Revenue from contracts with customers (continued)

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

Revenue activity	Nature and timing of satisfaction of performance obligation, including significant payment terms	Revenue recognition
Electricity sales	Performance obligation is settled when electricity is supplied to the customer. Most customers pay for electricity after consumption and have between 15 and 45 days to pay. Some customers prepay for electricity	Revenue is recognised over time as electricity is consumed by the customer (ie when control is transferred) and is billed for on a monthly basis. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties
Connections	Connections arise when customers make a contribution to Eskom to construct regular distribution and transmission assets or when the constructed assets are transferred to Eskom to connect customers to the electricity network	Connections that were completed before 30 June 2009 were allocated to deferred income when the customer was connected to the electricity network. The deferred income is recognised in profit or loss within revenue on a straight-line basis over the expected useful life of the related assets Connections that were completed after 30 June 2009 were recognised as revenue when the customer was connected to the electricity network in terms of IFRIC 18 *Transfers of assets from customers*
	Connections arise from contracts with customers who will also become electricity purchasing customers once they are connected and those who will not purchase electricity (eg property developers)	Connections that were completed from 1 April 2018 are recognised as follows: • connections relating to electricity purchasing customers where there is a material right are allocated to deferred income when the customer is connected to the electricity network. The deferred income is recognised in profit or loss within revenue on a straight-line basis over the estimated customer relationship period of 25 years. Refer to note 28 for the contract liabilities of connections recognised on a straight-line basis • connections relating to electricity purchasing customers where there is not a material right are recognised as revenue over the initial contract term • connections relating to non-electricity purchasing customers are recognised as revenue at a point in time when the customer is connected to the electricity network
Other	*Ad hoc* requests for electricity-related services that are distinct from the sale of electricity or the connection of customers to the grid	Revenue is recognised at a point in time when the service is completed

The assessment to defer revenue for connection charges from electricity customers required judgement because of divergent international treatments based on contract and operational differences. Changes to the recognition of customer connections is not expected based on the current information available.

The assessment of whether or not a connection charge is a material right or not in terms of IFRS 15 requires judgement of what constitutes a material right from the perspective of the customer and results in different accounting treatments as discussed above.

2.20 Finance income

Finance income comprises interest receivable on loans, trade receivables, finance lease receivables and income from financial market investments.

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

2.21 Finance cost

Finance cost comprises interest and fees payable on debt securities and borrowings and lease liabilities, interest resulting from derivatives held for risk management and interest from the unwinding of discount on liabilities. Borrowing costs which are not capitalised are recognised in profit or loss. Refer to note 2.7.

2.22 Assets and liabilities held-for-sale

Assets and liabilities (or disposal groups) which meet the definition of held-for-sale under IFRS 5 *Non-current assets held-for-sale and discontinued operations* are stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction.

2.23 Net debt

Gross debt is the aggregate of debt securities and borrowings and lease liabilities.

Net debt is calculated by adjusting gross debt for related payments made in advance, derivatives held for risk management, financial trading instruments and cash and cash equivalents.

3. COVID-19 considerations

The World Health Organisation declared COVID-19 as a pandemic on 11 March 2020. A National State of Disaster was declared in South Africa and a nationwide lockdown was implemented on 27 March 2020 to reduce the spread of COVID-19. The national lockdown was initially implemented for 21 days and subsequently extended. A five-level risk-adjusted lockdown strategy was implemented thereafter, with level 5 being the highest level. The country gradually moved down to the current level 1 on 21 September 2020 with the state of disaster extended to 15 November 2020.

The impact of the lockdown on Eskom's operations was not that severe as the generation and provision of electricity was declared an essential service. It resulted in a significant reduction in electricity demand during the initial lockdown period but this subsequently recovered, albeit not to pre-lockdown levels, mainly as a result of the adverse impact of COVID-19 restrictions on the economy.

Management applied its best estimates based on information available regarding the impact of COVID-19 on the annual financial statements. The actual results may differ from the estimates because of the uncertainty regarding the impact of the lockdown restrictions.

The following considerations were taken into account in the preparation of the annual financial statements because of the impact of COVID-19:

3.1 Going concern

The cash flow projections for 2021 to 2023 have been updated with the expected impact of COVID-19. The going-concern assessment is discussed in note 4.

3.2 Revenue recognition

There was no change in the assumptions for the recognition of revenue from contracts with customers as a result of COVID-19 as it was considered highly probable that customers will satisfy their obligations. There were no modifications to the terms and conditions of the agreements with customers because of COVID-19.

3.3 Financial instruments and risk management

There were no modifications to financial instrument contracts nor breaches of debt-related covenants at 31 March 2020 and subsequently to the date of issue of these financial statements.

The group continues to apply its risk management framework. No significant concentration risks have been identified as a result of COVID-19 and the group continues to have access to its existing lines of credit as disclosed in the financial statements. The sensitivities disclosed remain valid in the current economic environment for all assumptions and estimates applied.

Fair value

Fair values reflect the latest data available at the reporting date. The impact of COVID-19 was considered in the determination of the fair value measurement and disclosure and no material impact was noted. The appropriateness of inputs, fair value hierarchy classifications, transfers between fair value hierarchy and unobservable inputs relating to level 3 fair value hierarchy were considered.

Expected credit loss calculations

The expected credit loss methodology (except where indicated otherwise) and the definition of default remained consistent from those applied previously. The approach followed to calculate expected credit losses on financial assets are discussed in note 5.

The group applied judgement in determining whether a significant increase in credit risk had occurred as a result of COVID-19 and no indicators of a significant increase were identified at the reporting date.

The impact of COVID-19 on the provision at 31 March 2020 has been calculated based on the group's best estimate using information available at the time of preparation of the financial statements and includes forward-looking assumptions.

The probability of default for all models (except small power user trade receivables) were increased to reflect the forward-looking stress scenario impact of COVID-19 in a manner similar to that observed by Standard & Poor's during the 2008 financial crisis as this was determined to be the most appropriate stress scenario.

In addition, the base scenario that was considered the most appropriate for the municipality models (scorecard approach) assumed a 'V' shaped recovery as the expectation was that there will be a significant economic disruption while social distancing measures are in place followed by an expected sharp recovery when the restrictions are lifted. The probabilities of default and key financial ratios used to assess the municipal trade receivables have also been adjusted to reflect the latest South African sovereign rating downgrade.

The probability of default of the expected credit loss models was adjusted despite the acyclical probability of default behaviour observed historically due to the severity of the COVID-19 impact and the global point-in time probability of default reported by external rating agencies.

An alternative methodology was applied to small power users given the trend of increased probability of default observed over the financial year, which were higher than the 2008 financial crisis stress scenario. The increase in the probability of default for small power users was based on the largest observed historical quarterly increase.

Hedging

The hedged future cash flows remained highly probable at 31 March 2020 based on external information and there was therefore no impact on hedge accounting as a result of COVID-19. Increased counterparty credit risk had a limited impact on the measurement of hedge ineffectiveness.

3. COVID-19 considerations (continued)

3.3 Financial instruments and risk management (continued)

Embedded derivatives

The key financial assumptions used in the valuation of embedded derivatives reflect the latest data available at the reporting date and no material impact was noted as a result of COVID-19.

3.4 Impairment of non-current assets

The methodology, key assumptions and sensitivity analysis of the impairment assessment of the CGU is disclosed in note 10.

The assumptions regarding the expected electricity demand for 2021 have been revised to take the impact of COVID-19 into account. There was no impact on the discount rates as they relate to parameters associated with longer-term assets.

3.5 Inventory

There were no adjustments required to the carrying values of inventories due to the impact of COVID-19.

3.6 Employee benefit obligations

The key financial assumptions applied in the valuations of post-employment medical benefits and leave provisions reflect the latest data available at the reporting date. No revision to the assumptions were deemed necessary as they relate to longer-term obligations and would therefore not be impacted by COVID-19.

3.7 Provisions

The key financial assumptions applied in the valuations of power station-related environmental restoration and mine-related closure, and pollution control and rehabilitation provisions reflect the latest data available at the reporting date. No revision to the assumptions were deemed necessary as they relate to longer-term obligations and would therefore not be impacted by COVID-19.

No material impact was noted on other provisions as a result of the COVID-19 outbreak. No onerous provisions were identified for expected losses as a result of COVID-19.

3.8 Leases

There were no modifications to lease agreements due to the impact of COVID-19.

3.9 Taxation

Legislative changes made in response to COVID-19 were assessed and it was concluded that there was no impact on the group.

The impact of COVID-19 is not expected to impact the recognition of the deferred tax assets. The utilisation of the deferred tax asset that arise out of the unused tax loss position, is dependent on the reversal of taxable temporary differences and not on future taxable profits.

4. Capital management and going concern

4.1 Capital management

The objective of capital management is to ensure that the group is sustainable over the long term. The government, as the sole shareholder, and the board have the responsibility to ensure that the group is adequately capitalised and that the business is attractive to investors.

The group's funding consists of equity investments by the shareholder, funds generated from operations and funds borrowed on local and foreign debt markets with strong government support. There were no changes to the group's approach to capital management during the financial year. The following capital reserves are managed:

		Group		Company	
		2020	2019	2020	2019
	Note	Rm	Rm	Rm	Rm
Share capital	25	132 000	83 000	132 000	83 000
Accumulated profit		64 653	78 633	48 208	64 073
Net debt	45	415 190	430 820	420 395	435 771
		611 843	592 453	600 603	582 844
Facilities available – debt securities and borrowings[1]		61 373	58 732	61 373	58 732

4.1.1 Share capital

An additional R49 billion of shares was issued during the year. To facilitate this, the authorised share capital was increased by 200 billion shares.

4.1.2 Accumulated profit

Revenue

Eskom analyses the Integrated Resource Plan (which forecasts the growth in long-term electricity demand) and evaluates the alternative options to meet and manage forecast demand. This information impacts the planning process and informs the revenue applications made to NERSA for tariff increases that will allow Eskom to be financially sustainable.

Refer to the turnaround plan section in the directors' report for more information on electricity tariffs.

1. Facilities in foreign currency are converted to rand at mid-spot rate at reporting date. Refer to note 6.2.1.

Operating cost

The group continues to pursue cost-saving opportunities to assist in ensuring financial sustainability.

The following income statement measures are monitored by management:

	Group		Company	
	2020	2019	2020	2019
	%	%	%	%
EBITDA margin	18.55	17.46	17.74	16.21
Net profit margin	(10.28)	(11.63)	(11.20)	(13.00)

4.1.3 Net debt

	Group		Company	
	2020	2019	2020	2019
	Rm	Rm	Rm	Rm
Funding spent	97 036	105 644	95 848	105 562
Debt repayment and net finance costs	70 025	69 442	70 246	69 547
Investment funding requirements	27 011	36 202	25 602	36 015
Funding raised	97 036	105 644	95 848	105 562
Cash from operations	36 207	32 740	34 714	32 118
Financing activities	81 706	58 509	81 795	58 959
Utilisation of cash	(20 877)	14 395	(20 661)	14 485

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

		Group		Company	
	Unit	2020	2019	2020	2019
Net debt : equity	Ratio	2.23	2.87	2.48	3.22
Net debt : EBITDA	Ratio	11.22	13.71	11.88	14.94
Net debt service cover	Ratio	0.52	0.47	0.49	0.46
Free funds from operations : net debt	%	9.31	6.74	10.35	8.86

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

	Rating		Outlook	
	2020	2019	2020	2019
Standard & Poor's				
Foreign currency	CCC+	BB-	Negative	Negative
Local currency	CCC+	BB-	Negative	Negative
Moody's				
Foreign currency	B2	Ba1	Negative	Negative
Local currency	B2	Ba1	Negative	Negative
Fitch Ratings				
Foreign currency	–	–	Negative	Negative
Local currency	BB-	BBB	Negative	Negative

Net debt is sourced globally to ensure the lowest cost of funding. Where funds are received and have not yet been spent, they are invested to provide the maximum possible return while ensuring minimal capital risk and matching the maturity term requirements of the spending of the amount. Additionally, market-making activities are undertaken to reduce the cost of bonds.

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

Refer to note 45 for a reconciliation of the movements and analysis of the composition of net debt.

4. Capital management and going concern (continued)

4.2 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 R30.8 billion in 2021 (64% of the funding for 2021 had been secured by September 2020)
- 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 31 March 2020 including the net loss after tax of R20 502 million and the net current liabilities of R16 515 million
- noted the further deterioration of some of the group's financial indicators
- considered the impact of the cash flow forecast for the 24 months ending 31 March 2022 and the projected net loss pre-tax for 2021, estimated at R30 775 million per the latest projections. The cash flow forecast has been revised and updated with the latest expectations, including the expected impact of the COVID-19 pandemic on the operations of the Eskom group
- 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 R56 billion in the 2021 financial year and R33 billion in 2022. The board is managing the conditions relating to the support that was allocated through the Special Appropriation Act in November 2019
- 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 South Africa's electricity supply industry
- the board continues with the process of separating the business into the main line divisions (functional unbundling of Eskom) in accordance with the special paper. Plans are being developed to determine the process, timing and implications of Eskom's legal unbundling including legislative changes, legal structure and ownership as well as addressing Eskom's debt challenge including the impact of loan covenants
- Progress on the court proceedings lodged by Eskom against NERSA include:
  - revenue decision for 2020 to 2022 (MYPD 4): The court ruled that the MYPD 4 determination is reviewed and set aside and that Eskom recover the R69 billion in a phased manner over a three-year period from 2022. NERSA has applied for leave to appeal the phasing of the recovery. The appeal was granted on 6 October 2020
  - revenue decision for 2019: The court determined that the revenue decision was procedurally unfair, irrational, unreasonable and unlawful. Eskom submitted a supplementary application to NERSA to recover the costs had a lawful decision been made. NERSA has decided to undertake a public consultation process and it is envisaged that a final outcome will be determined by NERSA on 26 February 2021
  - RCA decision for 2015 to 2017 (MYPD 3): The judgement sets aside the RCA and accepts that Eskom put forward a case for relief in areas where NERSA did not implement its methodology and past precedent. NERSA is required to urgently reconsider its RCA balance decision. NERSA has decided to undertake a public consultation process and it is envisaged that a final outcome will be determined by NERSA on 26 February 2021
  - RCA decision for 2018: Eskom submitted its founding affidavit on the review to NERSA on 9 April 2020. NERSA has indicated that it would oppose this review application
- 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 presidential task team
- the group will not embark on any further generation expansion activities in the foreseeable future after the completion of the Kusile power station project
- funding options, with the support of National Treasury, are being pursued to implement the group's borrowing programme
- there is continued focus 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, with shareholder support, to be able to continue its operations for the foreseeable future as a going concern.

5. Critical accounting estimates and assumptions

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The methods and types of assumptions used in preparing the sensitivity analyses did not change compared to the previous period. Sensitivity analyses are calculated based on a change in a single assumption keeping all other assumptions constant. In practice, this is unlikely to occur and changes in some assumptions may be correlated.

5.1 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.

The embedded derivatives consist of the following categories:

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

Valuation

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

2020		Year ended 31 March					
Input	Unit	2020	2021	2022	2023	2024	2025
Aluminium price	USD per ton	1 499	1 595	n/a[1]	n/a[1]	n/a[1]	n/a[1]
Volatility	Year-on-year (ratio)	0.17	0.17	0.17	0.17	0.17	0.17
Rand interest rates	Continuous actual/365 days (%)	6.40	6.09	5.20	5.63	6.01	6.80
Dollar interest rates	Annual actual/365 days (%)	0.33	0.92	0.48	0.46	0.48	0.51
South African PPI	Year-on-year (%)	3.00	5.26	6.15	6.37	4.41	7.31
United States PPI	Year-on-year (%)	(1.97)	(0.14)	1.66	2.05	1.85	1.44
Rand/USD	Rand per USD	17.82	18.76	19.58	20.81	22.24	24.41
Electricity price increase	Year-on-year (%)	5.23	13.87	n/a[1]	n/a[1]	n/a[1]	n/a[1]

2019		Year ended 31 March					
Input	Unit	2019	2020	2021	2022	2023	2024
Aluminium price	USD per ton	1 886	1 969	2 048	n/a[1]	n/a[1]	n/a[1]
Volatility	Year-on-year (ratio)	0.19	0.19	0.19	0.19	0.19	0.19
Rand interest rates	Continuous actual/365 days (%)	6.75	7.93	7.06	7.16	7.24	7.38
Dollar interest rates	Annual actual/365 days (%)	2.52	2.75	2.39	2.32	2.29	2.30
South African PPI	Year-on-year (%)	4.68	5.56	6.33	6.25	6.39	6.59
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	n/a[1]	n/a[1]	n/a[1]

1. *The embedded derivative that is linked to commodity and/or foreign currency rates expires on 31 July 2020. Inputs beyond this date are therefore not relevant.*

5. Critical accounting estimates and assumptions (continued)

5.1 Embedded derivatives (continued)

Valuation (continued)

Sensitivity analysis

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

Input	Unit	Change in assumption	Group and company 2020 increase Rm	2020 decrease Rm	2019 increase Rm	2019 decrease Rm
Aluminium price	USD per ton	1%	8	(8)	32	(32)
Rand interest rates	Continuous actual/365 days (%)	100 basis points	123	(141)	154	(171)
Dollar interest rates	Annual actual/365 days (%)	100 basis points	(101)	97	(117)	115
South African PPI	Index	1%	(50)	47	(129)	116
United States PPI	Index	1%	53	(51)	86	(90)
Rand/USD	Rand per USD	1%	19	(17)	53	(48)

5.2 Post-employment medical benefits

The group recognises a liability for post-employment medical benefits to qualifying retirees. The post-employment medical benefits plan is unfunded.

Valuation

The estimated present value of the anticipated expenditure for both in-service and retired members is actuarially valued using the projected unit credit method. This method treats the accrued service liability separately from the current cost liability. The accrued service liability (on the valuation assumptions) is based on the completed service to the valuation date and the current cost liability is the cost of providing the benefit over the next year.

Valuation assumptions

The principal actuarial assumptions used were:

	Unit	Group 2020	Group 2019	Company 2020	Company 2019
Discount rate	%	13.5	11.0	13.5	11.0
Medical aid inflation	%	9.2	8.4	9.2	8.4
Male longevity	years	14.42	14.42	14.42	14.42
Female longevity	years	20.82	20.82	20.82	20.82
Weighted average duration	years	17.70	18.70	17.80	18.80

Sensitivity analysis

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

	Change in assumption	Group 2020 increase Rm	Group 2020 decrease Rm	Group 2019 increase Rm	Group 2019 decrease Rm	Company 2020 increase Rm	Company 2020 decrease Rm	Company 2019 increase Rm	Company 2019 decrease Rm
Effect on aggregate current service cost and finance cost									
Discount rate	1%	(154)	189	(187)	235	(153)	187	(186)	233
Medical aid inflation	1%	356	(286)	426	(333)	350	(282)	420	(328)
Future mortality	1 year	48	(48)	54	(54)	47	(47)	53	(53)
Effect on post-employment medical benefits obligation									
Discount rate	1%	(1 593)	1 962	(2 094)	2 646	(1 562)	1 925	(2 054)	2 597
Medical aid inflation	1%	1 985	(1 630)	2 641	(2 119)	1 948	(1 598)	2 592	(2 079)
Future mortality	1 year	313	(317)	407	(409)	306	(310)	398	(400)

5.3 Occasional and service leave

The group recognises a liability for occasional and service leave.

Valuation

An actuarial valuation is done on an annual basis for occasional and service leave. The accrued liability is determined by valuing all future leave expected to be taken and payments to be made in respect of benefits up to the valuation date. The present value of the benefits is determined by using the yield of long-dated corporate bonds (or government bonds where high quality corporate bonds are not available).

Valuation assumptions

The principal actuarial assumptions used were:

	Group and company	
	2020 %	2019 %
Discount rate	13.5	11.0
General price inflation	7.2	6.4
Salary increases	8.7	7.9
Leave usage	8.0	4.0

Assumptions regarding future mortality have been based on published mortality tables and statistics derived from experience. For details regarding current longevities underlying the values of the occasional and service leave obligation at the reporting date refer to note 5.2.

Sensitivity analysis

Based on current experience, 8% (2019: 4%) of the leave is utilised. If the rate at which leave is taken is 16% (2019: 8%), then the liability will increase by R101 million (2019: R68 million).

The carrying amount of the occasional and service leave liability for the group is R1 302 million (2019: R1 348 million) and R1 212 million (2019: R1 266 million) for the company.

5.4 Power station-related environmental restoration and mine-related closure, pollution control and rehabilitation

Valuation

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

Valuation assumptions

The real discount rate used for these provisions was 4.8% (2019: 3.4%) for the group and company.

Estimated payment dates

The estimated payment dates of the costs are:

	Group and company	
	2020	2019
Nuclear plant	2026 – 2041	2026 – 2041
Coal and pumped storage plants	2024 – 2098	2024 – 2098
Spent nuclear fuel	2021 – 2125	2020 – 2125
Mine-related closure, pollution control and rehabilitation	2021 – 2077	2020 – 2077

Sensitivity analysis

The carrying amount of the power station-related environmental restoration and mine closure, pollution control and rehabilitation provisions would be an estimated R4 536 million (2019: R6 610 million) lower had the real discount rate used in the calculation of the provision increased by 1% and R5 845 million (2019: R8 857 million) higher had the real discount rate decreased by 1%.

5.5 Revenue from contracts with customers

Customer connections

Connection charges are charged to customers in exchange for connection to Eskom's electricity network. This connection enables Eskom to sell electricity to these customers over the estimated customer relationship period. The customer relationship period refers to the period the customer remains a purchaser of electricity from Eskom at a given point of supply. A period of 25 years was determined after considering, *inter alia*, assumptions about the life-cycle of the distribution network used to supply electricity to customers.

Collectability of amounts receivable

Revenue may only be recognised if it is believed at the time of sale that the revenue is likely to be recovered from the customer. This recoverability requirement is not considered to have been met in contracts with customers who have a poor payments history and for which Eskom does not have the ability to manage the credit risk due to external facts and circumstances (for example socio-economic or political reasons). Eskom accounts for revenue from these contracts on a cash (rather than accrual) basis.

Where the recoverability requirement is met, revenue is recognised on an accrual basis. The risk of non-collection is reflected in the expected credit loss (ECL) as an impairment expense rather than an adjustment to the revenue recognised.

5.6 Expected credit loss on financial assets

The expected credit loss on financial assets is calculated using the following formula:

Expected credit loss = Exposure x Probability of default x Loss given default

The exposure is the amount outstanding less any collateral. The probability of default measures the likelihood that the amount outstanding will become more than 90 days past due. The loss given default measures the expected credit loss in the event that the outstanding amount becomes more than 90 days past due. Cash flows are discounted at the original effective interest rate over the expected recovery period. Where the last cash flow relates to a recovery from SARS through a write off, the recovery period is determined based on current information and past experience limited to a maximum recovery period of five years.

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

5. Critical accounting estimates and assumptions (continued)

5.6 Expected credit loss on financial assets (continued)

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

Financial asset	Model details
International electricity receivables	Expected credit losses were calculated using a benchmark approach that assigns a probability of default to a client based on the size and country in which the client operates. The benchmark levels are based on a study performed by the Bank of International Settlements and external agency benchmark data. Credit ratings were assigned to these categories which were then used to determine the probability of default. These probabilities of default are considered to represent a long-run average over an economic cycle. The through-the-cycle probability of default was used to estimate the expected credit loss due to the lack of data showing a relationship between the probability of default and macro-economic factors across the various jurisdictions. It is expected that international electricity receivables will behave in an a-cyclical manner similar to local electricity receivables and therefore no forward-looking adjustments were made. The loss given default was aligned to the corporate loss given default based on the South African Reserve Bank (SARB) requirements
Local large and small power user electricity receivables (excluding municipalities)	Expected credit losses were calculated using a provision matrix which utilises a transition approach. The probability of default relevant to balances with similar characteristics was determined by analysing their most recent historical loss rates. Default probabilities are not thought to be sensitive to changes in South African macro-economic factors such as gross domestic product (GDP) and unemployment rates due to their short-term nature and therefore no forward-looking adjustment was made. The loss given default was calculated using the long-run average recovery rates
Municipality electricity receivables	Expected credit losses were calculated using a scorecard approach. Key financial ratios were calculated based on the latest signed municipality annual financial statements. Default probabilities are not believed to be sensitive to changes in South African macro-economic factors such as GDP and unemployment rates due to their short-term nature and therefore no forward-looking adjustment was made. The loss given defaults are based on the long-run average recovery rates
Intercompany loans receivable	The expected credit losses were calculated using a dual rating approach, which relies on key financial ratios to determine a through-the-cycle probability of default. The through-the-cycle probability of default was updated with economic information to produce a point-in-time probability of default, which is consistent with the current and future forecasted economic conditions. The loss given default was aligned to the corporate loss given default based on the South African Reserve Bank (SARB) requirements
Intercompany trade and other receivables	The estimates of the probability of default were based on the external rating of Eskom mapped to an internal rating scale. These probabilities of default are considered to represent a long-run average over an economic cycle. Probability of default data for listed corporates shows that default rates are sensitive to changes in South African GDP and therefore a forward-looking adjustment factor was calculated using a macro-economic forecast. The probability of default was not adjusted as the forward-looking adjustment factor was not material. The loss given default was aligned to the corporate loss given default based on the SARB requirements
Other receivables, finance lease receivables and loans receivable	Expected credit losses were calculated using a benchmark approach that assigns a probability of default to a client based on the size and country in which the client operates. The benchmark levels are based on a study performed by the Bank of International Settlements and external agency benchmark data. Credit ratings were assigned to these categories which were then used to determine the probability of default. These probabilities of default are considered to represent a long-run average over an economic cycle. Probability of default data for listed corporates shows that default rates are sensitive to changes in South African GDP and therefore a forward-looking adjustment factor was calculated using a macro-economic forecast. The probability of default was not adjusted as the forward-looking adjustment factor was not material. The loss given default was aligned to the corporate loss given default based on the SARB requirements
Investments, financial trading assets and financial guarantees	The estimates of the probability of default were based on the external credit ratings of the counterparts using an external rating scale mapped to an internal rating scale. These probabilities of default are considered to represent a long-run average over an economic cycle. Probability of default data for listed corporates shows that default rates are sensitive to changes in South African GDP and therefore a forward-looking adjustment factor was calculated using a macro-economic forecast. The probability of default was not adjusted as the forward-looking adjustment factor was not material. The loss given default was aligned to the corporate loss given default based on the SARB requirements

5.7 Pension benefits

The facts and circumstances taken into account in determining the accounting treatment of the EPPF are disclosed in note 2.17 and note 29.4.

6. Financial risk management

The group's integrated risk and resilience management process enables management to assess and respond to all material risks that may affect the achievement of organisational objectives.

The group maintains an integrated risk and resilience management framework comprising governance structures, management policies and guidance standards with a focus on risk and resilience assessments, treatment plans, monitoring and reporting. The management of financial risks, as defined by IFRS 7 *Financial instruments: disclosures*, falls within these overarching structures, policies and standards.

The management of financial risks is delegated by the board to the audit and risk committee. Day-to-day management of financial risks is carried out in the area in which the risks arise. Risk assessments, treatment plans and monitoring measures are reported to the audit and risk committee on a quarterly basis.

The group's exposure to risk, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented.

The group has exposure to the following risks as a result of its financial instruments:

- credit risk – the risk of financial loss to the group if a customer or other counterparty to a financial instrument fails to meet its contractual obligations
- market risk – the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates, commodity prices, interest rates or equity prices
- liquidity risk – the risk that the group will not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost

6.1 Credit risk

The carrying amounts of financial assets represent the maximum credit exposure. The group's maximum exposure as a result of financial guarantees issued is disclosed in note 46.1.

