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Annual financial statements | 31 March 2018

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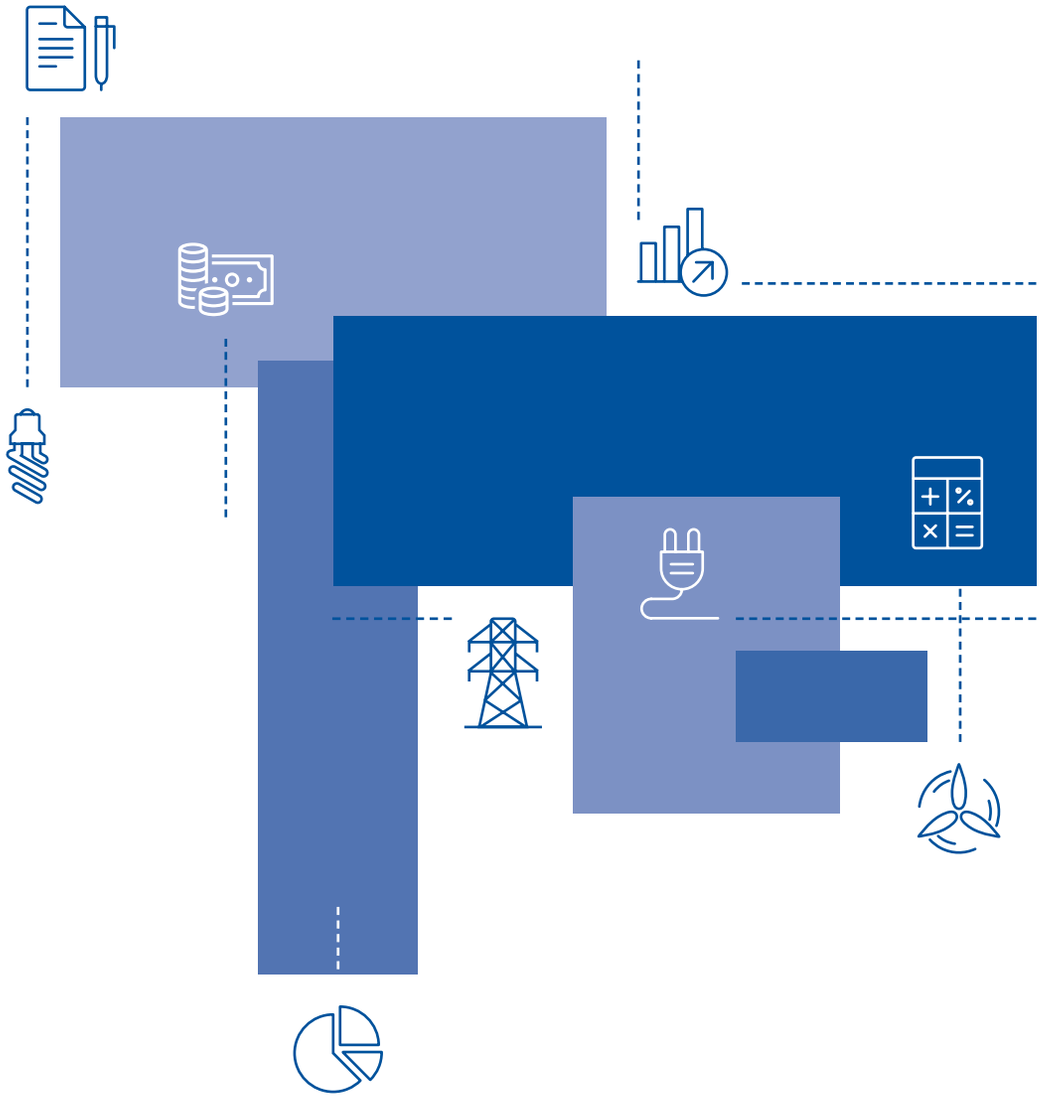


Achieving sustained success

Contents

The annual financial statements have been prepared under the supervision of the acting chief financial officer (CFO), C Cassim CA(SA). The financial statements have been audited in compliance with section 30 of the Companies Act and approved by the board of directors (the board) on 2 July 2018.

The audited financial statements of the group and Eskom as at and for the year ended 31 March 2018 are available for inspection at the company's registered office and on the Eskom website at www.eskom.co.za and were published on 23 July 2018.

Directors' report

for the year ended 31 March 2018

The directors are pleased to present their report for the year ended 31 March 2018.

Nature of the business

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

The company's head office is in Johannesburg. The nature of the business of the significant operating subsidiaries is set out in note 12 in the annual financial statements.

Overview of the year

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

The financial year ended 31 March 2018 was characterised by a number of challenges stemming mainly from the qualified audit opinion for the year ended 31 March 2017. This was due to the completeness of the irregular expenditure information in terms of the Public Finance Management Act (PFMA) requirements, the many allegations of financial mismanagement against senior officials and a myriad of other issues related to lapses in governance processes and other internal controls. These challenges, amongst others, were widely stated as the biggest contributors to the deterioration of confidence in Eskom by financial markets which constrained the group's access to funding, leading to a liquidity crunch and consequently raising serious concerns regarding the long-term financial viability and going-concern status of the group at the interim reporting period ended 30 September 2017. It was against this backdrop and in an effort to improve governance as a measure to restore the credibility and integrity of the group and to address the sustainability issues that led to an intervention by the government with the appointment of a new board of directors (board) in January 2018.

The new board appointed in the wake of ratings downgrades and with less than a quarter left of the year under review, had a clear mandate to root out financial mismanagement, malfeasance and maladministration as a critical foundation to restoring transparent and effective governance. The main focus of the board was therefore centred on addressing, through quick and decisive actions, three critical and inter-related issues seen as underpinning the stabilisation of the group:

- addressing governance related matters with urgency
- finding solutions to the liquidity issues on the face of credit ratings downgrades
- releasing the delayed interim results on a going-concern basis and avoiding an audit qualification

The board diligently delivered on its mandate and as a first step of many in inculcating a renewed culture of transparent and effective governance, released the interim results without a qualification. The action taken in the short period resulted in the external auditors issuing an emphasis of matter opinion relating to the group's status as a going concern in their review of the 30 September 2017 interim results that was prepared in terms of the requirements of IAS 34 *Interim results*. It is critical to contextualise the audit review opinion issued at 30 September 2017 as the results of the year under review are unpacked, as the interim reporting does not require a review of the information required by the PFMA, and as such the audit opinion only reflected compliance related to reporting in terms of International Financial Reporting Standards (IFRS), including the going-concern basis. The annual PFMA audit at 31 March 2018 still led to a qualification as for the greater part of 2018 the clean up had not started until the new board was appointed.

While the board is disappointed that a qualified audit could not be avoided for the year under review, it is of the view that the challenges facing the group cannot be solved overnight and remains confident that strides have been made in the key focus areas, with a number of initiatives being set in motion to address these key issues in a sustainable manner.

Governance

The board is committed to the highest level of governance and is in the process of improving governance practices and addressing challenges of the past. It is this commitment that has in the medium term resulted in a greater number of issues of impropriety and irregularity coming to light, but will in the long term set Eskom up to achieve its objective of renewal and place it on a path of sustainable success in discharging both its commercial and developmental mandate.

Some of the notable successes are as follows:

- Consequence management
  Several senior executives have departed on the back of serious allegations of misconduct. Criminal proceedings have been instituted, where relevant, and the finalisation of outstanding disciplinary hearings has been accelerated. These actions by the board have boosted investor confidence.
- Governance controls
  The board is in the process of reviewing the purpose, composition and delegation of its committees to strengthen governance and streamline responsibilities. One of its priorities was to assess the appropriateness of the board's tender committee which was widely touted as key to some of the governance lapses. The committee's purpose and mandate has been redefined as set out in the relevant section of the integrated report.
- Executive leadership stability
  A stable and capable executive leadership is key for the board to achieve its mandate and, as such, the appointment of Mr PS Hadebe as the permanent group chief executive (GCE) was prioritised and finalised. The board also resolved that the size, functional diversity and complexity of the institution warranted a three-person top team: a chief executive, a chief financial officer (CFO) and a chief operating officer (COO). The board is in the process of appointing a CFO and COO and believes that it is key not only for stabilisation and restoration, but also for the design and execution of its strategy for the future Eskom. The appointment of Mr J Oberholzer as COO was announced on 6 July 2018.

Audit qualification

There were no issues identified by the external auditors regarding the reporting in terms of IFRS. However, as a state-owned entity the PFMA requirements form part of the disclosures in the annual financial statements. The auditors qualified the completeness of the information required by the PFMA on irregular expenditure, fruitless and wasteful expenditure and losses due to misconduct in the year under review. The qualification arose because for the greater part of the year ended 31 March 2018, the group's procurement procedures generally did not comply with the PFMA and certain of the group's performance information could not be relied upon. Under the direction of the current board, the clean up was intensified leading to further irregular expenditure reported.

A supply chain recovery programme was initiated to address the 2017 year end qualified audit opinion and is monitored by the Audit and Risk Committee (ARC) as a focus area. There is an emphasis on monthly reporting, quarterly verification and embedding of an automated reporting solution. A key improvement will be continuous and active monitoring which will ensure that issues are timeously identified and dealt with.

The recovery programme is being rolled out in two phases as it is a time consuming process to clean up and implement improvements. The first phase focused on cleaning up and reviewing open contracts in terms of the PFMA requirements from the 2016 financial year. The second phase will focus on improving governance and embedding processes as well as ensuring that all requirements were adhered to from the applicable dates (mostly from 12 December 2012).

The verification and cleaning up exercise resulted in a significant increase in the number of reported irregular expenditure in 2018 (from R3.0 billion to R19.6 billion), with many of the items reported arising in prior years. Where information was not readily available, alternative methods were used where practical to identify irregular expenditure.

It is envisaged that phase two of the recovery programme will address the shortcoming identified in the audit qualification and could result in further irregular expenditure reported in the 2019 annual financial statements due to transgressions from the past.

Eskom is also is in the process of obtaining condonation for the reported irregular expenses through the relevant authority of which the majority relates to National Treasury. Eskom will request the shareholder and National Treasury to be reprieved from further clean up of historic transactions from the date when a requirement became applicable and to accept the alternative methods used to quantify historic non-compliance. This will assist with allowing resources to focus on ensuring future compliance.

While a qualification may be seen as a digression following an emphasis of matter audit review opinion at interim reporting, the board is of the view that this should be seen in context, that is, the interim review did not address the PFMA related issues and the mandate to clean up necessitated greater effort to surface and deal with all issues pre-dating the current board in order to ensure sustainable clean governance in the long term.

Liquidity and going concern

The going-concern status of the group remains a challenge. The board considered the risks relating to the going-concern status, including access to funding, low tariff increases and the group's ability to contain costs. The board is satisfied that the risks will be satisfactorily addressed with the mitigation strategies in place. It is important that these strategies materialise as envisaged to ensure that the group has access to adequate resources and facilities to be able to continue its operations for the foreseeable future. The board is of the view that the group's liquidity position has improved since September 2017 and that it is in a healthier position at year end. The detail considered by the board when assessing the group's ability to continue as a going concern is included in note 3.2 in the annual financial statements.

The key assumptions used in the going-concern assessment, including the tariff and the latest proposed salary increase, were stress tested. The National Electricity Regulator of South Africa (NERSA) determination of R32.7 billion for the 2015 to 2017 regulatory clearing accounts (RCA) will contribute positively towards future cash flows. National Treasury reconfirmed their support as Eskom is regarded as an important component of the economy.

The earnings before interest, tax, depreciation and amortisation (EBITDA) improved compared to the previous year, but the group reported a net loss after tax and most of the financial ratios deteriorated. The improvement in EBITDA is mainly as a result of a reduction in employee benefit cost due to, *interalia*, no provision made for performance bonuses in the current year as well as a reduction of 22.9% in other expenses, mostly relating to cost savings initiatives and a reduction in the power station decommissioning provision.

The 2.2% tariff increase allowed by the NERSA for the 2018 financial year impacted negatively on financial performance and required implementation of stringent cost control measures. The board acknowledges that the group's cost structure will have to be reduced and this is one of the objectives of the strategy that is currently been reviewed. The operational and capital expenditure are continuously being reviewed to maximise savings and improve cash flows. Cost containment alone will unfortunately not solve Eskom's financial position and it is important that the price of electricity should migrate towards cost reflectivity.

Eskom continues to face significant financial and liquidity challenges in the short to medium term, mainly due to the high debt burden, low sales growth, high primary energy and employee benefit expenses as well as finance costs. The impact of the 5.2% tariff increase allowed for the 2019 financial year is not expected to improve the situation as approximately 3.0% of the tariff increase has to cover the growth in IPPs expenditure, leaving only 2.2% to cover Eskom's own operating expenses. The impact of the low tariff increases (2019: 5.2% and 2018: 2.2%) will continue to place strain on Eskom's financial position with an expected further deterioration in financial ratios before there can be improvement.

The level of total arrear debt (trade receivables) remains unacceptably high, especially for municipalities and Soweto as collection remains a challenge. Eskom is continuing with interventions and have enlisted the support of government to enhance and participate in its efforts to recover outstanding amounts. The board is in the process of implementing longer disruption of supply to defaulting municipalities and is working with the inter-ministerial task team (IMMT) to resolve the high level of arrear debt.

Operationally there was an improvement in generating plant and network performance. Good progress was made on delivering on the build program with three units of the Medupi and one unit of the Kusile power stations now placed in commercial operation and delivering energy to the electricity grid. Project management and execution will be a key focus area for the board to contain time and cost overruns. Contract variations and modifications will be strictly managed.

Eskom is currently in wage negotiations with the trade unions at the Central Bargaining Forum for a three year salary increase agreement. Eskom's biggest challenge is to fund the increase offered in light of Eskom's financial sustainability and there is therefore a need for efficiency optimisation. The board is aware that in driving the Eskom of the future, the support of its employees is key and the good work and commitment of the work force during these challenging times is commendable.

Directors' report (continued)

for the year ended 31 March 2018

Strategy overview

The overall group strategy is being reviewed to ensure that the strategic, operational and financial challenges in the short and medium term are addressed. The strategy review is expected to be completed by September 2018. The revised strategy will address key industry issues such as structure and energy mix. Indications are that the short-term strategy will focus mainly on the following:

- improving the EBITDA margin so that it exceeds 35% by growing regulated and unregulated revenue and reducing cost
- recovery of arrear debt
- restricting capital expenditure to R45 billion per annum over the next three years
- investing in the cost plus mines to benefit from cheaper coal costs
- reducing the reliance on debt financing through optimisation of the balance sheet
- optimisation of the supply chain management process

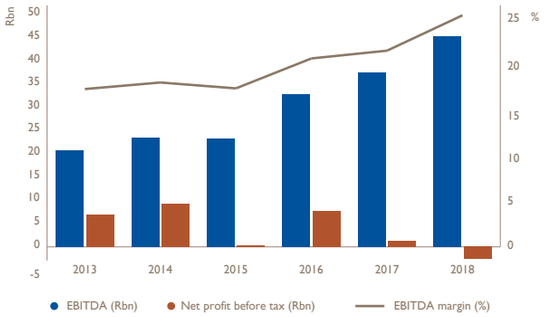
The longer-term strategy will focus on the following:

- reviewing and integrating the group's strategy to stabilise the current business, while preparing the business for growth to achieve long-term sustainability
- identifying new opportunities for growth in South Africa and the rest of the continent
- evolving the organisation's operating model to align with industry and market changes to avoid the *utility death spiral*
- embedding flexibility for a variety of future scenarios to ensure that the group controls its future

Financial performance

The group EBITDA of R45.4 billion (2017: R37.5 billion) shows a healthy increase of 21.1%. The group reported a net loss before tax of R2.6 billion (2017: R1.1 billion profit) mainly due to a substantial increase in depreciation and net finance cost. The EBITDA margin improved further to 25.6% from 21.2% in 2017, mainly due to a reduction in employee benefit expenses and other operating expenses.

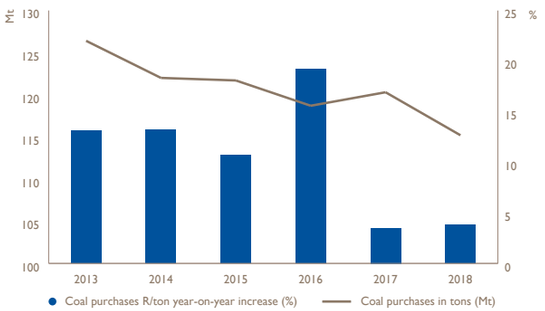
The graph reflects the growth in EBITDA and the EBITDA margin, and the decline in net profit before tax as follows:



The electricity sales of 212 190GWh were 0.9% lower than the previous year. The main reasons for the decline were as a result of self-generation by customers, customers using electricity more efficiently and that switched to alternatives energy sources as well as reduced exports to SADC countries due to good rainfall. There has been an average 0.4% decline in sales volumes per annum since 2013. Revenue was R177.4 billion (2017: R177.1 billion) for the year and increased on average at 7.4% per annum since 2013.

Primary energy costs of R85.2 billion (2017: R82.8 billion) reflect an increase of 3.0%. The portion of Eskom's own generation cost included in primary energy increased by 4.7% compared to the previous year. The increase in the purchase cost of coal per ton was contained at 3.8%. The usage of open cycle gas turbines was minimal at R0.3 billion. Eskom purchased 9 584GWh (2017: 11 529GWh) at a cost of R19.3 billion (2017: R19.8 billion) from IPPs. The average cost of IPPs increased by 17.6% to R2 016 R/MWh compared to R1 714 R/MWh in 2017.

The graph reflects the movement in the coal purchases in tons and the percentage increase per annum in coal purchases rand per ton (it is encouraging that the increase in 2017 and 2018 was below inflation) as follows:



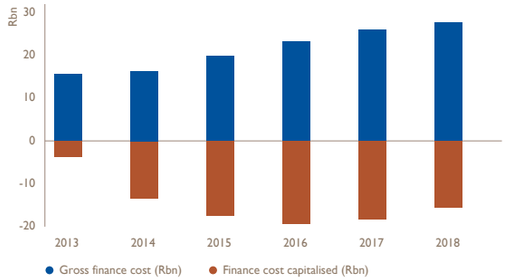
The overall employee benefit expenses before capitalisation decreased by 11.1% from R36.8 billion in 2017 to R32.7 billion in 2018. The main reason contributing to the decrease is because no performance bonuses were provided on the 2018 financial year performance.

Other operating expenses reduced by 22.9% to R18.2 billion mainly due to a reduction in the power station decommissioning provision as a result of a revision to the decommission strategy of nuclear spent fuel and better methods to decommission power stations.

Depreciation increased to R23.1 billion (2017: R20.3 billion) mainly as a result of new plant that was put into commercial operation.

Finance cost after capitalisation increased to R26.0 billion from R19.6 billion in 2017. This is mainly attributable to increased borrowings and a reduction in borrowing cost capitalised due to plant brought into commercial operation.

The graph reflects the growth in gross finance cost and the reduction in finance cost capitalised as follows:



Finance cost will continue to increase with less finance cost that can be capitalised as plant is placed into commercial operation. It is therefore important that the EBITDA margin is improved through cost containment and migration of the price of electricity to cost reflectivity.

Refer to the integrated report on page 60 for more information.

Funding

Funding of R55.5 billion was used for investment activities and R44.5 billion to service debt. It was funded by cash from operations of R37.6 billion, debt raised of R58.0 billion and utilisation of cash resources of R4.4 billion. The liquidity position, comprising cash and cash equivalents plus investment in securities, was R22.7 billion at 31 March 2018. This highlights the challenge that, while Eskom generates adequate cash to meet its operational requirements, it has to borrow to service debt and for investment activities.

The board approved a borrowing programme of R72.1 billion for the period 1 April 2018 to 31 March 2019, of which 22% had been secured by June 2018. Potential funding sources have been identified and plans are being pursued to secure the rest of the required funding.

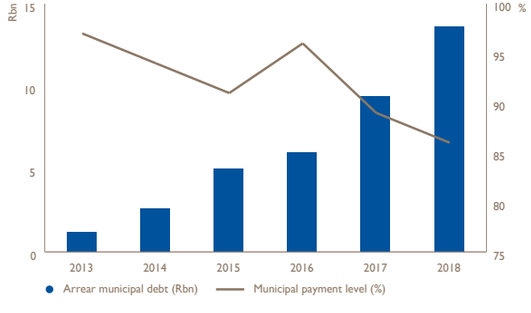
The recent downgrades of Eskom's credit rating by Standard and Poor's, Fitch and Moody's indicate that it will take time for the group's plans to ensure longer term business and financial sustainability to take effect, despite the recent improvements in corporate governance and liquidity. The group's debt portfolio was not severely impacted by the downgrades as it did not result in any prepayment requirements, pricing adjustments or potential provision of government guarantees. The current local and international market conditions remain conducive for funding even though the group may be impacted by increased funding cost in the future.

Refer to the integrated report on page 77 for more information.

Debt management

Total invoiced arrear municipal debt, including interest, increased by R4.2 billion from R9.4 billion in 2017 to R13.6 billion in 2018. The top 20 defaulting municipalities constitute 82% of total arrear municipal debt and more than 47% of the arrear debt is owed by municipalities in the Free State.

The graph reflects the growth in arrear municipal debt and the decline in municipal payment level as follows:



Directors' report (continued)
for the year ended 31 March 2018

Debt management (continued)
A total of 52 active payment agreements are in place with the defaulting municipalities, including 12 of the top 20 defaulters. However, only 28 of these are being fully honoured, with only four of the top 20 defaulters honouring their agreements fully. Electricity supply has been interrupted to 16 municipalities since September 2017. The High Court however instructed Eskom to suspend interruption to Thaba Chweu, Emalahleni and Maluti-A-Phofung municipalities, and Eskom was interdicted in March 2018 from interrupting Nketoana municipality.

An IMMT has been appointed chaired by the Minister of Cooperative Governance and Traditional Affairs (CoGTA), and consist of the Ministers of Public Enterprises, Energy, Finance, Water and Sanitation, the President of South African Local Government Association (SALGA) and the Eskom Chairman. The IMMT focuses on dealing with the high level of municipal debt owed to Eskom and finding solutions to the constitutional challenges relating to the supply and distribution of electricity.

The Standing Committee on Public Accounts recently requested stakeholders (Eskom, SALGA, National Treasury, Department of Public Enterprises, CoGTA) as well as the top 10 owing municipalities to report on the status of municipal arrear debt as the non-payment of debt has become a country problem.

Eskom is developing a communication and stakeholder strategy that will touch on the issue of *the user must pay* principle. The aim is to involve stakeholders in the campaign so that it is seen as a country initiative that can benefit Eskom, the municipalities and ultimately the public.

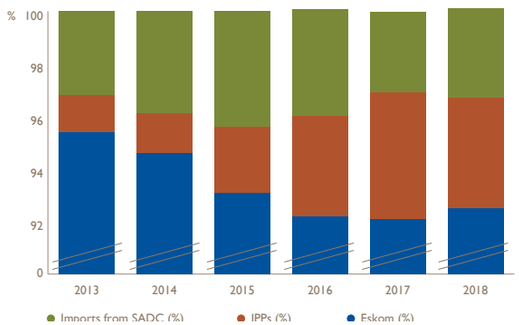
The Soweto arrear debt, including interest, increased to R12.0 billion with a payment level of 14.7%. The group will continue with the implementation of technologies to prevent tampering of meters and to facilitate the conversion of post-paid customers to a prepaid basis. The group is currently installing prepaid meters in Sandton, Midrand, Soweto and Kagiso. It installed 36 738 smart meters in these areas and 13 446 meters were converted to prepaid split metering during the year. The group is also engaging with municipalities in two provinces to install prepaid electricity meters for their customers as a pilot project.

Refer to the integrated report on page 73 for more information.

Operating performance
The energy availability factor improved marginally from 77.3% to 78.0% for the year. Particulate emissions of 0.27kg/MWhSO reflect an improvement on the 2017 performance of 0.30kg/MWhSO because there was increased opportunity for outages and lower load factors which reduced the burden on the emission abatement equipment. Water usage relating to power station operations was better at 1.30ℓ/kWhSO compared to 1.42ℓ/kWhSO in 2017. The continued focus on station-specific water strategy implementation plans, water data audits and improving water management contributed to the improved performance.

Production from Eskom sources increased marginally from the previous financial year because of a reduction in production from IPPs as Eskom did not renew co-generation and other contracts. Production from renewable IPPs increased by 31% from 7 227GWh in 2017 to 9 479GWh in 2018.

The graph reflects the breakdown of the group's production sources indicating the growth in production from IPPs that resulted in a decline in production from Eskom sources as follows:



The board is considering a strategy that will be informed by the Integrated Resource Plan to manage surplus capacity. Investigations on the options and impact thereof are currently in progress and will be deliberated on in 2019.

The transmission system minute <1 performance reflected an improvement in performance of 2.1 compared to 3.8 in the previous financial year, mainly as the impact of interruptions was limited due to effective restoration responses. The performance of the distribution network was in line with that of the previous financial year with distribution total energy losses of 7.7% (2017: 7.6%).

The group's safety performance remains a concern, particularly in light of the number of fatalities and serious injuries suffered by employees, contractors and the public during the year. Unfortunately, despite the group's intense commitment to safety, there were three employee and 12 contractor fatalities.

Refer to the integrated report on page 83 for more information.

Capacity expansion programme
Eskom continues with the building of new power stations and high-voltage power lines to meet South Africa's energy demand. Commercial operation was achieved for the Medupi power station units five and four on 3 April 2017 and 28 November 2017 respectively, and for the Kusile power station unit one on 30 August 2017.

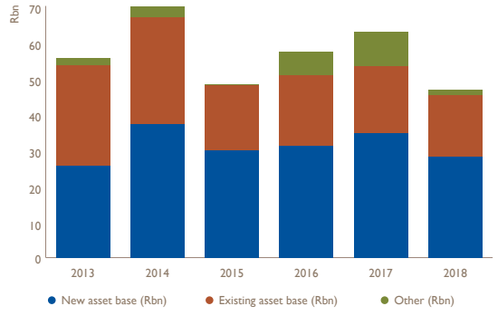
Three units at the Medupi power station (installed capacity of 2 382MW) and one unit at the Kusile power station (installed capacity of 799MW) were in commercial operation at 31 March 2018.

During the year, 722.3km of high-voltage transmission lines and 2 510MVA of substation capacity were installed and commissioned, bringing the total since inception of the capacity expansion programme to 7 469km transmission lines and 36 900MVA substation capacity.

Progress was made on the electrification programme that is funded by the Department of Energy and that targets universal access by 2020 with more than one million electrification connections achieved since 2013.

The group funded expenditure on property, plant and equipment and intangible assets for the year was R46.6 billion of which R28.2 billion relates to the construction of assets to expand the asset base, R17.0 billion was spent on refurbishing or replacing the existing asset base and the remainder relates to various other assets. Property, plant and equipment funded by the Department of Energy and assets transferred from customers for the year were R3.4 billion and R0.7 billion respectively.

The graph reflects the breakdown of the group's funded asset expenditure as follows:



Refer to the integrated report on page 96 for more information.

Economic regulation
The RCA on the multi-year price determination (MYPD) 3 for the 2015 (year 2), 2016 (year 3) and 2017 (year 4) periods totalled R66.7 billion, of which NERSA approved R32.7 billion. The process for implementation of the decision will be determined and it is expected to be implemented in a phased approach.

The RCA forecast for 2018 (year 5) is approximately R21.1 billion, mainly as a result of revenue under recovery that is offset by under expenditure on primary energy.

NERSA approved allowed revenue of R190.3 billion for 2019, which corresponds to an average standard tariff price increase of approximately 5.2% as a one-year price determination.

Eskom is in the process of preparing for the 2020 to 2022 revenue application (MYPD 4). It is envisaged that the submission will be made to NERSA during the latter half of the 2018 calendar year.

Eskom is proceeding with a court review to set aside NERSA's decision on the 2019 revenue application.

Refer to the integrated report on page 71 for more information.

Directors' report (continued)

for the year ended 31 March 2018

Performance in terms of the shareholder compact

The table below sets out Eskom's performance in terms of the key performance indicators in the shareholder compact that was reviewed by the external auditors.

