



Shift performance, grow
sustainably

Annual financial statements
2014

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The annual financial statements have been prepared under the supervision of the finance director, TBL Molefe CA(SA). The financial statements have been audited in compliance with section 30 of the Companies Act.

The audited financial statements of the group and Eskom as at and for the year ended 31 March 2014 are available for inspection at the company's registered office and on the Eskom website at www.eskom.co.za and were published on 11 July 2014.

Statement of directors' responsibilities and approval

The Public Finance Management Act requires the directors to ensure that Eskom Holdings SOC Limited (Eskom) and its subsidiaries (the group) keep full and proper records of their financial affairs. The annual financial statements should fairly present the state of affairs of Eskom and the group, its financial results, its performance against predetermined objectives for the year and its financial position at the end of the year in terms of International Financial Reporting Standards and the Public Finance Management Act (PFMA).

To enable the directors to meet the above mentioned responsibilities, the Eskom board of directors sets standards and management implements systems of internal control. The controls are designed to provide cost-effective assurance that assets are safeguarded, and that liabilities and working capital are efficiently managed. Policies, procedures, structures and approval frameworks provide direction, accountability and division of responsibilities, and contain self-monitoring mechanisms. The controls throughout Eskom and the group focus on those critical risk areas identified by operational risk management and confirmed by executive management. Both management and the internal audit department closely monitor the controls, and actions are taken to correct deficiencies as they are identified.

The directors have made an assessment of the ability of Eskom and the group to continue as a going concern in the foreseeable future.

The directors reviewed Eskom's and the group's performance for the year ended 31 March 2014 and the cash flow forecast for the Multi-Year Price Determination (MYPD) 3 period ending 31 March 2018.

Eskom did not receive a cost reflective tariff in the National Energy Regulator of South Africa (NERSA) MYPD 3 decision which created a revenue shortfall of R225 billion over the MYPD 3 period which has placed tremendous strain on the financial and operating sustainability of the group. The board has critically examined its activities and costs in order to balance its cash flow requirements through the Business Productivity Programme to identify cost saving and efficiency opportunities to close the revenue shortfall.

Eskom submitted an application to NERSA for the MYPD 2 period during August 2013 regarding variances between costs and revenues assumed in MYPD 2 compared to the actual costs incurred and revenue received by Eskom. This is referred to as the regulatory clearing account (RCA). The NERSA electricity sub-committee has made a recommendation on the RCA to the NERSA board and a decision is awaited during the first quarter of the new financial year. The recommendation includes an RCA balance in favour of Eskom for implementation in the next financial year.

The board is pursuing alternative funding options, including potential government support.

The board will not compromise the going concern status while ensuring security of supply and has not approved any capital expenditure beyond the Kusile project.

In assessing the ability to raise funds, the current economic climate as well as Eskom's and the sovereign's credit ratings have been taken into account.

Based on the above, the directors are satisfied that Eskom and the group have access to adequate resources and facilities to be able to continue its operations for the foreseeable future. Accordingly the board have continued to adopt the going-concern basis in preparing the financial statements.

The preparation and fair presentation of the Eskom and group annual financial statements are the responsibility of the directors. The external auditors are responsible for independently auditing the financial statements in accordance with International Standards on Auditing and the Public Audit Act.

The annual financial statements of Eskom and the group have been prepared in terms of International Financial Reporting Standards, the requirements of the Companies Act of South Africa and the Public Finance Management Act. These annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates and are prepared on the going-concern basis.

Based on the information and explanations given by management, the internal audit function (audit and forensic) and discussions held with the independent external auditors, the directors are of the opinion that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the annual financial statements, and that accountability for assets and liabilities is maintained.

The audit and risk committee has reviewed the going-concern basis and the effectiveness of Eskom and the group's internal controls and considers the systems appropriate for the effective operation of Eskom and the group. The committee has evaluated Eskom and the group's annual financial statements and has recommended their approval to the board. The audit and risk committee's approval is set out on page 3.

Nothing significant has come to the attention of the directors to indicate that any material breakdown has occurred in the functioning of these controls, procedures and systems during the year under review.

In the opinion of the directors, based on the information available to date, the annual financial statements fairly present the financial position of Eskom and the group at 31 March 2014 and the results of its operations and cash flow information for the year then ended.

The Eskom and group annual financial statements for the year ended 31 March 2014 have been prepared under the supervision of the finance director, TBL Molefe CA(SA), and approved by the board of directors and signed on 29 May 2014 by:

ZA Tsotsi
Chairman¹
29 May 2014

MC Matjila
Interim chief executive¹
29 May 2014

TBL Molefe
Finance director¹
29 May 2014

1. Authorised directors.

Report of the audit and risk committee

Report in terms of the Public Finance Management Act and Companies Act, section 94(7)(f)

The audit and risk committee reports that it 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 of its responsibilities contained therein.

In the conduct of its duties, the audit and risk committee has, *inter alia*, reviewed the following:

- **Going-concern assumption**
 - robustness of budgets and business results
 - cash flow projections for the 15 months ending 30 June 2015
 - regulatory clearing account mechanism (MYPD 2)
 - cost saving opportunities to close the revenue shortfall
 - capital projects, including the capacity expansion programme
 - funding plan to finance the capacity expansion programme up to the Kusile project
- **Finance function**
 - the expertise, resources and experience of the finance function
- **Internal control, management of risks and compliance with legal and regulatory provisions**
 - the effectiveness of the internal control systems
 - all factors and risks that may impact on the integrity of the integrated report and the supplementary and divisional report
 - the effectiveness of the system and process of risk management including the following specific risks:
 - o financial reporting
 - o internal financial controls
 - o fraud risks relating to financial reporting
 - o information technology risks relating to financial reporting
 - o the effectiveness of the entity's compliance with legal and regulatory provisions
- **Financial and sustainability information provided**
 - the adequacy, reliability and accuracy of financial information provided by management
 - the disclosure of sustainability issues in the integrated report and supplementary and divisional report to ensure that it is reliable and it does not conflict with the financial information
- **Internal and external audit**
 - the effectiveness of the assurance and forensic department (internal audit)
 - the activities of the assurance and forensic department, including its annual work programme, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations
 - the independence and objectivity of the external auditors
 - accounting and auditing concerns identified as a result of internal and external audits, including reportable irregularities

Eskom is applying a combined assurance model to ensure coordinated assurance activities. The audit and risk committee oversees the

assurance activities. The committee also oversees the establishment of effective systems of internal control to provide reasonable assurance that Eskom's financial and non-financial objectives are achieved.

The audit and risk committee is of the opinion, based on the information and explanations given by management and the assurance and forensic department and discussions with the independent external auditors that:

- the expertise, resources and experience of the finance function are adequate
- the system and process of risk management and compliance processes are adequate
- the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements, and accountability for assets and liabilities is maintained
- the information contained in the integrated report and the supplementary and divisional report on the Eskom website is reliable and does not contradict the financial information of the integrated report or the annual financial statements
- the effectiveness of the assurance and forensic department is adequate and the internal audit charter was approved by the audit and risk committee
- having considered the matters set out in section 94(8) of the Companies Act of South Africa and is satisfied with the independence and objectivity of the external auditors
- Eskom and the group have access to adequate resources and facilities to be able to continue its operations for the foreseeable future, supporting the going-concern assumption

Nothing significant has come to the attention of the audit and risk committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The audit and risk committee has evaluated the financial statements of Eskom and the group for the year ended 31 March 2014 and based on the information provided to the audit and risk committee, considers that they comply, in all material respects, with the requirements of the Companies Act of South Africa, the Public Finance Management Act, and International Financial Reporting Standards. The audit and risk committee concurs with the board of directors and management that the adoption of the going-concern premise in the preparation of the financial statements is appropriate. The audit and risk committee has therefore, at their meeting held on 27 May 2014, recommended the adoption of the financial statements by the board of directors.



B Luthuli
Chairman

29 May 2014

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.



A van der Merwe
Company secretary

29 May 2014

Directors' report

for the year ended 31 March 2014

The directors are pleased to present their report for the year ended 31 March 2014.

Principal activities, state of affairs and business review

Eskom Holdings SOC Limited (Eskom) is South Africa's primary electricity supplier. The company, which is wholly owned by the South African government, generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers. It also sells electricity to municipalities, which in turn redistribute it to businesses and households within their areas.

Eskom's head office is in Johannesburg. It also has operations across South Africa and maintains a small office in London, primarily for quality control of the equipment being manufactured for the capacity expansion programme.

Eskom has several subsidiaries:

- Eskom Enterprises SOC Limited (Eskom Enterprises) group. Through Rotek Industries SOC Limited and Roshcon SOC Limited, the Eskom Enterprises group provides life-cycle support and plant maintenance, network protection and support for Eskom's expansion programme in South Africa. It has two subsidiaries with an interest in electricity operations and maintenance concessions in Africa: one covers Mali, Senegal and Mauritania, while the other operates in Uganda. Eskom Energie Manantali s.a (concession in Mali) has been classified as a discontinued operation at 31 March 2014
- Eskom Finance Company SOC Limited (EFC) grants home loans to Eskom employees
- Escap SOC Limited, Eskom's wholly owned captive insurance company, manages and insures Eskom's business risk
- Eskom Development Foundation NPC is a wholly owned non-profit company that manages Eskom's corporate social investment

While most of Eskom's business is within South Africa, the company also buys and sells electricity in the Southern African Development Community region.

Performance in terms of the shareholder compact

The South African government, represented by the Minister of Public Enterprises, is Eskom's sole shareholder.

Each year, in consultation with the shareholder, Eskom agrees on its performance objectives, measures and indicators, as well as its annual targets, in line with the Public Finance Management Act of South Africa (PFMA). Annual targets are annexed to a list of principles agreed to by Eskom and its shareholder (the shareholder compact) and quarterly reports are provided. Eskom annually prepares a corporate plan to comply with the requirements of section 52 of the PFMA as well as section 29 of National Treasury regulations, and to support internal Eskom policies. The consolidated corporate plan with all its annexures is submitted to the Department of Public Enterprises and National Treasury annually in February. The latest plan covers the four year period from 1 April 2014 to 31 March 2018 and the focus is on Eskom's response plan to its changing environment.

The table on the next page sets out Eskom's performance in terms of the key performance indicators (KPIs) in the shareholder compact.

Shareholder compact performance 2013/14

Key performance areas	Key performance indicator	Unit	Target 2013/14	Target achieved	Actual 2013/14	Actual 2012/13	Actual 2011/12
Focus on safety	Employee lost-time incidence rate (LTIR)	Index	0.36	✓	0.31	0.40 ¹	0.41
Keep the lights on	Maintenance backlog reduction based on the Eskom technical governance committee approval	Number	–	✓	–	–	n/a
	Integrated demand management (IDM) demand savings	MW	379.0	✓	409.6	595.0	365.0
	Internal energy efficiency	GWh	15.0	✓	19.4	28.9	45.0
Put customer at the centre	Customer service index	Index	88.7	✗	86.6	86.8	85.6
Improve operations	Normal unplanned capability loss factor (UCLF) ²	%	≤10.00	✗	12.61	12.12	7.97
	Less: Constrained UCLF ³	%	–	–	1.63	3.41	–
	Underlying UCLF ⁴	%	–	–	10.98	8.71	–
	Energy availability factor (EAF)	%	80.00	✗	75.13	77.65	81.99
	Total system minutes lost for events <1 minute	Minutes	3.40	✓	3.05	3.52	4.73
Deliver capacity expansion	System average interruption duration index (SAIDI) ⁵	Hours	45.0	✓	37.0	41.9	45.8
	Generation capacity installed and commissioned	MW	100	✓	120	261	535
	Transmission lines installed	km	770.0	✓	810.9	787.1	631.0
	Transmission capacity installed and commissioned	MVA	3 790	✓	3 790	3 580	2 525
Reduce environmental footprint in existing fleet	Generation new build capacity milestones (Medupi, Kusile and Ingula)	Days deviation	30.00	✗	48.90	43.48	n/a
	Relative particulate emissions	kg/MWh	0.36	✓	0.35	0.35	0.31
Implement coal haulage and the road-to-rail migration plan	Water usage per kWh sent out ⁶	L/kWh	1.39	✓	1.35	1.42	1.34
	Coal road-to-rail migration	Mt	11.48	✓	11.58	10.12	8.50

Key:

- ✓ – Actual performance met or better than target.
- ✗ – Actual performance did not achieve the target.
- ⊖ – Actual performance almost met the target.

1. One noise-induced hearing loss late report by Generation and one lost-time injury incident for Distribution resulted in the signed off LTIR of 2012/13 changing from 0.39 to 0.40.

2. Normal UCLF – measures the lost energy due to unplanned energy losses resulting from equipment failures and other plant conditions.

3. Constrained UCLF – UCLF as a result of emissions and short-term related UCLF due to system constraints to meet the “Keep the lights on” objective. This is apportioned between planned capability loss factor and other capability loss factor (unplanned losses not under management control).

4. Underlying UCLF – UCLF that is the difference between normal and constrained UCLF and that is still within Generation’s control.

5. SAIDI is an availability of supply index – the average duration (hours) of a sustained interruption the customer would experience per annum (number of hours per annum).

6. The volume of water consumed per unit of generated power from commissioned power stations.

Directors' report (continued)

for the year ended 31 March 2014

Shareholder compact performance 2013/14 (continued)

Key performance areas	Key performance indicator	Unit	Target 2013/14	Target achieved	Actual 2013/14	Actual 2012/13	Actual 2011/12
Ensure financial sustainability ¹	Cost of electricity (excluding depreciation)	R/MWh	453.40	⊗	541.92	496.24	374.19
	Interest cover	Ratio	1.18	⊗	0.65	0.27	3.27
	Debt/equity (including long-term provisions)	Ratio	2.17	⊖	2.21	1.96	1.69
	Free funds from operations (FFO) as a % of total debt	%	9.11	✓	9.21	8.55	15.06
Build strong skills (total pipeline or new enrolments)	Training spend as a % of gross employee benefit costs ²	%	5.00	✓	7.87	–	–
	Engineers	Number	2 007	⊗	1 962	2 144	2 273
	Technicians	Number	780	✓	815	835	844
	Artisans	Number	2 619	⊗	2 383	2 847	2 598
	Youth programme ³	Number	5 000	⊗	4 325	5 701	5 159
Maximise socio-economic contribution	Local sourcing in procurement	%	52.0	✓	54.6	80.2	77.2
	Procurement from Broad-Based Black Economic Empowerment (B-BBEE) compliant companies	%	75.0	✓	93.9	86.3	73.2
	Procurement from black youth-owned companies	%	1.0	✓	1.0	1.0	–
	Employment equity – disability	%	3.00	⊖	2.99	2.59	2.49
	Racial equity in senior management, % of black employees	%	61.0	⊖	59.5	58.3	53.9
	Gender equity in senior management, % of female employees	%	30.0	⊖	28.9	28.2	24.3
	Racial equity in professionals and middle management, % of black employees	%	71.0	✓	71.2	69.6	65.7
Gender equity in professionals and middle management, % of female employees	%	36.0	⊖	35.8	34.6	32.4	

Key:

- ✓ – Actual performance met or better than target.
- ⊗ – Actual performance did not achieve the target.
- ⊖ – Actual performance almost met the target.

1. The original year to 31 March 2014 budget which was included in the shareholder compact was subsequently revised and the differences mainly result from additional operating expenditure allocated to Generation. The revised budget ratios are as follows:

• Cost of electricity (excluding depreciation), R/MWh	463.25
• Interest cover (excluding remeasurement of the subordinated loan from the shareholder)	0.98
• Debt/equity (including long-term provisions)	2.19
• FFO as a % of total debt	10.51

2. This is a new measure, effective from 1 April 2013.

3. Includes learners trained by Eskom, as well as learners trained by Eskom's suppliers.

The reasons for the variances between the actual compared to the targeted KPI performance for the year are as follows:

Focus on safety

- Employee lost-time incidence rate (actual exceeded target by 0.05):
 - Eskom's internal safety measures are having a positive effect, with internal lost-time incidence rate decreasing to 0.31 in 2014, from 0.40 in 2013
 - The internal fatality count remains high at five fatalities
 - There were 18 contractor fatalities in the year. Contractor management is one of Eskom's occupational hygiene and safety strategic elements. Given the strategic importance of contractors across Eskom, substantial efforts are required to introduce safe systems of work across the entire organisation to ensure continued safety performance improvement in Eskom's drive for zero harm

Keep the lights on

- Maintenance backlog reduction based on the Eskom technical governance committee approval (actual equals target):
 - Maintenance backlog reduction has been included in the shareholder compact based on revised definitions of maintenance backlog. This measure tracks the status of approved scheduled backlog maintenance
 - The nine maintenance outages scheduled were completed during the year to March 2014. The backlog of scheduled technical governance related outages was therefore achieved during the year
- Integrated demand management demand savings (actual exceeded target by 30.6MW):
 - IDM is benefiting from the development of more flexible funding options introduced to the programme over the last two years. Deeper penetration into the commercial and industrial sectors has been realised through the standard offer and standard product programmes
 - The residential mass roll-out programme has been a large contributor to the demand savings. Phase 2 of the compact fluorescent lamps programme has been completed and 87MW of these savings have been verified during the year. This includes the compact fluorescent lamps roll-out as well as Eskom's contribution to the government's solar water heating initiative
 - Eskom's *Power Alert* and *5pm to 9pm* campaigns continued to reduce power demand during the evening peak. The average weekday evening peak impact for the period under review for all colours (green, orange and red) was 224MW
- Internal energy efficiency (actual exceeded target by 4.4GWh):
 - Eskom aimed to improve the internal energy efficiency of its facilities (power plant and buildings) by implementing efficiency programmes that focus on lighting, heating, ventilation and air-conditioning. Annualised energy savings of 19.4GWh were achieved from new IDM projects for the year ended 31 March 2014

Put customer at the centre

- Customer service index (actual worse than target by 2.1):
 - Eskom narrowly missed reaching its customer service index target, reporting an overall rating of 86.6% against a target of 88.7%. The main reasons cited by customers for dissatisfaction were tariff increases, the threat of load shedding, metering accuracy, the speed of installing new connections, the quality of supply, outage management and slow response for quotations and connections on small projects

Improve operations

- Normal unplanned capability loss factor (actual worse than target by 2.61%):
 - Partial load losses continue to contribute significantly to the system's total unplanned losses. The UCLF for these losses was 5.24%, contributing 42% to the system UCLF. The main reasons for the partial load losses were problems at the draught plant, coal mills, turbine, gas cleaning and feed-water systems
 - During the year to March 2014, there were 210 UCLF boiler-tube failures recorded with a UCLF of 2.18%, contributing 17% to the system UCLF. This is higher in both number and UCLF contribution when compared to the previous year when a total number of 191 failures and UCLF contribution of 1.95% was recorded
- Energy availability factor (actual worse than target by 4.87%):
 - Eskom did not meet its EAF target, mostly due to an increase in unplanned plant unavailability and energy losses due to incorrect quality coal being delivered, mainly at Tutuka and Arnot power stations
- Total system minutes lost for events <1 minute (actual exceeded target by 0.35 minutes):
 - The good performance of the system minutes (<1) and major incidents has been underpinned by the sustained reduction of line faults and plant failures, as well as effective risk management
- System average interruption duration index (actual exceeded target by 8 hours):
 - The sustained improvement in SAIDI interruption performance during the year is attributed to the establishment of additional customer network centres to increase the operational footprint and enable a quicker response to network interruptions, reduced network downtime by maximising live-line work for planned maintenance, implementation of a revised network reliability planning standard to improve the reliability of the network, increased network visibility, improved reliability centred maintenance and focused management attention that ensures disciplined execution of all initiatives

Deliver capacity expansion

- Generation capacity installed and commissioned (actual exceeded target by 20MW):
 - The commissioning of the Komati unit 3 was successfully completed on 26 September 2013 at 90MW capacity
 - The Grootvlei unit 5 additional 30MW capacity was commissioned on 10 April 2013 after replacement of superheaters. The unit is now re-rated at a generated maximum continuous rate of 190MW
- Transmission lines installed (actual exceeded target by 40.9km) and capacity installed and commissioned (actual equals target):
 - The target for kilometres of power lines built was exceeded. The construction on the Eros Vuyani line was delayed due to access restrictions as a result of community issues and therefore construction on the Neptune Vuyani 400kV line had to be accelerated to enable feeding of the two 250MVA transformers at Vuyani from the Neptune side. Work on the Mercury Mookodi 400kV line had to be accelerated to energise the two 250MVA transformers at Mookodi due to national control not permitting energisation of the transformers from the Ferrum side
- Generation new build capacity milestones (Medupi, Kusile and Ingula) (actual worse than target by 18.9 days):
 - Eskom placed a contract with an alternative contractor for the engineering and manufacturing of the boiler protection systems as a result of the contractor's performance regarding the continued failure of control and instrumentation factory acceptance tests at Medupi
 - The Kusile power station project has also been impacted by overall poor contractor performance
 - Regrettably, six contractors died in an accident at the Ingula pump storage scheme in October 2013. All work on the inclined high-pressure shaft has been stopped in terms of the Mine Health and Safety Act pending review by the mine health and safety inspectorate. The statutory processes and reviews regarding this accident are still in progress. This has caused a delay in the project

Directors' report (continued)

for the year ended 31 March 2014

Reduce environmental footprint in existing fleet

- Relative particulate emissions (actual exceeded target by 0.01kg/MWh):
 - Particulate emission performance was marginally better than the target and remained consistent with the prior year performance, indicating that maintenance measures and technological advances are starting to yield environmental benefits
- Water usage per kWh sent out (actual exceeded target by 0.04L/kWh):
 - Eskom formed water-management task teams to reduce freshwater consumption and legal contraventions relating to water use
 - Eskom met its target for specific water usage and the improvement on the prior year's performance can be attributed to an increase in the proportion of energy generated by the dry-cooled stations during the year. Increased opportunities for maintenance, implementation of initiatives identified by the water-management task teams, good rains and the increased recovery of water compared to the previous year also contributed to the improvement

Implement coal haulage and the road-to-rail migration plan

- Coal road-to-rail migration (actual exceeded target by 0.10Mt):
 - Eskom transported 11.58Mt of coal by rail during 2014, exceeding the target of 11.48Mt and improving performance by 14% relative to the prior year

Ensure financial sustainability

- Cost of electricity, excluding depreciation (actual worse than target by R88.52/MWh) and interest cover, excluding remeasurement of the subordinated loan from the shareholder (actual worse than target by 0.53):
 - The cost of electricity is higher than target and the interest cover of 0.65 is worse than target due to overspent primary energy cost of R7.7 billion. This was mainly as a result of the increased use of liquid fuel by the open-cycle gas turbine fleet. The ratios are also impacted by the decline in sales volumes as a portion of Eskom's costs are fixed
- Debt/equity including long-term provisions (actual worse than target by 0.04) and FFO as a % of total debt (actual exceeded target by 0.1%):
 - The actual ratio and percentage reported are both marginally different to the target

Build strong skills (total pipeline or new enrolments)

- Training spend as a % of gross manpower costs (actual exceeded target by 2.87%):
 - Eskom's Academy of Learning mandate is to close Eskom's competency gap by addressing, co-ordinating and integrating all learning needs of employees, as well as enhancing performance throughout Eskom, by focusing on business needs, and catering for all facets of the learning value chain and learning operations
 - Eskom has also partnered with higher learning and basic education institutions to promote access to quality education, particularly in the fields of maths and science, as part of its external development programme
- Engineers (actual below target by 45), technicians (actual exceeded target by 35), artisans (actual below target by 236) and youth programme (actual below target by 675):
 - The composite target for the number of technicians was exceeded for the year ended 31 March 2014
 - Eskom reviewed the learner numbers and decided to re-align the learner pipeline from 14.5% of staff complement to a more sustainable level of 6% phased in over the next five years. The engineering and artisans target was not achieved as a result of this decision
 - The under-performance of the country's youth programme (Strategic Youth Development Initiative) is due to lack of funding

Maximise socio-economic contribution

- Local sourcing in procurement (actual exceeded target by 2.6%):
 - Target performance was exceeded with a total of 547 contracts, worth R5.6 billion, which were awarded as part of the capacity expansion programme. The local content committed amounted to R3.1 billion or 54.6% of the total contract value
- Procurement from B-BBEE compliant companies (actual exceeded target by 18.9%):
 - Initiatives to ensure B-BBEE compliance have brought about improvements in Eskom's transformation performance. Eskom's total measured procurement spend (including primary energy) amounted to R133.5 billion for the year, of which R125.4 billion (93.9%) was attributable to B-BBEE compliant suppliers
- Procurement from black youth-owned companies (actual equals target):
 - Strategies are being developed to improve procurement from black-owned businesses, with a particular focus on black youth-owned and black women-owned businesses. Total measured procurement spend from black youth-owned businesses met the target for the year
- Employment equity – disability (actual worse than target by 0.01%):
 - The disability ratio has stabilised with the number of appointment of employees with disabilities matching the attrition of employees with disabilities. The current trends and reduced opportunities have resulted in the target not being reached for 2014
- Racial (actual worse than target by 1.5%) and gender (actual worse than target by 1.1%) equity in senior management and racial (actual exceeded target by 0.2%) and gender (actual below target by 0.2%) equity in professionals and middle management:
 - The marginal differences are due to the freeze on recruitment to limit employee numbers which reduced the opportunities to improve on the current targets

State of affairs and business overview

Results of operations

The net profit for the year for the Eskom group was R7.1 billion (2013: R5.2 billion). The 8% tariff increase resulted in a 7.4% average increase in electricity revenue per kWh. This increase was offset by a 10.2% increase in operating costs per kWh compared to the previous year.

Group revenue for the year to 31 March 2014 was R139.5 billion (2013: R128.8 billion). The electricity sales of 217 903 GWh for the year represents an increase of 0.6% compared to the previous year (2013: 216 561 GWh).

The primary energy costs for the year amounted to R69.8 billion (2013: R60.7 billion). This included R10.6 billion (2013: R5.0 billion) relating to the fuel for the open-cycle gas turbines in an effort to keep the lights on. The cost of primary energy as a percentage of electricity revenue was 51% (2013: 48%).

Group gross employee costs (before capitalisation) for the year to 31 March 2014 amounted to R31.3 billion (2013: R28.6 billion). Employee costs of R5.7 billion (2013: R5.1 billion) were capitalised to capital projects during the year.

Group annual impairment loss on trade and other receivables was 1.10% (2013: 0.82%) of the external electricity revenue for the year to 31 March 2014. Electricity receivables before allowance for impairment increased from R16.7 billion at 31 March 2013 to R20.3 billion at 31 March 2014. The allowance for impairment for trade and other receivables increased from R4.3 billion to R5.7 billion over the same period due to an increase in municipality receivables.

Group other operating expenses for the year was R19.2 billion (2013: R23.0 billion), consisting primarily of IDM and repairs and maintenance costs. IDM costs amounted to R1.4 billion in 2014 (2013: R3.0 billion), while net repairs and maintenance costs were R8.2 billion (2013: R4.7 billion).

Negotiated pricing agreements (NPAs) that were linked to commodity prices, resulted in embedded derivatives in the financial statements. The forward electricity price curve used to value the embedded derivatives at 31 March 2014 was based on the current MYPD 3 approved tariff of 8%, whereafter a forecasted return on the regulatory assets base is used until maturity. A sensitivity analysis for the embedded derivatives appears in note 4.2 to the annual financial statements. The net impact on the income statement of changes in the fair value of the embedded derivatives was a fair value gain of R2.1 billion for the year (2013: R5.9 billion loss). The loss in 2013 was mainly due to the decision to account for the full term of the underlying negotiated pricing agreement contracts at 31 March 2013. The profit for the current year is mainly as a result of the changes in the United States dollar and rand exchange and interest rates. Embedded derivative liabilities amounted to R9.3 billion (2013: R11.5 billion).

Net finance cost for the group for the year after capitalising borrowing costs and including the unwinding of interest on provisions was R4.8 billion (2013: R3.0 billion income). Gross finance income was R2.5 billion (2013: R2.8 billion) while the gross finance cost excluding borrowing costs capitalised and the unwinding of interest on provisions was R17.6 billion (2013: R1.1 billion). The borrowing costs capitalised for the year was R13.3 billion (2013: R3.7 billion), while the unwinding of interest amounted to R2.9 billion (2013: R2.4 billion). The gross finance cost as well as borrowing costs capitalised for the prior year was impacted by the remeasuring of the subordinated loan from the shareholder which amounted to an income of R17.3 billion. The remeasurement of the loan is based on the MYPD 3 price path. No remeasurement was required in the current year.

Additions to property, plant and equipment and intangible assets excluding borrowing cost capitalised, amounted to R59.4 billion (2013: R57.4 billion) and is disclosed in notes 6 and 7 to the annual financial statements. Total capital expenditure will be funded from operating cash flows and debt financing (raised locally and internationally).

At 31 March 2014, R272 billion or 90.5% of the R300 billion borrowing programme had been secured. The R300 billion borrowing programme is based on the original funding requirements at April 2010 and covers the period 1 April 2010 to 31 March 2017. Further funding requirements, including those resulting from the lower than expected MYPD 3 tariff determination, are not included in this borrowing programme.

The MYPD 3 tariff award of an average of 8% a year from 2013 to 2018 is considerably lower than the 16% average per year that Eskom requested. Eskom implemented the Business Productivity Programme (BPP) which focuses on the reduction of the cost base, increased productivity and revisions of the Eskom business model and strategy in order to close the revenue shortfall. Cash savings of between R50 billion and R60 billion is targeted over the MYPD 3 period.

Events subsequent to reporting date

There were no significant events after the reporting date.

Subsidiaries, associates and joint venture companies

The investment of Eskom in subsidiaries, associate and joint venture companies is disclosed in notes 8 and 9 in the annual financial statements.

A task team has been set up to develop a project plan and strategy for the disposal of EFC in terms of a directive from the shareholder.

Performance management of Eskom subsidiaries

The performance of Eskom's local wholly owned subsidiaries is managed and monitored regularly through shareholder compacts with Eskom and annual business plans and budgets that are approved by the respective boards of directors of the subsidiaries.

The performance results of all operating subsidiaries are reported monthly to, and reviewed by Eskom's executive management committee (Exco). A centralised proactive and co-ordinated approach under the accountability of the group executive: Enterprise Development has been implemented which will facilitate timeous approval of shareholder compacts and ongoing monitoring thereof.

Research and development activities

The research and development department has made good progress on its portfolio for the year, especially on 18 high priority projects. Key amongst these is the online boiler monitor, Waterberg coal evaluation and high frequency electrostatic precipitator projects which are all on track. The focus on high impact, high value project identification and delivery will continue. This requires increased effort on project management systems and practices and alignment with the needs of the business.

The research expenditure for the year to 31 March 2014 was R156 million (2013: R195 million).

Employee information

The group had a staff complement of 46 919 (2013: 47 295), inclusive of fixed-term contractors. Training has always been a major focus area and this past year 7.87% of gross manpower costs was spent on training and developing staff.

Transformation

Transformation is both a business and social imperative. The group continues to contribute to South Africa's economic transformation in line with available resources and all performance targets on B-BBEE attributable expenditure measures were exceeded for the year. In addition, the local sourcing in the capacity expansion programme for the year was 54.6%.

Eskom continues to strive for a fair representation of people with disabilities. The group currently has 2.77% (2013: 2.43%) employees with recognised disabilities, as per the Employment Equity Act of South Africa. Racial equity in senior management is 59.3% (2013: 58.4%) and 70.6% (2013: 69.0%) in professionals and middle management. Gender equity in senior management is 28.8% (2013: 28.5%) and 34.9% (2013: 34.0%) in professionals and middle management.

Supply development and localisation performance

Local supplier development aims to enhance efforts in local supplier development and localisation. During 2014, the group's total procurement spend was R130 billion (2013: R117 billion).

Eskom's capacity expansion programme continues to support affirmative procurement and industrialisation. Committed local content spend in capacity expansion projects for 2014 was R3.1 billion (2013: R3.4 billion), equivalent to 54.6% (2013: 80.2%) of total contracted value against a target of 52%.

The group's B-BBEE attributable spend targets are in line with the Codes of Good Practice, which prescribe a minimum of 50% for the first five years that the codes are in effect. With 93.9% B-BBEE attributable spend, Eskom exceeded its B-BBEE target of 75% for the year.

Management of energy losses

Energy losses reflect the difference between the quantity of energy sent out from the power stations and the quantity sold to the various customers at the end of the value chain. Losses are categorised as technical or non-technical in nature. Technical energy losses are a natural result of electrical energy being transferred from one point to another with some of the energy being dissipated as heat. Non-technical energy losses are typically caused by theft (illegal connections, meter tampering and illegal vending of prepaid electricity) or errors in billing.

The technical losses were estimated for internal evaluation purposes as accounting for between 60% and 75% of the total energy losses in the distribution networks. The actual percentage in the Distribution division is influenced by factors such as network design, network topology, load distribution on the network and network operations. Technical losses account for all of the energy losses for the transmission networks.

Energy losses	Actual 2014	Actual 2013
Distribution loss (%)	7.13	7.12
Transmission loss (%)	2.34	2.80
Eskom loss (%)	8.88	9.08

Directors' report (continued)

for the year ended 31 March 2014

Safety

Improving Eskom's safety record is paramount. The following safety-improvement initiatives are being implemented to bring the number of fatalities and injuries down to zero:

- A key performance indicator was introduced to monitor compliance with safety behaviours
- A health and safety agreement between Eskom and its trade unions was concluded
- The Eskom contractor safety management plan was approved. In terms of the plan, a safety, hygiene, environment and security inspectorate unit will be formed to ensure adherence to legislative requirements in these fields
- Eskom's zero harm dashboard monitors the progress of key strategic safety initiatives across the organisation

While the LTIR performance improved over the last three years, Eskom's safety performance remains a challenge, with five (2013: three) Eskom employee fatalities and 18 (2013: 16) contractor employee fatalities being reported during 2014. The progressive LTIR is a proportional representation of the occurrence of lost-time incidences over 12 months per 200 000 working hours. The actual LTIR performance was 0.31 (2013: 0.40) against a target of 0.36 for 2014.

Environmental issues

Environmental controls and oversight mechanisms are in place through the environmental management systems to ensure controls over those activities that have the potential to impact the environment and ensure informed decision-making through obtaining of environmental approvals and permits for proposed projects.

Environmental legal contraventions have reduced from the prior year through focused attention on the Eskom drive to achieve zero environmental incidents. The majority of contraventions still relate to emissions and water-management challenges on site. There were 32 environmental legal violations during the current year, down from 47 in 2013. There were two project specific activities that resulted in environmental legal contraventions in terms of the operational health dashboard. Eskom received two environmentally related administrative fines with a value of R2.6 million for contraventions declared in previous financial years.

Corporate social investment

Eskom recognises the need to align its corporate social investment (CSI) activities to that of its business strategies and the communities in which Eskom operates. As a corporate citizen Eskom's CSI initiatives are aimed to contribute to the wellbeing of communities; but also towards skills development, education and enterprise development and in turn promoting jobs, alleviating poverty and improving employability. An amount of R132.9 million (2013: R194.3 million) was committed to CSI initiatives during the year. Eskom's policy is not to make donations to any political parties.

Share capital and shareholder

The Government of the Republic of South Africa is the sole shareholder of Eskom Holdings SOC Limited. The shareholder's representative is the Minister of Public Enterprises. Eskom currently has 1 ordinary share of R1 issued.

Dividends

No dividend was declared during the current and prior year, and none is proposed after taking into account the resource impact of the capacity expansion programme and the current capital structure.

Going concern

The board has given particular attention to the assessment of the going concern of the group as discussed in the statement of directors' responsibilities and approval on page 2 and is of the view that the group has access to adequate resources to continue in operational existence

for the foreseeable future and to complete its current committed capacity expansion programme.

Directors

The board currently consists of 12 non-executive directors and two executive directors (the chief executive and the finance director).