6.1.1 Trade and other receivables

Impairment analysis

	2020								
	Stage 2			Stage 3			Total		
	Gross Rm	Allowance for impairment Rm	Carrying value Rm	Gross Rm	Allowance for impairment Rm	Carrying value Rm	Gross Rm	Allowance for impairment Rm	Carrying value Rm
Trade receivables									
Group and company									
International	1 144	(13)	1 131	456	(205)	251	1 600	(218)	1 382
B- to BB+	1 064	(9)	1 055	456	(205)	251	1 520	(214)	1 306
Below B-	80	(4)	76	–	–	–	80	(4)	76
Local large power users – municipalities	8 072	(630)	7 442	4 641	(2 742)	1 899	12 713	(3 372)	9 341
BBB- to AAA	5 374	(5)	5 369	–	–	–	5 374	(5)	5 369
B- to BB+	1 126	(9)	1 117	2	(1)	1	1 128	(10)	1 118
Below B-	1 572	(616)	956	4 639	(2 741)	1 898	6 211	(3 357)	2 854
Local large power users – other	7 259	(45)	7 214	387	(310)	77	7 646	(355)	7 291
0 – 30 days	7 097	(20)	7 077	–	–	–	7 097	(20)	7 077
30 – 90 days	162	(25)	137	–	–	–	162	(25)	137
More than 90 days	–	–	–	387	(310)	77	387	(310)	77
Local small power users – Soweto	121	(36)	85	2 792	(2 206)	586	2 913	(2 242)	671
0 – 30 days	32	(10)	22	–	–	–	32	(10)	22
30 – 90 days	89	(26)	63	–	–	–	89	(26)	63
More than 90 days	–	–	–	2 792	(2 206)	586	2 792	(2 206)	586
Local small power users – other	2 029	(154)	1 875	1 057	(837)	220	3 086	(991)	2 095
0 – 30 days	1 717	(59)	1 658	–	–	–	1 717	(59)	1 658
30 – 90 days	312	(95)	217	–	–	–	312	(95)	217
More than 90 days	–	–	–	1 057	(837)	220	1 057	(837)	220
	18 625	(878)	17 747	9 333	(6 300)	3 033	27 958	(7 178)	20 780
Trade and other receivables									
Group	19 380	(907)	18 473	9 721	(6 605)	3 116	29 101	(7 512)	21 589
Trade receivables	18 625	(878)	17 747	9 333	(6 300)	3 033	27 958	(7 178)	20 780
Other receivables (B- to BB+)	755	(29)	726	388	(305)	83	1 143	(334)	809
Company	21 141	(981)	20 160	9 690	(6 582)	3 108	30 831	(7 563)	23 268
Trade receivables	18 625	(878)	17 747	9 333	(6 300)	3 033	27 958	(7 178)	20 780
Other receivables (B- to BB+)	2 516	(103)	2 413	357	(282)	75	2 873	(385)	2 488

6. Financial risk management (continued)

6.1 Credit risk (continued)

6.1.1 Trade and other receivables(continued)

Impairment analysis (continued)

	2019 Stage 2 Gross Rm	Stage 2 Allowance for impairment Rm	Stage 2 Carrying value Rm	Stage 3 Gross Rm	Stage 3 Allowance for impairment Rm	Stage 3 Carrying value Rm	Total Gross Rm	Total Allowance for impairment Rm	Total Carrying value Rm
Trade receivables									
Group and company									
International	943	(9)	934	810	(702)	108	1 753	(711)	1 042
B- to BB+	843	(7)	836	388	(280)	108	1 231	(287)	944
Below B-	100	(2)	98	422	(422)	–	522	(424)	98
Local large power users – municipalities	7 474	(654)	6 820	4 397	(3 161)	1 236	11 871	(3 815)	8 056
BBB- to AAA	2 717	(1)	2 716	–	–	–	2 717	(1)	2 716
B- to BB+	3 281	(111)	3 170	3	–	3	3 284	(111)	3 173
Below B-	1 476	(542)	934	4 394	(3 161)	1 233	5 870	(3 703)	2 167
Local large power users – other	7 185	(33)	7 152	294	(231)	63	7 479	(264)	7 215
0 – 30 days	6 998	(10)	6 988	–	–	–	6 998	(10)	6 988
30 – 90 days	187	(23)	164	–	–	–	187	(23)	164
More than 90 days	–	–	–	294	(231)	63	294	(231)	63
Local small power users – Soweto	12	(4)	8	4 256	(3 734)	522	4 268	(3 738)	530
0 – 30 days	3	(1)	2	–	–	–	3	(1)	2
30 – 90 days	9	(3)	6	–	–	–	9	(3)	6
More than 90 days	–	–	–	4 256	(3 734)	522	4 256	(3 734)	522
Local small power users – other	1 877	(86)	1 791	853	(692)	161	2 730	(778)	1 952
0 – 30 days	1 604	(25)	1 579	–	–	–	1 604	(25)	1 579
30 – 90 days	273	(61)	212	–	–	–	273	(61)	212
More than 90 days	–	–	–	853	(692)	161	853	(692)	161
	17 491	(786)	16 705	10 610	(8 520)	2 090	28 101	(9 306)	18 795
Trade and other receivables									
Group	18 772	(801)	17 971	10 788	(8 694)	2 094	29 560	(9 495)	20 065
Trade receivables	17 491	(786)	16 705	10 610	(8 520)	2 090	28 101	(9 306)	18 795
Other receivables (B- to BB+)	1 281	(15)	1 266	178	(174)	4	1 459	(189)	1 270
Company	20 015	(829)	19 186	10 764	(8 671)	2 093	30 779	(9 500)	21 279
Trade receivables	17 491	(786)	16 705	10 610	(8 520)	2 090	28 101	(9 306)	18 795
Other receivables (B- to BB+)	2 524	(43)	2 481	154	(151)	3	2 678	(194)	2 484

ECL percentages used

	2020 Stage 2 %	2020 Stage 3 %	2020 Total %	2019 Stage 2 %	2019 Stage 3 %	2019 Total %
Trade receivables						
Group and company						
International	1	45	14	1	87	41
B- to BB+	1	45	14	1	72	23
Below B-	5	–	5	2	100	81
Local large power users – municipalities	8	59	27	9	72	32
B- to BB+	1	50	1	3	–	3
Below B-	39	59	54	37	72	63
Local large power users – other	1	80	5	–	79	4
30 – 90 days	15	–	15	12	–	12
More than 90 days	–	80	80	–	79	79
Local small power users – Soweto	30	79	77	33	88	88
0 – 30 days	31	–	31	33	–	33
30 – 90 days	29	–	29	33	–	33
More than 90 days	–	79	79	–	88	88
Local small power users – other	8	79	32	5	81	28
0 – 30 days	3	–	3	2	–	2
30 – 90 days	30	–	30	22	–	22
More than 90 days	–	79	79	–	81	81
	5	68	26	4	80	33

Age analysis of trade receivables balances past due

	2020 Proportion of balance past due				2019 Proportion of balance past due			
	<1 year %	>1 year %	>2 years %	>3 years %	<1 year %	>1 year %	>2 years %	>3 years %
International	99	1	–	–	71	14	15	–
Local large power users – municipalities	43	30	15	12	52	27	17	4
Local large power users – other	78	7	5	10	70	15	7	8
Local small power users – Soweto	17	24	18	41	14	14	13	59
Local small power users – other	43	24	17	16	45	29	14	12

6. Financial risk management (continued)

6.1 Credit risk (continued)

6.1.1 Trade and other receivables(continued)

Reconciliation of movements in allowance for impairment

	Note	2020 Stage 2 Rm	2020 Stage 3 Rm	2020 Total Rm	2019 Total Rm
Group					
Balance at beginning of the year		800	8 695	9 495	9 575
Raised/(reversed) to the income statement	37	139	(1 082)	(943)	(138)
Reversed on payment of opening balance		(651)	(3 323)	(3 974)	(2 841)
Remeasurement of opening balances held at year end		18	185	203	77
Raised on new balances		772	2 056	2 828	2 626
Transfer of balances between stage 2 and 3		(32)	32	–	–
Finance income on stage 3 balances		–	190	190	153
Writeoffs		–	(1 230)	(1 230)	(95)
Balance at end of the year	20	907	6 605	7 512	9 495
Company					
Balance at beginning of the year		827	8 673	9 500	9 566
Raised/(reversed) to the income statement	37	186	(1 084)	(898)	(124)
Reversed on payment of opening balance		(681)	(3 362)	(4 043)	(2 841)
Remeasurement of opening balances held at year end		15	185	200	77
Raised on new balances		852	2 093	2 945	2 640
Transfer of balances between stage 2 and 3		(32)	32	–	–
Finance income on stage 3 balances		–	190	190	153
Writeoffs		–	(1 229)	(1 229)	(95)
Balance at end of the year	20	981	6 582	7 563	9 500

Security held for trade receivables (guarantees and deposits)

Group and company

	2020 Fair value of security held: Credit impaired receivables Rm	2020 Fair value of security held: Not credit impaired receivables Rm	2020 Fair value of security held: Total Rm	2020 Security called upon Rm	2020 Renegotiated balances Rm	2019 Fair value of security held: Credit impaired receivables Rm	2019 Fair value of security held: Not credit impaired receivables Rm	2019 Fair value of security held: Total Rm	2019 Security called upon Rm	2019 Renegotiated balances Rm
International	–	6	6	–	–	–	5	5	–	–
Local large power users	182	10 771	10 953	19	2 938	162	10 072	10 234	21	2 738
Municipalities	146	531	677	2	2 924	109	489	598	2	2 724
Other	36	10 240	10 276	17	14	53	9 583	9 636	19	14
Local small power users	126	2 268	2 394	43	52	90	2 154	2 244	38	57
Soweto	13	–	13	–	1	–	13	13	–	1
Other	113	2 268	2 381	43	51	90	2 141	2 231	38	56
	308	13 045	13 353	62	2 990	252	12 231	12 483	59	2 795

Additional qualitative information includes the following:

Trade receivables

Credit risk attributable to trade receivables is assessed taking into account the following counterparty characteristics:

- geographic location of the customer (both internationally and within South Africa)
- size of demand (large or small power user)
- receivable ageing profile
- security held (deposits and guarantees)
- payment history

A large number of residential customers are on a prepaid basis thereby eliminating credit risk relating to these customers. Eskom has well-established credit control measures for conventional customers that include:

- increased security deposits and guarantees
- conversion of customers to prepayment
- early identification of and engagement with non-paying customer
- negotiation of mutually acceptable payment arrangements
- disconnection of supply
- use of debt collectors
- taking legal measures such as issuing letters of demand and pursuing adverse listing of defaulting customers

Progress on the collection process is reviewed on a regular basis and if it is evident that the amount will not be recovered, it is recommended for writeoff in terms of the group policy. The process of recovery continues unless it is confirmed that there is no prospect of recovery or the costs of such action will exceed the benefits to be derived. Amounts written off are determined after taking into account the value of security held.

All billed customers must provide revenue security and this requirement can only be waived or deviated from based on sound business decisions. The granting of exemptions or deviations for a customer must be approved according to the revenue security policy.

The main classes of trade receivables are:

International customers

Electricity supply agreements are entered into with key international customers who comprise utility companies, governments of neighbouring countries and sundry large power users. Their payment terms are between 10 and 45 days. Impairment is assessed based on the country-specific risk.

International customers are not required to provide upfront security however if they default, new payment arrangements are negotiated, or supply is curtailed. Certain international customers may be required to pay upfront when their credit risk profile has changed.

The expected credit loss percentage for balances in stage 3 reduced year-on-year because of higher than previously expected payment levels from these counterparties during the year.

Local large power users

Local large power users comprise South African redistributors (metropolitan and municipal) and commercial, industrial and mining customers usually with supplies above 100kVA. Payment terms are individually negotiated and are normally a maximum of 15 days, except for certain bulk redistributing municipalities which are a maximum of 30 days.

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

Certain municipalities continued to fall into arrears during the course of the financial year. Monitoring of these municipal payment levels continues to receive ongoing management attention and remains a high priority focus area.

Interventions include:

- entering into special payment arrangements
- following the Promotion of Administrative Justice Act processes to restrict, interrupt or terminate supply
- restricting electricity supply if the set maximum demand levels are exceeded
- interrupting electricity supply where no recovery plan can be presented and agreed upon between Eskom and the municipality
- terminating supply where no other option is available
- issuing of summonses
- pursuing the attachment of assets

Eskom continues to work closely with the Department of Co-operative Governance and Traditional Affairs and other government departments as well as relevant stakeholders to resolve the systemic challenges which have given rise to municipal arrear debt.

6. Financial risk management (continued)

6.1 Credit risk (continued)

6.1.1 Trade and other receivables(continued)

Trade receivables (continued)

Local large power users (continued)

A large portion of the gross carrying amount owed by municipalities that was over 90 days past due at 31 March 2019 has still not been paid at 31 March 2020 due to the ongoing challenges with defaulting municipalities.

The proportion of the balance made up of VAT recoverable from municipal customers accounted for on the cash basis (refer to note 2.19) has increased from 2019 to 2020. These balances carry a lower impairment percentage as they are recoverable from SARS through a writeoff. As a result the overall expected credit loss has reduced.

Local small power users

Local small power users comprise local customers that have a supply of 100kVA or less in size. Payment terms for small power customers is 30 days.

New customers are required to provide security equivalent to between one and three months' consumption at the commencement of the supply agreement. The level of security is reviewed if a customer defaults on their payment obligation or requires additional electricity supply capacity. In these instances, additional security is required to cover between one and three months of recent consumption before supply will commence. All new customers will preferably be on prepayment terms.

Soweto receivables are an identified high credit risk area subject to specific credit risk management. The collection of revenue from customers in Soweto remains a challenge. The enhancement of credit control strategies and monitoring of payment levels in this area continue to receive management attention. The payment levels expressed as a percentage of billed revenue (excluding interest) for the year was 21% (2019: 13%). The residential revenue management strategy, which includes Soweto, continues to be implemented. The strategy entails implementation of split metering technology, conversion of meters to prepayment, and enforcing Eskom's rights to restrict, interrupt or terminate supply to improve payment levels.

A large portion of the gross carrying amount owed by Soweto that was over 90 days past due at 31 March 2019 has still not been paid at 31 March 2020. The expected credit loss percentage for Soweto receivables reduced because of debt written off in 2020 and more receivables related to VAT recoverable from Soweto customers accounted for on the cash basis (refer to note 2.19). As these balances are ultimately recoverable from SARS through a writeoff, the impairment percentages are effectively lower.

The expected credit loss percentage for small power users (other than Soweto) in the stage 3 category reduced year-on-year due to an improvement in the current year in the recovery of balances that were over 90 days past due.

Other receivables

Other receivables comprise of various sundry receivables. There are no significant balances with specific repayment terms. No security is held in respect of these balances and no interest has been charged on overdue balances.

There were no material changes to the expected credit loss percentages compared to the prior year, other than the impact of COVID-19.

6.1.2 Derivatives held for risk management, financial trading assets and cash and cash equivalents

Impairment analysis

	2020			2019		
	Not subject to impairment	Subject to impairment Stage 1	Total	Not subject to impairment	Subject to impairment Stage 1	Total
	Rm	Rm	Rm	Rm	Rm	Rm
Group						
Derivatives held for risk management	57 636	–	57 636	22 662	–	22 662
BBB– to AAA	19 125	–	19 125	22 662	–	22 662
B– to BB+	38 511	–	38 511	–	–	–
Financial trading assets	–	152	152	103	59	162
BBB– to AAA	–	–	–	103	59	162
B– to BB+	–	152	152	–	–	–
Cash and cash equivalents	–	22 990	22 990	–	2 031	2 031
BBB– to AAA	–	2 516	2 516	–	2 026	2 026
B– to BB+	–	20 472	20 472	–	–	–
Unrated	–	2	2	–	5	5
Company						
Derivatives held for risk management	57 636	–	57 636	22 662	–	22 662
BBB– to AAA	19 125	–	19 125	22 662	–	22 662
B– to BB+	38 511	–	38 511	–	–	–
Financial trading assets	–	152	152	103	59	162
BBB– to AAA	–	–	–	103	59	162
B– to BB+	–	152	152	–	–	–
Cash and cash equivalents	–	22 314	22 314	–	1 517	1 517
BBB– to AAA	–	2 516	2 516	–	1 512	1 512
B– to BB+	–	19 796	19 796	–	–	–
Unrated	–	2	2	–	5	5

The gross values for financial trading assets and cash and cash equivalents approximate their carrying values as the impairments calculated are immaterial.

The asset and liability committee (Alco) manages credit risk arising from the treasury department's activities in the financial markets with the objective of maximising the rate of return on investments while not exceeding approved levels of credit risk exposure. It is chaired by the CFO and reports on a quarterly basis to Exco and the audit and risk committee.

The committee's terms of reference are maintained and approved by the CFO. They are aligned to the Exco credit risk governance standards and are supplemented by appropriate policies and procedures.

Specific activities undertaken by the Alco include the following:

- assessing the credit quality of counterparties and approving credit limits based on this assessment
- monitoring the adherence to credit limits
- approving methodologies for the management of counterparty exposure
- ensuring that, where applicable, transactions with counterparties are supported by trading agreements
- facilitating and managing the issuing of financial guarantees by the group

To assist the Alco to discharge its mandate, the portfolio assessment section within the treasury function provides it with regular feedback on all treasury credit risk-related matters.

The management of credit risk is governed by the following policies:

- trading in financial instruments is only conducted with selected counterparties after credit limits have been authorised
- only financial institutions and/or counterparties with an independent minimum rating of A1 are accepted for investments. If there are no independent ratings, the credit quality of the counterparty is assessed, taking into account its financial position, past experience and other factors
- all exposures are based on mark-to-market values. Transaction or close-out netting takes place in accordance with the terms and conditions of the underlying trading agreements
- minimum credit-rating requirements for financial institutions are maintained to assess the risk categories by rating class and to ascertain the probability of default inherent in each rating class
- approved concentration risk parameters and collateral management procedures are in place. Concentration of credit risk is managed by setting credit risk limits at a counterparty-specific level. Concentration credit risk limits are used as second tier limits in relation to counterparty credit limits. Counterparty-specific exposure is monitored against a set concentration of credit risk limits in relation to the total credit risk exposure to all counterparties

6. Financial risk management (continued)

6.1 Credit risk (continued)

6.1.2 Derivatives held for risk management, financial trading assets and cash and cash equivalents (continued)

Risk is measured by determining a default probability per counterparty using default probabilities assessed by rating agencies for various types of credit ratings. These default probabilities are then applied to the market value of the investment placed to determine the capital at risk.

The treasury department's policies and practices are designed to preserve the independence and integrity of decision-making and ensure credit risks are accurately assessed, properly approved, continually monitored and actively managed.

The following are monitored and reported on:

- aggregate credit risk exposure
- limits utilisation including any breaches
- hold-limit exceptions
- risk profile changes
- risk concentrations

Where the credit risk of a particular counterparty has increased, a reassessment of the valuation of the instrument is made. In making this assessment, the counterparty is assessed for the following factors:

- significance of financial difficulty
- probability of bankruptcy
- probability of breach of contract

6.1.3 Insurance investments

Impairment analysis

	Group						
	Not subject to impairment	Subject to impairment Stage 1			Total		
	Gross	Gross	Allowance for impairment	Carrying value	Gross	Allowance for impairment	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2020							
B– to BB+	–	10 694	(12)	10 682	10 694	(12)	10 682
Not subject to credit risk	1 299	–	–	–	1 299	–	1 299
	1 299	10 694	(12)	10 682	11 993	(12)	11 981
2019							
BBB– to AAA	–	7 951	(5)	7 946	7 951	(5)	7 946
Not subject to credit risk	1 617	–	–	–	1 617	–	1 617
	1 617	7 951	(5)	7 946	9 568	(5)	9 563

There were no material changes to the expected credit loss percentages compared to the prior year, other than the impact of COVID-19.

Escap invests in listed shares and negotiable certificates of deposit (NCD) to satisfy its capital adequacy requirements in line with insurance regulations in South Africa. The listed shares do not expose the group to credit risk. Investments in NCDs are made with banks with an investment-grade credit rating.

6.1.4 Finance lease receivables

Impairment analysis

	Group and company								
	Stage 1			Stage 3			Total		
	Gross	Allowance for impairment	Carrying value	Gross	Allowance for impairment	Carrying value	Gross	Allowance for impairment	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2020									
B– to BB+	376	(6)	370	3	(1)	2	379	(7)	372
2019									
B– to BB+	408	(3)	405	–	–	–	408	(3)	405

Indicators of default in some counterparties in the current year caused the reclassification of outstanding balances to stage 3. There were no other material changes to the expected credit loss percentages compared to the prior year, other than the impact of COVID-19.

The supply of electricity to customers may be in the form of either a standard or premium power supply. A standard power supply is the least life-cycle cost technically acceptable solution as defined in the South African Grid Code and the Distribution Network Code whereas with a premium supply the customer's connection requirement exceeds the specifications of a standard supply. This is achieved through the installation of premium supply equipment for which the customer is required to pay a connection charge. Connection charges for premium supply contracts were repayable on a monthly basis over a maximum period of 25 years. This payment option is no longer available for new premium supplies as the connection charges are payable upfront.

The standard payment terms for trade receivables are also applied to the premium supply equipment connection charge customers. The credit risk exposure resulting from premium supply contracts is managed by monitoring payment levels of the customer's trade receivable balance. There were no significant overdue or distressed balances relating to finance lease receivables in the current or prior financial year. Security in the form of bank guarantees is required from customers before the asset is constructed and is in place for a maximum period of 14 years to cover irrecoverable costs in the event of early termination of the supply contract. In addition, the premium supply equipment serves as security for the outstanding finance lease receivable balance.

6.1.5 Loans receivable

Impairment analysis

	2020 Gross	2020 Stage 1 Allowance for impairment	2020 Carrying value	2019 Gross	2019 Stage 1 Allowance for impairment	2019 Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm
Group						
B– to BB+	56	(2)	54	67	(1)	66
Company						
B– to BB+	5 948	(11)	5 937	6 111	(40)	6 071

The allowance for impairment in the company changed in the current year as the approach to determine the internally generated credit risk rating for the loan to Eskom Finance Company (EFC) was revised. The improved credit score resulted in a reduction in the expected credit loss percentage. There were no other material changes to the expected credit loss percentages compared to the prior year, other than the impact of COVID-19.

The Alco manages credit risk arising from loans receivable from subsidiaries with the objective of reducing costs on the group's consolidated liability.

The credit risk exposure to EFC is capped based on limits set by Alco. Credit risk exposure to home loans granted to employees by EFC is mitigated by:

- having recourse to the value of the underlying properties through mortgage contracts
- having access to garnish payroll deductions from employees

6.2 Market risk

A significant part of market risk encountered by the group arises from financial instruments that are managed centrally within the group's treasury department of the group or from contracts containing embedded derivatives.

The objective of the group's market risk management framework is to protect and enhance the statement of financial position and profit or loss by managing and controlling market risk exposures and to optimise the funding of business operations and facilitate capital expansion.

The basis for calculating risk and sensitivity measures are consistent with the prior year. Sensitivity analyses assume that only the input being analysed changes with all other variables remaining constant.

Financial instruments mainly managed by the treasury department

The treasury department is responsible for managing market risk within the risk management framework approved by Exco and the board. The overall authority for the management of market risks within the treasury department is vested in the Alco. Measurement and reporting occurs on a daily and/or monthly basis and is performed by an independent section within the treasury department. Financial derivatives are used to manage market risk.

Financial instruments managed by various divisions and subsidiaries

Market risk arises mainly from changes in foreign exchange rates and, to a limited extent, commodity and equity prices. The divisions and subsidiaries are responsible for identifying the exposure arising from these risks. They liaise with the centralised treasury department to hedge (economic and cash flow hedges) these exposures appropriately on their behalf.

6. Financial risk management (continued)

6.2 Market risk (continued)

Financial instruments managed by various divisions and subsidiaries (continued)

Embedded derivatives

Eskom entered into a number of agreements to supply electricity to electricity-intensive industries where the revenue from these contracts is based on commodity prices and foreign currency rates or foreign production price indices. This gives rise to embedded derivatives that require separation as a result of the different characteristics of the embedded derivative and the host contract. The remaining contractual periods are between four months and nine years. On 31 July 2020 the Hillside Aluminium contract was extended by six months to 31 January 2021.

The valuation methods and inputs are discussed in the accounting policies (refer to note 2.10.4) and the valuation assumptions and sensitivities are disclosed under critical accounting estimates and assumptions (refer to note 5.1). Risks arising from these contracts are discussed under the relevant risk areas as follows:

- currency risk (refer to note 6.2.1)
- commodity risk (refer to note 6.2.2)
- interest rate risk (refer to note 6.2.3)
- other price risk (refer to note 6.2.5)

Electricity contracts that contain embedded derivatives are considered for economic hedging. Hedging in respect of commodity risk and foreign currency exposure resulting from these embedded derivatives takes place on a short-term basis in terms of the SARB regulations.

6.2.1 Currency risk

Currency risk arises primarily from purchasing imported goods and services directly from overseas or indirectly via local suppliers, foreign sales and foreign borrowings. The group is exposed to foreign exchange risk arising from future commercial transactions and recognised assets and liabilities that are denominated in a currency other than the functional currency of the group. All transactions in excess of R150 000 are hedged (ie economic or cash flow hedges). Currency exposure is identified by the business and hedged and managed by the central treasury department. Hedging instruments consist of cross-currency swaps and forward exchange contracts. Most of the forward exchange contracts have a maturity of less than one year from the reporting date but are rolled over at maturity when necessary. Hedging instruments are entered into once the exposure is firm and ascertainable.