The actual performance against the target is indicated as follows:

- ● Actual performance for the year is better than target
- ● Actual performance for the year is worse than target

Key performance indicator	Ref	Unit	Target 2018		Actual 2018	Actual 2017
Focus on safety						
Employee lost-time injury rate (including occupational diseases)		index	0.31	●	0.23	0.43
Improve operations						
Planned capability loss factor		%	10.00	●	10.35	12.14
Energy availability factor		%	78.00	●	78.00	77.30
System average interruption duration index		hours	39.00	●	38.80	38.90
System average interruption frequency index		number	20.00	●	18.70	18.90
System minutes <1		minutes	3.53	●	2.09	3.80
Distribution total energy losses	(a)	%	7.55	●	7.73	7.55
Deliver capital expansion						
Generation capacity installed and commissioned (commercial operation)		MW	1 460	●	2 387	1 332
Transmission lines installed		km	677.00	●	722.30	585.40
Transmission transformer capacity installed and commissioned		MVA	2 010	●	2 510	2 300
Reduce environmental footprint in existing fleet						
Relative particulate emissions		kg/MWh sent out	0.34	●	0.27	0.30
Water usage		ℓ/kWh sent out	1.37	●	1.30	1.42
Implementing coal haulage and the road-to-rail migration plan						
Migration of coal delivery volume from road to rail	(b)	Mt	12.90	●	11.59	13.20
Ensure financial sustainability						
Average debtors days (including Soweto)		days	73.38	●	71.11	57.31
Value add per full-time employee		R million	1.32	●	1.56	1.44
EBITDA margin		%	17.00	●	24.81	20.55
Debt/equity	(c)	ratio	2.65	●	2.70	2.22
Arrear debt as % of electricity revenue	(d)	%	2.17	●	2.73	2.42
Cash interest cover		ratio	1.15	●	1.18	1.73
Free funds from operations (FFO) as % of gross debt		%	7.95	●	8.80	11.30
FFO as a % of capex		%	62.86	●	76.68	74.55
Coal purchase R/ton		%	12.00	●	3.79	3.47
Business Productivity Programme savings		R billion	18.93	●	20.73	20.21
Human capital						
Training spend as % of gross employee benefit costs		%	5.00	●	5.21	4.89
Learner intake		number	500	●	726	3 048
Disability equity in total workforce		%	2.50	●	3.13	3.01
Racial equity in senior management (black employees)		%	67.78	●	67.97	65.77
Racial equity in professionals and middle management (black employees)	(e)	%	75.58	●	75.35	73.60
Gender equity in senior management (female employees)	(f)	%	38.98	●	38.25	36.69
Gender equity in professionals and middle management (female employees)		%	37.14	●	38.06	36.65

Key performance indicator	Ref	Unit	Target 2018		Actual 2018	Actual 2017
Economic impact						
Local content contracted (Eskom-wide)		%	70.00	●	87.16	73.37
Local content contracted (new build program)		%	70.00	●	85.59	85.78
Procurement spend with broad-based black economic empowerment (B-BBEE)	(g)	% of TMPS	82.00	●	74.24	100.75
Procurement spend with black-owned suppliers		% of TMPS	40.00	●	40.93	36.98
Procurement spend with black women-owned suppliers		% of TMPS	12.00	●	15.08	12.67
Procurement spend with black youth-owned suppliers		% of TMPS	2.00	●	2.58	1.25
Procurement spend with suppliers owned by black people with disabilities	(h)	% of TMPS	1.00	●	0.11	0.02
Procurement spend with qualifying small enterprises	(i)	% of TMPS	10.00	●	7.80	7.67
Procurement spend with exempted enterprises	(j)	% of TMPS	10.00	●	9.32	10.15
B-BBEE score	(k)	score	4	●	8	2
Technology transfer: acquisition of intellectual property		R million	25.00	●	26.11	31.00
Technology transfer: skills development		number of people	30	●	63	54
Corporate social investment committed		R million	178.00	●	192.00	225.30

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

Ref	Key performance indicator	Target 2018	Actual 2018	Reason
	Improve operations			
(a)	Distribution total energy losses	7.55	7.73	The location of IPPs on the network has resulted in reduced transmission energy losses and increased distribution losses. IPPs deliver energy directly to the distribution network which would otherwise have been transported from power stations via the transmission network, thereby reducing the load on transmission lines
	Implementing coal haulage and the road-to-rail migration plan			
(b)	Migration of coal delivery volume from road to rail	12.90	11.59	Less coal was transported because of freight rail network issues, mainly due to the breakdown of signalling equipment and components of the Majuba tippler system. The Camden rail service was stopped in the interests of cost savings because there were cheaper logistical options available
	Ensure financial sustainability			
(c)	Debt/equity	2.65	2.70	An increase in net debt together with the net loss after tax resulted in the target not being met
(d)	Arrear debt as % of electricity revenue	2.17	2.73	The target was not met because of an increase in arrear debt by municipalities while revenue stagnated
	Human capital			
(e)	Racial equity in professionals and middle management (black employees)	75.58	75.35	External appointments were minimised due to cost containment and there were limited opportunities for internal promotions
(f)	Gender equity in senior management (female employees)	38.98	38.25	
	Economic impact			
(g)	Procurement spend with B-BBEE	82.00	74.24	The below target performance on the spend with B-BBEE compliant suppliers is mainly due to the implementation of the new B-BBEE codes, with most suppliers rated at lower levels than in the past
(h)	Procurement spend with suppliers owned by black people with disabilities	1.00	0.11	The procurement spend with these suppliers and enterprises were below target due to the increase in the non-compliant suppliers due to expired B-BBEE certificates and the fact that most of these suppliers do not provide the kind of goods and services required by Eskom
(i)	Procurement spend with qualifying small enterprises	10.00	7.80	
(j)	Procurement spend with exempted enterprises	10.00	9.32	
(k)	B-BBEE score	4	8	Eskom is rated as a level 8 supplier until June 2018, when the rating expires. The rating was lower as government-owned entities are not seen as black-owned under the B-BBEE codes

Risks

The group has a holistic risk process whereby risks are identified, analysed and evaluated throughout the organisation. Risks are ranked into four different priority levels and all priority one (highest priority) risks are discussed at the ARC and board. A group executive (GE) is allocated responsibility for each risk to ensure that all high priority risks are addressed and monitored. Key changes in the environment and emerging risks are identified regularly.

Directors' report (continued)
for the year ended 31 March 2018

Risks (continued)
The group's risk universe has been significantly impacted by challenges related to regulatory, governance, unethical conduct, unstable leadership, labour unrest and low investor and market confidence. This was exacerbated by severe financial constraints caused by declining sales and stagnant growth in the local economy, increased customer debt levels, high IPP costs, increased borrowings to maintain liquidity and the impact on operational sustainability across the group's value chain.

Refer to the integrated report on page 40 for more information.

Governance
The government announced a number of measures to strengthen governance in Eskom on 19 January 2018, including the appointment of new board members. Actions to improve governance included:
- reviewing the memorandum of incorporation
- approved a review of governance and ethics
- filling vacant positions at executive level

The board acknowledged that all the principles in the King IV Report on Corporate Governance for South Africa (King IV report) have not yet been implemented effectively, and that the recent lapses in governance were of concern to the shareholder, investors and the public. Embedding ethical leadership and building a culture of compliance are important enablers to ensure that governance is restored to credible levels.

Several steps have already been taken to improve governance and ethics. The board, through its subcommittees, is committed to ensuring that there is an overall improvement in the effectiveness of the implementation of the King IV report during the coming year.

Refer to the integrated report on page 47 for more information.

Board of directors
The board shall consist, in terms of the memorandum of incorporation, of a minimum of three and maximum of 15 directors with the majority being non-executive directors. The following changes to the non-executive directors occurred during the year:

Non-executive directors	Comment
JA Mabuza (Chairman)	Appointed on 19 January 2018
RDB Crompton	Appointed on 19 January 2018
RSN Dabengwa	Appointed on 19 January 2018
MJ Lamberti	Appointed on 19 January 2018 Resigned on 6 April 2018
SN Mabaso-Koyana	Appointed on 19 January 2018
NVB Magubane	Appointed on 19 January 2018
MW Makgoba	Appointed on 8 December 2017
BCE Makhubela	Appointed on 26 June 2017
B Mavuso	Appointed on 19 January 2018
JM Molisane[1]	Appointed on 19 January 2018
PE Molokwane	Appointed on 26 June 2017
TH Mongalo	Appointed on 8 December 2017
JG Sebulela	Appointed on 19 January 2018
SD Dingaan	Resigned on 19 January 2018
S Gounden	Resigned on 19 January 2018
ZW Khoza	Resigned on 19 January 2018
VJ Klein	Resigned on 12 May 2017
GM Leonardi	Resigned on 19 January 2018
C Mabude	Resigned on 23 June 2017
P Naidoo	Resigned on 19 January 2018
BS Ngubane	Resigned on 12 June 2017

The following changes to the executive committee occurred during the year:

Executive	Comment
PS Hadebe	Appointed as interim GCE on 22 January 2018 Appointed as GCE on 1 June 2018
C Cassim	Appointed as acting CFO on 28 July 2017
A Singh	Placed on special leave as CFO on 27 July 2017 Suspended on 28 September 2017 Resigned on 22 January 2018
JA Dladla	Appointed as interim GCE on 22 June 2017 Returned to previous position on 6 October 2017
T Govender	Appointed as GE: generation from GE: transmission on 26 March 2018
P Govender	Suspended as acting GE: group capital on 3 October 2017 Returned to previous position when suspension lifted on 29 December 2017 Resigned on 23 March 2018
MM Koko	Placed on special leave as interim GCE on 15 May 2017 Leave terminated and suspended on 1 August 2017 Returned after disciplinary hearing on 2 January 2018 Suspended on 28 January 2018 Resigned on 16 February 2018
WF Majola	Appointed as acting GE: transmission on 26 March 2018 from acting GE: generation
S Maritz	Appointed as interim GCE on 6 October 2017 Returned as chief information officer (CIO) on 22 January 2018 Suspended on 31 January 2018 Resigned on 28 February 2018
AA Masango	Suspended as GE: office of the GCE on 15 November 2017 Suspension lifted on 24 April 2018 Appointed as GE: group capital on 10 May 2018
MP Sebola	Appointed as acting GE: group capital on 12 October 2017 Returned to previous position on 29 December 2017
HJ Steyn	Appointed as acting GE: group capital on 11 January 2018 Returned to previous position on 9 May 2018
N Zibi	Appointed as acting CIO on 12 October 2017 Returned to previous position on 19 January 2018 Appointed as acting CIO on 1 February 2018

1. JM Molisane is employed by the Department of Public Enterprises (DPE) and is considered to be a shareholder representative and is not deemed independent.

Internal control and combined assurance
The board, through the ARC, ensures that internal controls are effective and adequately reported on for auditing and regulatory purposes. Eskom applies a combined assurance model in line with the requirements in the King IV report to ensure coordinated assurance activities. This model gives the ARC an overview of significant risks as well as the effectiveness of critical controls to mitigate these risks. The principles of the combined assurance model are embedded in the combined assurance framework. Eskom's internal audit function is managed by the assurance and forensic department which reports directly to the ARC.

PFMA compliance
Section 55(2)(b)(i) of the PFMA requires that the particulars of any irregular expenditure, fruitless and wasteful expenditure as well as material losses due to criminal conduct be disclosed in the annual financial statements. The group has to report any losses that individually or collectively (where items are closely related) exceed R25 million in terms of the significance and materiality framework agreed with the shareholder. Refer to note 51.

Irregular expenditure is defined as expenditure incurred in contravention of or that is not in accordance with a requirement of any applicable legislation. The scope is therefore very broad as it includes all transgressions of any statute or internal policy and procedure regardless of whether the breaches were deliberate or accidental, or they happened unknowingly or in good faith. The fact that value (an asset or service) was received for the expenditure incurred is not relevant, as the requirement is to report the related non-compliance.

Irregular expenditure should be clearly distinguished from fruitless and wasteful expenditure. Fruitless and wasteful expenses are defined as expenditure which was made in vain and would have been avoided had reasonable care been exercised.

The irregular expenditure can be condoned by the relevant internal governance committee, the relevant government department or National Treasury. An incident is removed from the balance of irregular expenditure once it is condoned by the relevant authority, recovered or written-off.

The external auditors raised a qualification on the completeness of the information required by the PFMA in the annual financial statements. The supply chain recovery programme focuses on addressing the audit qualification and improving internal controls to ensure a process is in place where all information required by the PFMA are identified, actioned and reported timeously. Progress is monitored by the acting CFO with regular oversight by the ARC.

Good progress has been made with the turnaround programme. The amount of irregular expenditure reported has increased significantly as a result of the cleaning up exercise. Many of the items reported arose in prior years indicating that there have been aspects that were implemented incorrectly since inception and that the cleaning up exercise will take some time to be implemented and embedded to ensure that there are no more issues going forward.

A dedicated compliance function has been established in the supply chain environment to implement enhanced controls and monitor adherence thereof to instil a compliance culture in the organisation.

All open contracts from 1 April 2015 were reviewed by management for completeness and compliance to the PFMA requirements. All contracts exceeding R1 billion and a sample of contracts less than R1 billion were also reviewed by the assurance and forensic department for compliance. Alternate methods were used to identify irregular expenditure as a best estimate.

The condonation process has been streamlined and the level of approval for condonation has been raised to a higher level to ensure independence. The consequence management process has also been enhanced from 1 April 2018. The process ensures independence, assigns accountability for contraventions and consequence management to a general manager or higher level and addresses the requirements for condonations as per the National Treasury guideline.

Enhancements have been implemented in the PFMA reporting process including introducing a centralised aggregation function for all procurement irregular expenditure and documenting the methodology to ensure completeness. Items under investigation have to be actioned within a three month period and closed within 12 months, unless there are valid reasons for an extended period.

Internal control and combined assurance (continued)

PFMA compliance (continued)

The irregular expenditure reported resulted mainly from breaches in the procurement environment in terms of the PFMA, Preferential Procurement Policy Framework Act (PPPFA), relevant Construction Industry Development Board (CIDB) and National Treasury regulations and instructions. Breaches occurred as a result of the following:

- contracts were incorrectly awarded on a sole source rather than single source basis or an open tender process should have been followed
- contracts were awarded without following the approved internal tender processes
- incorrect procurement process was used as purchase requests did not qualify as emergency purchases in terms of National Treasury requirements
- modifications that exceeded prescribed threshold limits for approval from National Treasury were made without such approval
- certain procurement was done using the incorrect scoring process as Eskom incorrectly applied the thresholds for determining the process exclusive of Value Added Taxation (VAT)
- appropriate tax clearance was not always received as Eskom did not obtain tax clearance certificates for foreign suppliers without a local establishment because of an uncertainty in the interpretation of the requirement
- construction contracts awarded did not meet CIDB grading requirements
- consulting contract was entered into on a risk-based remuneration model that needed prior approval from National Treasury before it could be concluded

Eskom is in the process of requesting condonation from National Treasury for these issues.

Processes and controls were enhanced to prevent the reoccurrence of these incidents going forward and relevant employees trained accordingly. Where processes were not followed disciplinary action was instituted as appropriate.

Reportable irregularities

The external auditors raised reportable irregularities, in terms of section 45 of the Auditing Profession Act, for the periods ending 31 March 2017, 30 September 2017 and 31 March 2018. The board is in the process of addressing and closing out all the irregularities. The finalisation of some irregularities depends on external investigations and the outcome of court cases.

Description	Action	Status
Reportable irregularities – 31 March 2017		
There were allegations that the interim GCE (MM Koko) had a potential conflict of interest with regards to his stepdaughter's holding in Impulse International (Pty) Ltd	• the allegation against the former interim GCE was cleared after a disciplinary hearing took place • the former interim GCE resigned	Closed
There were allegations that an early retirement agreement between Eskom and the former GCE (B Molefe) was irregular	• the matter was considered by the High Court which ruled against the former GCE. He challenged the decision and has appealed the ruling of the High Court	Open, pending the outcome of the court case
Reportable irregularities – 30 September 2017		
A parliamentary inquiry was held into perceived maladministration, governance and procurement issues at Eskom. Certain representations made by previous and current directors and officials indicated that there could have been a breach of fiduciary duties in terms of the requirements of the Companies act	• implicated directors and employees have resigned or have been suspended • the finding will be reviewed and corrective action taken if necessary once a final report is received on the inquiry	Open, pending finalisation of enquiry
Eskom procured the services of McKinsey and Company (McKinsey) through its sole source supplier process and as a result a competitive bidding process was not followed. In addition, the subcontracting of Trillian Management Consultancy (Trillian) by McKinsey did not follow the procurement process	• executives and senior management resigned • criminal charges lodged against relevant employees • information was provided to the hawks for investigation • terminated business relationship with McKinsey • full recovery from McKinsey and Trillian is being pursued	Open, pending completion of recovery process
The former CFO (A Singh) approved a three-month guarantee on behalf of Eskom to Tegeta Exploration and Resources (Pty) Ltd which is in contravention of the PFMA	• the guarantee expired on 31 March 2017 • there was no financial loss to Eskom • the former CFO resigned	Closed
Certain services provided by an external service provider to the company secretary (CS) (S Daniels) were questionable in terms of Eskom rules	• the CS is suspended, disciplinary hearing is in progress • Eskom is in the process of reviewing its business relationship with the supplier • Eskom did not suffer any financial loss	Open, pending outcome of a disciplinary process
There were certain alleged discrepancies in the process followed in the removal of the former CFO (A Singh) as a director	• former CFO resigned • the records with Companies and Intellectual Property Commission (CIPC) were updated	Closed
Reportable irregularities – 30 September 2017 (continued)		
Eskom did not timeously update directors' records with the CIPC	• the records with CIPC were updated • ARC is monitoring the status of CIPC records quarterly	Closed
Certain minutes of the board and its subcommittees were not timeously approved	• approval of minutes relating to November and December 2017 were not finalised • a tracking system was implemented to ensure that all minutes are approved and signed promptly	Open, pending finalisation of minutes
Reportable irregularities – 31 March 2018		
There was a contravention of the B-BBEE Act when awarding a contract to Dongfang Electrical Corporation	• implicated executives and employees resigned • criminal charges lodged against implicated employees • in process of implementing binding recommendations from B-BBEE commissioner, including improvement of controls	Closed
There were allegations that the former CFO (A Singh) and former interim GCE (S Maritz) breached their fiduciary duties by contractually and financially binding Eskom to a facilitation fee with Huarong Asset Financing	• the former CFO and interim GCE resigned • the agreement was not binding • there was no financial loss to Eskom	Open, pending outcome of final legal assessment
There were allegations that the former chief procurement officer (CPO) (E Mabelane) and interim GCE (S Maritz) breached their fiduciary duties with regards to the contract with McKinsey	• the implicated executives and senior management resigned • information was provided to the hawks for investigation • terminated business relationship with McKinsey • full recovery from McKinsey and Trillian is being pursued	Closed
The former CPO (E Mabelane), former GE: group capital (AA Masango), former acting GE: group capital (P Govender) and CS (S Daniels) approved payments to Trillian without the existence of a contract thereby breaching their fiduciary duties	• the implicated executives and senior management resigned or were cleared in disciplinary hearing • the CS is suspended, disciplinary hearing is in progress • information was provided to the hawks for investigation • full recovery from McKinsey and Trillian is being pursued	Open, pending outcome of a disciplinary process
There were allegations that the CPO (J Pillay) and other senior officials in procurement were involved in acts of misconduct involving EOH Holdings Ltd	• the CPO was suspended • the matter is currently under investigation • appropriate action will be taken against relevant employees, if found guilty, once the investigation is completed	Open, pending finalisation of investigation
There were allegations that Eskom incorrectly procured services from Bizz Tracers (Pty) Ltd through the sole source supplier process	• the matter is under investigation • appropriate action will be taken against relevant employees, if found guilty, once the investigation is completed	Open, pending finalisation of investigation
It is alleged that the suspended CS (S Daniels) and the former interim GCE (MM Koko) distributed confidential Eskom documentation to a third party	• the CS is suspended and the former interim GCE resigned • the matter is under investigation	Open, pending finalisation of investigation

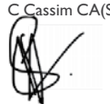
The board reiterated that it is in a continuous process of cleaning up and addressing a number of matters. It is expected that more issues might be identified in this process going forward.

Events after the reporting date

Events after the reporting date are discussed in note 48.

Approval

The Eskom and group annual financial statements for the year ended 31 March 2018 have been prepared under the supervision of the acting CFO C Cassim CA(SA), and approved by the board and signed on its behalf by:



JA Mabuza
Chairman
2 July 2018

PS Hadebe
Group chief executive
2 July 2018

C Cassim
Acting chief financial officer
2 July 2018

Report of the audit and risk committee

Mandate and terms of reference

The audit and risk committee (the committee) presents its report in terms of the requirements of the PFMA, the Companies Act (section 94(7)(f)) and in accordance with the King IV Report on Corporate Governance for South Africa for the financial year ended 31 March 2018.

The role of the committee is defined in its mandate. It covers, among others, its statutory duties and the assistance to the board with the oversight of financial and non-financial reporting and disclosure, internal control system, risk management, internal and external audit functions and combined assurance, including technology and information governance. Information on the membership and composition of the committee is set out in the 2018 integrated report.

The committee fulfilled all its statutory duties as required by the Companies Act. The committee reports that it has adopted an appropriate formal terms of reference as its audit and risk committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities contained therein.

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

Execution of functions

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

Oversight of financial and non-financial reporting and disclosure

The committee considered the annual financial statements for fair presentation with the relevant requirements of the PFMA, Companies Act and International Financial Reporting Standards (IFRS). The committee in particular considered the following significant matters:

Significant matter	Audit committee review and conclusion
Going-concern assessment	The aspects considered in the going-concern assessment are discussed in note 3.2. The committee critically assessed the liquidity of Eskom using the latest forecasted cash flows, including servicing of debt in the next 12 months, and stress tested the forecasts using lower electricity prices, changes to capital activities and reducing costs. The committee considered Eskom's financial ratios that reflect an overall negative trend but believe that this should be addressed by the turnaround plan. The committee concluded, after examining the forecast and stress tested scenarios and considering Eskom's ability to raise funding in the current market conditions, that the going-concern basis of accounting was appropriate. The committee therefore recommended the adoption of the going-concern basis of preparation by the group to the board
Governance	The governance related challenges that Eskom has been faced with were addressed mainly through the appointment of the new board on 19 January 2018 and the group chief executive on 1 June 2018. It is expected that the chief financial officer will be appointed soon. Permanent appointments were made in key vacant executive positions and outstanding disciplinary hearings are being finalised. These appointments boosted investor confidence and significantly improve Eskom's ability to raise required funding. The committee is monitoring the status and action taken on key matters arising from investigations and reportable irregularities
Information required by the PFMA and the impact thereof on the audit opinion	The committee considered the supply chain recovery programme implemented by the group to address the shortcomings identified in the completeness of information required by the PFMA. The committee recognised the improvement in the reporting of PFMA matters following the first phase of the improvement process which is evident in the significant increase in the numbers reported, even though there are still challenges being experienced in the reporting process. The second phase of improvements will be rolled out in the 2019 financial year to further address concerns and shortcomings
Recovery of overdue trade receivables (arrear debt)	The committee is placing renewed focus on the recovery of trade receivables. The committee considered the strategy document to address the arrear debt and believe that the interventions, including continued plans to roll out split metering on a prepaid basis, following the Promotion of Administrative Justice Act process for disconnections and enlisting the support of government to enhance and participate in efforts to recover outstanding amounts are adequate even though there are challenges with the implementation thereof
Valuation of property, plant and equipment and testing of impairment	The committee considered the revaluation note and briefings prepared by management on the valuation of property, plant and equipment. The committee interrogated the underlying assumptions used for the revaluation of property, plant and equipment to confirm that no impairment is required. This remains a focus area for the committee as the electricity tariff awarded by NERSA is a significant element of the valuation
Valuation and adequacy of long-term decommissioning provisions	The committee received briefings on the decommissioning provisions, including the governance framework applied, the movement in provisions over time and the key assumptions and discount rates used. The committee interrogated the underlying assumptions used in determining the decommissioning provisions to assess the adequacy thereof
Internal control over financial reporting, including information technology general controls	The committee assessed the feedback from management and the assurance and forensic department on the effectiveness of internal control over financial reporting including controls relating to PFMA reporting. This provided the committee with an opportunity to directly challenge and question management on material control issues and emerging risks

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

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

The committee considered the following:

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

Internal and external audit

The committee considered the following:

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

The committee applied the Johannesburg Stock Exchange (JSE) auditor accreditation requirements, effective from 15 October 2017, in the appointment of auditors for the 2019 financial year.

Opinion

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

- the expertise, resources and experience of the finance function under the leadership of the chief financial officer are adequate
- the system and process of risk management is adequate
- the compliance framework is adequate and there is currently a focus to ensure the application thereof, especially in terms of PFMA requirements
- the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements and accountability for assets and liabilities is maintained
- the internal audit charter approved by the committee was adhered to
- the expertise, resources and experience of the assurance and forensic department are adequate
- the assurance and forensic department, under the leadership of a senior general manager, is operating effectively
- the combined assurance model is adequate
- the information contained in the integrated report is reliable and does not contradict the information in the annual financial statements
- Eskom and the group have access to adequate resources and facilities to be able to continue their operations for the foreseeable future, supporting the going-concern assumption
- it is satisfied with the audit quality of the external audit as well as the independence and objectivity of the external auditors having considered the matters set out in section 94(8) of the Companies Act

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

Recommendation of the annual financial statements

The committee has evaluated the annual financial statements of Eskom and the group for the year ended 31 March 2018 and, based on the information provided to it, considers that they comply, in all material respects, with the requirements of the Companies Act, the PFMA and IFRS. The committee concurs that the adoption of the going-concern premise in the preparation of the annual financial statements is appropriate.

The committee has therefore, at its meeting held on 28 June 2018, recommended the adoption of the annual financial statements by the board.

S Mabaso-Koyana
Chairman
2 July 2018

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.

W van Wyngaardt
Acting company secretary
2 July 2018

Independent auditor's report to Parliament and the shareholder – Minister of Public Enterprise on Eskom Holdings SOC Ltd and its subsidiaries

Report on the audit of the consolidated and separate financial statements

Qualified opinion

We have audited the consolidated and separate financial statements of Eskom Holdings SOC Ltd and its subsidiaries (the group) set out on pages 22 to 113, which comprise the consolidated and separate statements of financial position as at 31 March 2018, and the consolidated and separate statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 31 March 2018, and the group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act).

Basis for qualified opinion

Note 51 to the consolidated and separate financial statements as required by the PFMA

Section 55(2)(b)(i) to (iii) of the PFMA requires the entity to disclose in a note to the consolidated and separate financial statements particulars of any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year, any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure and any losses recovered or written off. The group did not have adequate internal control systems to identify, investigate and record all information as required by PFMA section 55(2)(b)(i) to (iii) in both the current and prior years.

There were no satisfactory alternative procedures that we could perform to obtain reasonable assurance that all the required disclosure had been properly recorded in note 51 to the consolidated and separate financial statements. Consequently, we were unable to determine whether any adjustment was necessary to the irregular expenditure stated at R20 713 million (2017: R2 485 million), fruitless and wasteful expenditure stated at R143 million (2017: R547 million), material losses from criminal conduct stated at R1 485 million (2017: R1 394 million) and other information disclosed in this note to the consolidated and separate financial statements.

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

We are independent of the group in accordance with the Independent Regulatory Board for Auditors' *Code of professional conduct for registered auditors* (IRBA code) and other independence requirements applicable to performing audits of the financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA code is consistent with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (parts A and B).