The current directors are:

Non-executive directors

Zola Tsotsi (67) (*chairman*)
Collin Matjila (52)²
Bernie Fanaroff (66)
Queendy Gungubele (55)
Neo Lesela (44)
Bajabulile Luthuli (41)
Chwayita Mabude (44)
Yasmin Masithela (40)
Boni Mehlomakulu (41)
Mafika Mkwanazi (60)
Phenyane Sedibe (44)
Lily Zondo (45)

Executive directors

Brian Dames (48)^{1,2} (*chief executive*)
Tsholofelo Molefe (45)³ (*finance director*)

Remuneration

The remuneration of the directors and the executives, who were members of Exco during the financial year, is disclosed in note 49 to the annual financial statements. Eskom seeks to ensure that its directors and officers are appropriately qualified and trained for their role on the board and its committees. In terms of Eskom's ethics policy, all interests in contracts have to be declared upfront.

The board of directors is accountable for the organisation's ethics management programme. Eskom has a code of ethics, supplementary code procedure and conflict of interest policy in place which is revised regularly. Directors declare their interests in accordance with these annually.

Company secretary

The details of the company secretary and her declaration in terms of section 88(2)(e) of the Companies Act is disclosed in her statement on page 3.

Auditors

The statutory auditors for the forthcoming financial year will be appointed at the annual general meeting scheduled for 11 July 2014.

Eskom's policy is to not use the external auditors for non-audit services. In exceptional cases where the external auditors are to be used for non-audit services, the prior approval of the audit and risk committee must be obtained.

Internal control

The board, through the audit and risk committee, is responsible for ensuring that internal controls are effective and adequately reported on for auditing and regulatory purposes. In line with King III, Eskom applies a combined assurance model to ensure coordinated assurance activities. The combined assurance model provides the audit and risk committee with an overview of significant risks, as well as the effectiveness of critical controls to mitigate these risks. The principles for the combined assurance model are embedded in the combined assurance framework. Eskom's internal audit function is managed by the assurance and forensics department which reports directly to the audit and risk committee.

For more information refer to the report of the audit and risk committee on page 3.

1. Brian Dames resigned as chief executive with effect from 31 March 2014.

2. Independent non-executive director, Collin Matjila, was appointed interim chief executive effective 1 April 2014.

3. Paul O'Flaherty resigned as finance director with effect from 10 July 2013. Caroline Henry (senior general manager: Treasury) acted in the position of chief financial officer in the interim. Tsholofelo Molefe, previously group executive: Group Customer Services was appointed as finance director effective from 14 January 2014.

Combined assurance

Combined assurance helps management identify duplication of assurance work, any potential assurance shortfalls, and improvement plans for the gaps identified. It also helps focus assurance providers, to better achieve consensus on the key risks the company faces and reduce the risk of failing to identify significant risks.

The combined assurance model provides three lines of defence against risk:

- Line 1 – line management and managerial controls
Line management is responsible for managing risk and performance
- Line 2 – functional areas
Supports management in executing its duties and provides a layer of control over risk management. It consists of risk management, compliance (including ISO 9001 and 14001), safety, health, environment, quality and the associated frameworks, policies, reporting and oversight
- Line 3 – independent, objective internal and external assurance providers
The third line of defence is independent of management and provides independent, objective assurance

A combined assurance forum has been established to implement and embed the combined assurance framework principles. The forum consists of the three lines of defence, with the objective of:

- Ensuring co-ordinated and relevant assurance activities focusing on key risks
- Improving collaboration between different assurance providers
- Improving reporting to the board and committees, including minimising repetition of reports being reviewed by different committees
- Reducing assurance fatigue and minimising disruptions to the business
- Providing the audit and risk committee with a better basis for exercising its oversight function

The assurance and forensic department is responsible for driving combined assurance within Eskom. External auditors independently audit the financial statements and selected sustainability information.

Tabling of the Eskom Holdings SOC Limited annual financial statements in Parliament

The group annual financial statements of Eskom Holdings SOC Limited for the year ended 31 March 2013 were approved by the board of directors on 30 May 2013, and tabled in parliament on 5 August 2013.

Report on the financial statements

We have audited the financial statements of the group and Eskom Holdings SOC Limited (Eskom) as set out on pages 14 to 97, which comprise the statements of financial position as at 31 March 2014, income statements, statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information to the financial statements.

Directors' responsibility for the financial statements

The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa and for such internal control as the directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility for the financial statements

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Eskom Holdings SOC Limited as at 31 March 2014, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2014, we have read the report of the audit and risk committee, the statement by the company secretary and the directors' report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on other legal and regulatory requirements

Public Audit Act Requirements

In accordance with the Public Audit Act of South Africa (PAA), and the *General Notice* issued in terms thereof, we report the following findings relevant to the reported performance against predetermined objectives, compliance with laws and regulations as well as internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the information in the *Performance in terms of the shareholder compact* section included in the directors' report as set out on pages 4 to 8 of the financial statements, and reported thereon to the directors. The procedures performed were limited to the following selected objectives:

- keep the lights on
- put customer at the centre
- deliver capital expansion
- ensure financial sustainability
- build strong skills (total pipeline or new enrolments)
- maximising socio-economic contribution

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability.

The usefulness of information in the reported performance against predetermined objectives relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are well defined, verifiable, specific, measurable and time bound and relevant as required by the National Treasury *Framework for managing programme performance information*.

The reliability of the information in the reported performance against predetermined objectives is assessed to determine whether it is valid, accurate and complete.

We report that there were no material findings on the *Performance in terms of the shareholder compact* section included in the directors' report concerning the usefulness and reliability of the information for the selected objectives.

Additional matter

Although no material findings concerning the usefulness and reliability of the reported performance against predetermined objectives were identified, we drew attention to the following matter in our report to the directors:

Achievement of planned targets

Refer to the information in the *Performance in terms of the shareholder compact* section included in the directors' report as set out on pages 4 to 8 of the financial statements for information on the achievement of planned targets for the year.

Compliance with laws and regulations

We performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA.

Internal control

We considered internal control relevant to our audit of the financial statements, the *Performance in terms of the shareholder compact* section included in the directors' report and compliance with laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control. We did not identify any deficiencies in internal control that we considered sufficiently significant for inclusion in this report.

Other reports

Investigations in progress and completed

During the financial year under review the group initiated investigations into alleged irregularities and fraud within the procurement and asset management environments. No material findings were identified relating to those investigations completed during the year. At the reporting date, certain investigations are still ongoing.

Agreed-upon procedure engagement

As requested by Eskom Holdings SOC Limited, the following engagement was conducted for the period 1 April 2013 to 31 March 2014:

- National Treasury consolidation template

KPMG Inc

Registered auditor



Per HG Motau
Chartered Accountant (SA)
Registered Auditor
Director

29 May 2014

85 Empire Road
Parktown
2193

SizweNtsalubaGobodo Inc

Registered auditor



Per JE Strauss
Chartered Accountant (SA)
Registered Auditor
Director

29 May 2014

20A Morris Street East
Woodmead
2191

Statements of financial position

at 31 March 2014

	Note	Group		Company	
		2014 Rm	2013 Rm	2014 Rm	2013 Rm
Assets					
Non-current assets		439 869	378 775	433 440	372 014
Property, plant and equipment	6	401 373	341 429	402 207	341 772
Intangible assets	7	3 016	2 842	2 810	2 629
Investment in equity-accounted investees	8	318	296	95	95
Investment in subsidiaries	9	–	–	2 337	2 337
Future fuel supplies	10	8 744	8 121	8 744	8 121
Deferred tax assets	11	339	25	–	–
Investment in securities	12	4 841	8 574	4 841	8 574
Loans receivable	13	8 654	8 425	–	–
Derivatives held for risk management	14	9 361	5 420	9 361	5 420
Finance lease receivables	15	520	538	520	538
Payments made in advance	16	2 676	2 646	2 509	2 520
Trade and other receivables	17	27	459	16	8
Current assets		64 977	53 241	66 862	55 297
Loans to subsidiaries ¹		–	–	6 665	6 223
Inventories	18	12 422	12 251	12 135	11 980
Taxation		47	64	–	–
Investment in securities	12	6 066	8 776	3 319	6 336
Loans receivable	13	329	114	–	–
Derivatives held for risk management	14	2 812	1 906	2 812	1 906
Finance lease receivables	15	18	17	18	17
Payments made in advance	16	2 764	1 833	2 761	1 849
Trade and other receivables	17	16 578	14 925	16 882	15 114
Financial trading assets	19	4 265	2 735	3 226	2 042
Cash and cash equivalents	20	19 676	10 620	19 044	9 830
Non-current assets held-for-sale	21	147	8	–	–
Total assets		504 993	432 024	500 302	427 311
Equity					
Capital and reserves attributable to owner of the company		119 784	109 139	114 671	105 642
Liabilities					
Non-current liabilities		310 915	264 446	308 716	261 893
Debt securities and borrowings	24	234 562	190 776	233 042	189 406
Embedded derivatives	25	7 871	10 095	7 870	10 095
Derivatives held for risk management	14	310	840	310	840
Deferred tax liabilities	11	19 461	15 806	18 842	15 920
Deferred income	26	12 518	10 907	12 518	10 907
Employee benefit obligations	27	9 922	10 282	9 674	10 053
Provisions	28	21 157	20 087	21 093	20 022
Finance lease liabilities	29	488	501	705	770
Trade and other payables	30	1 037	2 598	1 073	1 326
Payments received in advance	31	3 589	2 554	3 589	2 554
Current liabilities		74 181	58 439	76 915	59 776
Loans from subsidiaries ¹		–	–	2 453	2 003
Debt securities and borrowings	24	20 258	12 180	19 774	11 482
Embedded derivatives	25	1 461	1 386	1 461	1 385
Derivatives held for risk management	14	1 197	572	1 197	572
Deferred income	26	774	662	774	662
Employee benefit obligations	27	4 561	3 629	4 256	3 408
Provisions	28	9 601	6 648	9 102	5 978
Finance lease liabilities	29	12	10	64	56
Trade and other payables	30	28 531	28 999	30 062	29 898
Payments received in advance	31	2 127	2 989	2 114	2 977
Taxation		1	9	–	–
Financial trading liabilities	19	5 658	1 355	5 658	1 355
Non-current liabilities held-for-sale	21	113	–	–	–
Total liabilities		385 209	322 885	385 631	321 669
Total equity and liabilities		504 993	432 024	500 302	427 311

1. Previously named financial instruments with group companies.

Income statements

for the year ended 31 March 2014

	Note	Group		Company	
		2014 Rm	Restated ¹ 2013 Rm	2014 Rm	Restated ¹ 2013 Rm
Continuing operations					
Revenue	32	139 506	128 775	138 313	127 362
Primary energy	33	(69 812)	(60 748)	(69 812)	(60 748)
Net employee benefit expense	34	(25 622)	(23 564)	(22 384)	(20 776)
Depreciation and amortisation expense	35	(11 937)	(9 960)	(11 934)	(9 787)
Net impairment loss	36	(1 557)	(1 039)	(1 549)	(1 021)
Other operating expenses	37	(19 177)	(23 039)	(24 340)	(24 922)
Operating profit before net fair value loss and net finance (cost)/income		11 401	10 425	8 294	10 108
Other income	38	962	1 126	1 873	2 252
Net fair value loss on financial instruments, excluding embedded derivatives	39	(620)	(1 655)	(753)	(1 666)
Net fair value gain/(loss) on embedded derivatives		2 149	(5 942)	2 149	(5 942)
Operating profit before net finance (cost)/income		13 892	3 954	11 563	4 752
Net finance (cost)/income		(4 772)	3 003	(4 619)	3 138
Finance income	40	2 475	2 796	2 622	2 904
Finance cost	41	(7 247)	207	(7 241)	234
Share of profit of equity-accounted investees after tax	8	43	35	–	–
Profit before tax		9 163	6 992	6 944	7 890
Income tax	42	(2 137)	(1 856)	(1 520)	(2 117)
Profit for the year from continuing operations		7 026	5 136	5 424	5 773
Discontinued operations					
Profit for the year from discontinued operations	21	63	47	–	–
Profit for the year		7 089	5 183	5 424	5 773
Attributable to:					
Owner of the company		7 089	5 183	5 424	5 773
Non-controlling interest ²		–	–	–	–
		7 089	5 183	5 424	5 773

Statements of comprehensive income

for the year ended 31 March 2014

	Note	Group		Company	
		2014 Rm	2013 Rm	2014 Rm	2013 Rm
Profit for the year		7 089	5 183	5 424	5 773
Other comprehensive income		3 556	853	3 605	916
Items that may be reclassified subsequently to profit or loss		2 925	1 418	2 948	1 467
Available-for-sale financial assets – net change in fair value		(377)	43	(376)	43
Cash flow hedges					
Effective portion of changes in fair value		5 697	2 791	5 697	2 791
Changes in fair value		5 951	2 900	5 951	2 900
Ineffective portion of changes in fair value reclassified to profit or loss		(254)	(109)	(254)	(109)
Net amount transferred to initial carrying amount of hedged items		(1 226)	(799)	(1 226)	(799)
Foreign currency translation differences on foreign operations		(23)	(49)	–	–
Income tax thereon	42	(1 146)	(568)	(1 147)	(568)
Items that may not be reclassified subsequently to profit or loss		631	(565)	657	(551)
Remeasurement of post-employment medical benefits	27.1	882	(772)	912	(765)
Income tax thereon	42	(251)	207	(255)	214
Total comprehensive income for the year		10 645	6 036	9 029	6 689
Total comprehensive income for the year attributable to:					
Owner of the company		10 645	6 036	9 029	6 689
Non-controlling interest ²		–	–	–	–
		10 645	6 036	9 029	6 689

1. Refer to note 48.

2. Nominal amount.

Statements of changes in equity

for the year ended 31 March 2014

	Attributable to owner of the company								Total	Non-controlling interest ¹	Total equity
	Share capital ¹	Equity reserve ²	Cash flow hedge reserve ³	Available-for-sale reserve ⁴	Unrealised fair value reserve ⁵	Insurance reserve ⁶	Foreign currency translation reserve ⁷	Accumulated profit ⁸			
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Group											
Balance at 31 March 2012	–	30 520	1 712	290	(2 251)	90	66	72 676	103 103	–	103 103
Profit for the year	–	–	–	–	–	–	–	5 183	5 183	–	5 183
Other comprehensive income/(loss), net of tax	–	–	1 436	31	–	–	(49)	(565)	853	–	853
Transfers between reserves	–	–	(189)	–	(1 397)	(90)	–	1 676	–	–	–
Balance at 31 March 2013	–	30 520	2 959	321	(3 648)	–	17	78 970	109 139	–	109 139
Profit for the year	–	–	–	–	–	–	–	7 089	7 089	–	7 089
Other comprehensive income/(loss), net of tax	–	–	3 219	(271)	–	–	(23)	631	3 556	–	3 556
Transfers between reserves	–	–	–	–	(4 096)	–	–	4 096	–	–	–
Balance at 31 March 2014	–	30 520	6 178	50	(7 744)	–	(6)	90 786	119 784	–	119 784
Company											
Balance at 31 March 2012	–	30 520	1 712	291	(2 251)	–	–	68 681	98 953	–	98 953
Profit for the year	–	–	–	–	–	–	–	5 773	5 773	–	5 773
Other comprehensive income/(loss), net of tax	–	–	1 436	31	–	–	–	(551)	916	–	916
Transfers between reserves	–	–	(189)	–	(1 397)	–	–	1 586	–	–	–
Balance at 31 March 2013	–	30 520	2 959	322	(3 648)	–	–	75 489	105 642	–	105 642
Profit for the year	–	–	–	–	–	–	–	5 424	5 424	–	5 424
Other comprehensive income/(loss), net of tax	–	–	3 219	(271)	–	–	–	657	3 605	–	3 605
Transfers between reserves	–	–	–	–	(4 096)	–	–	4 096	–	–	–
Balance at 31 March 2014	–	30 520	6 178	51	(7 744)	–	–	85 666	114 671	–	114 671

Dividends proposed

No dividend has been proposed in the current or prior year.

There are no restrictions on the distribution of dividends.

1. Nominal amount.

2. The equity reserve comprises the day-one gain on initial recognition of the subordinated loan from the shareholder. Refer to note 24.

3. 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, interest rate and cross-currency swaps) related to hedged transactions. The cross-currency swaps hedge interest and foreign exchange rate risk of the future interest payments and principal repayments on bonds and loans (denominated in US dollar, euro and yen).

4. The available-for-sale reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised.

5. 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.

6. The insurance reserve is a contingency reserve created in terms of the Short-term Insurance Act.

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

8. Accumulated profit is the amount of cumulative profit retained in the business after tax.

Statements of cash flows

for the year ended 31 March 2014

	Note	Group		Company	
		2014 Rm	Restated ¹ 2013 Rm	2014 Rm	2013 Rm
Cash flows from operating activities					
Cash generated from operations	43	20 633	28 784	19 150	28 847
Net cash flows (used in)/from financial trading assets		(1 471)	1 701	(1 250)	1 743
Net cash flows from/(used in) financial trading liabilities		4 383	(2 317)	4 383	(2 317)
Net cash flows from/(used in) current derivatives held for risk management		10 278	(331)	10 278	(331)
Net cash flows (used in)/from non-current assets held-for-sale	21	(23)	48	–	–
Income taxes paid		(184)	(216)	–	–
Net cash from operating activities		33 616	27 669	32 561	27 942
Cash flows used in investing activities					
Proceeds from disposal of property, plant and equipment		28	36	23	10
Acquisitions of property, plant and equipment		(52 137)	(53 445)	(52 658)	(53 742)
Acquisitions of intangible assets		(1 023)	(1 887)	(953)	(1 820)
Expenditure on future fuel supplies		(2 675)	(2 533)	(2 675)	(2 533)
Decrease/(increase) in non-current trade and other receivables		434	(136)	(6)	10
Increase in non-current loans receivable		(229)	(990)	–	–
Decrease in finance lease receivables		17	37	17	37
Net cash flows from non-current assets held-for-sale	21	7	46	–	–
Dividends received		27	34	21	16
Dividends received – investment in equity-accounted investees		21	–	–	–
(Decrease)/increase in non-current trade and other payables		(1 677)	479	(369)	(85)
Net cash used in investing activities		(57 207)	(58 359)	(56 600)	(58 107)
Cash flows from financing activities					
Debt securities and borrowings raised		44 142	31 120	43 681	31 072
Debt securities and borrowings repaid		(8 014)	(7 149)	(7 488)	(7 064)
Net cash flows from/(used in) net loans to subsidiaries		–	–	32	(290)
Decrease in investment in securities		5 748	5 047	6 058	4 988
Decrease in finance lease liabilities		(11)	(31)	(58)	(72)
Interest received		2 768	2 765	2 884	2 891
Interest paid		(11 838)	(9 968)	(11 856)	(9 925)
Net cash from financing activities		32 795	21 784	33 253	21 600
Net increase/(decrease) in cash and cash equivalents		9 204	(8 906)	9 214	(8 565)
Cash and cash equivalents at beginning of the year		10 620	19 450	9 830	18 395
Foreign currency translation		(23)	(49)	–	–
Cash and cash equivalents at beginning of the year attributable to non-current assets held-for-sale		(125)	125	–	–
Cash and cash equivalents at end of the year	20	19 676	10 620	19 044	9 830
Reconciliation of net cash flow to movement in net debt					
Net increase in debt securities and borrowings		36 128	23 971	36 193	24 008
Net cash flows from/(used in) net loans to subsidiaries		–	–	32	(290)
Decrease in investment in securities		5 748	5 047	6 058	4 988
Increase in loans receivable		(459)	(1 034)	–	–
Decrease in finance lease liabilities		(11)	(31)	(58)	(72)
Net cash flows from/(used in) derivatives held for risk management		10 278	(331)	10 278	(331)
Net debt raised		51 684	27 622	52 503	28 303
Non-cash flow movements		1 416	(13 223)	1 374	(13 151)
Foreign currency translation		23	49	–	–
Cash and cash equivalents at beginning of the year attributable to non-current assets held-for-sale		125	(125)	–	–
Net (increase)/decrease in cash and cash equivalents		(9 204)	8 906	(9 214)	8 565
Movement in net debt for the year		44 044	23 229	44 663	23 717
Net debt at beginning of the year		161 044	137 815	166 840	143 123
Net debt at end of the year		205 088	161 044	211 503	166 840
Analysis of net debt					
Debt securities and borrowings	24	254 820	202 956	252 816	200 888
Finance lease liabilities	29	500	511	769	826
Net loans to subsidiaries		–	–	(4 212)	(4 220)
Derivatives held for risk management	14	(10 666)	(5 914)	(10 666)	(5 914)
Cash and cash equivalents	20	244 654	197 553	238 707	191 580
Investment in securities	12	(19 676)	(10 620)	(19 044)	(9 830)
Loans receivable	13	(8 983)	(8 539)	–	–
Net debt at end of the year		205 088	161 044	211 503	166 840

1. Refer to note 48.

Notes to the financial statements

for the year ended 31 March 2014

1. General information

Eskom Holdings SOC Limited (Eskom), a state-owned company and holding company of the group, is incorporated and domiciled in the Republic of South Africa. Eskom is a vertically integrated operation that generates, transmits and distributes electricity to industrial, mining, commercial, agricultural, redistributors (ie municipalities), and residential customers and to international customers in southern Africa. The nature of the businesses of the significant operating subsidiaries is set out in note 9.

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. The nature and effect of the changes to the accounting policies are discussed in note 50.2.

2.1 Basis of preparation and measurement

Statement of compliance

The consolidated financial statements of Eskom at and for the year ended 31 March 2014 comprise the company and its subsidiaries (together referred to as the group) and the group's interest in associates and joint ventures. The separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act (PFMA), and the Companies Act of South Africa. The financial statements have been prepared on the going-concern basis.

Basis of measurement

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

- investment in securities
- derivatives held for risk management
- financial trading assets
- financial trading liabilities
- embedded derivatives
- non-current assets and liabilities held-for-sale

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (functional 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 the new or revised statements and interpretations implemented during the year. The nature and effect of the changes to the accounting policies are discussed in note 50.2.

2.2 Consolidation

Investment in subsidiaries

Subsidiaries are entities (including structured entities) controlled by the group. The group controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity's relevant activities. Subsidiaries are consolidated

from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Investments in subsidiaries are accounted for at cost less impairment losses in the separate financial statements of the company.

Disposal of subsidiaries

When the group ceases to have control in an entity, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Business combinations

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated, but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been adjusted where necessary, to ensure consistency with the policies adopted by the group.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with International Accounting Standard (IAS) 39 *Financial instruments: recognition and measurement* either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Transactions with non-controlling interests

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. For such purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests that do not result in a loss of control are also recorded in equity.

Joint arrangements

A joint venture is an arrangement in which the group has joint control whereby the group has rights to the net assets of the arrangement, rather than direct rights to its assets and direct obligations for its liabilities.

A joint operation is an arrangement in which the group has joint control whereby the group has direct rights to the assets and obligations for the liabilities relating to the arrangement. The group entity that is a joint operator of a joint operation accounts for its portion of the following in its separate financial statements:

- assets, including its share of any assets held jointly
- liabilities, including its share of any liabilities incurred jointly
- revenue from the sale of its share of the output arising from the joint operation
- share of the revenue from the sale of the output by the joint operation
- expenses, including its share of any expenses incurred jointly

Common control transactions

The group accounts for common control transactions in the consolidated financial statements using the book value (predecessor) basis of accounting. In applying the book value basis, the acquirer in a common control transaction recognises the assets and liabilities acquired using the book values in the financial statements of the relevant entity. Any difference between the consideration paid and the book values of the assets and liabilities acquired is recognised directly in equity.

The company also accounts for common control transactions in the separate financial statements using the book value basis of accounting. In applying the book value basis, the acquirer recognises the cost of its investment at the carrying amount of the investment recognised in the separate financial statements of the transferring entity. Any difference between the consideration paid and the cost of investment acquired is recognised directly in equity.

Investment in equity-accounted investees

Associates are all entities over which the group has significant influence but not control or joint control over the financial and operating policies, generally linked to a shareholding of 20% or more of the voting rights.

Investments in associates and joint ventures are accounted for at cost less impairment losses in the separate financial statements of the company. These investments are accounted for using the equity method of accounting in the financial statements of the group. The group's investment in associates and joint ventures includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in profit or loss within *share of profit of equity-accounted investees*, and its share of post-acquisition movements in other comprehensive income is recognised directly in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the group and its associates or joint ventures are eliminated to the extent of the group's interest in the associates or joint ventures. Unrealised losses are also eliminated, but are considered an impairment indicator of the asset transferred. Accounting policies of associates or joint ventures have been adjusted where necessary to ensure consistency with the policies adopted by the group.

If the financial statements of the associate or joint venture are prepared as of a different date to that of the group, adjustments are made to the financial statements of the associate or joint venture for significant transactions and events that occur between the date of the financial statements of the associate or joint venture and the date of the financial statements of the group to enable the financial statements of the associate or joint venture to be used for the equity accounting of the associate or joint venture. The maximum time period between the date of the financial statements of the associate or joint venture and the date of financial statements of the group is three months.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the group executive management committee (Exco).

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group's other components. An operating segment's results are reviewed regularly by Exco to make decisions about resources to be allocated to the segment and assess performance, and for which discrete financial information is available.

2.4 Foreign currency translation

Transactions and balances

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

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

Non-monetary items are measured at historical cost. Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are recognised in other comprehensive income within *available-for-sale financial assets*.

Foreign loans are initially recognised at the exchange rate prevailing at transaction date and are translated at spot rate at every reporting date. Foreign exchange gains and losses that relate to loans and receivables, debt securities issued and borrowings are presented in profit or loss within *net fair value gain/loss on financial instruments, excluding embedded derivatives*.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and 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, excluding foreign operations in hyperinflationary economies, are translated to rands at the average exchange rate. The group does not have any foreign operations in hyperinflationary economies.

Notes to the financial statements (continued)

for the year ended 31 March 2014

2. Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

Foreign operations (continued)

Foreign currency differences arising as a result of the above are recognised in other comprehensive income within the *foreign currency translation reserve*.

2.5 Property, plant and equipment

Land and buildings comprise mainly office, power station, substation, workshop and related buildings.

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes:

- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period
- borrowing costs (refer to note 2.8)
- transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, 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 in which they are incurred.

Works under construction are stated at cost which includes cost of materials and direct labour and any directly attributable costs incurred in bringing it to its present location and condition. Materials used in the construction of property, plant and equipment are stated at weighted average cost.

Spare parts classified as strategic and critical spares are recognised as property, plant and equipment.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings and facilities	10 to 40
Plant	
• Generation	6 to 80
• Transmission	5 to 40
• Distribution	10 to 35
• Test, telecommunication and other plant	3 to 20
Equipment and vehicles	1 to 10

The depreciation method, residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains or losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in profit or loss within *other income* or *other operating expenses*.

2.6 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate/joint venture at the date of acquisition. Goodwill on acquisition of subsidiaries is included in *intangible assets*. Goodwill on acquisition of associates and joint ventures is included in investments in equity-accounted investees and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The group allocates goodwill to each business segment in each country in which it operates.

Licences

Licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over a period of two to five years in order to allocate the cost of licences over their estimated useful life.

Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is calculated using the straight-line method over a period of two to five years in order to allocate the cost of computer software over their estimated useful life. If software is integral to the functionality of related equipment, then it is capitalised as part of the equipment.

Costs that are directly associated with the development of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets and amortised as above. Costs include employee costs incurred as a result of developing software, borrowing costs if relevant (refer to note 2.8) and an appropriate portion of relevant overheads. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Rights

Rights consist mainly of servitudes and rights of way under power lines. Rights are not amortised as they have an indefinite useful life. A servitude right is granted to Eskom for an indefinite period. Intangible assets with an indefinite life are required to be tested annually for impairment and carried at cost less accumulated impairment losses per IAS 36 *Impairment of assets*. The life of the servitude will remain in force as long as the transmission or distribution line is used to transmit electricity. It is management's assessment that a servitude will only become impaired if the line to which the servitude is linked is derecognised. In practice, a derecognised line will be refurbished or replaced by a new line and then the likelihood of an impairment of a servitude right is remote.

Concession assets

Concession assets consists of rights to charge for the usage of the infrastructure under service concession arrangements. Concession assets are capitalised on the basis of the cost of capital expenditure incurred in respect of service concession arrangements (which is the fair value at initial recognition), including borrowing costs on qualifying capital expenditures (refer to note 2.8). Subsequent to initial recognition, the concession assets are measured at cost less accumulated amortisation and impairment losses. Concession assets are amortised over their estimated useful life, which is the concession period during which they are available for use. Refer to note 2.9 and 22.

Intangible assets arising from a service concession arrangement are included within *intangible assets* under concession assets.

Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale
- management intends to complete the intangible asset and use or sell it
- there is an ability to use or sell the intangible asset
- it can be demonstrated how the intangible asset will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available
- the expenditure attributable to the intangible asset during its development can be measured reliably

Other development expenditure that does not meet these criteria is recognised in profit or loss within other operating expenses. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

2.7 Impairment of non-financial assets

The carrying amounts of the group's non-financial assets, other than inventories, deferred tax assets and tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. Assets that have an indefinite useful life, for example land and rights over servitudes, are not subject to amortisation or depreciation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that were subject to impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment loss or reversal is recognised in profit or loss within *net impairment loss*.

2.8 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 intended use, to the extent that the assets are financed by borrowings. The capitalisation rate applied is the weighted average of the borrowing costs applicable to the borrowings of the entities in the group unless an asset is financed by a specific loan, in which case the specific rate is used.

2.9 Service concession arrangements

A service concession arrangement is an arrangement involving an operator constructing and/or upgrading, operating and maintaining infrastructure used to provide a public service for a specified period of time. The operator is paid for its services over the period of the arrangement. The arrangement is governed by a contract that sets out performance standards, mechanisms for adjusting prices and arrangements for arbitrating disputes. The grantor (the party that grants the service arrangement) controls the infrastructure, and the operator is required to return to the grantor the infrastructure at the end of the arrangement.

Financial asset

The group recognises a financial asset arising from a service concession arrangement to the extent that it has an unconditional right to receive cash or another financial asset from or at the direction of the grantor, for the construction, upgrade or operation services of concession assets. Financial assets recognised as a result of the service concession arrangement are measured at fair value upon initial recognition. Subsequent to initial recognition, the financial asset is accounted for in accordance with IAS 39 *Financial instruments: recognition and measurement*. Refer to note 2.11.

Financial assets arising from a service concession arrangement are included within trade and other receivables under other receivables. Refer to note 17.

Construction or upgrade services

The group accounts for revenue and costs relating to construction or upgrade services in accordance with IAS 11 *Construction contracts*.

Operation services

The group accounts for revenue relating to operation services in accordance with IAS 18 *Revenue*.

Contractual obligations to maintain and restore the infrastructure

The group accounts for the contractual obligations to maintain or restore the infrastructure in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets*. The provision to restore the infrastructure is included within *provisions*.

2.10 Leases

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment, or series of payments, the right to use an asset for an agreed period of time. An assessment in terms of International Financial Reporting Interpretations Committee (IFRIC) 4 *Determining whether an arrangement contains a lease* is made as to whether the arrangement is dependent on the use of a specific asset and the arrangement conveys the right to use an asset to determine if an arrangement contains a lease. Refer to note 6, 15 and 29.

Finance leases – where the group is the lessee

The group leases certain property, plant and equipment. Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term payables. The interest element of the finance cost is charged to profit or loss within finance cost over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated or amortised over the shorter of the useful life of the asset and the lease term.

Finance lease liabilities are derecognised in accordance with the derecognition requirements for financial liabilities. Derivatives embedded in leases are accounted for in accordance with the requirements for embedded derivatives. Refer to note 2.11.

Finance leases – where the group is the lessor

When property, plant and equipment are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is disclosed as unearned finance income within *finance lease receivables*.

Notes to the financial statements (continued)

for the year ended 31 March 2014

2. Summary of significant accounting policies (continued)

2.10 Leases (continued)

Finance leases – where the group is the lessor (continued)
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. Derivatives embedded in leases are accounted for in accordance with the requirements for embedded derivatives. Refer to note 2.11.

Fair value

The fair value of finance lease receivables and finance lease liabilities is determined by discounting the future cash flows with respect to the finance lease at the interest rate implicit in the lease.

Operating leases

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

Leases where substantially all of the risks and rewards of ownership are not transferred to the lessee (ie the group is the lessor) 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.

2.11 Financial instruments

2.11.1 Non-derivative financial instruments

Recognition, measurement and derecognition of financial assets

Non-derivative financial assets comprise investment in securities, loans to subsidiaries, financial trading assets, loans receivable, trade and other receivables, finance lease receivables and cash and cash equivalents.

Cash and cash equivalents comprise balances with local and international banks, monies in call accounts, short-term assets and money market assets with an original maturity of less than 90 days. Bank overdrafts are shown within debt securities and borrowings in current liabilities on the statement of financial position.

All non-derivative financial assets are recognised on the date of commitment to purchase (trade date). Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the group has transferred substantially all the risks and rewards of ownership. Realised gains or losses on derecognition are determined using the last-in-first-out (LIFO) method.

Non-derivative financial assets net of any directly attributable transaction costs are recognised initially at fair value. Directly attributable transaction costs related to financial assets at fair value through profit or loss are recognised in profit or loss on initial recognition when incurred. Subsequent to initial recognition, non-derivative financial assets are measured per asset category (as stated below). The appropriate classification of the financial asset is determined at the time of commitment to acquire the financial asset.

When entering into a transaction, the financial instrument is recognised initially at the transaction price which is generally the best indicator of fair value. Where fair value of the financial instrument is different from the transaction price a day-one gain or loss may arise. The day-one gain or loss is immediately recognised in profit or loss (except for embedded derivatives and

the subordinated loan from shareholder) within *net fair value gain/(loss) on financial instruments, excluding embedded derivatives*, provided that the fair value has been determined based on market-observable data. If the fair value has not been determined solely based on market-observable data, the day-one gain or loss is deferred in the statement of financial position and amortised over the term of the instrument in profit or loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has both the ability and intent to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any accumulated impairment losses.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal payments, plus or minus the cumulative amortisation using the effective interest method and minus any reduction for impairment or uncollectibility.

The effective interest rate is the rate that discounts the estimated future cash receipts of the financial asset exactly to its net carrying amount.

Financial assets at fair value through profit or loss (held-for-trading)

Held-for-trading assets comprises financial trading assets. An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. An instrument may only be designated at fair value through profit or loss when certain criteria are met. The group has elected not to designate financial assets at fair value through profit or loss.

A financial asset is classified as held-for-trading if it is:

- acquired for the purpose of selling it in the short term
- part of a portfolio of identified financial instruments that is managed together and for which there is evidence of a recent pattern of short-term profit taking
- a derivative instrument

Subsequent to initial recognition, changes in the fair value of these financial assets are recognised in profit or loss within *net fair value gain/(loss) on financial instruments, excluding embedded derivatives*.

Loans and receivables

Loans and receivables comprises trade and other receivables, loans receivable, loan to subsidiaries and cash and cash equivalents. The trade and other receivables of the group are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that management intends to sell immediately or in the short term, which are classified as held-for-trading
- those that upon initial recognition are designated as available-for-sale
- those for which the group may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any accumulated impairment losses.

Available-for-sale financial assets

Available-for-sale assets comprises investment in securities. Available-for-sale financial assets are those assets that are designated as such or do not qualify to be classified as fair value through profit or loss, held-to-maturity or loans and receivables.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses

(for monetary items), are recognised in other comprehensive income within *available-for-sale financial assets*. When the asset is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Fair value

The fair values of trading assets and available-for-sale assets are based on quoted bid prices if available. For assets that are not quoted in an active market, valuation techniques are used. Where pricing models are used, inputs are based on market-related measures at the reporting date. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a financial asset with similar terms and conditions at the reporting date.

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Impairment (held-to-maturity investments, loans and receivables)

A review for impairment indicators is carried out at each financial year end to determine whether there is any objective evidence that a financial asset not carried at fair value through profit or loss is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost or adverse changes in the technological, market or economic environment in which the entity operates are considered to be indicators that the securities are impaired.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss within *net impairment loss*.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets carried at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss within *net impairment (loss)/reversal*.

Where an asset has been impaired, the carrying amount of the asset is reduced through an allowance account.

Loans and receivables that would otherwise have been impaired but have been renegotiated are initially accounted for as impaired debt immediately after having been renegotiated. Once a payment history in terms of the renegotiated agreement is

established the same impairment assessment as applicable to debts that have not been renegotiated are applied to assess whether the debt then should be impaired or not.