	2020							
	EUR	USD	GBP	JPY	SEK	CHF	CAD	NOK
Foreign currency exposure (notional amounts in millions per currency)								
Group								
Assets								
Cash and cash equivalents	–	200	–	–	–	–	–	–
Liabilities								
Debt securities and borrowings	(2 198)	(9 877)	–	(2 483)	–	–	–	–
Trade and other payables	(36)	(4)	(1)	–	(18)	–	–	(1)
Gross statement of financial position exposure	(2 234)	(9 681)	(1)	(2 483)	(18)	–	–	(1)
Estimated forecast purchases[1]	(450)	(225)	(7)	(169)	(86)	(1)	(2)	(1)
Gross exposure	(2 684)	(9 906)	(8)	(2 652)	(104)	(1)	(2)	(2)
Derivatives held for risk management[2]	2 684	9 904	8	2 652	104	1	2	–
Net exposure	–	(2)	–	–	–	–	–	(2)
Company								
Assets								
Cash and cash equivalents	–	200	–	–	–	–	–	–
Liabilities								
Debt securities and borrowings	(2 198)	(9 877)	–	(2 483)	–	–	–	–
Trade and other payables	(36)	(4)	(1)	–	(18)	–	–	(1)
Gross statement of financial position exposure	(2 234)	(9 681)	(1)	(2 483)	(18)	–	–	(1)
Estimated forecast purchases[1]	(450)	(225)	(7)	(169)	(86)	(1)	(2)	(1)
Gross exposure	(2 684)	(9 906)	(8)	(2 652)	(104)	(1)	(2)	(2)
Derivatives held for risk management[2]	2 683	9 904	8	2 652	104	1	2	–
Net exposure	(1)	(2)	–	–	–	–	–	(2)
Mid-spot rate for one unit of the currency to the rand	19.55	17.82	22.17	0.16	1.78	18.49	12.54	1.70

	2019							
	EUR	USD	GBP	JPY	SEK	CHF	CAD	NOK
Foreign currency exposure (notional amounts in millions per currency)								
Group								
Liabilities								
Debt securities and borrowings	(2 444)	(9 669)	–	(4 972)	–	–	–	–
Trade and other payables	(36)	(7)	(1)	–	(20)	–	–	(2)
Gross statement of financial position exposure	(2 480)	(9 676)	(1)	(4 972)	(20)	–	–	(2)
Estimated forecast purchases[1]	(522)	(104)	(16)	(285)	(118)	–	(1)	(4)
Gross exposure	(3 002)	(9 780)	(17)	(5 257)	(138)	–	(1)	(6)
Derivatives held for risk management[2]	3 001	9 778	17	5 257	136	–	1	5
Net exposure	(1)	(2)	–	–	(2)	–	–	(1)
Company								
Liabilities								
Debt securities and borrowings	(2 444)	(9 669)	–	(4 972)	–	–	–	–
Trade and other payables	(36)	(7)	(1)	–	(20)	–	–	(2)
Gross statement of financial position exposure	(2 480)	(9 676)	(1)	(4 972)	(20)	–	–	(2)
Estimated forecast purchases[1]	(520)	(104)	(15)	(285)	(118)	–	(1)	(4)
Gross exposure	(3 000)	(9 780)	(16)	(5 257)	(138)	–	(1)	(6)
Derivatives held for risk management[2]	2 999	9 778	16	5 257	136	–	1	5
Net exposure	(1)	(2)	–	–	(2)	–	–	(1)
Mid-spot rate for one unit of the currency to the rand	16.26	14.48	18.93	0.13	1.56	14.55	10.83	1.68

Sensitivity analysis

	Group and company			
	2020		2019	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Profit/(loss) before tax				
Rand/EUR exposure	48	(48)	46	(46)
Rand/USD exposure	32	(30)	47	(42)
Rand/other currency	(4)	4	13	(13)
Equity				
Rand/EUR exposure	67	(67)	66	(66)
Rand/USD exposure	302	(302)	166	(166)
Rand/other currency	2	(2)	2	(2)

6.2.2 Commodity risk

The group is exposed to commodity risk where commodities are either used directly (eg coal or liquid fuels) or indirectly as a component of plant, equipment or inventory (eg aluminium, copper or steel). The revenue from certain negotiated pricing arrangements is linked to commodity prices.

The exposures are hedged economically by means of futures and/or options. Economic hedging is applied where it is practical (a relevant hedging instrument exists) based on the optimal economic solution and in compliance with the SARB requirements.

The periods of the hedging instrument and that of the hedged item are not the same because of SARB regulations that limit the number of years which can be hedged.

The underlying exposure to commodity price risk could result in embedded derivatives. Where the embedded derivatives are closely related to the host contracts, the embedded derivatives are not accounted for separately. Where the embedded derivatives are not closely related to the host contracts, the contracts have been valued and accounted for separately.

The negotiated pricing arrangements gave rise to commodity-linked (aluminium) embedded derivatives. Refer to note 5.1.

1. *Represents future purchases contracted for.*
2. *Includes notional value and accrued interest.*

6. Financial risk management (continued)

6.2 Market risk (continued)

6.2.3 Interest rate risk

Interest rate risk is the risk that the group's financial position may be adversely affected as a result of changes in interest rate levels, yield curves and spreads.

Debt securities and borrowings and derivatives held for risk management at variable rates expose the group to cash flow risk and those at fixed rates expose the group to fair value risk. The group's policy is to restrict the maximum effective portion of the external debt (excluding the trading portfolio which is managed within the constraints of the risk management framework) exposed to an interest rate reset within the next 12-month period to 40%.

For the group's quantitative exposure to interest rate risk refer to note 26.

Sensitivity analysis

The group analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined interest rate shifts. The same interest rate shift is used for each simulation for all currencies.

The sensitivity analysis for interest rate risk excludes finance costs capitalised in terms of the group's accounting policy.

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

	Group				Company			
	2020		2019		2020		2019	
	+100 basis points Rm	-100 basis points Rm	+100 basis points Rm	-100 basis points Rm	+100 basis points Rm	-100 basis points Rm	+100 basis points Rm	-100 basis points Rm
Profit/(loss) before tax								
Rand interest rates	283	(311)	295	(334)	262	(290)	275	(313)
EUR interest rates	(137)	80	(108)	63	(137)	80	(108)	63
USD interest rates	(468)	472	(404)	421	(468)	472	(404)	421
Other currency interest rates	(1)	1	(1)	1	(1)	1	(1)	1
Equity								
Rand interest rates	4 622	(4 868)	4 629	(4 302)	4 622	(4 868)	4 629	(4 302)
EUR interest rates	(1 103)	1 184	(1 138)	1 226	(1 103)	1 184	(1 138)	1 226
USD interest rates	(6 475)	6 960	(4 976)	4 715	(6 475)	6 960	(4 976)	4 715
Other currency interest rates	(4)	4	(7)	7	(4)	4	(7)	7

Fixed and floating rate debt

	Group and company			
	2020		2019	
	fixed %	floating %	fixed %	floating %
Proportion of fixed versus floating rate debt at 31 March	72	28	73	27

6.2.4 Equity price risk

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

The investment policy is approved by the Escap board and monitored by the Escap audit and risk committees. Exposure to market risk is limited through diversification and by applying strict investment criteria.

Carrying values of investments per sector

	Group			
	2020		2019	
	Rm	portfolio %	Rm	portfolio %
Banks, financial services and insurance	337	26	421	26
Basic materials and resources	198	15	293	18
Consumer goods and services	645	50	734	45
Other	119	9	169	11
	1 299	100	1 617	100

A 1% increase or decrease in share prices would have increased/decreased profit or loss before tax by R13 million (2019: R16 million). There will be no impact on equity.

6.2.5 Other price risk

Inflation price risk arises from embedded derivatives as discussed under note 5.1. The risk arises from movements in South African and United States PPI. Refer to note 27 for the group's quantitative exposure to other price risk.

Sensitivity analysis

	Group and company			
	2020		2019	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Profit/(loss) before tax				
South African PPI	(50)	47	(129)	116
United States PPI	53	(51)	86	(90)

6.3 Liquidity risk

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

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

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

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

Eskom has an established corporate governance structure and process for managing the risks regarding guarantees and contingent liabilities. All significant guarantees issued by Eskom are approved by the board and are managed on an ongoing basis by the treasury department and by the Exco and audit and risk committee of the board. Refer to note 46.

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

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

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

6.3.1 Key liquidity indicators

		Group		Company	
	Unit	2020	2019	2020	2019
Weighted average term to maturity of debt securities and borrowings	years	6.64	6.85	6.64	6.85
Working capital	ratio	1.09	1.00	1.09	0.99
Cash interest cover	ratio	0.94	0.94	0.90	0.91
Net debt service cover	ratio	0.52	0.47	0.49	0.46
Liquid assets	Rm	22 990	2 031	22 314	1 517

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

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

Liquid assets are investments identified as having the potential to be quickly converted into cash. These consist of cash and cash equivalents.

6.3.2 Primary sources of funding and unused facilities

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

6. Financial risk management (continued)

6.3 Liquidity risk (continued)

6.3.2 Primary sources of funding and unused facilities (continued)

	ZAR		EUR		USD	
	2020	2019	2020	2019	2020	2019
	m	m	m	m	m	m
Group and company						
Facilities available						
Export credit agencies	–	–	338	353	1	9
Crédit Agricole Corporate and Investment Bank – Coface	–	–	44	44	–	–
Banque Nationale de Paris Paribas – Coface	–	–	201	201	–	–
Kreditanstalt für Wiederaufbau – Hermes	–	–	93	108	–	–
Export-Import Bank of the United States	–	–	–	–	1	9
Development financing institutions	4 327	129	76	112	2 746	3 516
World Bank	–	–	–	–	667	693
African Development Bank	2 886	129	76	112	25	–
Clean technology fund – African Development Bank	–	–	–	–	58	58
Clean technology fund – World Bank	–	–	–	–	215	215
New Development Bank	–	–	–	–	169	–
Kreditanstalt für Wiederaufbau	–	–	–	–	100	100
Agence Française de Développement	1 441	–	–	–	–	–
China Development Bank	–	–	–	–	1 512	2 450
	4 327	129	414	465	2 747	3 525
Funds received during the year						
Export credit agencies	–	–	15	34	8	8
Kreditanstalt für Wiederaufbau – Hermes	–	–	15	33	–	–
Deutsche Bank – Hermes	–	–	–	1	–	–
Export-Import Bank of the United States	–	–	–	–	8	8
Development financing institutions	129	714	36	106	975	670
World Bank[1]	–	–	–	–	26	20
African Development Bank[2]	129	–	36	31	–	–
European Investment Bank	–	–	–	75	–	–
New Development Bank	–	–	–	–	11	–
Agence Française de Développement[3]	–	714	–	–	–	–
China Development Bank[4]	–	–	–	–	938	650
	129	714	51	140	983	678

Government guarantees available

	2020			2019		
	Domestic multi-term note programme	General	Total	Domestic multi-term note programme	General	Total
	Rm	Rm	Rm	Rm	Rm	Rm
Group and company						
Opening balance	9 694	31 685	41 379	11 916	77 474	89 390
Guarantee granted	135 000	215 000	350 000	150 000	200 000	350 000
Accumulated amounts used	(125 306)	(183 315)	(308 621)	(138 084)	(122 526)	(260 610)
Guarantee swap	10 000	(10 000)	–	(15 000)	15 000	–
Facilities raised	(16 758)	(7 802)	(24 560)	(10 754)	(62 114)	(72 868)
Facilities withdrawn	–	2 164	2 164	–	1 325	1 325
Facilities repaid	–	6 813	6 813	23 532	–	23 532
Closing balance	2 936	22 860	25 796	9 694	31 685	41 379
Guarantee granted	145 000	205 000	350 000	135 000	215 000	350 000
Accumulated amounts used	(142 064)	(182 140)	(324 204)	(125 306)	(183 315)	(308 621)

1. *All funds received were reimbursements on payments made by Eskom to various suppliers for goods and services related to the Medupi power station and Majuba rail projects.*
2. *All funds received were reimbursements on payments made by Eskom to various suppliers for goods and services supplied for the Medupi boilers and turbines.*
3. *Funds received were for various Distribution projects.*
4. *Funds received were for the Medupi and Kusile power stations.*

6.3.3 Contractual cash flows

The table on the following pages indicate the contractual undiscounted cash flows of the group's financial assets and liabilities on the basis of their earliest possible contractual maturity.

The cash flows for derivatives held for risk management are presented on a net basis in line with the classification in the statement of financial position. Contractual cash flows are a function of forward exchange rates and forward interest rates and are a point-in-time calculation that are impacted by market conditions at that time.

The contractual cash flows of financial trading assets and liabilities are disclosed based on their contractual maturities however, as some of these instruments are held-for-trading, they may be sold or settled prior to contractual maturity.

The tables contain only cash flows relating to financial instruments and financial guarantees and don't include future cash flows expected from the normal course of business and related commodity-linked pricing agreements.

	2020				
			Cash flows		
	Nominal inflow/ outflow Rm	0-3 months Rm	4-12 months Rm	1-5 years Rm	>5 years Rm
Group					
Financial assets					
Loans receivable	56	7	21	28	–
Derivatives held for risk management	100 716	4 344	19 987	21 582	54 803
Finance lease receivables	593	20	58	271	244
Trade and other receivables	63 519	62 050	1 469	–	–
Insurance investments	11 993	3 928	8 065	–	–
Financial trading assets	152	152	–	–	–
Cash and cash equivalents	22 990	22 990	–	–	–
	200 019	93 491	29 600	21 881	55 047
Financial liabilities					
Debt securities and borrowings	885 309	8 860	93 491	267 531	515 427
Derivatives held for risk management	3 709	113	4 727	(115)	(1 016)
Lease liabilities	18 639	459	1 375	7 002	9 803
Trade and other payables	38 704	30 249	8 036	419	–
Financial trading liabilities	213	213	–	–	–
	946 574	39 894	107 629	274 837	524 214
Company					
Financial assets					
Loans receivable	6 067	2 514	3 553	–	–
Derivatives held for risk management	100 716	4 344	19 987	21 582	54 803
Finance lease receivables	593	20	58	271	244
Trade and other receivables	65 023	63 713	1 310	–	–
Financial trading assets	152	152	–	–	–
Cash and cash equivalents	22 314	22 314	–	–	–
	194 865	93 057	24 908	21 853	55 047
Financial liabilities					
Debt securities and borrowings	889 956	11 067	95 975	267 487	515 427
Derivatives held for risk management	3 712	114	4 729	(115)	(1 016)
Lease liabilities	18 635	458	1 375	6 999	9 803
Trade and other payables	40 426	33 610	6 397	419	–
Financial trading liabilities	213	213	–	–	–
Financial guarantees	4	4	–	–	–
	952 946	45 466	108 476	274 790	524 214

6. Financial risk management (continued)
6.3 Liquidity risk (continued)
6.3.3 Contractual cash flows (continued)

	2019				
			Cash flows		
	Nominal inflow/ outflow Rm	0-3 months Rm	4-12 months Rm	1-5 years Rm	>5 years Rm
Group					
Financial assets					
Loans receivable	67	7	19	41	–
Derivatives held for risk management	37 730	598	1 511	13 415	22 206
Finance lease receivables	672	20	59	286	307
Trade and other receivables	55 777	54 313	1 464	–	–
Insurance investments	9 567	4 012	5 555	–	–
Financial trading assets	227	63	5	38	121
Cash and cash equivalents	2 031	2 031	–	–	–
	106 071	61 044	8 613	13 780	22 634
Financial liabilities					
Debt securities and borrowings	811 822	11 149	70 455	244 780	485 438
Derivatives held for risk management	9 173	590	5 613	6 887	(3 917)
Lease liabiilities	20 118	430	1 299	6 876	11 513
Trade and other payables	36 108	27 366	7 687	1 055	–
Financial trading liabilities	272	182	7	83	–
	877 493	39 717	85 061	259 681	493 034
Company					
Financial assets					
Loans receivable	6 244	2 729	3 515	–	–
Derivatives held for risk management	37 730	598	1 511	13 415	22 206
Finance lease receivables	672	20	59	286	307
Trade and other receivables	56 990	55 769	1 221	–	–
Financial trading assets	227	63	5	38	121
Cash and cash equivalents	1 517	1 517	–	–	–
	103 380	60 696	6 311	13 739	22 634
Financial liabilities					
Debt securities and borrowings	816 360	13 972	72 216	244 734	485 438
Derivatives held for risk management	9 173	590	5 613	6 887	(3 917)
Lease liabilities	20 118	430	1 299	6 876	11 513
Trade and other payables	37 586	30 552	5 979	1 055	–
Financial trading liabilities	272	182	7	83	–
Financial guarantees	3	3	–	–	–
	883 512	45 729	85 114	259 635	493 034

7. Accounting classification and fair value

7.1 Accounting classification

	Note	2020 Fair value through profit or loss Rm	2020 Amortised cost Rm	2020 Other assets and liabilities Rm	2020 Total Rm	2019 Fair value through profit or loss Rm	2019 Amortised cost Rm	2019 Other assets and liabilities Rm	2019 Total Rm
Group									
Financial assets									
Loans receivable	16	–	54	–	54	–	66	–	66
Derivatives held for risk management	17	8 851	–	48 785	57 636	1 378	–	21 284	22 662
Foreign exchange contracts		8 508	–	847	9 355	1 281	–	20	1 301
Cross-currency swaps		241	–	47 938	48 179	49	–	21 264	21 313
Commodity forwards		2	–	–	2	–	–	–	–
Credit default swaps		9	–	–	9	9	–	–	9
Inflation linked swaps		91	–	–	91	39	–	–	39
Finance lease receivables	18	–	–	372	372	–	–	405	405
Trade and other receivables	20	–	21 589	–	21 589	–	20 065	–	20 065
Insurance investments	15	1 299	10 682	–	11 981	1 617	7 946	–	9 563
Negotiable certificates of deposit		–	10 682	–	10 682	–	7 946	–	7 946
Listed shares		1 299	–	–	1 299	1 617	–	–	1 617
Financial trading assets	15	–	152	–	152	103	59	–	162
Repurchase agreements		–	152	–	152	–	59	–	59
Government bonds		–	–	–	–	103	–	–	103
Cash and cash equivalents	22	–	22 990	–	22 990	–	2 031	–	2 031
Bank balances		–	9 897	–	9 897	–	2 018	–	2 018
Unsettled deals		–	25	–	25	–	13	–	13
Fixed deposits		–	13 068	–	13 068	–	–	–	–
		10 150	55 467	49 157	114 774	3 098	30 167	21 689	54 954
Financial liabilities									
Debt securities and borrowings	26	–	483 682	–	483 682	–	440 610	–	440 610
Eskom bonds		–	157 037	–	157 037	–	152 283	–	152 283
Commercial paper		–	5 444	–	5 444	–	1 105	–	1 105
Eurorand zero coupon bonds		–	4 964	–	4 964	–	4 399	–	4 399
Foreign bonds		–	98 563	–	98 563	–	79 963	–	79 963
Development financing institutions		–	154 489	–	154 489	–	135 661	–	135 661
Export credit facilities		–	32 746	–	32 746	–	31 782	–	31 782
Floating rate notes		–	4 046	–	4 046	–	4 047	–	4 047
Other loans		–	26 393	–	26 393	–	31 370	–	31 370
Embedded derivatives	27	–	–	1 136	1 136	–	–	3 434	3 434
Derivatives held for risk management	17	868	–	2 073	2 941	1 139	–	5 901	7 040
Foreign exchange contracts		58	–	29	87	471	–	88	559
Cross-currency swaps		4	–	2 044	2 048	322	–	5 813	6 135
Commodity forwards		6	–	–	6	–	–	–	–
Credit default swaps		710	–	–	710	305	–	–	305
Inflation linked swaps		90	–	–	90	41	–	–	41
Lease liabilities	31	–	–	9 350	9 350	–	–	9 462	9 462
Trade and other payables	32	–	38 701	–	38 701	–	36 132	–	36 132
Financial trading liabilities	15	214	–	–	214	238	–	–	238
Short-sold government bonds		–	–	–	–	57	–	–	57
Repurchase agreements		214	–	–	214	181	–	–	181
		1 082	522 383	12 559	536 024	1 377	476 742	18 797	496 916

7. Accounting classification and fair value (continued)

7.1 Accounting classification (continued)

	Note	2020 Fair value through profit or loss Rm	2020 Amortised cost Rm	2020 Other assets and liabilities Rm	2020 Total Rm	2019 Fair value through profit or loss Rm	2019 Amortised cost Rm	2019 Other assets and liabilities Rm	2019 Total Rm
Company									
Financial assets									
Loans receivable	16	–	5 937	–	5 937	–	6 071	–	6 071
Derivatives held for risk management	17	8 851	–	48 785	57 636	1 378	–	21 284	22 662
Foreign exchange contracts		8 508	–	847	9 355	1 281	–	20	1 301
Cross-currency swaps		241	–	47 938	48 179	49	–	21 264	21 313
Commodity forwards		2	–	–	2	–	–	–	–
Credit default swaps		9	–	–	9	9	–	–	9
Inflation linked swaps		91	–	–	91	39	–	–	39
Finance lease receivables	18	–	–	372	372	–	–	405	405
Trade and other receivables	20	–	23 268	–	23 268	–	21 279	–	21 279
Financial trading assets	15	–	152	–	152	103	59	–	162
Repurchase agreements		–	152	–	152	–	59	–	59
Government bonds		–	–	–	–	103	–	–	103
Cash and cash equivalents	22	–	22 314	–	22 314	–	1 517	–	1 517
Bank balances		–	9 221	–	9 221	–	1 504	–	1 504
Unsettled deals		–	25	–	25	–	13	–	13
Fixed deposits		–	13 068	–	13 068	–	–	–	–
		8 851	51 671	49 157	109 679	1 481	28 926	21 689	52 096
Financial liabilities									
Debt securities and borrowings	26	–	488 214	–	488 214	–	445 047	–	445 047
Eskom bonds		–	157 037	–	157 037	–	152 283	–	152 283
Commercial paper		–	8 114	–	8 114	–	3 714	–	3 714
Eurorand zero coupon bonds		–	4 964	–	4 964	–	4 399	–	4 399
Foreign bonds		–	98 563	–	98 563	–	79 963	–	79 963
Development financing institutions		–	154 489	–	154 489	–	135 661	–	135 661
Export credit facilities		–	32 746	–	32 746	–	31 782	–	31 782
Floating rate notes		–	4 046	–	4 046	–	4 047	–	4 047
Other loans		–	28 255	–	28 255	–	33 198	–	33 198
Embedded derivatives	27	–	–	1 136	1 136	–	–	3 434	3 434
Derivatives held for risk management	17	872	–	2 073	2 945	1 139	–	5 901	7 040
Foreign exchange contracts		62	–	29	91	471	–	88	559
Cross-currency swaps		4	–	2 044	2 048	322	–	5 813	6 135
Commodity forwards		6	–	–	6	–	–	–	–
Credit default swaps		710	–	–	710	305	–	–	305
Inflation linked swaps		90	–	–	90	41	–	–	41
Lease liabilities	31	–	–	9 347	9 347	–	–	9 462	9 462
Trade and other payables	32	–	40 420	–	40 420	–	37 564	–	37 564
Financial trading liabilities	15	214	–	–	214	238	–	–	238
Short-sold government bonds		–	–	–	–	57	–	–	57
Repurchase agreements		214	–	–	214	181	–	–	181
		1 086	528 634	12 556	542 276	1 377	482 611	18 797	502 785

7.2 Fair value

Valuation processes

The group has a control framework in place for the measurement of fair values. It includes a valuation team that ultimately reports to the CFO 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.

Principal markets

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
- export credit agencies

Fair value hierarchy

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

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

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

Level 3: Unobservable inputs.

There were no transfers between level 1, 2 or 3 of the fair value hierarchy during the year. The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfers have occurred. The group'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)

Valuation techniques

Financial instrument	Valuation technique
Level 1: Quoted prices (unadjusted) in active markets	
Financial trading assets (government bonds) and insurance investments (listed shares)	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
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: Inputs other than quoted prices included within level 1 that are observable	
Loans receivable, insurance investments (negotiable certificates of deposit), debt securities and borrowings and financial trading assets and liabilities (repurchase agreement assets and liabilities)	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
Trade and other receivables and payables and cash and cash equivalents	Fair values have not been disclosed for financial instruments where the carrying amounts are a reasonable approximation of fair value
Level 3: Unobservable inputs	
Embedded derivative liabilities	Fair valued using unobservable inputs. Refer to note 27 for a movement reconciliation and to note 5.1 for information regarding the valuation techniques and assumptions used

7. Accounting classification and fair value (continued)

7.2 Fair value (continued)

Fair value hierarchy (continued)

The fair value hierarchy of financial instruments is as follows:

	Measured at fair value	2020 Level 1 Rm	2020 Level 2 Rm	2020 Level 3 Rm	2019 Level 1 Rm	2019 Level 2 Rm	2019 Level 3 Rm
Group							
Financial assets							
Loans receivable	No	–	56	–	–	67	–
Derivatives held for risk management		–	57 636	–	–	22 662	–
Foreign exchange contracts	Yes	–	9 355	–	–	1 301	–
Cross-currency swaps	Yes	–	48 179	–	–	21 313	–
Commodity forwards	Yes	–	2	–	–	–	–
Credit default swaps	Yes	–	9	–	–	9	–
Inflation linked swaps	Yes	–	91	–	–	39	–
Insurance investments		1 299	11 112	–	1 617	8 266	–
Negotiable certificates of deposit	No	–	11 112	–	–	8 266	–
Listed shares	Yes	1 299	–	–	1 617	–	–
Financial trading assets		–	152	–	103	59	–
Repurchase agreements	No	–	152	–	–	59	–
Government bonds	Yes	–	–	–	103	–	–
Financial liabilities							
Debt securities and borrowings		–	405 651	–	–	412 399	–
Eskom bonds	No	–	134 690	–	–	140 909	–
Commercial paper	No	–	5 431	–	–	1 108	–
Eurorand zero coupon bonds	No	–	3 256	–	–	3 717	–
Foreign bonds	No	–	79 100	–	–	80 023	–
Development financing institutions	No	–	121 287	–	–	118 351	–
Export credit facilities	No	–	32 051	–	–	32 373	–
Floating rate notes	No	–	3 971	–	–	4 239	–
Other loans	No	–	25 865	–	–	31 679	–
Embedded derivatives	Yes	–	–	1 136	–	–	3 434
Derivatives held for risk management		–	2 941	–	–	7 040	–
Foreign exchange contracts	Yes	–	87	–	–	559	–
Cross-currency swaps	Yes	–	2 048	–	–	6 135	–
Commodity forwards	Yes	–	6	–	–	–	–
Credit default swaps	Yes	–	710	–	–	305	–
Inflation linked swaps	Yes	–	90	–	–	41	–
Financial trading liabilities		–	214	–	57	181	–
Short-sold government bonds	Yes	–	–	–	57	–	–
Repurchase agreements	Yes	–	214	–	–	181	–

	Measured at fair value	2020 Level 1 Rm	2020 Level 2 Rm	2020 Level 3 Rm	2019 Level 1 Rm	2019 Level 2 Rm	2019 Level 3 Rm
Company							
Financial assets							
Loans receivable	No	–	5 935	–	–	6 113	–
Derivatives held for risk management		–	57 636	–	–	22 662	–
Foreign exchange contracts	Yes	–	9 355	–	–	1 301	–
Cross-currency swaps	Yes	–	48 179	–	–	21 313	–
Commodity forwards	Yes	–	2	–	–	–	–
Credit default swaps	Yes	–	9	–	–	9	–
Inflation linked swaps	Yes	–	91	–	–	39	–
Financial trading assets		–	152	–	103	59	–
Repurchase agreements	No	–	152	–	–	59	–
Government bonds	Yes	–	–	–	103	–	–
Financial liabilities							
Debt securities and borrowings		–	410 205	–	–	416 846	–
Eskom bonds	No	–	134 690	–	–	140 909	–
Commercial paper	No	–	8 124	–	–	3 726	–
Eurorand zero coupon bonds	No	–	3 256	–	–	3 717	–
Foreign bonds	No	–	79 100	–	–	80 023	–
Development financing institutions	No	–	121 287	–	–	118 351	–
Export credit facilities	No	–	32 051	–	–	32 373	–
Floating rate notes	No	–	3 971	–	–	4 239	–
Other loans	No	–	27 726	–	–	33 508	–
Embedded derivatives	Yes	–	–	1 136	–	–	3 434
Derivatives held for risk management		–	2 945	–	–	7 040	–
Foreign exchange contracts	Yes	–	91	–	–	559	–
Cross-currency swaps	Yes	–	2 048	–	–	6 135	–
Commodity forwards	Yes	–	6	–	–	–	–
Credit default swaps	Yes	–	710	–	–	305	–
Inflation linked swaps	Yes	–	90	–	–	41	–
Financial trading liabilities		–	214	–	57	181	–
Short-sold government bonds	Yes	–	–	–	57	–	–
Repurchase agreements	Yes	–	214	–	–	181	–

8. Segment information

Management has determined the reportable segments based on the reports regularly provided, reviewed and used by Exco to make strategic decisions and assess performance of the segments. Exco assesses the performance of the operating segments based on a measure of profit or loss consistent with that of the financial statements. The amounts provided to Exco with respect to total assets and liabilities are measured in terms of IFRS. These assets and liabilities are allocated based on the operation of the segment and the physical location of the assets.