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the group for the year ended 31 March 2018. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole and informing our opinion thereon. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
Valuation, allocation and accuracy of property, plant and equipment	
Property, plant and equipment, disclosed in note 8 to the consolidated and separate financial statements, comprise 85% of total assets. The group invested significant capital expenditure in the current year. Capital expenditure, especially assets constructed by the group, requires significant consideration on the nature of the costs in order to adhere to the relevant applicable standard. The board conducts an annual assessment of the depreciation method, useful lives, residual values and impairment of items of property, plant and equipment. The annual assessment carries elements of significant judgement which includes determining the useful lives and residual values of assets, and where there is no comparable asset in the market, the discount rate applied in discounting future cash flows and the future cash flows making this a key audit matter. The significant consideration on the nature as well as the quantum of the capitalised costs make the valuation of property, plant and equipment a key audit matter.	Our audit work included the following: • assessing the nature of costs capitalised to property, plant and equipment to test the validity of amounts capitalised • evaluating whether the costs capitalised to property, plant and equipment meet the recognition criteria of the applicable standard • consideration of whether capitalisation of costs to property, plant and equipment ceased when the asset was ready for use as intended by the board • consideration of the appropriateness of the disclosure of property, plant and equipment We challenged the assumptions made by the board in assessing the depreciation method, useful lives, residual values and impairment of property, plant and equipment. Our audit work included: • critical evaluation of the board's process to assess the depreciation method, useful lives, residual values and identification of impairment indicators, and in particular that the carrying amount appears appropriate for assets not yet fully depreciated • review of the board's process to identify items of property, plant and equipment carried at zero or R1 book value and consideration of whether or not to adjust accumulated depreciation and appropriateness of the depreciation policy to that class of asset • for impairment testing, we assessed the future projected cash flows, presented to us, with particular reference to the price and quantity of coal, operating costs as well as the discount rates to determine whether they are reasonable and supportable given the current economic climate and expected future performance of the cash generating units • key assumptions challenged include those related to the level at which impairment is assessed, being the smallest identifiable group of assets for which independent cash inflows can be identified • subjecting key variables used in cash flow forecasts to sensitivity analysis We did not identify material issues with the assumptions applied by the board in assessing the depreciation method, useful lives, residual values and impairment of property, plant and equipment. In addition we did not identify material issues in relation to the capitalisation of costs to assets.
Valuation, allocation and accuracy of trade and other receivables	
Trade and other receivables are disclosed in note 19 to the consolidated and separate financial statements. There is uncertainty relating to the recoverability of some of the municipalities and Soweto debt. The municipalities and Soweto debt has increased along with the allowance for impairment in comparison to the prior year. Accordingly, the estimation of the allowance for impairment of municipalities and Soweto debt is a judgement area and thus a key audit matter.	We assessed the validity of material long outstanding municipalities and Soweto debt by considering payments received after year end and past payment history. The assessment of the appropriateness of the allowance for impairment for municipalities and Soweto debt comprised: • challenging the appropriateness and reasonableness of the impairment loss indicators and assumptions applied by management in the assessment of debt allowance for impairment • consideration of the duration of outstanding debt • consideration and concurrence of the agreed payment terms to actual receipts • verification of securities held • consideration of the completeness and accuracy of the disclosures We did not identify material issues with the valuation, allocation and accuracy of trade receivables and assessment of impairment indicators.
Valuation, allocation and accuracy of provisions	
Provisions, disclosed in note 29 to the consolidated and separate financial statements, 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. In addition, the following are inputs applicable in determination of provisions: • estimation of decommissioning costs of nuclear and other generation plants • estimation of expenditure required to settle present obligation • exchange rate fluctuations • discount rates applied to the projected future cash flows Accordingly, provisions are considered a key audit matter.	We challenged the assumptions made in determining the provisions balances. Our audit work included: • analysing the future projected cash flows to determine whether they are reasonable and supportable given the current economic climate and expected future performance • obtaining evidence on the appropriateness of the discount rate used to discount future cash flows Where necessary, we engaged an independent actuarial specialist to evaluate the work performed by the board's expert including subjecting key assumptions to sensitivity analysis. The actuarial specialist's independence and competence was assessed. In addition to the aforementioned our audit work included the following: • testing the effectiveness of controls around the identification and evaluation of legal proceedings • obtaining external legal confirmation for significant legal proceedings • considering the adequacy of the disclosure for provisions We did not identify material issues in relation to the provisions raised.

Independent auditor's report to Parliament and the shareholder – Minister of Public Enterprise on Eskom Holdings SOC Ltd and its subsidiaries (continued)

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

Key audit matters (continued)

Key audit matter	How the matter was addressed in the audit
Valuation, allocation and accuracy of complex financial instruments	
The disclosure associated with the valuation, allocation and accuracy of complex financial instruments is set out in note 6.2 to the consolidated and separate financial statements. Fair value measurement of financial instruments significantly affects profit or loss and disclosures (of financial risks) in the consolidated and separate financial statements. Valuation of certain financial instruments (such as derivatives) requires greater judgement and involves estimation to determine the appropriate valuation techniques to apply and to source relevant and reliable inputs. Due to the magnitude of financial instruments carried at fair value, the complexity of the assumptions and the significant judgements applied by the board, the valuation of complex financial instruments is considered a significant judgement area and thus a key audit matter.	We obtained an understanding of the relevant controls in place to evaluate that correct independent market inputs are used in the valuation models. We applied our valuation expertise to a sample of financial instruments and assessed the appropriateness of the valuation models with reference to approaches commonly used. We assessed the judgements and estimates applied by the board against our understanding of current market practice and conditions. We also obtained independently-sourced inputs where available, which were compared against the inputs used by the board. Where necessary, we engaged an independent actuarial specialist to evaluate the work performed by the board's expert, including: • assessing the independence and competence of the actuarial specialist • assessing the appropriateness of the financial model utilised by the board's expert • testing the reasonableness of inputs into the financial models • assessing the appropriateness of the amounts recognised by comparing the fair values to fair values generated by models commonly used in the industry for similar instruments We assessed key assumptions and modelling approaches in estimating credit value adjustments and debit value adjustments against current market practice. We evaluated gains or losses on significant settled deals to assess calibration of mark-to-model values, and found the board's estimates to be within reasonable ranges. Where valuation inputs were unobservable, we used our valuation expertise to assess the reasonability of the valuation inputs based on supportable and comparable information and compared these to the board's valuation inputs. Based on the results of our work performed, we accepted the board's valuation inputs as falling within reasonable ranges.

Material uncertainty related to going concern

We draw attention to note 3.2 of the consolidated and separate financial statements, which indicate that for the year ended 31 March 2018 the group incurred a loss of R2 337 million. The group's current liabilities exceed its current assets by R20 623 million. As stated in note 3.2, these events or conditions, along with other matters as set forth in note 3.2, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The accounting authority's responsibility for the consolidated and separate financial statements

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

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

The auditor's responsibility for the audit of the consolidated and separate financial statements

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

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

We also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority
- conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. Our conclusions are based on the information available at the date of the auditor's report
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit
- confirm to the accounting authority that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence, and where applicable, related safeguards

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

Report on other and regulatory requirements

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified reportable irregularities in terms of the Auditing Profession Act. We have reported such matters to IRBA. The matters pertaining to the reportable irregularities have been described in note 3.3 to the consolidated and separate financial statements.

Report on the audit of the annual performance report

Introduction and scope

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof we have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas presented in the *performance in terms of the shareholder compact* section of the directors' report. We performed procedures to identify findings but not to gather evidence to express assurance.

Our procedures address the reported performance information which must be based on the approved performance planning documents of the public entity. We have not evaluated the completeness and appropriateness of the performance indicators established and included in the planning documents. Our procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance information. Accordingly our findings do not extend to these matters.

We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key areas presented in the *performance in terms of the shareholder compact* section of the directors' report of the public entity for the year ended 31 March 2018:

- improve operations (page 8)
- deliver capital expansion (page 8)
- reduce environmental footprint in existing fleet (page 8)
- ensure financial sustainability (page 8)
- economic impact (page 9)

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

We did not raise any material findings on the usefulness and reliability of the reported performance information for the selected key performance areas.

Independent auditor's report to Parliament and the shareholder – Minister of Public Enterprise on Eskom Holdings SOC Ltd and its subsidiaries (continued)

Report on the audit of the annual performance report (continued)

Other matter

We would like to draw attention to the following matter with regards to performance information:

Achievement of planned targets

Refer to the *performance in terms of the shareholder compact* section of the directors' report on pages 8 to 9 for information on the achievement of planned targets for the year.

Report on the audit of compliance with legislation

Introduction and scope

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

The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Expenditure management

Effective and appropriate steps were not taken to prevent irregular and fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for the qualified opinion, the full extent of the irregular and fruitless and wasteful expenditure could not be quantified.

Consequence management

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

We were unable to obtain sufficient appropriate audit evidence that allegations of financial misconduct against members of the accounting authority were investigated, as required by treasury regulation 33.1.3 and that investigations were conducted into all allegations of financial misconduct committed by officials, as required by treasury regulation 33.1.1. This was due to proper and complete records that were not maintained as evidence to support the investigations into allegations of financial misconduct committed by members of the accounting authority and officials.

Revenue management

Steps taken to collect revenue were not effective and appropriate to collect all revenue due, as required by section 51(1)(b)(i) of the PFMA.

Procurement and contract management

Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production, were procured in accordance with the Preferential Procurement Policy Framework Act, its regulations and Instruction Notes on Designated Sectors as proper record keeping of such awards were not maintained.

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

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

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

Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with CIDB regulations 17 and 25(7A).

Some of the contract variations and/or extensions that exceeded the limits as defined in Treasury Instruction 3 of 2016/17 were not varied and/or extended with prior approval of the relevant treasury.

In some instances members of the accounting authority who had a private or business interest in contracts awarded by the public entity failed to disclose such interest, as required by PFMA section 50(3)(a).

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

Sufficient appropriate audit evidence could not be obtained that members of the accounting authority who had a private or business interest or whose close family members, partners and associates had a private or business interest in contracts awarded by the public entity had not participated in the process relating to that contract as required by PFMA section 50(3)(b).

Other information

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

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

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected key performance areas presented in the *performance in terms of the shareholder compact* section of the directors' report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Internal control deficiencies

We considered internal control relevant to our audit of the consolidated and separate financial statements, *performance in terms of the shareholder compact* section of the directors' report and compliance with legislation, however the objective is not to express any form of assurance thereon.

The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion and the findings on compliance with legislation included in this report.

Leadership

Those previously charged with governance did not provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the public entity. Furthermore, sufficient action plans to address internal control deficiencies were not developed, implemented and monitored.

The public entity experienced instability in leadership in the last few years as a result of a number of suspensions, dismissals and resignations in key leadership positions. Instability in top leadership has contributed to the lack of proper procurement and contract management processes as well as effective consequence management practices.

The accounting authority did not exercise adequate oversight responsibility regarding compliance with applicable legislation and related internal controls.

Financial and performance management

Reviewing and monitoring of compliance with applicable legislation was not effective, especially those relating to procurement and contract management practices. In addition to this, where the internal controls did not prevent the non-compliance with applicable legislation, detection controls were also deficient as not all irregular expenditure was identified and disclosed.

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

Other reports

We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the matters reported on the public entity's financial, performance and compliance related matters. The reports noted do not form part of our opinion on the financial statements or our findings on the reported performance information or compliance with legislation.

Investigations

During the financial year under review the group conducted investigations into alleged irregularities, fraud and corruption within the procurement environment and other arears. As at the reporting date, some of these investigations were still ongoing.

Agreed-upon procedure engagements

Agreed-upon procedure engagements were performed on the following:

- National Treasury consolidation template that covered the period from 1 April 2017 to 31 March 2018
- Eskom's generation, transmission and distribution activities regulatory financial report. This agreed-upon procedure is performed on behalf of NERSA

Aaron Mthimunye
SizweNtsalubaGobodo Inc.
Director
Registered auditor

9 July 2018

20 Morris East Street, Woodmead, 2191

Statements of financial position
at 31 March 2018

	Note	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Assets					
Non-current		658 068	622 331	658 441	622 683
Property, plant and equipment	8	630 648	588 867	631 159	589 479
Intangible assets	9	3 945	3 981	3 803	3 817
Future fuel supplies	10	7 157	8 190	7 157	8 190
Investment in equity-accounted investees	11	372	364	95	95
Investment in subsidiaries	12	–	–	384	384
Deferred tax	13	23	50	–	–
Loans receivable	15	63	79	–	–
Derivatives held for risk management	16	13 705	16 868	13 705	16 868
Finance lease receivables	17	408	448	408	448
Payments made in advance	18	1 746	1 938	1 729	1 856
Trade and other receivables	19	1	9	1	9
Investment in securities	14	–	1 537	–	1 537
Current		72 122	78 879	70 530	78 797
Inventories	20	24 348	22 359	24 122	22 156
Taxation		149	125	–	–
Loans receivable	15	18	14	6 201	6 187
Derivatives held for risk management	16	1 873	1 000	1 875	1 000
Finance lease receivables	17	29	26	29	26
Payments made in advance	18	1 418	2 091	1 328	1 958
Trade and other receivables	19	20 124	19 379	21 428	20 609
Investment in securities	14	6 839	10 541	–	5 167
Financial trading assets	14	1 501	2 919	168	1 730
Cash and cash equivalents	21	15 823	20 425	15 379	19 964
Assets held-for-sale	22	8 926	8 799	40	70
Total assets		739 116	710 009	729 011	701 550
Equity					
Capital and reserves attributable to owner of the company		170 336	175 942	158 075	165 964
Liabilities					
Non-current		474 353	453 777	473 788	453 275
Debt securities and borrowings	25	348 112	336 770	348 060	336 690
Embedded derivatives	26	3 434	4 032	3 434	4 032
Derivatives held for risk management	16	16 570	6 767	16 570	6 767
Deferred tax	13	15 846	18 067	15 665	18 090
Employee benefit obligations	28	13 725	13 790	13 404	13 458
Provisions	29	44 370	44 021	44 359	43 908
Finance lease payables	30	9 533	9 819	9 533	9 819
Trade and other payables	31	1 201	871	1 201	871
Payments received in advance	27	1 766	1 940	1 766	1 940
Deferred income	27	19 796	17 700	19 796	17 700
Current		92 745	78 607	97 148	82 311
Debt securities and borrowings	25	40 572	18 530	44 525	22 017
Embedded derivatives	26	1 857	1 382	1 857	1 382
Derivatives held for risk management	16	4 896	3 826	4 896	3 838
Employee benefit obligations	28	3 244	7 348	2 992	6 848
Provisions	29	5 309	9 057	5 194	8 573
Finance lease payables	30	286	246	286	246
Trade and other payables	31	32 116	31 782	32 944	33 059
Payments received in advance	27	3 003	3 591	2 996	3 585
Deferred income	27	1 209	1 143	1 209	1 143
Taxation		4	82	–	–
Financial trading liabilities	14	249	1 620	249	1 620
Liabilities held-for-sale	22	1 682	1 683	–	–
Total liabilities		568 780	534 067	570 936	535 586
Total equity and liabilities		739 116	710 009	729 011	701 550

Income statements
for the year ended 31 March 2018

	Note	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Revenue	32	177 424	177 136	177 424	177 136
Other income	33	1 372	1 573	1 787	2 094
Primary energy	34	(85 202)	(82 760)	(85 202)	(82 760)
Employee benefit expense	35	(29 454)	(33 178)	(24 455)	(27 902)
Net impairment loss	36	(553)	(1 669)	(528)	(1 629)
Other expenses	37	(18 228)	(23 570)	(25 598)	(30 950)
Profit before depreciation and amortisation expense and net fair value loss (EBITDA)		45 359	37 532	43 428	35 989
Depreciation and amortisation expense	38	(23 132)	(20 300)	(23 110)	(20 277)
Net fair value loss on financial instruments, excluding embedded derivatives	39	(1 898)	(3 342)	(1 998)	(3 203)
Net fair value gain on embedded derivatives		123	1 611	123	1 611
Profit before net finance cost		20 452	15 501	18 443	14 120
Net finance cost		(23 089)	(14 377)	(24 199)	(15 389)
Finance income	40	2 872	5 212	1 874	4 290
Finance cost	41	(25 961)	(19 589)	(26 073)	(19 679)
Share of profit of equity-accounted investees after tax	11	34	35	–	–
(Loss)/profit before tax		(2 603)	1 159	(5 756)	(1 269)
Income tax	42	266	(271)	1 148	399
(Loss)/profit for the year[1]		(2 337)	888	(4 608)	(870)

Statements of comprehensive income
for the year ended 31 March 2018

	Note	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
(Loss)/profit for the year[1]		(2 337)	888	(4 608)	(870)
Other comprehensive loss		(3 269)	(7 298)	(3 281)	(7 269)
Items that may be reclassified subsequently to profit or loss		(4 601)	(7 464)	(4 578)	(7 426)
Available-for-sale financial assets – net change in fair value		–	60	(3)	50
Cash flow hedges					
Changes in fair value	16	(5 700)	(9 056)	(5 700)	(9 056)
Net amount transferred to profit or loss		346	(169)	346	(169)
Amortisation of effective portion of terminated cash flow hedges	39	(324)	(324)	(324)	(324)
Ineffective portion of cash flow hedges	39	670	155	670	155
Net amount transferred to initial carrying amount of hedged items		(1 003)	(1 140)	(1 003)	(1 140)
Foreign currency translation differences on foreign operations		(25)	(45)	–	–
Income tax thereon	42	1 781	2 886	1 782	2 889
Items that may not be reclassified subsequently to profit or loss		1 332	166	1 297	157
Re-measurement of post-employment medical benefits	28	1 850	231	1 802	218
Income tax thereon	42	(518)	(65)	(505)	(61)
Total comprehensive loss for the year[1]		(5 606)	(6 410)	(7 889)	(8 139)

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

Statements of changes in equity

for the year ended 31 March 2018

	Attributable to owner of the company						
	Share capital	Cash flow hedge reserve	Available-for-sale reserve	Unrealised fair value reserve	Foreign currency translation reserve	Accumulated profit	Total equity
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Group							
Balance at 31 March 2016	83 000	11 622	(37)	(16 712)	39	104 440	182 352
Profit for the year	–	–	–	–	–	888	888
Other comprehensive (loss)/income, net of tax	–	(7 462)	43	–	(45)	166	(7 298)
Transfer between reserves	–	–	–	4 839	–	(4 839)	–
Balance at 31 March 2017	83 000	4 160	6	(11 873)	(6)	100 655	175 942
Loss for the year	–	–	–	–	–	(2 337)	(2 337)
Other comprehensive (loss)/income, net of tax	–	(4 576)	–	–	(25)	1 332	(3 269)
Transfer between reserves	–	–	–	1 560	–	(1 560)	–
Balance at 31 March 2018	83 000	(416)	6	(10 313)	(31)	98 090	170 336
Company							
Balance at 31 March 2016	83 000	11 622	(34)	(16 712)	–	96 227	174 103
Loss for the year	–	–	–	–	–	(870)	(870)
Other comprehensive (loss)/income, net of tax	–	(7 462)	36	–	–	157	(7 269)
Transfer between reserves	–	–	–	4 839	–	(4 839)	–
Balance at 31 March 2017	83 000	4 160	2	(11 873)	–	90 675	165 964
Loss for the year	–	–	–	–	–	(4 608)	(4 608)
Other comprehensive (loss)/income, net of tax	–	(4 576)	(2)	–	–	1 297	(3 281)
Transfer between reserves	–	–	–	1 560	–	(1 560)	–
Balance at 31 March 2018	83 000	(416)	–	(10 313)	–	85 804	158 075

Share capital

Refer to note 24 for details regarding share capital.

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments (forward exchange contracts and cross-currency swaps) related to hedged transactions that have not yet occurred. The cross-currency swap hedges foreign exchange rate and interest rate risk of the future interest payments and the principal repayment on bonds and loans (denominated in US dollar, euro and yen).

Available-for-sale reserve

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.

Unrealised fair value reserve

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

Foreign currency translation reserve

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

Accumulated profit

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

Non-controlling interest

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

Statements of cash flows

for the year ended 31 March 2018

		Group		Company	
	Note	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Cash flows from operating activities					
Cash generated from operations	43	39 659	47 361	37 857	46 440
Net cash flows used in derivatives held for risk management		(1 726)	(1 787)	(1 738)	(1 700)
Finance income received		393	1 342	393	1 342
Finance cost paid		(28)	(22)	(28)	(22)
Income taxes paid		(724)	(1 053)	–	–
Net cash from operating activities		37 574	45 841	36 484	46 060
Cash flows used in investing activities					
Proceeds from disposal of property, plant and equipment		453	398	448	388
Acquisitions of property, plant and equipment		(49 076)	(55 823)	(48 988)	(55 136)
Acquisitions of intangible assets		(425)	(1 436)	(424)	(1 436)
Expenditure on future fuel supplies		(1 618)	(639)	(1 618)	(639)
Increase in payments made in advance		(40)	(99)	(40)	(99)
Expenditure incurred on provisions		(4 788)	(6 890)	(4 788)	(6 890)
Net cash flows (used in)/from derivatives held for risk management		(91)	389	(91)	389
(Increase)/decrease in investment in securities		(1 457)	520	–	–
Net cash flows used in financial trading assets		(35)	(24)	–	–
Decrease/(increase) in loans receivable		12	(18)	(25)	159
Decrease in finance lease receivables		19	44	19	44
Dividends received		37	40	27	32
Dividends received – investment in equity-accounted investees	11	26	31	–	–
Finance income received		1 486	1 221	534	546
Net cash used in investing activities		(55 497)	(62 286)	(54 946)	(62 642)
Cash flows from financing activities					
Debt securities and borrowings raised	44	53 234	50 994	53 761	51 073
Payments made in advance to secure debt raised	44	(929)	(1 096)	(929)	(1 096)
Debt securities and borrowings repaid	44	(12 548)	(7 034)	(12 591)	(7 072)
Net cash flows used in derivatives held for risk management	44	(1 824)	(7 738)	(1 824)	(7 738)
Decrease/(increase) in investment in securities	44	6 586	(2 031)	6 586	(2 031)
Decrease in finance lease payables	44	(246)	(139)	(246)	(139)
Net cash flows from financial trading assets	44	1 459	889	1 459	889
Net cash flows (used in)/from financial trading liabilities	44	(1 241)	482	(1 241)	482
Finance income received		1 034	2 365	1 004	2 328
Finance cost paid		(31 909)	(28 788)	(32 051)	(28 888)
Taxes paid		(69)	(49)	(69)	(49)
Net cash from financing activities		13 547	7 855	13 859	7 759
Net decrease in cash and cash equivalents		(4 376)	(8 590)	(4 603)	(8 823)
Cash and cash equivalents at beginning of the year		20 425	28 454	19 964	28 136
Foreign currency translation		(25)	(45)	–	–
Effect of movements in exchange rates on cash held		10	647	10	651
Assets and liabilities held-for-sale		(211)	(41)	8	–
Cash and cash equivalents at end of the year	21	15 823	20 425	15 379	19 964

Statements of cash flows (continued)
for the year ended 31 March 2018

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

Investment in securities and financial trading assets
Cash flows related to the insurance portfolio are disclosed in the investing activities section of the statement of cash flows. Cash flows related to the market-making and investing portfolios are disclosed in the financing activities section. Refer to note 14.

Derivatives held for risk management
Derivatives held for risk management are classified as operating, investing or financing activities based on the allocation of the cash flows of the underlying hedged item. Refer to note 16.

Payments made in advance
Payments made in advance that relate to the raising of debt securities and borrowings are classified as financing activities. Payments related to the acquisition of property, plant and equipment and intangible assets are allocated to investing activities. All other payments made in advance are deemed operational in nature and are therefore included within operating activities. Refer to note 18.

Provisions
Cash flows related to provisions for environmental restoration and mine-related closure, pollution control and rehabilitation, where the cost of property, plant and equipment as well as future fuel supplies includes environmental rehabilitation costs, are classified as investing activities. All other provisions are operational in nature and are classified as operating activities. Refer to note 29.

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

Notes to the financial statements
for the year ended 31 March 2018

1. General information
Eskom Holdings SOC Ltd (Eskom), a state-owned company and holding company of the group, is incorporated and domiciled in the Republic of South Africa. Eskom is a vertically integrated operation that generates, transmits and distributes electricity to local industrial, mining, commercial, agricultural, redistributors (metropolitan and other municipalities), and residential customers and to international customers in southern Africa. Eskom also purchases electricity from IPPs and international suppliers in southern Africa. These represent the significant activities of the group. The business focus of the subsidiaries is primarily to support the electricity business. The nature of the businesses of the significant operating subsidiaries is set out in note 12.

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

2.1 Basis of preparation and measurement
Statement of compliance
The consolidated financial statements of Eskom at and for the year ended 31 March 2018 comprise the company, its subsidiaries, joint ventures, associates and structured entities (together the group). The separate and consolidated financial statements have been prepared in accordance with IFRS and in the manner required by the PFMA and the Companies Act. The financial statements have been prepared on the going-concern basis and were approved for issue by the board on 2 July 2018.

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

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

Changes in accounting policies and comparability
The group has consistently applied the accounting policies to all periods presented in these consolidated financial statements except for new or revised statements and interpretations implemented during the year. The nature and effect of new standards and interpretations are discussed in note 50.2.

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

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

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

Accounting policies of associates 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 (maximum of three months difference), adjustments are made to the group financial statements 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.

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

Changes in the fair value of monetary securities denominated in foreign currency classified as 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.

Notes to the financial statements (continued)

for the year ended 31 March 2018

2. Summary of significant accounting policies (continued)

2.3 Foreign currency translation (continued)

Transactions and balances (continued)

Non-monetary items are measured at historical cost.

Foreign loans are initially recognised at the exchange rate prevailing at transaction date and are translated at spot rate at every reporting date. Foreign exchange gains and losses that relate to loans and receivables, debt securities 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 fair value adjustments arising on acquisition) are translated to rand at the prevailing exchange rates at the reporting date. The income and expenses of foreign operations are translated to rands at the average exchange rate. Foreign currency differences arising as a result of these transactions are recognised in other comprehensive income within the foreign currency translation reserve.

2.4 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes environmental rehabilitation costs, borrowing costs and transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency transactions. Works under construction includes cost of materials and direct labour and any other directly attributable costs incurred in bringing an item of property, plant and equipment to its present location and condition. Significant parts of an item of property, plant and equipment that have different useful lives are accounted for as separate items (major components). Spare parts classified as strategic and critical spares are recognised as property, plant and equipment and are only capable of operating in the manner intended by management when they are installed.

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

Items of property, plant and equipment transferred from customers are recognised in terms of International Financial Reporting Interpretations Committee (IFRIC) 18 *Transfers of assets from customers*. The items of property, plant and equipment are initially recognised at fair value in accordance with International Accounting Standards (IAS) 16 *Property, plant and equipment* and any revenue is recognised in accordance with IAS 18 *Revenue* within revenue.

Land and spare parts are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate cost over the estimated useful lives (limited to residual values), as follows:

	Years
Buildings and facilities	10 to 40
Plant	
• Generating	3 to 80
• Transmitting	5 to 40
• Distributing	10 to 35
• Other	3 to 40
Equipment and vehicles	1 to 15

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

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

2.5 Intangible assets

Research and development

Research expenditure is recognised as an expense as incurred.

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

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

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

Rights

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

Computer software

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

Amortisation is calculated using the straight-line method to allocate costs over the estimated useful lives as follows:

	Years
Computer software	2 to 5
Licences	2 to 5

Amortisation methods and useful lives of assets are reviewed at each reporting date and adjusted if appropriate.

Concession assets

Concession assets consist of the right to charge for the usage of the infrastructure under service concession arrangements. The capital expenditure incurred in respect of the service concession arrangements (fair value at initial recognition), including borrowing costs on qualifying capital expenditures, is capitalised (refer to note 2.7) and amortised over their estimated useful life, which is the concession period during which they are available for use (refer to note 23). Subsequent to initial recognition, the concession assets are measured at cost less accumulated amortisation and impairment losses.

2.6 Impairment of non-financial assets

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

Assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) when assessing for impairment. If any indication of impairment exists the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating units. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets that were subject to impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment losses or reversals are recognised in profit or loss within net impairment loss.

2.7 Capitalisation of borrowing costs

Borrowing costs attributable to the construction of qualifying assets are capitalised as part of the cost of these assets over the period of construction, until the asset is substantially ready for its intended use.

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

2.8 Leases

Finance leases – where the group is the lessee

Finance lease payables comprise mainly arrangements that contain finance leases in terms of IFRIC 4 *Determining whether an arrangement contains a lease*. The leased assets include plant, mining assets and equipment and vehicles.

Finance leases are capitalised on commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. Finance lease payables are derecognised in accordance with the derecognition requirements for financial liabilities.

Finance leases – where the group is the lessor

Finance lease receivables mainly comprise premium power supply equipment contracts.

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

Operating leases

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

Notes to the financial statements (continued)

for the year ended 31 March 2018

2. Summary of significant accounting policies (continued)

2.9 Payments made in advance

Securing debt raised

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

Environmental rehabilitation trust fund

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

Other

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

2.10 Financial instruments

2.10.1 Non-derivative financial instruments

Recognition, measurement and derecognition of financial assets

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

All non-derivative financial assets are initially recognised at fair value on the date of commitment to purchase (trade date). Any directly attributable transaction costs are included in the initial recognition of non-derivative financial assets except for financial assets at fair value through profit or loss. 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.

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) 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.

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.

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.

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

Held-for-trading assets comprise financial trading assets. 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. The group did not designate any financial assets at fair value through profit or loss.

Financial assets classified as loans and receivables

Loans and receivables comprise trade and other receivables, loans receivable and cash and cash equivalents.

Receivables arising from the sale of electricty are classified as trade receivables. All other receivables are classified as other receivables.

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

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

Loans and receivables are assessed for indicators of impairment at the reporting date to determine whether there is any objective evidence of impairment. 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.

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

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

Loans and receivables that would otherwise have been impaired but have been renegotiated are initially accounted for as impaired receivables immediately after having been renegotiated. Once a payment history in terms of the renegotiated agreement is established the same impairment assessment as applicable to receivables that have not been renegotiated is applied to assess whether the receivable should be impaired or not. 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.

Available-for-sale financial assets

Available-for-sale financial assets comprise investment in securities. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than 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.

Recognition, measurement and derecognition of financial liabilities

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

Non-derivative financial liabilities are initially recognised at fair value. Any directly attributable transaction costs are included in the initial recognition of non-derivative financial liabilities 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.

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 recorded as a payment made in advance where it is probable that some or all of the facility will be drawn down. Refer to note 2.9. The fees paid are recognised as transaction costs upon drawdown and then amortised to profit or loss within finance costs from the date of first drawdown to final maturity of each facility.