Recognition, measurement and derecognition of financial liabilities

Non-derivative financial liabilities comprise debt securities and borrowings, loans from subsidiaries, financial trading liabilities, finance lease liabilities and trade and other payables.

Non-derivative financial liabilities are recognised initially at fair value net of any directly attributable transaction costs except for financial liabilities at fair value through profit or loss. Directly attributable transaction costs related to liabilities recognised at fair value through profit or loss are recognised in profit or loss on initial recognition when incurred. Subsequent to initial recognition, non-derivative financial liabilities are measured at amortised cost or fair value as per the relevant liability category (as described on this page).

All non-derivative financial liabilities are recognised on the date of commitment (trade date) and are derecognised when the obligation expires, is discharged or cancelled, or there is a substantial modification to the terms of the liability. Realised gains and losses are determined using the LIFO method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services. The capitalised fees are amortised from the date of first draw-down to final maturity of each facility.

Financial liabilities at fair value through profit or loss (held-for-trading)

Held-for-trading liabilities comprises financial trading liabilities. An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. An instrument may only be designated at fair value through profit or loss when certain criteria are met. The group has not elected to designate financial liabilities at fair value through profit or loss.

A financial liability is classified as held-for-trading if it is:

- incurred principally for the purpose of selling or repurchasing it in the near term
- part of a portfolio of identified financial instruments that is managed together and for which there is evidence of a recent pattern of short-term profit taking
- a derivative instrument

Subsequent to initial recognition, financial liabilities at fair value through profit or loss continue to be measured at fair value.

Financial liabilities at amortised cost

Financial liabilities that are not held-for-trading are classified as financial liabilities at amortised cost. Debt securities and borrowings, including foreign loans, that are not held-for-trading, and loans from subsidiaries are classified as held at amortised cost. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method. The trade and other payables of the group are classified as financial liabilities at amortised cost.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Notes to the financial statements (continued)

for the year ended 31 March 2014

2. Summary of significant accounting policies (continued)

2.11 Financial instruments (continued)

2.11.1 Non-derivative financial instruments (continued)

Fair value

The fair value of financial trading liabilities is based on quoted offer prices if available. For liabilities that are not quoted in an active market, valuation techniques are used. Where pricing models are used, inputs are based on market-related measures at the reporting date. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a financial liability with similar terms and conditions at the reporting date.

Market-making

Eskom partakes in market-making activities in a bid to reduce the funding cost of the company. Most investors place a premium on the liquidity of bonds and are therefore prepared to accept a lower yield (relative to alternative bonds) to invest in bonds where the issue sizes are large and deemed to be liquid. Eskom bonds used for market-making are accounted for as financial liabilities at amortised cost.

The risks of market-making include the anticipated loss on turnover, typically the bid/offer spread thereon, which is partially mitigated through repurchase agreement opportunities. In addition there is the potential negative impact on liquidity which Eskom believes is limited due to the strategy of holding sufficient liquidity buffers as well as a portfolio of liquid government bonds.

2.11.2 Financial guarantees

Recognition

Financial guarantees are contracts that require the group to make specified payments to reimburse the holder for a loss that may occur because a specified counter party fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised cost and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

Fair value

Financial guarantees are valued initially by taking into account discounted future cash flows adjusted according to the probability of occurrence of the trigger event. The resultant guarantee is raised as a liability, with the costs being charged to profit or loss. The unprovided portion is disclosed as a contingent liability. As a result of using discounted cash flows, interest rate risk may arise due to the possibility of the actual yields on assets being different from the rates assumed in the discounting process.

2.11.3 Derivative financial instruments and hedging activities

Recognition

A derivative is a financial instrument whose value changes in response to an underlying variable, requires little or no initial investment and is settled at a future date. All derivatives are classified as held-for-trading instruments, unless they meet the criteria for hedge accounting and have been designated for purposes of applying hedge accounting. Derivatives are initially recognised at fair value and remeasured subsequently at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models which consider current market and contractual prices for the underlying instruments as well as the time value of money.

All derivative instruments of the group are included in the statement of financial position as *derivatives held for risk management*. Realised and unrealised gains or losses for derivatives used for economic hedging are recognised in profit

or loss within *net fair value gain/(loss) on financial instruments, excluding embedded derivatives*. Realised and unrealised gains or losses for derivatives used for cash flow hedging are recognised in other comprehensive income within *cash flow hedges*.

Hedge accounting

The method of recognising the resulting gain or loss on the derivative depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Derivatives can be designated as:

- hedges of the fair value of recognised liabilities and assets (fair value hedge)
- hedges of a particular risk associated with a recognised liability, asset or a highly probable forecast transaction (cash flow hedge)
- hedges of a net investment in a foreign operation (net investment hedge)

The group applies only cash flow hedge accounting.

The group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. 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.

Movements on the hedging reserve are shown in other comprehensive income within *cash flow hedges*. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining period of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining period of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

Cash flow hedges

Insignificant day-one gains and losses are expensed in profit or loss while significant day-one gains and losses are deferred in the statement of financial position (derivatives held for risk management) and then amortised over the term of the hedging instrument in profit or loss. Day-one gains and losses on hedging instruments are predominantly a function of the inclusion of credit, liquidity and basis risk in the terms of the trading instrument. These risks are not included in the determination of a hypothetical derivative used to measure fair value movements in a hedged item and are therefore excluded from any hedge accounting relationships. The effective portion of the changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income within *cash flow hedges*. The gain or loss relating to the ineffective portion and the forward points portion which is not designated (as part of the hedge) is recognised immediately in profit or loss within *net fair value gain/(loss) on financial instruments, excluding embedded derivatives*.

When the forecast transaction occurs, any cumulative gain or loss existing in other comprehensive income at that time is included in the initial cost or other carrying amount of the asset or 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. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to profit or loss within *net fair value gain/(loss) on financial instruments, excluding embedded derivatives*.

Economic hedging

Certain derivative instruments do not qualify for hedge accounting and are used for economic hedging. Changes in the fair value of these derivative instruments are recognised in profit or loss

within *net fair value gain/(loss) on financial instruments, excluding embedded derivatives*.

2.11.4 Repurchase and resale agreements

Securities sold subject to repurchase agreements are disclosed in the financial statements as financial trading assets. The liability to the counterparty is recorded as repurchase agreements and is included in *financial trading liabilities*.

Securities purchased under agreements to resell are recorded as repurchase agreements and are included in *financial trading assets* or in *investments in securities*.

The difference between the sale and repurchase price or purchase and resale price is treated as interest accrued over the life of the repurchase or resale agreement using the effective-yield method.

2.11.5 Embedded derivatives

Recognition

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to those of a standalone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, or other variable. The hybrid contract is the entire contract and the host contract is the main body of the contract excluding the embedded derivative.

An embedded derivative is separated from the host contract and accounted for as a derivative if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative
- the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss

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.

Fair value

Embedded derivatives are disclosed separately from derivatives held for risk management. The changes in fair value are included in *net fair value gain/(loss) on embedded derivatives* in profit or loss. The impact of the fair value gains or losses is taken into account in the calculation of current and deferred taxation.

Embedded derivatives that are not separated are effectively accounted for as part of the hybrid instrument.

Non-option based derivatives are separated on terms that result in a fair value at the date of inception of zero. 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/(loss). These day-one gains or losses are spread equally over the period of the agreement. The fair value will depend on the strike price at inception.

The valuation at initial recognition is adjusted for cash flows since inception. The value of the embedded derivatives which involve a foreign currency is first determined by calculating the future cash flows and then discounting the cash flows by using the relevant interest rate curve and only then is the net present value of the cash flows converted at the relevant rand/foreign currency spot rate to the reporting currency.

The fair value of the embedded derivative is determined on the basis of its terms and conditions. If this is not possible, then the value of the embedded derivative is determined by fair valuing

the whole contract and deducting from it the fair value of the host contract.

Where there is no active market for the embedded derivatives, valuation techniques are used to ascertain their fair values. Financial models are developed incorporating valuation methods, formulae and assumptions. The valuation methods include:

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

The fair value of embedded derivatives 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 more important assumptions, which include the following, are obtained either with reference to the contractual provisions of the relevant contracts or from independent market sources where appropriate:

- spot and forward commodity prices
- spot and forward foreign currency exchange rates
- spot and forward interest rates
- forecast sales volumes
- spot and forward foreign production price indices
- spot and forward electricity prices
- liquidity, model risk and other economic factors

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, production and conversion costs and other costs incurred in bringing inventory to present location and condition.

Nuclear fuel

Nuclear fuel is stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis. Nuclear fuel consists of raw materials, fabricated fuel assemblies and fuel in reactors.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

2.13 Future fuel suppliers

Coal

Non-refundable advances to suppliers, together with related borrowing costs thereon, are deferred in the statement of financial position within *future fuel supplies* and amortised against the cost of coal supplied on the basis of the estimated life of the asset procured by the suppliers.

Repayable advances to suppliers are capitalised, and the related interest earned is credited to profit or loss within *finance income* and the refunds are repaid in terms of the agreements.

Nuclear

Fuel assemblies in the process of fabrication are stated at cost within *future fuel supplies*, which includes the non-refundable advance payments made in terms of the agreement. Hedge accounting is applied to foreign exchange contracts entered into with respect to the purchase of nuclear fuel, with the effective portion being capitalised during the fabrication period. Advance payments in terms of agreements are capitalised.

Notes to the financial statements (continued)

for the year ended 31 March 2014

2. Summary of significant accounting policies (continued)

2.14 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.

2.15 Equity reserve

The subordinated loan from the shareholder is held at amortised cost. The market value of the loan at inception is calculated for each tranche utilising the expected cash flows which are discounted at market rates to determine the effective interest rates. The effective interest rates for each tranche remain constant over the life of the loan tranche. The future cash flows are reassessed annually and the loans are remeasured at each reporting period. Although the loan is interest bearing, the interest payment terms could potentially be favourable and are dependent on the liquidity and gearing of Eskom. The change in the loan value with respect to interest amortised and the remeasurement is reflected in the profit or loss in *finance cost* and is eligible for capitalisation as borrowing costs.

2.16 Income tax

Income tax expense comprises current and deferred 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.

Current tax is expected tax payable on taxable income for the year, using tax rates (and laws) enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Tax on dividends declared after 1 April 2012 is withheld by the company on behalf of its shareholder at a rate of 15%. Amounts withheld are recognised in equity as part of dividends paid.

Dividends received are recognised at the gross amount with the related withholdings tax recognised as part of tax expense. If the withholding tax is reimbursable it is recognised as an asset.

2.17 Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. However, deferred tax is provided in respect of the temporary differences arising on the assets and provisions created in respect of decommissioning and nuclear waste management and closure, pollution control and rehabilitation. 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 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 assets are reviewed at each reporting date and reversed if it is no longer probable that the related tax benefits will be realised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

2.18 Payments received in advance

Payments received in advance consist mainly of upfront capital contributions for the construction of assets and government grants received for electrification and energy efficiency initiatives. Upfront capital contributions are recognised in profit or loss within *other revenue* when the customer is connected to the electricity network. Government grants for energy efficiency initiatives are recognised in profit or loss within *other expenses* when the related expenses are incurred.

2.19 Deferred income

Grants

Government grants received relating to the creation of electrification assets are included in liabilities as deferred income and are credited to profit or loss within *depreciation and amortisation expense* on a straight-line basis over the expected useful lives of the related assets.

Capital contributions received from customers

Contributions paid in advance by electricity customers relating to the construction of regular distribution and transmission assets (with a standard supply) are credited to profit or loss within *other revenue* when the customer is connected to the electricity network. Refer to note 2.18.

2.20 Reinsurance contracts

Escap SOC Limited (Escap), a wholly owned subsidiary of Eskom, acts as the primary insurer for the group. Escap only self-insures the group up to agreed limits by risk category, whereafter the risks are covered by the reinsurance market.

Contracts are entered into with reinsurers, under which the group is compensated for losses on one or more contracts issued by it and that meet the classification requirements for insurance contracts. The benefits to which Escap is entitled under its reinsurance contracts held are recognised as reinsurance assets in the statement of financial position. Amounts recoverable are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts due from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. Reinsurance assets and liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.21 Employee benefit obligations

Annual and performance bonus

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

Occasional and service leave

The liability for occasional and service leave is of a long-term nature as it is not expected to be settled wholly after 12 months after the reporting period. An actuarial valuation is performed on an annual basis for occasional and service leave. The accrued liabilities are determined by valuing all future leave expected to be taken and payments expected to be made in respect of benefits up to the valuation date. Allowance has been made in the calculations for the assumed benefit options employees will exercise, as well as salary increases and investment returns up

to the date the benefit is received. All actuarial gains or losses and past service costs are recognised immediately in profit or loss within *employee benefit expense*. The present values of the benefit are determined by using the yield of long-dated corporate bonds (or government bonds where high quality corporate bonds are not available). In terms of IAS 1 *Presentation of financial information* there is no unconditional right to defer settlement of occasional and service leave for at least 12 months after the reporting period. The full provision is therefore presented as current in the statement of financial position.

Pension benefits

Pension benefits are provided for employees through the Eskom Pension and Provident Fund. Contributions to the fund are based on a percentage of pensionable emoluments and are expensed in the period in which they are incurred. The group accounts for its pension obligations as a defined contribution plan in line with IAS 19 *Employee benefits*.

Post-employment medical benefits

The liability for post-employment medical benefits is the present value of the obligation by using government bonds where high quality corporate bonds are not available (long-dated corporate bonds) which have maturities similar to the liability. Provision is made by accounting for the estimated cost over the expected period to retirement of the employees. The cost to the employer, in the form of employer contributions, is determined by using the projected unit credit method, with actuarial valuations being carried out at reporting date. Actuarial gains or losses are recognised in other comprehensive income within *remeasurements of post-employment medical benefits* immediately. Interest expense and other expenses related to these benefits are recognised in profit or loss.

The entitlement to these benefits is usually conditional on the employee remaining in-service up to retirement. All employees qualify for post-employment medical benefits, except for new employees appointed on or after 1 June 2003 at a managerial level. The group accounts for its post-employment medical benefits obligations as a defined benefit plan in line with IAS 19 *Employee benefits*.

If the benefits are changed or curtailed, the resulting change in benefits that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The group recognises gains or losses on the settlement of a defined benefit plan when the settlement occurs. A settlement occurs when payments are made to employees to eliminate any further liabilities.

A curtailment will occur when the group significantly reduces the number of employees covered by the termination plan. Curtailment gains and losses are accounted for as past service costs, which are recognised in profit or loss immediately in the period when the termination plan is amended.

Termination benefits

A liability and expense for termination benefits is recognised by the group at the earlier of the following dates:

- when the group can no longer withdraw the offer of those benefits
- when the group recognises costs for a restructuring that is within the scope of IAS 37 *Provisions, contingent liabilities and contingent assets* and involves the payment of termination benefits

2.22 Provisions

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

Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision due to the passage of time is recognised as finance cost.

The provisions below are restated on an annual basis to reflect changes in measurement that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in discount rate, which shall be accounted for as follows:

- changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period
- the amount deducted from the cost of the asset shall not exceed its carrying amount. The excess shall be recognised in profit or loss
- any additions to the cost of an asset shall be reviewed in terms of the normal impairment principles

Decommissioning and nuclear waste management

Nuclear and other generation plant

A provision is raised for the estimated decommissioning cost of nuclear and other generation plant and capitalised to the cost of nuclear or other generation plant when it is commissioned. 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. Decommissioning costs capitalised to the cost of nuclear or other generation plant is written off on a straight-line basis over the estimated useful life of the plant.

Spent nuclear fuel

A provision is raised for the management of spent nuclear fuel assemblies and radioactive waste. The charge to profit or loss is based on the latest available cost information and is included in *primary energy*.

The provisions are restated on an annual basis to reflect the changes in the time value of money. The impact of the change in the time value of money on the provision is reflected in profit or loss within *finance cost*.

Closure, pollution control and rehabilitation

Expenditure on property, plant and equipment for pollution control is capitalised and depreciated over the useful lives of the assets. The cost of current ongoing programmes to prevent and control pollution and to rehabilitate the environment is charged to profit or loss within *primary energy* as incurred, unless a present legal or constructive obligation exists to recognise such expenditure, in which case a provision is created based on the best estimates available.

A provision is raised for the estimated cost of closure, pollution control and rehabilitation during and at the end of the life of the mines where a legal or constructive obligation exists to pay coal suppliers. Closure, pollution control and rehabilitation costs capitalised are written off over the estimated useful life of the power station.

Service concession arrangements

A provision is raised for contractual obligations to maintain and restore the infrastructure. These contractual obligations to maintain or restore infrastructure, except for any upgrade element, are recognised and measured at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. Refer to note 2.9.

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown, net of value added tax (VAT), estimated returns, rebates and discounts.

Notes to the financial statements (continued)

for the year ended 31 March 2014

2. Summary of significant accounting policies (continued)

2.23 Revenue recognition (continued)

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sale of goods

Sale of goods is recognised when significant risks and rewards of ownership have passed and the collectability of the related receivable is reasonably assured. Electricity revenue is recognised when electricity is consumed by the user except in the case of prepaid electricity which is recognised when purchased by the customer.

Sale of services

Sale of services is recognised in the reporting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Other revenue

Other revenue is recognised when the significant risks and rewards of ownership are transferred to the buyer and the amount of revenue can be measured reliably.

Service concession arrangements

Revenue relating to construction or upgrade services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the group's accounting policy on recognising revenue on construction contracts. Refer to note 2.9.

Operation or service revenue is recognised in the period in which the services are provided by the group. When the group provides more than one service in a service concession arrangement the consideration received is allocated by reference to the relative fair values of the services delivered.

2.24 Finance income

Finance income comprises interest receivable on loans, advances, trade receivables, finance lease receivables and income from financial market investments. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

2.25 Finance cost

Finance cost comprises interest payable on borrowings, 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 2.8).

2.26 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.27 Dividend distribution

Dividend distribution to the shareholder is recognised as a liability in the financial statements of the group in the period in which the dividends are approved by the shareholder.

2.28 Non-current assets and liabilities held-for-sale

Non-current assets and liabilities (or disposal groups) which meet the definition of held-for-sale under IFRS 5 *Non-current assets held-for-sale and discontinued operations*, except for items excluded from the scope of IFRS 5 for measurement purposes, 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 rather than through continuing use.

2.29 Related-party transactions

IAS 24 *Related-party disclosures* provides government related entities an exemption which eliminates the requirements to disclose information that is costly to gather and of less value to users. The group applies the exemption in respect of its relationship with government related entities and local levels of government. Refer to note 46.

2.30 Transfers of assets from customers

If an item of property, plant and equipment is received from customers, an assessment is made as to whether that item of property, plant and equipment can be recognised in accordance with IAS 16 *Property, plant and equipment*. Any related revenue is recognised in accordance with IAS 18 *Revenue*.

2.31 Net debt

The group manages its funding on a net basis by pooling funds. *Net debt* as disclosed in the statements of cash flows is calculated by totalling debt securities and borrowings, finance lease liabilities, loans to and from subsidiaries, derivatives held for risk management and netting off cash and cash equivalents, investments in securities and loans receivable.

3. Critical accounting estimates and judgements

Estimates and judgements are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes judgements, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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. Revisions to accounting estimates are recognised in the period in which they are revised and future periods they affect.

(a) Embedded derivatives

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

The embedded derivatives have been divided into three categories:

- commodity and/or foreign currency derivatives
- foreign currency or interest rate derivatives
- United States production price and foreign currency derivatives

Valuation

The fair value of embedded derivatives is determined by using a forward electricity price curve to value the host contract and the derivative contract is valued by using market forecasts of future commodity prices, foreign currencies and exchange rate, interest rate differential, future sales volumes, production price and liquidity, model risk and other economic factors.

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

- spot and forward commodity prices
- spot and forward foreign currency exchange rates
- spot and forward interest rates
- forecasted sales volumes
- spot and foreign production price indices
- liquidity, model risk and other economic factors

Embedded derivatives that are not separated are effectively accounted for as part of the hybrid instrument. Non-option based derivatives are separated on terms that result in a fair value at the date of inception of zero. 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 only significant unobservable input is the United States producer price index (PPI).

Valuation assumptions

The forward electricity curve used to value the embedded derivatives at 31 March 2014 is based on the current MYPD 3 approved tariff increase of 8% for 2014/15 to 2017/18, whereafter a forecasted return on the regulatory asset base is used until maturity.

The contracted electricity price used to value embedded derivatives is based on a combination of the factors in the table on the next page over the contracted period.

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 fair value of embedded derivatives takes into account the inherent uncertainty relating to the future cash flows of embedded derivatives, such as liquidity, model risk and other economic factors.

Notes to the financial statements (continued)

for the year ended 31 March 2014

3. Critical accounting estimates and judgements (continued)

(a) Embedded derivatives (continued)

Valuation assumptions (continued)

The following valuation assumptions for the future electricity price curve discussed on the previous page for the valuation of embedded derivatives were used and are regarded as the best estimates by the board:

2014		Year ended 31 March					
Input	Unit	2014 ¹	2015 ¹	2016 ¹	2017 ¹	2018 ¹	2019 ¹
Aluminium	USD per ton	1 716	1 865	1 939	2 005	2 068	2 127
Volatility	Year-on-year (ratio)	0.22	0.22	0.22	0.22	0.22	0.22
Rand interest rates	Continuous actual/365 days (%)	5.57	6.74	6.84	7.28	7.55	7.79
Dollar interest rates	Annual actual/365 days (%)	0.09	0.52	0.57	1.03	1.48	1.87
United States PPI	Year-on-year (%)	3.27	2.20	2.33	2.20	2.41	2.32
Rand/USD	USD per rand	0.09	0.09	0.08	0.08	0.07	0.07

2013		Year ended 31 March					
Input	Unit	2013 ¹	2014 ¹	2015 ¹	2016 ¹	2017 ¹	2018 ¹
Aluminium	USD per ton	1 886	1 962	2 045	2 128	2 213	2 288
Volatility	Year-on-year (ratio)	0.25	0.25	0.25	0.25	0.25	0.25
Rand interest rates	Continuous actual/365 days (%)	5.10	5.66	5.42	5.71	6.00	6.32
Dollar interest rates	Annual actual/365 days (%)	0.24	0.93	0.41	0.53	0.71	0.96
United States PPI	Year-on-year (%)	1.14	1.49	2.21	2.47	2.42	2.38
Rand/USD	USD per rand	0.11	0.10	0.10	0.09	0.09	0.08

Sensitivity analysis

The approximate change in the value of embedded derivatives if one of the inputs is changed is disclosed in note 4.2 Financial risk management – market risk under currency risk (note 4.2.1), commodity risk (note 4.2.2), interest rate risk (note 4.2.3) and other price risk (note 4.2.5).

The carrying amount of the embedded derivative liabilities for the group is R9 332 million (2013: R11 481 million) and R9 331 million (2013: R11 480 million) for the company. Refer to note 25.

(b) 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 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. The current cost is the cost of providing the benefit over the next year.

Valuation assumptions

The principal actuarial assumptions used were:

	Group and company	
	2014	2013
Discount rate (%)	9.7	8.8
Medical aid inflation (%)	8.4	8.0
Mortality table	Adjusted PA (90) tables rated down by two years	Adjusted PA (90) tables rated down by two years

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were:

	Group and company			
	2014 Male	2014 Female	2013 Male	2013 Female
Longevities (years)	14.42	20.82	14.42	20.77

The weighted average duration of the defined benefit obligation for the group was 20.8 years (2013: 21.3 years) and for the company was 20.9 years (2013: 21.4 years).

1. Forward curve based on financial years.

Sensitivity analysis

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

Change in assumption	Group				Company				
	2014 increase Rm	2014 decrease Rm	2013 increase Rm	2013 decrease Rm	2014 increase Rm	2014 decrease Rm	2013 increase Rm	2013 decrease Rm	
Effect on aggregate current service cost and finance cost									
Discount rate	1%	(154)	199	(106)	134	(152)	196	(105)	132
Medical aid inflation	1%	318	(242)	234	(182)	312	(238)	230	(179)
Future mortality	1 year	40	(40)	30	(30)	39	(39)	29	(29)
Effect on post-employment medical benefit obligation									
Discount rate	1%	(1 432)	1 834	(1 461)	1 887	(1 398)	1 792	(1 433)	1 853
Medical aid inflation	1%	1 809	(1 436)	1 848	(1 456)	1 767	(1 402)	1 819	(1 432)
Future mortality	1 year	285	(284)	290	(288)	278	(277)	284	(282)

The carrying amount of the post-employment medical benefits liability for the group is R10 234 million (2013: R9 993 million) and R9 981 million (2013: R9 788 million) for the company.

The above sensitivity analyses are based on a change in an assumption while all other assumptions remain constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the present value of the defined benefit obligation is calculated with the projected unit credit method at the end of the reporting period which is recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(c) 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	
	2014 %	2013 %
Discount rate	9.7	8.8
General price inflation	6.4	6.0
Salary increases	7.9	7.5
Leave usage	4.0	4.0

The assumptions made in respect of resignation, death and retirement rates are the same as for the post-employment medical benefit liability. Refer to note 3(b).

Sensitivity analysis

Based on current experience, only 4% (2013: 4%) of the leave is utilised. If the rate at which leave is taken is 8% (2013: 8%), then the liability will increase by R60 million (2013: R53 million).

The carrying amount of the occasional and service leave liability for the group is R1 195 million (2013: R1 086 million) and R1 138 million (2013: R1 037 million) for the company.

(d) Decommissioning, mine closure and rehabilitation

Provision is made for the estimated decommissioning cost of nuclear and other generation plant and for the management of nuclear fuel assemblies and radioactive waste. Provision is made for the estimated mine-related closure, pollution control and rehabilitation costs at the end of the life of the mines, where a constructive and contractual obligation exists to pay coal suppliers.

Valuation

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

Valuation assumptions

The discount rate used for these provisions was 5.0% (2013: 4.6%) for the group and company.

Notes to the financial statements (continued)

for the year ended 31 March 2014

3. Critical accounting estimates and judgements (continued)

(d) Decommissioning, mine closure and rehabilitation (continued)

Estimated payment dates

The estimated payment dates of the costs are:

	Group and company	
	2014	2013
Nuclear plant	2026 - 2041	2026 - 2040
Coal and pumped storage plants ¹	2018 - 2074	2018 - 2113
Spent nuclear fuel	2016 - 2105	2015 - 2105
Mine-related closure, pollution control and rehabilitation	2014 - 2073	2014 - 2073

Sensitivity analysis

The carrying amount of the decommissioning, mine closure and rehabilitation provision would be an estimated R3 465 million (2013: R3 379 million) lower had the real discount rate used in the calculation of the provision increased by 1% and R4 527 million (2013: R4 511 million) higher had the real discount rate decreased by 1%.

(e) Subordinated loan from shareholder

The government loan was provided in tranches where each tranche has a 30-year term with an early redemption option after 10 years. Interest on the facility is only payable for those financial years where the financial results at the end of the reporting period reflect a leverage ratio of better than 12.5% and where if, after paying interest on the facility, the interest multiple remains above 2.5 times. A loan remeasurement occurs when the carrying amount of the loan is adjusted where the cash flows (interest and capital repayment) are revised for a given tranche, based on the tranche's original effective rate to reflect the actual and revised estimated cash flows.

The value of the equity portion of the loan from the shareholder is the difference between the amount advanced and the calculated loan value on the day the tranches were drawn down. The loan value was calculated using Eskom's long-term financial plan to forecast the leverage ratio and the interest cover to determine in which years interest will be payable over the period of the loan. These expected interest flows and the capital redemptions are discounted at the effective rate which was calculated at the inception of each tranche received to determine the loan amounts. Once the equity portion of a tranche is recorded it does not change. Refer to the statement of changes in equity.

The interest payments and cash flows are determined based on Eskom's long-term forecasts of the leverage ratio and the interest multiple, adjusted to include the potential interest on the government loan. The future cash flows are discounted using a zero curve constructed from money market and swap rates that reflect the credit worthiness of Eskom.

4. Financial risk management

The group has an integrated risk management framework. The group's approach to risk management is based on risk governance structures, risk management policies, risk identification, measurement, reporting, monitoring and continuous assessment. Three types of risks are reported as part of the risk profile, namely operational, strategic and business continuity risks. Operational risks are events, hazards, variances or opportunities which could influence the achievement of Eskom's compliance and operational objectives. For Eskom, a strategic risk is a significant unexpected or unpredictable change or outcome beyond what was factored into the organisation's strategy and business model which could have an impact on the group's performance. Business continuity risks are those events, hazards, variances and opportunities which could influence the continuity of Eskom. The financial risks, as defined by IFRS 7 *Financial instruments: disclosures*, and the management thereof, form part of this key risk area.

The board of directors (the board) has delegated the management of enterprise-wide risk to the audit and risk management committee. One of the committee's objectives is to ensure that the group is not unduly exposed to financial risks. Most of the financial risks arising from financial instruments are managed in the centralised treasury function of the group, except for instruments such as trade and finance lease receivables and trade and finance lease payables which are managed by the other divisions and subsidiaries.

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, unless otherwise stated.

The exposure of the centralised treasury function to the major financial risks is unique to its activities and therefore different to those of the divisions and subsidiaries within the Eskom group. A distinction is therefore made between the treasury division and other divisions and subsidiaries in the group in respect of financial risk management where relevant.

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

- credit risk (refer to note 4.1)
- market risk (refer to note 4.2)
- liquidity risk (refer to note 4.3)
- capital management and going concern (refer to note 4.4)

4.1 Credit risk

Credit risk is the risk of financial loss to the group if a customer or other counterparty (including government and financial institutions) to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the sale of electricity and related services in the ordinary course of business and financial instruments managed in the centralised treasury activities. Credit risk includes counterparty risk and delivery or settlement risk.

Counterparty risk is the risk that a counterparty is unable to meet its financial and/or contractual obligations during the period of a transaction. Delivery or settlement risk is the risk that a counterparty does not deliver on its contractual commitment on maturity date (including the settlement of money and delivery of securities).

1. The timing of cash flows relating to water treatment and ground water monitoring have been re-estimated based on the latest studies.

4.1.1 Management of credit risk

Financial instruments managed by the treasury function

Credit risk arises from cash and cash equivalents, investment in securities, derivatives held for risk management, financial trading assets and deposits made with counterparties. Processes are in place to identify, measure, monitor, control and report credit risk. The objective of Eskom's credit risk management framework is firstly to protect cash and investments and, secondly to project and maximise the rate of return of financial market investments.

Responsibility and governance

The treasury committee manages counterparty credit risk which arises from the treasury activities in the financial markets. This committee is chaired by the finance director and reports on a quarterly basis to Exco and the board investment and finance committee. The activities of the committee are guided by the terms of reference that are updated and approved by the finance director.

The terms of reference set out the minimum acceptable standards to be adhered to by those responsible for credit-related transactions within the treasury division. The terms of reference are aligned to the Exco credit risk governance standards and are supplemented by appropriate policies and procedures.

The treasury committee:

- assesses the credit quality of counterparties and types of instruments used
- approves credit limits with such counterparties
- facilitates and manages the issuing of financial guarantees by the group
- ensures that transactions with counterparties are supported by trading agreements, where applicable
- approves methodologies used for the management of counterparty exposure

The portfolio assessment department of treasury provides feedback on all treasury credit risk-related matters to the treasury management, finance director, treasury committee and Exco.

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

- trading in financial instruments is conducted and entered into with selected counterparties after credit limits have been authorised. Individual risk limits are set based on internal and external ratings in line with limits set by the board. All credit limits are approved by the treasury committee. The use of credit limits is regularly monitored
- only financial institutions and/or counterparties with an independent minimum rating of A1 are accepted. 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 mark-to-market. 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.

Credit risk measurement, monitoring and reporting

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

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

Aggregate credit risk exposure, hold-limit exceptions and risk profile changes are reported to Exco. There is regular detailed reporting of limits utilisation, limit breaches and customer concentrations to ensure these are appropriately managed and monitored.

Impairment assessments are performed to evaluate the credit risk exposure. The assessments focus on the following areas:

- significant financial difficulty of the issuer or counterparty
- high probability of bankruptcy
- breach of contract

Financial instruments managed by other divisions and subsidiaries

(a) Trade receivables (electricity)

Eskom supplies electricity to customers in its licensed areas of supply. A large number of the residential customers are on a prepaid basis.

Electricity supply agreements are entered into with key international customers who comprise utility companies and governments of neighbouring countries. These customers are not required to provide any security unless they default on their payment terms.

Eskom's exposure to credit risk is influenced by the individual characteristics of each customer. In monitoring credit risk, customers are grouped according to their credit characteristics, including whether they are large or small power users, geographic location, ageing profile, security (deposits and guarantees) held and payment history.

The main classes of electricity receivables are international, local large and local small power users.

Key large power users comprise mainly South African commercial, industrial and mining customers and redistributors (municipalities). Some key large power users are not required to provide any security if they have an acceptable credit rating from an approved rating agency. New customers are required to provide security equivalent to the value of three months' estimated consumption. Existing customers are required to provide security to the value of three months' consumption as collateral against default on their payment terms.

Notes to the financial statements (continued)

for the year ended 31 March 2014

4. Financial risk management (continued)

4.1 Credit risk (continued)

4.1.1 Management of credit risk (continued)

Financial instruments managed by other divisions and subsidiaries (continued)

(a) Trade receivables (electricity) (continued)

Non-key customers (other than large power users and small power users) are required to provide security equivalent to between one to three months' consumption at the commencement of the supply agreement. The level of security is reviewed when a customer defaults on their payment obligation or requires additional electricity supply capacity in which case they are required to either provide security or increase their existing security to an amount equivalent to between one to three months' of recent consumption before supply will commence. Redistributors are not required to provide any security and are currently re-evaluated based on their payment history to determine if any security is necessary. Eskom continues to work closely with the Department of Cooperative Governance and Traditional Affairs and other government departments to resolve the systemic challenges which have given rise to municipalities' arrear debt.

Payment terms vary between customer classes as follows:

- Key international customers: 10 to 45 days
- Key and other large power users: individually negotiated up to a maximum of 15 days
- Small power users: 30 days

Interest is charged at market-related rates on balances in arrears.

The group has well-established credit control procedures that monitor activity on customer accounts and allow for remedial action should the customer not comply with payment terms. These procedures include an internal collection process, follow up with the customer either telephonically or in person, negotiations of mutually acceptable payment arrangements and the issue of a notice of disconnection of supply and letters of demand. Non-payment will result in disconnection of supply and the customer's account being closed. The legal collection process is pursued thereafter.

The decision to impair overdue amounts is assessed on the probability of recovery based on the customer's credit risk profile.

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 write-off in terms of the group policy and delegation of authority. The process of recovery continues unless it is confirmed that there is no prospect of recovery or the costs of such action will exceed the benefits to be derived. Amounts written off are determined after taking into account the value of the security held.

The total cumulative allowance for impairment for electricity receivables at 31 March 2014 was R5 667 million (2013: R4 204 million) (refer to note 4.1.2(g)). A substantial portion relates to outstanding debt in problematic areas. The collection of revenue from small power users 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 from these customers, expressed as a percentage of billed revenue for the year, was 16% (2013: 16%).

The residential revenue management strategy, which includes Soweto, has received PFMA approval and implementation thereof is planned for the 2015 financial year. The strategy entails implementation of split metering technology and conversion of customers to prepayment.

The following strategies are currently in operation in high risk areas of non-paying customers with varying levels of success. These include:

- disconnections
- increased internal debt management capacity
- use of debt collectors
- payment arrangements
- focus on early identification and letters of demand
- increased securities
- efficient internal process, for example system automation of credit and collections such as automated notices and letters of demand

Certain redistributors have fallen into arrears during the course of the financial year. Some have subsequently either settled or made significant payments towards their arrear debt. Monitoring of these redistribution payment levels continue to receive ongoing management attention and remains a high priority focus area.

(b) *Other trade receivables*

The group's credit exposure in respect of other trade receivables is considered to be insignificant and originates predominantly from Eskom Enterprises SOC Limited (Eskom Enterprises).

(c) *Other receivables*

Other receivables include recoverable work, employee debtors, inter-company balances (company only) and sundry receivables.