The operations in each of the group's reportable segments are as follows:

Segment	Operations
Generation	Consists of the primary energy procurement and electricity generation functions
Transmission	Consists of the following components: • transmission grids and the integrated demand management area. These functions operate and maintain the transmission network for transmitting electricity and also sell bulk electricity to international customers • the southern African energy and energy planning and market development areas. Their activities include systems operations, purchase or sale of electricity from or to southern African countries, purchase of electricity from IPPs and wholesale energy for the purposes of energy trading
Distribution	Consists of nine provincial operating units who provide, operate and maintain the distribution network for distributing electricity as well as a customer service function that sells electricity to local large and small power users
Group capital	Responsible for the planning, development and monitoring of all capital projects and the execution of significant capital projects
All other segments	Relates to operating segments which are below the quantitative thresholds for determining a reportable segment in terms of IFRS 8 *Operating segments* which includes the group's subsidiaries as well as all service and strategic functions which do not qualify as a reportable segment in terms of IFRS 8

8. Segment information (continued)

As a consequence of the group's evolving structure, the balances and activities of the previously reported energy purchases/sales and group customer services divisions are now managed and reported as part of the transmission and distribution segments respectively. The 2019 segment report has been restated in line with the revised reportable segment structure.

The revenue earned by subsidiaries is presented in the segment note in line with what has been reported in the respective subsidiary financial statements. Inter-segment transfer pricing for the flow of electricity from generator to consumer are allocated between the generation, transmission and distribution segments based on cost recovery plus a uniform return on assets informed by the regulatory determination. All direct corporate overhead costs are allocated and, thereafter, a cost driver apportionment is used with the remainder split on an equal basis. Net finance costs, net fair value and foreign exchange gains/(losses) are allocated to segments based on divisional funding requirements.

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

2020	Generation Rm	Transmission Rm	Distribution Rm	Group capital Rm	All other segments Rm	Reallocation and inter segment transactions Rm	Group Rm
External revenue	–	11 783	187 685	–	1 534	(1 534)	199 468
Inter-segment revenue/recoveries	133 593	29 048	(162 243)	(159)	11 245	(11 430)	–
Total revenue	133 593	40 831	25 442	(159)	12 779	(12 964)	199 468
Other income	346	227	672	337	746	(1 090)	1 238
Primary energy	(79 342)	(32 763)	(12)	(2)	–	–	(112 119)
Employee benefit expense	(10 261)	(2 029)	(11 454)	(673)	(8 559)	–	(32 976)
Impairment of financial assets	(93)	480	542	(19)	(67)	93	936
Impairment of other assets – raised	(14)	–	(4)	(919)	–	–	(937)
Impairment of other assets – reversed	–	–	4	–	58	–	62
Other expenses	(15 873)	(2 316)	(9 814)	(2 724)	(2 659)	14 712	(18 674)
Profit/(loss) before depreciation and amortisation expense and net fair value and foreign exchange (loss)/gain (EBITDA)	28 302	4 430	5 376	(4 159)	2 298	751	36 998
Depreciation and amortisation expense	(20 018)	(2 843)	(3 893)	(105)	(1 141)	221	(27 779)
Net fair value and foreign exchange (loss)/gain on financial instruments	(4 003)	(800)	2 119	(1 953)	46	(1)	(4 592)
Profit/(loss) before net finance (cost)/income	4 281	787	3 602	(6 217)	1 203	971	4 627
Net finance (cost)/income	(23 096)	(4 883)	(2 820)	(735)	18	264	(31 252)
Finance income	262	143	406	158	1 570	71	2 610
Finance cost	(23 358)	(5 026)	(3 226)	(893)	(1 552)	193	(33 862)
Share of profit of equity-accounted investees	–	–	–	–	63	–	63
(Loss)/profit before tax	(18 816)	(4 096)	782	(6 952)	1 284	1 235	(26 562)
Income tax	–	–	–	–	6 420	(360)	6 060
(Loss)/profit for the year	(18 816)	(4 096)	782	(6 952)	7 704	875	(20 502)
Other information							
Segment assets	345 413	66 358	111 899	195 037	116 922	(21 729)	813 900
Investment in equity-accounted investees	–	–	–	–	397	–	397
Assets held-for-sale	–	–	–	–	8 642	–	8 642
Total assets	345 413	66 358	111 899	195 037	125 961	(21 729)	822 939
Total liabilities	60 232	15 670	45 009	11 151	528 106	(23 092)	637 076
Additions to property, plant and equipment and intangible assets	9 463	887	5 448	8 916	508	(558)	24 664

	Generation	Transmission	Distribution	2019 Group capital	All other segments	Reallocation and inter segment transactions	Group
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
External revenue	–	8 385	171 507	–	1 377	(1 377)	179 892
Inter-segment revenue/recoveries	125 338	25 382	(150 380)	(133)	11 252	(11 459)	–
Total revenue	125 338	33 767	21 127	(133)	12 629	(12 836)	179 892
Other income	747	187	423	496	1 717	(1 420)	2 150
Primary energy	(70 793)	(28 681)	(11)	(3)	–	–	(99 488)
Employee benefit expense	(9 803)	(1 865)	(10 911)	(764)	(9 840)	–	(33 183)
Impairment of financial assets	–	(667)	807	(16)	(175)	158	107
Impairment of other assets – raised	(11)	–	(4)	–	–	–	(15)
Impairment of other assets – reversed	107	–	39	22	–	–	168
Other expenses	(21 424)	(1 587)	(9 066)	222	(1 874)	15 515	(18 214)
Profit/(loss) before depreciation and amortisation expense and net fair value and foreign exchange gain/(loss) (EBITDA)	24 161	1 154	2 404	(176)	2 457	1 417	31 417
Depreciation and amortisation expense	(22 046)	(2 760)	(3 656)	(100)	(1 395)	219	(29 738)
Net fair value and foreign exchange (loss)/gain on financial instruments	(5 733)	882	1 906	(797)	339	(6)	(3 409)
(Loss)/profit before net finance (cost)/income	(3 618)	(724)	654	(1 073)	1 401	1 630	(1 730)
Net finance (cost)/income	(20 463)	(4 679)	(2 839)	(134)	130	253	(27 732)
Finance income	1	128	280	3	2 212	98	2 722
Finance cost	(20 464)	(4 807)	(3 119)	(137)	(2 082)	155	(30 454)
Share of profit of equity-accounted investees	–	–	–	–	35	–	35
(Loss)/profit before tax	(24 081)	(5 403)	(2 185)	(1 207)	1 566	1 883	(29 427)
Income tax	–	–	–	–	8 914	(417)	8 497
(Loss)/profit for the year	(24 081)	(5 403)	(2 185)	(1 207)	10 480	1 466	(20 930)
Other information							
Segment assets	308 904	63 998	108 182	227 054	59 151	(20 829)	746 460
Investment in equity-accounted investees	–	–	–	–	373	–	373
Assets held-for-sale	–	–	–	–	8 871	–	8 871
Total assets	308 904	63 998	108 182	227 054	68 395	(20 829)	755 704
Total liabilities	65 218	16 261	46 072	12 001	487 441	(21 267)	605 726
Additions to property, plant and equipment and intangible assets	8 454	1 110	6 901	18 266	496	(529)	34 698

	Group			
	Revenue		Non-current assets	
	2020	2019	2020	2019
Geographical information	Rm	Rm	Rm	Rm
South Africa	187 239	171 651	663 224	662 726
Foreign countries	12 229	8 241	271	217
	199 468	179 892	663 495	662 943

The group's reportable segments operate mainly in South Africa, which is Eskom's country of domicile.

Revenue is allocated based on the country in which the customer is located after eliminating inter-segment transactions. There is no significant revenue derived from a single external customer by any of the reportable segments.

Non-current assets disclosed for geographical information comprise non-current assets other than deferred tax assets and financial instruments.

9. Property, plant and equipment

	Note	2020 Land, buildings and facilities Rm	2020 Plant Generating Rm	2020 Plant Transmitting Rm	2020 Plant Distributing Rm	2020 Spares and other Rm	2020 Equipment and vehicles Rm	2020 Work under construction Rm	2020 Total Rm	2019 Total Rm
Group										
Carrying value at beginning of the year		8 521	263 914	42 363	74 323	13 929	6 278	241 112	650 440	629 433
Cost		10 532	367 897	60 599	123 542	15 589	17 897	242 645	838 701	791 852
Accumulated depreciation and impairment losses		(2 011)	(103 983)	(18 236)	(49 219)	(1 660)	(11 619)	(1 533)	(188 261)	(162 419)
Adoption of IFRS 15		–	–	–	–	–	–	–	–	51
Adoption of IFRS 16	52	132	–	–	–	–	–	–	132	–
Additions		182	365	92	6	674	428	22 657	24 404	34 255
Transfers of assets from customers		–	–	–	1 421	–	–	–	1 421	1 454
Commissioning of assets constructed		242	56 216	4 210	4 571	52	102	(65 393)	–	–
Basis adjustment – cash flow hedge reserve		–	–	–	–	–	–	(132)	(132)	(281)
Finance cost capitalised	42	–	–	–	–	–	–	14 584	14 584	15 378
Provisions capitalised	30	–	(3 846)	–	–	–	–	1 182	(2 664)	1 329
Transfers from assets held-for-sale		–	–	–	–	–	–	–	–	37
Disposals and writeoffs		(18)	(1 100)	(47)	(20)	(44)	(39)	(3 912)	(5 180)	(875)
Depreciation		(219)	(20 329)	(2 070)	(4 974)	(87)	(1 106)	–	(28 785)	(30 509)
Net impairment	37	–	–	–	–	–	–	(861)	(861)	168
Carrying value at end of the year		8 840	295 220	44 548	75 327	14 524	5 663	209 237	653 359	650 440
Cost		11 070	414 173	64 834	129 487	16 251	17 510	210 156	863 481	838 701
Accumulated depreciation and impairment losses		(2 230)	(118 953)	(20 286)	(54 160)	(1 727)	(11 847)	(919)	(210 122)	(188 261)
Company										
Carrying value at beginning of the year		8 330	264 598	42 493	74 542	13 929	4 842	242 302	651 036	629 944
Cost		10 261	369 499	60 750	123 841	15 589	14 784	243 835	838 559	791 772
Accumulated depreciation and impairment losses		(1 931)	(104 901)	(18 257)	(49 299)	(1 660)	(9 942)	(1 533)	(187 523)	(161 828)
Adoption of IFRS 16	52	132	–	–	–	–	–	–	132	–
Additions		179	365	92	7	674	375	23 107	24 799	34 642
Transfers of assets from customers		–	–	–	1 421	–	–	–	1 421	1 454
Commissioning of assets constructed		198	56 544	4 248	4 587	52	40	(65 669)	–	–
Basis adjustment – cash flow hedge reserve		–	–	–	–	–	–	(132)	(132)	(281)
Finance cost capitalised	42	–	–	–	–	–	–	14 584	14 584	15 378
Provisions capitalised	30	–	(3 846)	–	–	–	–	1 182	(2 664)	1 329
Transfers from assets held-for-sale		–	–	–	–	–	–	–	–	37
Disposals and writeoffs		(2)	(1 101)	(47)	(20)	(44)	(35)	(3 918)	(5 167)	(1 197)
Depreciation		(217)	(20 528)	(2 076)	(4 988)	(87)	(857)	–	(28 753)	(30 438)
Net impairment	37	–	–	–	–	–	–	(861)	(861)	168
Carrying value at end of the year		8 620	296 032	44 710	75 549	14 524	4 365	210 595	654 395	651 036
Cost		10 769	416 102	65 023	129 803	16 251	14 290	211 514	863 752	838 559
Accumulated depreciation and impairment losses		(2 149)	(120 070)	(20 313)	(54 254)	(1 727)	(9 925)	(919)	(209 357)	(187 523)

Disposals and writeoffs includes R3 473 million that relates to expenditure previously capitalised to plant and work under construction as well as related borrowing costs of R524 million thereon.

Eskom and the SIU have been investigating potential overpayments to a number of contractors involved in the construction of the Kusile power station. The writeoff was based on the progress of the investigations into these matters out of a potential identified R4 billion at 31 March 2020.

The normal governance and recovery processes relating to variation orders and compensation event claims are followed when the investigations are concluded and the overpayments quantified. This includes presentation to a multi-disciplinary compensation event claims and variations committee or following an independent adjudication and arbitration process. The investigation and recovery processes are part of the normal closure activities as the construction of major projects are nearing completion.

Eskom is continuing with the investigating processes and similar overpayments could be identified and confirmed in the future. The related expense is reflected in note 38.

The total depreciation charge for property, plant and equipment is disclosed in profit or loss in the following categories:

		Group		Company	
		2020	2019	2020	2019
	Note	Rm	Rm	Rm	Rm
Depreciation and amortisation expense	39	28 773	30 493	28 741	30 422
Primary energy		12	16	12	16
		28 785	30 509	28 753	30 438

Average rates of finance cost capitalised to qualifying assets:

	Group and company	
	2020	2019
	%	%
General borrowings	9.84	9.43
Specific borrowings	9.09	9.24

Property, plant and equipment includes the following right-of-use asset balances:

		2020					2019
		Land, buildings and facilities	Plant		Equipment and vehicles	Total	Total
			Generating	Spares and other			
	Note	Rm	Rm	Rm	Rm	Rm	Rm
Group							
Carrying value at beginning of the year		–	7 718	123	–	7 841	8 495
Cost		–	9 768	567	–	10 335	10 335
Accumulated depreciation and impairment losses		–	(2 050)	(444)	–	(2 494)	(1 840)
Adoption of IFRS 16	52	132	–	–	–	132	–
Additions		102	–	–	70	172	–
Depreciation		(92)	(638)	(13)	(6)	(749)	(654)
Carrying value at end of the year		142	7 080	110	64	7 396	7 841
Cost		234	9 768	567	70	10 639	10 335
Accumulated depreciation and impairment losses		(92)	(2 688)	(457)	(6)	(3 243)	(2 494)
Company							
Carrying value at beginning of the year		–	7 718	123	–	7 841	8 495
Cost		–	9 768	567	–	10 335	10 335
Accumulated depreciation and impairment losses		–	(2 050)	(444)	–	(2 494)	(1 840)
Adoption of IFRS 16	52	132	–	–	–	132	–
Additions		101	–	–	67	168	–
Depreciation		(92)	(638)	(13)	(6)	(749)	(654)
Carrying value at end of the year		141	7 080	110	61	7 392	7 841
Cost		233	9 768	567	67	10 635	10 335
Accumulated depreciation and impairment losses		(92)	(2 688)	(457)	(6)	(3 243)	(2 494)

10. Intangible assets

	Note	2020 Rights Rm	2020 Computer software Rm	2020 Concession assets Rm	2020 Total Rm	2019 Total Rm
Group						
Carrying value at beginning of the year		3 001	707	217	3 925	3 945
Cost		3 221	7 286	364	10 871	10 437
Accumulated amortisation and impairment losses		(220)	(6 579)	(147)	(6 946)	(6 492)
Additions and transfers		137	16	107	260	443
Writeoffs		–	–	–	–	(9)
Amortisation	39	–	(302)	(53)	(355)	(454)
Carrying value at end of the year		3 138	421	271	3 830	3 925
Cost		3 358	4 984	465	8 807	10 871
Accumulated amortisation and impairment losses		(220)	(4 563)	(194)	(4 977)	(6 946)
Company						
Carrying value at beginning of the year		3 001	705	–	3 706	3 803
Cost		3 221	6 956	–	10 177	9 860
Accumulated amortisation and impairment losses		(220)	(6 251)	–	(6 471)	(6 057)
Additions and transfers		137	16	–	153	343
Writeoffs		–	–	–	–	(9)
Amortisation	39	–	(301)	–	(301)	(431)
Carrying value at end of the year		3 138	420	–	3 558	3 706
Cost		3 358	4 655	–	8 013	10 177
Accumulated amortisation and impairment losses		(220)	(4 235)	–	(4 455)	(6 471)

Impairment assessment of indefinite useful life intangible assets

Rights are part of the Eskom CGU and were tested for impairment as part of the CGU. The recoverable amount of the CGU was determined based on its value in use and no impairment loss was recognised on the CGU.

The value-in-use calculation is based on the regulatory electricity pricing methodology where the rate of return on Eskom's assets should be equal to its weighted average cost of capital (WACC). The return can only be equal to WACC if the price of electricity is cost-reflective. In reality, the electricity price is not cost-reflective and Eskom earns a return on assets that is much lower than its pre-tax, real WACC. The value in use calculation assumed that the electricity price will migrate to cost reflectivity over a period of time in line with the Electricity Pricing Policy.

Estimates in the value-in-use calculation include long-term growth rates, electricity sales volumes and prices, available generation capacity and discount rates. Estimates are based on past experience and expectations of future changes in the market, including the prevailing economic climate.

The cash flow projections were based on the revised Eskom Corporate Plan for 2021 to 2025 that was approved in September 2020 and an extrapolation of this information thereafter until the electricity price breaks even (ie when the electricity price is cost reflective). The projections after the first five years were extrapolated based on the estimated negative long-term average growth rates and inflation. The extrapolation beyond the first five years was deemed appropriate as generating plant have long useful lives and it is estimated that it could take longer than five years to achieve a cost-reflective price.

The price of electricity is a key input in the value-in-use calculation. The price path is based on the NERSA determination for 2021 and 2022 (adjusted with the impact of the recent court decisions relating to the treatment of the government equity support and the RCA decisions) and a gradual migration towards cost reflectivity.

The price increase used for group and company was:

	Year ended 31 March 2021 %	2022 %	2023 %	2024 %	2025 %	2026 %
2020						
Price increase	10.72	13.28	14.12	10.00	9.98	9.50

	Year ended 31 March 2020 %	2021 %	2022 %	2023 %	2024 %	2025 %
2019						
Price increase	13.87	10.72	13.28	14.12	10.00	9.98

A pre-tax nominal discount rate of 12.46% (2019: 12.30%) or a pre-tax real rate of 7.10% (2019: 6.90%) was used as derived from the NERSA determination.

11. Future fuel supplies

	Note	Group and company 2020 Coal Rm	2020 Nuclear Rm	2020 Total Rm	2019 Total Rm
Carrying value at beginning of the year		5 825	646	6 471	7 157
Net additions		522	739	1 261	548
Provisions capitalised	30	(1 063)	–	(1 063)	475
Basis adjustment – cash flow hedge reserve		–	(234)	(234)	–
Transfer to inventories	21	(1 119)	(1 021)	(2 140)	(1 709)
Carrying value at end of the year		4 165	130	4 295	6 471

12. Investment in equity-accounted investees

	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
Balance at beginning of the year	373	372	95	95
Share of profit after tax	63	35	–	–
Dividends received	(39)	(34)	–	–
Balance at end of the year	397	373	95	95

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

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

Name	Main business	Country of incorporation	Interest held %	2020 Group Share of profit after tax for the year Rm	2020 Company Investment at cost Rm	2019 Group Share of post-tax profit/(loss) for the year Rm	2019 Company Investment at cost Rm
Directly held							
Motraco – Mozambique Transmission Company SARL[1]	Electricity transmission	Mozambique	33	61	95	47	95
Indirectly held							
Trans Africa Projects (Pty) Ltd	Engineering services	South Africa	50	2		(12)	
				63		35	

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

1. *Year end is 31 December.*

13. Investment in subsidiaries

Name	Main business	Country of incorporation	2020 and 2019 Interest held %	2020 and 2019 Investment at cost Rm
Directly held				
Escap SOC Ltd	Insurance	South Africa	100	380
Eskom Development Foundation NPC	Corporate social investment	South Africa	100	–
Eskom Enterprises SOC Ltd	Non-regulated electricity supply industry activities in South Africa and electricity supply and related services outside South Africa	South Africa	100	–[1]
Eskom Finance Company SOC Ltd[2]	Finance (employee housing loans)	South Africa	100	–[1]
PN Energy Services SOC Ltd	Not trading	South Africa	100	4
				384
Indirectly held				
Eskom Rotek Industries SOC Ltd	Construction and abnormal load transportation	South Africa	100	
Eskom Uganda Ltd[3]	Operations management	Uganda	100	
Golang Coal SOC Ltd	Coal exports	South Africa	67	
Nqaba Finance 1 (RF) Ltd[2]	Residential backed mortgage securities	South Africa	100	
Pebble Bed Modular Reactor SOC Ltd	Reactor driven generation project	South Africa	100	
South Dunes Coal Terminal Company SOC Ltd	Coal exports	South Africa	69	

All subsidiaries continue to be accounted for as previously assessed as there has not been any change in the outcome of the control assessment. The group does not have any subsidiaries with a material non-controlling interest.

14. Deferred tax

		Note	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
14.1	**Deferred tax assets**					
	Balance at beginning of the year		17	23	–	–
	Recognised in profit or loss	43	97	(2)	–	–
	Assets and liabilities held-for-sale		1	(4)	–	–
	Balance at end of the year		115	17	–	–
	Comprising		115	17	–	–
	Trade and other receivables		14	14	–	–
	Insurance investments		97	–	–	–
	Derivatives held for risk management		(2)	–	–	–
	Provisions		5	2	–	–
	Payments received in advance		1	1	–	–
14.2	**Deferred tax liabilities**					
	Balance at beginning of the year		7 138	14 641	6 601	14 471
	Adoption of IFRS 9		–	(74)	–	–
	Recognised in profit or loss	43	(6 344)	(8 911)	(6 740)	(9 341)
	Recognised in other comprehensive income	43	2 884	1 482	2 863	1 471
	Balance at end of the year		3 678	7 138	2 724	6 601
	Comprising		3 678	7 138	2 724	6 601
	Property, plant and equipment		86 085	82 389	84 987	81 689
	Trade and other receivables		(11 660)	(10 978)	(11 693)	(10 998)
	Insurance investments		–	31	–	–
	Derivatives held for risk management		2 702	808	2 701	812
	Embedded derivative liabilities		(319)	(962)	(318)	(962)
	Provisions		(11 668)	(10 016)	(11 651)	(9 988)
	Employee benefit obligations		(4 710)	(5 265)	(4 550)	(5 096)
	Payments received in advance		(3 311)	(3 428)	(3 311)	(3 428)
	Tax losses		(53 441)	(45 441)	(53 441)	(45 428)
	Unused tax losses available for offset against future taxable income		190 861	162 289	190 861	162 243

1. *Nominal.*
2. *Eskom Finance Company SOC Ltd and its subsidiary Nqaba Finance 1 (RF) Ltd (a securitisation vehicle) have been classified as held-for-sale. Refer to note 23.*
3. *Year end is 31 December.*

15. Investments and financial trading instruments

Portfolio	Managed by	Purpose
Insurance	Escap	To maintain adequate ring-fenced capital reserves to meet the statutory solvency requirements of the Insurance Act
Financial trading	Treasury	To reduce the funding cost of the company

15.1 Insurance investments

	Group			
	2020			2019
	Gross Rm	Allowance for impairment Rm	Carrying value Rm	Total Rm
Negotiable certificates of deposit	10 694	(12)	10 682	7 946
Listed shares	1 299	–	1 299	1 617
	11 993	(12)	11 981	9 563

15.2 Financial trading instruments

	Group and company					
	2020			2019		
	Assets Rm	Liabilities Rm	Net asset/ (liability) Rm	Assets Rm	Liabilities Rm	Net asset/ (liability) Rm
Repurchase agreements	152	214	(62)	59	181	(122)
Eskom bonds	–	57	(57)	–	91	(91)
Government bonds	152	157	(5)	59	90	(31)
Government bonds	–	–	–	103	57	46
	152	214	(62)	162	238	(76)

Financial trading assets – collateral held

Eskom purchased both Eskom and government bonds from approved counterparties and has committed to resell these back to the counterparties in the following financial year. Although Eskom has legal title to the bonds at year end, they have not been recognised in the statement of financial position as a result of the commitment to resell. The total receivable is secured by bonds of an equivalent fair value. The difference between the purchase and resale price is treated as interest accrued over the life of the agreement using the effective-yield method.

Financial trading liabilities – encumbered assets

Eskom concluded sale and repurchase transactions of both Eskom and government bonds with approved counterparties. The group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. The transferred assets are not derecognised if all or substantially all risks and rewards are retained. The difference between the sale and repurchase price is treated as interest accrued over the life of the agreement using the effective-yield method.