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

Held-for-trading liabilities comprise financial trading liabilities. Subsequent to initial recognition, financial liabilities at fair value through profit or loss continue to be measured at fair value. The group did not designate any financial liabilities at fair value through profit or loss.

Financial liabilities at amortised cost

Financial liabilities at amortised cost comprise debt securities and borrowings (that are not held for trading) and trade and other payables. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

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.

2.10.2 Financial guarantees

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. 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.

2.10.3 Derivative financial instruments and hedging activities

Recognition

Derivative instruments are included in the statement of financial position as derivatives held for risk management. 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 re-measured subsequently at fair value.

Cash flow hedges

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

Significant day-one gains and losses are deferred in the statement of financial position (derivatives held for risk management) and amortised on a straight-line basis over the term of the hedging instrument to profit or loss. Unamortised day-one gains and losses will be written off to profit or loss should the related financial instrument be derecognised (extinguished) before maturity date. Day-one gains and losses on hedging instruments are predominantly a function of the inclusion of credit, liquidity and 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.

Notes to the financial statements (continued)

for the year ended 31 March 2018

2. Summary of significant accounting policies (continued)

2.10 Financial instruments (continued)

2.10.3 Derivative financial instruments and hedging activities (continued)

Cash flow hedges (continued)

The effective realised and unrealised 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 is recognised immediately in profit or loss within net fair value gain/(loss) on financial instruments, excluding embedded derivatives.

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

Any cumulative gain or loss existing in other comprehensive income where the hedged item is a financial liability is taken to profit or loss within finance cost or net fair value gain/(loss) on financial instruments, excluding embedded derivatives when the cash flows occur on the hedged financial liability.

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

2.10.4 Repurchase and resale agreements

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

2.10.5 Embedded derivatives

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

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

The changes in fair value of embedded derivatives are 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.

Refer to note 4.1 for details regarding measurement of embedded derivatives.

2.11 Future fuel supplies

Coal

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

Nuclear

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

2.12 Inventories

Coal, liquid fuel, maintenance spares and consumables

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

Nuclear fuel

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

2.13 Share capital

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

2.14 Income tax

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

2.15 Deferred tax

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

Deferred tax is not recognised for:

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

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

2.16 Payments received in advance

Upfront connection charges

Upfront connection charges are received from customers as contributions to enable Eskom to construct regular distribution and transmission assets. The connection charges are recognised in profit or loss when the customer is connected to the electricity network in terms of IFRIC 18 *Transfers of assets from customers*. Upfront connection charges received before 30 June 2009 are allocated to deferred income when the customer is connected to the electricity network.

Grants

Government grants for energy-efficiency initiatives are recognised in profit or loss within other expenses when the related expenses are incurred. Government grants for electrification are recognised in deferred income when the related asset has been connected to the electricity network.

2.17 Deferred income

Upfront connection charges

Upfront connection charges referred to in note 2.16 are allocated to deferred income. The upfront connection charges are recognised in profit or loss within revenue on a straight-line basis over the expected useful lives of the related assets.

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.

Government grants referred to in note 2.16 are allocated to 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.

2.18 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. 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.

Notes to the financial statements (continued)

for the year ended 31 March 2018

2. Summary of significant accounting policies (continued)

2.18 Employee benefit obligations (continued)

Occasional and service leave

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

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 in profit or loss within employee benefit expense. The present values of the benefit are determined by using government bonds which have maturities similar to the liability.

Pension benefits

Pension benefits are provided for employees through the Eskom Pension and Provident Fund (EPPF). 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*. Additional disclosures relating to the pension benefits have been included in note 28.4 to enable users of financial statements to understand the impact of the particular transaction.

Post-employment medical benefits

The liability for post-employment medical benefits is the present value of the obligation determined by using government 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 re-measurements of post-employment medical benefits. 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 obligation 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 a 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 when the group can no longer withdraw the offer of those benefits.

2.19 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 costs.

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

The main categories of provisions include the following:

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

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

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

Mine-related closure, pollution control and rehabilitation

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

Coal-related obligations

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

Other

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

2.20 Revenue recognition

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

Revenue is recognised when significant risks and rewards of ownership have passed, the amount of revenue can be measured reliably and it is probable that future economic benefits will flow to the group.

Where it is assessed that there is a high probability that the economic benefits related to sales will not materialise, such sales are not recognised.

2.21 Finance income

Finance income comprises interest receivable on loans, 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.

2.22 Finance cost

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

2.23 Assets and liabilities held-for-sale

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

2.24 Net debt

Gross debt is the aggregate of debt securities and borrowings and finance lease payables.

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

Notes to the financial statements (continued)

for the year ended 31 March 2018

3. Capital management, going concern and reportable irregularities

3.1 Capital management

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

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

		Group		Company	
	Note	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Share capital	24	83 000	83 000	83 000	83 000
Accumulated profit		98 090	100 655	85 804	90 675
Net debt	44	386 671	327 559	391 016	331 427
		567 761	511 214	559 820	505 102
Facilities available – debt securities and borrowings[1]		31 352	46 808	31 352	46 808

(a) Share capital

There have been no changes in share capital in the current financial year.

(b) Accumulated profit

Revenue

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. A forward electricity price curve is derived which is an indication of the size of the price increases which Eskom requires to be sustainable over the long term.

Refer to the economic regulation section in the directors' report for more information on electricity tariffs.

The group continues to diversify its revenue in the long term by increasing the amount generated from other markets and activities.

Operating cost

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

The following income statement measures are monitored by management:

		Group		Company	
	Unit	2018	2017	2018	2017
EBITDA margin (total revenue)	%	25.57	21.19	24.48	20.32
Net profit margin	%	(1.32)	0.50	(2.60)	(0.49)

(c) Net debt

	Group		Company	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Funding spent	99 954	98 108	99 588	98 602
Debt repayment and finance costs	44 457	35 822	44 642	35 960
Investment funding requirements	55 497	62 286	54 946	62 642
Funding raised	99 954	98 108	99 588	98 602
Cash from operations	37 574	45 841	36 484	46 060
Financing activities	58 004	43 677	58 501	43 719
Utilisation of cash resources	4 376	8 590	4 603	8 823

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

		Group		Company	
	Unit	2018	2017	2018	2017
Net debt: equity	Ratio	2.27	1.86	2.47	2.00
Net debt: EBITDA	Ratio	8.52	8.73	9.00	9.21
Net debt service cover	Ratio	0.87	1.37	0.84	1.37
FFO: net debt	%	10.35	14.52	14.79	9.99

1. Facilities in foreign currency are converted to rand at mid-spot rate at reporting date. Refer to note 5.3.

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

	Rating		Outlook	
	2018	2017	2018	2017
Standard and Poor's				
Foreign currency	CCC+	BB-	Negative	Negative
Local currency	CCC+	BB-	Negative	Negative
Moody's				
Foreign currency	B2	Ba1	Negative	Negative
Local currency	B2	Ba1	Negative	Negative
Fitch Ratings				
Foreign currency	-	-	Negative	Negative
Local currency	BB-	BBB	Negative	Negative

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

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

Refer to note 44 for a reconciliation of the movements and analysis of the composition of net debt.

3.2 Going concern

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

- reviewed the performance of the group for the year ended 31 March 2018 including the net loss of R2 337 billion (2017: R888 million profit)
- considered the impact of the cash flow forecast for the 15 months ending 30 June 2019
- considered the impact of the tariff increase of 5.2% for the 2019 financial year that does not allow for a reasonable return on assets in terms of the regulatory framework (approximately 3.0% of the increase covers the growth in IPP expenditure, leaving 2.2% to cover Eskom's own operating expenses)
- considered the impact of the current economic climate and the sovereign's credit ratings on Eskom's ability to raise funds
- noted that the rating agencies have a more positive outlook on Eskom, even though the ratings, except for Moody's, are still at sub-investment grade
- noted that investor confidence and access to markets to raise the funding required has improved
- noted that the government has indicated that Eskom is an important component of the economy and continues to support Eskom as a going concern

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

- finalisation of the implementation of the R32.7 billion allowed by NERSA on the regulatory clearing accounts for the 2015 to 2017 periods of the MYPD 3
- the group's cost structures and capital programme are continuously being reviewed to maximise cost savings and improve cash flows
- the group's generation capacity is being monitored and appropriate steps are taken to manage capacity
- the coal stock levels at affected power stations continues to be improved to manage security of supply
- renewed focus has been placed on implementing relevant strategies to recover arrear debt (trade receivables)
- the group will not embark on any further generation expansion activities in the foreseeable future after the completion of the Kusile power station project
- continuous engagement is taking place with the shareholder and National Treasury to ensure that the challenges that impact on the group's going-concern status are addressed satisfactorily within a reasonable timeframe
- funding options, with the support of National Treasury, are being pursued to implement the group's borrowing programme (22% of the targeted funding for 2019 has already been secured by June 2018)
- the ministers of Public Enterprises, Energy and Finance are working together to deal with other structural issues at Eskom, including the funding model and other industry challenges identified by the inter-ministerial committee on state-owned enterprises reform
- good progress has been made with the supply chain recovery programme to address the shortcomings relating to the completeness of the irregular expenditure, fruitless and wasteful expenditure and losses due to criminal conduct reporting process in terms of the PFMA (resulted in the qualified audit opinion) and the clean up of the related challenges in the commercial environment. The programme is continuing into its second phase. There is continued focus on the programme to improve and embed the reporting process and to resolve the challenges in the commercial environment to avoid an audit qualification going forward

The board considered the risks relating to the group's going-concern status and is satisfied that the risks will be satisfactorily addressed with the mitigation strategies in place. The board is managing these strategies as a priority to ensure that they materialise as envisaged. The board therefore concludes that it is satisfied that the group has access to adequate resources and facilities to be able to continue its operations for the foreseeable future as a going concern.

3.3 Reportable irregularities

The status of the reportable irregularities is discussed in the directors' report on page 12.

Notes to the financial statements (continued)

for the year ended 31 March 2018

4. Critical accounting estimates and assumptions

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

4.1 Embedded derivatives

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

The embedded derivatives consist of the following categories:

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

Valuation

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

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

A forward electricity price curve is used to value the host agreement and the derivative agreement is valued by using market forecasts of future commodity prices, foreign currency rand exchange rates, interest rate differentials, forecast sales volumes, and production price and liquidity.

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

Valuation assumptions

The forward electricity curve used to value the embedded derivatives at 31 March 2018 was based on the approved tariff increase of 5.23% for the 2019 financial year and a flat rate of 8% thereafter until maturity.

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

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

2018		Year ended 31 March					
Input	Unit	2018[1]	2019[1]	2020[1]	2021[1]	2022[1]	2023[1]
Aluminium	USD per ton	2 008	2 037	2 071	2 097	2 122	2 154
Volatility	Year-on-year (ratio)	0.16	0.16	0.16	0.16	0.16	0.16
Rand interest rates	Continuous actual/365 days (%)	6.76	7.46	6.71	6.84	6.99	7.12
Dollar interest rates	Annual actual/365 days (%)	2.09	2.67	2.59	2.67	2.71	2.73
United States PPI	Year-on-year (%)	3.66	1.89	2.07	1.85	1.89	2.06
Rand/USD	Rand per USD	11.88	12.46	12.90	13.46	14.09	14.79

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

Sensitivity analysis

The approximate change in the value of embedded derivatives if one of the inputs is changed is disclosed in note 5.2 Financial risk management – market risk under currency risk (note 5.2.1), commodity risk (note 5.2.2), interest rate risk (note 5.2.3) and other price risk (note 5.2.5).

The carrying amount of the embedded derivative liabilities for the group and company is R5 291 million (2017: R5 414 million). Refer to note 26.

1. Forward curve based on financial years.

4.2 Post-employment medical benefits

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

Valuation

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

Valuation assumptions

The principal actuarial assumptions used were:

	Group and company	
	2018 %	2017 %
Discount rate	10.5	11.2
Medical aid inflation	8.6	9.9

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

	Group and company			
	2018		2017	
	Male years	Female years	Male years	Female years
Longevity	14.42	20.82	14.42	20.82

The weighted average duration of the defined benefit obligation for the group was 19.3 years (2017: 20.2 years) and for the company was 19.5 years (2017: 20.3 years).

Sensitivity analysis

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

		Group				Company			
	Change in assumption	2018 increase Rm	2018 decrease Rm	2017 increase Rm	2017 decrease Rm	2018 increase Rm	2018 decrease Rm	2017 increase Rm	2017 decrease Rm
Effect on aggregate current service cost and finance cost									
Discount rate	1%	(193)	243	(230)	293	(190)	240	(227)	289
Medical aid inflation	1%	411	(322)	460	(357)	405	(316)	452	(351)
Future mortality	1 year	56	(56)	63	(63)	55	(55)	62	(62)
Effect on post-employment medical benefits obligation									
Discount rate	1%	(1 854)	2 348	(1 937)	2 470	(1 815)	2 300	(1 895)	2 418
Medical aid inflation	1%	2 326	(1 865)	2 435	(1 941)	2 279	(1 827)	2 383	(1 899)
Future mortality	1 year	385	(385)	405	(404)	376	(376)	395	(394)

The carrying amount of the post-employment medical benefits liability for the group is R14 243 million (2017: R14 261 million) and R13 911 million (2017: R13 917 million) for the company. Refer to note 28.

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.

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

Notes to the financial statements (continued)

for the year ended 31 March 2018

4. Critical accounting estimates and assumptions (continued)

4.3 Occasional and service leave

The group recognises a liability for occasional and service leave.

Valuation

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

Valuation assumptions

The principal actuarial assumptions used were:

	Group and company	
	2018 %	2017 %
Discount rate	10.5	11.2
General price inflation	6.6	7.9
Salary increases	8.1	9.4
Leave usage	4.0	4.0

Assumptions regarding future mortality have been based on published mortality tables and statistics derived from experience. For details regarding current longevities underlying the values of the occasional and service leave obligation at the reporting date refer to note 4.2.

Sensitivity analysis

Based on current experience, 4% (2017: 4%) of the leave is utilised. If the rate at which leave is taken is 8% (2017: 8%), then the liability will increase by R70 million (2017: R69 million).

The carrying amount of the occasional and service leave liability for the group is R1 411 million (2017: R1 368 million) and R1 332 million (2017: R1 296 million) for the company.

4.4 Decommissioning, mine closure and rehabilitation

Provision is made for the estimated decommissioning cost of nuclear and other generating 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 real discount rate used for these provisions was 3.3% (2017: 3.3%) for the group and company.

Estimated payment dates

The estimated payment dates of the costs are:

	Group and company	
	2018	2017
Nuclear plant	2026 – 2041	2026 – 2041
Coal and pumped storage plants	2024 – 2098	2024 – 2098
Spent nuclear fuel	2019 – 2125	2018 – 2105
Mine-related closure, pollution control and rehabilitation	2019 – 2076	2018 – 2076

The estimated final payment date for spent nuclear fuel has changed because of a revision to the decommission strategy which resulted in an increase in the on-site dry storage period.

Sensitivity analysis

The carrying amount of the decommissioning, mine closure and rehabilitation provision would be an estimated R5 929 million (2017: R6 178 million) lower had the real discount rate used in the calculation of the provision increased by 1% and R8 020 million (2017: R8 137 million) higher had the real discount rate decreased by 1%.

The carrying amount of the decommissioning, mine closure and rehabilitation liabilities for the group and company is R42 040 million (2017: R41 999 million). Refer to note 29.

4.5 Coal-related obligations

Provision is made for coal-related obligations which arise out of contractual obligations as a result of delays in commissioning of the related power stations.

Valuation

These provisions are determined by taking consideration of the anticipated commissioning dates, future coal prices, coal utilisation and coal stock-piles.

Valuation assumptions

The discount rate used for these provisions was 8.6% (2017: 8.7%) for the group and company.

The estimated payment dates of the costs are between 2019 and 2023 (2017: 2018 and 2020).

Sensitivity analysis

The carrying amount of the coal-related obligations would be an estimated R202 million (2017: R250 million) lower had the anticipated commissioning dates been one month earlier than estimated and R520 million (2017: R240 million) higher had the anticipated commissioning dates been one month later than estimated.

The carrying amount of coal-related obligations liabilities for the group and company is R3 814 million (2017: R4 695 million). Refer to note 29.

5. Financial risk management

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

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

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

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

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

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

5.1 Credit risk

5.1.1 Financial instruments mainly managed by the treasury function

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

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

Specific activities undertaken by the Alco include the following:

- assess the credit quality of counterparties and approve credit limits based on this assessment
- monitor the adherence to credit limits
- approve methodologies for the management of counterparty exposure
- ensure that, where applicable, transactions with counterparties are supported by trading agreements
- facilitate and manage the issuing of financial guarantees by the group

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

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

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

Notes to the financial statements (continued)

for the year ended 31 March 2018

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.1 Financial instruments mainly managed by the treasury function (continued)

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

The treasury 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.

The following are monitored and reported on:
- aggregate credit risk exposure
- limits utilisation including any breaches
- hold-limit exceptions
- risk profile changes
- risk concentrations

Where the credit risk of a particular counterparty has increased, a reassessment of the valuation of the instrument is made. In making this assessment, the counterparty is assessed for the following factors:
- significance of financial difficulty
- probability of bankruptcy
- probability of breach of contract

Escap SOC Ltd (Escap) invests in listed shares and negotiable certificates of deposit (NCD) to satisfy its capital adequacy requirements in line with insurance regulations in South Africa. The listed shares do not expose the group to credit risk. Investments in NCDs are done with banks with a minimum credit rating of AA.

An analysis per credit rating level (as determined by rating agencies) of the following balances is presented below:

		Group		Company	
	Note	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Investment in securities					
AAA		–	3 522	–	3 522
AA+		6 839	–	–	–
AA		–	8 556	–	3 182
Maximum credit exposure	14	6 839	12 078	–	6 704
Financial trading assets					
Maximum credit exposure		168	1 730	168	1 730
A1+		–	1 162	–	1 162
A1		–	563	–	563
A3		168	–	168	–
Unrated		–	5	–	5
No credit exposure		1 333	1 189	–	–
	14	1 501	2 919	168	1 730
Derivatives held for risk management					
AA		–	12 045	–	12 045
AA-		5 000	–	5 000	–
A1+		–	420	–	420
A+		–	3 577	–	3 577
A		119	1 020	119	1 020
A1		17	373	17	373
A-		–	433	–	433
BBB		520	–	520	–
BBB-		9 734	–	9 734	–
A3		188	–	188	–
Unrated		–	–	2	–
Maximum credit exposure	16	15 578	17 868	15 580	17 868
Cash and cash equivalents					
Maximum credit exposure		15 778	20 413	15 334	19 952
A1+		544	14 439	544	14 020
A1		751	3 238	751	3 238
A2		7	7	7	7
A3		14 400	2 675	14 028	2 675
Unrated		76	54	4	12
No credit exposure		45	12	45	12
	21	15 823	20 425	15 379	19 964

5.1.2 Financial instruments managed by various divisions and subsidiaries

(a) Trade and other receivables

Trade receivables

Credit risk attributable to trade receivables is assessed taking into account the following counterparty characteristics:
- geographic location of the customer (both internationally and within South Africa)
- size of demand (large or small power user)
- receivable ageing profile
- security held (deposits and guarantees)
- payment history

A large number of the residential customers are on a prepaid basis thereby eliminating credit risk relating to these customers. The group has well-established credit control procedures for conventional customers 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 can result in disconnection of supply and the customer's account being closed. A legal collection process is pursued after disconnection.

The following strategies are currently in operation in high risk areas of non-paying customers with varying levels of success:
- contacting the customer
- disconnections
- conversion to prepayment
- use of debt collectors
- payment arrangements
- focus on early identification and letters of demand
- increased security deposits and guarantees
- efficient internal process, for example system automation of credit and collections such as automated notices and letters of demand
- adverse listing of defaulting customers

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

Progress on the collection process is reviewed on a regular basis and if it is evident that the amount will not be recovered, it is recommended for writeoff in terms of the group policy 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 main classes of trade receivables are:
- international customers
- local large power users
- local small power users

International customers

Electricity supply agreements are entered into with key international customers who comprise utility companies, governments of neighbouring countries and sundry large power users. Their payment terms are between 10 and 45 days. They are individually assessed for impairment.

International customers are not required to provide any security unless they default on their payment terms as they generally represent a low credit risk. Certain international customers may be required to pay upfront based on their credit risk.

Local large power users

Local large power users comprise South African redistributors (metropolitan and municipalities), commercial, industrial and mining customers usually with supplies above 100kVA. Payment terms are individually negotiated and are normally at a maximum of 15 days, except for municipalities which are at a maximum of 30 days. They are individually assessed for impairment based on their overall individual risk.

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

Certain municipalities continued to fall into arrears during the course of the financial year. Monitoring of these municipality payment levels continues to receive ongoing management attention and remains a high priority focus area. Interventions pursued included entering into special payment arrangements and following the Promotion of Administrative Justice Act for disconnections. Eskom continues to work closely with the Department of Co-operative Governance and Traditional Affairs and other government departments as well as relevant stakeholders to resolve the systemic challenges which have given rise to municipalities' arrear debt.

Other interventions include considering:
- restricting supply to non-paying municipalities if set maximum demand levels are exceeded
- interrupting electricity supply to the non-paying municipalities where no recovery plan could be presented and agreed upon between Eskom and the municipalities
- installation of split metering technology with protective steel enclosures

Notes to the financial statements (continued)

for the year ended 31 March 2018

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.2 Financial instruments managed by various divisions and subsidiaries (continued)

(a) Trade and other receivables (continued)

Trade receivables (continued)

Local small power users

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

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

Soweto receivables are an identified high credit risk area subject to specific credit risk management. The collection of revenue from customers in Soweto remains a challenge. The enhancement of credit control strategies and monitoring of payment levels in this area continue to receive management attention. The payment levels expressed as a percentage of billed revenue (excluding interest) for the year was 17% (2017: 16%). The residential revenue management strategy, which includes Soweto, continues to be implemented. The strategy entails implementation of split metering technology, conversion of meters to prepayment and stepping up disconnections for customers to improve payment levels.

An analysis of trade receivables days outstanding is presented below:

	Carrying amount	Not impaired[1]					Impaired				
		Not past due	Days past due				Not past due	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	Rm
Group and company											
2018											
Individually assessed for impairment											
International	1 893	769	–	–	–	–	205	185	145	180	409
Gross	1 918	769	–	–	–	–	205	185	145	180	434
Impairment	(25)	–	–	–	–	–	–	–	–	–	(25)
Local large power users – municipalities	7 838	5 024	4	1	–	–	1 101	1	71	43	1 593
Gross	11 937	5 024	4	1	–	–	1 177	12	262	97	5 360
Impairment	(4 099)	–	–	–	–	–	(76)	(11)	(191)	(54)	(3 767)
Local large power users – other	7 051	6 811	88	46	13	34	11	3	17	5	23
Gross	7 158	6 811	88	46	13	34	20	9	27	9	101
Impairment	(107)	–	–	–	–	–	(9)	(6)	(10)	(4)	(78)

		Not past due	Days past due		
			0-30	31-60	>60
		Rm	Rm	Rm	Rm
Collectively assessed for impairment					
Local small power users – Soweto	752	30	8	8	706
Gross	4 305	59	34	37	4 175
Impairment	(3 553)	(29)	(26)	(29)	(3 469)
Local small power users – other	1 805	1 485	162	41	117
Gross	2 445	1 537	211	76	621
Impairment	(640)	(52)	(49)	(35)	(504)
	19 339				

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.*

	Carrying amount	Not impaired[1]					Impaired				
		Not past due	Days past due				Not past due	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	Rm
Group and company											
2017											
Individually assessed for impairment											
International	1 582	806	–	–	–	–	189	86	203	288	10
Gross	1 704	806	–	–	–	–	189	86	203	288	132
Impairment	(122)	–	–	–	–	–	–	–	–	–	(122)
Local large power users – municipalities	7 207	4 342	–	–	–	–	1 363	188	390	100	824
Gross	11 102	4 342	–	–	–	–	1 372	781	1 782	379	2 446
Impairment	(3 895)	–	–	–	–	–	(9)	(593)	(1 392)	(279)	(1 622)
Local large power users – other	7 149	6 971	69	20	2	4	16	2	8	4	53
Gross	7 560	6 971	69	20	2	4	27	4	22	12	429
Impairment	(411)	–	–	–	–	–	(11)	(2)	(14)	(8)	(376)

		Not past due	Days past due		
			0-30	31-60	>60
		Rm	Rm	Rm	Rm
Collectively assessed for impairment					
Local small power users – Soweto	655	8	10	4	633
Gross	4 205	47	62	5	4 091
Impairment	(3 550)	(39)	(52)	(1)	(3 458)
Local small power users – other	1 784	1 474	142	7	161
Gross	2 465	1 524	175	39	727
Impairment	(681)	(50)	(33)	(32)	(566)
	18 377				

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.*

Notes to the financial statements (continued)

for the year ended 31 March 2018

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.2 Financial instruments managed by various divisions and subsidiaries (continued)

(a) Trade and other receivables (continued)

Trade receivables (continued)

Security is held for trade receivables consisting of guarantees and deposits. Certain guarantees that were past their original due dates were renegotiated. Where renegotiated terms are not met, the original payment terms are reapplied. Details regarding security held and renegotiated amounts are analysed below:

	Fair value of security held relating to:			Security called upon	Renegotiated balances
	Impaired receivables Rm	Not-impaired receivables Rm	Total Rm	Rm	Rm
2018					
International	–	1	1	–	–
Local large power users	200	6 931	7 131	18	4 863
Municipalities	181	346	527	1	4 847
Other	19	6 585	6 604	17	16
Local small power users	76	2 011	2 087	52	51
Soweto	13	–	13	–	1
Other	63	2 011	2 074	52	50
	276	8 943	9 219	70	4 914
2017					
International	–	5	5	–	–
Local large power users	346	5 790	6 136	11	3 575
Municipalities	330	132	462	–	3 564
Other	16	5 658	5 674	11	11
Local small power users	53	1 893	1 946	58	58
Soweto	11	–	11	–	1
Other	42	1 893	1 935	58	57
	399	7 688	8 087	69	3 633

Other receivables

Other receivables comprise mainly reinsurance receivables relating to insurance claims made and sundry receivables. There are no significant balances with specific repayment terms. No security is held in respect of these balances and no interest has been charged on overdue balances. Long outstanding debt or amounts handed over to debt collectors were considered for impairment.

(b) Finance lease receivables

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

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

An analysis per credit rating level (as determined by rating agencies) is presented below:

		Group and company	
	Note	2018 Rm	2017 Rm
AA+		–	30
A		–	8
BBB-		27	–
BB		2	–
Unrated		408	436
Maximum credit exposure	17	437	474

(c) Financial guarantees issued

The group's maximum exposure as a result of financial guarantees issued was R54 million (2017: R99 million) and R1 123 million (2017: R1 186 million) for the company. Refer to note 45.1 for more information on financial guarantees issued.

5.2 Market risk

A significant part of market risk encountered by the group 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 framework is to protect and enhance the statement of financial position and profit or loss by managing and controlling market risk exposures and to optimise the funding of business operations and facilitate capital expansion.

Financial instruments mainly 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 Alco. 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 various 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 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 two and 11 years.

The net impact on profit or loss because of changes in the fair value of the embedded derivatives for the group and company is a fair value gain of R123 million (2017: R1 611 million). The embedded derivative liabilities are R5 291 million (2017: R5 414 million) for the group and company.