Recoverable work is mainly project work carried out by Eskom on behalf of external parties. The projects include repairing damaged power lines, moving of power lines or underground cables and engineering-related work.

(d) *Finance lease receivables*

Finance lease receivables mainly comprise premium power supply equipment contracts. The supply of electricity to customers may be in the form of either standard or premium power supply.

A standard power supply is the least-cost technically acceptable solution as defined in the Distribution Network Code whereas the premium power supply is where the customer's requirement exceeds the specifications of a standard supply. Premium supply customers may already have a standard supply from Eskom but wish to reserve dedicated additional equipment to provide a backup supply. This is achieved through the installation of dedicated premium supply equipment for which the customer is required to pay the full capital costs.

Connection charges for premium supply contracts can be repayable on a monthly basis over a maximum period of 25 years.

The credit risk exposure resulting from premium supply contracts is managed in a similar manner as for the standard supply contracts. Security is required from customers for premium supply assets which covers irrecoverable costs in the event of the early termination of the supply contract. Premium supply customers have maintained a good payment history with Eskom over the years. The standard payment terms are also applicable to the connection charge relating to the premium supply equipment which is billed monthly to the customer. Eskom is no longer providing financing for premium supply contracts.

(e) *Loans receivable*

Home loans are made available to employees in the group via the Eskom Finance Company SOC Limited (EFC) group. Credit risk policies are in place which require various criteria to be met prior to the approval of a loan. These criteria include the valuation of property, affordability and credit history of the employee.

The amounts advanced are secured by first mortgages over the property purchased and are repayable over an average period of up to 27 years (2013: 27 years). The risk of default by the employee is reduced as the monthly instalments are deducted from the employee's salary. Employees who are no longer in the employ of the group are required to settle their home loans with EFC within 90 days of leaving the group's service. Loans are not extended where the purchase price of the property exceeds its open market value. The weighted average loan amount as a percentage of the total home loan book at 31 March 2014 was 0.01% (2013: 0.01%).

In the event of default, the debtor is notified verbally and in writing. If payment has not been received for a period exceeding three months, a process to foreclose on the loan is initiated and the property is sold by public auction or repossessed. Should the property be sold by public auction, a reserve value is set that takes into account the value of the property, arrear rates and taxes, legal costs and commissions payable. If the reserve value is not achieved, the property is repossessed and is held for resale.

EFC entered into a securitisation arrangement with Nqaba Finance 1 (RF) Limited (Nqaba), a structured entity. The securitising of the home loan book converted the loan assets into marketable securities traded on the Bond Exchange of South Africa. The structured entity is consolidated in the annual financial statements of the EFC group. EFC is the preferential shareholder of Nqaba which entitles it to all the residual profits (residual cash after provision for secured creditors and noteholders).

EFC provides a first-loss credit enhancement loan equal to 14.87% (2013: 14.87%) of the notes in issue. At 31 March 2014 the loan was R290 million (2013: R290 million). As servicer of Nqaba, EFC earns a servicing fee equal to 0.15% (2013: 0.15%) of the quarterly outstanding loan book balance. At the end of the financial year, the net asset value of Nqaba was R28 million (2013: R22 million).

Notes to the financial statements (continued)

for the year ended 31 March 2014

4. Financial risk management (continued)

4.1 Credit risk (continued)

4.1.2 Credit exposure

The carrying amount of financial assets represents the maximum credit exposure at the reporting date. Refer to notes 12, 13, 14, 15, 17, 19 and 20. The following table represents an analysis per credit rating level (as determined by rating agencies) of the credit risk of financial assets, as indicated.

	Investment in securities	Loans receivable	Derivatives held for risk management	Finance lease receivables	Trade and other receivables	Financial trading assets	Cash and cash equivalents
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2014							
Group							
AAA	8 160	–	465	–	–	–	–
AA+	–	–	–	3	–	–	–
AA	2 747	–	7 110	–	–	–	–
A1+	–	–	2 170	–	2 503	1 937	11 433
A+	–	–	1 611	–	–	–	–
A	–	–	298	–	–	–	–
A1	–	–	519	–	1 170	1 550	8 174
A-	–	–	–	3	–	–	–
A2	–	–	–	–	164	163	–
BBB-	–	–	–	6	–	–	–
A3	–	–	–	–	91	34	67
B	–	–	–	–	–	17	–
Unrated	–	8 983	–	526	12 653	564	2
	10 907	8 983	12 173	538	16 581	4 265	19 676
Company							
AAA	8 160	–	465	–	–	–	–
AA+	–	–	–	3	–	–	–
AA	–	–	7 110	–	–	–	–
A1+	–	–	2 170	–	2 482	1 798	10 917
A+	–	–	1 611	–	–	–	–
A	–	–	298	–	–	–	–
A1	–	–	519	–	1 170	1 255	8 125
A-	–	–	–	3	–	–	–
A2	–	–	–	–	219	–	–
BBB-	–	–	–	6	–	–	–
A3	–	–	–	–	156	–	–
Unrated	–	–	–	526	12 871	173	2
	8 160	–	12 173	538	16 898	3 226	19 044
2013							
Group							
AAA	–	–	1 377	–	–	–	–
AA+	10 193	–	–	–	–	–	–
AA	–	–	3 386	3	–	–	–
AA-	–	–	–	3	–	–	–
A1+	5 304	–	1 507	–	2 666	1 845	8 389
A+	–	–	681	–	–	–	–
A1	1 853	–	375	–	1 358	457	2 060
A2	–	–	–	–	162	7	–
A3	–	–	–	3	203	3	–
B	–	–	–	–	16	–	–
Unrated	–	8 539	–	546	10 551	423	171
	17 350	8 539	7 326	555	14 956	2 735	10 620
Company							
AAA	–	–	1 377	–	–	–	–
AA+	10 193	–	–	–	–	–	–
AA	–	–	3 386	3	–	–	–
AA-	–	–	–	3	–	–	–
A1+	2 864	–	1 507	–	2 591	1 660	7 916
A+	–	–	681	–	–	–	–
A1	1 853	–	375	–	1 293	379	1 888
A2	–	–	–	–	162	–	–
A3	–	–	–	3	203	–	–
B	–	–	–	–	16	–	–
Unrated	–	–	–	546	10 467	3	26
	14 910	–	7 326	555	14 732	2 042	9 830

	Note	Group		Company	
		2014 Rm	2013 Rm	2014 Rm	2013 Rm
The maximum exposure to credit risk for trade and other receivables per class was:					
Electricity receivables	4.1.2(a)	14 602	12 488	14 602	12 488
International		1 044	511	1 044	511
Local large power users		11 489	9 957	11 489	9 957
Local small power users		2 028	1 986	2 028	1 986
Service delivery framework ¹		41	34	41	34
Other trade receivables					
Local	4.1.2(b)	381	396	–	–
Other receivables	4.1.2(c)	1 598	2 072	2 296	2 244
Recoverable work		193	120	124	91
Employee receivables		63	54	58	48
Inter-company receivables		–	–	1 040	934
Concession receivables		28	31	–	–
Sundry receivables		1 314	1 867	1 074	1 171
	17	16 581	14 956	16 898	14 732
The maximum exposure to credit risk for loans receivable was (refer to note 4.1.2(d)):					
	13	8 983	8 539	–	–
The maximum exposure to credit risk for non-current assets held-for-sale was (refer to note 4.1.2(e)):					
Trade and other receivables	21	9	–		

1. Negotiated agreement with stakeholders in residential areas which is a specific initiative aimed at resolving the non-payment of accounts.

Notes to the financial statements (continued)

for the year ended 31 March 2014

4. Financial risk management (continued)

4.1 Credit risk (continued)

4.1.2 Credit exposure (continued)

(a) Electricity receivables

Group and company

	Carrying amount	Not past due	Not impaired ¹				Not past due	Impaired ²						
			Rm	Rm	Days past due				Rm	Days past due				
					0-15	16-45		46-75		>75	0-15	16-45	46-75	>75
			Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm		
Individually assessed for impairment														
2014														
International	1 044	657	190	197	–	–	–	–	–	–	–	–		
Gross Impairment	1 058 (14)	657	190	197	–	–	–	–	–	–	–	14 (14)		
Local large power users	11 489	9 033	255	101	8	34	363	246	254	303	892			
Gross Impairment	13 527 (2 038)	9 033	255	101	8	34	371 (8)	252 (6)	265 (11)	310 (7)	2 898 (2 006)			
Collectively assessed for impairment														
Local small power users	2 028						1 275	291	290	172				
Gross Impairment	5 498 (3 470)						1 361 (86)	390 (99)	376 (86)	3 371 (3 199)				
Service delivery framework	41						7	1	–	33				
Gross Impairment	186 (145)						8 (1)	1 –	–	177 (144)				
	14 602													
	Carrying amount	Not past due	Not impaired ¹				Not past due	Impaired ²						
	Rm	Rm	Days past due				Rm	Days past due						
			0-15	16-45	46-75	>75		0-15	16-45	46-75	>75			
			Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm			
Individually assessed for impairment														
2013														
International	511	490	12	9	–	–	–	–	–	–	–	–		
Gross Impairment	511 –	490	12	9	–	–	–	–	–	–	–	–		
Local large power users	9 957	8 664	102	105	28	51	193	103	187	200	324			
Gross Impairment	11 082 (1 125)	8 664	102	105	28	51	200 (7)	106 (3)	193 (6)	203 (3)	1 430 (1 106)			
Collectively assessed for impairment														
Local small power users	1 986						1 302	194	95	395				
Gross Impairment	4 902 (2 916)						1 325 (23)	278 (84)	173 (78)	3 126 (2 731)				
Service delivery framework	34						–	1	–	33				
Gross Impairment	197 (163)						–	1 –	1 (1)	195 (162)				
	12 488													

1. Receivables past due but not impaired are receivables where contractual payment terms are past due but the group believes that impairment is not required on the basis of the level of security or collateral available and the stage of collection of amounts owed to the group.

2. Impaired receivables are receivables for which the group determines that it is probable that it will be unable to collect all amounts due in accordance with the contractual payment terms.

Electricity receivables include an amount of R169 million (2013: R157 million) relating to receivables that were renegotiated¹. These electricity receivables would have been past due had their terms not been renegotiated.

Interest is accrued on all arrear debts and R468 million (2013: R420 million) was credited to profit or loss within finance income.

(b) Other trade receivables

Group

	Carrying amount	Not impaired ²					Impaired ³				
		Not past due	Days past due				Not past due	Days past due			
			0-30	31-60	61-90	>90		0-30	31-60	61-90	>90
Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	
Individually assessed for impairment											
2014											
Local	381	119	53	48	5	156	–	–	–	–	–
Gross	393	119	53	48	5	156	–	–	–	–	12
Impairment	(12)	–	–	–	–	–	–	–	–	–	(12)
	<u>381</u>										
2013											
Local	396	135	217	1	5	38	–	–	–	–	–
Gross	412	135	217	1	5	38	–	5	–	1	10
Impairment	(16)	–	–	–	–	–	–	(5)	–	(1)	(10)
	<u>396</u>										

(c) Other receivables

Other receivables comprise mainly of receivables for which there are no specific repayment terms.

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
Recoverable work	193	120	124	91
Gross	194	120	125	91
Impairment	(1)	–	(1)	–
Employee receivables	63	54	58	48
Gross	63	55	58	49
Impairment	–	(1)	–	(1)
Inter-company receivables	–	–	1 040	934
Gross	–	–	1 040	934
Impairment	–	–	–	–
Concession receivables	28	31	–	–
Gross	28	31	–	–
Impairment	–	–	–	–
Sundry receivables	1 314	1 867	1 074	1 171
Gross	1 359	1 924	1 116	1 211
Impairment	(45)	(57)	(42)	(40)
	<u>1 598</u>	<u>2 072</u>	<u>2 296</u>	<u>2 244</u>

Long outstanding debt or amounts handed over to debt collectors were considered for impairment per class of sundry and employee receivables.

1. Receivables with renegotiated terms are receivables that have been restructured due to the deterioration in the customer's financial position and where the group has made concessions that it would not otherwise consider.

2. Receivables past due but not impaired are receivables where contractual payment terms are past due but the group believes that impairment is not required on the basis of the level of security or collateral available and the stage of collection of amounts owed to the group.

3. Impaired receivables are receivables for which the group determines that it is probable that it will be unable to collect all amounts due in accordance with the contractual payment terms.

Notes to the financial statements (continued)

for the year ended 31 March 2014

4. Financial risk management (continued)

4.1 Credit risk (continued)

4.1.2 Credit exposure (continued)

(d) Loans receivable

Group

	Carrying amount	Not past due	Days past due		
			0-30	31-60	>60
	Rm	Rm	Rm	Rm	Rm
Collectively assessed for impairment					
2014					
Loans receivable	8 983	8 862	37	19	65
Home loans	8 565	8 440	37	18	70
Other	452	439	1	1	11
Impairment	(34)	(17)	(1)	–	(16)
2013					
Loans receivable	8 539	8 392	44	20	83
Home loans	7 926	7 774	44	20	88
Other	641	629	1	1	10
Impairment	(28)	(11)	(1)	(1)	(15)

Loans receivable include an amount of R65 million (2013: R40 million) relating to receivables that were renegotiated. These loans receivable would have been past due had their terms not been renegotiated.

(e) Non-current assets held-for-sale

Group

	Carrying amount	Not past due	Days past due		
			0-30	31-60	>60
	Rm	Rm	Rm	Rm	Rm
2014					
Trade and other receivables	9	9	–	–	–
Gross	9	9	–	–	–
Impairment	–	–	–	–	–

(f) Security relating to amounts receivable

Note	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
The security held against trade and other receivables for the group companies comprises guarantees and deposits. The estimate of the fair value of the security held is:				
Electricity receivables	5 472	4 757	5 472	4 757
Local large power users	4 028	3 482	4 028	3 482
Local small power users	1 442	1 273	1 442	1 273
Service delivery framework	2	2	2	2
The total amount of the security above includes R4 017 million (2013: R3 472 million) relating to electricity receivables (international and large power users) which were not impaired.				
Loans receivable (home loans) secured by mortgage bonds	8 546	7 911		

(g) Allowance for impairment

The movement in the allowance for impairment in respect of trade and other receivables during the year was:

	Note	2014 Rm	2013 Rm	2014 Rm	2013 Rm
Balance at beginning of the year		4 278	3 346	4 245	3 319
Impairment loss recognised (net of reversals)	36	1 502	1 038	1 515	1 032
Write-offs		(55)	(106)	(50)	(106)
Balance at end of the year		5 725	4 278	5 710	4 245
Comprising:					
Electricity receivables		5 667	4 204	5 667	4 204
Other trade receivables		12	16	–	–
Other receivables		46	58	43	41
	17	5 725	4 278	5 710	4 245

Eskom establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance consists of a specific loss component that relates to individual exposures, and a collective loss component established for groups of similar customers in respect of losses that have been incurred but not yet identified.

(h) **Financial guarantees issued**

The group's maximum exposure as a result of financial guarantees issued was R165 million (2013: R167 million) and R1 284 million (2013: R1 208 million) for the company. Refer note 44.1 for more information on financial guarantees issued.

4.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates, commodity prices, interest rates and equity prices.

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

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

Financial instruments managed by the treasury division

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

Financial instruments managed by other divisions and subsidiaries

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

Embedded derivatives

Eskom entered into a number of agreements to supply electricity to electricity-intensive industries where the revenue from these contracts is based on commodity prices and foreign currency rates (USD) or foreign production price indices. This gives rise to embedded derivatives that require separation as a result of the different characteristics of the embedded derivative and the host contract. The remaining contractual periods are between 6 and 15 years.

The net impact on profit or loss because of changes in the fair value of the embedded derivatives for the group is a fair value gain of R2 149 million (2013: R5 942 million loss). At 31 March 2014, the embedded derivative liabilities were R9 332 million (2013: R11 481 million) for the group and R9 331 million (2013: R11 480 million) for the company.

The valuation methods and inputs are discussed in the accounting policies (refer to note 2.11.5) and the valuation assumptions are disclosed under critical accounting estimates and judgements (refer to note 3(a)). Risks arising from these contracts are discussed under the relevant risk areas as follows:

- currency risk (refer to note 4.2.1, page 41)
- commodity risk (refer to note 4.2.2, page 43)
- interest rate risk (refer to note 4.2.3, page 44)
- other price risk (refer to note 4.2.5, page 45)

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

Loans receivable

Market risk arises in respect of loans receivable from changes in interest rates and market prices. Market risk is monitored and analysed through the treasury division and reported to the EFC finance committee. A strategy aimed at protecting the EFC group from changes in market risk that may have a negative impact on earnings has been implemented. Funds to finance operations are raised over the short term, usually for periods of three to six months, but not exceeding one year. This enables the pricing of assets to be matched with changes in the pricing of liabilities. The cost of funding is based on prevailing conditions in the South African money market. Rates charged on outstanding loan receivables are based on movements in the SARB repurchase rate.

4.2.1 Currency risk

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

Notes to the financial statements (continued)

for the year ended 31 March 2014

4. Financial risk management (continued)

4.2 Market risk (continued)

4.2.1 Currency risk (continued)

The major exposure to foreign currency risk at 31 March, based on notional amounts, was (in million):

	EUR	USD	GBP	JPY	SEK	AUD	CHF	CAD	NOK
2014									
Group									
Assets									
Trade and other receivables	1	–	–	–	3	–	–	–	–
Liabilities									
Debt securities and borrowings	(2 309)	(4 226)	–	(16 425)	–	–	–	–	–
Trade and other payables	(232)	(382)	(60)	(92)	(11)	–	–	(1)	(1)
Gross statement of financial position exposure	(2 540)	(4 608)	(60)	(16 517)	(8)	–	–	(1)	(1)
Estimated forecast purchases ¹	(1 359)	(194)	(39)	(998)	(37)	(2)	(2)	(2)	(5)
Gross exposure	(3 899)	(4 802)	(99)	(17 515)	(45)	(2)	(2)	(3)	(6)
Derivatives held for risk management	3 832	4 801	99	17 525	48	2	2	2	3
Net exposure	(67) ²	(1)	–	10	3	–	–	(1)	(3)
Company									
Assets									
Trade and other receivables	1	–	–	–	3	–	–	–	–
Liabilities									
Debt securities and borrowings	(2 309)	(4 226)	–	(16 425)	–	–	–	–	–
Trade and other payables	(230)	(382)	(60)	(92)	(11)	–	–	(1)	(1)
Gross statement of financial position exposure	(2 538)	(4 608)	(60)	(16 517)	(8)	–	–	(1)	(1)
Estimated forecast purchases ¹	(1 360)	(194)	(39)	(998)	(37)	(2)	(2)	(2)	(5)
Gross exposure	(3 898)	(4 802)	(99)	(17 515)	(45)	(2)	(2)	(3)	(6)
Derivatives held for risk management	3 830	4 801	99	17 525	48	2	2	2	3
Group exposures covered by company	(2)	(1)	–	–	–	–	–	–	–
Net exposure	(70) ²	(2)	–	10	3	–	–	(1)	(3)
Group and company									
Derivatives held for risk management – rand equivalent	55 828	50 728	1 747	1 793	79	18	26	17	4
2013									
Group									
Assets									
Trade and other receivables	–	–	–	–	–	–	–	–	–
Liabilities									
Debt securities and borrowings	(2 085)	(3 193)	–	(15 778)	–	–	–	–	–
Trade and other payables	(134)	(15)	(2)	(3)	(61)	(1)	(1)	(6)	(4)
Gross statement of financial position exposure	(2 219)	(3 208)	(2)	(15 781)	(61)	(1)	(1)	(6)	(4)
Estimated forecast purchases ¹	(1 728)	(258)	(13)	(3 834)	(36)	(2)	(4)	(3)	(4)
Gross exposure	(3 947)	(3 466)	(15)	(19 615)	(97)	(3)	(5)	(9)	(8)
Derivatives held for risk management	3 870	3 462	16	19 615	99	2	6	9	8
Net exposure	(77) ²	(4)	1	–	2	(1)	1	–	–
Company									
Assets									
Trade and other receivables	–	–	–	–	–	–	–	–	–
Liabilities									
Debt securities and borrowings	(2 085)	(3 193)	–	(15 778)	–	–	–	–	–
Trade and other payables	(134)	(11)	(2)	(3)	(61)	(1)	(1)	(6)	(4)
Gross statement of financial position exposure	(2 219)	(3 204)	(2)	(15 781)	(61)	(1)	(1)	(6)	(4)
Estimated forecast purchases ¹	(1 728)	(258)	(13)	(3 834)	(36)	(2)	(4)	(3)	(4)
Gross exposure	(3 947)	(3 462)	(15)	(19 615)	(97)	(3)	(5)	(9)	(8)
Derivatives held for risk management	3 870	3 462	16	19 615	99	2	6	9	8
Group exposures covered by company	(1)	(4)	–	–	–	–	(1)	–	–
Net exposure	(78) ²	(4)	1	–	2	(1)	–	–	–
Group and company									
Derivatives held for risk management – rand equivalent	45 747	31 890	219	1 962	139	21	56	83	12

1. Represents future purchases contracted for.

2. Certain foreign loans are hedged applying a present value strategy. As these loans are recognised at amortised cost, an exact offset will not occur when compared to the hedging instrument.

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

	One unit of the selected currency to the rand				R1.00 to the selected currency			
	Average		Reporting date mid-spot rate		Average		Reporting date mid-spot rate	
	2014	2013	2014	2013	2014	2013	2014	2013
EUR	13.57	10.96	14.57	11.82	0.07	0.09	0.07	0.08
USD	10.12	8.51	10.57	9.21	0.10	0.12	0.09	0.11
GBP	16.10	13.45	17.58	13.96	0.06	0.07	0.06	0.07
CHF	11.04	9.06	11.95	9.70	0.09	0.11	0.08	0.10
JPY	0.10	0.10	0.10	0.10	10.00	10.00	10.00	10.00
SEK	1.55	1.27	1.63	1.41	0.65	0.79	0.61	0.71
CAD	9.60	8.50	9.58	9.06	0.10	0.12	0.10	0.11
AUD	9.42	8.78	9.77	9.59	0.11	0.11	0.10	0.10
NOK	1.69	1.47	1.76	1.57	0.59	0.68	0.57	0.64

Sensitivity analysis

The group is mainly exposed to euros and United States dollars. The sensitivity analysis has been performed on the same basis as the prior year. The analysis assumes that all other variables, in particular interest rates, remain constant and are as follows:

	Group and company			
	2014		2013	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Profit/(loss), excluding embedded derivatives				
Total exposure	369	(369)	377	(377)
Rand/euro exposure	273	(273)	295	(295)
Rand/USD exposure	86	(86)	78	(78)
Rand/other currency	10	(10)	4	(4)
Equity, excluding embedded derivatives				
Total exposure	160	(160)	65	(65)
Rand/euro exposure	142	(142)	60	(60)
Rand/USD exposure	17	(17)	3	(3)
Rand/other currency	1	(1)	2	(2)
Profit/(loss) – embedded derivatives				
Rand/USD exposure	152	(156)	177	(173)

4.2.2 Commodity risk

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

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

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

At year end only the negotiated pricing arrangements gave rise to commodity-linked (aluminium) embedded derivatives. Refer to note 3(a) on page 29.

Commodities used directly

Eskom purchases coal that is used in the generation of electricity from mines and is exposed to price and supply risks. Eskom has entered into long-term supply agreements with mines to ensure continuous supply of coal. In the fixed price contracts the price escalation is linked to an index, whereas Eskom pays for all the operational and other related costs of the collieries where the contracts are on a cost-plus basis. These contracts are monitored closely and managed to ensure costs are maintained within acceptable levels. Coal requirements above those of the fixed price and cost-price long-term contracts are supplied via short-to medium-term contracts which could have a transport element included in the purchase price.

There is also price risk exposure in the long-term primary energy water supply agreements entered into with the Department of Water Affairs (DWA) where Eskom pays for a portion of the operational costs incurred by DWA on certain of the water schemes.

Eskom is exposed to price risk on the diesel that is used for the generation of electricity at its open-cycle gas turbine power stations. The price of diesel is a function of the crude oil and United States dollar exchange rates.

Notes to the financial statements (continued)

for the year ended 31 March 2014

4. Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Commodity risk (continued)

Commodities used indirectly

There was no exposure where commodities formed a part of plant, equipment or inventory at year end. Eskom currently does not hedge its exposure to steel as no economic viable hedging instruments exist.

The group's quantitative exposure to commodity risk is as follows:

	2014				2013			
	Tons	Gross exposure Rm	Hedged Rm	Net exposure Rm	Tons	Gross exposure Rm	Hedged Rm	Net exposure Rm
Copper	–	–	–	–	164	9	9	–

Sensitivity analysis

From a commodity perspective the group is exposed mainly to changes in the aluminum price. The sensitivity analysis has been performed on the same basis as the prior year. The analysis assumes that all other variables remain constant and the possible impact on profit or loss is:

	Group and company			
	2014		2013	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Profit/(loss), including embedded derivatives ¹				
Aluminium price	130	(130)	144	(144)

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

4.2.3 Interest rate risk

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

The group's interest rate risk arises mainly from debt securities, borrowings and forward exchange contracts. Borrowings and debt securities issued at variable rates expose the group to cash flow interest rate risk. Borrowings and debt securities issued at fixed rates expose the group to fair value interest rate risk. The group's policy is to restrict the maximum effective portion of the external debt (excluding the trading portfolio which is managed within the constraints of the treasury policy and control manual) exposed to an interest rate reset within the next 12-month period to 40%.

Refer to note 24 for the group's quantitative exposure to interest rate risk.

Sensitivity analysis

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

The sensitivity analysis for interest rate risk assumes that all other variables, in particular spot foreign exchange rates, remain constant. The calculation excludes borrowing costs capitalised in terms of the group's accounting policy. The analysis relates to variable-rate instruments and has been performed on the same basis as the prior year.

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

The South African rand and the United States dollar interest rates are used in determining the fair value of embedded derivatives. The sensitivity analysis on the next page indicates the impact on profit or loss if these rates change. The sensitivity analysis assumes that all other variables remain constant and has been prepared on the same basis as for the prior year.

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

	Group				Company			
	2014		2013		2014		2013	
	+100 basis points Rm	-100 basis points Rm	+100 basis points Rm	-100 basis points Rm	+100 basis points Rm	-100 basis points Rm	+100 basis points Rm	-100 basis points Rm
Profit/(loss), excluding embedded derivatives								
Total exposure	(66)	78	(147)	142	(66)	78	(128)	125
Rand interest rates	215	(221)	228	(236)	215	(221)	247	(253)
EUR interest rates	(86)	88	(133)	135	(86)	88	(133)	135
USD interest rates	(185)	201	(239)	240	(185)	201	(239)	240
Other currency interest rates	(10)	10	(3)	3	(10)	10	(3)	3
Equity, excluding embedded derivatives								
Total exposure	(1 176)	1 291	(212)	208	(1 168)	1 283	(212)	208
Rand interest rates	1 648	(1 768)	1 333	(1 464)	1 656	(1 776)	1 333	(1 464)
EUR interest rates	(660)	717	(173)	185	(660)	717	(173)	185
USD interest rates	(2 126)	2 302	(1 319)	1 431	(2 126)	2 302	(1 319)	1 431
Other currency interest rates	(38)	40	(53)	56	(38)	40	(53)	56
Profit/(loss) – embedded derivatives¹								
Total exposure	300	(336)	442	(498)	300	(336)	442	(498)
Rand interest rates	886	(950)	1 212	(1 307)	886	(950)	1 212	(1 307)
USD interest rates	(586)	614	(770)	809	(586)	614	(770)	809

Fixed and floating rate debt

The fixed and floating rate debt at 31 March were:

	Group and company			
	2014		2013	
	fixed %	floating %	fixed %	floating %
Continuing operations	78	22	86	14

4.2.4 Equity price risk

Equity price risk arises from listed shares invested in by Escap Limited. 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.

All the equity investments are listed on the Johannesburg Stock Exchange (JSE). A 1% increase of the share price in the equity portfolio at the reporting date would have increased profit or loss by R10 million (2013: R5 million) after tax. An equal change in the opposite direction would have decreased profit or loss by R10 million (2013: R5 million). There will be no impact on equity. The analysis assumes that all other variables remain constant and is performed on the same basis as for the prior year.

Movements of financial assets and equity prices are monitored on a monthly basis and equity price changes assessed against the JSE Shareholder Weighted Index as a benchmark.

4.2.5 Other price risk

Inflation price risk arises from embedded derivatives as discussed under note 3(a). The risk arises from movements in the electricity tariffs, the United States PPI.

Refer to note 25 for the group's quantitative exposure to other price risk.

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

Notes to the financial statements (continued)

for the year ended 31 March 2014

4. Financial risk management (continued)

4.2 Market risk (continued)

4.2.5 Other price risk (continued)

The following is the sensitivity analysis of the change in the value of the embedded derivatives (relating to customised pricing agreements) as a result of changes in electricity tariffs and the United States PPI. The analysis assumes that all other variables remain constant and the possible impact on profit or loss is:

	Group and company			
	2014		2013	
	1% decrease Rm	1% increase Rm	1% decrease Rm	1% increase Rm
Profit/(loss), including embedded derivatives ¹				
Total exposure	(612)	590	(561)	542
Electricity tariffs	(790)	765	(791)	765
United States PPI	178	(175)	230	(223)

4.3 Liquidity risk

Liquidity risk is 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. This risk can arise from mismatches in the timing of cash flows from revenue and 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 consolidated liquidity and funding risk is centralised in the treasury division 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 through the quarterly meetings of the treasury credit committee, and by the Exco and audit and risk committee of the board. Refer to note 44.

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

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

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

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

Primary sources of funding and unused facilities

The primary sources to meet Eskom's liquidity requirements are cash generated from operations, cash inflows from maturing financial assets purchased, funds committed by government, signed and committed export credit agencies and development funding institution facilities, as well as local and foreign debt issued in the market. To supplement these liquidity sources under stress conditions, overdraft facilities (for which there was no requirement to use), undrawn loans, commercial paper facilities and unutilised government guarantees are in place as indicated below.

	Currency	Group and company	
		2014 m	2013 m
Facilities available			
Japan Bank for International Cooperation			
Untied facility	JPY	4 125	7 682
Tied facility	JPY	8	27 929
General banking facilities	ZAR	250	1 000
African Development Bank loan facility	EUR	431	604
African Development Bank loan facility	USD	261	265
African Development Bank loan facility	ZAR	316	698
Agence Française de Développement	EUR	100	–
Agence Française de Développement	ZAR	733	951
Clean technology fund – African Development Bank	USD	95	100
Clean technology fund – World Bank	USD	249	250
Export Credit Agency floating rate facility	EUR	513	897
Export Credit Agency fixed rate facility	EUR	594	397
World Bank	USD	2 275	2 606
Development Bank of South Africa	ZAR	6 000	8 000
Government guarantees (uncommitted)	ZAR	196 389	196 389
Government guarantees (remaining on domestic multi-term note programme) ¹	ZAR	9 950	20 769
Ex-Im US	USD	499	800
Kreditanstalt für Wiederaufbau	USD	100	–
Funds received from development financing institutions			
World Bank ²	USD	331	366
African Development Bank ³	EUR	173	269
African Development Bank ⁴	USD	4	–
African Development Bank ³	ZAR	382	4 617
Development Bank of South Africa ⁵	ZAR	2 000	4 000
Clean technology fund – World Bank ⁶	USD	1	–
Clean technology fund – African Development Bank ⁵	USD	5	–
Agence Française de Développement ⁵	ZAR	218	30

Key indicators used for liquidity management

Duration

Management has set minimum duration limits to help optimise returns for the group on its debt portfolio. Group policy is to ensure that the external debt portfolio (excluding the trade portfolio) has a minimum duration of five years, should it exceed R10 billion. The duration limits are independently monitored and reported to Alco on a monthly basis and to the Exco and the audit and risk committee on a quarterly basis.

The duration (a weighted average term to maturity measure based on future cash flows) of the debt (including the shareholder loan, cross-currency swaps and interest rate swaps) measured at fair value at 31 March was:

	Group and company	
	2014 years	2013 years
Continuing operations	5.59	6.19

1. Amount included in the government guarantees – (uncommitted) of R196 389 million (2013: R196 389 million).

2. All funds received were reimbursements on payments made by Eskom to various suppliers for goods and services supplied for the construction of the Medupi power station, Sere wind farm and Majuba rail projects.

3. All funds received were reimbursements on payments made by Eskom to various suppliers for goods and services supplied for the Medupi boilers and turbines.

4. Funds received were used for the Sere wind farm project.

5. Funds received were used for bridging finance for the capacity expansion programme.

6. Funds received were used for concentrated solar power projects.

Notes to the financial statements (continued)

for the year ended 31 March 2014

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Key indicators used for liquidity management (continued)

Liquid assets

Liquid assets are investments identified as having the potential to be quickly converted into cash. These investments include the instruments as disclosed in investments in securities and cash and cash equivalents. Refer to note 12 and 20. The liquid assets were:

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
Continuing operations	30 583	27 970	27 204	24 740

Capital expenditure ratio

The capital expenditure ratio¹ measures whether there are liquid funds available to invest in capital expenditure. The capital expenditure ratio for the period was:

	Group		Company	
	2014 %	2013 %	2014 %	2013 %
Continuing operations	35	50	32	50

Contractual cash flows

The table below indicates the contractual undiscounted cash flows of the group's financial assets and liabilities on the basis of their earliest possible contractual maturity. The undiscounted cash flows in respect of the group's financial assets are presented net of impairment losses and include estimates where there are no contractual repayment terms or the receivable is past due. The cash flows of the group's financial liabilities are indicated on a gross undiscounted basis.

The cash flows for derivatives are presented as gross inflows and outflows even though physically they are settled simultaneously. Contractual cash flows are a function of forward exchange rates and forward interest rates and is a point in time calculation that is impacted by market conditions at that time.

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

2014	Note	Carrying amount				Cash flows			
		Non-current Rm	Current Rm	Total Rm	Nominal inflow or outflow Rm	0-3 months Rm	4-12 months Rm	1-5 years Rm	More than 5 years Rm
Group									
Financial assets									
Investment in securities	12	4 841	6 066	10 907	11 646	1 595	5 166	4 885	–
Loans receivable	13	8 654	329	8 983	20 762	275	806	3 819	15 862
Derivatives held for risk management	14	9 361	2 812	12 173	23 902	2 268	591	(1 687)	22 730
Finance lease receivables	15	520	18	538	1 165	22	64	342	737
Trade and other receivables	17	27	16 554	16 581	16 580	16 522	31	27	–
Financial trading assets ²	19	–	4 265	4 265	5 438	3 478	306	212	1 442
Cash and cash equivalents	20	–	19 676	19 676	19 676	19 676	–	–	–
		23 403	49 720	73 123	99 169	43 836	6 964	7 598	40 771
Financial liabilities									
Debt securities and borrowings	24	210 169	20 258	230 427	467 676	8 282	22 440	103 573	333 381
Subordinated loan from shareholder	24	24 393	–	24 393	146 356	–	–	–	146 356
Derivatives held for risk management	14	310	1 197	1 507	467	280	2 558	2 736	(5 107)
Finance lease liabilities	29	488	12	500	1 367	25	73	396	873
Trade and other payables	30	1 037	28 229	29 266	29 498	27 294	931	1 268	5
Financial trading liabilities ²	19	–	5 658	5 658	6 337	4 670	303	387	977
Financial guarantees	44	–	–	–	165	165	–	–	–
		236 397	55 354	291 751	651 866	40 716	26 305	108 360	476 485

1. The ratio is calculated as cash generated from operations divided by capital expenditure (excluding borrowing costs capitalised) on property, plant and equipment and intangible assets.

2. The contractual cash flows for financial trading assets and liabilities have been disclosed based on the contractual maturity of the instrument. However, as these instruments are held-for-trading they may be sold or settled prior to contractual maturity.