16. Loans receivable

	Group				Company			
	2020			2019	2020			2019
	Gross Rm	Allowance for impairment Rm	Carrying value Rm	Carrying value Rm	Gross Rm	Allowance for impairment Rm	Carrying value Rm	Carrying value Rm
Loans to subsidiaries	–	–	–	–	5 948	(11)	5 937	6 071
Other	56	(2)	54	66	–	–	–	–
	56	(2)	54	66	5 948	(11)	5 937	6 071
Maturity analysis	56	(2)	54	66	5 948	(11)	5 937	6 071
Non-current	28	(1)	27	40	–	–	–	–
Current	28	(1)	27	26	5 948	(11)	5 937	6 071

17. Derivatives held for risk management

	Note	2020 Foreign exchange contracts Rm	2020 Cross-currency swaps Rm	2020 Commodity forwards Rm	2020 Credit default swaps Rm	2020 Inflation-linked swaps Rm	2020 Total Rm	2019 Total Rm
Group								
Net asset/(liability) at beginning of the year		742	15 178	–	(296)	(2)	15 622	(5 888)
Net fair value gain/(loss)		9 077	32 066	–	(405)	(48)	40 690	22 502
Income statement	40	8 087	25 499	–	(405)	(48)	33 133	19 538
Statement of comprehensive income		990	6 567	–	–	–	7 557	2 964
Finance cost accrued		–	(26)	–	–	51	25	(111)
Cash received		(551)	(1 087)	(4)	–	–	(1 642)	(881)
Net asset/(liability) at end of the year		9 268	46 131	(4)	(701)	1	54 695	15 622
Hedge exposure covered		9 268	46 131	(4)	(701)	1	54 695	15 622
Debt securities and borrowings		7 890	46 131	–	(701)	1	53 321	15 689
Other		1 378	–	(4)	–	–	1 374	(67)
Assets								
Economic hedging		8 508	241	2	9	91	8 851	1 378
Cash flow hedging		847	47 938	–	–	–	48 785	21 284
		9 355	48 179	2	9	91	57 636	22 662
Maturity analysis		9 355	48 179	2	9	91	57 636	22 662
Non-current		–	33 827	–	–	91	33 918	20 582
Current		9 355	14 352	2	9	–	23 718	2 080
Liabilities								
Economic hedging		58	4	6	710	90	868	1 139
Cash flow hedging		29	2 044	–	–	–	2 073	5 901
		87	2 048	6	710	90	2 941	7 040
Maturity analysis		87	2 048	6	710	90	2 941	7 040
Non-current		–	1 003	–	710	89	1 802	5 643
Current		87	1 045	6	–	1	1 139	1 397
Notional amount		m	m	m	m	m	m	m
EUR		1 422	1 256	–	–	–	2 678	2 991
USD		2 368	7 474	–	–	–	9 842	9 718
GBP		8	–	–	–	–	8	17
JPY		169	2 469	–	–	–	2 638	5 229
SEK		104	–	–	–	–	104	136
CHF		1	–	–	–	–	1	–
CAD		2	–	–	–	–	2	1
NOK		–	–	–	–	–	–	5
ZAR		–	–	561	3 972	1 000	5 533	5 133

	Note	2020 Foreign exchange contracts Rm	Cross-currency swaps Rm	Commodity forwards Rm	Credit default swaps Rm	Inflation-linked swaps Rm	Total Rm	2019 Total Rm
Company								
Net asset/(liability) at beginning of the year		742	15 178	–	(296)	(2)	15 622	(5 886)
Net fair value gain/(loss)		9 076	32 066	–	(405)	(48)	40 689	22 498
Income statement	40	8 086	25 499	–	(405)	(48)	33 132	19 534
Statement of comprehensive income		990	6 567	–	–	–	7 557	2 964
Finance cost accrued		–	(26)	–	–	51	25	(111)
Cash received		(554)	(1 087)	(4)	–	–	(1 645)	(879)
Net asset/(liability) at end of the year		9 264	46 131	(4)	(701)	1	54 691	15 622
Hedge exposure covered		9 264	46 131	(4)	(701)	1	54 691	15 622
Debt securities and borrowings		7 890	46 131	–	(701)	1	53 321	15 689
Other		1 374	–	(4)	–	–	1 370	(67)
Assets								
Economic hedging		8 508	241	2	9	91	8 851	1 378
Cash flow hedging		847	47 938	–	–	–	48 785	21 284
		9 355	48 179	2	9	91	57 636	22 662
Maturity analysis		9 355	48 179	2	9	91	57 636	22 662
Non-current		–	33 827	–	–	91	33 918	20 582
Current		9 355	14 352	2	9	–	23 718	2 080
Liabilities								
Economic hedging		62	4	6	710	90	872	1 139
Cash flow hedging		29	2 044	–	–	–	2 073	5 901
		91	2 048	6	710	90	2 945	7 040
Maturity analysis		91	2 048	6	710	90	2 945	7 040
Non-current		–	1 003	–	710	89	1 802	5 643
Current		91	1 045	6	–	1	1 143	1 397
Notional amount		m	m	m	m	m	m	m
EUR		1 420	1 256	–	–	–	2 676	2 989
USD		2 368	7 474	–	–	–	9 842	9 718
GBP		8	–	–	–	–	8	16
JPY		169	2 469	–	–	–	2 638	5 229
SEK		104	–	–	–	–	104	136
CHF		1	–	–	–	–	1	–
CAD		2	–	–	–	–	2	1
NOK		–	–	–	–	–	–	5
ZAR		–	–	561	3 972	1 000	5 533	5 133

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

Derivative instrument	Financial risk hedged	Exposure
Foreign exchange contracts	Market (currency)	Electricity generation activity purchases and loans denominated in foreign currencies
Cross-currency swaps	Market (currency and interest rate)	Foreign fixed rate bonds and other foreign fixed or floating borrowings
Commodity forwards	Market (commodity)	Electricity sales in terms of agreements where the sales price is influenced by the market price for aluminium
Credit default swaps	Credit	Event of default by Eskom on debt securities and borrowings
Inflation-linked swaps	Market (interest rate)	Finance cost that are dependent on current interest rates

17. Derivatives held for risk management (continued)

Cash flow hedges

Contractual cash flows are a function of foreign exchange and interest rates and are a point-in-time calculation that are impacted by market conditions at that time. This may result in future contractual cash outflows or inflows even though the fair value of the derivative may be reflected as an asset or liability.

	Group and company					
	Carrying amount Rm	Un-discounted cash flows Rm	0-3 months Rm	4-12 months Rm	1-5 years Rm	>5 years Rm
The periods in which the cash flows of derivatives designated as cash flow hedges are expected to occur are:						
2020						
Foreign exchange contracts						
Assets	847	890	200	690	–	–
Liabilities	(29)	(29)	(21)	(8)	–	–
Cross-currency swaps						
Assets	47 938	87 984	28	14 442	21 797	51 717
Liabilities	(2 044)	(3 166)	(24)	(4 494)	336	1 016
	46 712	85 679	183	10 630	22 133	52 733
2019						
Foreign exchange contracts						
Assets	20	27	16	11	–	–
Liabilities	(88)	(73)	(10)	(63)	–	–
Cross-currency swaps						
Assets	21 264	35 081	(71)	551	13 404	21 197
Liabilities	(5 813)	(7 557)	(216)	(5 228)	(6 622)	4 509
	15 383	27 478	(281)	(4 729)	6 782	25 706
The periods in which the cash flows associated with derivatives are expected to impact profit or loss are:						
2020						
Foreign exchange contracts						
Assets	847	9 679	200	690	212	8 577
Liabilities	(29)	(29)	(21)	(8)	–	–
Cross-currency swaps						
Assets	47 938	87 984	28	14 442	21 797	51 717
Liabilities	(2 044)	(3 166)	(24)	(4 494)	336	1 016
	46 712	94 468	183	10 630	22 345	61 310
2019						
Foreign exchange contracts						
Assets	20	8 558	16	11	276	8 255
Liabilities	(88)	(73)	(10)	(63)	–	–
Cross-currency swaps						
Assets	21 264	35 081	(71)	551	13 404	21 197
Liabilities	(5 813)	(7 557)	(216)	(5 228)	(6 622)	4 509
	15 383	36 009	(281)	(4 729)	7 058	33 961

Ineffective cash flow hedges

The change in the fair value of the hedging instrument of R34 933 million (2019: R20 263 million) and for the hedged item (represented by a hypothetical derivative) of R35 423 million (2019: R21 209 million) were used to calculate hedge effectiveness. The cash flow hedge reserve is adjusted to the lower in absolute amounts of the cumulative gain or loss of the hedging instrument and hedged item from inception of each hedge. During the year a gain of R119 million (2019: a loss of R950 million) was recognised in profit or loss as ineffectiveness (refer to note 40).

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

	Group and company		
	Cross-currency swaps Rm	Inflation-linked swaps Rm	Total Rm
Loss at 31 March 2018	(707)	–	(707)
Day-one loss recognised	(580)	(27)	(607)
Amortised to profit or loss	141	2	143
Loss at 31 March 2019	(1 146)	(25)	(1 171)
Day-one loss recognised	(358)	–	(358)
Amortised to profit or loss	184	4	188
Loss at 31 March 2020	(1 320)	(21)	(1 341)

18. Finance lease receivables

	Group and company							
	2020				2019			
	Gross receivables Rm	Unearned finance income Rm	Allowance for impairment Rm	Carrying value Rm	Gross receivables Rm	Unearned finance income Rm	Allowance for impairment Rm	Carrying value Rm
Non-current	515	(171)	(6)	338	593	(216)	(3)	374
Between one and five years	271	(126)	(2)	143	286	(145)	(1)	140
After five years	244	(45)	(4)	195	307	(71)	(2)	234
Current								
Within one year	78	(43)	(1)	34	79	(48)	–	31
	593	(214)	(7)	372	672	(264)	(3)	405

19. Payments made in advance

	2020				2019
	Securing debt raised Rm	Environmental rehabilitation trust fund Rm	Other Rm	Total Rm	Total Rm
Group					
Balance at beginning of the year	1 608	882	785	3 275	3 164
Payments made	642	–	242	884	1 325
Expense recognised	–	–	(149)	(149)	(330)
Transferred to the statement of financial position	(657)	–	(341)	(998)	(884)
Balance at end of the year	1 593	882	537	3 012	3 275
Maturity analysis	1 593	882	537	3 012	3 275
Non-current	627	882	105	1 614	1 734
Current	966	–	432	1 398	1 541
Company					
Balance at beginning of the year	1 608	882	703	3 193	3 057
Payments made	642	–	229	871	1 322
Expense recognised	–	–	(129)	(129)	(302)
Transferred to the statement of financial position	(657)	–	(270)	(927)	(884)
Balance at end of the year	1 593	882	533	3 008	3 193
Maturity analysis	1 593	882	533	3 008	3 193
Non-current	627	882	104	1 613	1 733
Current	966	–	429	1 395	1 460

20. Trade and other receivables

	2020				2019			
	Receivable before collect-ability adjust-ments Rm	Amounts not meeting collect-ability criteria Rm	Allowance for impairment Rm	Carrying value Rm	Receivable before collect-ability adjust-ments Rm	Amounts not meeting collect ability criteria Rm	Allowance for impairment Rm	Carrying value Rm
Group								
Financial instruments								
Trade receivables								
International	1 600	–	(218)	1 382	1 753	–	(711)	1 042
Local large power users	44 695	(24 336)	(3 727)	16 632	35 223	(15 873)	(4 079)	15 271
Municipalities	37 049	(24 336)	(3 372)	9 341	27 744	(15 873)	(3 815)	8 056
Other	7 646	–	(355)	7 291	7 479	–	(264)	7 215
Local small power users	15 860	(9 861)	(3 233)	2 766	16 291	(9 293)	(4 516)	2 482
Soweto	12 774	(9 861)	(2 242)	671	13 561	(9 293)	(3 738)	530
Other	3 086	–	(991)	2 095	2 730	–	(778)	1 952
	62 155	(34 197)	(7 178)	20 780	53 267	(25 166)	(9 306)	18 795
Other receivables	1 143	–	(334)	809	1 459	–	(189)	1 270
	63 298	(34 197)	(7 512)	21 589	54 726	(25 166)	(9 495)	20 065
Non-financial instruments	802	–	–	802	794	–	–	794
VAT	3	–	–	3	53	–	–	53
Diesel rebate	799	–	–	799	741	–	–	741
	64 100	(34 197)	(7 512)	22 391	55 520	(25 166)	(9 495)	20 859
Company								
Financial instruments								
Trade receivables								
International	1 600	–	(218)	1 382	1 753	–	(711)	1 042
Local large power users	44 695	(24 336)	(3 727)	16 632	35 223	(15 873)	(4 079)	15 271
Municipalities	37 049	(24 336)	(3 372)	9 341	27 744	(15 873)	(3 815)	8 056
Other	7 646	–	(355)	7 291	7 479	–	(264)	7 215
Local small power users	15 860	(9 861)	(3 233)	2 766	16 291	(9 293)	(4 516)	2 482
Soweto	12 774	(9 861)	(2 242)	671	13 561	(9 293)	(3 738)	530
Other	3 086	–	(991)	2 095	2 730	–	(778)	1 952
	62 155	(34 197)	(7 178)	20 780	53 267	(25 166)	(9 306)	18 795
Other receivables	2 873	–	(385)	2 488	2 678	–	(194)	2 484
	65 028	(34 197)	(7 563)	23 268	55 945	(25 166)	(9 500)	21 279
Non-financial instruments								
Diesel rebate	799	–	–	799	741	–	–	741
	65 827	(34 197)	(7 563)	24 067	56 686	(25 166)	(9 500)	22 020

	Note	Group and company 2020 Rm	2019 Rm
Reconciliation of movements in amounts not meeting collectability criteria			
Balance at beginning of the year		25 166	16 284
Revenue not recognised	33	10 190	8 914
Finance income not recognised	41	3 227	2 593
Cash basis revenue recognised	33	(4 083)	(2 472)
Writeoffs		(303)	(153)
Balance at end of the year		34 197	25 166

Refer to note 6.1.1 for a reconciliation of the movements in allowance for impairment.

21. Inventories

	Note	2020 Coal and liquid fuel Rm	2020 Nuclear fuel Rm	2020 Maintenance spares and consumables Rm	2020 Total Rm	2019 Total Rm
Group						
Carrying value at beginning of the year		12 337	1 936	12 209	26 482	24 348
Adoption of IFRS 15		–	–	–	–	(315)
Changes in working capital		4 136	(842)	1 624	4 918	572
Transfer from future fuel supplies	11	1 119	1 021	–	2 140	1 709
Provisions capitalised	30	(23)	70	–	47	183
Net impairment loss	37	–	–	(14)	(14)	(15)
		17 569	2 185	13 819	33 573	26 482
Company						
Carrying value at beginning of the year		12 337	1 936	11 978	26 251	24 122
Changes in working capital		4 136	(842)	1 612	4 906	252
Transfer from future fuel supplies	11	1 119	1 021	–	2 140	1 709
Provisions capitalised	30	(23)	70	–	47	183
Net impairment loss	37	–	–	(14)	(14)	(15)
		17 569	2 185	13 576	33 330	26 251

22. Cash and cash equivalents

	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
Bank balances	9 897	2 018	9 221	1 504
Unsettled deals	25	13	25	13
Fixed deposits	13 068	–	13 068	–
	22 990	2 031	22 314	1 517

23. Assets and liabilities held-for-sale

The EFC disposal process followed during the 2019 financial year did not solicit interest from buyers that either had the necessary expertise to originate loans and manage a loan book or could acquire and manage the loan book in terms of Eskom's requirements or had sufficient financial reserves to purchase the company.

In response, Eskom materially altered the disposal strategy to improve the chances that the current process will be successful. This change of strategy required updated governance approvals which delayed the conclusion of the disposal process.

Approvals for the disposal were obtained in January 2020 and a request for proposal for the disposal of the assets and liabilities of EFC was issued in February 2020 to all banks and other parties who indicated interest in participating in the process. The closing date for the submission of proposals was extended to 10 July 2020 to accommodate the impact of the national lockdown because of the COVID-19 pandemic on the ability of bidders to submit proposals. The process of evaluating the submitted proposals is currently underway.

Eskom remains committed to the disposal of EFC as one of the means of addressing its liquidity challenges. The revised disposal strategy is expected to result in a successful disposal process and is estimated to be completed by 31 March 2021. EFC is included under all other segments in the segment report.

23. Assets and liabilities held-for-sale (continued)

	Group 2020 Eskom Finance Company Rm	2020 Inter-company transactions Rm	2020 Total Rm	2019 Total Rm
Summarised statements of financial position				
Assets				
Loans receivable	8 531	–	8 531	8 752
Trade and other receivables	12	–	12	6
Deferred tax	15	–	15	17
Taxation	4	–	4	1
Cash and cash equivalents	131	(51)	80	95
	8 693	(51)	8 642	8 871
Liabilities				
Debt securities and borrowings	7 411	(5 949)	1 462	1 675
Trade and other payables	16	(5)	11	4
	7 427	(5 954)	1 473	1 679

24. Service concession arrangements

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

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

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

The plant remains the property of and will revert to UEGCL at the end of the concession period. At that point Eskom Uganda will have no further obligation in respect of the plant.

	2020 Rm	2019 Rm
Summarised statements of financial position		
Assets		
Intangible assets	271	217
Taxation	17	10
Inventories	28	28
Payments made in advance	1	1
Trade and other receivables	36	56
Cash and cash equivalents	51	111
	404	423
Liabilities		
Debt securities and borrowings	10	14
Deferred tax	30	13
Provisions	22	12
Employee benefit obligations	5	4
Trade and other payables	36	94
	103	137
Summarised income statements		
Revenue	268	205
Profit for the year before tax	64	50
Taxation	(28)	(21)
Profit for the year after tax	36	29

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

25. Share capital

	Group and company	
	2020 Shares	2019 Shares
Authorised ordinary shares		
Balance at beginning of the year	100 000 000 000	100 000 000 000
Additional ordinary shares authorised	200 000 000 000	–
Balance at end of the year	300 000 000 000	100 000 000 000
Issued		
Balance at beginning of the year	83 000 000 001	83 000 000 001
Share capital issued	49 000 000 000	–
Balance at end of the year	132 000 000 001	83 000 000 001
Unissued	167 999 999 999	16 999 999 999

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

26. Debt securities and borrowings

	Group		Company	
	2020 Rm	2019 Rm	2020 Rm	2019 Rm
Eskom bonds	157 037	152 283	157 037	152 283
Commercial paper	5 444	1 105	8 114	3 714
Eurorand zero coupon bonds	4 964	4 399	4 964	4 399
Foreign bonds	98 563	79 963	98 563	79 963
Development financing institutions	154 489	135 661	154 489	135 661
Export credit facilities	32 746	31 782	32 746	31 782
Floating rate notes	4 046	4 047	4 046	4 047
Other loans	26 393	31 370	28 255	33 198
	483 682	440 610	488 214	445 047
Maturity analysis	483 682	440 610	488 214	445 047
Non-current	408 151	387 208	408 107	387 161
Current	75 531	53 402	80 107	57 886

26. Debt securities and borrowings (continued)

	Currency	Security number	Interest rate 2020 %	Interest rate 2019 %	Nominal 2020 m	Nominal 2019 m	Maturity date	Group Carrying value 2020 Rm	Group Carrying value 2019 Rm	Company Carrying value 2020 Rm	Company Carrying value 2019 Rm
Eskom bonds								157 037	152 283	157 037	152 283
	ZAR	ECN20	–	10.01	–	5 000	Mar 20	–	5 009	–	5 009
	ZAR	E174[1]	10.13	–	2 928	–	Aug 20	3 020	–	3 020	–
	ZAR	E175[1]	9.97	–	2 928	–	Aug 21	3 115	–	3 115	–
	ZAR	E170[2]	–	10.13	–	8 792	Aug 21	–	9 324	–	9 324
	ZAR	ECN22	10.17	10.17	5 000	5 000	Mar 22	4 988	4 972	4 988	4 972
	ZAR	ES23[3]	9.31	9.39	19 784	17 927	Jan 23	20 483	18 598	20 483	18 598
	ZAR	ECN24	10.37	10.37	5 000	5 000	Mar 24	4 958	4 945	4 958	4 945
	ZAR	ES26[3]	9.29	9.27	32 898	28 851	Apr 26	32 052	27 917	32 052	27 917
	ZAR	EL28[3]	2.55	2.55	5 278	7 563	May 28	7 996	7 692	7 996	7 692
	ZAR	EL29[3]	1.90	1.90	3 709	5 167	Nov 29	5 457	5 250	5 457	5 250
	ZAR	EL30[3]	2.30	2.30	3 665	4 861	Jul 30	5 083	4 887	5 083	4 887
	ZAR	EL31[3]	2.10	2.10	4 076	5 180	Jun 31	5 395	5 184	5 395	5 184
	ZAR	ECN32	2.95	2.95	5 000	5 951	Mar 32	6 204	5 964	6 204	5 964
	ZAR	ES33[3]	9.21	9.18	34 530	33 904	Sep 33	30 205	29 569	30 205	29 569
	ZAR	EL36[3]	2.25	2.25	3 753	4 613	Jan 36	4 832	4 646	4 832	4 646
	ZAR	EL37[3]	2.25	2.25	3 838	4 684	Jan 37	4 846	4 631	4 846	4 631
	ZAR	ES42[3]	10.34	10.03	20 909	15 201	Apr 42	18 403	13 695	18 403	13 695
Commercial paper								5 444	1 105	8 114	3 714
	ZAR	ESNOICP[3]	7.39	8.07	5 625	1 130	Sep 20	5 444	1 105	5 444	1 105
	ZAR	n/a[4]	7.52	8.09	2 786	2 709	Jan 21[5]	–	–	2 670	2 609
Eurorand zero coupon bonds[1]								4 964	4 399	4 964	4 399
	ZAR	n/a	13.33	13.33	8 000	8 000	Aug 27	3 175	2 800	3 175	2 800
	ZAR	n/a	11.89	11.89	7 500	7 500	Dec 32	1 789	1 599	1 789	1 599
Foreign bonds								98 563	79 963	98 563	79 963
	USD	n/a	5.87	5.75	1 750	1 750	Jan 21	31 479	25 541	31 479	25 541
	USD	n/a	6.90	6.75	1 000	1 000	Aug 23	17 922	14 541	17 922	14 541
	USD	n/a	7.39	7.13	1 250	1 250	Feb 25	22 241	18 030	22 241	18 030
	USD	n/a	8.47	8.45	500	500	Aug 28	8 991	7 298	8 991	7 298
	USD	n/a[3]	6.37	6.35	1 000	1 000	Aug 28	17 930	14 553	17 930	14 553
Balances carried forward to the next page								266 008	237 750	268 678	240 359

	Currency	Security number	Interest rate 2020 %	Interest rate 2019 %	Nominal 2020 m	Nominal 2019 m	Maturity date	Group Carrying value 2020 Rm	Group Carrying value 2019 Rm	Company Carrying value 2020 Rm	Company Carrying value 2019 Rm
Balances carried forward from the previous page								266 008	237 750	268 678	240 359
Development financing institutions[5]								154 489	135 661	154 489	135 661
	USD	n/a[3]	–	4.67	–	500	Dec 19	–	7 242	–	7 242
	USD	n/a[3]	4.68	5.71	965	965	Jul 21	17 235	13 937	17 235	13 937
	ZAR	n/a[3]	7.91	8.50	1 133	1 267	Aug 28	1 148	1 284	1 148	1 284
	USD	n/a[3]	2.93	3.96	165	184	Aug 28	2 946	2 679	2 946	2 679
	EUR	n/a[3]	–	–	579	603	Aug 29	11 328	9 811	11 328	9 811
	ZAR	n/a[3]	7.23	7.77	6 784	7 369	Aug 29	6 862	7 462	6 862	7 462
	ZAR	n/a[3]	10.10	10.10	3 738	3 935	Sep 29	3 732	3 929	3 732	3 929
	ZAR	n/a	10.37	10.37	15 000	15 000	Jan 31	15 263	15 259	15 263	15 259
	EUR	n/a[3]	1.50	1.50	470	470	Mar 31	8 733	7 268	8 733	7 268
	USD	n/a[3]	2.37	2.69	7	8	Aug 31	125	110	125	110
	ZAR	n/a	6.78	7.55	1 099	1 193	Mar 32	1 103	1 197	1 103	1 197
	USD	n/a[3]	3.28	4.84	2 488	1 550	Sep 33	43 914	22 278	43 914	22 278
	USD	n/a[3]	4.68	5.71	9	9	Aug 36	149	127	149	127
	ZAR	n/a[3]	10.56	11.15	4 704	4 998	Aug 36	4 695	4 995	4 695	4 995
	USD	n/a[3]	2.41	3.29	25	184	May 38	445	2 700	445	2 700
	ZAR	n/a[3]	9.17	9.16	31 007	30 011	May 38	32 193	31 151	32 193	31 151
	USD	n/a[3]	2.16	–	11	–	Mar 39	191	–	191	–
	ZAR	n/a[3]	10.21	10.18	2 978	3 039	Nov 40	3 052	3 114	3 052	3 114
	USD	n/a[3]	0.25	0.25	35	35	May 51	622	506	622	506
	USD	n/a[3]	0.25	0.25	42	42	Aug 51	753	612	753	612
Export credit facilities[5]								32 746	31 782	32 746	31 782
	JPY	n/a	1.49	1.58	2 469	4 944	May 22	406	644	406	644
	EUR	n/a	1.25	0.89	35	50	Sep 23	658	775	658	775
	EUR	n/a	0.57	0.66	7	9	Jul 24	140	142	140	142
	EUR	n/a	4.74	4.73	604	723	Jan 27	11 330	11 153	11 330	11 153
	EUR	n/a	2.48	2.49	491	575	Jul 27	9 100	8 771	9 100	8 771
	ZAR	n/a	9.06	9.35	1 528	1 765	Jul 27	1 419	1 640	1 419	1 640
	USD	n/a	2.32	2.32	583	641	Mar 31	9 693	8 657	9 693	8 657
Floating rate notes[5]	ZAR	n/a[3]	6.22	7.16	4 000	4 000	Apr 21	4 046	4 047	4 046	4 047
Other loans								26 393	31 370	28 255	33 198
	ZAR	n/a	–	13.25	–	3 000	Apr 19	–	3 003	–	3 003
	ZAR	n/a[3]	8.76	9.35	15 000	15 000	Feb 21	15 120	15 096	15 120	15 096
	ZAR	n/a	9.31	9.90	1 000	1 000	Aug 23	1 014	1 015	1 014	1 015
	ZAR	n/a	8.84	10.39	2 955	3 650	Mar 24	2 985	3 658	2 985	3 658
	ZAR	n/a	12.80	12.80	1 500	1 500	Oct 24	1 589	1 588	1 589	1 588
	ZAR	n/a	11.18	11.27	5 550	6 850	Feb 25	5 640	6 963	5 640	6 963
	ZAR	n/a[4]	6.58	6.76	1 822	1 875	On demand	–	–	1 907	1 875
	ZAR	n/a	–	–	44	47	On demand	45	47	–	–
								483 682	440 610	488 214	445 047

1. *Holders have a right to first charge against revenue and assets of Eskom in terms of section 7 of the Eskom Conversion Act.*
2. *This instrument would have matured in three equal tranches. Each tranche was converted into separate instruments (E173, E174 and E175) during the 2020 financial year to align them to the separate maturity dates. No gain or loss resulted.*
3. *Government guaranteed.*
4. *Includes, inter alia, instruments issued to subsidiaries.*
5. *Latest in a range of maturity dates is indicated for these instruments.*

27. Embedded derivatives

	2020 Commodity and/or foreign currency Rm	2020 United States PPI and foreign currency Rm	2020 Total Rm	2019 Total Rm
Group and company				
Liability at beginning of the year	3 008	426	3 434	5 291
Net fair value gain	(1 878)	(420)	(2 298)	(1 857)
Liability at end of the year	1 130	6	1 136	3 434
Maturity analysis	1 130	6	1 136	3 434
Non-current	–	5	5	1 365
Current	1 130	1	1 131	2 069

28. Payments received in advance and contract liabilities and deferred income

	Note	2020 Customer connections Rm	2020 Government grant Rm	2020 Other Rm	2020 Total Rm	2019 Total Rm
28.1 Payments received in advance						
Group						
Balance at beginning of the year		3 668	1 095	634	5 397	4 769
Payments received		1 005	2 716	286	4 007	4 709
Transfers to the statement of financial position		(346)	(2 394)	(59)	(2 799)	(2 983)
Transfers to contract liabilities and deferred income	28.2	(322)	(2 394)	–	(2 716)	(2 983)
Other		(24)	–	(59)	(83)	–
Income recognised		(390)	(190)	(240)	(820)	(1 098)
Balance at end of the year		3 937	1 227	621	5 785	5 397
Maturity analysis		3 937	1 227	621	5 785	5 397
Non-current		2 172	–	183	2 355	2 038
Current		1 765	1 227	438	3 430	3 359
Company						
Balance at beginning of the year		3 668	1 095	642	5 405	4 762
Payments received		1 005	2 716	278	3 999	4 724
Transfers to the statement of financial position		(346)	(2 394)	(59)	(2 799)	(2 983)
Transfers to contract liabilities and deferred income	28.2	(322)	(2 394)	–	(2 716)	(2 983)
Other		(24)	–	(59)	(83)	–
Income recognised		(390)	(190)	(233)	(813)	(1 098)
Balance at end of the year		3 937	1 227	628	5 792	5 405
Maturity analysis		3 937	1 227	628	5 792	5 405
Non-current		2 172	–	183	2 355	2 038
Current		1 765	1 227	445	3 437	3 367
28.2 Contract liabilities and deferred income						
Group and company						
Balance at beginning of the year		2 624	20 170	–	22 794	21 005
Transfers of property, plant and equipment from customers		128	–	–	128	187
Transfers from payments received in advance	28.1	322	2 394	–	2 716	2 983
Income recognised	39	(172)	(1 349)	–	(1 521)	(1 381)
Balance at end of the year		2 902	21 215	–	24 117	22 794
Maturity analysis		2 902	21 215	–	24 117	22 794
Non-current		2 711	19 866	–	22 577	21 295
Current		191	1 349	–	1 540	1 499

29. Employee benefit obligations

	Note	2020 Post-employment medical benefits Rm	2020 Leave Rm	2020 Bonus Rm	2020 Total Rm	2019 Total Rm
Group						
Balance at beginning of the year		16 148	2 187	469	18 804	19 112
Raised to income statement		409	901	578	1 888	1 820
Raised		409	901	608	1 918	1 820
Reversed		–	–	(30)	(30)	–
Reversed to other comprehensive income		(3 546)	–	–	(3 546)	(1 992)
Finance cost	42	1 787	–	–	1 787	1 748
Cash paid		(598)	(912)	(600)	(2 110)	(1 884)
Balance at end of the year		14 200	2 176	447	16 823	18 804
Maturity analysis		14 200	2 176	447	16 823	18 804
Non-current		13 530	–	–	13 530	15 560
Current		670	2 176	447	3 293	3 244
Company						
Balance at beginning of the year		15 792	2 000	408	18 200	18 501
Raised to income statement		407	831	417	1 655	1 712
Reversed to other comprehensive income		(3 478)	–	–	(3 478)	(1 949)
Finance cost	42	1 749	–	–	1 749	1 710
Cash paid		(585)	(852)	(439)	(1 876)	(1 774)
Balance at end of the year		13 885	1 979	386	16 250	18 200
Maturity analysis		13 885	1 979	386	16 250	18 200
Non-current		13 232	–	–	13 232	15 224
Current		653	1 979	386	3 018	2 976

29.1 Post-employment medical benefits

	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
The group has anticipated expenditure in terms of continued contributions to medical aid subscriptions in respect of qualifying employees who retire.				
Amounts recognised in profit or loss:				
Employee benefit expense	409	528	407	525
Finance cost	1 787	1 748	1 749	1 710
Amounts recognised in other comprehensive income:				
Re-measurements of post-employment medical benefits (actuarial gain)	(3 546)	(1 992)	(3 478)	(1 949)
Financial assumptions	(3 604)	(1 784)	(3 537)	(1 751)
Experience adjustments	58	(208)	59	(198)
Measurement of post-employment medical benefits and key actuarial assumptions				
The estimated present value of the anticipated expenditure for both in-service and retired members was calculated by independent actuaries.				
The group expects to pay R670 million and the company R653 million in contributions to this plan in the 2021 financial year.				
Expected maturity analysis of undiscounted post-employment medical benefits:				
Within one year	670	588	653	568
Between one and two years	734	637	715	621
Between two and five years	2 897	2 499	2 825	2 436
After five years	362 897	249 731	359 094	246 721
	367 198	253 455	363 287	250 346

29. Employee benefit obligations (continued)

29.1 Post-employment medical benefits (continued)

Risks

The medical aid benefits are administered by funds that are legally separated from the group. The boards of the funds are required by law to act in the best interest of the plan participants and are responsible for setting policies including investment, contribution and indexation of the funds.