The valuation methods and inputs are discussed in the accounting policies (refer to note 2.10.5) and the valuation assumptions are disclosed under critical accounting estimates and assumptions (refer to note 4.1). Risks arising from these contracts are discussed under the relevant risk areas as follows:

- currency risk (refer to note 5.2.1)
- commodity risk (refer to note 5.2.2)
- interest rate risk (refer to note 5.2.3)
- other price risk (refer to note 5.2.5)

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

5.2.1 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 2018

5. Financial risk management (continued)

5.2 Market risk (continued)

5.2.1 Currency risk (continued)

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

	EUR m	USD m	GBP m	JPY m	SEK m	AUD m	CHF m	CAD m	NOK m
2018									
Group									
Liabilities									
Debt securities and borrowings	(2 681)	(7 556)	–	(7 465)	–	–	–	–	–
Trade and other payables	(76)	(10)	(2)	–	(27)	–	–	–	–
Gross statement of financial position exposure	(2 757)	(7 566)	(2)	(7 465)	(27)	–	–	–	–
Estimated forecast purchases[1]	(702)	(143)	(6)	(609)	(175)	–	(1)	(1)	(1)
Gross exposure	(3 459)	(7 709)	(8)	(8 074)	(202)	–	(1)	(1)	(1)
Derivatives held for risk management[2]	3 457	7 700	8	8 071	190	–	1	1	1
Net exposure	(2)	(9)	–	(3)	(12)	–	–	–	–
Company									
Liabilities									
Debt securities and borrowings	(2 681)	(7 556)	–	(7 465)	–	–	–	–	–
Trade and other payables	(76)	(10)	(2)	–	(27)	–	–	–	–
Gross statement of financial position exposure	(2 757)	(7 566)	(2)	(7 465)	(27)	–	–	–	–
Estimated forecast purchases[1]	(699)	(143)	(5)	(609)	(175)	–	(1)	(1)	(1)
Gross exposure	(3 456)	(7 709)	(7)	(8 074)	(202)	–	(1)	(1)	(1)
Derivatives held for risk management[2]	3 454	7 699	7	8 071	190	–	1	1	1
Net exposure	(2)	(10)	–	(3)	(12)	–	–	–	–
2017									
Group									
Assets									
Cash and cash equivalents	–	265	–	–	–	–	–	–	–
Liabilities									
Debt securities and borrowings	(2 794)	(6 588)	–	(9 955)	–	–	–	–	–
Trade and other payables	(84)	(55)	(2)	–	(20)	–	–	(1)	(1)
Gross statement of financial position exposure	(2 878)	(6 378)	(2)	(9 955)	(20)	–	–	(1)	(1)
Estimated forecast purchases[1]	(977)	(200)	(18)	(250)	(236)	(2)	(1)	(2)	(4)
Gross exposure	(3 855)	(6 578)	(20)	(10 205)	(256)	(2)	(1)	(3)	(5)
Derivatives held for risk management[2]	3 876	6 571	20	10 196	246	1	1	3	3
Net exposure	21	(7)	–	(9)	(10)	(1)	–	–	(2)
Company									
Assets									
Cash and cash equivalents	–	265	–	–	–	–	–	–	–
Liabilities									
Debt securities and borrowings	(2 794)	(6 588)	–	(9 955)	–	–	–	–	–
Trade and other payables	(84)	(55)	(2)	–	(20)	–	–	(1)	(1)
Gross statement of financial position exposure	(2 878)	(6 378)	(2)	(9 955)	(20)	–	–	(1)	(1)
Estimated forecast purchases[1]	(957)	(198)	(16)	(250)	(236)	(2)	(1)	(2)	(4)
Gross exposure	(3 835)	(6 576)	(18)	(10 205)	(256)	(2)	(1)	(3)	(5)
Derivatives held for risk management[2]	3 856	6 569	18	10 196	246	1	1	3	3
Net exposure	21	(7)	–	(9)	(10)	(1)	–	–	(2)

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

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			
	Annual average		Reporting date mid-spot rate		Annual average		Reporting date mid-spot rate	
	2018	2017	2018	2017	2018	2017	2018	2017
EUR	15.21	15.44	14.64	14.29	0.07	0.06	0.07	0.07
USD	13.00	14.05	11.88	13.37	0.08	0.07	0.08	0.07
GBP	17.23	18.42	16.69	16.67	0.06	0.05	0.06	0.06
CHF	13.39	14.24	12.44	13.36	0.07	0.07	0.08	0.07
JPY	0.12	0.13	0.11	0.12	8.33	7.69	9.09	8.33
SEK	1.56	1.62	1.42	1.50	0.64	0.62	0.70	0.67
CAD	10.14	10.71	9.20	10.05	0.10	0.09	0.11	0.10
AUD	10.05	10.58	9.12	10.21	0.10	0.09	0.11	0.10
NOK	1.60	1.68	1.51	1.56	0.63	0.60	0.66	0.64

Sensitivity analysis

The group is mainly exposed to the euro and United States dollar. 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			
	2018		2017	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Profit/(loss), excluding embedded derivatives				
Total exposure	50	(50)	46	(46)
Rand/EUR exposure	56	(56)	57	(57)
Rand/USD exposure	(4)	4	(10)	10
Rand/other currency	(2)	2	(1)	1
Equity, excluding embedded derivatives				
Total exposure	172	(172)	287	(287)
Rand/EUR exposure	77	(77)	115	(115)
Rand/USD exposure	93	(93)	142	(142)
Rand/other currency	2	(2)	30	(30)
Profit/(loss) – embedded derivatives				
Rand/USD exposure	77	(68)	96	(91)

5.2.2 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.

The negotiated pricing arrangements gave rise to commodity-linked (aluminium) embedded derivatives. Refer to note 4.1.

Sensitivity analysis

The group is exposed mainly to changes in the aluminium 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			
	2018		2017	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Profit/(loss), including embedded derivatives[1]				
Aluminium price	47	(47)	74	(74)

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

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

Notes to the financial statements (continued)

for the year ended 31 March 2018

5. Financial risk management (continued)

5.2 Market risk (continued)

5.2.3 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 derivatives held for risk management. Borrowings and debt securities issued and derivatives held for risk management 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 risk management framework) exposed to an interest rate reset within the next 12-month period to 40%.

Refer to note 25 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 below.

The ZAR and the USD interest rates are used in determining the fair value of embedded derivatives. The sensitivity analysis below 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.

	Group				Company			
	2018		2017		2018		2017	
	+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	5	(7)	65	(71)	(55)	55	11	(16)
ZAR interest rates	159	(169)	260	(277)	127	(136)	206	(222)
EUR interest rates	(48)	49	(55)	56	(48)	49	(55)	56
USD interest rates	(104)	111	(136)	146	(132)	140	(136)	146
Other currency interest rates	(2)	2	(4)	4	(2)	2	(4)	4
Equity, excluding embedded derivatives								
Total exposure	(611)	669	(1 573)	1 565	(611)	669	(1 573)	1 565
ZAR interest rates	3 342	(3 540)	3 483	(3 714)	3 342	(3 540)	3 483	(3 714)
EUR interest rates	(1 098)	1 193	(1 287)	1 263	(1 098)	1 193	(1 287)	1 263
USD interest rates	(2 837)	3 006	(3 739)	3 997	(2 837)	3 006	(3 739)	3 997
Other currency interest rates	(18)	10	(30)	19	(18)	10	(30)	19
Profit/(loss) – embedded derivatives[1]								
Total exposure	79	(118)	102	(131)	79	(118)	102	(131)
ZAR interest rates	262	(294)	346	(376)	262	(294)	346	(376)
USD interest rates	(183)	176	(244)	245	(183)	176	(244)	245

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

Fixed and floating rate debt

	Group and company			
	2018		2017	
	fixed %	floating %	fixed %	floating %
Proportion of fixed versus floating rate debt at 31 March	72	28	76	24

5.2.4 Equity price risk

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

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

The carrying value of investments made per sector are as follows:

	Group			
	2018		2017	
	Rm	portfolio %	Rm	portfolio %
Banks, financial services and insurance	387	29	277	23
Basic materials and resources	171	13	167	14
Consumer goods and services	541	41	525	44
Other	234	17	220	19
	1 333	100	1 189	100

A 1% increase or decrease in share prices would have increased/decreased profit or loss by R13 million (2017: R12 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.

5.2.5 Other price risk

Inflation price risk arises from embedded derivatives as discussed under note 4.1. The risk arises from movements in the electricity tariffs and the United States PPI.

Refer to note 26 for the group's quantitative exposure to other price risk.

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			
	2018		2017	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Profit/(loss) – embedded derivatives[1]	41	(52)	(41)	34
Electricity tariffs	(69)	68	(150)	149
United States PPI	110	(120)	109	(115)

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

Notes to the financial statements (continued)

for the year ended 31 March 2018

5. Financial risk management (continued)

5.3 Liquidity risk

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

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

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

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

Eskom has an established corporate governance structure and process for managing the risks regarding guarantees and contingent liabilities. All significant guarantees issued by Eskom are approved by the board, and are managed on an ongoing basis by the treasury department and by the Exco and audit and risk committee of the board. Refer to note 45.

The guarantees are administratively managed by the treasury department. Updated guarantee schedules are compiled every month, taking cognisance of any changed risk factors, and are submitted to each of the committees for consideration and action, 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.

5.3.1 Key liquidity indicators

		Group		Company	
	Unit	2018	2017	2018	2017
Weighted average term to maturity of debt securities and borrowings	years	7.31	8.06	7.31	8.06
Working capital ratio	ratio	1.05	0.85	1.06	0.86
Cash interest cover ratio	ratio	1.22	1.73	1.18	1.73
Net debt service cover ratio	ratio	0.87	1.37	0.84	1.37
Liquid assets	Rm	22 662	32 503	15 379	26 668

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

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

Liquid assets are investments identified as having the potential to be quickly converted into cash. These are made up of the investing portfolio of investment in securities as well as cash and cash equivalents.

5.3.2 Primary sources of funding and unused facilities

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

	ZAR		EUR		USD	
	2018 m	2017 m	2018 m	2017 m	2018 m	2017 m
Facilities available						
Export credit agencies	–	–	387	523	17	195
Crédit Agricole Corporate and Investment Bank – Coface	–	–	44	44	–	–
Banque Nationale de Paris Paribas – Coface	–	–	201	231	–	–
Kreditanstalt für Wiederaufbau – Hermes	–	–	141	234	–	–
Deutsche Bank – Hermes	–	–	1	14	–	–
Export-Import Bank of the United States	–	–	–	–	17	195
Development financing institutions	843	4 761	315	384	1 686	1 513
World Bank	–	–	–	–	713	884
African Development Bank	129	3 304	143	212	–	256
Clean technology fund – African Development Bank	–	–	–	–	58	58
Clean technology fund – World Bank	–	–	–	–	215	215
European Investment Bank	–	–	75	75	–	–
Kreditanstalt für Wiederaufbau	–	–	–	–	100	100
Agence Française de Développement	714	1 457	97	97	–	–
China Development Bank	–	–	–	–	600	–
General banking facilities	–	6 250	–	–	–	–
	843	11 011	702	907	1 703	1 708
Funds received during the year						
Export credit agencies	–	–	128	322	178	–
Banque Nationale de Paris Paribas – Coface	–	–	30	–	–	–
Banque Nationale de Paris Paribas – Servizi Assicurativi del Commercio Estero	–	–	–	261	–	–
Kreditanstalt für Wiederaufbau – Hermes	–	–	93	55	–	–
Deutsche Bank – Hermes	–	–	5	6	–	–
Export-Import Bank of the United States	–	–	–	–	178	–
Development financing institutions	3 918	3 036	69	119	1 071	1 883
World Bank[1]	–	–	–	–	171	396
African Development Bank[2]	3 175	2 220	69	119	–	975
Clean technology fund – World Bank[3]	–	–	–	–	–	6
Clean technology fund – African Development Bank[3]	–	–	–	–	–	6
Agence Française de Développement[3,4]	743	816	–	–	–	–
China Development Bank[5]	–	–	–	–	900	500
	3 918	3 036	197	441	1 249	1 883
Government guarantees						
Available	73 169	134 767	–	–	–	–
Domestic multi-term note programme	11 916	38 774	–	–	–	–
General guarantees	61 253	95 993	–	–	–	–
Used during the year	61 598	33 779	–	–	–	–
Domestic multi-term note programme	26 858	6 177	–	–	–	–
General guarantees	34 740	27 602	–	–	–	–

1. *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.*
2. *All funds received were reimbursements on payments made by Eskom to various suppliers for goods and services supplied for the Medupi boilers and turbines and Sere wind farm projects.*
3. *Funds received were for the Sere wind farm project.*
4. *Funds received were for concentrated solar power projects.*
5. *Funds received were for the Medupi power station and Matla mine.*

Notes to the financial statements (continued)

for the year ended 31 March 2018

5. Financial risk management (continued)

5.3 Liquidity risk (continued)

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

The 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.

		Carrying amount				Cash flows			
		Non-current	Current	Total	Nominal inflow/ outflow	0 to 3 months	4 to 12 months	1 to 5 years	>5 years
	Note	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2018									
Group									
Financial assets									
Investment in securities	14	–	6 839	6 839	6 839	963	5 876	–	–
Loans receivable	15	63	18	81	82	5	14	63	–
Derivatives held for risk management	16	13 705	1 873	15 578	14 918	176	1 248	6 743	6 751
Finance lease receivables	17	408	29	437	751	20	60	302	369
Trade and other receivables	19	1	20 081	20 082	20 081	18 089	1 991	1	–
Financial trading assets[1]	14	–	1 501	1 501	1 608	16	1 349	53	190
Cash and cash equivalents	21	–	15 823	15 823	15 823	15 823	–	–	–
		14 177	46 164	60 341	60 102	35 092	10 538	7 162	7 310
Financial liabilities									
Debt securities and borrowings	25	348 112	40 572	388 684	723 625	10 834	50 751	219 130	442 910
Derivatives held for risk management	16	16 570	4 896	21 466	21 215	2 837	6 433	15 882	(3 937)
Finance lease payables	30	9 533	286	9 819	28 782	523	1 579	8 618	18 062
Trade and other payables	31	1 201	31 230	32 431	32 434	23 414	7 814	1 206	–
Financial trading liabilities[1]	14	–	249	249	254	240	1	9	4
Financial guarantees	45	–	1	1	54	54	–	–	–
		375 416	77 234	452 650	806 364	37 902	66 578	244 845	457 039
Company									
Financial assets									
Loans receivable	15	–	6 201	6 201	6 334	2 759	3 575	–	–
Derivatives held for risk management	16	13 705	1 875	15 580	14 921	177	1 250	6 743	6 751
Finance lease receivables	17	408	29	437	751	20	60	302	369
Trade and other receivables	19	1	21 428	21 429	21 429	20 035	1 393	1	–
Financial trading assets[1]	14	–	168	168	275	16	16	53	190
Cash and cash equivalents	21	–	15 379	15 379	15 379	15 379	–	–	–
		14 114	45 080	59 194	59 089	38 386	6 294	7 099	7 310
Financial liabilities									
Debt securities and borrowings	25	348 060	44 525	392 585	727 594	13 776	51 829	219 079	442 910
Derivatives held for risk management	16	16 570	4 896	21 466	21 215	2 837	6 433	15 882	(3 937)
Finance lease payables	30	9 533	286	9 819	28 782	523	1 579	8 618	18 062
Trade and other payables	31	1 201	32 115	33 316	33 318	25 793	6 317	1 208	–
Financial trading liabilities[1]	14	–	249	249	254	240	1	9	4
Financial guarantees	45	–	2	2	1 123	1 123	–	–	–
		375 364	82 073	457 437	812 286	44 292	66 159	244 796	457 039

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.*

		Carrying amount				Cash flows			
		Non-current	Current	Total	Nominal inflow/ outflow	0 to 3 months	4 to 12 months	1 to 5 years	>5 years
	Note	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2017									
Group									
Financial assets									
Investment in securities	14	1 537	10 541	12 078	12 417	2 317	8 451	1 649	–
Loans receivable	15	79	14	93	93	4	9	80	–
Derivatives held for risk management	16	16 868	1 000	17 868	28 691	676	190	9 924	17 901
Finance lease receivables	17	448	26	474	873	21	63	326	463
Trade and other receivables	19	9	19 358	19 367	19 367	17 469	1 889	9	–
Financial trading assets[1]	14	–	2 919	2 919	2 927	1 616	1 193	118	–
Cash and cash equivalents	21	–	20 425	20 425	20 425	20 425	–	–	–
		18 941	54 283	73 224	84 793	42 528	11 795	12 106	18 364
Financial liabilities									
Debt securities and borrowings	25	336 770	18 530	355 300	712 664	7 109	30 377	212 867	462 311
Derivatives held for risk management	16	6 767	3 826	10 593	9 869	2 323	5 618	8 903	(6 975)
Finance lease payables	30	9 819	246	10 065	30 864	518	1 563	8 531	20 252
Trade and other payables	31	871	31 143	32 014	32 016	28 441	2 696	727	152
Financial trading liabilities[1]	14	–	1 620	1 620	2 191	1 291	20	120	760
Financial guarantees	45	–	1	1	99	99	–	–	–
		354 227	55 366	409 593	787 703	39 781	40 274	231 148	476 500
Company									
Financial assets									
Investment in securities	14	1 537	5 167	6 704	7 043	1 691	3 703	1 649	–
Loans receivable	15	–	6 187	6 187	6 329	2 735	3 594	–	–
Derivatives held for risk management	16	16 868	1 000	17 868	28 691	676	190	9 924	17 901
Finance lease receivables	17	448	26	474	873	21	63	326	463
Trade and other receivables	19	9	20 609	20 618	20 618	19 001	1 608	9	–
Financial trading assets[1]	14	–	1 730	1 730	1 738	1 616	4	118	–
Cash and cash equivalents	21	–	19 964	19 964	19 964	19 964	–	–	–
		18 862	54 683	73 545	85 256	45 704	9 162	12 026	18 364
Financial liabilities									
Debt securities and borrowings	25	336 690	22 017	358 707	716 070	10 595	30 377	212 787	462 311
Derivatives held for risk management	16	6 767	3 838	10 605	9 882	2 334	5 620	8 903	(6 975)
Finance lease payables	30	9 819	246	10 065	30 864	518	1 563	8 531	20 252
Trade and other payables	31	871	32 519	33 390	33 389	30 902	1 608	727	152
Financial trading liabilities[1]	14	–	1 620	1 620	2 191	1 291	20	120	760
Financial guarantees	45	–	2	2	1 186	1 186	–	–	–
		354 147	60 242	414 389	793 582	46 826	39 188	231 068	476 500

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 2018

6. Accounting classification and fair value

6.1 Accounting classification

	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total Rm
2018							
Group							
Financial assets							
Investment in securities – negotiable certificates of deposit	14	–	–	6 839	–	–	6 839
Loans receivable	15	–	81	–	–	–	81
Derivatives held for risk management	16	245	–	–	–	15 333	15 578
Foreign exchange contracts		152	–	–	–	36	188
Cross-currency swaps		61	–	–	–	15 297	15 358
Commodity forwards		17	–	–	–	–	17
Credit default swaps		15	–	–	–	–	15
Finance lease receivables	17	–	–	–	–	437	437
Trade and other receivables	19	–	20 082	–	–	–	20 082
Financial trading assets	14	1 501	–	–	–	–	1 501
Repurchase agreements		9	–	–	–	–	9
Listed shares		1 333	–	–	–	–	1 333
Government bonds		159	–	–	–	–	159
Cash and cash equivalents	21	–	15 823	–	–	–	15 823
Bank balances		–	15 778	–	–	–	15 778
Unsettled deals		–	45	–	–	–	45
		1 746	35 986	6 839	–	15 770	60 341
Financial liabilities							
Debt securities and borrowings	25	–	–	–	388 684	–	388 684
Eskom bonds		–	–	–	146 172	–	146 172
Commercial paper		–	–	–	2 275	–	2 275
Eurorand zero coupon bonds		–	–	–	5 711	–	5 711
Foreign bonds		–	–	–	47 608	–	47 608
Development financing institutions		–	–	–	119 854	–	119 854
Export credit facilities		–	–	–	31 735	–	31 735
Floating rate notes		–	–	–	2 005	–	2 005
Other loans		–	–	–	33 324	–	33 324
Embedded derivatives	26	–	–	–	–	5 291	5 291
Derivatives held for risk management	16	3 593	–	–	–	17 873	21 466
Foreign exchange contracts		2 643	–	–	–	638	3 281
Cross-currency swaps		858	–	–	–	17 235	18 093
Credit default swaps		92	–	–	–	–	92
Finance lease payables	30	–	–	–	–	9 819	9 819
Trade and other payables	31	–	–	–	32 431	–	32 431
Financial trading liabilities	14	249	–	–	–	–	249
Short-sold government bonds		8	–	–	–	–	8
Repurchase agreements		241	–	–	–	–	241
		3 842	–	–	421 115	32 983	457 940

	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total Rm
2018							
Company							
Financial assets							
Loans receivable	15	–	6 201	–	–	–	6 201
Derivatives held for risk management	16	247	–	–	–	15 333	15 580
Foreign exchange contracts		154	–	–	–	36	190
Cross-currency swaps		61	–	–	–	15 297	15 358
Commodity forwards		17	–	–	–	–	17
Credit default swaps		15	–	–	–	–	15
Finance lease receivables	17	–	–	–	–	437	437
Trade and other receivables	19	–	21 429	–	–	–	21 429
Financial trading assets	14	168	–	–	–	–	168
Repurchase agreements		9	–	–	–	–	9
Government bonds		159	–	–	–	–	159
Cash and cash equivalents	21	–	15 379	–	–	–	15 379
Bank balances		–	15 334	–	–	–	15 334
Unsettled deals		–	45	–	–	–	45
		415	43 009	–	–	15 770	59 194
Financial liabilities							
Debt securities and borrowings	25	–	–	–	392 585	–	392 585
Eskom bonds		–	–	–	146 172	–	146 172
Commercial paper		–	–	–	4 423	–	4 423
Eurorand zero coupon bonds		–	–	–	5 711	–	5 711
Foreign bonds		–	–	–	47 608	–	47 608
Development financing institutions		–	–	–	119 854	–	119 854
Export credit facilities		–	–	–	31 735	–	31 735
Floating rate notes		–	–	–	2 005	–	2 005
Other loans		–	–	–	35 077	–	35 077
Embedded derivatives	26	–	–	–	–	5 291	5 291
Derivatives held for risk management	16	3 593	–	–	–	17 873	21 466
Foreign exchange contracts		2 643	–	–	–	638	3 281
Cross-currency swaps		858	–	–	–	17 235	18 093
Credit default swaps		92	–	–	–	–	92
Finance lease payables	30	–	–	–	–	9 819	9 819
Trade and other payables	31	–	–	–	33 316	–	33 316
Financial trading liabilities	14	249	–	–	–	–	249
Short-sold government bonds		8	–	–	–	–	8
Repurchase agreements		241	–	–	–	–	241
		3 842	–	–	425 901	32 983	462 726

Notes to the financial statements (continued)

for the year ended 31 March 2018

6. Accounting classification and fair value (continued)

6.1 Accounting classification (continued)

	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total Rm
2017							
Group							
Financial assets							
Investment in securities	14	–	–	12 078	–	–	12 078
Government bonds		–	–	3 523	–	–	3 523
Negotiable certificates of deposit		–	–	8 555	–	–	8 555
Loans receivable	15	–	93	–	–	–	93
Derivatives held for risk management	16	832	–	–	–	17 036	17 868
Foreign exchange contracts		761	–	–	–	30	791
Cross-currency swaps		61	–	–	–	17 006	17 067
Commodity forwards		1	–	–	–	–	1
Credit default swaps		9	–	–	–	–	9
Finance lease receivables	17	–	–	–	–	474	474
Trade and other receivables	19	–	19 367	–	–	–	19 367
Financial trading assets	14	2 919	–	–	–	–	2 919
Repurchase agreements		1 617	–	–	–	–	1 617
Listed shares		1 189	–	–	–	–	1 189
Government bonds		113	–	–	–	–	113
Cash and cash equivalents	21	–	20 425	–	–	–	20 425
Bank balances		–	14 736	–	–	–	14 736
Unsettled deals		–	12	–	–	–	12
Fixed deposits		–	5 677	–	–	–	5 677
		3 751	39 885	12 078	–	17 510	73 224
Financial liabilities							
Debt securities and borrowings	25	–	–	–	355 300	–	355 300
Eskom bonds		–	–	–	139 255	–	139 255
Promissory notes		–	–	–	54	–	54
Commercial paper		–	–	–	5 627	–	5 627
Eurorand zero coupon bonds		–	–	–	5 049	–	5 049
Foreign bonds		–	–	–	53 524	–	53 524
Development financing institutions		–	–	–	107 800	–	107 800
Export credit facilities		–	–	–	33 228	–	33 228
Other loans		–	–	–	10 763	–	10 763
Embedded derivatives	26	–	–	–	–	5 414	5 414
Derivatives held for risk management	16	2 647	–	–	–	7 946	10 593
Foreign exchange contracts		1 497	–	–	–	1 506	3 003
Cross-currency swaps		572	–	–	–	6 440	7 012
Commodity forwards		18	–	–	–	–	18
Credit default swaps		560	–	–	–	–	560
Finance lease payables	30	–	–	–	–	10 065	10 065
Trade and other payables	31	–	–	–	32 014	–	32 014
Financial trading liabilities	14	1 620	–	–	–	–	1 620
Short-sold government bonds		326	–	–	–	–	326
Repurchase agreements		1 294	–	–	–	–	1 294
		4 267	–	–	387 314	23 425	415 006

	Note	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total Rm
2017							
Company							
Financial assets							
Investment in securities	14	–	–	6 704	–	–	6 704
Government bonds		–	–	3 523	–	–	3 523
Negotiable certificates of deposit		–	–	3 181	–	–	3 181
Loans receivable	15	–	6 187	–	–	–	6 187
Derivatives held for risk management	16	832	–	–	–	17 036	17 868
Foreign exchange contracts		761	–	–	–	30	791
Cross-currency swaps		61	–	–	–	17 006	17 067
Commodity forwards		1	–	–	–	–	1
Credit default swaps		9	–	–	–	–	9
Finance lease receivables	17	–	–	–	–	474	474
Trade and other receivables	19	–	20 618	–	–	–	20 618
Financial trading assets	14	1 730	–	–	–	–	1 730
Repurchase agreements		1 617	–	–	–	–	1 617
Government bonds		113	–	–	–	–	113
Cash and cash equivalents	21	–	19 964	–	–	–	19 964
Bank balances		–	14 275	–	–	–	14 275
Unsettled deals		–	12	–	–	–	12
Fixed deposits		–	5 677	–	–	–	5 677
		2 562	46 769	6 704	–	17 510	73 545
Financial liabilities							
Debt securities and borrowings	25	–	–	–	358 707	–	358 707
Eskom bonds		–	–	–	139 255	–	139 255
Promissory notes		–	–	–	54	–	54
Commercial paper		–	–	–	7 238	–	7 238
Eurorand zero coupon bonds		–	–	–	5 049	–	5 049
Foreign bonds		–	–	–	53 524	–	53 524
Development financing institutions		–	–	–	107 800	–	107 800
Export credit facilities		–	–	–	33 228	–	33 228
Other loans		–	–	–	12 559	–	12 559
Embedded derivatives	26	–	–	–	–	5 414	5 414
Derivatives held for risk management	16	2 659	–	–	–	7 946	10 605
Foreign exchange contracts		1 509	–	–	–	1 506	3 015
Cross-currency swaps		572	–	–	–	6 440	7 012
Commodity forwards		18	–	–	–	–	18
Credit default swaps		560	–	–	–	–	560
Finance lease payables	30	–	–	–	–	10 065	10 065
Trade and other payables	31	–	–	–	33 390	–	33 390
Financial trading liabilities	14	1 620	–	–	–	–	1 620
Short-sold government bonds		326	–	–	–	–	326
Repurchase agreements		1 294	–	–	–	–	1 294
		4 279	–	–	392 097	23 425	419 801

Notes to the financial statements (continued)

for the year ended 31 March 2018

6. Accounting classification and fair value (continued)

6.2 Fair value

Valuation processes

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

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

Principal markets

The group is involved in various principal markets because of the unique funding activities undertaken. The fair value 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

Fair value hierarchy

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

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

Level 2: Inputs other than quoted prices included within level 1 that are observable 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 transfers have occurred.

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

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

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

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

Financial instrument	Fair value determination
Loans receivable, debt securities and borrowings, finance lease receivables and payables, negotiable certificates of deposit (investment in securities) and repurchase agreement assets and liabilities (financial trading assets and liabilities)	A discounted cash flow technique is used, which uses expected cash flows and a market-related discount rate
Derivatives	Valuation determined with reference to broker quotes as well as use of discounted cash flow and option pricing models. Broker quotes are tested for reasonableness by discounting expected future cash flows using a market interest rate for a similar instrument at the measurement date
	Valuations of cross-currency swaps include the credit risk of Eskom (known as debit value adjustment) and counterparties (known as credit value adjustment) where appropriate. A stochastic modelling approach is followed where the expected future exposure to credit risk for Eskom and its counterparties (considering default probabilities and recovery rates derived from market data) is modelled
Trade and other receivables and payables and cash and cash equivalents	Fair values have not been disclosed for financial instruments where the carrying amounts are a reasonable approximation of fair value

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

Level 3 items are fair valued using unobservable inputs. Refer to note 26 for a movement reconciliation and to notes 4.1 and 5.2 for information regarding the valuation techniques and assumptions used.