2014	Note	Carrying amount			Cash flows				
		Non-current Rm	Current Rm	Total Rm	Nominal inflow or outflow Rm	0-3 months Rm	4-12 months Rm	1-5 years Rm	More than 5 years Rm
Company									
Financial assets									
		–	6 665	6 665	6 790	2 698	4 092	–	–
	12	4 841	3 319	8 160	8 898	36	3 977	4 885	–
	14	9 361	2 812	12 173	23 902	2 268	591	(1 687)	22 730
	15	520	18	538	1 165	22	64	342	737
	17	16	16 882	16 898	16 897	16 850	31	16	–
	19	–	3 226	3 226	4 398	2 438	306	212	1 442
	20	–	19 044	19 044	19 044	19 044	–	–	–
		14 738	51 966	66 704	81 094	43 356	9 061	3 768	24 909
Financial liabilities									
		–	2 453	2 453	2 583	1 880	703	–	–
	24	208 649	19 774	228 423	465 673	7 888	22 793	101 747	333 245
	24	24 393	–	24 393	146 356	–	–	–	146 356
	14	310	1 197	1 507	467	280	2 558	2 736	(5 107)
	29	705	64	769	1 698	43	130	642	883
	30	1 073	29 849	30 922	31 154	28 914	931	1 304	5
	19	–	5 658	5 658	6 337	4 670	303	387	977
	44	–	1	1	1 284	1 284	–	–	–
		235 130	58 996	294 126	655 552	44 959	27 418	106 816	476 359
2013									
Group									
Financial assets									
	12	8 574	8 776	17 350	18 542	5 135	4 630	8 777	–
	13	8 425	114	8 539	18 895	215	636	2 897	15 147
	14	5 420	1 906	7 326	13 344	1 024	272	(1 717)	13 765
	15	538	17	555	1 252	22	65	342	823
	17	459	14 497	14 956	14 865	13 466	942	456	1
	19	–	2 735	2 735	2 439	708	260	162	1 309
	20	–	10 620	10 620	10 620	10 620	–	–	–
		23 416	38 665	62 081	79 957	31 190	6 805	10 917	31 045
Financial liabilities									
	24	168 427	12 180	180 607	366 004	4 127	15 943	71 088	274 846
	24	22 349	–	22 349	146 356	–	–	–	146 356
	14	840	572	1 412	2 582	317	359	1 212	694
	29	501	10	511	1 466	27	68	436	935
	30	2 598	28 999	31 597	31 922	27 847	1 151	2 922	2
	19	–	1 355	1 355	670	356	47	56	211
	44	–	–	–	167	167	–	–	–
		194 715	43 116	237 831	549 167	32 841	17 568	75 714	423 044

1. The contractual cash flows for financial trading assets and liabilities have been disclosed based on the contractual maturity of the instrument. However, as these instruments are held-for-trading they may be sold or settled prior to contractual maturity.

Notes to the financial statements (continued)

for the year ended 31 March 2014

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Contractual cash flows (continued)

2013	Note	Carrying amount			Cash flows				
		Non-current Rm	Current Rm	Total Rm	Nominal inflow or outflow Rm	0-3 months Rm	4-12 months Rm	1-5 years Rm	More than 5 years Rm
Company									
Financial assets									
Loans to subsidiaries		–	6 223	6 223	6 318	2 691	3 627	–	–
Investment in securities	12	8 574	6 336	14 910	16 103	5 074	2 252	8 777	–
Derivatives held for risk management	14	5 420	1 906	7 326	13 344	1 024	272	(1 717)	13 765
Finance lease receivables	15	538	17	555	1 252	22	65	342	823
Trade and other receivables	17	8	14 724	14 732	14 643	13 937	699	6	1
Financial trading assets ¹	19	–	2 042	2 042	1 746	15	260	162	1 309
Cash and cash equivalents	20	–	9 830	9 830	9 830	9 830	–	–	–
		14 540	41 078	55 618	63 236	32 593	7 175	7 570	15 898
Financial liabilities									
Loans from subsidiaries		–	2 003	2 003	2 019	1 389	630	–	–
Debt securities and borrowings	24	167 057	11 482	178 539	363 938	3 496	15 877	70 043	274 522
Subordinated loan from shareholder	24	22 349	–	22 349	146 356	–	–	–	146 356
Derivatives held for risk management	14	840	572	1 412	2 582	317	359	1 212	694
Finance lease liabilities	29	770	56	826	1 882	44	131	711	996
Trade and other payables	30	1 326	29 898	31 224	31 554	29 499	402	1 651	2
Financial trading liabilities ¹	19	–	1 355	1 355	670	356	47	56	211
Financial guarantees	44	–	1	1	1 208	1 208	–	–	–
		192 342	45 367	237 709	550 209	36 309	17 446	73 673	422 781

4.4 Capital management and going concern

Eskom manages accumulated profit and the hedging, fair value, equity and insurance reserves as capital. The equity reserve comprises the day-one gains that result from the initial recognition of the subordinated loan tranches received from the shareholder. The day-one gains are included in equity as it is considered to be a contribution from the shareholder. Eskom is obliged to pay interest on the loan when the solvency and debt leverage conditions per the agreement are satisfied. Future projections result in the day-one gains. Refer to note 24.

The table below shows the amounts of the reserves which Eskom manages as capital:

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
Accumulated profit	90 786	78 970	85 666	75 489
Cash flow hedge reserve	6 178	2 959	6 178	2 959
Unrealised fair value reserve	(7 744)	(3 648)	(7 744)	(3 648)
Equity reserve	30 520	30 520	30 520	30 520
	119 740	108 801	114 620	105 320

The objective of capital management is to ensure that Eskom is sustainable over the long term. There were no changes to Eskom's approach to capital management during the financial year.

The major items that impact the equity of Eskom include:

- the revenue received from electricity sales (which is a function of price and sales volumes)
- the cost of funding the current business
- the cost of operating the electricity business
- the cost of expanding the business to ensure that capacity growth is in line with electricity sales demand (funding and additional depreciation)
- taxation
- dividends

Eskom uses the Integrated Strategic Electricity Planning process which forecasts the growth in electricity demand for the long term and evaluates the alternative means to meet and manage that demand. This information flows into the planning process. The planning process will determine a forward electricity price curve which will be an indication of the size of the price increases which Eskom requires to be sustainable over the long term.

The tariff increases for the electricity business are subject to the process laid down by the National Energy Regulator of South Africa (NERSA). The current regulatory framework applicable to Eskom is the multi-year five-year determination ending in 2018.

¹ The contractual cash flows for financial trading assets and liabilities have been disclosed based on the contractual maturity of the instrument. However, as these instruments are held-for-trading they may be sold or settled prior to contractual maturity.

The electricity business is currently in a major expansion phase and the funding related to generating, transmitting and other capacity is envisaged to be obtained from cash generated by the business, shareholder support and funds borrowed on the local and foreign debt markets. The adequacy of price increases allowed by the regulator and the level and timing of shareholder support are key factors in the sustainability of Eskom. Eskom believes that a capacity expansion beyond the Kusile project would need to be carried out in a prefunded/project finance type manner in order to ensure the stability of Eskom's statement of financial position. The financial sustainability is dependent on reaching cost reflective prices sooner rather than later.

The government as the sole shareholder and the board have the responsibility to ensure that the group is adequately capitalised to ensure continuity of supply and that the business is attractive to investors to enable Eskom to fund the capacity expansion programme.

Eskom did not receive a cost reflective tariff in the NERSA Multi-Year Price Determination (MYPD) 3 decision which created a revenue shortfall of R225 billion over the MYPD 3 period which have placed tremendous strain on the financial and operating sustainability of the group. The board has critically examined its activities and costs in order to balance its cash flow requirements through the Business Productivity Programme to identify cost saving and efficiency opportunities to close the revenue shortfall.

Eskom submitted an application to NERSA for the MYPD 2 period during August 2013 regarding variances between costs and revenues assumed in MYPD 2 compared to the actual costs incurred and revenue received by Eskom. The NERSA electricity sub-committee has made a recommendation on the Regulatory Clearing Account (RCA) to the NERSA board and a decision is awaited during the first quarter of the new financial year. The recommendation includes an RCA balance in favour of Eskom for implementation in the next financial year.

The board is pursuing alternative funding options, including potential government support.

In response to the financial position resulting from the NERSA MYPD 3 determination, Eskom will trade-off its former objective of attaining a stand-alone investment grade rating and will instead aim to sustain this rating with sovereign uplift and is monitoring the relevant performance ratios as part of its financial policy. The free funds from operations (FFO) to total debt and total debt to earnings before interest, tax, depreciation and amortisation (EBITDA) ratios play an important role in the credit ratings given to Eskom which in turn influences the cost of funding.

The board has given particular attention to the assessment of the going concern of the group and is of the view that the group has access to adequate resources to continue in operational existence for the foreseeable future and to complete its current committed capacity expansion programme.

The following ratios are closely managed:

	Unit	2014	2013
Group			
EBITDA	Rm	25 829	13 914
FFO	Rm	27 542	18 108
Interest cover	ratio	0.77	0.22
Electricity revenue per kWh	c/kWh	62.82	58.49
Electricity operating costs per kWh (including depreciation and amortisation)	c/kWh	59.67	54.14
FFO as percentage of gross debt	%	9.73	8.04
Gross debt/ EBITDA	ratio	10.96	16.20
Debt: equity (including long-term provisions)	ratio	2.06	1.84
Working capital	ratio	0.71	0.68

	2014		2013	
	Rating	Outlook	Rating	Outlook
Standard & Poor's				
Foreign currency	BBB	Negative	BBB	Negative
Local currency	BBB	Negative	BBB	Negative
Moody's				
Foreign currency	Baa3	Negative	Baa3	Negative
Local currency	Baa3	Negative	Baa3	Negative
Fitch Ratings				
National Long-term (zaf)	AAA	Stable	AA+	Stable
National Short-term (zaf)	F1+	Stable	F1+	Stable

4.5 Accounting classifications and fair values

The group has applied IFRS 13 *Fair value measurement* in considering the measurement of fair value where applicable. A number of the group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

Valuation processes

The group has established a controlled framework with respect to the measurement of fair values. It includes a valuation team that ultimately reports to the finance director and has overall responsibility for all significant fair value measurements.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third-party information, such as broker quotes or pricing services, is used to measure fair value, then the valuation team assesses and documents the evidence obtained from the third parties to support their conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy that the resulting fair value estimate should be classified to.

Principal markets

The group is involved in various principal markets because of the unique funding activities undertaken by the group. The fair value will be determined by each participant in the different principal markets. The principal markets are:

- capital and money markets
- development financing institutions
- export credit agencies

Notes to the financial statements (continued)

for the year ended 31 March 2014

4. Financial risk management (continued)

4.5 Accounting classifications and fair values (continued)

2014	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total carrying amount Rm	Total fair value Rm
Group								
Financial assets								
Investment in securities	12	–	–	10 907	–	–	10 907	10 907
Government bonds		–	–	8 160	–	–	8 160	8 160
Negotiable certificates of deposit		–	–	2 747	–	–	2 747	2 747
Loans receivable ^{1,2}	13	–	8 983	–	–	–	8 983	7 408
Secured by mortgages		–	8 546	–	–	–	8 546	7 139
Other		–	437	–	–	–	437	269
Derivatives held for risk management	14	2 344	–	–	–	9 829	12 173	12 173
Foreign exchange derivatives		2 289	–	–	–	9 829	12 118	12 118
Commodity derivatives		51	–	–	–	–	51	51
Credit default swap		4	–	–	–	–	4	4
Finance lease receivables ³	15	–	–	–	–	538	538	538
Trade and other receivables ³	17	–	16 581	–	–	–	16 581	16 581
Financial trading assets	19	4 265	–	–	–	–	4 265	4 265
Negotiable certificates of deposit		334	–	–	–	–	334	334
Repurchase agreements		2 325	–	–	–	–	2 325	2 325
Listed shares		1 039	–	–	–	–	1 039	1 039
Government bonds		541	–	–	–	–	541	541
Other money market securities		26	–	–	–	–	26	26
Cash and cash equivalents	20	–	19 676	–	–	–	19 676	19 676
Bank balances		–	10 757	–	–	–	10 757	10 757
Unsettled deals		–	1 489	–	–	–	1 489	1 489
Fixed deposits		–	7 361	–	–	–	7 361	7 361
Other		–	69	–	–	–	69	69
		6 609	45 240	10 907	–	10 367	73 123	71 548
Financial liabilities								
Debt securities and borrowings ²	24	–	–	–	254 820	–	254 820	240 646
Eskom bonds		–	–	–	102 080	–	102 080	102 274
Promissory notes		–	–	–	35	–	35	45
Commercial paper		–	–	–	14 635	–	14 635	14 629
Euro and zero coupon bonds		–	–	–	3 484	–	3 484	3 711
Foreign bonds		–	–	–	29 100	–	29 100	30 965
Developing financing institutions		–	–	–	49 256	–	49 256	41 910
Export credit facilities		–	–	–	31 506	–	31 506	32 751
Subordinated loan from shareholders ⁴		–	–	–	24 393	–	24 393	14 030
Other loans		–	–	–	331	–	331	331
Embedded derivatives	25	–	–	–	–	9 332	9 332	9 332
Derivatives held for risk management	14	840	–	–	–	667	1 507	1 507
Foreign exchange derivatives		837	–	–	–	667	1 504	1 504
Credit default swap		3	–	–	–	–	3	3
Finance lease liabilities ³	29	–	–	–	–	500	500	500
Trade and other payables ³	30	–	–	–	29 266	–	29 266	29 266
Financial trading liabilities	19	5 658	–	–	–	–	5 658	5 658
Short-sold government bonds		752	–	–	–	–	752	752
Commercial paper issued		762	–	–	–	–	762	762
Repurchase agreements		4 144	–	–	–	–	4 144	4 144
		6 498	–	–	284 086	10 499	301 083	286 909

1. The fair value of loans receivable is based on what a market participant would be willing to pay to acquire the loans. This participant would not have the ability to garnish salaries, thus increasing the probability of default resulting in a lower fair value than Eskom's carrying value.

2. The prospective implementation of IFRS 13 Fair value measurement, requiring adjustment for DVA (Eskom's own credit risk) and CVA (counterparty credit risk) impacted the fair value of these instruments.

3. The fair values of these financial instruments approximate their carrying amounts. The effect of discounting is not expected to be material.

4. For further information on the subordinated loan from shareholder. Refer to note 24.

2014	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total carrying amount Rm	Total fair value Rm
Company								
Financial assets								
Investment in securities	12	–	–	8 160	–	–	8 160	8 160
Government bonds		–	–	8 160	–	–	8 160	8 160
Derivatives held for risk management	14	2 344	–	–	–	9 829	12 173	12 173
Foreign exchange derivatives		2 289	–	–	–	9 829	12 118	12 118
Commodity derivatives		51	–	–	–	–	51	51
Credit default swap		4	–	–	–	–	4	4
Finance lease receivables ¹	15	–	–	–	–	538	538	538
Trade and other receivables ¹	17	–	16 898	–	–	–	16 898	16 898
Loans to subsidiaries ¹		–	6 665	–	–	–	6 665	6 665
Financial trading assets	19	3 226	–	–	–	–	3 226	3 226
Negotiable certificates of deposit		334	–	–	–	–	334	334
Repurchase agreements		2 325	–	–	–	–	2 325	2 325
Government bonds		541	–	–	–	–	541	541
Other money market securities		26	–	–	–	–	26	26
Cash and cash equivalents	20	–	19 044	–	–	–	19 044	19 044
Bank balances		–	10 194	–	–	–	10 194	10 194
Unsettled deals		–	1 489	–	–	–	1 489	1 489
Fixed deposits		–	7 361	–	–	–	7 361	7 361
		5 570	42 607	8 160	–	10 367	66 704	66 704
Financial liabilities								
Debt securities and borrowings ²	24	–	–	–	252 816	–	252 816	238 642
Eskom bonds		–	–	–	102 080	–	102 080	102 274
Promissory notes		–	–	–	35	–	35	45
Commercial paper		–	–	–	12 962	–	12 962	12 956
Euroand zero coupon bonds		–	–	–	3 484	–	3 484	3 711
Foreign bonds		–	–	–	29 100	–	29 100	30 965
Developing financing institutions		–	–	–	49 256	–	49 256	41 910
Export credit facilities		–	–	–	31 506	–	31 506	32 751
Subordinated loan from shareholder ³		–	–	–	24 393	–	24 393	14 030
Embedded derivatives	25	–	–	–	–	9 331	9 331	9 331
Derivatives held for risk management	14	840	–	–	–	667	1 507	1 507
Foreign exchange derivatives		837	–	–	–	667	1 504	1 504
Credit default swap		3	–	–	–	–	3	3
Finance lease liabilities ¹	29	–	–	–	–	769	769	769
Trade and other payables ¹	30	–	–	–	30 922	–	30 922	30 922
Loans from subsidiaries ¹		–	–	–	2 453	–	2 453	2 453
Financial trading liabilities	19	5 658	–	–	–	–	5 658	5 658
Short-sold government bonds		752	–	–	–	–	752	752
Commercial paper issued		762	–	–	–	–	762	762
Repurchase agreements		4 144	–	–	–	–	4 144	4 144
		6 498	–	–	286 191	10 767	303 456	289 282

1. The fair values of these financial instruments approximate their carrying amounts. The effect of discounting is not expected to be material.

2. The prospective implementation of IFRS 13 Fair value measurement, requiring adjustment for DVA (Eskom's own credit risk) and CVA (counterparty credit risk) impacted the fair value of these instruments.

3. For further information on the subordinated loan from shareholder. Refer to note 24.

Notes to the financial statements (continued)

for the year ended 31 March 2014

4. Financial risk management (continued)

4.5 Accounting classifications and fair values (continued)

2013	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total carrying amount Rm	Total fair value Rm
Group								
Financial assets								
Investment in securities	12	–	–	17 350	–	–	17 350	17 350
Government bonds		–	–	10 193	–	–	10 193	10 193
Negotiable certificates of deposit		–	–	2 532	–	–	2 532	2 532
Fixed deposits		–	–	4 625	–	–	4 625	4 625
Loans receivable	13	–	8 539	–	–	–	8 539	8 539
Secured by mortgages		–	7 911	–	–	–	7 911	7 911
Other		–	628	–	–	–	628	628
Derivatives held for risk management	14	1 020	–	–	–	6 306	7 326	7 326
Foreign exchange derivatives		1 017	–	–	–	6 306	7 323	7 323
Commodity derivatives		3	–	–	–	–	3	3
Finance lease receivables ¹	15	–	–	–	–	555	555	555
Trade and other receivables ¹	17	–	14 956	–	–	–	14 956	14 956
Financial trading assets	19	2 735	–	–	–	–	2 735	2 735
Negotiable certificates of deposit		193	–	–	–	–	193	193
Repurchase agreements		778	–	–	–	–	778	778
Listed shares		693	–	–	–	–	693	693
Government bonds		921	–	–	–	–	921	921
Fixed deposits		126	–	–	–	–	126	126
Other money market securities		24	–	–	–	–	24	24
Cash and cash equivalents	20	–	10 620	–	–	–	10 620	10 620
Bank balances		–	10 457	–	–	–	10 457	10 457
Fixed deposits		–	163	–	–	–	163	163
		3 755	34 115	17 350	–	6 861	62 081	62 081
Financial liabilities								
Debt securities and borrowings	24	–	–	–	202 956	–	202 956	221 935
Eskom bonds		–	–	–	88 063	–	88 063	95 835
Promissory notes		–	–	–	83	–	83	115
Commercial paper		–	–	–	8 422	–	8 422	8 422
Eurorand zero coupon bonds		–	–	–	3 080	–	3 080	4 906
Foreign bonds		–	–	–	16 146	–	16 146	17 645
Developing financing institutions		–	–	–	38 089	–	38 089	40 254
Export credit facilities		–	–	–	22 501	–	22 501	27 900
Floating rate notes		–	–	–	3 826	–	3 826	4 112
Subordinated loan from shareholders ²		–	–	–	22 349	–	22 349	22 349
Other loans		–	–	–	397	–	397	397
Embedded derivatives	25	–	–	–	–	11 481	11 481	11 481
Derivatives held for risk management	14	485	–	–	–	927	1 412	1 412
Foreign exchange derivatives		481	–	–	–	355	836	836
Interest rate swap		–	–	–	–	572	572	572
Commodity derivatives		4	–	–	–	–	4	4
Finance lease liabilities ¹	29	–	–	–	–	511	511	511
Trade and other payables ¹	30	–	–	–	31 597	–	31 597	31 597
Financial trading liabilities	19	1 355	–	–	–	–	1 355	1 355
Short-sold government bonds		204	–	–	–	–	204	204
Commercial paper issued		388	–	–	–	–	388	388
Repurchase agreements		763	–	–	–	–	763	763
		1 840	–	–	234 553	12 919	249 312	268 291

1. The fair values of these financial instruments approximate their carrying amounts. The effect of discounting is not expected to be material.

2. For further information on the subordinated loan from shareholder. Refer to note 24.

2013	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total carrying amount Rm	Total fair value Rm
Company								
Financial assets								
Investment in securities	12	–	–	14 910	–	–	14 910	14 910
Government bonds		–	–	10 193	–	–	10 193	10 193
Negotiable certificates of deposit		–	–	93	–	–	93	93
Fixed deposits		–	–	4 624	–	–	4 624	4 624
Derivatives held for risk management	14	1 020	–	–	–	6 306	7 326	7 326
Foreign exchange derivatives		1 017	–	–	–	6 306	7 323	7 323
Commodity derivatives		3	–	–	–	–	3	3
Finance lease receivables ¹	15	–	–	–	–	555	555	555
Trade and other receivables ¹	17	–	14 732	–	–	–	14 732	14 732
Loans to subsidiaries ¹		–	6 223	–	–	–	6 223	6 223
Financial trading assets	19	2 042	–	–	–	–	2 042	2 042
Negotiable certificates of deposit		193	–	–	–	–	193	193
Repurchase agreements		778	–	–	–	–	778	778
Government bonds		921	–	–	–	–	921	921
Fixed deposits		126	–	–	–	–	126	126
Other money market securities		24	–	–	–	–	24	24
Cash and cash equivalents	20	–	9 830	–	–	–	9 830	9 830
Bank balances		–	9 667	–	–	–	9 667	9 667
Fixed deposits		–	163	–	–	–	163	163
		3 062	30 785	14 910	–	6 861	55 618	55 618
Financial liabilities								
Debt securities and borrowings	24	–	–	–	200 888	–	200 888	219 867
Eskom bonds		–	–	–	88 063	–	88 063	95 835
Promissory notes		–	–	–	83	–	83	115
Commercial paper		–	–	–	6 751	–	6 751	6 751
Eurorand zero coupon bonds		–	–	–	3 080	–	3 080	4 906
Foreign bonds		–	–	–	16 146	–	16 146	17 645
Developing financing institutions		–	–	–	38 089	–	38 089	40 254
Export credit facilities		–	–	–	22 501	–	22 501	27 900
Floating rate notes		–	–	–	3 826	–	3 826	4 112
Subordinated loan from shareholder ²		–	–	–	22 349	–	22 349	22 349
Embedded derivatives	25	–	–	–	–	11 480	11 480	11 480
Derivatives held for risk management	14	485	–	–	–	927	1 412	1 412
Foreign exchange derivatives		481	–	–	–	355	836	836
Interest rate swap		–	–	–	–	572	572	572
Commodity derivatives		4	–	–	–	–	4	4
Finance lease liabilities ¹	29	–	–	–	–	826	826	826
Trade and other payables ¹	30	–	–	–	31 224	–	31 224	31 224
Loans from subsidiaries ¹		–	–	–	2 003	–	2 003	2 003
Financial trading liabilities	19	1 355	–	–	–	–	1 355	1 355
Short-sold government bonds		204	–	–	–	–	204	204
Commercial paper issued		388	–	–	–	–	388	388
Repurchase agreements		763	–	–	–	–	763	763
		1 840	–	–	234 115	13 233	249 188	268 167

1. The fair values of these financial instruments approximate their carrying amounts. The effect of discounting is not expected to be material.

2. For further information on the subordinated loan from shareholder. Refer to note 24.

Notes to the financial statements (continued)

for the year ended 31 March 2014

4. Financial risk management (continued)

4.5 Accounting classifications and fair values (continued)

Fair value hierarchy

The table on page 57 analyses fair value measurements which are categorised into the different levels in the fair value hierarchy based on the inputs to the valuation techniques used. Other than the application of IFRS 13 *Fair value measurement* there has been no change in the valuation technique applied. The hierarchy levels are defined as follows:

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

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

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

The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred.

Eskom's policy for determining when transfers between levels in the hierarchy have occurred includes monitoring of the following factors:

- Changes in market and trading activity (eg significant increases/decreases in activity)
- Changes in inputs used in valuation techniques (eg inputs becoming/ceasing to be observable in the market)

There were no transfers between level 1, 2 or 3 of the fair value hierarchy during the year.

The valuation techniques used are as follows:

Level 1: Quoted prices (unadjusted) in active markets

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

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

Level 2 fair values for debt securities are determined using a discounted cash flow technique, which uses expected cash flows and a market-related discount rate. Level 2 fair values for simple over-the-counter derivative financial instruments are based on broker quotes. These quotes are tested for reasonableness by discounting expected future cash flows using a market interest rate for a similar instrument at the measurement date. Fair values reflect the credit risk of the instruments and include adjustments for the credit risk of the group entity and counterparty when appropriate. The fair values are obtained from listed bond yields or using a discounted cash flows model for unlisted instruments. The future cash flows are discounted using a zero curve, which is adjusted to reflect the credit value adjustment (CVA) and debit value adjustment (DVA) that are constructed from money market and swap rates.

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

Level 3 items are fair valued using unobservable inputs (embedded derivatives for measurement and disclosure and government loan for disclosure). For background information on the valuation techniques and assumptions refer to note 3(a) and 3(e).

2014	Note	Group				Company			
		Fair value				Fair value			
		Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Assets measured at fair value									
	12	8 160	2 747	–	10 907	8 160	–	–	8 160
Investment in securities		8 160	–	–	8 160	8 160	–	–	8 160
Government bonds		–	2 747	–	2 747	–	–	–	–
Negotiable certificates of deposit		–	–	–	–	–	–	–	–
Derivatives held for risk management	14	–	12 173	–	12 173	–	12 173	–	12 173
Foreign exchange derivatives ¹		–	12 118	–	12 118	–	12 118	–	12 118
Commodity derivatives		–	51	–	51	–	51	–	51
Credit default swap		–	4	–	4	–	4	–	4
Financial trading assets	19	1 580	2 685	–	4 265	541	2 685	–	3 226
Negotiable certificates of deposit		–	334	–	334	–	334	–	334
Repurchase agreements		–	2 325	–	2 325	–	2 325	–	2 325
Listed shares		1 039	–	–	1 039	–	–	–	–
Government bonds		541	–	–	541	541	–	–	541
Other money market securities		–	26	–	26	–	26	–	26
Assets not measured at fair value									
Loans receivable ²		–	7 408	–	7 408	–	–	–	–
Secured by mortgages		–	7 139	–	7 139	–	–	–	–
Other		–	269	–	269	–	–	–	–
Finance lease receivables	15	–	538	–	538	–	538	–	538
Trade and other receivables	17	–	16 581	–	16 581	–	16 898	–	16 898
Loans to subsidiaries		–	–	–	–	–	6 665	–	6 665
Cash and cash equivalents	20	–	19 676	–	19 676	–	19 044	–	19 044
Bank balances		–	10 757	–	10 757	–	10 194	–	10 194
Unsettled deals		–	1 489	–	1 489	–	1 489	–	1 489
Fixed deposits		–	7 361	–	7 361	–	7 361	–	7 361
Other		–	69	–	69	–	–	–	–
		9 740	61 808	–	71 548	8 701	58 003	–	66 704
Liabilities measured at fair value									
Embedded derivatives	25	–	–	9 332	9 332	–	–	9 331	9 331
Derivatives held for risk management	14	–	1 507	–	1 507	–	1 507	–	1 507
Foreign exchange derivatives ¹		–	1 504	–	1 504	–	1 504	–	1 504
Credit default swap		–	3	–	3	–	3	–	3
Financial trading liabilities	19	752	4 906	–	5 658	752	4 906	–	5 658
Short-sold government bonds		752	–	–	752	752	–	–	752
Commercial paper issued		–	762	–	762	–	762	–	762
Repurchase agreements		–	4 144	–	4 144	–	4 144	–	4 144
Liabilities not measured at fair value									
Debt securities and borrowings ²	24	102 274	124 342	14 030	240 646	102 274	122 338	14 030	238 642
Eskom bonds		102 274	–	–	102 274	102 274	–	–	102 274
Promissory notes		–	45	–	45	–	45	–	45
Commercial paper		–	14 629	–	14 629	–	12 956	–	12 956
Eurorand zero coupon bonds		–	3 711	–	3 711	–	3 711	–	3 711
Foreign bonds		–	30 965	–	30 965	–	30 965	–	30 965
Developing financing institutions		–	41 910	–	41 910	–	41 910	–	41 910
Export credit facilities		–	32 751	–	32 751	–	32 751	–	32 751
Subordinated loan from shareholder		–	–	14 030	14 030	–	–	14 030	14 030
Other loans		–	331	–	331	–	–	–	–
Finance lease liabilities	29	–	500	–	500	–	769	–	769
Trade and other payables	30	–	29 266	–	29 266	–	30 922	–	30 922
Loans from subsidiaries		–	–	–	–	–	2 453	–	2 453
		103 026	160 521	23 362	286 909	103 026	162 895	23 361	289 282

1. The credit risk associated with these instruments are considered to be material. The requirements of IFRS 13 Fair value measurement have been prospectively applied.

2. The prospective implementation of IFRS 13 Fair value measurement, requiring adjustment for DVA (Eskom's own credit risk) and CVA (counterparty credit risk), impacted the fair value of these instruments.

Notes to the financial statements (continued)

for the year ended 31 March 2014

4. Financial risk management (continued)

4.5 Accounting classifications and fair values (continued)

2013	Note	Group				Company			
		Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Assets measured at fair value									
Investment in securities	12	10 193	7 157	–	17 350	10 193	4 717	–	14 910
Government bonds		10 193	–	–	10 193	10 193	–	–	10 193
Negotiable certificates of deposit		–	2 532	–	2 532	–	93	–	93
Fixed deposits		–	4 625	–	4 625	–	4 624	–	4 624
Derivatives held for risk management	14	–	7 326	–	7 326	–	7 326	–	7 326
Foreign exchange derivatives		–	7 323	–	7 323	–	7 323	–	7 323
Commodity derivatives		–	3	–	3	–	3	–	3
Financial trading assets	19	1 614	1 121	–	2 735	921	1 121	–	2 042
Negotiable certificates of deposit		–	193	–	193	–	193	–	193
Repurchase agreements		–	778	–	778	–	778	–	778
Listed shares		693	–	–	693	–	–	–	–
Government bonds		921	–	–	921	921	–	–	921
Fixed deposits		–	126	–	126	–	126	–	126
Other money market securities		–	24	–	24	–	24	–	24
Assets not measured at fair value									
Loans receivable		–	8 539	–	8 539	–	–	–	–
Secured by mortgages		–	7 911	–	7 911	–	–	–	–
Other		–	628	–	628	–	–	–	–
Finance lease receivables	15	–	555	–	555	–	555	–	555
Trade and other receivables	17	–	14 956	–	14 956	–	14 732	–	14 732
Loans to subsidiaries		–	–	–	–	–	6 223	–	6 223
Cash and cash equivalents	20	–	10 620	–	10 620	–	9 830	–	9 830
Bank balances		–	10 457	–	10 457	–	9 667	–	9 667
Fixed deposits		–	163	–	163	–	163	–	163
		11 807	50 274	–	62 081	11 114	44 504	–	55 618
Liabilities measured at fair value									
Embedded derivatives	25	–	–	11 481	11 481	–	–	11 480	11 480
Derivatives held for risk management	14	–	1 412	–	1 412	–	1 412	–	1 412
Foreign exchange derivatives		–	836	–	836	–	836	–	836
Interest rate swap		–	572	–	572	–	572	–	572
Commodity derivatives		–	4	–	4	–	4	–	4
Financial trading liabilities	19	204	1 151	–	1 355	204	1 151	–	1 355
Short-sold government bonds		204	–	–	204	204	–	–	204
Commercial paper issued		–	388	–	388	–	388	–	388
Repurchase agreements		–	763	–	763	–	763	–	763
Liabilities not measured at fair value									
Debt securities and borrowings	24	95 835	103 751	22 349	221 935	95 835	101 683	22 349	219 867
Eskom bonds		95 835	–	–	95 835	95 835	–	–	95 835
Promissory notes		–	115	–	115	–	115	–	115
Commercial paper		–	8 422	–	8 422	–	6 751	–	6 751
Eurorand zero coupon bonds		–	4 906	–	4 906	–	4 906	–	4 906
Foreign bonds		–	17 645	–	17 645	–	17 645	–	17 645
Developing financing institutions		–	40 254	–	40 254	–	40 254	–	40 254
Export credit facilities		–	27 900	–	27 900	–	27 900	–	27 900
Floating rate notes		–	4 112	–	4 112	–	4 112	–	4 112
Subordinated loan from shareholder		–	–	22 349	22 349	–	–	22 349	22 349
Other loans		–	397	–	397	–	–	–	–
Finance lease liabilities	29	–	511	–	511	–	826	–	826
Trade and other payables	30	–	31 597	–	31 597	–	31 224	–	31 224
Loans from subsidiaries		–	–	–	–	–	2 003	–	2 003
		96 039	138 422	33 830	268 291	96 039	138 299	33 829	268 167

A reconciliation has been performed for fair value measurements in level 3 of the fair value hierarchy as follows:

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
Embedded derivatives				
Carrying value beginning of year	11 481	5 539	11 480	5 538
Net fair value (gain)/loss on embedded derivatives	(2 149)	5 942	(2 149)	5 942
Carrying value at end of year	9 332	11 481	9 331	11 480

Refer to note 3(a) and 4.2 for more information on sensitivities and assumptions.

5. Segment information

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

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

Generation	Consists of the generation and primary energy functions. These functions procure primary energy and generate electricity for sale.
Transmission	Consists of the transmission grids, systems operations and the South African Energy unit (international buyer). These functions operate and maintain the transmission network for transmitting electricity and also sell bulk electricity to international customers.
Distribution	Distribution consists of nine provincial operating units. These units provide, operate and maintain the distribution network for distributing.
Group customer services	Group customer services consists of the customer service and integrated demand management functions and sells electricity to local key large, redistributors, large and small customers.
Group capital	Group capital is responsible for the planning, development and monitoring of all capital projects and the execution of capacity expansion projects.
All other segments	Relates to operating segments which are below the quantitative thresholds for determining a reportable segment in terms of IFRS 8 <i>Operating segments</i> . These include the group's subsidiaries.
Corporate and other	Relates to all service and strategic functions which do not qualify as a reportable segment in terms of IFRS 8 <i>Operating segments</i> .