These funds expose the group to a number of risks, the most significant of which are:

- changes in bonds' yields: a decrease in corporate bond yields will increase plan liabilities
- inflation risk: the post-employment obligations are linked to inflation and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation)
- life expectancy: the majority of the plans' obligations are to provide benefits for the life of the member and therefore increases in life expectancy will result in an increase in the plans' liabilities

The expected current service cost for the 2021 financial year is estimated at R279 million for the group and R277 million for the company. Refer to note 5.2 for the sensitivity analysis and principal actuarial assumptions used.

29.2 Leave

The group recognises a liability for annual, occasional and service leave. Refer to note 5.3.

29.3 Bonus

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

29.4 Pension benefits

The EPPF was actuarially valued based on the projected unit credit method basis at 31 March 2020 (previous valuation at 31 March 2019). Relevant information relating to the status of the fund include:

Movements in net asset/liability

	2020				2019			
	Fund assets Rm	Fund obligations Rm	Asset ceiling adjust-ments Rm	Net asset/(liability) Rm	Fund assets Rm	Fund obligations Rm	Asset ceiling adjust-ments Rm	Net asset/(liability) Rm
Net asset/(liability) at beginning of the year	141 905	103 517	(38 388)	–	134 582	102 563	(32 019)	–
Current service cost	–	2 631	–	(2 631)	–	3 090	–	(3 090)
Interest, returns and actuarial gains/losses	(12 339)	(9 592)	2 929	182	9 200	2 162	(6 369)	669
Net interest	15 481	11 413	(4 223)	(155)	14 033	10 869	(3 362)	(198)
Actuarial gain/(loss) on asset/liability	(27 820)	(21 005)	7 152	337	(4 833)	(8 707)	(3 007)	867
Payments received by the fund	3 803	1 354	–	2 449	3 775	1 354	–	2 421
Employer funded	2 449	–	–	2 449	2 421	–	–	2 421
Member funded	1 354	1 354	–	–	1 354	1 354	–	–
Payments made by the fund	(6 133)	(6 133)	–	–	(5 652)	(5 652)	–	–
Benefit and pension payments	(5 538)	(5 538)	–	–	(4 868)	(4 868)	–	–
Fund management costs	(283)	(283)	–	–	(241)	(241)	–	–
Transfers to/from the fund	(312)	(312)	–	–	(543)	(543)	–	–
Net asset/(liability) at end of the year	127 236	91 777	(35 459)	–	141 905	103 517	(38 388)	–

Actuarial gains/losses on fund obligations

	Group and company 2020 Rm	2019 Rm
Financial assumptions	(16 869)	(6 949)
Experience adjustments	(4 136)	(1 758)
	(21 005)	(8 707)

The amount recognised as an expense has been disclosed in the financial statements in note 36. Eskom's expected contributions to the plan over the course of the following year is R2 457 million.

Measurement of fund obligations and key actuarial assumptions

	Unit	Group and company 2020	2019
Long-term investment return before tax	%	13.5	11.0
Future general salary increases	%	8.7	7.9
Future pension increases (inflation)	%	7.2	6.4
Weighted average duration	years	14.9	16.4
Expected maturity analysis of undiscounted fund obligations:			
Within one year	Rm	5 423	5 229
Between one and two years	Rm	5 932	5 647
Between two and five years	Rm	20 605	19 210
After five years	Rm	1 525 270	1 097 049
		1 557 230	1 127 135

Assumptions regarding future mortality have been based on published mortality tables and statistics derived from experience. Refer to note 5.2 for details regarding current longevities underlying the values of the pension benefit obligation at the reporting date. Refer to note 36 for the expense recognised.

Fund assets composition

	Group and company 2020 Domestic Rm	2020 International Rm	2020 Total Rm	2019 Domestic Rm	2019 International Rm	2019 Total Rm
Equities	47 300	39 676	86 976	53 062	44 006	97 068
Bonds	24 528	6 611	31 139	26 012	–	26 012
Issued by Eskom	2 901	–	2 901	2 851	–	2 851
Other	21 627	6 611	28 238	23 161	–	23 161
Property	118	–	118	9 187	–	9 187
Cash	4 818	338	5 156	719	342	1 061
Hedge funds	1 158	–	1 158	930	–	930
Balanced funds	–	–	–	7 647	–	7 647
Other	1	2 688	2 689	–	–	–
	77 923	49 313	127 236	97 557	44 348	141 905

Sensitivity analysis

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

	Group and company 2020 increase Rm	2020 decrease Rm	2019 increase Rm	2019 decrease Rm
1% change in discount rate	(5 276)	6 670	(6 787)	10 169
1% change in inflation rate	6 923	(5 612)	10 226	(7 118)
One year change in post-employment mortality	(1 166)	1 134	(2 125)	1 510

30. Provisions

	Note	2020 Power station-related environmental restoration[1] Nuclear plant Rm	Power station-related environmental restoration[1] Other generating plant Rm	Mine-related closure, pollution control and rehabilitation[1] Rm	Coal-related obligations Rm	Other Rm	Total Rm	2019 Total Rm
Group								
Balance at beginning of the year		17 797	14 460	13 906	324	4 763	51 250	49 679
Charged to income statement		(1 798)	(1 334)	672	378	(404)	(2 486)	(1 499)
Raised		879	246	1 295	701	967	4 088	1 602
Reversed		–	(248)	(11)	(323)	(1 371)	(1 953)	(2 877)
Change in discount rate		(2 677)	(1 332)	(612)	–	–	(4 621)	(224)
Capitalised to property, plant and equipment	9	(1 399)	(2 447)	–	–	1 182	(2 664)	1 329
Raised		–	106	–	–	2 969	3 075	6 865
Reversed		–	(590)	–	–	(1 787)	(2 377)	(5 352)
Change in discount rate		(1 399)	(1 963)	–	–	–	(3 362)	(184)
Capitalised to future fuel supplies	11	–	–	(1 063)	–	–	(1 063)	475
Raised		–	–	51	–	–	51	1 318
Reversed		–	–	(77)	–	–	(77)	(782)
Change in discount rate		–	–	(1 037)	–	–	(1 037)	(61)
Capitalised to inventories	21	70	–	(23)	–	–	47	183
Raised		70	–	182	–	–	252	240
Reversed		–	–	(205)	–	–	(205)	(57)
Finance cost	42	1 585	1 253	1 075	–	32	3 945	3 940
Cash paid		(52)	–	(276)	(702)	(708)	(1 738)	(2 857)
Balance at end of the year		16 203	11 932	14 291	–	4 865	47 291	51 250
Maturity analysis		16 203	11 932	14 291	–	4 865	47 291	51 250
Non-current		15 406	11 932	13 686	–	276	41 300	45 588
Current		797	–	605	–	4 589	5 991	5 662
Company								
Balance at beginning of the year		17 797	14 460	13 906	324	4 627	51 114	49 553
Charged to income statement		(1 798)	(1 334)	672	378	(357)	(2 439)	(1 509)
Raised		879	246	1 295	701	1 014	4 135	1 535
Reversed		–	(248)	(11)	(323)	(1 371)	(1 953)	(2 820)
Change in discount rate		(2 677)	(1 332)	(612)	–	–	(4 621)	(224)
Capitalised to property, plant and equipment	9	(1 399)	(2 447)	–	–	1 182	(2 664)	1 329
Raised		–	106	–	–	2 969	3 075	6 865
Reversed		–	(590)	–	–	(1 787)	(2 377)	(5 352)
Change in discount rate		(1 399)	(1 963)	–	–	–	(3 362)	(184)
Capitalised to future fuel supplies	11	–	–	(1 063)	–	–	(1 063)	475
Raised		–	–	51	–	–	51	1 318
Reversed		–	–	(77)	–	–	(77)	(782)
Change in discount rate		–	–	(1 037)	–	–	(1 037)	(61)
Capitalised to inventories	21	70	–	(23)	–	–	47	183
Raised		70	–	182	–	–	252	240
Reversed		–	–	(205)	–	–	(205)	(57)
Finance cost	42	1 585	1 253	1 075	–	30	3 943	3 940
Cash paid		(52)	–	(276)	(702)	(697)	(1 727)	(2 857)
Balance at end of the year		16 203	11 932	14 291	–	4 785	47 211	51 114
Maturity analysis		16 203	11 932	14 291	–	4 785	47 211	51 114
Non-current		15 406	11 932	13 686	–	254	41 278	45 558
Current		797	–	605	–	4 531	5 933	5 556

1. *Refer to note 5.4 for critical accounting estimates and assumptions.*

31. Lease liabilities

	2020 Gross payables Rm	2020 Future finance charges Rm	2020 Carrying value Rm	2019 Gross payables Rm	2019 Future finance charges Rm	2019 Carrying value Rm
Group						
Non-current	16 805	(7 930)	8 875	18 389	(9 259)	9 130
Between one and five years	7 002	(4 676)	2 326	6 876	(4 969)	1 907
After five years	9 803	(3 254)	6 549	11 513	(4 290)	7 223
Current						
Within one year	1 834	(1 359)	475	1 729	(1 397)	332
	18 639	(9 289)	9 350	20 118	(10 656)	9 462
Company						
Non-current	16 802	(7 929)	8 873	18 389	(9 259)	9 130
Between one and five years	6 999	(4 675)	2 324	6 876	(4 969)	1 907
After five years	9 803	(3 254)	6 549	11 513	(4 290)	7 223
Current						
Within one year	1 833	(1 359)	474	1 729	(1 397)	332
	18 635	(9 288)	9 347	20 118	(10 656)	9 462

Movement reconciliation	Note	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
Balance at beginning of the year		9 462	9 819	9 462	9 819
Adoption of IFRS 16	52	139	–	139	–
Additions		172	–	168	–
Finance costs		1 415	1 444	1 415	1 444
Cash paid		(1 838)	(1 801)	(1 837)	(1 801)
Capital		(423)	(357)	(422)	(357)
Finance costs		(1 415)	(1 444)	(1 415)	(1 444)
Balance at end of the year		9 350	9 462	9 347	9 462

Refer to note 38 for short-term and low-value lease expenses.

32. Trade and other payables

	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
Financial instruments	38 700	36 132	40 420	37 564
Trade and other payables	28 043	22 968	28 605	23 441
Accruals	5 605	8 507	6 763	9 466
Deposits	5 052	4 657	5 052	4 657
Non-financial instruments	1 886	1 748	1 752	1 675
VAT	1 248	1 095	1 114	1 022
Environmental levy	638	653	638	653
	40 586	37 880	42 172	39 239
Maturity analysis	40 586	37 880	42 172	39 239
Non-current	411	1 031	411	1 031
Current	40 175	36 849	41 761	38 208

	Note	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
33. Revenue					
Redistributors (metropolitan and municipal customers)		79 918	71 265	79 918	71 265
Invoiced to customers		85 656	77 231	85 656	77 231
Amounts not meeting collectability criteria	20	(9 821)	(8 438)	(9 821)	(8 438)
Recognised on a cash received basis	20	4 083	2 472	4 083	2 472
Residential		5 993	5 490	5 993	5 490
Invoiced to customers		6 362	5 966	6 362	5 966
Amounts not meeting collectability criteria	20	(369)	(476)	(369)	(476)
Industrial		37 946	36 168	37 946	36 168
Mining		29 968	26 550	29 968	26 550
Commercial		14 067	12 385	14 067	12 385
Agricultural		9 839	8 682	9 839	8 682
International		12 229	8 241	12 229	8 241
Rail		3 323	3 119	3 323	3 119
Public lighting		218	160	218	160
Post-paid electricity sales		193 501	172 060	193 501	172 060
Prepaid electricity sales		9 489	8 645	9 489	8 645
Total electricity sales		202 990	180 705	202 990	180 705
Connections		1 855	2 300	1 855	2 300
Other		306	280	306	280
Gross revenue		205 151	183 285	205 151	183 285
Capitalised to property, plant and equipment		(5 683)	(3 393)	(5 683)	(3 393)
		199 468	179 892	199 468	179 892

Sales of electricity to local customers are included in the distribution operating segment. International sales are included in the transmission segment. Other revenue consists of reconnection fees and *ad hoc* sundry revenue. Connections occur mainly within the transmission and distribution operating segments.

	Note	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
34. Other income					
Insurance proceeds		14	24	858	1 189
Services income		359	284	–	–
Management fee income		–	–	132	131
Operating lease income		274	360	225	257
Dividend income		66	49	46	35
Other		525	1 433	558	1 461
		1 238	2 150	1 819	3 073

	Note	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
35. Primary energy					
Own generation costs		79 343	70 796	79 343	70 796
Generation costs		71 730	62 991	71 730	62 991
Environmental levy	48	7 613	7 805	7 613	7 805
International electricity purchases		4 716	3 740	4 716	3 740
Independent power producers		28 060	24 952	28 060	24 952
		112 119	99 488	112 119	99 488

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

	Note	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
36. Employee benefit expense					
Salaries		25 158	24 850	22 655	22 415
Overtime		2 282	2 237	1 824	1 815
Annual bonus		1 352	1 370	1 191	1 199
Post-employment medical benefits		409	528	407	525
Leave		901	859	831	809
Pension benefits		2 450	2 421	2 216	2 192
Direct costs of employment		32 552	32 265	29 124	28 955
Direct training and development		81	116	65	91
Temporary and contract staff costs		2 140	2 831	292	695
Other staff costs		845	1 357	751	1 177
Gross employee benefit expense		35 618	36 569	30 232	30 918
Capitalised to property, plant and equipment		(2 642)	(3 386)	(2 642)	(3 386)
		32 976	33 183	27 590	27 532
37. Impairment of assets					
37.1 Financial assets					
Loans receivable		2	31	(29)	40
Finance lease receivables		5	3	5	3
Trade and other receivables	20	(943)	(138)	(898)	(124)
Insurance investments		7	5	–	–
		(929)	(99)	(922)	(81)
Bad debts recovered – trade and other receivables		(7)	(8)	(7)	(8)
		(936)	(107)	(929)	(89)
37.2 Other assets					
Raised		937	15	937	15
Property, plant and equipment	9	919	–	919	–
Inventories	21	18	15	18	15
Reversed		(62)	(168)	(62)	(168)
Property, plant and equipment	9	(58)	(168)	(58)	(168)
Inventories	21	(4)	–	(4)	–
		875	(153)	875	(153)
38. Other expenses					
Managerial, technical and other fees		318	743	288	709
Lease expense		819	1 277	207	680
Operating		–	1 277	–	680
Short term		781	–	169	–
Low value		38	–	38	–
Auditors' remuneration[1]		169	156	156	144
Net loss on disposals and writeoffs of property, plant and equipment and intangible assets[2]		4 646	318	4 643	640
Repairs and maintenance, transport and other expenses		12 722	15 720	20 957	24 846
		18 674	18 214	26 251	27 019
39. Depreciation and amortisation expense					
Depreciation of property, plant and equipment	9	28 773	30 493	28 741	30 422
Amortisation of intangible assets	10	355	454	301	431
Contract liabilities and deferred income recognised (government grant)	28.2	(1 349)	(1 209)	(1 349)	(1 209)
		27 779	29 738	27 693	29 644

1. *There were no non-audit services rendered by the group's statutory auditors.*
2. *Includes R3 473 million as well as related borrowing costs of R524 million thereon relating to a writeoff of property, plant and equipment. Refer to note 9.*

	Note	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
40. Net fair value and foreign exchange loss on financial instruments					
Gain/(loss) on instruments carried at fair value		35 053	21 335	35 420	21 377
Financial trading assets		(1)	4	(1)	4
Financial trading liabilities		(9)	(18)	(9)	(18)
Insurance investments		(368)	(46)	–	–
Derivatives held for risk management	17	33 133	19 538	33 132	19 534
Embedded derivatives		2 298	1 857	2 298	1 857
Gain/(loss) on foreign currency translation of instruments carried at amortised cost		(40 089)	(24 118)	(40 091)	(24 119)
Trade and other receivables		8	3	6	–
Cash and cash equivalents		136	620	136	620
Trade and other payables		(158)	(119)	(158)	(117)
Debt securities and borrowings		(40 075)	(24 622)	(40 075)	(24 622)
Amounts recycled from cash flow hedge reserve		444	(626)	444	(626)
Amortisation of effective portion of terminated cash flow hedges		325	324	325	324
Ineffective portion of cash flow hedges		119	(950)	119	(950)
		(4 592)	(3 409)	(4 227)	(3 368)
41. Finance income					
Financial trading assets		4	3	4	3
Insurance investments		699	601	–	–
Loans receivable		855	865	451	461
Finance lease receivables		47	51	47	51
Trade and other receivables		412	347	412	347
Invoiced to customers		3 639	2 940	3 639	2 940
Amounts not meeting collectability criteria	20	(3 227)	(2 593)	(3 227)	(2 593)
Cash and cash equivalents		593	855	554	817
		2 610	2 722	1 468	1 679
42. Finance cost					
Debt securities and borrowings		34 012	31 845	34 201	31 997
Eskom bonds		13 468	12 895	13 468	12 895
Commercial paper		234	263	304	299
Eurorand zero coupon bonds		565	689	565	689
Foreign bonds		5 536	4 538	5 536	4 538
Development financing institutions		9 359	8 825	9 359	8 825
Export credit facilities		1 552	1 647	1 552	1 647
Floating rate notes		381	373	381	373
Other loans		2 917	2 615	3 036	2 731
Derivatives held for risk management		6 878	6 218	6 878	6 218
Employee benefit obligations	29	1 787	1 748	1 749	1 710
Provisions	30	3 945	3 940	3 943	3 940
Lease liabilities		1 415	1 444	1 415	1 444
Trade and other payables		409	637	407	636
Gross finance cost		48 446	45 832	48 593	45 945
Capitalised to property, plant and equipment	9	(14 584)	(15 378)	(14 584)	(15 378)
		33 862	30 454	34 009	30 567

43. Income tax

	Note	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
Recognised in profit or loss					
Current tax		381	412	–	–
Deferred tax	14	(6 441)	(8 909)	(6 740)	(9 341)
Reversal of temporary differences		1 559	5 974	1 273	5 529
Tax losses		(8 000)	(14 883)	(8 013)	(14 870)
		(6 060)	(8 497)	(6 740)	(9 341)
Reconciliation between standard and effective tax rate:					
R million					
Taxation income at standard rate		(7 437)	(8 239)	(8 142)	(9 165)
Non-taxable income[1]		(332)	(484)	(281)	(458)
Expenses not deductible for tax purposes[2]		1 709	226	1 683	282
Taxation income per the income statement		(6 060)	(8 497)	(6 740)	(9 341)
%					
Taxation income at standard rate		28.00	28.00	28.00	28.00
Non-taxable income		1.25	1.64	0.97	1.40
Expenses not deductible for tax purposes		(6.44)	(0.77)	(5.79)	(0.86)
Taxation income per the income statement		22.81	28.87	23.18	28.54

	2020 Before tax Rm	2020 Tax Rm	2020 Net of tax Rm	2019 Before tax Rm	2019 Tax Rm	2019 Net of tax Rm
Recognised in other comprehensive income						
Group						
Cash flow hedges	6 747	(1 889)	4 858	3 309	(926)	2 383
Net change in fair value	7 557	(2 115)	5 442	2 964	(830)	2 134
Net amount transferred to profit or loss	(444)	124	(320)	626	(175)	451
Net amount transferred to initial carrying amount of hedged items	(366)	102	(264)	(281)	79	(202)
Foreign currency translation differences	(22)	–	(22)	50	–	50
Re-measurement of post-employment medical benefits	3 546	(995)	2 551	1 992	(556)	1 436
	10 271	(2 884)	7 387	5 351	(1 482)	3 869
Company						
Cash flow hedges	6 747	(1 889)	4 858	3 309	(926)	2 383
Net change in fair value	7 557	(2 115)	5 442	2 964	(830)	2 134
Net amount transferred to profit or loss	(444)	124	(320)	626	(175)	451
Net amount transferred to initial carrying amount of hedged items	(366)	102	(264)	(281)	79	(202)
Re-measurement of post-employment medical benefits	3 478	(974)	2 504	1 949	(545)	1 404
	10 225	(2 863)	7 362	5 258	(1 471)	3 787

1. *Eskom receives various non-taxable income including government grants and learnership allowances. In 2019 there was also a recovery from a supplier with a tax impact of R253 million.*
2. *In 2020 there were writeoffs of property, plant and equipment of R3 473 million which were not tax deductible.*

44. Cash generated from operations

	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
Loss before tax	(26 562)	(29 427)	(29 080)	(32 732)
Adjustments for:	65 364	58 991	66 090	60 255
Depreciation and amortisation expense	27 779	29 738	27 693	29 644
Depreciation expense – primary energy	12	16	12	16
Impairment of financial and other assets (excluding bad debts recovered)	(54)	(252)	(47)	(234)
Net fair value loss on financial instruments	4 592	3 409	4 227	3 368
Net loss on disposals and writeoffs of property, plant and equipment	4 646	318	4 643	640
Transfer of assets from non-electricity purchasing customers	(1 293)	(1 267)	(1 293)	(1 267)
Dividend income	(66)	(49)	(46)	(35)
Increase in employee benefit obligations	1 888	1 820	1 655	1 712
Decrease in provisions	(2 486)	(1 499)	(2 439)	(1 509)
Decrease in contract liabilities and deferred income	(172)	(172)	(172)	(172)
Payments made in advance recognised in profit or loss	149	330	129	302
Payments received in advance recognised in profit or loss	(820)	(1 098)	(813)	(1 098)
Finance income	(2 610)	(2 722)	(1 468)	(1 679)
Finance cost	33 862	30 454	34 009	30 567
Share of profit of equity-accounted investees	(63)	(35)	–	–
	38 802	29 564	37 010	27 523
Changes in working capital:	(2 464)	3 693	(2 536)	4 800
Payments made in advance	(240)	(137)	(227)	(134)
Increase in inventories	(4 853)	(496)	(4 841)	(176)
Increase in trade and other receivables	(576)	(1 437)	(1 138)	(1 311)
Increase in trade and other payables	2 200	4 088	2 428	4 621
Expenditure incurred on employee benefit obligations	(2 110)	(1 884)	(1 876)	(1 774)
Expenditure incurred on provisions	(892)	(1 150)	(881)	(1 150)
Payments received in advance	4 007	4 709	3 999	4 724
	36 338	33 257	34 474	32 323

45. Net debt reconciliation

	Debt securities and borrowings[1] Rm	Lease liabilities[2] Rm	Financial trading assets[3] Rm	Financial trading liabilities[3] Rm	Derivatives held for risk management[4] Rm	Payments made in advance[5] Rm	Cash and cash equivalents[6] Rm	Net debt Rm
Group								
Balance at 1 April 2018	388 684	9 819	(168)	249	5 060	(1 150)	(15 823)	386 671
Net cash increase/(decrease)	24 459	(357)	10	(29)	1 219	(1 179)	14 395	38 518
Net fair value and foreign exchange losses/(gains)	24 622	–	(4)	18	(22 121)	–	(620)	1 895
Foreign currency translation	–	–	–	–	–	–	(50)	(50)
Assets and liabilities held-for-sale	–	–	–	–	–	–	67	67
Other movements	2 845	–	–	–	153	721	–	3 719
Balance at 31 March 2019	440 610	9 462	(162)	238	(15 689)	(1 608)	(2 031)	430 820
Net cash increase/(decrease)	525	(423)	9	(33)	1 843	(642)	(20 877)	(19 598)
Net fair value and foreign exchange losses/(gains)	40 075	–	1	9	(39 449)	–	(136)	500
Foreign currency translation	–	–	–	–	–	–	22	22
Assets and liabilities held-for-sale	–	–	–	–	–	–	32	32
Other movements	2 472	311	–	–	(26)	657	–	3 414
Balance at 31 March 2020	483 682	9 350	(152)	214	(53 321)	(1 593)	(22 990)	415 190
Company								
Balance at 1 April 2018	392 585	9 819	(168)	249	5 060	(1 150)	(15 379)	391 016
Net cash increase/(decrease)	25 032	(357)	10	(29)	1 219	(1 179)	14 485	39 181
Net fair value and foreign exchange losses/(gains)	24 622	–	(4)	18	(22 121)	–	(620)	1 895
Other movements	2 808	–	–	–	153	721	(3)	3 679
Balance at 31 March 2019	445 047	9 462	(162)	238	(15 689)	(1 608)	(1 517)	435 771
Net cash increase/(decrease)	525	(422)	9	(33)	1 843	(642)	(20 661)	(19 381)
Net fair value and foreign exchange losses/(gains)	40 075	–	1	9	(39 449)	–	(136)	500
Other movements	2 567	307	–	–	(26)	657	–	3 505
Balance at 31 March 2020	488 214	9 347	(152)	214	(53 321)	(1 593)	(22 314)	420 395

1. *Refer to note 26.*
2. *Refer to note 31.*
3. *Refer to note 15.2.*
4. *Refer to note 17 (hedge exposure covering debt securities and borrowings).*
5. *Refer to note 19 (securing debt raised).*
6. *Refer to note 22.*

46. Guarantees and contingent liabilities

	Unit	Group 2020	Group 2019	Company 2020	Company 2019
46.1 Financial guarantees					
Long-term debt raised by Motraco					
Eskom guaranteed a portion of the debt that Motraco raised as part of its operations. The debt matured on 30 April 2019 and therefore there is no guarantee at 31 March 2020.					
Guarantee issued	USDm	–	2	–	2
Default probability	%	–	1.05	–	1.05
Guaranteed contract value	Rm	–	22	–	22
EFC loans to group employees					
EFC has granted loans (secured by mortgage bonds on the properties) to qualifying employees of the group. Eskom has issued guarantees to EFC to the extent to which the loan values of employees exceed the current value of the mortgage security.					
Historically, EFC has absorbed any losses incurred and has not called up any guarantee payments. Eskom's guarantee exposure is therefore governed by the default probability of EFC, which is influenced by the risk of significant fluctuations in interest rates that might cause employees to default on their repayments. The risk-adjusted credit exposure of EFC is calculated by applying a rating agency's annual default probabilities.					
Guarantee issued/contract value	Rm	–	–	983	1 032
Default probability	%	–	–	0.38	0.29
Financial guarantee	Rm	–	–	4	3
Changes in variables will not have a significant impact on profit or loss.					
Summary of financial guarantees					
Total guaranteed contract value	Rm	–	22	983	1 054
Total financial guarantee	Rm	–	–	4	3
46.2 Other guarantees					
Guarantees to South African Revenue Service for customs duty					
Customs duty and import VAT are normally due upon declaration of imported goods at the port of entry (harbour or airport). SARS allows Eskom up to a maximum of 37 days after declaration date before the customs duty and import VAT must be settled on the deferment account. SARS requires Eskom to provide a bank guarantee to secure the debt when it becomes due.					
All conditions of the deferral of the customs duty and import VAT have been met. The total amount disclosed as a contingent liability amounted to	Rm	156	156	156	156
Eskom Pension and Provident Fund					
Eskom has indemnified the EPPF against any loss resulting from negligence, dishonesty or fraud by the fund's officers or trustees.					
46.3 Other contingent liabilities					
Legal claims					
Legal claims are in process against Eskom as a result of disputes with various parties. On the basis of the evidence available it appears that no obligation is present. The claims are disclosed as a contingent liability and amounted to	Rm	329	106	318	106

47. Commitments

	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
47.1 Capital expenditure				
Contracted capital expenditure	31 508	35 535	31 424	35 515
Within one year	11 735	15 691	11 651	15 671
One and five years	19 645	19 773	19 645	19 773
After five years	128	71	128	71

Capital expenditure excludes finance costs capitalised and foreign currency fluctuations.