The fair value hierarchy of financial instruments is as follows:

	Group				Company			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2018								
Assets measured at fair value								
Investment in securities – negotiable certificates of deposit	–	6 839	–	6 839	–	–	–	–
Derivatives held for risk management	–	15 578	–	15 578	–	15 580	–	15 580
Foreign exchange contracts	–	188	–	188	–	190	–	190
Cross-currency swaps	–	15 358	–	15 358	–	15 358	–	15 358
Commodity forwards	–	17	–	17	–	17	–	17
Credit default swaps	–	15	–	15	–	15	–	15
Financial trading assets	1 492	9	–	1 501	159	9	–	168
Repurchase agreements	–	9	–	9	–	9	–	9
Listed shares	1 333	–	–	1 333	–	–	–	–
Government bonds	159	–	–	159	159	–	–	159
Assets not measured at fair value								
Loans receivable	–	81	–	81	–	6 201	–	6 201
Finance lease receivables	–	437	–	437	–	437	–	437
Liabilities measured at fair value								
Embedded derivatives	–	–	5 291	5 291	–	–	5 291	5 291
Derivatives held for risk management	–	21 466	–	21 466	–	21 466	–	21 466
Foreign exchange contracts	–	3 281	–	3 281	–	3 281	–	3 281
Cross-currency swaps	–	18 093	–	18 093	–	18 093	–	18 093
Credit default swaps	–	92	–	92	–	92	–	92
Financial trading liabilities	8	241	–	249	8	241	–	249
Short-sold government bonds	8	–	–	8	8	–	–	8
Repurchase agreements	–	241	–	241	–	241	–	241
Liabilities not measured at fair value								
Debt securities and borrowings	–	377 893	–	377 893	–	381 800	–	381 800
Eskom bonds	–	141 978	–	141 978	–	141 978	–	141 978
Commercial paper	–	2 280	–	2 280	–	4 433	–	4 433
Eurorand zero coupon bonds	–	5 504	–	5 504	–	5 504	–	5 504
Foreign bonds	–	48 475	–	48 475	–	48 475	–	48 475
Development financing institutions	–	111 248	–	111 248	–	111 248	–	111 248
Export credit facilities	–	32 465	–	32 465	–	32 465	–	32 465
Floating rate notes	–	2 153	–	2 153	–	2 153	–	2 153
Other loans	–	33 790	–	33 790	–	35 544	–	35 544
Finance lease payables	–	11 428	–	11 428	–	11 428	–	11 428

Notes to the financial statements (continued)

for the year ended 31 March 2018

6. Accounting classification and fair value (continued)

6.2 Fair value (continued)

Fair value hierarchy (continued)

	Group				Company			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2017								
Assets measured at fair value								
Investment in securities	3 523	8 555	–	12 078	3 523	3 181	–	6 704
Government bonds	3 523	–	–	3 523	3 523	–	–	3 523
Negotiable certificates of deposit	–	8 555	–	8 555	–	3 181	–	3 181
Derivatives held for risk management	–	17 868	–	17 868	–	17 868	–	17 868
Foreign exchange contracts	–	791	–	791	–	791	–	791
Cross-currency swaps	–	17 067	–	17 067	–	17 067	–	17 067
Commodity forwards	–	1	–	1	–	1	–	1
Credit default swaps	–	9	–	9	–	9	–	9
Financial trading assets	1 302	1 617	–	2 919	113	1 617	–	1 730
Repurchase agreements	–	1 617	–	1 617	–	1 617	–	1 617
Listed shares	1 189	–	–	1 189	–	–	–	–
Government bonds	113	–	–	113	113	–	–	113
Assets not measured at fair value								
Loans receivable	–	93	–	93	–	6 187	–	6 187
Finance lease receivables	–	474	–	474	–	474	–	474
Liabilities measured at fair value								
Embedded derivatives	–	–	5 414	5 414	–	–	5 414	5 414
Derivatives held for risk management	–	10 593	–	10 593	–	10 605	–	10 605
Foreign exchange contracts	–	3 003	–	3 003	–	3 015	–	3 015
Cross-currency swaps	–	7 012	–	7 012	–	7 012	–	7 012
Commodity forwards	–	18	–	18	–	18	–	18
Credit default swaps	–	560	–	560	–	560	–	560
Financial trading liabilities	326	1 294	–	1 620	326	1 294	–	1 620
Short-sold government bonds	326	–	–	326	326	–	–	326
Repurchase agreements	–	1 294	–	1 294	–	1 294	–	1 294
Liabilities not measured at fair value								
Debt securities and borrowings	–	335 238	–	335 238	–	338 644	–	338 644
Eskom bonds	–	132 274	–	132 274	–	132 274	–	132 274
Promissory notes	–	74	–	74	–	74	–	74
Commercial paper	–	5 636	–	5 636	–	7 246	–	7 246
Eurorand zero coupon bonds	–	5 088	–	5 088	–	5 088	–	5 088
Foreign bonds	–	54 746	–	54 746	–	54 746	–	54 746
Development financing institutions	–	94 787	–	94 787	–	94 787	–	94 787
Export credit facilities	–	33 519	–	33 519	–	33 519	–	33 519
Other loans	–	9 114	–	9 114	–	10 910	–	10 910
Finance lease payables	–	11 240	–	11 240	–	11 240	–	11 240

7. Segment information

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

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

Segment	Operations
Generation	Consists of the generation and primary energy functions. These functions procure primary energy and generate electricity for sale
Transmission	Consists of the transmission grids and the integrated demand management function. 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 electricity
Energy purchases/sales	Consists of the southern African energy and energy planning and market development segments. They both deal with decisions involving energy purchases and sales to southern Africa and would be influenced by the same sales demand trends. Their activities include systems operations, purchase or sale of electricity from or to southern African countries, purchase of electricity from IPPs and wholesale energy for the purposes of energy trading
Group customer services	Group customer services consists of the customer service function that sells electricity to local large power users (including municipalities) and local small power users
Group capital	Group capital is responsible for the planning, development and monitoring of all capital projects and the execution of significant capital projects
All other segments	Relates to operating segments which are below the quantitative thresholds for determining a reportable segment in terms of IFRS 8 *Operating segments* which includes the group's subsidiaries as well as all service and strategic functions which do not qualify as a reportable segment in terms of IFRS 8

The revenue earned by subsidiaries is presented in the segment note in line with what has been reported in the respective subsidiary financial statements. Inter-segment revenue and purchases of electricity are allocated between Generation, Transmission, Distribution, Energy purchases/sales and Group customer services segments based on cost recovery plus a uniform return on assets. Net finance costs are allocated to segments based on relative funding requirements.

Notes to the financial statements (continued)

for the year ended 31 March 2018

7. Segment information (continued)

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

	Generation	Transmission	Distribution	Energy purchases/ sales	Group customer services	Group capital	All other segments	Reallocation and inter-segment transactions	Group
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2018									
External revenue	–	252	1 993	9 480	165 699	–	1 473	(1 473)	177 424
Inter-segment revenue/ recoveries	118 250	8 513	21 510	13 504	(161 471)	(107)	11 994	(12 193)	–
Total revenue	118 250	8 765	23 503	22 984	4 228	(107)	13 467	(13 666)	177 424
Other income	751	95	387	–	116	294	571	(842)	1 372
Primary energy	(62 957)	–	–	(22 085)	(160)	–	–	–	(85 202)
Employee benefit expense	(9 222)	(1 667)	(8 627)	(60)	(1 586)	(1 084)	(7 208)	–	(29 454)
Impairment loss	(203)	(5)	(5)	–	(722)	(1)	(28)	–	(964)
Impairment loss reversals and bad debt recovered	5	–	40	96	259	–	11	–	411
Other expenses	(18 511)	(2 052)	(8 123)	(13)	(1 706)	807	(2 925)	14 295	(18 228)
Profit/(loss) before depreciation and amortisation expense and net fair value (loss)/gain (EBITDA)	28 113	5 136	7 175	922	429	(91)	3 888	(213)	45 359
Depreciation and amortisation expense	(15 908)	(1 982)	(3 510)	(638)	(5)	(103)	(1 202)	216	(23 132)
Net fair value gain/(loss) on financial instruments, excluding embedded derivatives	1 712	(807)	122	–	16	(3 290)	351	(2)	(1 898)
Net fair value gain on embedded derivatives	–	–	–	–	123	–	–	–	123
Profit/(loss) before net finance (cost)/income	13 917	2 347	3 787	284	563	(3 484)	3 037	1	20 452
Net finance (cost)/income	(16 986)	(2 920)	(2 159)	(1 672)	65	398	(63)	248	(23 089)
Finance income	286	58	151	85	377	392	1 431	92	2 872
Finance cost	(17 272)	(2 978)	(2 310)	(1 757)	(312)	6	(1 494)	156	(25 961)
Share of profit of equity-accounted investees	–	–	–	–	–	–	34	–	34
(Loss)/profit before tax	(3 069)	(573)	1 628	(1 388)	628	(3 086)	3 008	249	(2 603)
Income tax	–	–	–	–	–	–	343	(77)	266
(Loss)/profit for the year	(3 069)	(573)	1 628	(1 388)	628	(3 086)	3 351	172	(2 337)
Other information									
Segment assets	319 432	52 570	86 049	10 523	17 590	199 479	65 703	(21 528)	729 818
Investment in equity-accounted investees	–	–	–	–	–	–	372	–	372
Assets held-for-sale	–	–	–	–	–	40	8 886	–	8 926
Total assets	319 432	52 570	86 049	10 523	17 590	199 519	74 961	(21 528)	739 116
Total liabilities	59 164	1 538	30 058	13 681	14 272	11 987	458 628	(20 548)	568 780
Capital expenditure	10 600	1 008	9 511	–	28	28 211	1 743	(371)	50 730

	Generation	Transmission	Distribution	Energy purchases/ sales	Group customer services	Group capital	All other segments	Reallocation and inter-segment transactions	Group
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2017									
External revenue	–	8	1 912	10 729	164 487	–	1 212	(1 212)	177 136
Inter-segment revenue/ recoveries	116 030	7 600	22 262	12 859	(158 365)	(173)	12 412	(12 625)	–
Total revenue	116 030	7 608	24 174	23 588	6 122	(173)	13 624	(13 837)	177 136
Other income	537	223	467	–	113	549	636	(952)	1 573
Primary energy	(60 128)	–	–	(22 438)	(194)	–	–	–	(82 760)
Employee benefit expense	(9 703)	(1 763)	(8 781)	(72)	(1 627)	(774)	(10 458)	–	(33 178)
Impairment loss	(22)	(19)	(355)	(124)	(1 131)	(263)	(548)	–	(2 462)
Impairment loss reversals and bad debt recovered	9	–	9	–	123	644	8	–	793
Other expenses	(25 439)	(2 072)	(8 784)	(8)	(2 944)	253	2 329	13 095	(23 570)
Profit/(loss) before depreciation and amortisation expense and net fair value (loss)/gain (EBITDA)	21 284	3 977	6 730	946	462	236	5 591	(1 694)	37 532
Depreciation and amortisation expense	(12 905)	(2 257)	(3 321)	(638)	(6)	(85)	(1 235)	147	(20 300)
Net fair value gain/(loss) on financial instruments, excluding embedded derivatives	324	401	(141)	(1)	(41)	(3 961)	81	(4)	(3 342)
Net fair value gain on embedded derivatives	–	–	–	–	1 611	–	–	–	1 611
Profit/(loss) before net finance (cost)/income	8 703	2 121	3 268	307	2 026	(3 810)	4 437	(1 551)	15 501
Net finance (cost)/income	(10 910)	(2 006)	(1 329)	(1 812)	1 093	899	(462)	150	(14 377)
Finance income	1 170	126	316	29	1 320	922	1 314	15	5 212
Finance cost	(12 080)	(2 132)	(1 645)	(1 841)	(227)	(23)	(1 776)	135	(19 589)
Share of profit of equity-accounted investees	–	–	–	–	–	–	35	–	35
(Loss)/profit before tax	(2 207)	115	1 939	(1 505)	3 119	(2 911)	4 010	(1 401)	1 159
Income tax	–	–	–	–	–	–	(655)	384	(271)
(Loss)/profit for the year	(2 207)	115	1 939	(1 505)	3 119	(2 911)	3 355	(1 017)	888
Other information									
Segment assets	219 654	51 235	80 376	10 835	16 974	260 706	82 100	(21 034)	700 846
Investment in equity-accounted investees	–	–	–	–	–	–	364	–	364
Assets held-for-sale	–	–	–	–	–	70	8 729	–	8 799
Total assets	219 654	51 235	80 376	10 835	16 974	260 776	91 193	(21 034)	710 009
Total liabilities	60 775	1 960	30 147	13 470	13 840	14 663	419 065	(19 853)	534 067
Capital expenditure	12 627	1 041	9 038	6 277	2	34 494	3 554	(455)	66 578

Notes to the financial statements (continued)

for the year ended 31 March 2018

7. Segment information (continued)

	Group			
	Revenue		Non-current assets	
Geographical information	2018 Rm	2017 Rm	2018 Rm	2017 Rm
South Africa	167 894	166 454	643 731	603 184
Foreign countries	9 530	10 682	137	156
	177 424	177 136	643 868	603 340

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.

8. Property, plant and equipment

		2018								2017
			Plant							
	Note	Land, buildings and facilities	Generating	Transmitting	Distributing	Spares and other	Equipment and vehicles	Work under construction	Total	Total
		Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Group										
Carrying value at beginning of the year		7 826	182 444	39 927	67 046	13 404	6 576	271 644	588 867	520 521
Cost		9 572	253 950	54 412	107 320	14 905	16 336	273 996	730 491	644 171
Accumulated depreciation and impairment losses		(1 746)	(71 506)	(14 485)	(40 274)	(1 501)	(9 760)	(2 352)	(141 624)	(123 650)
Additions		93	519	43	974	656	1 278	46 742	50 305	65 142
Commissioning of assets constructed		358	112 113	2 384	7 537	43	281	(122 716)	–	–
Basis adjustment – cash flow hedge reserve		–	–	–	–	–	–	(617)	(617)	(627)
Finance cost capitalised	41	–	–	–	–	–	–	15 547	15 547	18 233
Provisions capitalised	29	–	(359)	–	–	–	–	1 240	881	7 253
Transfers from assets held-for-sale		22	–	–	–	–	–	–	22	78
Disposals and writeoffs		(9)	(233)	(10)	(24)	(6)	(146)	(173)	(601)	(658)
Depreciation		(135)	(16 120)	(1 842)	(4 357)	(92)	(1 191)	–	(23 737)	(20 591)
Net impairment loss	36	–	–	–	–	–	–	(19)	(19)	(484)
Carrying value at end of the year		8 155	278 364	40 502	71 176	14 005	6 798	211 648	630 648	588 867
Cost		10 032	363 883	56 839	115 768	15 587	17 411	213 579	793 099	730 491
Accumulated depreciation and impairment losses		(1 877)	(85 519)	(16 337)	(44 592)	(1 582)	(10 613)	(1 931)	(162 451)	(141 624)

		2018								2017
			Plant							
	Note	Land, buildings and facilities	Generating	Transmitting	Distributing	Spares and other	Equipment and vehicles	Work under construction	Total	Total
		Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Company										
Carrying value at beginning of the year		7 681	183 281	40 013	67 247	13 404	5 048	272 805	589 479	521 769
Cost		9 348	255 509	54 527	107 592	14 905	13 604	275 157	730 642	644 836
Accumulated depreciation and impairment losses		(1 667)	(72 228)	(14 514)	(40 345)	(1 501)	(8 556)	(2 352)	(141 163)	(123 067)
Additions		89	518	43	974	656	1 028	46 891	50 199	64 506
Commissioning of assets constructed		355	112 216	2 426	7 569	43	208	(122 817)	–	–
Basis adjustment – cash flow hedge reserve		–	–	–	–	–	–	(617)	(617)	(627)
Finance cost capitalised	41	–	–	–	–	–	–	15 547	15 547	18 233
Provisions capitalised	29	–	(359)	–	–	–	–	1 240	881	7 253
Transfers from assets held-for-sale		22	–	–	–	–	–	–	22	78
Disposals and writeoffs		(9)	(233)	(10)	(24)	(6)	(140)	(173)	(595)	(651)
Depreciation		(134)	(16 318)	(1 846)	(4 371)	(92)	(977)	–	(23 738)	(20 598)
Net impairment loss	36	–	–	–	–	–	–	(19)	(19)	(484)
Carrying value at end of the year		8 004	279 105	40 626	71 395	14 005	5 167	212 857	631 159	589 479
Cost		9 802	365 415	56 978	116 058	15 587	14 391	214 788	793 019	730 642
Accumulated depreciation and impairment losses		(1 798)	(86 310)	(16 352)	(44 663)	(1 582)	(9 224)	(1 931)	(161 860)	(141 163)

		Group		Company	
	Note	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Carrying value of leased assets		8 495	9 149	8 495	9 149
Generating plant		8 356	8 994	8 356	8 994
Spares and other plant		139	155	139	155
The total depreciation charge for property, plant and equipment is disclosed in profit or loss in the following categories:		23 737	20 591	23 738	20 598
Depreciation and amortisation expense	38	23 721	20 575	23 722	20 582
Primary energy		16	16	16	16

	Group and company	
	2018 %	2017 %
Average rates of finance cost capitalised to qualifying assets:		
General borrowings	9.26	9.75
Specific borrowings	9.16	9.12

Notes to the financial statements (continued)

for the year ended 31 March 2018

9. Intangible assets

	Note	2018 Rights Rm	2018 Computer software Rm	2018 Concession assets Rm	2018 Total Rm	2017 Total Rm
Group						
Carrying value at beginning of the year		2 684	1 141	156	3 981	3 138
Cost		2 904	7 093	261	10 258	8 961
Accumulated amortisation and impairment losses		(220)	(5 952)	(105)	(6 277)	(5 823)
Additions and transfers		197	228	–	425	1 436
Amortisation	38	–	(442)	(19)	(461)	(593)
Carrying value at end of the year		2 881	927	137	3 945	3 981
Cost		3 101	7 089	247	10 437	10 258
Accumulated amortisation and impairment losses		(220)	(6 162)	(110)	(6 492)	(6 277)
Company						
Carrying value at beginning of the year		2 684	1 133	–	3 817	2 944
Cost		2 904	6 765	–	9 669	8 347
Accumulated amortisation and impairment losses		(220)	(5 632)	–	(5 852)	(5 403)
Additions and transfers		197	227	–	424	1 436
Amortisation	38	–	(438)	–	(438)	(563)
Carrying value at end of the year		2 881	922	–	3 803	3 817
Cost		3 101	6 759	–	9 860	9 669
Accumulated amortisation and impairment losses		(220)	(5 837)	–	(6 057)	(5 852)

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. The fair value is based on current prices which have been derived from the most recent comparable market transactions for similar servitude rights (level 2 fair value hierarchy).

10. Future fuel supplies

	Note	Group and company 2018 Coal Rm	2018 Nuclear Rm	2018 Total Rm	2017 Total Rm
Carrying value at beginning of the year		7 687	503	8 190	10 502
Net additions		258	1 360	1 618	639
Provisions capitalised	29	51	–	51	747
Writeoff of mine assets		–	–	–	(119)
Basis adjustment – cash flow hedge reserve		–	(386)	(386)	(513)
Transfer to inventories	20	(1 175)	(1 141)	(2 316)	(3 066)
Carrying value at end of the year		6 821	336	7 157	8 190

11. Investment in equity-accounted investees

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Balance at beginning of the year	364	360	95	95
Share of profit after tax	34	35	–	–
Dividends received	(26)	(31)	–	–
Balance at end of the year	372	364	95	95

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

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

Name	Main business	Country of incorporation	2018 Interest held %	2018 Group Share of post-tax profit for the year Rm	2018 Company Investment at cost Rm	2017 Interest held %	2017 Group Share of post-tax profit/(loss) for the year Rm	2017 Company Investment at cost Rm
Directly held								
Motraco – Mozambique Transmission Company SARL[1]	Electricity transmission	Mozambique	33	32	95	33	46	95
Indirectly held								
Trans Africa Projects (Pty) Ltd	Engineering services	South Africa	50	2		50	(11)	
				34			35	

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

12. Investment in subsidiaries

Name	Main business	Country of incorporation	2018 Interest held %	2018 Investment at cost Rm	2017 Interest held %	2017 Investment at cost Rm
Directly held						
Escap SOC Ltd	Insurance	South Africa	100	380	100	380
Eskom Development Foundation NPC	Corporate social investment	South Africa	100	–	100	–
Eskom Enterprises SOC Ltd	Non-regulated electricity supply industry activities in South Africa and electricity supply and related services outside South Africa	South Africa	100	–[2]	100	–[2]
Eskom Finance Company SOC Ltd[3]	Finance (employee housing loans)	South Africa	100	–[2]	100	–[2]
PN Energy Services SOC Ltd	Not trading	South Africa	100	4	100	4
				384		384
Indirectly held						
Eskom Rotek Industries SOC Ltd	Construction and abnormal load transportation	South Africa	100		100	
Eskom Uganda Ltd[1]	Operations management	Uganda	100		100	
Golang Coal SOC Ltd	Coal exports	South Africa	67		67	
Nqaba Finance 1 (RF) Ltd[3]	Residential backed mortgage securities	South Africa	100		100	
Pebble Bed Modular Reactor SOC Ltd	Reactor driven generation project	South Africa	100		100	
South Dunes Coal Terminal SOC Ltd	Coal exports	South Africa	69		69	

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

1. *Year end is 31 December.*
2. *Nominal.*
3. *Eskom Finance Company SOC Ltd and its subsidiary Nqaba Finance 1 (RF) Ltd (a securitisation vehicle) have been classified as held-for-sale. Refer to note 22.*

Notes to the financial statements (continued)

for the year ended 31 March 2018

13. Deferred tax

	Note	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
13.1 Deferred tax assets					
Balance at beginning of the year		50	174	–	–
Recognised in profit or loss	42	(27)	(124)	–	–
Balance at end of the year		23	50	–	–
Comprising		23	50	–	–
Provisions		22	50	–	–
Payments received in advance		1	–	–	–
13.2 Deferred tax liabilities					
Balance at beginning of the year		18 067	21 696	18 090	21 317
Recognised in profit or loss	42	(957)	(944)	(1 148)	(399)
Recognised in other comprehensive income	42	(1 263)	(2 821)	(1 277)	(2 828)
Assets and liabilities held-for-sale		(1)	136	–	–
Balance at end of the year		15 846	18 067	15 665	18 090
Comprising		15 846	18 067	15 665	18 090
Property, plant and equipment		74 695	59 664	74 376	59 393
Inventories		–	90	–	90
Provisions		(23 776)	(22 955)	(23 599)	(22 670)
Tax losses		(30 558)	(14 982)	(30 558)	(14 982)
Embedded derivative liabilities		(1 482)	(1 516)	(1 482)	(1 516)
Investment in securities		47	2	–	1
Cash flow hedges		(118)	1 664	(115)	1 665
Payments received in advance		(3 556)	(3 984)	(3 556)	(3 984)
Employee benefit obligations		594	84	599	93
Unused tax losses available for offset against future taxable income		109 136	53 507	109 136	53 507

14. Investment in securities and financial trading instruments

Portfolio	Managed by	Purpose
Market-making	Treasury	Facilitate market liquidity in Eskom bonds to reduce the cost of borrowing
Investing	Treasury	Investment of surplus funds from operations or financing raised before capital expenditure commences
Insurance	Escap	Investments in terms of short-term insurance regulations in South Africa to maintain adequate ring-fenced capital reserves

	2018 Market-making Rm	2018 Investing Rm	2018 Insurance Rm	2018 Total Rm	2017 Market-making Rm	2017 Investing Rm	2017 Insurance Rm	2017 Total Rm
14.1 Investment in securities								
Group								
Government bonds	–	–	–	–	–	3 523	–	3 523
Negotiable certificates of deposit	–	–	6 839	6 839	–	3 181	5 374	8 555
	–	–	6 839	6 839	–	6 704	5 374	12 078
Maturity analysis	–	–	6 839	6 839	–	6 704	5 374	12 078
Non-current	–	–	–	–	–	1 537	–	1 537
Current	–	–	6 839	6 839	–	5 167	5 374	10 541
Company								
Government bonds	–	–	–	–	–	3 523	–	3 523
Negotiable certificates of deposit	–	–	–	–	–	3 181	–	3 181
	–	–	–	–	–	6 704	–	6 704
Maturity analysis	–	–	–	–	–	6 704	–	6 704
Non-current	–	–	–	–	–	1 537	–	1 537
Current	–	–	–	–	–	5 167	–	5 167
14.2 Financial trading assets								
Group								
Repurchase agreements	9	–	–	9	1 617	–	–	1 617
Eskom bonds	–	–	–	–	810	–	–	810
Government bonds	9	–	–	9	807	–	–	807
Listed shares	–	–	1 333	1 333	–	–	1 189	1 189
Government bonds	159	–	–	159	113	–	–	113
	168	–	1 333	1 501	1 730	–	1 189	2 919
Company								
Repurchase agreements	9	–	–	9	1 617	–	–	1 617
Eskom bonds	–	–	–	–	810	–	–	810
Government bonds	9	–	–	9	807	–	–	807
Government bonds	159	–	–	159	113	–	–	113
	168	–	–	168	1 730	–	–	1 730

Collateral held

Eskom purchased both Eskom and government bonds from approved counterparties and has committed to resell these back to the counterparties in the following financial year. Although Eskom has legal title to the bonds at year end, they have not been recognised on the statement of financial position as a result of the commitment to resell. The total receivable is secured by bonds of an equivalent fair value.

Notes to the financial statements (continued)

for the year ended 31 March 2018

14. Investment in securities and financial trading instruments (continued)

	2018				2017			
	Market-making Rm	Investing Rm	Insurance Rm	Total Rm	Market-making Rm	Investing Rm	Insurance Rm	Total Rm
14.3 Financial trading liabilities								
Group and company								
Short-sold government bonds	8	–	–	8	326	–	–	326
Repurchase agreements	241	–	–	241	1 294	–	–	1 294
Eskom bonds	124	–	–	124	64	–	–	64
Government bonds	117	–	–	117	1 230	–	–	1 230
	249	–	–	249	1 620	–	–	1 620

Encumbered assets

Eskom concluded sale and repurchase transactions of both Eskom and government bonds with approved counterparties. The group enters into transactions whereby it transfers assets recognised 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.