Notes to the financial statements (continued)

for the year ended 31 March 2014

5. Segment information (continued)

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

	Generation	Transmission	Distribution	Group customer services	Group capital	All other segments	Corporate and other	Inter- segment transactions	Group
2014	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Continuing operations									
External revenue	–	6 446	817	131 007	–	1 236	–	–	139 506
Inter-segment revenue/ recoveries	97 303	6 932	20 623	(124 816)	–	9 184	–	(9 226)	–
Total revenue	97 303	13 378	21 440	6 191	–	10 420	–	(9 226)	139 506
Primary energy	(62 716)	(6 577)	–	(350)	(169)	–	–	–	(69 812)
Net employee benefit expense	(6 597)	(1 480)	(6 818)	(1 407)	(784)	(3 271)	(5 300)	35	(25 622)
Depreciation and amortisation expense	(6 436)	(1 205)	(2 809)	(9)	(70)	(260)	(1 402)	254	(11 937)
Net impairment loss	(12)	(18)	(7)	(1 482)	(2)	(7)	(29)	–	(1 557)
Other operating expenses	(16 694)	(2 498)	(8 726)	(2 689)	31	(7 578)	6 195	12 782	(19 177)
Operating profit/(loss) before net fair value gain/(loss) and net finance (cost)/income	4 848	1 600	3 080	254	(994)	(696)	(536)	3 845	11 401
Other income	504	354	317	154	96	401	490	(1 354)	962
Net fair value gain/(loss) on financial instruments, excluding embedded derivatives	691	–	206	46	(1 885)	126	190	6	(620)
Net fair value gain on embedded derivatives	–	–	–	2 149	–	–	–	–	2 149
Operating profit/(loss) before net finance (cost)/income	6 043	1 954	3 603	2 603	(2 783)	(169)	144	2 497	13 892
Net finance (cost)/income	(3 715)	(744)	(526)	268	(6)	(155)	106	–	(4 772)
Finance income	15	54	48	439	–	353	2 067	(501)	2 475
Finance cost	(3 730)	(798)	(574)	(171)	(6)	(508)	(1 961)	501	(7 247)
Share of profit of equity- accounted investees	–	–	–	–	–	16	27	–	43
Profit/(loss) before tax	2 328	1 210	3 077	2 871	(2 789)	(308)	277	2 497	9 163
Income tax	–	–	–	–	–	87	(1 521)	(703)	(2 137)
Profit/(loss) for the year from continuing operations	2 328	1 210	3 077	2 871	(2 789)	(221)	(1 244)	1 794	7 026
Discontinued operations									
Profit for the year from discontinued operations	–	–	–	–	–	63	–	–	63
Profit/(loss) for the year	2 328	1 210	3 077	2 871	(2 789)	(158)	(1 244)	1 794	7 089
Other information									
Segment assets	116 066	34 784	65 070	13 658	210 439	26 009	62 249	(23 747)	504 528
Investment in equity- accounted investees	–	–	–	–	–	51	95	172	318
Non-current assets held-for-sale	–	–	–	–	–	147	–	–	147
Total assets	116 066	34 784	65 070	13 658	210 439	26 207	62 344	(23 575)	504 993
Total liabilities	37 297	2 292	23 081	17 598	15 863	19 365	291 555	(21 842)	385 209
Capital expenditure (including borrowing costs capitalised)	14 634	6 440	11 596	–	37 186	455	3 310	(905)	72 716

2013	Generation Rm	Transmission Rm	Distribution Rm	Group customer services Rm	Group capital Rm	All other segments Rm	Corporate and other Rm	Inter- segment transactions Rm	Group Rm
Continuing operations									
External revenue	–	5 999	570	120 773	–	1 433	–	–	128 775
Inter-segment revenue/ recoveries	86 395	4 739	18 703	(109 855)	–	8 089	–	(8 071)	–
Total revenue	86 395	10 738	19 273	10 918	–	9 522	–	(8 071)	128 775
Primary energy	(52 353)	(5 011)	–	(3 105)	(279)	–	–	–	(60 748)
Net employee benefit expense	(6 302)	(1 379)	(6 119)	(1 344)	(699)	(2 788)	(4 933)	–	(23 564)
Depreciation and amortisation expense	(5 210)	(954)	(2 662)	(12)	(68)	(236)	(882)	64	(9 960)
Net impairment (loss)/ reversal	(3)	–	2	(1 020)	1	(17)	(2)	–	(1 039)
Other operating expenses	(16 045)	(2 317)	(7 480)	(4 761)	204	(5 766)	5 516	7 610	(23 039)
Operating profit/(loss) before net fair value (loss)/gain and net finance income/(cost)	6 482	1 077	3 014	676	(841)	715	(301)	(397)	10 425
Other income	387	686	326	162	73	384	618	(1 510)	1 126
Net fair value (loss)/gain on financial instrument, excluding embedded derivatives	(8)	(4)	48	(2)	(1 535)	22	(176)	–	(1 655)
Net fair value loss on embedded derivatives	–	–	–	(5 942)	–	–	–	–	(5 942)
Operating profit/(loss) before net finance income/(cost)	6 861	1 759	3 388	(5 106)	(2 303)	1 121	141	(1 907)	3 954
Net finance income/(cost)	3 153	569	(464)	(46)	(30)	(147)	(32)	–	3 003
Finance income	20	29	50	76	21	340	2 709	(449)	2 796
Finance cost	3 133	540	(514)	(122)	(51)	(487)	(2 741)	449	207
Share of profit of equity- accounted investees	–	–	–	–	–	9	26	–	35
Profit/(loss) before tax	10 014	2 328	2 924	(5 152)	(2 333)	983	135	(1 907)	6 992
Income tax	–	–	–	–	–	(273)	(2 117)	534	(1 856)
Profit/(loss) for the year from continuing operations	10 014	2 328	2 924	(5 152)	(2 333)	710	(1 982)	(1 373)	5 136
Discontinued operations									
Profit for the year from discontinued operations	–	–	–	–	–	47	–	–	47
Profit/(loss) for the year	10 014	2 328	2 924	(5 152)	(2 333)	757	(1 982)	(1 373)	5 183
Other information									
Segment assets	106 798	29 190	56 560	10 261	173 884	22 063	50 527	(17 563)	431 720
Investment in equity- accounted investees	–	–	–	–	–	35	95	166	296
Non-current assets held-for-sale	–	–	–	–	–	8	–	–	8
Total assets	106 798	29 190	56 560	10 261	173 884	22 106	50 622	(17 397)	432 024
Total segment liabilities	34 247	2 569	21 328	18 373	13 010	15 055	232 148	(13 845)	322 885
Capital expenditure (including borrowing costs capitalised)	15 290	6 271	9 271	18	28 157	396	2 255	(612)	61 046

Notes to the financial statements (continued)

for the year ended 31 March 2014

5. Segment information (continued)

Inter-segment purchases and revenue of electricity are allocated between the Generation, Transmission, Distribution and Group customer services segments based on cost recovery plus a uniform return on assets.

Geographical information	Group			
	Revenue		Non-current assets	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
South Africa	133 495	122 596	416 013	355 228
Foreign countries	6 011	6 179	114	106
	139 506	128 775	416 127	355 334

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.

6. Property, plant and equipment

Group

	2014			2013		
	Cost Rm	Accumulated depreciation and impairment losses Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and impairment losses Rm	Carrying value Rm
Owned assets						
Land	1 698	–	1 698	1 587	–	1 587
Buildings and facilities	5 645	(1 376)	4 269	4 942	(1 245)	3 697
Plant – Generation	133 722	(47 627)	86 095	124 784	(45 580)	79 204
– Transmission	34 404	(9 420)	24 984	29 032	(8 467)	20 565
– Distribution	78 270	(29 183)	49 087	70 080	(26 347)	43 733
Regular distribution	56 775	(19 133)	37 642	50 935	(16 996)	33 939
Electrification	21 495	(10 050)	11 445	19 145	(9 351)	9 794
– Test, telecommunication and other plant	2 141	(1 112)	1 029	1 818	(1 066)	752
Equipment and vehicles	12 524	(7 162)	5 362	11 327	(6 320)	5 007
Total in commission	268 404	(95 880)	172 524	243 570	(89 025)	154 545
Works under construction	228 692	(40)	228 652	186 675	(1)	186 674
	497 096	(95 920)	401 176	430 245	(89 026)	341 219
Leased assets						
Mining assets ¹	573	(376)	197	573	(363)	210
	497 669	(96 296)	401 373	430 818	(89 389)	341 429

1. Mining assets include various long-term coal contracts whereby Eskom purchases all of the coal from specified mines. Eskom pays a fixed standing charge to cover the capital cost.

	2014			2013		
	Cost	Accumulated depreciation and impairment losses	Carrying value	Cost	Accumulated depreciation and impairment losses	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm
Company						
Owned assets						
Land	1 669	–	1 669	1 559	–	1 559
Buildings and facilities	5 481	(1 295)	4 186	4 787	(1 173)	3 614
Plant – Generation	134 714	(47 921)	86 793	125 166	(45 776)	79 390
– Transmission	34 459	(9 440)	25 019	29 044	(8 469)	20 575
– Distribution	78 447	(29 327)	49 120	70 147	(26 356)	43 791
Regular distribution Electrification	56 941	(19 145)	37 796	50 999	(17 005)	33 994
	21 506	(10 182)	11 324	19 148	(9 351)	9 797
– Test, telecommunication and other plant	425	(382)	43	427	(377)	50
Equipment and vehicles	10 472	(6 057)	4 415	9 060	(5 201)	3 859
Total in commission	265 667	(94 422)	171 245	240 190	(87 352)	152 838
Works under construction	230 481	(40)	230 441	188 374	(1)	188 373
	496 148	(94 462)	401 686	428 564	(87 353)	341 211
Leased assets	1 033	(512)	521	1 032	(471)	561
Mining assets ¹	573	(376)	197	573	(363)	210
Plant	54	(34)	20	54	(31)	23
Equipment and vehicles	406	(102)	304	405	(77)	328
	497 181	(94 974)	402 207	429 596	(87 824)	341 772

Reconciliation of movements	Owned assets					Leased assets			Total
	Land	Buildings and facilities	Plant	Equipment and vehicles	Works under construction	Mining assets	Plant	Equipment and vehicles	
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	
Group									
Carrying value at beginning of the year	1 587	3 697	144 254	5 007	186 674	210	–	–	341 429
Additions ²	112	128	2 130	1 581	67 742	–	–	–	71 693
Transfers ³	–	586	25 035	103	(25 724)	–	–	–	–
Transfers to non-current assets held-for-sale	–	–	–	(30)	–	–	–	–	(30)
Change in discount rate of decommissioning provision and cost estimate	–	–	181	–	–	–	–	–	181
Disposals	(1)	(5)	(161)	(40)	–	–	–	–	(207)
Impairment losses	–	–	–	(5)	(41)	–	–	–	(46)
Reversal of impairment losses	–	–	–	–	1	–	–	–	1
Depreciation	–	(137)	(10 244)	(1 254)	–	(13)	–	–	(11 648)
Carrying value at end of the year	1 698	4 269	161 195	5 362	228 652	197	–	–	401 373
Company									
Carrying value at beginning of the year	1 559	3 614	143 806	3 859	188 373	210	23	328	341 772
Additions ²	111	127	2 733	1 614	67 628	–	–	1	72 214
Transfers ³	–	578	24 842	101	(25 521)	–	–	–	–
Change in discount rate of decommissioning provision and cost estimate	–	–	181	–	–	–	–	–	181
Disposals	(1)	(5)	(155)	(38)	–	–	–	–	(199)
Impairment losses	–	–	–	–	(40)	–	–	–	(40)
Reversal of impairment losses	–	–	–	–	1	–	–	–	1
Depreciation	–	(128)	(10 432)	(1 121)	–	(13)	(3)	(25)	(11 722)
Carrying value at end of the year	1 669	4 186	160 975	4 415	230 441	197	20	304	402 207

1. Mining assets include various long-term coal contracts whereby Eskom purchases all of the coal from specified mines. Eskom pays a fixed standing charge to cover the capital cost.
2. Included in additions are borrowing costs capitalised of R13 290 million (2013: R3 678 million) for the group and company.
3. Amounts are transferred from work under construction to the relevant asset class when the asset is available for use.

Notes to the financial statements (continued)

for the year ended 31 March 2014

6. Property, plant and equipment (continued)

Note	Group		Company		
	2014 Rm	2013 Rm	2014 Rm	2013 Rm	
Borrowing costs on general borrowings are capitalised at an average rate of 9.57% (2013: 9.85%). Borrowing costs on funds borrowed specifically for the purpose of obtaining a qualifying asset are capitalised at the actual rate obtained for the specific funds borrowed. The average specific rate excluding the government loan for the year was 7.75% (2013: 7.85%). The amounts capitalised during the year were:	41	13 290	3 678	13 290	3 678
Details of land and buildings are available for examination at the registered offices of the respective businesses.					
Leased assets include arrangements that contain finance leases in terms of IFRIC4 <i>Determining whether an arrangement contains a lease</i> .					
None of the assets are encumbered or held as security.					
The total depreciation charge for property, plant and equipment is disclosed in profit or loss in the following categories:		11 648	9 816	11 722	9 697
Depreciation and amortisation expense	35	11 635	9 803	11 709	9 684
Primary energy		13	13	13	13

	2014			2013		
	Cost Rm	Accumulated amortisation and impairment losses Rm	Carrying value Rm	Cost Rm	Accumulated amortisation and impairment losses Rm	Carrying value Rm
7. Intangible assets						
Group						
Rights	1 720	(221)	1 499	1 504	(221)	1 283
Computer software ¹	5 395	(3 992)	1 403	4 750	(3 267)	1 483
Concession assets	176	(62)	114	113	(37)	76
	7 291	(4 275)	3 016	6 367	(3 525)	2 842
Company						
Rights	1 718	(220)	1 498	1 502	(220)	1 282
Computer software ¹	5 030	(3 718)	1 312	4 404	(3 057)	1 347
	6 748	(3 938)	2 810	5 906	(3 277)	2 629

Reconciliation of movements

2014

Group

	Rights Rm	Computer software Rm	Concession assets Rm	Total Rm
Carrying value at beginning of the year	1 283	1 483	76	2 842
Additions and transfers	216	756	51	1 023
Amortisation	–	(836)	(13)	(849)
Carrying value at end of the year	1 499	1 403	114	3 016

Company

	Rights Rm	Computer software Rm	Concession assets Rm	Total Rm
Carrying value at beginning of the year	1 282	1 347	–	2 629
Additions and transfers	216	737	–	953
Amortisation	–	(772)	–	(772)
Carrying value at end of the year	1 498	1 312	–	2 810

Amortisation of intangible assets of R849 million (2013: R619 million) for the group and R772 million (2013: R565 million) for the company is included within *depreciation and amortisation expense* in profit or loss. Refer to note 35.

Servitude rights have been assessed for impairment as they have an indefinite useful life. The recoverable amount of the rights is based on the fair value less costs of disposal which have been derived from the most recent comparable market transactions (level 2 fair value hierarchy).

There have been no impairments for the year ended 31 March 2014 (2013:nil).

1. Software licences have been included as part of computer software.

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
8. Investment in equity-accounted investees				
Investment in associates				
The carrying value of investment in associates is nil (2013:nil). The group has an investment in Uitenhage Electricity Supply Company (Pty) Limited which ceased trading in 2008 and is in the process of being wound up and Western Power Corridor Company (Pty) Limited is dormant.				
Investment in joint ventures				
Balance at beginning of the year	296	261	95	95
Share of profit after tax	43	35	–	–
Dividends received	(21)	–	–	–
Balance at end of the year	318	296	95	95

The group's investments in the joint ventures are not considered to be individually material. The group's share of the results of its significant joint ventures, all of which are unlisted, is:

Name	Main business	Country of incorporation	Interest held %	Profit for the year after tax Rm
Group				
2014				
Directly held				
Mozambique Transmission Company SARL ¹ (Motraco)	Electricity transmission	Mozambique	33	27
Indirectly held				
Trans Africa Projects (Pty) Limited ¹	Engineering services	South Africa	50	16
				43
2013				
Directly held				
Mozambique Transmission Company SARL ¹ (Motraco)	Electricity transmission	Mozambique	33	26
Indirectly held				
Trans Africa Projects (Pty) Limited ¹	Engineering services	South Africa	50	9
				35

SDR/United Engineers Joint Venture is dormant.

The share capital of the group's investment in joint ventures comprise 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.

Notes to the financial statements (continued)

for the year ended 31 March 2014

	Company	
	2014 Rm	2013 Rm
9. Investment in subsidiaries		
Shares at cost	384	384
Indebtedness	1 953	1 953
	2 337	2 337

The details of subsidiaries for 2014 and 2013 are as follows:

Name	Main business	Country of incorporation	Issued/stated share capital R	Interest held %	Investment at cost Rm	Indebtedness Rm
Directly held						
Escap SOC Limited	Insurance	South Africa	379 500 000	100	380	–
Eskom Development Foundation NPC	Corporate social investment	South Africa	–	100	–	–
Eskom Enterprises SOC Limited	Non-regulated electricity supply industry activities in South Africa and electricity supply and related services outside South Africa	South Africa	99 000	100	– ¹	1 953 ²
Eskom Finance Company SOC Limited	Finance (employee housing loans)	South Africa	4 000	100	– ¹	–
Natal Navigation Collieries and Estate Company SOC Limited	Property holding	South Africa	771 425	100	–	–
PN Energy Services SOC Limited ³	Not trading	South Africa	1 500 000	100	4	–
					384	1 953
Indirectly held						
Eskom Energie Manantali s.a. ^{4,5,6}	Electricity supply	Mali	1 000	100		
Eskom Uganda Limited ^{4,5}	Operations management	Uganda	100	100		
Golang Coal SOC Limited	Coal exports	South Africa	1 000	67		
Nqaba Finance 1 (RF) Limited ⁷	Residential backed mortgage securities	South Africa	100	100		
Pebble Bed Modular Reactor SOC Limited	Not trading – care and maintenance	South Africa	100	100		
Roshcon SOC Limited ⁸	Construction and abnormal load transportation	South Africa	1	100		
Rosherville Properties SOC Limited	Properties	South Africa	1	100		
Rotek Industries SOC Limited	Maintenance and services	South Africa	4 000	100		
South Dunes Coal Terminal SOC Limited ⁵	Coal exports	South Africa	4 000	50		

The following subsidiaries are dormant:

- Eskom Enterprises Global West Africa
- Nempskom Communications Limited (process of liquidation)
- Technology Services International SOC Limited (process of being deregistered)

There has not been any change in the control assessment and all the previous subsidiaries continue to be accounted for as subsidiaries.

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

There is only one significant restriction relating to the cash held in Pebble Bed Modular Reactor SOC Limited (PBMR). Refer to note 20 for details regarding this restriction.

1. Nominal.

2. The equity loan of Eskom Enterprises is interest free.

3. PN Energy Services SOC Limited did not trade during the 2011 to 2014 financial years.

4. Issued/stated capital in foreign currency.

5. Year end is 31 December.

6. Classified as non-current assets held-for-sale in 2014. Applicable comparative figures have been restated for 2013. Refer to note 21.

7. Nqaba is a securitisation vehicle.

8. The subsidiaries of Roshcon SOC Limited have not been disclosed. They are all dormant and in the process of being wound up.

Group and company

	2014			2013 Total Rm
	Coal Rm	Nuclear Rm	Total Rm	
10. Future fuel supplies				
Balance at beginning of the year	7 098	1 023	8 121	5 452
Net additions	1 419	1 256	2 675	2 507
Change in discount rate of decommissioning provision and cost estimate	(213)	–	(213)	487
Transfer from equity	–	(300)	(300)	–
Transfer to inventories	(541)	(998)	(1 539)	(325)
	7 763	981	8 744	8 121

	Note	Group		Company	
		2014 Rm	2013 Rm	2014 Rm	2013 Rm
11. Deferred tax					
Deferred tax assets					
Balance at beginning of the year		25	43	–	–
Transfer from profit or loss	42	314	(18)	–	–
		339	25	–	–
Comprising		339	25	–	–
Property, plant and equipment		15	18	–	–
Provisions		(16)	7	–	–
Tax losses		340	–	–	–
Deferred tax liabilities					
Balance at beginning of the year		15 806	13 807	15 920	13 449
Transfer from profit or loss	42	2 258	1 638	1 520	2 117
Transfer from statement of comprehensive income	42	1 397	361	1 402	354
		19 461	15 806	18 842	15 920
Comprising		19 461	15 806	18 842	15 920
Property, plant and equipment		37 789	32 433	36 947	32 434
Inventories		1 717	1 567	1 717	1 567
Provisions		(11 159)	(9 708)	(10 937)	(9 594)
Tax losses		(3 936)	(2 222)	(3 933)	(2 218)
Embedded derivative liabilities		(2 613)	(3 214)	(2 613)	(3 214)
Available-for-sale financial assets		18	124	20	125
Cash flow hedges		2 450	1 198	2 450	1 198
Payments received in advance		(4 838)	(4 172)	(4 835)	(4 172)
Other		33	(200)	26	(206)
Unused tax losses available for offset against future taxable income		15 413	8 188	14 046	7 921

Unused tax losses of a subsidiary amounting to R142 million (2013: R253 million) have not been recognised as it is uncertain whether future taxable profits will be available against which the unused tax losses can be used.

Notes to the financial statements (continued)

for the year ended 31 March 2014

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
12. Investment in securities				
Available-for-sale	10 907	17 350	8 160	14 910
Government bonds	8 160	10 193	8 160	10 193
Negotiable certificates of deposit	2 747	2 532	–	93
Fixed deposits	–	4 625	–	4 624
Maturity analysis	10 907	17 350	8 160	14 910
Non-current	4 841	8 574	4 841	8 574
Current	6 066	8 776	3 319	6 336
No impairment loss was recognised on investment in securities.				
13. Loans receivable				
Loans and receivables	8 983	8 539	–	–
Secured by mortgages	8 546	7 911	–	–
Other	437	628	–	–
Maturity analysis	8 983	8 539	–	–
Non-current	8 654	8 425	–	–
Current	329	114	–	–

	Group and company					
	2014			2013		
	Assets Rm	Liabilities Rm	Notional amount Rm	Assets Rm	Liabilities Rm	Notional amount Rm
14. Derivatives held for risk management						
Derivatives held for economic hedging	2 344	840	50 959	1 020	485	40 664
Foreign exchange derivatives	2 289	837	48 324	1 017	481	40 379
Foreign exchange contracts	1 950	833	45 355	1 017	240	37 589
Cross-currency swap	339	4	2 969	–	241	2 790
Commodity derivatives	51	–	855	3	4	285
Credit default swap	4	3	1 780	–	–	–
Derivatives held for cash flow hedging	9 829	667	60 969	6 306	927	38 425
Foreign exchange derivatives	9 829	667	60 969	6 306	355	34 625
Foreign exchange contracts	685	165	15 904	862	136	15 709
Cross-currency swap	9 144	502	45 065	5 444	219	18 916
Interest rate swap	–	–	–	–	572	3 800
Total derivatives held for risk management	12 173	1 507		7 326	1 412	
Maturity analysis	12 173	1 507		7 326	1 412	
Derivatives held for economic hedging	2 344	840		1 020	485	
Non-current	339	3		–	215	
Current	2 005	837		1 020	270	
Derivatives held for cash flow hedging	9 829	667		6 306	927	
Non-current	9 022	307		5 420	625	
Current	807	360		886	302	

The hedging practices and accounting treatment are disclosed in note 2.11.3 in the accounting policies.

The group uses forward exchange contracts, cross-currency swaps and interest rate swaps for cash flow hedging.

- Foreign exchange contracts: used to hedge the changes in the cash flows resulting from the purchase of services and goods denominated mainly in US dollars, euro and yen
- Cross-currency swaps: used to hedge the currency and interest rate risk arising from the foreign fixed rate bonds and foreign fixed or floating borrowings (denominated in US dollar, euro and yen) issued by the group
- Interest rate swaps: used to hedge the interest expense variability of the issued floating rate notes

During the year a R254 million gain (2013: R109 million gain) was recognised in profit or loss as ineffectiveness arising from cash flow hedges (refer to note 39). There were no transactions for which cash flow hedge accounting had to be ceased in the current or comparative financial years as a result of highly probable cash flows no longer being expected to occur.

Credit default swap

The group has entered into a credit default swap transaction that could result in the payment by one party to the other party on the occurrence of a credit event or an event of default by Eskom (includes bankruptcy, failure to pay, obligation acceleration, repudiation or moratorium or restructuring of any obligation on Eskom bonds).

Cash flow hedges

Contractual cash flows are a function of forward exchange rates and forward interest rates and is a point in time calculation that is 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.

The periods in which the cash flows of derivatives designated as cash flow hedges are expected to occur are:

	Group and company					
	Carrying amount Rm	Undiscounted cash flows Rm	0-3 months Rm	4-12 months Rm	1-5 years Rm	More than 5 years Rm
2014						
Forward exchange contracts						
Assets	685	741	378	363	–	–
Liabilities	(165)	(149)	(27)	(122)	–	–
Cross-currency swaps						
Assets	9 144	19 753	(15)	(9)	(1 466)	21 243
Liabilities	(502)	719	(69)	(1 707)	(2 653)	5 148
	9 162	21 064	267	(1 475)	(4 119)	26 391
2013						
Forward exchange contracts						
Assets	862	627	242	385	–	–
Liabilities	(136)	(231)	(44)	(187)	–	–
Interest rate swaps						
Liabilities	(572)	(756)	(37)	(97)	(409)	(213)
Cross-currency swaps						
Assets	5 444	11 295	(38)	(715)	(1 717)	13 765
Liabilities	(219)	(80)	(46)	(42)	(105)	113
	5 379	10 855	77	(656)	(2 231)	13 665

Gains or losses recognised in the hedging reserve in equity are first recognised in the initial cost carrying amount of the asset or liability when the forecast transaction results in the recognition of a non-financial asset or non-financial liability. Therefore, gains and losses recognised in the hedging reserve in equity will affect profit or loss in the periods during which the relevant non-financial assets are depreciated or finance cost is recognised for the relevant financial liability.

Notes to the financial statements (continued)

for the year ended 31 March 2014

14. Derivatives held for risk management (continued)

Cash flow hedges (continued)

The periods in which the cash flows associated with derivatives are expected to impact profit or loss are:

Group and company

	Carrying amount Rm	Undiscounted cash flows Rm	0-3 months Rm	4-12 months Rm	1-5 years Rm	More than 5 years Rm
2014						
Forward exchange contracts						
Assets	685	741	378	363	–	–
Liabilities	(165)	(2 967)	(27)	(122)	(130)	(2 688)
Cross-currency swaps						
Assets	9 144	19 753	(15)	(9)	(1 466)	21 243
Liabilities	(502)	719	(69)	(1 707)	(2 653)	5 148
	9 162	18 246	267	(1 475)	(4 249)	23 703
2013						
Forward exchange contracts						
Assets	862	627	242	385	–	–
Liabilities	(136)	1 357	(44)	(187)	67	1 521
Interest rate swaps						
Liabilities	(572)	(756)	(37)	(97)	(409)	(213)
Cross-currency swaps						
Assets	5 444	11 295	(38)	(715)	(1 717)	13 765
Liabilities	(219)	(80)	(46)	(42)	(105)	113
	5 379	12 443	77	(656)	(2 164)	15 186

Day-one gain/loss

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

Group and company

	2014 Rm	2013 Rm
Loss at beginning of the year	252	325
Day-one (gain)/loss recognised	(329)	13
Amortised to profit or loss	(91)	(86)
(Gain)/loss at end of the year	(168)	252

The day-one (gain)/loss is included within *debt securities and borrowings* in the statement of financial position.

15. Finance lease receivables

Gross receivables	1 165	1 252
Unearned finance income	(627)	(697)
Present value of minimum lease payments	538	555
Maturity analysis of gross receivables from finance leases		
Due within one year	86	87
Due between one and five years	342	342
Due after five years	737	823
Future finance charges	(627)	(697)
	538	555
Maturity analysis of net receivables from finance leases		
Non-current	520	538
Due between one and five years	99	87
Due after five years	421	451
Current		
Due within one year	18	17
	538	555
Average implicit rate (%)	13	13

Finance lease receivables mainly comprise premium power supply equipment contracts. Refer to note 4.1.1 (d).

	2014			2013
	Payments made in advance Rm	Environmental rehabilitation trust fund Rm	Total Rm	Total Rm
16. Payments made in advance				
Group				
Balance at beginning of the year	4 299	180	4 479	3 591
Transfer to profit or loss	(658)	–	(658)	(269)
Transfer to the statement of financial position	(1 847)	–	(1 847)	(1 735)
Payments made during the year	3 325	141	3 466	2 892
	5 119	321	5 440	4 479
Maturity analysis	5 119	321	5 440	4 479
Non-current	2 355	321	2 676	2 646
Current	2 764	–	2 764	1 833
Company				
Balance at beginning of the year	4 189	180	4 369	3 543
Transfer to profit or loss	(652)	–	(652)	(268)
Transfer to the statement of financial position	(1 847)	–	(1 847)	(1 735)
Payments made during the year	3 259	141	3 400	2 829
	4 949	321	5 270	4 369
Maturity analysis	4 949	321	5 270	4 369
Non-current	2 188	321	2 509	2 520
Current	2 761	–	2 761	1 849

Payments made in advance

Payments made in advance comprises of payments made to suppliers and to issuers of loan facilities. Payments made to suppliers are made to reserve manufacturing capacity for the future construction of assets and for future goods and services. 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. Payments made to loan facility issuers are for commitment and issuing fees. These amounts are transferred to the loan balances when the loan is accessed.

Environmental rehabilitation trust fund

Payments made in advance also include contributions made by Eskom to an environmental rehabilitation trust fund. The fund was established to fund Eskom's financial obligation in respect of the rehabilitation of certain coal mines from which Eskom sources its coal for the generation of electricity. The fund is controlled by third parties to be solely utilised for the said environmental rehabilitation.

	Note	Group		Company	
		2014 Rm	2013 Rm	2014 Rm	2013 Rm
17. Trade and other receivables					
Financial instruments		16 581	14 956	16 898	14 732
Trade receivables		20 662	17 104	20 269	16 692
Other receivables		1 644	2 130	2 339	2 285
Allowance for impairment of trade and other receivables	4.1.2(g)	(5 725)	(4 278)	(5 710)	(4 245)
Non-financial instruments					
VAT receivable		24	428	–	390
		16 605	15 384	16 898	15 122
Maturity analysis		16 605	15 384	16 898	15 122
Non-current		27	459	16	8
Current		16 578	14 925	16 882	15 114

Collateral obtained

Eskom has called upon security deposits and guarantees from customers who have defaulted on their accounts. The carrying amount of the security deposits and guarantees which were called upon is R52 million (2013: R38 million) for the group and R49 million (2013: R36 million) for the company.

Notes to the financial statements (continued)

for the year ended 31 March 2014

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
18. Inventories				
Coal and liquid fuel	5 276	5 330	5 276	5 330
Nuclear fuel	1 456	856	1 456	856
Maintenance spares and consumables	5 690	6 065	5 403	5 794
	12 422	12 251	12 135	11 980
The group and company reversed R1 million (2013: R1 million) of a previous inventory write down. The amount reversed has been included in <i>net impairment loss</i> in profit or loss. Refer to note 36.				
19. Financial trading assets and liabilities				
Financial trading assets				
Repurchase agreements	2 325	778	2 325	778
Negotiable certificates of deposit	334	193	334	193
Listed shares	1 039	693	–	–
Government bonds	541	921	541	921
Fixed deposits	–	126	–	126
Other money market securities	26	24	26	24
	4 265	2 735	3 226	2 042
Financial trading liabilities				
Short-sold government bonds	752	204	752	204
Commercial paper issued	762	388	762	388
Repurchase agreements	4 144	763	4 144	763
	5 658	1 355	5 658	1 355

Encumbered assets

Eskom has concluded sale and repurchase transactions of commercial paper, comprising Eskom bonds and government bonds, with approved counterparties. The group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions. At year end Eskom has sold and is committed to repurchase commercial paper after year end with a fair value of R4 144 million (2013: R1 215 million). Of this amount, R4 091 million (2013: R1 191 million) relates to government securities and R53 million (2013: R24 million) to Eskom bonds.

Collateral held

Eskom has concluded the purchase of commercial paper (Eskom and government bonds) from approved counterparties and has committed to sell this commercial paper back to the counterparties in the following financial year. Although Eskom has legal title to the commercial paper at year end, it has not been recognised on the statement of financial position as a result of the commitment to resell. This has also resulted in the recognition of a receivable with a fair value of R2 325 million (2013: R1 230 million) recorded in financial trading assets and cash and cash equivalents (depending on original maturity) at year end. Of this amount, R1 714 million (2013: R443 million) relates to government securities and R611 million (2013: R787 million) to Eskom bonds. The total receivable is secured by commercial paper of an equivalent fair value.

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
20. Cash and cash equivalents				
Bank balances ¹	10 757	10 457	10 194	9 667
Unsettled deals	1 489	–	1 489	–
Fixed deposits	7 361	163	7 361	163
Other	69	–	–	–
	19 676	10 620	19 044	9 830

1. Includes an amount of R54 million (2013: R54 million) in PBMR that is subject to a restriction that prohibits the transfer of the cash within the group or to the shareholder.

21. Non-current assets and liabilities held-for-sale

A discontinued operation is a component which has been disposed of or is classified as held-for-sale as it is intended to be sold and it represents a separate major line of business or geographical area of operations.

Indirectly held subsidiary – Eskom Energie Manantali s.a (EEM)

During the prior year an interim operating and maintenance contract between EEM and Société de Gestion de l'Energie de Manantali (SOGEM) was approved until 30 June 2013 and the process to finalise an additional 10-year contract was in progress.

The authorities of the countries involved decided in January 2014 that there would be one more attempt by EEM and SOGEM to reach agreement on the 10-year operating and maintenance contract through mediation, and if this process was not successful by 30 April 2014 EEM will exit from the arrangement. Although significant progress was made, agreement on this contract could not be reached by the cut off date.

Based on the above, it is management's determination that the assets and liabilities of EEM constitute non-current assets and liabilities held-for-sale in terms of IFRS 5 *Non-current assets held-for-sale and discontinued operations*. Details regarding EEM can be found under service concession arrangements. Refer to note 22.

A consolidated analysis of the assets and liabilities held-for-sale are disclosed as follows:

	Group			2013 Total Rm
	EEM	2014 Aviation assets Rm	Total	
	Rm	Rm	Rm	
Income statements				
Revenue	117	–	117	93
Net employee benefit expense	(61)	–	(61)	(35)
Net impairment reversal	–	–	–	28
Depreciation and amortisation expense	(9)	–	(9)	(8)
Other operating expenses	(40)	–	(40)	(56)
Operating profit before finance income	7	–	7	22
Other income	29	–	29	6
Operating profit before finance income	36	–	36	28
Finance income	28	–	28	24
Profit before tax	64	–	64	52
Income tax	(1)	–	(1)	(5)
Profit for the year from discontinued operations	63	–	63	47
Statements of cash flows				
Net cash (used in)/from operating activities	(23)	–	(23)	48
Net cash from investing activities	–	7	7	46
	(23)	7	(16)	94
Statements of financial position				
Assets				
Non-current assets				
Property, plant and equipment	29	1	30	8
Current assets				
Inventories	7	–	7	–
Trade and other receivables	9	–	9	–
Cash and cash equivalents	101	–	101	–
	146	1	147	8
Liabilities				
Current liabilities				
Provisions	10	–	10	–
Trade and other payables	101	–	101	–
Taxation	2	–	2	–
	113	–	113	–

Notes to the financial statements (continued)

for the year ended 31 March 2014

22. Service concession arrangements

The Eskom group operates two service concessions for the generation and/or transmission of electricity, through its operations in Mali and Uganda.

Mali

EEM entered into an operation and maintenance agreement with SOGEM in 2001 to operate and maintain a 200 MW hydro-electricity facility in Mali and supply power to the national electrical companies in Mali, Senegal and Mauritania. The dam, hydro-electric generating plant and eastern and western transmission networks together constitute the energy assets in terms of the agreement. The concession period was originally 15 years (ending December 2017).

EEM is responsible for the day-to-day maintenance, repairs and replacement of the energy assets.

During the prior year an interim operating and maintenance contract between EEM and SOGEM was approved until 30 June 2013 and the process to finalise an additional 10-year contract was in progress.

The authorities of the countries involved decided in January 2014 that there would be one more attempt by EEM and SOGEM to reach agreement on the 10-year operating and maintenance contract through mediation, and if this process was not successful by 30 April 2014 EEM will exit from the arrangement. Although significant progress was made, agreement on this contract could not be reached by the cut off date.

Based on the above, it is management's determination that the assets of EEM constitute non-current assets held-for-sale in terms of IFRS 5. The operations have been classified as discontinued operations, and the comparatives in the income statement and statement of cash flows have been restated in terms of IFRS 5. Refer to note 21.

Uganda

Eskom Uganda Limited (Eskom Uganda) entered into an operation and maintenance agreement with Uganda Electricity Generation Company Limited (UEGCL) in 2002, which is linked to a power purchase agreement concluded with Uganda Electricity Transmission Company Limited (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 substation, land and movable property together constitute the 'energy assets' in terms of the agreement. The concession period is 20 years (ends in December 2023).

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

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

	Eskom Uganda		EEM	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
Income statements				
Revenue	124	100	117	93
Profit before tax	29	12	64	52
Income tax	(10)	(4)	(1)	(5)
Profit for the year	19	8	63	47
Statements of financial position				
Assets				
Property, plant and equipment	–	–	29	30
Intangible assets	114	76	–	–
Inventories	25	18	7	7
Payments made in advance	16	–	–	–
Trade and other receivables	28	27	9	4
Cash and cash equivalents	19	19	101	125
	202	140	146	166
Liabilities				
Debt securities and borrowings	35	18	–	–
Provisions	9	8	10	10
Trade and other payables	15	15	101	119
Other liabilities	5	9	2	–
	64	50	113	129

The underlying assets are included in the respective asset categories in the statement of financial position. Balances relating to EEM are included in non-current assets and liabilities held-for-sale for the 2014 financial year.