The capital expenditure will be financed through debt with government support and internally generated funds.

The capital programme will be reviewed and reprioritised by management in line with the funds available.

47.2 Leases

As lessee

	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
The future minimum lease payments payable under non-cancellable leases are:				
Within one year	244	91	65	91
Operating leases	–	91	–	91
Short-term leases	201	–	23	–
Low-value leases	43	–	42	–
One to five years	142	85	137	85
Operating leases	–	85	–	85
Low-value leases	142	–	137	–
Total	386	176	202	176
Operating leases	–	176	–	176
Short-term leases	201	–	23	–
Low-value leases	185	–	179	–

The lease payments payable under non-cancellable leases are of a similar nature to the right-of-use, short-term and low-value leases recognised in the statement of financial position and income statement.

As lessor

	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
The future minimum lease payments receivable under non-cancellable operating leases are:	67	6	54	6
Within one year	46	3	40	3
One to five years	21	3	14	3

The lease payments receivable under non-cancellable leases are of a similar nature to the right-of-use, short-term and low-value leases recognised in the statement of financial position and income statement.

48. Related-party transactions and balances

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

Related parties also include subsidiaries, associates and joint ventures of the group and post-retirement benefit plans for the benefit of employees. It also includes key management personnel of Eskom or its shareholder and close family members of these related parties. Key management personnel for Eskom include the group's board of directors and the Exco. Disclosure of related-party transactions with key management personnel is included in note 51. Disclosure on the government guarantees to Eskom are included in note 6.3.2.

		Group		Company	
		2020	2019	2020	2019
	Note	Rm	Rm	Rm	Rm
Transactions					
Sales of goods and services[1]		12 552	11 797	13 384	13 112
National departments		1 256	1 148	1 256	1 148
Public entities		7 420	6 937	7 202	6 868
Subsidiaries, associates and joint ventures		3 876	3 712	4 926	5 096
Government grant funding received for electrification					
National departments		2 717	2 841	2 717	2 841
Purchases of goods and services[1]		9 985	8 608	20 634	19 524
Constitutional institutions		2	8	2	8
National departments		1 811	1 671	1 811	1 671
Public entities		5 610	4 337	4 913	3 818
Subsidiaries, associates and joint ventures		112	171	11 692	11 835
Eskom Pension and Provident Fund		2 450	2 421	2 216	2 192
Net fair value loss on derivatives held for risk management					
Subsidiaries, associates and joint ventures		–	–	(1)	(4)
Finance income		138	142	589	603
National departments		11	9	11	9
Public entities		127	133	127	133
Subsidiaries, associates and joint ventures		–	–	451	461
Finance cost[2]		7 772	7 856	8 101	8 159
National departments		10	8	10	8
Public entities		7 601	7 682	7 601	7 682
Subsidiaries, associates and joint ventures		–	–	329	303
Eskom Pension and Provident Fund		161	166	161	166
Dividend income					
Subsidiaries, associates and joint ventures		39	34	39	34
Lease income		26	62	30	66
National departments		3	–	3	–
Public entities		23	62	23	62
Subsidiaries, associates and joint ventures		–	–	4	4
Lease expenses		7	7	10	10
Public entities		7	7	7	7
Subsidiaries, associates and joint ventures		–	–	3	3
Environmental levy					
Public entities	35	7 613	7 805	7 613	7 805

1. *Goods and services are bought and sold to related parties on an arm's length basis at market-related prices.*
2. *Bonds are bearer instruments and it is therefore unknown if the initial counterparty still holds the bonds. Transactions in the secondary market where Eskom is not the counterparty are therefore excluded.*

	Note	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
Outstanding balances (due by related parties)					
Receivables and amounts owed by related parties		2 125	2 236	3 918	3 530
National departments		119	100	119	100
Public entities		1 667	1 808	1 546	1 650
Subsidiaries, associates and joint ventures		339	328	2 253	1 780
Payments made in advance					
Public entities		–	8	–	8
Loans receivable					
Subsidiaries, associates and joint ventures[1]		–	–	5 948	6 111
Indirect transactions – assets at nominal value					
National departments		–	103	–	103
Total due by related parties		2 125	2 347	9 866	9 752
Cash and cash equivalents					
Public entities		1 073	–	1 073	–
Outstanding balances (due to related parties)					
Debt securities and borrowings		115 106	122 657	119 682	127 141
National departments		16	17	16	17
Public entities		112 189	119 789	112 189	119 789
Subsidiaries, associates and joint ventures[2]		–	–	4 576	4 484
Eskom Pension and Provident Fund		2 901	2 851	2 901	2 851
Payables[3] and amounts owed to related parties		3 462	3 537	5 823	5 861
Constitutional institutions		–	6	–	6
National departments		404	405	404	405
Public entities		3 031	2 939	2 679	2 804
Subsidiaries, associates and joint ventures		18	8	2 731	2 467
Eskom Pension and Provident Fund		9	179	9	179
Payments received in advance		1 197	1 041	1 213	1 057
National departments		1 197	1 041	1 197	1 041
Subsidiaries, associates and joint ventures		–	–	16	16
Derivative liabilities held for risk management					
Subsidiaries, associates and joint ventures		–	–	4	–
Indirect transactions – liabilities at nominal value					
National departments		–	57	–	57
Total due to related parties		119 765	127 292	126 722	134 116
Guarantees					
Guarantees issued contract value		156	178	1 139	1 210
Subsidiaries, associates and joint ventures	46.1	–	22	983	1 054
National departments	46.2	156	156	156	156

Commitments

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

1. *The effective interest rate on the loans to subsidiaries is 7.12% (2019: 7.74%).*
2. *Refer to note 26 for effective interest rate and maturity date relating to intercompany instruments.*
3. *Purchase transactions with related parties are on an arm's length basis with payment terms of 30 days from invoice date.*

49. Events after the reporting date

Changes in board and Exco
Mr S Dabengwa resigned from the Eskom board effective from 21 July 2020.

Equity support
Eskom received R1 billion on 29 May 2020 and R5 billion on 11 August 2020 as part of the support from government.

Eskom restructuring
The board approved an implementation plan on 15 September 2020 to give effect to the legal separation of the transmission division into a wholly owned subsidiary and a PFMA application had been made to this effect. Various other approvals, including various regulatory and legal aspects would be required before this could be finalised.

Other
Mr M Manjingolo was appointed as company secretary on 1 July 2020.

50. Restatement of comparatives

Post-retirement medical aid
Eskom previously attributed the benefits relating to the post-employment medical aid up to the normal retirement age of 65 years. Eskom should have attributed the benefits in terms of the requirements of IAS 19 up to the date when further service by the employee will lead to no material amount of further benefits. This has been reassessed to be at age 55 years when employees are allowed to go on early retirement and qualify for the full post-employment benefit.

Impairment of VAT portion of trade receivables
Eskom did not previously impair the VAT portion of trade receivables balances, on the basis that it is recoverable from SARS if the trade receivable is written off. However, because the recovery would take at least 12 months to be received, the impact of the time value of money should have been incorporated into the allowance for impairment. This expected loss was calculated by discounting the recoverable cash flows using the receivable balance's original effective interest rate over the expected recovery period, limited to a maximum of five years.

Capitalisation of cost incurred in the construction of plant
Eskom re-assessed some of the costs that were previously capitalised during the construction of the Ingula pump storage power station. It was concluded that some of the costs incurred, mainly as a consequence of addressing the impact and shortcomings of the safety incident that occurred in the incline high pressure shaft on 31 October 2013, were not directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended.

The 2018 and 2019 statements of financial position as well and as the 2019 income statement and statement of comprehensive income have been restated as a result of the above errors as follows:

	Group			Company		
	Previously reported Rm	Adjust-ments Rm	Restated Rm	Previously reported Rm	Adjust-ments Rm	Restated Rm
Statement of financial position at 31 March 2018						
Assets						
Non-current						
Property, plant and equipment	630 648	(1 215)	629 433	631 159	(1 215)	629 944
Current						
Trade and other receivables	20 125	(946)	19 179	21 429	(946)	20 483
Equity						
Capital and reserves	170 336	(3 099)	167 237	158 075	(3 072)	155 003
Liabilities						
Non-current						
Employee benefit obligations	13 725	2 143	15 868	13 404	2 105	15 509
Deferred tax	15 846	(1 205)	14 641	15 665	(1 194)	14 471
Statement of financial position at 31 March 2019						
Assets						
Non-current						
Property, plant and equipment	651 637	(1 197)	650 440	652 233	(1 197)	651 036
Current						
Trade and other receivables	21 976	(1 117)	20 859	23 137	(1 117)	22 020
Equity						
Capital and reserves	153 094	(3 116)	149 978	138 492	(3 093)	135 399
Liabilities						
Non-current						
Employee benefit obligations	13 546	2 014	15 560	13 242	1 982	15 224
Deferred tax	8 350	(1 212)	7 138	7 804	(1 203)	6 601
Income statements for the year ended 31 March 2019						
Employee benefit expense	(33 272)	89	(33 183)	(27 616)	84	(27 532)
Impairment of financial assets	278	(171)	107	260	(171)	89
Depreciation and amortisation expense	(29 756)	18	(29 738)	(29 662)	18	(29 644)
Finance cost	(30 239)	(215)	(30 454)	(30 355)	(212)	(30 567)
Loss before tax	(29 148)	(279)	(29 427)	(32 451)	(281)	(32 732)
Income tax	8 419	78	8 497	9 262	79	9 341
Loss for the year	(20 729)	(201)	(20 930)	(23 189)	(202)	(23 391)
Statements of comprehensive income for the year ended 31 March 2019						
Loss for the year	(20 729)	(201)	(20 930)	(23 189)	(202)	(23 391)
Items that may be reclassified subsequently to profit or loss	2 433	–	2 433	2 383	–	2 383
Items that may not be reclassified subsequently to profit or loss	1 252	184	1 436	1 223	181	1 404
Re-measurement of post-employment medical benefits	1 737	255	1 992	1 698	251	1 949
Income tax thereon	(485)	(71)	(556)	(475)	(70)	(545)
Total comprehensive loss for the year	(17 044)	(17)	(17 061)	(19 583)	(21)	(19 604)

51. Directors' remuneration

The background to directors' remuneration and an overview of the main provisions of the remuneration policy is included in the remuneration and benefits section in the integrated report. The details of the board (governing body) and executive management remuneration are included in this note. The details regarding the appointments, resignations and other changes in roles of directors during the year are included in the directors' report.

51.1 Executive directors and group executives

The remuneration of the group chief executive and the chief financial officer (executive directors) and Exco members (group executives) are disclosed below. Eskom's prescribed officers are the group executives. The group chief executive and the chief financial officer have fixed-term contracts. The group executives have permanent contracts based on Eskom's standard conditions of service. NB Hewu and SJ Mthembu were appointed on standard fixed-term contracts.

The emoluments for the executives of the group were as follows:

Name	Salaries R'000	Notice payment R'000	Other payments R'000	Total remuneration earned and cash paid R'000
2020				
Executive directors	9 394	–	499	9 893
AM de Ruyter	1 654	–	10	1 664
PS Hadebe	2 840	–	353	3 193
C Cassim	4 900	–	136	5 036
Group executives	27 493	850	1 173	29 516
JA Oberholzer	5 496	–	303	5 799
ML Bala	2 800	–	115	2 915
A Etzinger	599	–	19	618
ND Harris	1 874	–	17	1 891
NB Hewu	3 400	–	–	3 400
SJ Mthembu	2 550	850	131	3 531
BJ Nxumalo	2 100	–	163	2 263
EM Pule	3 339	–	130	3 469
SM Scheppers	2 800	–	134	2 934
MS Tshitangano	2 353	–	110	2 463
N Zibi	182	–	51	233
	36 887	850	1 672	39 409
2019				
Executive directors	11 651	–	210	11 861
PS Hadebe	8 521	–	94	8 615
C Cassim	3 130	–	116	3 246
Group executives	24 490	18 743	763	43 996
JA Oberholzer	3 900	–	53	3 953
A Etzinger	399	–	12	411
T Govender	3 297	939	94	4 330
NB Hewu	850	–	–	850
WF Majola	1 882	3 849	117	5 848
AA Masango	2 271	1 223	54	3 548
SJ Mthembu	850	–	–	850
A Noah	2 541	6 372	120	9 033
MM Ntsokolo	2 912	6 360	139	9 411
EM Pule	3 339	–	133	3 472
HJ Steyn	290	–	13	303
MS Tshitangano	580	–	10	590
N Zibi	1 379	–	18	1 397
	36 141	18 743	973	55 857

Salaries

Salaries consist of a guaranteed package that includes Eskom's medical and pension fund contributions. No fees were paid to executives who serve on the boards of Eskom subsidiaries.

Short-term bonus

If applicable, a short-term incentive bonus is paid after year end. No short-term bonuses were awarded in the current or prior financial years.

Long-term bonus

If applicable, a long-term incentive bonus is paid after year end in cash and consists of the vested amount in a reporting period. The long-term bonus is based on units that are awarded in terms of the long-term incentive scheme to reward performance in line with performance conditions and targets over a three-year performance period. The number of units that vest may differ from the number awarded depending on the achievement of performance conditions. The scheme requires that the employee remains in Eskom's employment throughout the vesting period. These units are not in the scope of IFRS 2 *Share-based payment* as the performance award is not linked to a share or a share price.

Name	Vested on 31 March 2020		Vested on 31 March 2019	
	Awarded units	Payable R'000	Awarded units	Paid R'000
A Noah	–	–	2 684 480	–
MM Ntsokolo	–	–	3 076 945	–
EM Pule	–	–	2 646 000	–
	–	–	8 407 425	–

Bonus units awarded on 1 April 2016 vested on 31 March 2019 with a vesting rate over the three-year period of 38.07% payable at R1.27 per unit. The board applied its discretion and resolved that the awards vested at 0% due to Eskom's financial constraints. No new bonus units have been awarded since 1 April 2017 due to Eskom's current financial constraints.

	2020 R'000	2019 R'000
Long-term bonus provision movement reconciliation		
Balance at beginning of the year	–	5 451
Service cost accrued	–	1 744
Effect of changes in rates of vesting including board's discretionary adjustments	–	(4 868)
Forfeited	–	(2 327)
Balance at end of the year	–	–
Notice payment		
Payments in terms of contractual agreements	850	18 743
Other payments		
Other payments consist of accumulated leave paid out on resignation and fees related to telephone costs, security services and operating vehicle expenditure.	1 672	973
Housing loans		
C Cassim	3 304	3 094
ML Bala	2 736	–
A Etzinger	985	74
	7 025	3 168

Home loan balances are disclosed when an individual is in the role of an executive director or group executive (even if they were only in that capacity for a portion of the year). The interest rate on the loans from EFC at 31 March 2020 was 8.00% (2019: 8.50%). The loans are repayable over a maximum period of 30 years. The terms and conditions applicable to ex-employees are applied on resignation.

51.2 Non-executive directors

Non-executive directors receive a fixed fee and are reimbursed for out-of-pocket expenses incurred in fulfilling their duties. Their emoluments were as follows:

	2020 R'000	2019 R'000
JA Mabuza (Chairman)	4 261	1 599
RDB Crompton	540	524
RSN Dabengwa	557	489
SN Mabaso-Koyana	506	607
NVB Magubane	498	489
MW Makgoba	952	717
BCE Makhubela	497	489
B Mavuso	593	593
PE Molokwane	618	578
TH Mongalo	543	593
J Sebulela	–	289
	9 565	6 967

52. New standards and interpretations

52.1 Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, interpretations and amendments to existing standards have been published that are applicable for future accounting periods that have not been adopted early by the group. These standards and interpretations will be applied in the first year that they are applicable to Eskom.

Topic	Summary of requirements	Impact
Amendments to references to Conceptual Framework in IFRS standards effective (1 January 2020)	The main changes to the principles in the framework have implications for how and when assets and liabilities are recognised and derecognised in the financial statements. It is expected that inconsistencies between accounting policies and the new guidance will be rare	The adoption of the amendments to the conceptual framework is not expected to result in any significant changes. Any changes to standards as a result of the amendments will be addressed accordingly
Definition of a business – amendments to IFRS 3 (1 January 2020)	The amendments provide more guidance on the definition of a business. The effect of these changes is that the new definition of a business is narrower. This could result in fewer business combinations being recognised	Impact not material. There are currently no business combinations
Definition of material – amendments to IAS 1 and IAS 8 (1 January 2020)	The definition of 'material' has been refined and practical guidance on applying the concept of materiality has been issued The revised definition of material is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity"	The adoption of the updated definition and practical guidance is not expected to result in any significant changes based on how materiality has been applied in the current annual financial statements
Interest Rate Benchmark Reform Phase 1 (amendments to IFRS 9, IAS 39 and IFRS 7) (1 January 2020)	The first phase of amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* focused on hedge accounting issues. Specific hedge accounting requirements have been amended to provide relief from the potential effects of the uncertainty caused by the interbank offered rates (IBOR) reform	The group is currently in the process of evaluating the detailed requirements of the standard to assess the impact on the financial statements. The impact is not expected to be material as the amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform
IFRS 17 *Insurance contracts* (1 January 2023)	IFRS 17 introduces one accounting model for all insurance contracts in all jurisdictions that apply IFRS It requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty relating to insurance contracts. The financial statements of an entity will have to reflect the time value of money of estimated payments required to settle incurred claims. Insurance contracts will be measured only on the obligations created by the contracts. An entity will also be required to recognise profits as an insurance service is delivered, rather than on receipt of premium	The adoption of IFRS 17 is not expected to have a material impact on the group The group is currently in the process of evaluating the detailed requirements of the standard to assess the impact on the financial statements. It is expected that the standard will only impact the financial statements of the group subsidiary, Escap
Sale or contribution of assets between an investor and its associate or joint venture – amendments to IFRS 10 and IAS 28 (optional adoption, effective date deferred indefinitely)	These amendments address the conflict between the guidance on consolidation and equity accounting when a parent loses control of a subsidiary in a transaction with an associate or joint venture. The parent recognises the full gain on the loss of control under the consolidation standard, but under the standard on associates and joint ventures, the parent recognises the gain only to the extent of unrelated investors' interests in the associate or joint venture. The amendments require the full gain to be recognised when the assets transferred meet the definition of a business under IFRS 3 *Business Combinations*	Impact not material. The group is currently not disposing any of its investments in associates or joint ventures

52.2 Standards, interpretations and amendments to published standards that are effective and applicable to the group

Topic	Summary of requirements	Impact
IFRIC 23 *Uncertainty over income tax treatments* (1 January 2019)	IFRIC 23 clarifies that where it is unclear how tax law applies to a particular transaction or circumstance, an entity will have to assess whether it is probable that the tax authority will accept the entity's chosen tax treatment. Where it is probable that the tax authority may not accept the chosen tax treatment, disclosure about judgements made, assumptions and other estimates used; and the potential impact of uncertainties that are not reflected may be required. The interpretation also requires the entity to reassess the judgements and estimates applied if the facts and circumstances change	Impact not material. The group is already accounting for uncertainty over income tax treatments in accordance with the guidance
Annual improvements 2015 – 2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (1 January 2019)	The annual improvements deal with additional guidance for applying the acquisition method to particular types of business combinations (IFRS 3 *Business combinations*), accounting for acquisitions of interests in joint operations (IFRS 11 *Joint arrangements*), income tax consequences of payments on financial instruments classified as equity (IAS 12 *Income taxes*) and borrowing costs eligible for capitalisation (IAS 23 *Borrowing costs*)	Impact not material. There were no business combinations, joint operations or dividends payable The additional guidance on borrowing costs eligible for capitalisation has been prospectively applied from 1 April 2019. The impact was not significant
Plan amendments, curtailment or settlement – amendments to IAS 19 (1 January 2019)	Amendment to IAS 19 clarifies current service and net interest accounting in the accounting for defined benefit plans	Impact not material. There was no amendment, curtailment or settlement of a defined benefit plan
IFRS 16 *Leases* (1 January 2019)	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	
	Lessee accounting IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation on the right-of-use asset and interest on the lease liability and also classifies cash repayments of the lease liability into principal and interest portions and presents them in the statement of cash flows applying IAS 7 *Statement of cash flows* Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease	The group: • applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets, where the recognition exemption was applied • adopted IFRS 16 using the modified retrospective approach where the retrospective cumulative effect of initially applying the standard was recognised at the date of initial application on 1 April 2019 • 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

52. New standards and interpretations (continued)

52.2 Standards, interpretations and amendments to published standards that are effective and applicable to the group (continued)

Topic	Summary of requirements	Impact
IFRS 16 *Leases* (1 January 2019) (continued)	Lessee accounting (continued) Lessees will need to apply judgement in deciding on the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee IFRS 16 can be applied using either a retrospective approach or a modified retrospective approach with optional practical expedients for lessees. The lessee will have to apply any elections consistently to all of its leases When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition	The following specific requirements and practical expedients have been applied by the group on transition: *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 equal 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 of 9.06% at the date of initial application The group also applied the available practical expedients on transition wherein 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 for short-term leases as described earlier
	Lessor accounting IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating or finance leases and to account for those two types of leases differently IFRS 16 also requires enhanced disclosures to be provided about a lessor's risk exposure, particularly to residual value risk	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

52.3 Impact of adoption of IFRS 16

Lease commitments reconciliation

	Note	Group and company Rm
Operating lease commitments at 31 March 2019	47.2	176
Effect of discounting		(9)
		167
Short-term leases		28
Right-of-use lease liabilities	31	139

Impact on statement of financial position at initial adoption (1 April 2019)

		Group			Company		
	Note	Before implementation Rm	IFRS 16 adoption Rm	After implementation Rm	Before implementation Rm	IFRS 16 adoption Rm	After implementation Rm
Assets							
Property, plant and equipment	9	650 440	132	650 572	651 036	132	651 168
Liabilities							
Lease liabilities	31	9 462	139	9 601	9 462	139	9 601
Trade and other payables		37 880	(7)	37 873	39 239	(7)	39 232

The R7 million impact on trade and other payables relates to operating lease smoothing balances that had been recognised in terms of IAS 17.

53. Information required by the Public Finance Management Act

Section 55(2)(b)(i) of the PFMA requires that the particulars of any irregular expenditure, fruitless and wasteful expenditure as well as material losses due to criminal conduct be disclosed in the annual financial statements. Any losses due to criminal conduct that individually or collectively (where items are closely related) exceed R25 million in terms of the significance and materiality framework, as agreed with the shareholder, have to be reported.

53.1 Irregular expenditure

Irregular expenditure is defined as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation. The scope includes transgressions of any laws and regulations regardless of whether or not the expenditure was justified from a business perspective, value was received, the breaches were deliberate or accidental, or the breaches happened unknowingly or in good faith.

Non-compliance to internal policies and procedures was included as irregular expenditure in terms of a National Treasury instruction that was valid from 1 December 2018 to 16 May 2019. This instruction was subsequently superseded by an updated instruction from National Treasury where internal non-compliances are only reported as irregular expenditure if the policy or procedure is underpinned by legislation.

Irregular expenditure is incurred when the related transaction is recognised in terms of IFRS. The irregular expenditure is removed from the note through a process of condonation by the relevant authority, recovery or removal.