15. Loans receivable

	Group		Company	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Loans to subsidiaries	–	–	6 201	6 187
Other	81	93	–	–
	81	93	6 201	6 187
Maturity analysis	81	93	6 201	6 187
Non-current	63	79	–	–
Current	18	14	6 201	6 187

16. Derivatives held for risk management

	2018					2017				
	Foreign exchange contracts Rm	Cross-currency swaps Rm	Commo-dity forwards Rm	Credit default swaps Rm	Total Rm	Foreign exchange contracts Rm	Cross-currency swaps Rm	Commo-dity forwards Rm	Credit default swaps Rm	Total Rm
Group										
Net (liability)/asset at beginning of the year	(2 212)	10 055	(17)	(551)	7 275	571	25 762	31	(1 055)	25 309
Net fair value (loss)/gain	(4 619)	(12 684)	15	474	(16 814)	(12 166)	(15 445)	(39)	504	(27 146)
Income statement	(4 914)	(6 689)	15	474	(11 114)	(10 067)	(8 488)	(39)	504	(18 090)
Statement of comprehensive income	295	(5 995)	–	–	(5 700)	(2 099)	(6 957)	–	–	(9 056)
Finance cost accrued	–	10	–	–	10	–	(24)	–	–	(24)
Cash paid/(received)	3 738	(116)	19	–	3 641	9 383	(238)	(9)	–	9 136
Net (liability)/asset at end of the year	(3 093)	(2 735)	17	(77)	(5 888)	(2 212)	10 055	(17)	(551)	7 275
Hedge exposure covered	(3 093)	(2 735)	17	(77)	(5 888)	(2 212)	10 055	(17)	(551)	7 275
Debt securities and borrowings	(2 248)	(2 735)	–	(77)	(5 060)	(316)	10 055	–	(551)	9 188
Other	(845)	–	17	–	(828)	(1 896)	–	(17)	–	(1 913)
Assets										
Economic hedging	152	61	17	15	245	761	61	1	9	832
Cash flow hedging	36	15 297	–	–	15 333	30	17 006	–	–	17 036
	188	15 358	17	15	15 578	791	17 067	1	9	17 868
Maturity analysis	188	15 358	17	15	15 578	791	17 067	1	9	17 868
Non-current	–	13 699	–	6	13 705	–	16 868	–	–	16 868
Current	188	1 659	17	9	1 873	791	199	1	9	1 000
Liabilities										
Economic hedging	2 643	858	–	92	3 593	1 497	572	18	560	2 647
Cash flow hedging	638	17 235	–	–	17 873	1 506	6 440	–	–	7 946
	3 281	18 093	–	92	21 466	3 003	7 012	18	560	10 593
Maturity analysis	3 281	18 093	–	92	21 466	3 003	7 012	18	560	10 593
Non-current	–	16 478	–	92	16 570	–	6 207	–	560	6 767
Current	3 281	1 615	–	–	4 896	3 003	805	18	–	3 826
Notional amount	m	m	m	m	m	m	m	m	m	m
EUR	2 155	1 295	–	–	3 450	2 470	1 399	–	–	3 869
USD	1 746	6 205[1]	–	–	7 951	1 284	5 693[1]	–	–	6 977
GBP	8	–	–	–	8	20	–	–	–	20
JPY	609	7 418	–	–	8 027	245	9 892	–	–	10 137
SEK	190	–	–	–	190	246	–	–	–	246
AUD	–	–	–	–	–	1	–	–	–	1
CHF	1	–	–	–	1	1	–	–	–	1
CAD	1	–	–	–	1	3	–	–	–	3
NOK	1	–	–	–	1	3	–	–	–	3
ZAR	–	–	364	3 972	4 336	–	–	336	3 972	4 308

1. Includes forward starting cross-currency swaps of USD300 million (2017: USD300 million).

Notes to the financial statements (continued)

for the year ended 31 March 2018

16. Derivatives held for risk management (continued)

	2018					2017				
	Foreign exchange contracts Rm	Cross-currency swaps Rm	Commodity forwards Rm	Credit default swaps Rm	Total Rm	Foreign exchange contracts Rm	Cross-currency swaps Rm	Commodity forwards Rm	Credit default swaps Rm	Total Rm
Company										
Net (liability)/asset at beginning of the year	(2 224)	10 055	(17)	(551)	7 263	558	25 762	31	(1 055)	25 296
Net fair value (loss)/gain	(4 617)	(12 684)	15	474	(16 812)	(12 078)	(15 445)	(39)	504	(27 058)
Income statement	(4 912)	(6 689)	15	474	(11 112)	(9 979)	(8 488)	(39)	504	(18 002)
Statement of comprehensive income	295	(5 995)	–	–	(5 700)	(2 099)	(6 957)	–	–	(9 056)
Finance cost accrued	–	10	–	–	10	–	(24)	–	–	(24)
Cash paid/(received)	3 750	(116)	19	–	3 653	9 296	(238)	(9)	–	9 049
Net (liability)/asset at end of the year	(3 091)	(2 735)	17	(77)	(5 886)	(2 224)	10 055	(17)	(551)	7 263
Hedge exposure covered	(3 091)	(2 735)	17	(77)	(5 886)	(2 224)	10 055	(17)	(551)	7 263
Debt securities and borrowings	(2 248)	(2 735)	–	(77)	(5 060)	(316)	10 055	–	(551)	9 188
Other	(843)	–	17	–	(826)	(1 908)	–	(17)	–	(1 925)
Assets										
Economic hedging	154	61	17	15	247	761	61	1	9	832
Cash flow hedging	36	15 297	–	–	15 333	30	17 006	–	–	17 036
	190	15 358	17	15	15 580	791	17 067	1	9	17 868
Maturity analysis	190	15 358	17	15	15 580	791	17 067	1	9	17 868
Non-current	–	13 699	–	6	13 705	–	16 868	–	–	16 868
Current	190	1 659	17	9	1 875	791	199	1	9	1 000
Liabilities										
Economic hedging	2 643	858	–	92	3 593	1 509	572	18	560	2 659
Cash flow hedging	638	17 235	–	–	17 873	1 506	6 440	–	–	7 946
	3 281	18 093	–	92	21 466	3 015	7 012	18	560	10 605
Maturity analysis	3 281	18 093	–	92	21 466	3 015	7 012	18	560	10 605
Non-current	–	16 478	–	92	16 570	–	6 207	–	560	6 767
Current	3 281	1 615	–	–	4 896	3 015	805	18	–	3 838
Notional amount	m	m	m	m	m	m	m	m	m	m
EUR	2 151	1 295	–	–	3 446	2 451	1 399	–	–	3 850
USD	1 745	6 205[1]	–	–	7 950	1 283	5 693[1]	–	–	6 976
GBP	7	–	–	–	7	18	–	–	–	18
JPY	609	7 418	–	–	8 027	245	9 892	–	–	10 137
SEK	190	–	–	–	190	246	–	–	–	246
AUD	–	–	–	–	–	1	–	–	–	1
CHF	1	–	–	–	1	1	–	–	–	1
CAD	1	–	–	–	1	3	–	–	–	3
NOK	1	–	–	–	1	3	–	–	–	3
ZAR	–	–	364	3 972	4 336	–	–	336	3 972	4 308

1. *Includes forward starting cross-currency swaps of USD300 million (2017: USD300 million).*

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

Derivative instrument	Financial risk hedged	Exposure arising from
Foreign exchange contracts	Currency	Electricity generation activity purchases and loans denominated in foreign currencies
Cross-currency swaps	Currency and interest rate	Foreign fixed rate bonds and other foreign fixed or floating borrowings
Commodity forwards	Market	Electricity sales in terms of agreements where the sales price is influenced by the market price for aluminium
Credit default swaps	Credit	Event of default by Eskom on debt securities and borrowings issued

Cash flow hedges

Contractual cash flows are a function of forward exchange rates and forward interest rates and are a point in time calculation that are impacted by market conditions at that time. 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 to 3 months Rm	4 to 12 months Rm	1 to 5 years Rm	>5 years Rm
2018						
Forward exchange contracts						
Assets	36	38	24	14	–	–
Liabilities	(638)	(625)	(163)	(462)	–	–
Cross-currency swaps						
Assets	15 297	14 528	(26)	1 098	6 705	6 751
Liabilities	(17 235)	(17 163)	(295)	(5 528)	(15 417)	4 077
	(2 540)	(3 222)	(460)	(4 878)	(8 712)	10 828
2017						
Forward exchange contracts						
Assets	30	30	23	7	–	–
Liabilities	(1 506)	(1 494)	(686)	(808)	–	–
Cross-currency swaps						
Assets	17 006	27 356	(21)	(56)	9 880	17 553
Liabilities	(6 440)	(6 333)	(422)	(4 300)	(8 531)	6 920
	9 090	19 559	(1 106)	(5 157)	1 349	24 473

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

2018						
Forward exchange contracts						
Assets	36	8 790	24	14	282	8 470
Liabilities	(638)	(625)	(163)	(462)	–	–
Cross-currency swaps						
Assets	15 297	14 528	(26)	1 098	6 705	6 751
Liabilities	(17 235)	(17 163)	(295)	(5 528)	(15 417)	4 077
	(2 540)	5 530	(460)	(4 878)	(8 430)	19 298
2017						
Forward exchange contracts						
Assets	30	7 332	23	7	351	6 951
Liabilities	(1 506)	(1 494)	(686)	(808)	–	–
Cross-currency swaps						
Assets	17 006	27 356	(21)	(56)	9 880	17 553
Liabilities	(6 440)	(6 333)	(422)	(4 300)	(8 531)	6 920
	9 090	26 861	(1 106)	(5 157)	1 700	31 424

Notes to the financial statements (continued)

for the year ended 31 March 2018

16. Derivatives held for risk management (continued)

Cash flow hedges (continued)

Ineffective cash flow hedges

During the year a loss of R670 million (2017: R155 million) was recognised in profit or loss as ineffectiveness arising from cash flow hedges (refer to note 39). There were no transactions, in the current or comparative financial years, for which cash flow hedge accounting had to be ceased as a result of highly probable cash flows no longer being expected to occur.

Day-one gain/loss

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

	Group and company		
	Cross-currency swaps Rm	Credit default swaps Rm	Total Rm
(Loss)/gain at 31 March 2016	(41)	24	(17)
Day-one loss recognised	(762)	–	(762)
Amortised to profit or loss	76	(24)	52
Loss at 31 March 2017	(727)	–	(727)
Day-one loss recognised	(95)	–	(95)
Amortised to profit or loss	115	–	115
Loss at 31 March 2018	(707)	–	(707)

17. Finance lease receivables

	Group and company					
	2018			2017		
	Gross receivables Rm	Unearned finance income Rm	Present value Rm	Gross receivables Rm	Unearned finance income Rm	Present value Rm
Non-current	671	(263)	408	789	(341)	448
Between one and five years	302	(163)	139	326	(191)	135
After five years	369	(100)	269	463	(150)	313
Current						
Within one year	80	(51)	29	84	(58)	26
	751	(314)	437	873	(399)	474

The average implicit interest rate for the group and company was 13% (2017: 13%).

18. Payments made in advance

	2018				2017
	Securing debt raised Rm	Environmental rehabilitation trust fund Rm	Other Rm	Total Rm	Total Rm
Group					
Balance at beginning of the year	1 379	882	1 768	4 029	6 470
Payments made	929	–	385	1 314	1 856
Expense recognised	–	–	(380)	(380)	(516)
Transferred to the statement of financial position	(1 158)	–	(641)	(1 799)	(3 781)
Balance at end of the year	1 150	882	1 132	3 164	4 029
Maturity analysis	1 150	882	1 132	3 164	4 029
Non-current	528	882	336	1 746	1 938
Current	622	–	796	1 418	2 091
Company					
Balance at beginning of the year	1 379	882	1 553	3 814	6 295
Payments made	929	–	369	1 298	1 828
Expense recognised	–	–	(274)	(274)	(477)
Transfer to the statement of financial position	(1 158)	–	(623)	(1 781)	(3 832)
Balance at end of the year	1 150	882	1 025	3 057	3 814
Maturity analysis	1 150	882	1 025	3 057	3 814
Non-current	528	882	319	1 729	1 856
Current	622	–	706	1 328	1 958

Notes to the financial statements (continued)

for the year ended 31 March 2018

19. Trade and other receivables

	2018 Gross value Rm	2018 Allowance for impairment Rm	2018 Carrying value Rm	2017 Gross value Rm	2017 Allowance for impairment Rm	2017 Carrying value Rm
Group						
Financial instruments						
Trade receivables						
International	1 918	(25)	1 893	1 704	(122)	1 582
Local large power users	19 095	(4 206)	14 889	18 662	(4 306)	14 356
Municipalities	11 937	(4 099)	7 838	11 102	(3 895)	7 207
Other	7 158	(107)	7 051	7 560	(411)	7 149
Local small power users	6 750	(4 193)	2 557	6 670	(4 231)	2 439
Soweto	4 305	(3 553)	752	4 205	(3 550)	655
Other	2 445	(640)	1 805	2 465	(681)	1 784
	27 763	(8 424)	19 339	27 036	(8 659)	18 377
Other receivables	948	(205)	743	1 078	(88)	990
	28 711	(8 629)	20 082	28 114	(8 747)	19 367
Non-financial instruments						
VAT	43	–	43	21	–	21
	28 754	(8 629)	20 125	28 135	(8 747)	19 388
Maturity analysis			20 125			19 388
Non-current			1			9
Current			20 124			19 379
Company						
Trade receivables						
International	1 918	(25)	1 893	1 704	(122)	1 582
Local large power users	19 095	(4 206)	14 889	18 662	(4 306)	14 356
Municipalities	11 937	(4 099)	7 838	11 102	(3 895)	7 207
Other	7 158	(107)	7 051	7 560	(411)	7 149
Local small power users	6 750	(4 193)	2 557	6 670	(4 231)	2 439
Soweto	4 305	(3 553)	752	4 205	(3 550)	655
Other	2 445	(640)	1 805	2 465	(681)	1 784
	27 763	(8 424)	19 339	27 036	(8 659)	18 377
Other receivables	2 286	(196)	2 090	2 311	(70)	2 241
	30 049	(8 620)	21 429	29 347	(8 729)	20 618
Maturity analysis			21 429			20 618
Non-current			1			9
Current			21 428			20 609

	Note	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Reconciliation of movements in allowance for impairment					
Balance at beginning of the year		8 747	7 834	8 729	7 824
Impairment loss	36	880	1 302	873	1 289
Reversal of impairment loss	36	(363)	(143)	(363)	(140)
Writeoffs		(635)	(246)	(619)	(244)
Balance at end of the year		8 629	8 747	8 620	8 729

20. Inventories

	Note	2018 Coal and liquid fuel Rm	2018 Nuclear fuel Rm	2018 Maintenance spares and consumables Rm	2018 Total Rm	2017 Total Rm
Group						
Carrying value at beginning of the year		11 516	2 129	8 714	22 359	17 821
Additions		45 776	–	11 205	56 981	56 340
Transfer from future fuel supplies	10	1 175	1 141	–	2 316	3 066
Provisions capitalised	29	192	66	–	258	196
Expensed to the income statement		(47 844)	(819)	(8 897)	(57 560)	(55 064)
Net impairment loss	36	–	–	(6)	(6)	–
		10 815	2 517	11 016	24 348	22 359
Company						
Carrying value at beginning of the year		11 516	2 129	8 511	22 156	17 641
Additions		45 776	–	10 405	56 181	53 323
Transfer from future fuel supplies	10	1 175	1 141	–	2 316	3 066
Provisions capitalised	29	192	66	–	258	196
Expensed to the income statement		(47 844)	(819)	(8 120)	(56 783)	(52 070)
Net impairment loss	36	–	–	(6)	(6)	–
		10 815	2 517	10 790	24 122	22 156

21. Cash and cash equivalents

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Bank balances	15 778	14 736	15 334	14 275
Unsettled deals	45	12	45	12
Fixed deposits	–	5 677	–	5 677
	15 823	20 425	15 379	19 964

Notes to the financial statements (continued)

for the year ended 31 March 2018

22. Assets and liabilities held-for-sale

Eskom residential properties

Certain residential properties that are regarded as surplus to the group's operational needs have been presented as held-for-sale in line with the decision by the shareholder to dispose of non-core assets. During the year those properties that have not been disposed of have been assessed for classification as held-for-sale and reclassified to property, plant and equipment if they no longer meet the criteria in IFRS 5, while additional properties have been identified to meet the criteria for classification as held-for-sale. The properties will be disposed of in the open market and it is expected that the disposal of these properties will be concluded by 31 March 2019.

Eskom Finance Company SOC Ltd (EFC)

The disposal of the assets and liabilities of EFC was not concluded at 31 March 2018 because of circumstances beyond Eskom's control, including a low response rate and non-qualification of tenders.

Eskom remains committed to the disposal. An open tender process has been launched in April 2018 and Eskom is in the process of evaluating the tenders. It is expected that the disposal will be completed by 31 March 2019.

	2018				2017
	Land, buildings and facilities Rm	Eskom Finance Company Rm	Reallocation and inter-company transactions Rm	Total Rm	Total Rm
Statements of financial position					
Group					
Assets					
Non-current	40	8 585	–	8 625	8 547
Property, plant and equipment	40	–	–	40	70
Loans receivable	–	8 569	–	8 569	8 460
Trade and other receivables	–	3	–	3	3
Deferred tax	–	13	–	13	14
Current	–	339	(38)	301	252
Loans receivable	–	190	–	190	172
Taxation	–	12	–	12	13
Trade and other receivables	–	5	–	5	2
Cash and cash equivalents	–	132	(38)	94	65
Total assets	40	8 924	(38)	8 926	8 799
Liabilities					
Non-current					
Debt securities and borrowings	–	843	–	843	1 083
Current	–	7 041	(6 202)	839	600
Debt securities and borrowings	–	7 033	(6 201)	832	592
Trade and other payables	–	8	(1)	7	8
Total liabilities	–	7 884	(6 202)	1 682	1 683
Company					
Assets					
Non-current					
Property, plant and equipment	40	–	–	40	70

23. Service concession arrangements

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

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

	2018 Rm	2017 Rm
Income statements		
Revenue	219	215
Profit for the year before tax	63	59
Taxation	(18)	(17)
Profit for the year after tax	45	42
Statements of financial position		
Assets		
Intangible assets	137	156
Taxation	1	–
Inventories	23	25
Payments made in advance	1	1
Trade and other receivables	43	46
Cash and cash equivalents	72	42
	277	270
Liabilities		
Debt securities and borrowings	14	19
Deferred tax	13	16
Provisions	11	12
Employee benefit obligations	4	3
Trade and other payables	24	29
Taxation	–	1
	66	80

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

24. Share capital

	Group and company	
	2018 Shares	2017 Shares
Authorised ordinary shares	100 000 000 000	100 000 000 000
Issued ordinary shares	83 000 000 001	83 000 000 001

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

25. Debt securities and borrowings

	Group		Company	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Eskom bonds	146 172	139 255	146 172	139 255
Promissory notes	–	54	–	54
Commercial paper	2 275	5 627	4 423	7 238
Eurorand zero coupon bonds	5 711	5 049	5 711	5 049
Foreign bonds	47 608	53 524	47 608	53 524
Development financing institutions	119 854	107 800	119 854	107 800
Export credit facilities	31 735	33 228	31 735	33 228
Floating rate notes	2 005	–	2 005	–
Other loans	33 324	10 763	35 077	12 559
	388 684	355 300	392 585	358 707
Maturity analysis	388 684	355 300	392 585	358 707
Non-current	348 112	336 770	348 060	336 690
Current	40 572	18 530	44 525	22 017

Notes to the financial statements (continued)

for the year ended 31 March 2018

25. Debt securities and borrowings (continued)

	Currency	Security number	Interest rate 2018 %	Interest rate 2017 %	Nominal 2018 m	Nominal 2017 m	Maturity date	Group Carrying value 2018 Rm	Group Carrying value 2017 Rm	Company Carrying value 2018 Rm	Company Carrying value 2017 Rm
Eskom bonds								146 172	139 255	146 172	139 255
	ZAR	ES18 [1]	9.38	9.40	2 339	2 481	Apr 18	2 436	2 581	2 436	2 581
	ZAR	ECN20	10.01	10.01	5 000	5 000	Mar 20	4 993	4 979	4 993	4 979
	ZAR	EI70 [2]	10.13	10.13	8 798	8 812	Aug 21	9 560	9 784	9 560	9 784
	ZAR	ECN22	10.17	10.17	5 000	5 000	Mar 22	4 958	4 945	4 958	4 945
	ZAR	ES23 [1]	9.41	9.41	16 904	15 875	Jan 23	17 597	16 584	17 597	16 584
	ZAR	ECN24	10.37	10.37	5 000	5 000	Mar 24	4 933	4 922	4 933	4 922
	ZAR	ES26 [1]	9.22	9.21	26 198	25 055	Apr 26	25 226	23 995	25 226	23 995
	ZAR	EL28 [1]	2.55	2.55	5 718	4 169	May 28	5 946	5 695	5 946	5 695
	ZAR	EL29 [1]	1.90	1.90	4 911	3 684	Nov 29	5 000	4 780	5 000	4 780
	ZAR	EL30 [1]	2.30	2.30	4 641	3 656	Jul 30	4 667	4 458	4 667	4 458
	ZAR	EL31 [1]	2.10	2.10	4 934	4 001	Jun 31	4 936	4 653	4 936	4 653
	ZAR	ECN32	2.95	2.95	5 696	5 000	Mar 32	5 708	5 452	5 708	5 452
	ZAR	ES33 [1]	9.12	8.95	32 533	29 429	Sep 33	28 374	25 913	28 374	25 913
	ZAR	EL36 [1]	2.25	2.25	4 411	3 750	Jan 36	4 444	4 246	4 444	4 246
	ZAR	EL37 [1]	2.25	2.25	4 483	3 650	Jan 37	4 428	4 071	4 428	4 071
	ZAR	ES42 [1]	9.99	9.94	14 359	13 476	Apr 42	12 966	12 197	12 966	12 197
Promissory notes [2]								–	54	–	54
	ZAR	PN07	–	15.34	–	20	Apr 17	–	12	–	12
	ZAR	PN08	–	15.08	–	20	Apr 17	–	11	–	11
	ZAR	PN09	–	14.80	–	35	Apr 17	–	16	–	16
	ZAR	PN10	–	14.61	–	35	Apr 17	–	15	–	15
Commercial paper								2 275	5 627	4 423	7 238
	ZAR	ESN10U [1]	–	8.17	–	500	Jul 17	–	489	–	489
	ZAR	ESN11U [1]	–	8.13	–	500	Jul 17	–	488	–	488
	ZAR	ESN12U [1]	–	8.03	–	1 000	Sep 17	–	962	–	962
	ZAR	n/a	7.70	7.97	1 705	3 808	Nov 18 [3]	1 667	3 688	1 667	3 688
	ZAR	ESNOICP [1]	7.73	–	625	–	Mar 19	608	–	608	–
	ZAR	n/a [4]	7.74	7.96	2 215	1 651	Mar 19 [3]	–	–	2 148	1 611
Eurorand zero coupon bonds [2]								5 711	5 049	5 711	5 049
	ZAR	n/a	13.93	13.93	2 000	2 000	Dec 18	1 811	1 592	1 811	1 592
	ZAR	n/a	13.33	13.33	8 000	8 000	Aug 27	2 471	2 180	2 471	2 180
	ZAR	n/a	11.89	11.89	7 500	7 500	Dec 32	1 429	1 277	1 429	1 277
Foreign bonds								47 608	53 524	47 608	53 524
	USD	n/a	5.75	5.75	1 750	1 750	Jan 21	20 920	23 453	20 920	23 453
	USD	n/a	6.75	6.75	1 000	1 000	Aug 23	11 949	13 400	11 949	13 400
	USD	n/a	7.13	7.13	1 250	1 250	Feb 25	14 739	16 671	14 739	16 671

	Currency	Security number	Interest rate 2018 %	Interest rate 2017 %	Nominal 2018 m	Nominal 2017 m	Maturity date	Group Carrying value 2018 Rm	Group Carrying value 2017 Rm	Company Carrying value 2018 Rm	Company Carrying value 2017 Rm
Development financing institutions [3]								119 854	107 800	119 854	107 800
	USD	n/a [1]	3.96	3.01	500	500	Dec 19	5 915	6 639	5 915	6 639
	USD	n/a [1]	4.87	3.73	965	965	Jul 21	11 317	12 620	11 317	12 620
	ZAR	n/a [1]	8.48	8.70	1 400	1 533	Aug 28	1 419	1 549	1 419	1 549
	USD	n/a [1]	3.12	2.51	203	223	Aug 28	2 425	2 993	2 425	2 993
	EUR	n/a [1]	2.11	2.11	3	3	Dec 28	44	43	44	43
	EUR	n/a [1]	–	–	630	613	Aug 29	9 216	8 764	9 216	8 764
	ZAR	n/a [1]	7.69	7.58	8 071	8 773	Aug 29	8 171	8 880	8 171	8 880
	ZAR	n/a [1]	10.10	10.10	3 935	3 935	Sep 29	3 928	3 926	3 928	3 926
	ZAR	n/a	10.37	10.37	15 000	15 000	Jan 31	15 252	15 246	15 252	15 246
	EUR	n/a [1]	1.50	1.50	470	470	Mar 31	6 568	6 476	6 568	6 476
	USD	n/a [1]	2.55	1.66	8	9	Aug 31	98	118	98	118
	ZAR	n/a	7.53	7.74	1 287	1 380	Mar 32	1 291	1 389	1 291	1 389
	USD	n/a [1]	4.52	–	900	–	Sep 32	10 673	–	10 673	–
	USD	n/a [1]	4.87	3.73	10	10	Aug 36	108	122	108	122
	ZAR	n/a [1]	11.13	11.12	5 292	2 117	Aug 36	5 288	2 092	5 288	2 092
	USD	n/a [1]	2.03	1.67	171	217	May 38	2 034	2 915	2 034	2 915
	ZAR	n/a [1]	9.16	9.16	31 554	30 129	May 38	32 741	31 252	32 741	31 252
	ZAR	n/a [1]	10.05	9.85	2 387	1 705	Nov 40	2 447	1 744	2 447	1 744
	USD	n/a [1]	0.25	0.25	35	35	May 51	416	467	416	467
	USD	n/a [1]	0.25	0.25	42	42	Aug 51	503	565	503	565
Export credit facilities [3]								31 735	33 228	31 735	33 228
	JPY	n/a	1.58	1.59	7 418	9 892	May 22	823	1 178	823	1 178
	EUR	n/a	0.78	0.72	69	84	Sep 23	964	1 146	964	1 146
	EUR	n/a	0.62	0.66	11	12	Jul 24	151	170	151	170
	EUR	n/a	4.73	4.72	839	927	Jan 27	11 545	12 427	11 545	12 427
	EUR	n/a	2.50	2.50	645	804	Jul 27	8 811	8 960	8 811	8 960
	ZAR	n/a	9.63	9.90	1 947	1 911	Jul 27	1 811	1 785	1 811	1 785
	USD	n/a	2.32	2.32	689	508	Mar 31	7 630	7 562	7 630	7 562
Floating rate notes	ZAR	n/a [1]	9.88	–	2 000	–	Mar 21	2 005	–	2 005	–
Other loans								33 324	10 763	35 077	12 559
	ZAR	n/a [1]	9.13	–	20 000	–	Aug 18	20 047	–	20 047	–
	ZAR	n/a	9.88	10.10	1 000	1 000	Aug 23	1 015	1 015	1 015	1 015
	ZAR	n/a	10.36	9.40	3 650	3 650	Mar 24	3 658	3 657	3 658	3 657
	ZAR	n/a	12.80	12.80	1 500	1 500	Oct 24	1 588	1 587	1 588	1 587
	ZAR	n/a	11.42	10.83	6 850	4 350	Feb 25	6 965	4 424	6 965	4 424
	ZAR	n/a [4]	6.95	7.17	1 804	1 876	On demand	–	–	1 804	1 876
	ZAR	n/a	–	–	51	80	On demand	51	80	–	–
								388 684	355 300	392 585	358 707

1. *Government guaranteed.*
2. *Holders have a right to first charge against revenue and assets of Eskom in terms of section 7 of Eskom Conversion Act.*
3. *Latest in a range of maturity dates is indicated for these instruments.*
4. *Includes, inter alia, instruments issued to subsidiaries.*

Notes to the financial statements (continued)

for the year ended 31 March 2018

26. Embedded derivatives

	2018 Commodity and/or foreign currency Rm	2018 United States PPI and foreign currency Rm	2018 Total Rm	2017 Total Rm
Group and company				
Liability at beginning of the year	4 990	424	5 414	7 025
Net fair value (gain)/loss	(357)	234	(123)	(1 611)
Liability at end of the year	4 633	658	5 291	5 414
Maturity analysis	4 633	658	5 291	5 414
Non-current	2 798	636	3 434	4 032
Current	1 835	22	1 857	1 382

27. Payments received in advance and deferred income

	Note	2018 Upfront connection charges Rm	2018 Government grant Rm	2018 Other Rm	2018 Total Rm	2017 Total Rm
27.1 Payments received in advance						
Group						
Balance at beginning of the year		4 399	982	150	5 531	6 002
Payments received		517	3 399	90	4 006	4 216
Transfers to the statement of financial position		–	(3 375)	–	(3 375)	(3 420)
Deferred income	27.2	–	(3 375)	–	(3 375)	(3 392)
Other		–	–	–	–	(28)
Income recognised		(1 244)	(4)	(145)	(1 393)	(1 267)
Balance at end of the year		3 672	1 002	95	4 769	5 531
Maturity analysis		3 672	1 002	95	4 769	5 531
Non-current		1 732	–	34	1 766	1 940
Current		1 940	1 002	61	3 003	3 591
Company						
Balance at beginning of the year		4 399	982	144	5 525	5 997
Payments received		517	3 399	83	3 999	4 210
Transfers to the statement of financial position		–	(3 375)	–	(3 375)	(3 420)
Deferred income	27.2	–	(3 375)	–	(3 375)	(3 392)
Other		–	–	–	–	(28)
Income recognised		(1 244)	(4)	(139)	(1 387)	(1 262)
Balance at end of the year		3 672	1 002	88	4 762	5 525
Maturity analysis		3 672	1 002	88	4 762	5 525
Non-current		1 732	–	34	1 766	1 940
Current		1 940	1 002	54	2 996	3 585
27.2 Deferred income						
Group and company						
Balance at beginning of the year		2 579	16 264	–	18 843	16 473
Transfers from payments received in advance	27.1	–	3 375	–	3 375	3 392
Income recognised		(163)	(1 050)	–	(1 213)	(1 022)
Balance at end of the year		2 416	18 589	–	21 005	18 843
Maturity analysis		2 416	18 589	–	21 005	18 843
Non-current		2 257	17 539	–	19 796	17 700
Current		159	1 050	–	1 209	1 143

28. Employee benefit obligations

	Note	2018 Post-employment medical benefits Rm	2018 Leave Rm	2018 Annual and performance bonus Rm	2018 Other Rm	2018 Total Rm	2017 Total Rm
Group							
Balance at beginning of the year		14 261	2 182	3 578	1 117	21 138	17 595
Raised/(reversed) to income statement		656	833	(113)	(1 143)	233	5 355
Raised		656	833	425	–	1 914	5 370
Reversed		–	–	(538)	(1 143)	(1 681)	(15)
Reversed to other comprehensive income		(1 850)	–	–	–	(1 850)	(231)
Finance cost	41	1 644	–	–	33	1 677	1 552
Cash paid		(468)	(749)	(3 012)	–	(4 229)	(3 133)
Balance at end of the year		14 243	2 266	453	7	16 969	21 138
Maturity analysis		14 243	2 266	453	7	16 969	21 138
Non-current		13 725	–	–	–	13 725	13 790
Current		518	2 266	453	7	3 244	7 348
Company							
Balance at beginning of the year		13 917	2 021	3 257	1 111	20 306	17 091
Raised/(reversed) to income statement		646	773	(112)	(1 143)	164	4 971
Raised		646	773	372	–	1 791	4 986
Reversed		–	–	(484)	(1 143)	(1 627)	(15)
Reversed to other comprehensive income		(1 802)	–	–	–	(1 802)	(218)
Finance cost	41	1 605	–	–	32	1 637	1 515
Cash paid		(455)	(711)	(2 743)	–	(3 909)	(3 053)
Balance at end of the year		13 911	2 083	402	–	16 396	20 306
Maturity analysis		13 911	2 083	402	–	16 396	20 306
Non-current		13 404	–	–	–	13 404	13 458
Current		507	2 083	402	–	2 992	6 848

Notes to the financial statements (continued)

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28. Employee benefit obligations (continued)

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
28.1 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:				
Employee benefit expense	656	596	646	587
Finance cost	1 644	1 493	1 605	1 456
The amounts recognised in other comprehensive income are:				
Re-measurements of post-employment medical benefits (actuarial gain)	(1 850)	(231)	(1 802)	(218)
Financial assumptions	(1 323)	(222)	(1 297)	(214)
Experience adjustments	(527)	(9)	(505)	(4)
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 R518 million and the company R507 million in contributions to this plan in the 2019 financial year.				
Expected maturity analysis of undiscounted post-employment medical benefits:				
Within one year	518	471	507	459
Between one and two years	567	518	552	505
Between two and five years	2 247	2 084	2 190	2 030
After five years	189 607	282 240	187 773	278 348
	192 939	285 313	191 022	281 342

Risks

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

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

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

The expected current service cost for the 2019 financial year is estimated at R617 million for the group and R609 million for the company. Refer to note 4.2 for the sensitivity analysis and principal actuarial assumptions used.