	Group		Company	
	2014 R	2013 R	2014 R	2013 R
23. Share capital				
Authorised				
1 000 ordinary shares of R1 each	1 000	1 000	1 000	1 000
Issued				
1 ordinary share of R1	1	1	1	1

In terms of the memorandum and articles of association, the unissued share capital is under the control of the Government of the Republic of South Africa, represented by the Department of Public Enterprises (DPE), as the sole shareholder.

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
24. Debt securities and borrowings				
Eskom bonds	102 080	88 063	102 080	88 063
Promissory notes	35	83	35	83
Commercial paper	14 635	8 422	12 962	6 751
Eurorand zero coupon bonds	3 484	3 080	3 484	3 080
Foreign bonds	29 100	16 146	29 100	16 146
Development financing institutions	49 256	38 089	49 256	38 089
Export credit facilities	31 506	22 501	31 506	22 501
Floating rate notes	–	3 826	–	3 826
Subordinated loan from shareholder	24 393	22 349	24 393	22 349
Other loans	331	397	–	–
	254 820	202 956	252 816	200 888
Maturity analysis	254 820	202 956	252 816	200 888
Non-current	234 562	190 776	233 042	189 406
Current	20 258	12 180	19 774	11 482

	Currency	Security number	Interest rate		Nominal		Maturity date	Group		Company	
			2014	2013	2014	2013		Carrying value		Carrying value	
			%	%	m	m		2014 Rm	2013 Rm	2014 Rm	2013 Rm
Eskom bonds					101 350	86 944		102 080	88 063	102 080	88 063
	ZAR	EL15 ¹	2.87	2.87	5 000	5 000	Jun 15	6 380	6 060	6 380	6 060
	ZAR	ES15 ¹	7.79	7.77	4 684	4 705	Aug 15	4 713	4 734	4 713	4 734
	ZAR	ES18 ¹	9.18	9.18	9 405	9 580	Apr 18	9 818	10 007	9 818	10 007
	ZAR	E170 ²	10.07	10.06	11 300	11 513	Aug 20 ³	13 401	13 714	13 401	13 714
	ZAR	ES23 ¹	9.41	9.27	11 435	11 743	Jan 23	12 044	12 419	12 044	12 419
	ZAR	ES26 ¹	9.03	9.06	17 665	16 337	Apr 26	16 842	15 490	16 842	15 490
	ZAR	EL28 ¹	2.24	2.24	3 000	3 000	May 28	3 480	3 310	3 480	3 310
	ZAR	EL29 ¹	1.73	1.76	3 000	1 751	Nov 29	3 330	1 837	3 330	1 837
	ZAR	EL30 ¹	2.38	–	2 455	–	Jul 30	2 500	–	2 500	–
	ZAR	ES33 ¹	8.84	8.83	25 279	23 315	Sep 33	22 253	20 492	22 253	20 492
	ZAR	ES42 ¹	9.96	–	8 127	–	Apr 42	7 319	–	7 319	–
Promissory notes ²					110	170		35	83	35	83
	ZAR	PN06	–	16.13	–	60	Feb 14	–	53	–	53
	ZAR	PN07	15.34	15.34	20	20	Aug 20	8	7	8	7
	ZAR	PN08	15.08	15.08	20	20	Aug 21	7	6	7	6
	ZAR	PN09	14.80	14.80	35	35	Aug 22	11	9	11	9
	ZAR	PN10	14.61	14.61	35	35	Aug 23	9	8	9	8
Balance carried forward to next page								102 115	88 146	102 115	88 146

1. Government guaranteed.

2. Secured by Eskom's assets (section 7 of Eskom Conversion Act).

3. Latest in a range of maturity dates is indicated for these instruments.

Notes to the financial statements (continued)

for the year ended 31 March 2014

24. Debt securities and borrowings (continued)

	Currency	Security number	Interest rate		Nominal		Maturity date	Group		Company	
			2014	2013	2014	2013		Carrying value		Carrying value	
			%	%	m	m		2014	2013	2014	2013
						Rm	Rm	Rm	Rm		
Balance carried forward from previous page								102 115	88 146	102 115	88 146
Commercial paper					14 899	8 604		14 635	8 422	12 962	6 751
ZAR	n/a	–	6.11	–	597	May 13	–	601	–	–	–
ZAR	n/a	5.70	5.29	13 239	6 944	Mar 15 ³	12 962	6 751	12 962	6 751	–
ZAR	n/a	6.82	6.22	382	382	May 14	384	384	–	–	–
ZAR	n/a	6.66	6.04	316	316	May 15	319	318	–	–	–
ZAR	n/a	6.86	6.52	429	229	May 16	432	231	–	–	–
ZAR	n/a	6.84	–	397	–	May 18	400	–	–	–	–
ZAR	n/a	10.58	10.59	131	131	May 20	133	132	–	–	–
ZAR	n/a	8.93	8.33	5	5	May 20	5	5	–	–	–
Eurobond zero coupon bonds ²				17 500	17 500		3 484	3 080	3 484	3 080	
ZAR	n/a	13.93	13.93	2 000	2 000	Dec 18	1 076	944	1 076	944	
ZAR	n/a	13.33	13.33	8 000	8 000	Aug 27	1 497	1 321	1 497	1 321	
ZAR	n/a	11.89	11.89	7 500	7 500	Dec 32	911	815	911	815	
Foreign bonds				2 750	1 750		29 100	16 146	29 100	16 146	
USD	n/a	5.75	5.75	1 750	1 750	Jan 21	18 536	16 146	18 536	16 146	
USD	n/a	6.75	–	1 000	–	Aug 23	10 564	–	10 564	–	
Development financing institutions ³				30 783	22 478		49 256	38 089	49 256	38 089	
ZAR	n/a	9.67	9.52	9 000	7 000	Mar 29	9 200	7 173	9 200	7 173	
USD	n/a	1.46	1.62	291	291	Aug 28	3 077	2 679	3 077	2 679	
ZAR	n/a	7.03	6.43	1 933	2 000	Aug 28	1 949	2 021	1 949	2 021	
EUR	n/a ¹	0.67	0.76	499	326	Aug 29	7 278	3 856	7 278	3 856	
ZAR	n/a ¹	5.81	5.22	10 314	9 932	Aug 29	10 408	10 016	10 408	10 016	
ZAR	n/a	8.78	6.50	248	30	Jun 31	249	31	249	31	
ZAR	n/a	6.13	5.53	1 661	1 755	Mar 32	1 666	1 760	1 666	1 760	
USD	n/a ¹	0.62	0.81	875	1 144	May 38	9 245	10 553	9 245	10 553	
ZAR	n/a ¹	9.04	–	5 961	–	May 38	6 177	–	6 177	–	
USD	n/a ¹	0.25	–	1	–	May 51	7	–	7	–	
Export credit facilities ³				20 240	19 058		31 506	22 501	31 506	22 501	
JPY	n/a	1.65	1.45	16 349	15 751	May 22	1 666	1 538	1 666	1 538	
EUR	n/a	1.02	0.99	113	107	Feb 24	1 627	1 246	1 627	1 246	
EUR	n/a	1.30	1.26	17	19	Jul 24	242	214	242	214	
EUR	n/a	5.07	5.14	909	869	Jan 27	12 685	9 687	12 685	9 687	
EUR	n/a	2.82	2.80	756	753	Jul 27	10 454	8 356	10 454	8 356	
ZAR	n/a	7.73	7.22	1 795	1 559	Jul 27	1 689	1 460	1 689	1 460	
USD	n/a	2.32	–	301	–	Mar 31	3 143	–	3 143	–	
Floating rate notes ¹				–	3 800		–	3 826	–	3 826	
ZAR	n/a	–	5.76	–	1 800	Aug 26	–	1 812	–	1 812	
ZAR	n/a	–	5.93	–	2 000	Aug 33	–	2 014	–	2 014	
Subordinated loan from shareholder				60 000	60 000		24 393	22 349	24 393	22 349	
ZAR	n/a	7.52	7.52	5 000	5 000	Dec 38	2 364	2 198	2 364	2 198	
ZAR	n/a	8.95	8.95	5 000	5 000	Mar 39	2 106	1 933	2 106	1 933	
ZAR	n/a	9.43	9.43	7 500	7 500	Jun 39	2 938	2 685	2 938	2 685	
ZAR	n/a	9.15	9.15	7 500	7 500	Sep 39	3 041	2 785	3 041	2 785	
ZAR	n/a	9.57	9.57	7 500	7 500	Dec 39	2 904	2 650	2 904	2 650	
ZAR	n/a	9.52	9.52	7 500	7 500	Mar 40	2 949	2 692	2 949	2 692	
ZAR	n/a	9.54	9.54	5 000	5 000	Jun 40	1 986	1 813	1 986	1 813	
ZAR	n/a	8.58	8.58	5 000	5 000	Sep 40	2 159	1 988	2 159	1 988	
ZAR	n/a	9.03	9.03	5 000	5 000	Dec 40	2 048	1 878	2 048	1 878	
ZAR	n/a	9.81	9.81	5 000	5 000	Mar 41	1 898	1 727	1 898	1 727	
Other loans				354	396		331	397	–	–	
ZAR	n/a	7.13	7.73	246	298	Jul 16	223	299	–	–	
ZAR	n/a	–	–	108	98	–	108	98	–	–	
							254 820	202 956	252 816	200 888	

1. Government guaranteed.

2. Secured by Eskom's assets (section 7 of Eskom Conversion Act).

3. Latest in a range of maturity dates is indicated for these instruments.

Subordinated loan from shareholder

The subordinated loan from the shareholder of R60 billion has been fully drawn down in 2011. Eskom is obliged to pay interest on the loan when Eskom is solvent and the debt leverage conditions per the agreement are satisfied. The interest on the subordinated loan is not cumulative.

The loan has been classified as a financial liability in accordance with IAS 32 *Financial instruments: presentation* and has been measured at amortised cost. The loan was initially measured at fair value and the difference between the fair valued amount and the advanced amount accounted for under *borrowings* gave rise to a day-one gain. This day-one gain is disclosed in equity, under *equity reserve* (refer to note 2.15).

For details of the valuation of the subordinated loan from shareholder. Refer to note 3(e).

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
25. Embedded derivatives				
Embedded derivative liabilities				
Commodity and/or foreign currency	8 757	10 286	8 757	10 286
Foreign currency or interest rate	1	1	–	–
United States PPI and foreign currency	574	1 194	574	1 194
	9 332	11 481	9 331	11 480
Maturity analysis	9 332	11 481	9 331	11 480
Non-current	7 871	10 095	7 870	10 095
Current	1 461	1 386	1 461	1 385
Included in the non-current balances above are the following amounts with maturities of greater than five years:				
Commodity and/or foreign currency	1 764	3 352	1 764	3 352
PPI and foreign currency	437	919	437	919
	2 201	4 271	2 201	4 271

Refer to note 3(a) and 4.2 for information about sensitivities and assumptions relating to embedded derivatives.

	Group and company			2013 Total Rm
	2014		Total Rm	
	Government grant Rm	Capital contributions received from customers Rm		
26. Deferred income				
Balance at beginning of the year	8 823	2 746	11 569	10 269
Additions and transfers	2 179	234	2 413	1 895
Income recognised	(547)	(143)	(690)	(595)
	10 455	2 837	13 292	11 569
Maturity analysis	10 455	2 837	13 292	11 569
Non-current	9 825	2 693	12 518	10 907
Current	630	144	774	662

	Note	Group and company	
		2014 Rm	2013 Rm
The total income for the group and company of R690 million (2013: R595 million) is disclosed in profit or loss in the following categories:			
Depreciation and amortisation expense	35	(547)	(462)
Other revenue		(143)	(133)
		(690)	(595)

Government grant

The government's transitional electrification programmes are managed by Eskom on behalf of the Department of Energy (DoE). The funding for the electrification of homes is provided by the DoE. Eskom retains ownership of and responsibility for the electrification assets created upon conclusion of the agreement.

Capital contributions received from customers

Contributions relating to the construction of electricity network assets were paid in advance by electricity customers.

Notes to the financial statements (continued)

for the year ended 31 March 2014

	Post-employment medical benefits Rm	Leave Rm	2014 Annual and performance bonus Rm	Other Rm	Total Rm	2013 Total Rm
27. Employee benefit obligations						
Group						
Balance at beginning of the year	9 993	1 719	1 587	612	13 911	11 614
Total amount charged to profit or loss and other comprehensive income	524	625	2 397	38	3 584	5 197
Amounts used	(283)	(522)	(2 206)	(1)	(3 012)	(2 900)
	10 234	1 822	1 778	649	14 483	13 911
Maturity analysis	10 234	1 822	1 778	649	14 483	13 911
Non-current	9 922	–	–	–	9 922	10 282
Current	312	1 822	1 778	649	4 561	3 629
Company						
Balance at beginning of the year	9 788	1 599	1 469	605	13 461	11 225
Total amount charged to profit or loss and other comprehensive income	469	609	2 188	36	3 302	5 041
Amounts used	(276)	(495)	(2 062)	–	(2 833)	(2 805)
	9 981	1 713	1 595	641	13 930	13 461
Maturity analysis	9 981	1 713	1 595	641	13 930	13 461
Non-current	9 674	–	–	–	9 674	10 053
Current	307	1 713	1 595	641	4 256	3 408

	Note	Group		Company	
		2014 Rm	2013 Rm	2014 Rm	2013 Rm
The total charge in profit or loss and other comprehensive income is disclosed in the following categories:					
Post-employment medical benefits	27.1	524	1 933	469	1 904
Leave	27.2	625	597	609	569
Annual and performance bonus	27.3	2 397	2 061	2 188	1 963
Pension benefits	27.4	1 888	2 308	1 768	2 207
		5 434	6 899	5 034	6 643
27.1 Post-employment medical benefits					
The group has anticipated expenditure in terms of continued contributions to medical aid subscriptions in respect of qualifying employees who retire.					
The amounts recognised in profit or loss are:		1 406	1 161	1 381	1 139
Current service cost	34	537	414	531	409
Finance cost	41	869	747	850	730
The amounts recognised in other comprehensive income are:					
Remeasurements of post-employment medical benefits (actuarial (gain)/loss)		(882)	772	(912)	765
Demographic assumptions		18	–	–	–
Financial assumptions		(831)	983	(845)	974
Experience adjustments		(69)	(211)	(67)	(209)
		524	1 933	469	1 904

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 R312 million and the company expects to pay R307 million in contributions to this plan in the 2015 financial year.

Expected maturity analysis of undiscounted post-employment medical benefits:

	1 year Rm	1-2 years Rm	2-5 years Rm	After 5 years Rm	Total Rm
2014					
Group					
Post-employment medical benefits	312	346	1 346	123 920	125 924
Company					
Post-employment medical benefits	307	338	1 314	121 740	123 699

Risks

The post-employment obligation is administered by funds that are legally separated from the group. The boards of the funds are required by law to act in the best interest of the plan participants and are responsible for setting certain policies including investment, contribution and indexation of the funds.

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

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

The expected current service cost for the 2015 financial year is estimated at R471 million for the group and R465 million for the company. Refer to note 3(b) for the sensitivity analysis and principal actuarial assumptions used.

	Note	Group		Company	
		2014 Rm	2013 Rm	2014 Rm	2013 Rm
27.2 Leave					
The group recognises a liability for occasional and service leave (refer to note 3(c)).					
The total charge is disclosed in profit or loss in the <i>net employee benefit expense</i>	34	625	597	609	569
27.3 Annual and performance bonus					
The annual bonus equals one month's salary for employees on Tuned Assessment of Skills and Knowledge (TASK) grading levels 1 to 13. Employees on TASK grading levels 14 to 26 can choose to spread their bonus amount over the year or take it as a thirteenth cheque. The performance bonus is based on the performance of the company and employees.					
The total charge is disclosed in profit or loss in the <i>net employee benefit expense</i>	34	2 397	2 061	2 188	1 963
27.4 Pension benefits					
The total contribution is disclosed in profit or loss in the <i>net employee benefit expense</i>	34	1 888	2 308	1 768	2 207
The net benefit asset at the reporting date is not accounted for in the financial statements. The rules of the Eskom Pension and Provident Fund (EPPF) state that any deficit on the valuation of the fund will be funded by increases in future contributions or reductions in benefits. If there is a substantial surplus on the valuation of the fund, future contributions may be decreased or benefits may be improved as determined by the trustees of the fund.					
The EPPF is registered in terms of the Pensions Funds Act. All employees are members of the fund. Contributions comprise 20.8% of pensionable emoluments of which members pay 7.3%. The assets of the fund are held separately from those of the group in respect of funds under the control of the trustees.					
The fund was valued actuarially on the IAS 19 <i>Employee benefits</i> basis on 31 March 2014 (previous valuation at 31 March 2013). The actuarial present value of retirement benefits at 31 March 2014 was R80 837 million (2013: R82 504 million), while the fair value of the fund's assets was R106 042 million (2013: R90 571 million).					
Valuation assumptions					
The principal actuarial assumptions used were:					
Long-term investment return before tax (%)		9.70	8.80	9.70	8.80
Future general salary increases (%)		7.90	7.50	7.90	7.50
Future pension increases (inflation) (%)		6.40	6.00	6.40	6.00
In-service mortality for group and company are the adjusted PA(90) tables rated down by two years.					
Pensioner mortality for group and company are the adjusted PA(90) tables rated down by two years.					

Notes to the financial statements (continued)

for the year ended 31 March 2014

	Note	2014				Total	2013 Total
		Power station-related environmental restoration – nuclear plant ¹	Power station-related environmental restoration – other generating plant ²	Mine-related closure, pollution control and rehabilitation ³	Other ⁴		
		Rm	Rm	Rm	Rm	Rm	Rm
28. Provisions							
Group							
Balance at beginning of the year		7 177	6 762	4 309	8 487	26 735	16 818
Provision raised for the year		1 588	(418)	(224)	6 126	7 072	7 467
Raised to the income statement		831	146	121	1 271	2 369	4 056
Capitalised to property, plant and equipment		745	(564)	–	4 855	5 036	2 814
Capitalised to inventory		12	–	(132)	–	(120)	110
Capitalised to future fuel		–	–	(213)	–	(213)	487
Finance cost		566	598	281	11	1 456	2 569
Unwinding of discount	41	828	705	341	11	1 885	1 509
Change in discount rate applied to provision	41	(262)	(107)	(60)	–	(429)	1 060
Transfer from non-current assets held-for-sale		–	–	–	(10)	(10)	201
Amounts used		–	–	–	(4 495)	(4 495)	(320)
		9 331	6 942	4 366	10 119	30 758	26 735
Maturity analysis		9 331	6 942	4 366	10 119	30 758	26 735
Non-current		9 331	6 942	4 366	518	21 157	20 087
Current		–	–	–	9 601	9 601	6 648
Company							
Balance at beginning of the year		7 177	6 762	4 309	7 752	26 000	16 339
Provision raised for the year		1 588	(418)	(224)	6 096	7 042	7 301
Raised to the income statement		831	146	121	1 241	2 339	3 890
Capitalised to property, plant and equipment		745	(564)	–	4 855	5 036	2 814
Capitalised to inventory		12	–	(132)	–	(120)	110
Capitalised to future fuel		–	–	(213)	–	(213)	487
Finance cost		566	598	281	7	1 452	2 566
Unwinding of discount	41	828	705	341	7	1 881	1 506
Change in discount rate applied to provision	41	(262)	(107)	(60)	–	(429)	1 060
Amounts used		–	–	–	(4 299)	(4 299)	(206)
		9 331	6 942	4 366	9 556	30 195	26 000
Maturity analysis		9 331	6 942	4 366	9 556	30 195	26 000
Non-current		9 331	6 942	4 366	454	21 093	20 022
Current		–	–	–	9 102	9 102	5 978

1. Provision is made for the estimated decommissioning cost of nuclear plant and for the management of nuclear fuel assemblies and radioactive waste. Refer to note 3(d).

2. Provision is made for the estimated decommissioning cost of all other generating plant. Refer to note 3(d).

3. Provision is made for the estimated cost of closure, pollution control, rehabilitation and mine employee benefits at the end of the life of the mines, where a constructive and contractual obligation exists to pay coal suppliers. Refer to note 3(d).

4. Includes provision made for contractual obligations to maintain and restore the infrastructure under service concession arrangements, onerous contracts, compensation claims and guarantees.

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
29. Finance lease liabilities				
Gross liabilities	1 367	1 466	1 698	1 882
Future finance charges	(867)	(955)	(929)	(1 056)
Present value	500	511	769	826
Maturity analysis of gross liability				
Due within one year	98	95	173	175
Due between one and five years	396	436	642	711
Due after five years	873	935	883	996
	1 367	1 466	1 698	1 882
Future finance charges	(867)	(955)	(929)	(1 056)
	500	511	769	826
Maturity analysis of net liability				
Non-current	488	501	705	770
Due between one and five years	72	79	280	291
Due after five years	416	422	425	479
Current				
Due within one year	12	10	64	56
	500	511	769	826
Average implicit rate (%)	18	18	18	18
30. Trade and other payables				
Financial instruments	29 266	31 597	30 922	31 224
Trade and other payables	20 824	21 436	21 924	20 545
Accruals	6 133	8 251	6 689	8 769
Deposits	2 309	1 910	2 309	1 910
Non-financial instruments				
VAT payable	302	–	213	–
	29 568	31 597	31 135	31 224
Maturity analysis	29 568	31 597	31 135	31 224
Non-current	1 037	2 598	1 073	1 326
Current	28 531	28 999	30 062	29 898
Non-current trade and other payables consists mainly of retention payables.				
31. Payments received in advance				
Upfront capital contributions	3 880	3 871	3 880	3 871
Grant funding	1 531	1 149	1 531	1 149
Other	305	523	292	511
	5 716	5 543	5 703	5 531
Maturity analysis	5 716	5 543	5 703	5 531
Non-current	3 589	2 554	3 589	2 554
Current	2 127	2 989	2 114	2 977
32. Revenue				
Electricity revenue	136 869	126 663	136 869	126 663
Other revenue	2 637	2 112	1 444	699
	139 506	128 775	138 313	127 362

Notes to the financial statements (continued)

for the year ended 31 March 2014

	Note	Group		Company	
		2014 Rm	2013 Rm	2014 Rm	2013 Rm
33. Primary energy					
Own generation costs		54 186	44 380	54 186	44 380
Environmental levy		8 530	7 971	8 530	7 971
International electricity purchases		3 311	2 070	3 311	2 070
Independent power producers		3 266	2 956	3 266	2 956
Other		519	3 371	519	3 371
		69 812	60 748	69 812	60 748
Own generating costs relates to the cost of coal, uranium, water and liquid fuels that are used in the generation of electricity. Eskom use a combination of short-, medium- and long-term agreements with suppliers for coal purchases and long-term agreements with the DWA to reimburse the department for the cost incurred in supplying water to Eskom.					
34. Net employee benefit expense					
Salaries		17 372	15 974	16 390	15 001
Overtime		1 616	1 440	1 417	1 252
Post-employment medical benefits	27.1	537	414	531	409
Leave	27.2	625	597	609	569
Annual and performance bonus	27.3	2 397	2 061	2 188	1 963
Pension benefits	27.4	1 888	2 308	1 768	2 207
Direct costs of employment		24 435	22 794	22 903	21 401
Direct training and development		326	391	300	377
Temporary and contract staff costs		5 565	4 459	3 906	3 127
Other staff costs		998	982	960	925
Employee benefit expense capitalised to property, plant and equipment		(5 702)	(5 062)	(5 685)	(5 054)
		25 622	23 564	22 384	20 776
35. Depreciation and amortisation expense					
Depreciation of property, plant and equipment	6	11 635	9 803	11 709	9 684
Amortisation of intangible assets	7	849	619	772	565
Deferred income recognised (government grant on electrification)	26	(547)	(462)	(547)	(462)
		11 937	9 960	11 934	9 787
36. Net impairment loss					
Impairment		1 574	1 056	1 565	1 038
Property, plant and equipment	6	46	6	40	3
Inventories		11	3	10	3
Loans receivable		15	9	–	–
Trade and other receivables (net of reversals)	4.1.2(g)	1 502	1 038	1 515	1 032
Reversal		(2)	(6)	(2)	(6)
Property, plant and equipment	6	(1)	(5)	(1)	(5)
Inventories	18	(1)	(1)	(1)	(1)
Bad debts recovered		(15)	(11)	(14)	(11)
		1 557	1 039	1 549	1 021

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
37. Other operating expenses				
Managerial, technical and other fees	2 906	3 589	2 826	3 548
Direct research and development	35	17	35	17
Operating lease expense	1 272	841	587	346
Auditors' remuneration ¹	126	96	105	83
Net loss on disposal of property, plant and equipment	179	124	176	133
Government grant	(43)	44	(43)	44
Income	(312)	(23)	(312)	(23)
Expenses incurred	269	67	269	67
Repairs and maintenance, transport and other expenses	14 702	18 328	20 654	20 751
	19 177	23 039	24 340	24 922
38. Other income				
Insurance proceeds	–	–	384	449
Management fee income	–	–	751	734
Operating lease income	331	260	175	171
Dividend income	27	34	21	16
Sale of scrap	199	252	199	255
Other income	405	580	343	627
	962	1 126	1 873	2 252
39. Net fair value loss on financial instruments, excluding embedded derivatives				
Gain on financial trading assets held-for-trading	(234)	(154)	(109)	(147)
Loss on financial trading assets held-for-trading	59	236	59	236
Loss on financial trading liabilities held-for-trading	36	78	36	78
Net gain on derivatives held for risk management ²	(10 602)	(7 091)	(10 602)	(7 091)
Net gain on other financial assets held-for-trading	(9)	(4)	(10)	(1)
Net loss on financial liabilities measured at amortised cost	11 624	8 699	11 633	8 700
Ineffective portion of changes in fair value of cash flow hedges	(254)	(109)	(254)	(109)
	620	1 655	753	1 666
40. Finance income				
Loans and receivables	1 417	1 566	1 729	1 861
Available-for-sale financial assets	988	1 158	823	971
Finance lease receivables	70	72	70	72
	2 475	2 796	2 622	2 904

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

2. Includes forward exchange contract premium of R2 909 million (2013: R2 530 million) for the company.

Notes to the financial statements (continued)

for the year ended 31 March 2014

	Note	Group		Company	
		2014 Rm	2013 Rm	2014 Rm	2013 Rm
41. Finance cost					
Debt securities and borrowings		16 448	(1 771)	16 438	(1 812)
Interest expense		14 404	11 794	14 394	11 753
Subordinated loan from shareholder		2 044	3 730	2 044	3 730
Remeasurement of subordinated loan from shareholder ¹		–	(17 295)	–	(17 295)
Derivatives held for risk management – interest rate and cross-currency swaps		1 523	1 687	1 523	1 687
Borrowing costs capitalised to property, plant and equipment	6	(13 290)	(3 678)	(13 290)	(3 678)
Unwinding of discount		2 906	2 404	2 883	2 384
Post-employment medical benefits	27	869	747	850	730
Provisions	28	1 885	1 509	1 881	1 506
Trade and other payables		116	148	116	148
Other		36	–	36	–
Change in discount rate of provisions	28	(429)	1 060	(429)	1 060
Finance lease liabilities		89	91	116	125
		7 247	(207)	7 241	(234)

42. Income tax

Current tax		193	200	–	–
Deferred tax	11	1 944	1 656	1 520	2 117
Reversal of temporary differences		3 999	3 566	3 235	4 027
Tax losses		(2 055)	(1 910)	(1 715)	(1 910)
		2 137	1 856	1 520	2 117

	2014			2013		
	Before tax Rm	Tax Rm	After tax Rm	Before tax Rm	Tax Rm	After tax Rm
Income tax recognised in other comprehensive income						
Group						
Available-for-sale financial assets						
Net change in fair value	(377)	106	(271)	43	(12)	31
Cash flow hedges	4 471	(1 252)	3 219	1 992	(556)	1 436
Effective portion of changes in fair value	5 697	(1 595)	4 102	2 791	(780)	2 011
Net amount transferred to initial carrying amount of hedged items	(1 226)	343	(883)	(799)	224	(575)
Foreign currency translation differences	(23)	–	(23)	(49)	–	(49)
Remeasurement of post-employment medical benefits	882	(251)	631	(772)	207	(565)
	4 953	(1 397)	3 556	1 214	(361)	853
Company						
Available-for-sale financial assets						
Net change in fair value	(376)	105	(271)	43	(12)	31
Cash flow hedges	4 471	(1 252)	3 219	1 992	(556)	1 436
Effective portion of changes in fair value	5 697	(1 595)	4 102	2 791	(780)	2 011
Net amount transferred to initial carrying amount of hedged items	(1 226)	343	(883)	(799)	224	(575)
Remeasurement of post-employment medical benefits	912	(255)	657	(765)	214	(551)
	5 007	(1 402)	3 605	1 270	(354)	916

1. There was no remeasurement of the subordinated loan from shareholder in 2014 as there was no change in estimated future cash flows.

	Group		Company	
	2014 %	2013 %	2014 %	2013 %
Reconciliation of the effective tax rate				
Taxation as a percentage of profit before tax	23.34	26.54	21.89	26.83
Taxation effect of:				
Non-taxable income	4.80	3.17	6.27	2.64
Expenses not deductible for tax purposes	(0.14)	(1.71)	(0.16)	(1.47)
Standard tax rate	28.00	28.00	28.00	28.00

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
43. Cash generated from operations				
Profit before tax	9 163	6 992	6 944	7 890
Adjustments for:	21 925	22 620	21 602	22 150
Depreciation and amortisation expense	11 937	9 960	11 934	9 787
Depreciation expense – primary energy	13	13	13	13
Net impairment loss (excluding bad debts recovered)	1 572	1 050	1 563	1 032
Net fair value (gain)/loss on financial instruments including embedded derivatives	(1 529)	7 597	(1 396)	7 608
Net loss on disposal of property, plant and equipment	179	124	176	133
Dividend income	(27)	(34)	(21)	(16)
Increase in provisions	5 930	7 734	5 667	7 436
Decrease in deferred income	(143)	(133)	(143)	(133)
Payments made in advance recognised in profit or loss	658	269	652	268
Payments received in advance recognised in profit or loss	(1 478)	(843)	(1 463)	(824)
Other non-cash items	(6)	(16)	1	(16)
Finance income	(2 475)	(2 796)	(2 622)	(2 904)
Finance cost	7 247	(207)	7 241	(234)
Share of profit of equity-accounted investees after tax	(43)	(35)	–	–
Non-current assets held-for-sale	90	(63)	–	–
	31 088	29 612	28 546	30 040
Changes in working capital:	(10 455)	(828)	(9 396)	(1 193)
Increase in payments made in advance	(3 466)	(2 892)	(3 400)	(2 829)
Decrease/(increase) in inventories	550	(2 260)	568	(2 125)
Increase in trade and other receivables	(3 103)	(1 387)	(3 250)	(2 808)
Increase in loans receivable	(230)	(44)	–	–
(Decrease)/increase in trade and other payables	(764)	5 182	(231)	5 807
Expenditure incurred on provisions	(7 507)	(3 220)	(7 132)	(3 011)
Increase in payments received in advance	4 065	3 793	4 049	3 773
	20 633	28 784	19 150	28 847

Notes to the financial statements (continued)

for the year ended 31 March 2014

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
44. Guarantees and contingent liabilities				
Eskom issues guarantees for strategic and business purposes to facilitate other business transactions.				
44.1 Financial guarantees				
(a) Long-term debt raised by Motraco				
Motraco, a private joint venture company between Eskom, Electricidade de Mocambique and Swaziland Electricity Board, owns transmission lines connecting the South African, Mozambican and Swaziland national grids to establish a secure source of electrical power for the Mozal aluminium smelter in Maputo, Mozambique.				
Eskom has guaranteed the long-term debt raised by Motraco. At 31 March 2014 the outstanding amount was USD16 million (2013: USD18 million), which translates into R165 million (2013: R167 million). The loans of USD16 million mature on 6 September 2019. The guarantees would be triggered if Motraco was unable to meet its obligations in terms of the long-term debt.				
The risk of default resulting from the political risk in Mozambique is mitigated through a guarantee arranged with an established international insurance company, which specialises in facilitating investments in high risk, low income countries.				
The risk adjusted credit exposure of Motraco is calculated by applying a rating agency's annual default probabilities. Applying the default probability of 0.20% (2013: 0.20%), the financial liability in respect of these guarantees is calculated as Rnil (2013: Rnil).				
The default probability trend into the future is seen to be positive, and changes in variables will not have a significant impact on profit or loss.				
No payments have been made in terms of these guarantees since their inception in 1999.				
The unprovided portion, disclosed as a contingent liability, amounted to	165	167	165	167
(b) EFC loans to group employees				
EFC has granted loans (secured by mortgage bonds on the properties) to 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. At 31 March 2014 the guaranteed amounts were R1 119 million (2013: R1 041 million).				
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. The default probability for the unsecured portion of the EFC loan book (representing 3% of the loan book) is calculated at 27% (2013: 27%), while the secured portion of the loan book (97% of the loan book) is calculated at 0.01% (2013: 0.01%). Applying the combined default probability, the financial liability in respect of this guarantee is calculated at R1 million (2013: R1 million). This amount has been included as a provision in Eskom in the current year, and is included in other provisions. Refer to note 28.				
Changes in variables will not have a significant impact on profit or loss.				
The unprovided portion, disclosed as a contingent liability, amounted to	–	–	1 118	1 040
Summary of financial guarantees				
Unprovided portion	165	167	1 283	1 207
Amounts provided in other provisions	–	–	1	1
	165	167	1 284	1 208

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
44.2 Other guarantees				
(a) Guarantees to South African Revenue Services (SARS) for customs duty Customs duty and import VAT are normally due upon declaration of imported goods at the port of entry (harbour or airport). SARS allows Eskom up to a maximum of 37 days after declaration date before the customs duty and import VAT must be settled on the deferment account. SARS requires Eskom to provide a bank guarantee to secure the debt when it becomes due. All conditions of the deferral of the customs duty and import VAT have been met. The total amount disclosed as a contingent liability amounted to	183	183	183	183
(b) 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.				
44.3 Other contingent liabilities				
(a) Legal claims Legal claims are in process against Eskom as a result of contractual 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	50	58	50	58
45. Commitments				
45.1 Capital expenditure				
Estimated capital expenditure	175 255	206 741	171 089	200 788
Contracted	59 718	70 344	59 579	70 295
Approved, not yet contracted for	115 537	136 397	111 510	130 493
The expenditure is expected to be incurred as follows:	175 255	206 741	171 089	200 788
Due within one year	60 855	66 157	58 967	64 959
Due between one and five years	112 161	111 648	109 883	106 893
Due after five years	2 239	28 936	2 239	28 936
This expenditure will be financed through debt and internally generated funds. The capital programme will be reviewed and reprioritised by management in line with the funds available.				
45.2 Operating leases				
As lessee				
The future minimum lease payments payable under non-cancellable operating leases are:	312	162	308	158
Due within one year	119	94	116	91
Due between one and five years	193	68	192	67
As lessor				
The future minimum lease payments receivable under non-cancellable operating leases are:	355	435	355	435
Due within one year	47	64	47	64
Due between one and five years	308	371	308	371

Notes to the financial statements (continued)

for the year ended 31 March 2014

46. Related-party transactions

The group is wholly owned by its shareholder, the government, represented by the DPE.

Eskom (and its subsidiaries) are classified as Schedule 2 public entities in terms of the PFMA.

Eskom's government related parties include national departments (including the shareholder), constitutional institutions, public entities (schedule 1, 2 and 3) and local government (including municipalities).

Eskom's transactions with local government (with the exception of municipalities) are not individually significant when compared to the total value of the transactions between Eskom and other government related parties and are therefore not disclosed separately. These include, among others, transactions as a result of services provided to government hospitals and libraries.

Related parties also comprise subsidiaries of Eskom, associates and joint ventures of the group and post-employment 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.

The list of public entities in the national sphere of government is provided by National Treasury on its website www.treasury.gov.za. It also provides the names of subsidiaries of public entities.