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

53.1 Irregular expenditure (continued)

	Note	2020 Balance at beginning of the year Rm	Expenditure Rm	Condoned Rm	Recovered Rm	Balance at end of the year Rm
Group						
PFMA		16 301	10 540	(45)	(150)	26 646
Use of sole source	(a)	7 103	2 734	–	–	9 837
Incorrect classification as emergency procurement	(b)	340	36	–	–	376
Tender processes not adhered to and insufficient delegation of authority	(c)	3 397	5 546	(45)	(150)	8 748
Modifications exceeding allowed amounts	(d)	5 461	2 224	–	–	7 685
PPPFA		3 868	451	(27)	–	4 292
Incorrect tender process applied	(e)	794	85	(27)	–	852
Tax clearance certificates	(f)	3 074	350	–	–	3 424
Designated sectors	(g)	–	16	–	–	16
CIDB regulations						
Contracts awarded without following CIDB requirements	(h)	1 377	156	–	–	1 533
National Treasury instructions						
Contracts not in accordance with National Treasury instructions	(i)	496	1	–	–	497
Various commercial requirements						
Breach of more than one commercial requirement	(j)	69	–	–	–	69
Other		–	18	–	–	18
		22 111	11 166	(72)	(150)	33 055
Company						
PFMA		9 158	8 340	(29)	(150)	17 319
Use of sole source	(a)	500	709	–	–	1 209
Incorrect classification as emergency procurement	(b)	254	–	–	–	254
Tender processes not adhered to and insufficient delegation of authority	(c)	2 994	5 438	(29)	(150)	8 253
Modifications exceeding allowed amounts	(d)	5 410	2 193	–	–	7 603
PPPFA		3 591	411	–	–	4 002
Incorrect tender process applied	(e)	611	62	–	–	673
Tax clearance certificates	(f)	2 980	333	–	–	3 313
Designated sectors	(g)	–	16	–	–	16
CIDB regulations						
Contracts awarded without following CIDB requirements	(h)	1 374	153	–	–	1 527
National Treasury instructions						
Contracts not in accordance with National Treasury instructions	(i)	496	–	–	–	496
Various commercial requirements						
Breach of more than one commercial requirement	(j)	69	–	–	–	69
Other		–	16	–	–	16
		14 688	8 920	(29)	(150)	23 429

	Note	Balance at beginning of the year Rm	Expenditure Rm	2019 Condoned Rm	Recovered Rm	Balance at end of the year Rm
Group						
PFMA		12 454	4 798	(951)	–	16 301
Use of sole source	(a)	4 929[1]	2 174	–	–	7 103
Incorrect classification as emergency procurement	(b)	270[1]	70[1]	–	–	340
Tender processes not adhered to and insufficient delegation of authority	(c)	2 983[1]	1 365[1]	(951)	–	3 397
Modifications exceeding allowed amounts	(d)	4 272[1]	1 189[1]	–	–	5 461
PPPFA		3 767	245	(144)	–	3 868
Incorrect tender process applied	(e)	916[1]	22	(144)	–	794
Tax clearance certificates	(f)	2 851[1]	223[1]	–	–	3 074
CIDB regulations						
Contracts awarded without following CIDB requirements	(h)	580[1]	797	–	–	1 377
National Treasury instructions						
Contracts not in accordance with National Treasury instructions	(i)	1 398	–	–	(902)	496
Various commercial requirements						
Breach of more than one commercial requirement	(j)	46[1]	23	–	–	69
Other		8	2	(10)	–	–
		18 253	5 865	(1 105)	(902)	22 111
Company						
PFMA		7 086	2 734	(662)	–	9 158
Use of sole source	(a)	247	253	–	–	500
Incorrect classification as emergency procurement	(b)	203	51[1]	–	–	254
Tender processes not adhered to and insufficient delegation of authority	(c)	2 415[1]	1 241[1]	(662)	–	2 994
Modifications exceeding allowed amounts	(d)	4 221[1]	1 189[1]	–	–	5 410
PPPFA		3 376	215	–	–	3 591
Incorrect tender process applied	(e)	609	2	–	–	611
Tax clearance certificates	(f)	2 767	213[1]	–	–	2 980
CIDB regulations						
Contracts awarded without following CIDB requirements	(h)	577[1]	797	–	–	1 374
National Treasury instructions						
Contracts not in accordance with National Treasury instructions	(i)	1 398	–	–	(902)	496
Various commercial requirements						
Breach of more than one commercial requirement	(j)	46[1]	23	–	–	69
Other		8	2	(10)	–	–
		12 491	3 771	(672)	(902)	14 688

1. *Prior period corrected with updated numbers identified during the group's clean-up exercise.*

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

53.1 Irregular expenditure (continued)

Expenditure analysis

	Note	2020 Current year Rm	2020 Prior years Rm	2020 Total Rm	2019 Total Rm
Group					
PFMA		4 304	6 236	10 540	4 798
Use of sole source	(a)	2 572	162	2 734	2 174
Incorrect classification as emergency procurement	(b)	36	–	36	70[1]
Tender processes not adhered to and insufficient delegation of authority	(c)	278	5 268	5 546	1 365[1]
Modifications exceeding allowed amounts	(d)	1 418	806	2 224	1 189[1]
PPPFA		211	240	451	245
Incorrect tender process applied	(e)	24	61	85	22
Tax clearance certificates	(f)	171	179	350	223[1]
Designated sectors	(g)	16	–	16	–
CIDB regulations					
Contracts awarded without following CIDB requirements	(h)	155	1	156	797
National Treasury instructions					
Contracts not in accordance with National Treasury instructions	(i)	–	1	1	–
Various commercial requirements					
Breach of more than one commercial requirement	(j)	–	–	–	23
Other		10	8	18	2
		4 680	6 486	11 166	5 865
Company					
PFMA		2 129	6 211	8 340	2 734
Use of sole source	(a)	553	156	709	253
Incorrect classification as emergency procurement	(b)	–	–	–	51[1]
Tender processes not adhered to and insufficient delegation of authority	(c)	189	5 249	5 438	1 241[1]
Modifications exceeding allowed amounts	(d)	1 387	806	2 193	1 189[1]
PPPFA		171	240	411	215
Incorrect tender process applied	(e)	1	61	62	2
Tax clearance certificates	(f)	154	179	333	213[1]
Designated sectors	(g)	16	–	16	–
CIDB regulations					
Contracts awarded without following CIDB requirements	(h)	152	1	153	797
Various commercial requirements					
Breach of more than one commercial requirement	(j)	–	–	–	23
Other		10	6	16	2
		2 462	6 458	8 920	3 771

(a) Use of sole source

State-owned entities are required to procure goods and services in a manner that is fair, equitable, transparent, competitive and cost-effective. Expenditure was incurred on awards which did not follow proper tender processes where awards were incorrectly allocated to predetermined suppliers. These incidents and all similar transactions incurred during the year have been investigated. Internal procedures have been enhanced and system controls have been implemented to flag the transactions when they occur.

The additional irregular expenditure that was reported during the year was primarily incurred on existing contracts from prior years. The irregular expenditure will fall away once those contracts are condoned. Eskom is engaging with National Treasury to expedite the condonation process. A standing committee has been established between Eskom, National Treasury and DPE to monitor the processing of submitted applications, including condonation of all irregular expenditure.

The system controls that were implemented from January 2019 seem to be effective as there were minimal, if any, re-occurrences of irregular expenditure in this category. Sole source requests are scrutinised to determine if the request is applicable to one or multiple sites. National contracts or contracts per specific site are established for multiple site request to ensure economies of scale.

The 2019 opening balance has decreased by R68 million for the group as a result of the clean-up exercise.

1. Prior period corrected with updated numbers identified during the group's clean-up exercise.

(b) Incorrect classification as emergency procurement

Irregular expenditure was incurred where emergency purchases did not meet the National Treasury requirements for emergency procurement. In cases where an emergency purchase is required for a period longer than 30 days with more than one payment, a contract is established to limit abuse and minimise any potential risk in execution. This resulted in a significant reduction in the number of emergency procurement transactions since October 2017. Appropriate action has been taken against implicated individuals where the related investigations were completed.

The 2019 balances have been restated as follows as a result of the clean-up exercise:

- opening balance increased by R16 million for the group
- expenditure increased by R1 million for the group and company

(c) Tender processes not adhered to and insufficient delegation of authority

The following categories have been combined because of the similarity of issues reported previously:

- internal processes not adhered to
- tender process not followed and insufficient delegation of authority
- tender process not adhered to

Transgressions where tender processes were not followed reduced significantly. Internal controls on the management of panel contracts have been enhanced to align with the Preferential Procurement Policy Framework Act's (PPPFA) award criteria and a terms of reference have been introduced for the panel control committee. Civil and criminal action are being taken where contracts were placed without proper delegation of authority in prior years. Two contracts were deemed irregular in 2020 after the investigation into the matters were completed, a recovery process is underway for one matter and an amount of R150 million was recovered in another matter. Eskom submitted requests for condonation to National Treasury for the majority of this expenditure.

The 2019 balances have been restated as follows as a result of the clean-up exercise:

- opening balance decreased by R138 million for the group and R77 million for the company
- expenditure increased by R8 million for the group and company

(d) Modifications exceeding allowed amounts

Any modification to an original contract where the value of the modification is more than 20% or R20 million for construction-related goods, works or services and 15% or R15 million for all other goods or services has to be approved by National Treasury effective from 1 May 2016. The group did not initially comply with the National Treasury instruction and an estimated amount of irregular expenditure was reported in 2018, predominately due to the interpretation of the instruction note.

The full population of contract with value changes from 1 May 2016 to 31 March 2018 was reviewed and the irregular expenditure recalculated based on the contract value excluding cost price adjustment and contingency. Management confirmed the regularity of all contracts with modifications during the period. The methodology applied to calculate the irregular expenditure was properly documented. The calculation was based on management estimates due to the impracticality of reviewing the large volume of individual line items and was calculated based on the committed values during this period. The contracts that were found to be non-compliant will be taken through the relevant internal processes and then submitted to National Treasury for condonation. The procurement procedure has been aligned to the National Treasury instruction to ensure compliance going forward. The procurement practitioners were appraised on the interpretation of the threshold and systems were enhanced. Modifications of task orders on panel contracts are monitored to ensure compliance.

The 2019 balances have been restated as follows as a result of the clean-up exercise:

- opening balance decreased by R2 276 million for the group and R2 282 million for the company
- expenditure decreased by R783 million for the group and company

(e) Incorrect tender process applied

The PPPFA, effective 7 December 2012, requires that the preferential points calculation is determined inclusive of VAT. Certain procurement was incorrectly done where the preferential points calculation, which is based on the applicable quotation or contract value, was determined exclusive of VAT. The procurement procedure has been amended in line with the PPPFA requirements. Training has been rolled out on the revised procedure. There were six new occurrence of irregular expenditure of this nature relating to historic transactions, indicating that the controls implemented are effective.

The 2019 opening balance has increased by R4 million for the group as a result of the clean-up exercise.

(f) Tax clearance certificates

The PPPFA regulations require that tenders may only be awarded to a person whose tax matters have been declared to be in order by SARS. SARS has since created a mechanism whereby a supplier's tax status can be confirmed. Internal processes were enhanced and procurement practitioners trained to ensure that the tax status of all successful tenderers is confirmed to be compliant prior to concluding a contract.

There were 11 new instances amounting to R179 million reported in 2020. Most of the expenditure incurred in the current year relates to past transgressions which will no longer be irregular once condoned. The historical non-compliances have been submitted to National Treasury for condonation.

The 2019 balances have been restated as follows as a result of the clean-up exercise:

- opening balance decreased by R344 million for the group
- expenditure increased by R21 million for the group and company

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

53.1 Irregular expenditure (continued)

(g) Designated sectors

Where local production and content is of critical importance in the award of tenders in designated sectors, such tenders must be advertised with a specific tendering condition that only locally produced goods, services or works or locally manufactured goods that meet the stipulated minimum threshold for local production and content will be considered.

Contracts were awarded to suppliers despite having declared a local content threshold that was below the required stipulated threshold as per the Department of Trade and Industry list of designated materials. Training was provided to the relevant staff during the year on the requirements of designated sectors to ensure compliance.

(h) Contracts awarded without following CIDB requirements

The group did not comply with the Construction Industry Development Board (CIDB) regulation regarding the advertising of tenders, grading of contractors and publishing of awards. Eskom engaged with CIDB and National Treasury to address the non-compliance. Controls have been enhanced to prevent future non-compliance as there is now a mechanism in place to prove and sign-off on the adherence of the CIDB regulation. There has been minimal non-compliance to this requirement in the current year.

The 2019 opening balance has increased by R6 million for the group and company as a result of the clean-up exercise.

(i) Contracts not in accordance with National Treasury instructions

Eskom entered into a consulting contract on a risk-based remuneration model without prior approval from National Treasury. The matter is being investigated by the Directorate for Priority Crime Investigation (Hawks). Eskom pursued recovery from the supplier and its subcontractor and an amount of R496 million is still outstanding from the subcontractor. Eskom instituted civil procedures and the Pretoria High Court ruled in Eskom's favour on 18 June 2019 and ordered the subcontractor to repay the amount due with costs. Eskom issued a notice of motion for the winding-up of the sub-contractor on 17 January 2020 to recover the outstanding amounts. Criminal charges have been laid against the implicated individuals.

(j) Breach of more than one commercial requirement

Investigations identified transgressions of more than one legislative requirement as well as Eskom procurement policy and procedures. All identified breaches have been logged in a central condonation register and investigated for condonation by internal Delegated Approval Authorities. Condonation will be requested from National Treasury, where applicable, and improvements have been made to processes to address each of the breaches. In addition, various Instruction Notes and guidelines have been implemented to clarify any ambiguity in the legislative prescripts and internal procedures.

The 2019 opening balance has increased by R5 million for the group and company as a result of the clean-up exercise.

53.2 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure made in vain that could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is reported in the annual financial statements when it is confirmed.

	2020				
	Balance at beginning of the year Rm	Expenditure Rm	Recovered Rm	Removed Rm	Balance at end of the year Rm
Group					
Project management	7	2 114	–	–	2 121
Procurement and contract management	3	6	(2)	–	7
Revenue management	–	1	–	–	1
Interest and penalties	4	–	–	(1)	3
Other	524	212	–	–	736
	538	2 333	(2)	(1)	2 868
Company					
Project management	7	2 112	–	–	2 119
Procurement and contract management	2	6	(2)	–	6
Revenue management	–	1	–	–	1
Interest and penalties	3	–	–	–	3
Other	524	212	–	–	736
	536	2 331	(2)	–	2 865

	2019				
	Balance at beginning of the year Rm	Expenditure Rm	Recovered Rm	Removed Rm	Balance at end of the year Rm
Group					
Project management	–	53	–	(46)	7
Procurement and contract management	1[1]	21	–	(19)	3
Revenue management	–	4	–	(4)	–
Interest and penalties	–	22[1]	–	(18)	4
Other	1	533[1]	–	(10)	524
	2	633	–	(97)	538
Company					
Project management	–	48	–	(41)	7
Procurement and contract management	1[1]	3	–	(2)	2
Revenue management	–	4	–	(4)	–
Interest and penalties	–	8[1]	–	(5)	3
Other	1	530[1]	–	(7)	524
	2	593	–	(59)	536

Expenditure analysis

	2020			2019
	Current year Rm	Prior years Rm	Total Rm	Total Rm
Group				
Project management	2	2 112	2 114	53
Procurement and contract management	–	6	6	21
Revenue management	–	1	1	4
Interest and penalties	–	–	–	22[1]
Other	208	4	212	533[1]
	210	2 123	2 333	633
Company				
Project management	–	2 112	2 112	48
Procurement and contract management	–	6	6	3
Revenue management	–	1	1	4
Interest and penalties	–	–	–	8[1]
Other	208	4	212	530[1]
	208	2 123	2 331	593

The group experienced 83 (2019: 214) and the company 77 (2019: 180) incidents of fruitless and wasteful expenditure during the reporting period.

Construction commenced in 2012 on residential flats to accommodate artisans during the construction of the Kusile power station. The project was not completed while expenditure of R840 million was incurred. The property has been made available for sale. The necessary consequence management, including disciplinary action, civil recovery and possible criminal sanction has been instituted and one employee was subsequently dismissed.

Expenditure of R1 247 million incurred on the construction of the Ingula pump storage power station was assessed to be fruitless and wasteful due to shortcomings in project management.

1. *Prior period corrected with updated numbers identified during the group's clean-up exercise.*

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

53.3 Criminal conduct

Material losses caused by criminal conduct and any disciplinary, civil or criminal action taken in respect of such losses are reported in terms of the materiality framework.

	Note	Group 2020	Group 2019	Company 2020	Company 2019
Losses incurred (Rm)					
Theft of conductors, cabling and related equipment	(a)	115	105	113	104
Estimated non-technical revenue losses	(b)	1 977	1 741	1 977	1 741
Fraud		38	51	38	29
Material incidents (greater than R25 million)		–	28	–	28
Immaterial incidents (less than R25 million)	(c)	38	23	38	1
Other crimes		117	80	110	79
Material incidents (greater than R25 million)	(d)	58	1	58	–
Immaterial incidents (less than R25 million)		59	79	52	79
		2 247	1 977	2 238	1 953
Losses recovered (Rm)					
Theft of conductors, cabling and related equipment	(a)	4	2	4	2
Estimated non-technical revenue losses	(b)	213	117	213	117
Fraud					
Material incidents (greater than R25 million)	(c)	–	3	–	3
Other crimes					
Immaterial incidents (less than R25 million)		2	–	2	–
		219	122	219	122
Number of incidents					
Theft of conductors, cabling and related equipment	(a)	4 798	5 150	4 790	5 150
Fraud		29	20	25	2
Material incidents (greater than R25 million)		–	1	–	1
Immaterial incidents (less than R25 million)	(c)	29	19	25	1
Other crimes		1 998	1 838	1 900	1 838
Material incidents (greater than R25 million)	(d)	2	–	2	–
Immaterial incidents (less than R25 million)		1 996	1 838	1 898	1 838
		6 825	7 008	6 715	6 990
Number of arrests					
Theft of conductors, cabling and related equipment	(a)	120	119	120	119
Other crimes					
Immaterial incidents (less than R25 million)		46	62	46	62
		166	181	166	181

(a) Theft of conductors, cabling and related equipment

Actions to combat these losses are managed in collaboration with other affected state-owned companies, industry role players, the National Prosecuting Authority and the South African Police Service.

(b) Estimated non-technical revenue losses

Non-technical losses arise mainly from meter tampering and bypasses, illegal connections to the electricity network and illegal vending of electricity. The management of non-technical losses focuses on ensuring that all energy supplied is accounted for, energy supplied and not invoiced is identified, lost revenue calculated and any lost revenue stemming from energy losses recovered.

Eskom invoiced R318 million (2019: R449 million) of revenue relating to these losses during the year, of which R213 million (2019: R117 million) has been received during the year. Payments received reflected are for the current financial year only. Once the recovery is invoiced, the debtors process is followed for collection.

Interventions to reduce non-technical energy losses include:

- reconciliation of the energy delivered and energy sold (ie energy accounting) at various levels of the network to prioritise high loss feeders for normalisation
- revenue risk analysis through exception report analysis to identify metering installations with a high revenue risk
- auditing and repairing of faulty customer meter installations
- disconnection of illegal connections, meter tampers and imposition of penalties (remedial fees)
- correction of process non-adherence and data anomalies
- estimation and recovery of revenue for historical unaccounted energy where tampered, faulty or missing metering installations were encountered in the conventional customer base
- automisation of various elements of the loss management process to improve efficiencies (ie implementation of advanced analytics in identifying revenue risk, automation of revenue risk case management, energy balancing and rollout of tools for lost revenue estimation)
- implementation of audit, advisory, training, standardisation, automation and benchmarking support
- Free Basic Electricity campaign launch to make people aware of their constitutional rights
- launch of the revenue management centre

(c) Fraud

Immaterial incidents (less than R25 million)

Eskom concluded 25 (2019: 19) investigations into fraud during the year. The internal control measures in the affected areas have been reviewed and enhancements recommended to the accountable line managers for implementation. This includes controls, disciplinary, criminal and civil proceedings against those involved.

(d) Other crimes

Material incidents (greater than R25 million)

There were two incidents that took place at the Majuba power station. A 4 000 ton coal silo (with an approximate value of R30 million) was burned in a case of arson. There was also a sabotage of a weighbridge valued at R28 million.

53.4 Matters under assessment and determination

Matters under assessment and determination include the following:

- various non-compliances to PFMA section 51(1)(a)(iii) regarding the principles of fair, equitable, transparent, competitive and cost-effective procurement including inappropriate:
  - use of sole sources and emergencies
  - modifications to contracts
  - emergency procurement of fuel oil
  - significant matters on six modifications related to construction contracts
  - various non-adherence to tender processes including breaches of delegation of authority
- application of Preferential Procurement Regulations
  - designated sectors (minimum thresholds not stated in the tender advert and tenderer submissions)
  - tax non-compliance
  - period of tender advertisements
  - application of evaluation criteria for measuring functionality
- limitation where documents were not provided for audit purposes which may result in a non-compliance
- incorrect application of CIDB Act
- possible undue influence due to a conflict of interest (supplier declaration of interest not completed)
- potential losses due to a lack of reasonable care in project and contract management
- interest and penalties being levied against Eskom due to instances of late payment of suppliers
- losses due to under-utilised information technology systems and licences
- potential overpayments of R3.5 billion to a number of contractors involved in the construction of the Kusile power station. Although the amounts have been written off in terms of IFRS, assessments are ongoing to determine whether the payments constitute fruitless and wasteful expenditure. These types of contracts are remeasured on conclusion of the final deliverables. The reviews and assessments are conducted by independent external parties. Appropriate reporting of fruitless and wasteful expenditure will be made once the reviews and assessments are finalised

Relevant disclosure will be made in a subsequent financial year should any losses or expenditure incurred prove to be irregular, fruitless and wasteful or due to criminal conduct.

54. Reportable irregularities and matters under investigation

54.1 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 31 March 2020. The discussion focused 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 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 • the 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 • the EPPF launched new proceedings against the former GCE	• 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, conclusion and receipt of the final report of 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 (CS) (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 relationships with McKinsey and Trillian were 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 • liquidation proceedings have been launched against Trillian by Eskom and SARS	• open, pending completion of the recovery process

Description	Action	Status
• 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 • legal processes are being followed to recover the cost incurred 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 (Huarong)	• 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 the 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. The findings of the reports are currently being re-confirmed • 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 • BS Ngubane is challenging Eskom, MV Pamensky has a repayment arrangement that he is servicing and DV Naidoo has settled in full	• open, pending finalisation of recovery process
Reportable irregularities – 31 March 2019		
• there was non-compliance in terms of the 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 (Dongfang)	• the relevant submissions were made as required • procedures have been put in place to ensure that the relevant submissions are submitted timeously • the court set aside the tender award made to Dongfang	• closed

54. Reportable irregularities and matters under investigation (continued)

54.1 Reportable irregularities (continued)

Description	Action	Status
Reportable irregularities – 31 March 2020		
• the former interim executive chairman and acting GCE (JA Mabuza) had an interest in supplier IDS Industry Service, through his alleged niece (NZ Mabuza), which was not declared	• adequate policies and procedures are in place and the former interim executive chairman and acting GCE declared all other interests in line with Eskom's policies and procedures • all members are requested at every meeting to declare any interest • this tender adjudication process was performed at a lower level tender committee of which the former interim executive chairman and acting GCE was not a member • the niece of the former interim executive chairman and acting GCE declared her interest as per normal tender processes	• closed
• certain minutes of the board and its sub-committees were not signed as evidence of approval • certain resolutions purported to have been made at previous meetings could not be found in the minutes of meetings	• improvements will be made to ensure minutes are signed timeously • a process is in place to ensure that extracts of minutes are a true reflection of the approved minutes. Where there are changes to draft minutes, an extract of the final minutes will be communicated to the business • a permanent company secretary has been appointed on 1 July 2020 which will bring stability to this function	• open, pending signing of the relevant minutes and implementation of improvements
• the underlying irregular expenditure register used to disclose irregular expenditure as part of the annual financial statements, per the requirements of the PFMA section 55(2)(b)(i), was not complete and accurate	• Eskom is focussing on ongoing improvements to the reporting process and clean-up of the reported information • training on the revised PFMA reporting procedures and guidelines was rolled out • a loss control department is being established to assess and investigate all occurrences of irregular expenditure and oversee consequence management including disciplinary actions, condonations and recovery of losses	• open, pending implementation of improvements and finalisation of clean-up exercise

54.2 Matters under investigation

There are currently various internal and external investigations being conducted into alleged fraud and malfeasance by current and former Eskom employees as well as external parties. Eskom is working with relevant authorities regarding these matters.

APPENDIX – ABBREVIATIONS, ACRONYMS AND DEFINITIONS

Accounting, audit and other financial terms	
CGU	Cash Generating Unit
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
GDP	Gross Domestic Product
IAS	International Accounting Standard/(s)
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard/(s)
IRBA	Independent Regulatory Board for Auditors
ISA	International Standards on Auditing
JSE	Johannesburg Stock Exchange
LIFO	Last-In-First-Out
PPI	Producer Price Index
R	Rand
Rm	Rand millions
SIC	Standing Interpretations Committee of the International Accounting Standards Committee
VAT	Value Added Tax
WACC	Weighted Average Cost of Capital

Currencies	
AUD	Australian Dollar
CAD	Canadian Dollar
CHF	Swiss Franc
EUR	Euro
GBP	Pound Sterling (United Kingdom)
JPY	Japanese Yen
NOK	Norwegian Krone
SEK	Swedish Krona
USD	United States Dollar
ZAR	South African Rand

Entities	
Company	Eskom Holdings SOC Ltd
EFC	Eskom Finance Company SOC Ltd
EPPF	Eskom Pension and Provident Fund
Escap	Escap SOC Ltd
Eskom	Eskom Holdings SOC Ltd
Eskom Uganda	Eskom Uganda Ltd
group	Eskom Holdings SOC Ltd and its subsidiaries
Motraco	Mozambique Transmission Company SARL
Nqaba	Nqaba Finance 1 (RF) Ltd
UEGCL	Uganda Electricity Generation Company Ltd
UETCL	Uganda Electricity Transmission Company Ltd

Legislation	
Companies Act	Companies Act, No. 71 of 2008
Insurance Act	Insurance Act, No. 18 of 2017
PAA	Public Audit Act, No. 25 of 2004
PFMA	Public Finance Management Act, No. 1 of 1999
PPPFA	Preferential Procurement Policy Framework Act, No. 5 of 2000

Measures	
GWh	Gigawatt hour
kg	Kilogram
km	Kilometre
kWh	Kilowatt hour
kWhSO	Kilowatt hour Sent Out
ℓ	Litre
Mt	Million tons
MVA	Mega volt ampere
MW	Megawatt
MWh	Megawatt hour
MWhSO	Megawatt hour Sent Out

APPENDIX – ABBREVIATIONS, ACRONYMS AND DEFINITIONS continued

Other	
Alco	Asset and Liability Committee
Board	Board of Directors
B-BBEE	Broad-Based Black Economic Empowerment
CA(SA)	Chartered Accountant of South Africa
CFO	Chief Financial Officer
CIDB	Construction Industry Development Board
CSDP	Competitive Supplier Development Programme
DMRE	Department of Mineral Resources and Energy
DPE	Department of Public Enterprises
EAF	Energy Availability Factor
EUF	Energy Utilisation Factor
Exco	Executive Committee
GCE	Group Chief Executive
GE	Group Executive
IPP	Independent Power Producer
MYPD	Multi-Year Price Determination
NCD	Negotiable Certificates of Deposit
NERSA	National Energy Regulator of South Africa
OCGT	Open Cycle Gas Turbine
RCA	Regulatory Clearing Account
SADC	Southern African Development Community
SARB	South African Reserve Bank
SARS	South African Revenue Services
SCOPA	Special Committee on Public Accounts
SIU	Special Investigations Unit
TMPS	Total Measured Procurement Spend

Definitions	
Cash interest cover ratio	Net cash flows from operating activities divided by the aggregate of interest paid and received from financing activities
EBITDA	Revenue plus other income minus primary energy, employee benefit expense, impairment of financial assets, impairment of other assets and other expenses
EBITDA margin	EBITDA divided by revenue
Free funds from operations	Net cash flows from operating activities minus cash flows from changes in working capital
Liquid assets	Treasury investments plus cash and cash equivalents
Net debt	Debt securities and borrowings plus lease liabilities minus treasury investments minus financial trading assets plus financial trading liabilities plus derivative liabilities held for risk management (used to hedge other items of net debt) minus derivative assets held for risk management (used to hedge other items of net debt) minus payments made in advance (used to secure borrowings raised) minus cash and cash equivalents
Net debt service cover	Net cash flows from operating activities divided by the aggregate of debt repaid and interest paid and received from financing activities
Net profit margin	Net profit divided by revenue
Working capital current assets	Inventories plus payments made in advance (current portion) plus trade and other receivables (current portion) plus taxation asset
Working capital current liabilities	Trade and other payables (current portion) plus payments received in advance (current portion) plus provisions (current portion) plus employee benefit obligations (current portion) plus taxation liability
Working capital ratio	Working capital current assets divided by working capital current liabilities

Refer to the integrated report for definitions relating to the shareholder compact key performance indicators on page 131.

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