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 49.

The following transactions were carried out with related parties:

	Note	Group		Company	
		2014 Rm	2013 Rm	2014 Rm	2013 Rm
Transactions					
Sales of goods and services ¹		72 639	67 984	73 950	69 468
National departments		608	669	599	668
Local government		64 644	60 956	64 644	60 956
Public entities		4 689	3 907	4 623	3 836
Eskom subsidiaries		–	–	1 386	1 559
Joint venture in which Eskom is a partner		2 698	2 452	2 698	2 449
Government grant funding received for electrification					
National departments		2 887	2 363	2 887	2 363
Purchases of goods and services ²		12 874	8 336	21 833	15 590
National departments		1 263	950	1 262	950
Local government		1 138	882	1 130	882
Public entities		8 252	4 036	8 173	4 031
Eskom subsidiaries		–	–	9 167	7 360
Joint venture in which Eskom is a partner		333	160	333	160
Other related parties	34	1 888	2 308	1 768	2 207
Finance income		1 371	1 458	1 724	1 784
National departments		773	740	773	740
Local government		303	179	303	179
Public entities		295	539	295	539
Eskom subsidiaries		–	–	353	326
Finance cost		6 047	6 947	6 168	7 036
National departments		2 046	3 731	2 046	3 731
Public entities		3 923	3 183	3 923	3 183
Eskom subsidiaries		–	–	121	89
Other related parties		78	33	78	33
Lease income		75	61	78	71
Public entities		75	61	75	61
Eskom subsidiaries		–	–	3	10
Lease expenses					
Eskom subsidiaries		–	–	–	1
Finance lease finance cost					
Eskom subsidiaries		–	–	26	34
Environmental levy					
Public entities	33	8 530	7 971	8 530	7 971

1. Goods and services are sold to related parties on an arm's length basis at market-related prices.

2. Goods and services are bought from related parties on an arm's length basis at market prices.

	Note	Group		Company	
		2014 Rm	2013 Rm	2014 Rm	2013 Rm
Outstanding balances (due by related parties)					
Receivables and amounts owed by related parties		8 447	6 987	9 569	8 066
National departments		21	54	19	54
Local government		6 927	5 142	6 927	5 142
Public entities		1 181	1 568	1 132	1 529
Eskom subsidiaries		–	–	1 173	1 118
Joint venture in which Eskom is a partner		318	223	318	223
Payments made in advance		30	21	35	105
Public entities		30	21	30	21
Eskom subsidiaries		–	–	5	84
Loan to Eskom subsidiaries ¹		–	–	6 665	6 223
Indirect transactions – assets at nominal value					
National departments		8 094	10 091	8 094	10 091
Total due by related parties		16 571	17 099	24 363	24 485
Cash and cash equivalents					
Public entities		7 835	5 944	7 835	5 944
Outstanding balances (due to related parties)					
Payables ² and amounts owed to related parties		62 603	62 193	65 807	65 339
National departments		60 113	60 071	60 112	60 071
Subordinated loan from shareholder	24	60 000	60 000	60 000	60 000
Other		113	71	112	71
Local government		80	279	79	279
Public entities		1 955	1 640	1 866	1 639
Eskom subsidiaries		–	–	3 295	3 147
Joint venture in which Eskom is a partner		44	10	44	10
Other related parties		411	193	411	193
Payments received in advance					
National departments		1 531	1 478	1 531	1 478
Loan from subsidiaries ¹		–	–	2 453	2 003
Debt securities and borrowings ³		61 867	47 763	61 867	47 763
Public entities		60 686	46 811	60 686	46 811
Other related parties		1 181	952	1 181	952
Indirect transactions – liabilities at nominal value					
National departments		805	188	805	188
Total due to related parties		126 806	111 622	132 463	116 771
Guarantees					
Guarantees received		350 077	350 095	350 077	350 095
National departments		350 000	350 000	350 000	350 000
Committed		153 611	153 611	153 611	153 611
Uncommitted		196 389	196 389	196 389	196 389
Local government		43	42	43	42
Public entities ⁴		34	53	34	53
Guarantees issued		348	350	1 466	1 390
National departments	44.2	183	183	183	183
Eskom subsidiaries	44.1	–	–	1 118	1 040
Joint venture in which Eskom is a partner	44.1	165	167	165	167

Commitments

Eskom does not have any commitments with its related parties.

1. The loans to and from subsidiaries is payable on demand. The effective interest rate on the loans to subsidiaries is 5.91% (2013: 5.29%).

2. Purchase transactions with related parties are at an arm's length basis with payment terms of 30 days from invoice date.

3. Bonds are bearer instruments and it is therefore unknown if the initial counterparty still holds the bonds.

4. The guarantees from state-owned entities are for future or unpaid electricity consumption accounts.

Notes to the financial statements (continued)

for the year ended 31 March 2014

47. Events after the reporting date

There were no significant events after the reporting date.

48. Restatement of comparatives

The following restatements and reclassifications which had an impact on the financial statements, were made:

Eskom Energie Manantali s.a (EEM)

During the prior year an interim operating and maintenance contract between EEM and SOGEM was approved until 30 June 2013 and the process to finalise an additional 10-year contract was in progress.

The authorities of the countries involved decided in January 2014 that there would be one more attempt by EEM and SOGEM to reach agreement on the 10-year operating and maintenance contract through mediation, and if this process was not successful by 30 April 2014 EEM will exit from the arrangement. Although significant progress was made, agreement on this contract could not be reached by the cut off date.

Based on the above, it is management's determination that the assets of EEM constitute non-current assets held-for-sale in terms of IFRS 5. The operations have been classified as discontinued operations, and the comparatives in the income statement and statement of cash flows have been restated in terms of IFRS 5.

Reclassification of comparative figures

Certain comparative figures have been reclassified in order to improve disclosure. These include the government grant received for electrification which was reclassified from other income into other operating expenses and in the cash flow statement the foreign currency translation reserve is now shown separately apart from cash flows from operating, investing and financing activities.

The impact of the restatements is as follows:

	Group			Company		
	Previously reported Rm	Adjustments Rm	Restated Rm	Previously reported Rm	Adjustments Rm	Restated Rm
Income statements for the year ended 31 March 2013						
Continuing operations						
Revenue	128 869	(94)	128 775	127 362	–	127 362
Primary energy	(60 748)	–	(60 748)	(60 748)	–	(60 748)
Net employee benefit expense	(23 599)	35	(23 564)	(20 776)	–	(20 776)
Depreciation and amortisation expense	(9 968)	8	(9 960)	(9 787)	–	(9 787)
Net impairment loss	(1 011)	(28)	(1 039)	(1 021)	–	(1 021)
Other operating expenses	(23 123)	84	(23 039)	(24 945)	23	(24 922)
Operating profit before net fair value loss and net finance income	10 420	5	10 425	10 085	23	10 108
Other income	1 155	(29)	1 126	2 275	(23)	2 252
Net fair value loss on financial instruments excluding embedded derivatives	(1 655)	–	(1 655)	(1 666)	–	(1 666)
Net fair value loss on embedded derivatives	(5 942)	–	(5 942)	(5 942)	–	(5 942)
Operating profit before net finance income	3 978	(24)	3 954	4 752	–	4 752
Net finance income	3 027	(24)	3 003	3 138	–	3 138
Finance income	2 820	(24)	2 796	2 904	–	2 904
Finance cost	207	–	207	234	–	234
Share of profit of equity-accounted investees after tax	35	–	35	–	–	–
Profit before tax	7 040	(48)	6 992	7 890	–	7 890
Income tax	(1 857)	1	(1 856)	(2 117)	–	(2 117)
Profit for the year from continuing operations	5 183	(47)	5 136	5 773	–	5 773
Discontinued operations						
Profit for the year from discontinued operations	–	47	47	–	–	–
Profit for the year	5 183	–	5 183	5 773	–	5 773

	Group			Company		
	Previously reported Rm	Adjustments Rm	Restated Rm	Previously reported Rm	Adjustments Rm	Restated Rm
Cash flow statements for the year ended 31 March 2013						
Cash flows from operating activities						
Cash generated from operations	28 832	(48)	28 784	28 847	–	28 847
Non-current assets held-for-sale	–	48	48	–	–	–
Other net cash flows from operating activities	(1 163)	–	(1 163)	(905)	–	(905)
Net cash from operating activities	27 669	–	27 669	27 942	–	27 942
Cash flows from investing activities						
Acquisitions of property, plant and equipment	(53 494)	49	(53 445)	(53 742)	–	(53 742)
Other net cash flows from investing activities	(4 914)	–	(4 914)	(4 365)	–	(4 365)
Net cash used in investing activities	(58 408)	49	(58 359)	(58 107)	–	(58 107)
Cash flows from financing activities						
Net cash from financing activities	21 784	–	21 784	21 600	–	21 600
Net increase/(decrease) in cash and cash equivalents	(8 955)	49	(8 906)	(8 565)	–	(8 565)
Cash and cash equivalents at beginning of the year	19 450	–	19 450	18 395	–	18 395
Foreign currency translation	–	(49)	(49)	–	–	–
Cash and cash equivalents at beginning of the year attributable to non-current assets held-for-sale	125	–	125	–	–	–
Cash and cash equivalents at end of the year	10 620	–	10 620	9 830	–	9 830

49. Directors' remuneration¹

Remuneration philosophy

Eskom links management remuneration to the performance of the organisation and an individual's contribution. Market factors are also crucial as rewards and remuneration must be kept at levels that will assist Eskom in retaining key leadership skills. Basic salary is augmented by short- and long-term incentives.

International and local benchmarks are considered to ensure executive packages are aligned with those offered by companies of similar stature to Eskom. Eskom aims to remunerate in line with the median of the market to recruit and retain the best management team to lead the business.

The executive remuneration strategy is constantly reviewed to stay aligned with the DPE remuneration guidelines and abreast with best practices.

People and governance committee

The people and governance committee assists the board to apply policy relating to the remuneration of directors and executives as set by Eskom's shareholder. The policy also covers the nomination of executives for senior positions and conditions of service.

The committee enhances business performance by:

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

Non-executive directors

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

Non-executive directors receive a fixed monthly fee and are reimbursed for out-of-pocket expenses incurred in fulfilling their duties.

Executive management committee members

The committee makes recommendations to the board concerning the remuneration of the chief executive, and approves the remuneration of the other Exco members (group executives). The remuneration is considered in accordance with a framework approved by the shareholder. The board recommendation on the remuneration of the chief executive has to be approved by the shareholder.

Factors influencing the remuneration of the Exco members include level of skill, experience, contribution to organisational performance and success of the group. Remuneration includes a basic package and short- and long-term incentives.

Every year, the people and governance committee reviews the structure of these packages to ensure an appropriate balance between fixed and variable remuneration and short- and long-term incentives and rewards.

The chief executive, finance director and group executives have permanent employment contracts based on Eskom's standard conditions of service. Six month's notice is required.

¹ Includes remuneration of the chief executive, finance director and Exco members (group executives who are senior executives but not directors of Eskom).

Notes to the financial statements (continued)

for the year ended 31 March 2014

49. Directors' remuneration (continued)

Remuneration structure

The remuneration of the Exco members includes the following components:

Guaranteed amount

They receive a guaranteed pay package with remuneration based on cost to company. This comprises a fixed cash portion and compulsory benefits (medical aid, life cover and pension). The guaranteed amount is reviewed annually to keep remuneration in line with the market.

Short-term incentives

These reward the achievement of individual predetermined performance objectives and targets (these are linked to the shareholder compact) as set by the chief executive in performance contracts with each Exco member. The people and governance committee approves the targets set for the chief executive.

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

Long-term incentives

These are designed to attract, retain and reward the Exco members for meeting the organisational objectives set by the shareholder. A market benchmarked long-term incentive scheme has been approved by the shareholder effective from 1 April 2005.

Long-term incentive scheme

A number of performance shares (award performance shares) were awarded to the Exco members on 1 April 2010, 2011, 2012 and 2013.

The value of the performance shares is deemed to be R1 at grant date, and is escalated at a money market rate to determine the value at reporting date.

The board has set performance conditions in line with the Eskom corporate plan and shareholder compact over a three-year performance period. Performance covers financial and non-financial targets in areas such as ensuring business sustainability of Eskom, ensuring reliability of supply to all South Africans, ensuring that future power needs for South Africa are adequately provided for and supporting the developmental objectives of South Africa, with an agreed weighting in each category.

Awards only vest if, and to the extent that, these targets are met. Potential vesting percentages range from 0% to 100%. A threshold and a stretch target are set for each measure, with an expected (on target) vesting of 50%.

Performance parameters aligned with the shareholder compact and corporate plan are complemented by a set of gatekeeper conditions. If gatekeeper requirements are not met, the board at its discretion may adjust the vesting percentages even though targets have been met.

The following gatekeeper conditions trigger a review of vesting percentages:

- if the lost-time incidence rate is greater than 0.45
- if the sustainability committee gives an unfavourable safety report
- if Eskom's audited financial statements show a financial loss
- if the auditors qualify Eskom's financial statements
- if a significant PFMA contravention occurs
- if enhancement of Eskom's reputation is not achieved

The vesting period for award performance shares is three years from the date of grant. At the end of that period, the people and governance committee decides the amounts to be paid in line with:

- the percentage of award performance shares that vest, based on the performance conditions achieved
- the value of the award performance shares based on the grant value, escalated at a money market rate

In addition to the performance conditions, vesting of award performance shares is dependent on the scheme participant remaining in Eskom's employment throughout the vesting period. The award lapses if employment ceases during the vesting period (other than for permitted reasons).

Share awards – vested

Award performance shares awarded on 1 April 2011 vested on 31 March 2014 with an expected vesting rate over the three-year period of 53.48% due to the achievement of non-financial performance conditions. The cash value of the vested shares is payable in June 2014 at R1.19 per share based on the money market rate. Shares awarded on 1 April 2010 were redeemed during the year.

Shares vested on 31 March 2014 (with comparative status at 31 March 2013) are:

Name	Award performance shares vested on 31 March 2014	Award performance shares vested on 31 March 2014 at a rate of 53.48%	Award performance shares payable at R1.19 per share	Award performance shares vested on 31 March 2013	Award performance shares vested on 31 March 2013 at a rate of 48.23%	Award performance shares payable at R1.20 per share
	Number	Number	R'000	Number	Number	R'000
BA Dames	8 972 308	4 486 154	5 201	3 330 786	1 606 405	1 928
TBL Molefe	1 734 385	927 549	1 104	877 739	423 334	508
PS O'Flaherty	–	–	–	2 772 000	1 260 833	1 513
BE Bulunga	1 871 100	1 000 664	1 191	1 247 400	601 609	722
T Govender	2 072 022	1 108 117	1 319	1 801 367	868 781	1 043
EL Johnson	2 662 934	1 424 137	1 695	2 064 290	995 586	1 195
SJ Lennon	1 999 876	1 069 534	1 273	1 333 251	643 014	772
DL Marokane	2 519 731	1 347 552	1 604	2 150 400	1 037 116	1 245
A Noah	2 057 980	1 100 608	1 310	1 595 333	769 413	923
MM Ntsokolo	2 358 838	1 261 507	1 501	1 572 559	758 429	910

The current estimated vesting values of the award performance shares are R1.20 per share for the 1 April 2012 awards (vesting 31 March 2015) and R1.21 for the April 2013 awards (vesting 31 March 2016). The value of the performance shares allocated does not take into account the impact of performance conditions over the applicable three-year performance periods. The vesting percentage of 50% for the 1 April 2012 and 50% for the 1 April 2013 awards, are estimates.

Name	Shares awarded on 1 April 2013:			Shares awarded on 1 April 2012:		
	Outstanding award performance shares vesting on 31 March 2016	Award performance shares vesting on 31 March 2016 at a rate of 50%	Award performance shares payable in June 2016 at R1.21 per share	Outstanding award performance shares vesting on 31 March 2015	Award performance shares vesting on 31 March 2015 at a rate of 50%	Award performance shares payable in June 2015 at R1.20 per share
	Number	Number	R'000	Number	Number	R'000
TBL Molefe	1 829 776	914 888	1 107	1 829 776	914 888	1 098
T Govender	2 185 983	1 092 992	1 323	2 185 983	1 092 992	1 312
EL Johnson	2 809 394	1 404 697	1 700	2 809 394	1 404 697	1 686
SJ Lennon	2 109 869	1 054 935	1 276	2 109 869	1 054 935	1 266
DL Marokane	2 658 316	1 329 158	1 608	2 658 316	1 329 158	1 595
A Noah	2 171 168	1 085 584	1 314	2 171 168	1 085 584	1 303
MM Ntsokolo	2 488 574	1 244 287	1 506	2 488 574	1 244 287	1 493

The details of the schemes are:

	Long-term incentive plan	Long-term incentive plan
Date of grant	1 April 2013	1 April 2012
Number of shares awarded	16 253 080	26 428 075
Contractual life	3 years	3 years
Vesting conditions	Variable vesting depending on the achievement of performance conditions	Variable vesting depending on the achievement of performance conditions
Method of settlement	Cash	Cash
Expected attrition of employee (%)	–	–
Expected outcome of performance conditions (%)	50%	50%
	Long-term incentive plan 2014	Long-term incentive plan 2013
	Number	Number
Reconciliation of performance share movements		
Outstanding at beginning of the year	70 478 960	32 875 919
Granted during the year	16 253 080	51 733 835
Forfeited during the year	(9 231 581)	–
Settled during the year	(18 745 125)	(14 130 794)
Outstanding at end of the year	58 755 334	70 478 960
Carrying amount of liability (R'000)	26 419	24 212
Intrinsic value of liabilities relating to vested rights (R'000)	26 419	24 212

Notes to the financial statements (continued)

for the year ended 31 March 2014

49. Directors' remuneration (continued)

Details of emoluments paid

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

Name	Directors fees	Salaries ¹	Short-term bonus payment ²	2014 Long-term bonus payment ³	Other payments ⁴	Termination payments	Total	2013 Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Non-executive directors	6 440	–	–	–	637	–	7 077	6 400
ZA Tsotsi	1 152	–	–	–	637	–	1 789	1 374
BL Fanaroff	487	–	–	–	–	–	487	446
RMQ Gungubele	437	–	–	–	–	–	437	416
N Lesela	437	–	–	–	–	–	437	416
B Luthuli	551	–	–	–	–	–	551	517
C Mabude	468	–	–	–	–	–	468	459
Y Masithela	468	–	–	–	–	–	468	446
MC Matjila ⁵	493	–	–	–	–	–	493	470
B Mehlohlakulu	493	–	–	–	–	–	493	470
ME Mkwanazi	493	–	–	–	–	–	493	470
SPQ Sedibe	493	–	–	–	–	–	493	470
DEL Zondo	468	–	–	–	–	–	468	446
Executive directors	–	11 641	–	3 949	563	8 275	24 428	17 341
BA Dames ⁶	–	7 931	–	1 928	501	5 007	15 367	8 464
TBL Molefe ⁷	–	2 622	–	508	40	–	3 170	2 904
PS O'Flaherty ⁸	–	1 088	–	1 513	22	3 268	5 891	5 973
Exco members (group executives)	–	21 071	–	6 810	764	–	28 645	33 743
BE Bulunga ⁹	–	2 537	–	722	35	–	3 294	3 179
T Govender	–	2 809	–	1 043	300	–	4 152	4 485
EL Johnson	–	3 610	–	1 195	21	–	4 826	5 972
SJ Lennon	–	2 711	–	772	191	–	3 674	5 430
DL Marokane	–	3 416	–	1 245	76	–	4 737	4 555
A Noah	–	2 790	–	923	63	–	3 776	4 659
MM Ntsokolo	–	3 198	–	910	78	–	4 186	5 463
Total directors and group executives	6 440	32 712	–	10 759	1 964	8 275	60 150	57 484

1. Includes medical aid and pension fund contributions.

2. Short-term incentive bonus awarded for the 2014 financial year.

3. Long-term incentive bonus scheme – Grant 6, which vested on 31 March 2013 was paid in June 2013.

4. Fees related to security services and operating vehicle expenditure.

5. Appointed interim chief executive on 1 April 2014.

6. Resigned 31 March 2014. Included in salaries is an amount of R1.9 million relating to back-pay increases from 2010.

7. Appointed finance director on 14 January 2014. Previously group executive: Group Customer Services.

8. Resigned 10 July 2013.

9. Retired 31 January 2014.

	2014 R'000	2013 R'000
Housing loans to Exco members at 31 March		
T Govender	2 906	4 397
DL Marokane	4 563	4 646
	7 469	9 043
<p>The interest rate on the loan from EFC at 31 March 2014 was 7.25% (2013: 6.75%). The loans are repayable over a maximum period of 30 years¹.</p> <p>The following board and Exco members were directors of Eskom directly held subsidiary companies. Fees paid for attendance of meetings were all paid to Eskom Holdings.</p>		
Eskom Enterprises SOC Limited²		
DL Marokane	–	–
MM Ntsokolo ³	–	–
PS O'Flaherty ⁴	–	–
Escap SOC Limited⁵		
PS O'Flaherty ⁶	–	34
TBL Molefe ⁷	12	–
EL Johnson	–	–
Eskom Finance Company SOC Limited⁵		
BE Bulunga ⁸	–	30
PS O'Flaherty ⁸	5	10
TBL Molefe ⁷	5	–

50. New standards and interpretations

50.1 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 but have not been adopted early by the group:

Amendments to IAS 32 *Financial instruments: presentation* (effective 1 January 2014)

The amendments to IAS 32 were issued to address inconsistencies in current practice when applying the offsetting criteria in IAS 32 *Financial instruments: presentation*. The amendments clarify the meaning of *currently has a legally enforceable right of set-off*, and that certain gross settlement systems may be considered equivalent to net settlement. The group is currently in the process of evaluating the detailed requirements of this amendment to assess the possible impact on the group's financial statements.

IFRS 7 *Financial instruments: disclosure* (effective 1 January 2014)

The amendments to IFRS 7 require additional disclosure on transfer transactions of financial assets, including the possible effects of any residual risks that the transferring entity retains, if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendments also requires additional disclosure on offsetting financial assets and financial liabilities. These amendments are not expected to have a significant impact on the group's financial statements.

IFRS 9 *Financial instruments* (effective date unknown)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The International Accounting Standards Board currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. The group is continuously assessing the possible impact. The group is currently in the process of evaluating the detailed requirements of this new standard to assess the possible impact on the group's financial statements.

Amendments to IAS 36 *Impairment of assets* (effective 1 January 2014)

The amendment on recoverable amount disclosures addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment removed certain disclosures of the recoverable amount of CGUs which have been included in IAS 36 by the issue of IFRS 13. The group is busy assessing the impact.

Amendments to IAS 39 *Financial instruments: recognition and measurement* (effective 1 January 2014)

This amendment provides relief from discontinuing hedge accounting when novation (novation of derivatives) of a hedging instrument to a central counterparty meets specified criteria. The group is busy assessing the impact.

1. On resignation the terms and conditions of the loan are renegotiated.

2. Paid by Eskom.

3. Appointed in August 2013.

4. Resigned in March 2013.

5. Fees paid to Eskom.

6. Resigned in April 2013.

7. Appointed in March 2014.

8. Resigned in January 2014.

Notes to the financial statements (continued)

for the year ended 31 March 2014

50. New standards and interpretations (continued)

50.1 Standards, interpretations and amendments to published standards that are not yet effective (continued)

IFRIC 21 – *Levies* (effective 1 January 2014)

This is an interpretation of IAS 37 *Provisions, contingent liabilities and contingent assets*. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. Sets out the accounting for an obligation to pay a levy that is not income tax. The group assessed the impact and no change in the current accounting treatment is expected.

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

The group has adopted the following new standards, interpretation and amendments to existing standards for the first time for the financial year ended 31 March 2014. The nature and effect of the changes are as follows:

Amendments to IFRS 7 *Financial instruments: disclosures*, on asset and liability offsetting (effective 1 January 2013)

This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with United States Generally Accepted Accounting Principles. The effect of this change is regarded to be immaterial.

IFRS 10 *Consolidated financial statements* (effective 1 January 2013)

IFRS 10 introduces a new control model that is applicable to all investees, by focusing on whether the group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

The group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. The group reassessed the control conclusion for its investees at 1 April 2013. The effect of this change is regarded to be immaterial.

IFRS 11 *Joint arrangements* (effective 1 January 2013)

Previously, the structure of the arrangement was the sole focus of the classification. In terms of IFRS 11, the group classified its interests in joint arrangements as either joint operations or joint ventures depending on the group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the group considers the structure of the arrangements, the legal form of any separate arrangement, the contractual terms of the arrangements and other facts and circumstances.

The group has re-evaluated its involvement in its joint arrangements. There was no change in the accounting of its joint arrangements.

IFRS 12 *Disclosures of interests in other entities* (effective 1 January 2013)

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities. The group has increased the level of disclosure provided for its interests in subsidiaries, joint arrangements, associates and structured entities in line with the requirements of the new standard. Refer to note 8 and 9.

IFRS 13 *Fair value measurement* (effective 1 January 2013)

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, and when such measurements are required or permitted by other IFRS. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements regarding fair value measurements in other IFRSs, including IFRS 7 *Financial instruments: disclosures*. The group included additional disclosures in this regard. Refer to note 4.5.

In accordance with the transitional provisions of IFRS 13, the group has applied the new fair value measurement guidance prospectively.

Amendments to IAS 1 *Presentation of financial statements* (effective 1 July 2012)

The group has modified the presentation of items of other comprehensive income in its condensed statement of other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be reclassified. Comparative information has been re-presented accordingly.

The adoption of the amendment to IAS 1 had no impact on the recognised assets, liabilities or total comprehensive income of the group.

Amendments to IAS 1 *Presentation of financial statements* (effective 1 January 2013)

The amendment to IAS 1 gives clarity on when a third statement of financial position is required. This is only required if a retrospective change in accounting policy, a retrospective correction of an error or a reclassification has a material effect on information in the statement of financial position. The effect of the change is regarded as being immaterial.

IAS 19 *Employee benefits* (effective 1 January 2013) (revised)

The revised IAS 19 had no impact on the accounting policy with respect to the basis for determining the income or expense related to a defined benefit plan as there are no plan assets. There was also no impact as a result of the changes to the definitions of short-term and other long-term benefits or the changes in relation to the timing of recognition of termination benefits.

Amendment to IAS 16 *Property, plant and equipment* (effective 1 January 2013)

The amendment to IAS 16 clarifies that stand-by equipment is classified as property, plant and equipment if it meets the definition of property, plant and equipment, otherwise it may be seen as inventory. The amendment to IAS 16 did not have a significant impact on the group's financial statements.

IAS 27 *Separate financial statements* (effective 1 January 2013) (revised)

The revised IAS 27 carries forward the existing accounting and disclosure requirements for separate financial statements, with minor clarifications. The adoption of the revised IAS 27 had no impact on the separate financial statements of the company.

IAS 28 *Investments in associates and joint ventures* (effective 1 January 2013)

The revised IAS 28 carries forward the existing accounting and disclosure requirements with limited amendments. The adoption of the revised IAS 28 had no significant impact on the group's financial statements.

Amendment to IAS 32 *Financial instruments: presentation* (effective 1 January 2013)

The amendment to IAS 32 removes the concept of *net of tax* in the distribution to equity holders. The tax effect will be treated in terms of IAS 12. The adoption of the amendment had no impact on the group's financial statements.

51. Information required by the Public Finance Management Act

Losses through criminal conduct and irregular or fruitless and wasteful expenditure

In terms of the significance and materiality framework as approved by the shareholder, any losses due to criminal conduct or irregular or fruitless and wasteful expenditure, that individually (or collectively where items are closely related) exceed R25 million must be reported.

Irregular or fruitless and wasteful expenditure

Total irregular expenditure incurred was nil (2013: R20 million) (excluding non-compliance with the PPPFA discussed below) comprising six incidents. For these incidents disciplinary action has been taken.

PN Energy Services SOC Limited (PNES)

PNES is a wholly owned subsidiary of Eskom. The operations of the company were closed down in 2010, and it did not operate in the 2011 to 2014 financial years. The board of PNES investigated potential irregular and fruitless and wasteful expenditure suffered by the company during the 2009 and 2010 financial years. Eskom is taking further action against all the parties involved into the alleged breach of fiduciary duties and conflict of interests.

Preferential Procurement Policy Framework Act (PPPFA)

Eskom's exemption from the PPPFA expired on 7 December 2012. Eskom paid R22 million (2013: R447 million) for the year ending 31 March 2014 on contracts that were entered into between 8 December 2012 to 31 March 2013 that were not recalled or corrected. The amount paid during the current year is below the significance and materiality framework threshold as approved by the shareholder. Eskom will continue to meet its obligations under these contracts until expiry of the contract. All these transactions have taken place in the normal course of business and have been subject to Eskom's approved procurement policy.

Incidents of fruitless and wasteful expenditure below the materiality threshold

There were no material incidents of fruitless and wasteful expenditure suffered by the group during the reporting period. The aggregate of other fruitless and wasteful expenditure which individually (or collectively where items are closely related) were below the materiality threshold was R47 million (2013: R38 million) comprising 354 (2013: 254) incidents of which 7 (2013: 5) incidents account for R35 million (2013: R24 million). In all instances management has instituted preventive and corrective measures as considered appropriate, including disciplinary action.

Criminal conduct

Conductor theft

Losses due to conductor theft (including theft of copper cable, transformers and tower-related structures) totalled R68 million (2013: R51 million), and involved 7 166 (2013: 5 187) incidents. Actions to combat these losses are managed by the Eskom Network Equipment Crime Committee in collaboration with affected state-owned companies and the South African Police Services. The combined effort resulted in 316 (2013: 321) arrests. Stolen material worth R7 million (2013: R5 million) was recovered.

Fraud

During the reporting period no significant incidents of fraud occurred. Eskom concluded 4 (2013: 3) investigations into fraud involving an amount of R7 million (2013: R1 million). The existing internal control measures in the affected areas as well as similar areas have been reviewed and enhanced to prevent a possible reoccurrence. Disciplinary, criminal as well as civil proceedings have been instituted against those involved.

Notes to the financial statements (continued)

for the year ended 31 March 2014

52. Pro forma revaluation of property, plant and equipment (unaudited)

The group currently accounts for its property, plant and equipment using the cost model under IAS 16 *Property, plant and equipment*. The cost model requires that property, plant and equipment should be measured at cost (including borrowing cost capitalised in respect of qualifying assets), less accumulated depreciation and impairment. However, the cost model does not reflect the true economic value of the group's property, plant and equipment and the basis on which our tariff is calculated by NERSA. Therefore, a summary has been provided below reflecting what the impact on the financial statements would be if the group's property, plant and equipment was measured using the depreciated replacement cost (DRC) model. Borrowing costs were not included in the carrying amount of property, plant and equipment when determining the increase or decrease in the revaluation surplus and have therefore been expensed. The fair values determined using the DRC model were reviewed for possible impairment loss in order to determine whether or not the net future cash inflows related to the use of property, plant and equipment are less than the calculated fair value of property, plant and equipment. The fair values disclosed below are net of the adjustment made for the tariff shortfall in the first few years of R190 billion (2013: R238 billion). This shortfall is expected to be eliminated once the electricity tariff determined in terms of the regulatory methodology, which is based on the depreciated replacement values, is fully phased in by NERSA.

	2014			2013		
	Historical cost Rm	Adjustments Rm	After revaluation Rm	Historical cost Rm	Adjustments Rm	After revaluation Rm
Summarised group statements of financial position at 31 March 2014						
Assets						
Property, plant and equipment	401 373	164 836	566 209	341 429	165 073	506 502
Deferred tax assets	339	32 231	32 570	25	24 597	24 622
Other assets	103 281	–	103 281	90 570	–	90 570
	504 993	197 067	702 060	432 024	189 670	621 694
Equity and liabilities						
Total equity	119 784	118 682	238 466	109 139	118 852	227 991
Deferred tax liabilities	19 461	78 385	97 846	15 806	70 818	86 624
Other liabilities	365 748	–	365 748	307 079	–	307 079
	504 993	197 067	702 060	432 024	189 670	621 694
Summarised group income statements for the year ended 31 March 2014						
Operating profit before depreciation and amortisation expense, net impairment loss and other operating expenses	46 563	–	46 563	37 992	–	37 992
Depreciation and amortisation expense	(11 937)	(13 887)	(25 824)	(9 960)	(15 534)	(25 494)
Net impairment loss	(1 557)	45	(1 512)	(1 039)	(28)	(1 067)
Other operating expenses	(19 177)	(85)	(19 262)	(23 039)	(77)	(23 116)
Operating profit/(loss) before net finance (cost)/income	13 892	(13 927)	(35)	3 954	(15 639)	(11 685)
Net finance (cost)/income	(4 772)	(13 290)	(18 062)	3 003	(3 678)	(675)
Share of profit of equity accounted investees, net of tax	43	–	43	35	–	35
Profit/(loss) before tax	9 163	(27 217)	(18 054)	6 992	(19 317)	(12 325)
Income tax	(2 137)	7 621	5 484	(1 856)	5 409	3 553
Profit/(loss) for the year from continuing operations	7 026	(19 596)	(12 570)	5 136	(13 908)	(8 772)
Profit for the year from discontinued operations	63	–	63	47	–	47
Profit/(loss) for the year	7 089	(19 596)	(12 507)	5 183	(13 908)	(8 725)

Appendix – Abbreviations and acronyms

Accounting, audit and other financial terms	
CGU	Cash Generating Unit
CVA	Credit Value Adjustment
DRC	Depreciated Replacement Cost
DVA	Debit Value Adjustment
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
FFO	Free Funds From Operations
IAS	International Accounting Standard/(s)
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard/(s)
LIFO	Last-In-First-Out
PA	Pensioners Amounts
PPI	Producer Price Index
R	Rand
Rm	Rand Millions
VAT	Value Added Tax
Currencies	
AUD	Australian Dollar
CAD	Canadian Dollar
CHF	Swiss Franc
EUR	Euro
GBP	Pound Sterling (United Kingdom)
JPY	Japanese Yen
NOK	Norwegian Krone
SEK	Swedish Krona
USD	United States Dollar
Entities	
company	Eskom Holdings SOC Limited
EEM	Eskom Energie Manantali s.a
EFC	Eskom Finance Company SOC Limited
EPPF	Eskom Pension and Provided Fund
Escap	Escap SOC Limited
Eskom	Eskom Holdings SOC Limited
Eskom Enterprises	Eskom Enterprises SOC Limited
Eskom Uganda	Eskom Uganda Limited
group	Eskom Holdings SOC Limited and its subsidiaries
Motraco	Mozambique Transmission Company SARL
Nqaba	Nqaba Finance 1 (RF) Limited
PBMR	Pebble Bed Modular Reactor SOC Limited
PNES	PN Energy Services SOC Limited
Roshcon	Roshcon SOC Limited
SOGEM	Société de Gestion de l'Energie de Manantali
UEGCL	Uganda Electricity Generation Company Limited
UETCL	Uganda Electricity Transmission Company Limited

Appendix – Abbreviations and acronyms (continued)

Legislation	
PAA	Public Audit Act
PFMA	Public Finance Management Act
PPPFA	Preferential Procurement Policy Framework Act
Measures	
GWh	Gigawatt Hour
kg	Kilogram
km	Kilometre
L	Litre
Mt	Million tons
MVA	Mega volt ampere
MW	Megawatt
MWh	Megawatt Hour
Other	
Alco	Asset and Liability Committee
B-BBEE	Broad-Based Black Economic Empowerment
BPP	Business Productivity Programme
CSI	Corporate Social Investment
DoE	Department of Energy
DPE	Department of Public Enterprises
DWA	Department of Water Affairs
EAF	Energy Availability Factor
Exco	Executive Management Committee
IDM	Integrated Demand Management
ISO	International Standards Organisation
JSE	Johannesburg Stock Exchange
KPI	Key Performance Indicator
LTIR	Lost-Time Incidence Rate
MYPD	Multi-Year Price Determination
NERSA	National Energy Regulator of South Africa
RCA	Regulatory Clearing Account
SAIDI	System Average Interruption Duration Index
SARB	South African Reserve Bank
SARS	South African Revenue Services
TASK	Tuned Assessment of Skills and Knowledge
UCLF	Unplanned Capability Loss Factor

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