28.2 Leave

The group recognises a liability for annual, occasional and service leave. Refer to note 4.3.

28.3 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.

28.4 Pension benefits

The net benefit asset at the reporting date is not accounted for in the financial statements. The rules of the 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 Pension Funds Act. The assets of the fund are legally separated from the group. All employees are members of the fund. Contributions comprise 20.8% of pensionable emoluments of which members pay 7.3%. The trustees of the EPPF are required by law to act in the best interest of the plan participants.

The fund was valued actuarially on the IAS 19 *Employee benefits* basis on 31 March 2018 (previous valuation at 31 March 2017). The actuarial present value of retirement benefits at 31 March 2018 was R113 164 million (2017: R112 718 million), while the fair value of the fund's assets was R135 327 million (2017: R131 558 million).

Group and company	2018 %	2017 %
Principal actuarial valuation assumptions		
Long-term investment return before tax	10.50	11.20
Future general salary increases	8.10	9.40
Future pension increases (inflation)	6.60	7.90

Assumptions regarding future mortality have been based on published mortality tables and statistics derived from experience. For details regarding current longevities underlying the values of the pension benefit obligation at the reporting date refer to note 4.2.

29. Provisions

	Note	2018 Power station-related environmental restoration[1] Nuclear plant Rm	2018 Power station-related environmental restoration[1] Other generating plant Rm	2018 Mine-related closure, pollution control and rehabilitation[1] Rm	2018 Coal-related obligations[2] Rm	2018 Other Rm	2018 Total Rm	2017 Total Rm
Group								
Balance at beginning of the year		17 650	12 643	11 706	4 695	6 384	53 078	44 256
Charged to income statement		(2 906)	(411)	207	(172)	1 023	(2 259)	5 707
Raised		–	7	2	–	1 814	1 823	1 929
Reversed		(3 125)	(473)	(3)	(172)	(791)	(4 564)	(624)
Change in discount rate		219	55	208	–	–	482	4 402
Capitalised to property, plant and equipment	8	(328)	(31)	–	–	1 240	881	7 253
Raised		–	173	–	–	5 123	5 296	3 956
Reversed		(338)	(472)	–	–	(3 883)	(4 693)	(598)
Change in discount rate		10	268	–	–	–	278	3 895
Capitalised to future fuel supplies	10	–	–	51	–	–	51	747
Raised		–	–	39	–	–	39	91
Reversed		–	–	(7)	–	–	(7)	(105)
Change in discount rate		–	–	19	–	–	19	761
Capitalised to inventories	20	66	–	192	–	–	258	196
Raised		66	–	211	–	–	277	196
Reversed		–	–	(19)	–	–	(19)	–
Finance cost	41	1 619	1 174	938	351	13	4 095	3 758
Cash paid		(173)	–	(357)	(1 060)	(4 835)	(6 425)	(8 839)
Balance at end of the year		15 928	13 375	12 737	3 814	3 825	49 679	53 078
Maturity analysis		15 928	13 375	12 737	3 814	3 825	49 679	53 078
Non-current		15 540	13 375	12 481	2 814	160	44 370	44 021
Current		388	–	256	1 000	3 665	5 309	9 057

1. *Refer to note 4.4 for critical accounting estimates and assumptions.*
2. *Refer to note 4.5 for critical accounting estimates and assumptions.*

29. Provisions (continued)

	Note	2018 Power station-related environmental restoration[1] Nuclear plant Rm	2018 Power station-related environmental restoration[1] Other generating plant Rm	2018 Mine-related closure, pollution control and rehabilitation[1] Rm	2018 Coal-related obligations[2] Rm	2018 Other Rm	2018 Total Rm	2017 Total Rm
Company								
Balance at beginning of the year		17 650	12 643	11 706	4 695	5 787	52 481	44 024
Raised/(reversed) to income statement		(2 906)	(411)	207	(172)	1 469	(1 813)	5 324
Raised		–	7	2	–	1 775	1 784	1 542
Reversed		(3 125)	(473)	(3)	(172)	(306)	(4 079)	(620)
Change in discount rate		219	55	208	–	–	482	4 402
Capitalised to property, plant and equipment	8	(328)	(31)	–	–	1 240	881	7 253
Raised		–	173	–	–	5 123	5 296	3 956
Reversed		(338)	(472)	–	–	(3 883)	(4 693)	(598)
Change in discount rate		10	268	–	–	–	278	3 895
Capitalised to future fuel supplies	10	–	–	51	–	–	51	747
Raised		–	–	39	–	–	39	91
Reversed		–	–	(7)	–	–	(7)	(105)
Change in discount rate		–	–	19	–	–	19	761
Capitalised to inventories	20	66	–	192	–	–	258	196
Raised		66	–	211	–	–	277	196
Reversed		–	–	(19)	–	–	(19)	–
Finance cost	41	1 619	1 174	938	351	13	4 095	3 754
Cash paid		(173)	–	(357)	(1 060)	(4 810)	(6 400)	(8 817)
Balance at end of the year		15 928	13 375	12 737	3 814	3 699	49 553	52 481
Maturity analysis		15 928	13 375	12 737	3 814	3 699	49 553	52 481
Non-current		15 540	13 375	12 481	2 814	149	44 359	43 908
Current		388	–	256	1 000	3 550	5 194	8 573

30. Finance lease payables

	2018 Gross payables Rm	2018 Future finance charges Rm	2018 Present value Rm	2017 Gross payables Rm	2017 Future finance charges Rm	2017 Present value Rm
Group and company						
Non-current	26 680	(17 147)	9 533	28 783	(18 964)	9 819
Between one and five years	8 618	(6 964)	1 654	8 531	(7 098)	1 433
After five years	18 062	(10 183)	7 879	20 252	(11 866)	8 386
Current						
Within one year	2 102	(1 816)	286	2 081	(1 835)	246
	28 782	(18 963)	9 819	30 864	(20 799)	10 065

The average implicit interest rate for the group and company was 15% (2017: 15%). The lease payables are payable on a monthly basis over a maximum period of 15 years.

1. *Refer to note 4.4 for critical accounting estimates and assumptions.*
2. *Refer to note 4.5 for critical accounting estimates and assumption.*

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
31. Trade and other payables				
Financial instruments	32 431	32 014	33 316	33 390
Trade and other payables	20 065	20 830	20 774	21 747
Accruals	8 194	7 602	8 370	8 061
Deposits	4 172	3 582	4 172	3 582
Non-financial instruments				
VAT	886	639	829	540
	33 317	32 653	34 145	33 930
Maturity analysis	33 317	32 653	34 145	33 930
Non-current	1 201	871	1 201	871
Current	32 116	31 782	32 944	33 059
32. Revenue				
Electricity	175 041	175 094	175 041	175 094
Other	2 383	2 042	2 383	2 042
	177 424	177 136	177 424	177 136
Electricity revenue of R3 277 million (2017: R3 196 million) was not recognised as it was assessed that there is a high probability that the related economic benefits will not materialise. Eskom continues to actively pursue recovery of these amounts. Refer to note 5.1.2(a).				
33. Other income				
Insurance proceeds	–	–	674	812
Services income	290	256	–	–
Management fee income	–	–	110	146
Operating lease income	336	296	244	231
Dividend income	37	40	27	32
Other	709	981	732	873
	1 372	1 573	1 787	2 094
34. Primary energy				
Own generation costs	62 957	60 128	62 957	60 128
Generation costs	54 896	52 042	54 896	52 042
Environmental levy	8 061	8 086	8 061	8 086
International electricity purchases	2 768	2 681	2 768	2 681
Independent power producers	19 317	19 757	19 317	19 757
Other	160	194	160	194
	85 202	82 760	85 202	82 760

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

	Note	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
35. Employee benefit expense					
Salaries		23 180	22 112	20 999	20 277
Overtime		2 069	2 310	1 696	1 933
Post-employment medical benefits		656	596	646	587
Leave		833	888	773	835
Annual and performance bonus[1]		740	4 236	602	3 740
Pension benefits		1 348	2 463	1 172	2 251
Direct costs of employment		28 826	32 605	25 888	29 623
Direct training and development		155	150	121	125
Temporary and contract staff costs		2 806	2 952	855	738
Other staff costs		868	1 126	792	1 071
Gross employee benefit expense		32 655	36 833	27 656	31 557
Capitalised to property, plant and equipment		(3 201)	(3 655)	(3 201)	(3 655)
		29 454	33 178	24 455	27 902
36. Net impairment loss					
Impairment		964	2 462	937	2 417
Property, plant and equipment	8	58	1 128	58	1 128
Inventories	20	6	–	6	–
Loans receivable		20	32	–	–
Trade and other receivables	19	880	1 302	873	1 289
Reversal		(404)	(787)	(402)	(784)
Property, plant and equipment	8	(39)	(644)	(39)	(644)
Loans receivable		(2)	–	–	–
Trade and other receivables	19	(363)	(143)	(363)	(140)
Bad debts recovered		(7)	(6)	(7)	(4)
		553	1 669	528	1 629
37. Other expenses					
Managerial, technical and other fees		709	1 351	651	1 325
Operating lease expense		1 040	940	357	375
Auditors' remuneration[2]		149	119	136	109
Net loss on disposal of property, plant and equipment		148	260	147	263
Repairs and maintenance, transport and other expenses		16 182	20 900	24 307	28 878
		18 228	23 570	25 598	30 950
38. Depreciation and amortisation expense					
Depreciation of property, plant and equipment	8	23 721	20 575	23 722	20 582
Amortisation of intangible assets	9	461	593	438	563
Deferred income recognised (government grant)	27	(1 050)	(868)	(1 050)	(868)
		23 132	20 300	23 110	20 277

1. *There was no performance bonus accrued for the 2018 financial year.*
2. *There were no non-audit services rendered by the group's statutory auditors.*

	Note	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
39. Net fair value loss on financial instruments, excluding embedded derivatives					
(Loss)/gain on instruments carried at fair value		(10 978)	(18 038)	(11 085)	(17 928)
Financial trading assets		189	(79)	80	(57)
Financial trading liabilities		(53)	131	(53)	131
Derivatives held for risk management	16	(11 114)	(18 090)	(11 112)	(18 002)
Gain/(loss) on foreign currency translation of instruments carried at amortised cost		9 426	14 527	9 433	14 556
Trade and other receivables		(5)	(3)	(5)	(3)
Cash and cash equivalents		10	647	10	651
Trade and other payables		(114)	431	(107)	456
Debt securities and borrowings		9 535	13 452	9 535	13 452
Amounts recycled from cash flow hedge reserve		(346)	169	(346)	169
Amortisation of effective portion of terminated cash flow hedges		324	324	324	324
Ineffective portion of cash flow hedges		(670)	(155)	(670)	(155)
		(1 898)	(3 342)	(1 998)	(3 203)
40. Finance income					
Investment in securities		770	1 001	199	518
Loans receivable		865	885	468	483
Finance lease receivables		56	59	56	59
Trade and other receivables		461	1 349	461	1 349
Cash and cash equivalents		720	1 918	690	1 881
		2 872	5 212	1 874	4 290
41. Finance cost					
Debt securities and borrowings		27 577	25 872	27 729	26 003
Eskom bonds		12 154	12 598	12 154	12 598
Promissory notes		19	7	19	7
Commercial paper		502	489	532	492
Eurorand zero coupon bonds		661	587	661	587
Foreign bonds		3 389	3 662	3 389	3 662
Development financing institutions		7 533	5 895	7 533	5 895
Export credit facilities		1 673	1 643	1 673	1 643
Floating rate notes		5	–	5	–
Other loans		1 641	991	1 763	1 119
Derivatives held for risk management		5 947	4 439	5 947	4 439
Employee benefit obligations	28	1 677	1 552	1 637	1 515
Provisions	29	4 095	3 758	4 095	3 754
Finance lease payables		1 835	1 922	1 835	1 922
Trade and other payables		377	279	377	279
Gross finance cost		41 508	37 822	41 620	37 912
Capitalised to property, plant and equipment	8	(15 547)	(18 233)	(15 547)	(18 233)
		25 961	19 589	26 073	19 679

42. Income tax

	Note	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Recognised in profit or loss					
Current tax		664	1 091	–	–
Deferred tax	13	(930)	(820)	(1 148)	(399)
Reversal of temporary differences		14 645	3 925	14 427	4 367
Tax losses		(15 575)	(4 745)	(15 575)	(4 766)
		(266)	271	(1 148)	(399)

	Group 2018	Group 2017	Company 2018	Company 2017
Reconciliation between standard and effective tax rate				
R million				
Taxation (income)/expense at standard rate	(729)	325	(1 612)	(355)
Non-taxable income[1]	(185)	(255)	(170)	(238)
Expenses not deductible for tax purposes[2]	648	201	634	194
Taxation (income)/expense per the income statement	(266)	271	(1 148)	(399)
%				
Taxation income at standard rate	28.00	28.00	28.00	28.00
Non-taxable income[1]	7.11	(22.00)	2.95	18.75
Expenses not deductible for tax purposes[2]	(24.89)	17.38	(11.01)	(15.31)
Taxation income per the income statement	10.22	23.38	19.94	31.44

	2018 Before tax Rm	2018 Tax Rm	2018 Net of tax Rm	2017 Before tax Rm	2017 Tax Rm	2017 Net of tax Rm
Recognised in other comprehensive income						
Group						
Available-for-sale financial assets						
Net change in fair value	–	–	–	60	(17)	43
Cash flow hedges	(6 357)	1 781	(4 576)	(10 365)	2 903	(7 462)
Net changes in fair value	(5 700)	1 596	(4 104)	(9 056)	2 536	(6 520)
Net amount transferred to profit or loss	346	(96)	250	(169)	48	(121)
Net amount transferred to initial carrying amount of hedged items	(1 003)	281	(722)	(1 140)	319	(821)
Foreign currency translation differences	(25)	–	(25)	(45)	–	(45)
Re-measurement of post-employment medical benefits	1 850	(518)	1 332	231	(65)	166
	(4 532)	1 263	(3 269)	(10 119)	2 821	(7 298)
Company						
Available-for-sale financial assets						
Net change in fair value	(3)	1	(2)	50	(14)	36
Cash flow hedges	(6 357)	1 781	(4 576)	(10 365)	2 903	(7 462)
Net changes in fair value	(5 700)	1 596	(4 104)	(9 056)	2 536	(6 520)
Net amount transferred to profit or loss	346	(96)	250	(169)	48	(121)
Net amount transferred to initial carrying amount of hedged items	(1 003)	281	(722)	(1 140)	319	(821)
Re-measurement of post-employment medical benefits	1 802	(505)	1 297	218	(61)	157
	(4 558)	1 277	(3 281)	(10 097)	2 828	(7 269)

1. *Non-taxable income in 2017 includes reversal of an impairment raised in 2016 for possible fruitless and wasteful expenditure with a tax impact of R180 million.*
2. *Non-deductible expenditure in 2018 includes amounts under investigation with a tax impact of R392 million.*

43. Cash generated from operations

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
(Loss)/profit before tax	(2 603)	1 159	(5 756)	(1 269)
Adjustments for:	44 710	47 932	46 193	47 985
Depreciation and amortisation expense	23 132	20 300	23 110	20 277
Depreciation expense – primary energy	16	16	16	16
Net impairment loss (excluding bad debts recovered)	560	1 675	535	1 633
Net fair value loss on financial instruments including embedded derivatives	1 775	1 731	1 875	1 592
Net loss on disposal of property, plant and equipment	148	260	147	263
Transfer of assets from customers	(737)	(628)	(737)	(628)
Writeoff of mine assets	–	119	–	119
Dividend income	(37)	(40)	(27)	(32)
Increase in employee benefit obligations	233	5 355	164	4 971
(Decrease)/increase in provisions	(2 259)	5 707	(1 813)	5 324
Decrease in deferred income	(163)	(154)	(163)	(154)
Payments made in advance recognised in profit or loss	380	516	274	477
Payments received in advance recognised in profit or loss	(1 393)	(1 267)	(1 387)	(1 262)
Finance income	(2 872)	(5 212)	(1 874)	(4 290)
Finance cost	25 961	19 589	26 073	19 679
Share of loss of equity-accounted investees	(34)	(35)	–	–
	42 107	49 091	40 437	46 716
Changes in working capital:	(2 448)	(1 730)	(2 580)	(276)
Increase in payments made in advance	(345)	(661)	(329)	(633)
Decrease/(increase) in inventories	747	(1 140)	770	(1 117)
(Increase)/decrease in trade and other receivables	(944)	1 696	(969)	3 115
Decrease in trade and other payables	(46)	(759)	(530)	(871)
Expenditure incurred on employee benefit obligations	(4 229)	(3 133)	(3 909)	(3 053)
Expenditure incurred on provisions	(1 637)	(1 949)	(1 612)	(1 927)
Increase in payments received in advance	4 006	4 216	3 999	4 210
	39 659	47 361	37 857	46 440

44. Net debt reconciliation

	Debt securities and borrowings[1] Rm	Finance lease payables[2] Rm	Investment in securities[3] Rm	Financial trading assets[4] Rm	Financial trading liabilities[5] Rm	Derivatives held for risk management[6] Rm	Payments made in advance[7] Rm	Cash and cash equivalents[8] Rm	Net debt Rm
Group									
Balance at 1 April 2016	322 658	3 928	(4 552)	(2 657)	1 250	(23 941)	(1 460)	(28 454)	266 772
Net cash increase/(decrease)	43 960	(139)	(2 031)	889	482	(7 738)	(1 096)	8 590	42 917
Net fair value (gains)/losses and foreign exchange (gains)/losses	(13 452)	–	(50)	57	(131)	22 468	–	(647)	8 245
Foreign currency translation	–	–	–	–	–	–	–	45	45
Assets and liabilities held-for-sale	–	–	–	–	–	–	–	41	41
Other movements	2 134	6 276	(71)	(19)	19	23	1 177	–	9 539
Balance at 31 March 2017	355 300	10 065	(6 704)	(1 730)	1 620	(9 188)	(1 379)	(20 425)	327 559
Net cash increase/(decrease)	40 686	(246)	6 586	1 459	(1 241)	(1 824)	(929)	4 376	48 867
Net fair value (gains)/losses and foreign exchange (gains)/losses	(9 535)	–	3	(80)	53	16 082	–	(10)	6 513
Foreign currency translation	–	–	–	–	–	–	–	25	25
Assets and liabilities held-for-sale	–	–	–	–	–	–	–	211	211
Other movements	2 233	–	115	183	(183)	(10)	1 158	–	3 496
Balance at 31 March 2018	388 684	9 819	–	(168)	249	5 060	(1 150)	(15 823)	386 671
Company									
Balance at 1 April 2016	325 957	3 928	(4 552)	(2 657)	1 250	(23 941)	(1 460)	(28 136)	270 389
Net cash increase/(decrease)	44 001	(139)	(2 031)	889	482	(7 738)	(1 096)	8 823	43 191
Net fair value (gains)/losses and foreign exchange (gains)/losses	(13 452)	–	(50)	57	(131)	22 468	–	(651)	8 241
Other movements	2 201	6 276	(71)	(19)	19	23	1 177	–	9 606
Balance at 31 March 2017	358 707	10 065	(6 704)	(1 730)	1 620	(9 188)	(1 379)	(19 964)	331 427
Net cash increase/(decrease)	41 170	(246)	6 586	1 459	(1 241)	(1 824)	(929)	4 603	49 578
Net fair value (gains)/losses and foreign exchange (gains)/losses	(9 535)	–	3	(80)	53	16 082	–	(10)	6 513
Assets and liabilities held-for-sale	–	–	–	–	–	–	–	(8)	(8)
Other movements	2 243	–	115	183	(183)	(10)	1 158	–	3 506
Balance at 31 March 2018	392 585	9 819	–	(168)	249	5 060	(1 150)	(15 379)	391 016

1. *Refer to note 25.*
2. *Refer to note 30.*
3. *Refer to the investing portfolio section of note 14.1.*
4. *Refer to the market-making portfolio section of note 14.2.*
5. *Refer to the market-making portfolio section of note 14.3.*
6. *Refer to note 16 (hedge exposure covering debt securities and borrowings).*
7. *Refer to note 18 (securing debt raised).*
8. *Refer to note 21.*

45. Guarantees and contingent liabilities

	Unit	Group 2018	Group 2017	Company 2018	Company 2017
45.1 Financial guarantees					
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. Motraco has raised debt as part of these operations maturing on 30 April 2019. Eskom has guaranteed a portion of this debt.					
The guarantees would be triggered if Motraco was unable to meet its obligations in terms of the long-term debt agreement. 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.					
Guarantee issued	USDm	5	7	5	7
Default probability	%	1.05	1.05	1.05	1.05
Financial guarantee	Rm	54	99	54	99
Unprovided portion, disclosed as a contingent liability	Rm	53	98	53	98
Provision	Rm	1	1	1	1
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.					
EFC loans to group employees					
EFC has granted loans (secured by mortgage bonds on the properties) to qualifying employees of the group. Eskom has issued guarantees to EFC to the extent to which the loan values of employees exceed the current value of the mortgage security.					
Historically EFC has absorbed any losses incurred and has not called up any guarantee payments. Eskom's guarantee exposure is therefore governed by the default probability of EFC, which is influenced by the risk of significant fluctuations in interest rates that might cause employees to default on their repayments. The risk adjusted credit exposure of EFC is calculated by applying a rating agency's annual default probabilities.					
Unsecured portion of loan book	%	–	–	0.94	0.34
Default probability of unsecured portion of loan book	%	–	–	27.00	26.00
Secured portion of loan book	%	–	–	99.06	99.66
Default probability of secured portion of loan book	%	–	–	0.08	0.01
Financial guarantee	Rm	–	–	1 069	1 087
Unprovided portion, disclosed as a contingent liability	Rm	–	–	1 068	1 086
Provision	Rm	–	–	1	1
Changes in variables will not have a significant impact on profit or loss.					
Summary of financial guarantees					
Unprovided portion, disclosed as a contingent liability	Rm	53	98	1 121	1 184
Long-term debt raised by Motraco	Rm	53	98	53	98
EFC loans to group employees	Rm	–	–	1 068	1 086
Amounts provided in other provisions	Rm	1	1	2	2
Long-term debt raised by Motraco	Rm	1	1	1	1
EFC loans to group employees	Rm	–	–	1	1
Total guarantees	Rm	54	99	1 123	1 186

45. Guarantees and contingent liabilities (continued)

		Group		Company	
	Unit	2018	2017	2018	2017
45.2 Other guarantees					
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	Rm	156	183	156	183
Eskom Pension and Provident Fund (EPPF)					
Eskom has indemnified the EPPF against any loss resulting from negligence, dishonesty or fraud by the fund's officers or trustees.					
45.3 Other contingent liabilities					
Legal claims					
Legal claims are in process against Eskom as a result of disputes with various parties. On the basis of the evidence available it appears that no obligation is present. The claims are disclosed as a contingent liability and amounted to	Rm	15	16	15	16

46. Commitments

	Group		Company	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm
46.1 Capital expenditure				
Contracted capital expenditure	46 298	50 473	46 269	50 076
Within one year	20 925	20 434	20 896	20 037
One and five years	25 373	30 039	25 373	30 039
Capital expenditure excludes finance costs capitalised and foreign currency fluctuations.				
The capital 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.				
46.2 Operating leases				
As lessee				
The future minimum lease payments payable under non-cancellable operating leases are:	158	238	158	224
Within one year	78	125	78	113
One to five years	80	113	80	111
As lessor				
The future minimum lease payments receivable under non-cancellable operating leases are:	55	118	55	115
Within one year	52	57	52	55
One to five years	3	61	3	60

47. Related-party transactions and balances

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

Related parties also include subsidiaries, associates and joint ventures of the group and post-retirement benefit plans for the benefit of employees. It also includes key management personnel of Eskom or its shareholder and close family members of these related parties. Key management personnel for Eskom include the group's board of directors and the Exco. Disclosure of related-party transactions with key management personnel is included in note 49.

The following transactions were carried out with related parties:

		Group		Company	
	Note	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Transactions					
Sales of goods and services[1]		11 227	10 787	12 074	11 786
National departments		1 181	1 296	1 181	1 296
Public entities		6 525	6 309	6 501	6 309
Subsidiaries, associates and joint ventures		3 521	3 182	4 392	4 181
Government grant funding received for electrification					
National departments		3 399	3 096	3 399	3 096
Purchases of goods and services[1]		7 648	8 375	18 964	19 636
Constitutional institutions		8	5	8	5
National departments		1 843	1 803	1 843	1 802
Public entities		3 432	3 938	2 774	2 770
Subsidiaries, associates and joint ventures		211	166	12 361	12 808
Eskom Pension and Provident Fund		2 154	2 463	1 978	2 251
Net fair value gains/(losses) on derivatives held for risk management					
Subsidiaries, associates and joint ventures		–	–	2	88
Finance income		367	1 364	835	1 847
National departments		93	286	93	286
Public entities		274	1 078	274	1 078
Subsidiaries, associates and joint ventures		–	–	468	483
Finance cost[2]		8 197	8 355	8 498	8 632
National departments		9	6	9	6
Public entities		8 024	8 150	8 024	8 150
Subsidiaries, associates and joint ventures		–	–	301	277
Eskom Pension and Provident Fund		164	199	164	199
Dividend income					
Subsidiaries, associates and joint ventures		26	31	26	31
Lease income		60	60	64	63
National departments		–	2	–	2
Public entities		60	58	60	58
Subsidiaries, associates and joint ventures		–	–	4	3
Lease expenses		20	17	23	18
National departments		12	11	12	11
Public entities		8	6	8	6
Subsidiaries, associates and joint ventures		–	–	3	1
Environmental levy					
Public entities	34	8 061	8 086	8 061	8 086

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

Notes to the financial statements (continued)

for the year ended 31 March 2018

47. Related-party transactions and balances (continued)

	Note	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Outstanding balances (due by related parties)					
Receivables and amounts owed by related parties		1 191	1 109	2 568	2 321
National departments		140	122	140	122
Public entities		737	693	515	528
Subsidiaries, associates and joint ventures		314	294	1 913	1 671
Loans receivable					
Subsidiaries, associates and joint ventures[1]		–	–	6 201	6 187
Derivative assets held for risk management					
Subsidiaries, associates and joint ventures		–	–	2	–
Indirect transactions – assets at nominal value					
National departments		139	3 575	139	3 575
Total due by related parties		1 330	4 684	8 910	12 083
Cash and cash equivalents					
Public entities		10 061	8 872	10 061	8 872
Outstanding balances (due to related parties)					
Debt securities and borrowings		122 310	123 035	126 263	126 522
National departments		17	17	17	17
Public entities		119 567	120 385	119 567	120 385
Subsidiaries, associates and joint ventures[2]		–	–	3 953	3 487
Eskom Pension and Provident Fund		2 726	2 633	2 726	2 633
Payables[3] and amounts owed to related parties		2 886	2 105	4 835	4 772
Constitutional institutions		–	5	–	5
National departments		563	421	563	421
Public entities		2 103	1 488	2 045	1 328
Subsidiaries, associates and joint ventures		45	28	2 052	2 855
Eskom Pension and Provident Fund		175	163	175	163
Payments received in advance		1 298	1 228	1 298	1 228
National departments		988	918	988	918
Public entities		310	310	310	310
Derivative liabilities held for risk management					
Subsidiaries, associates and joint ventures		–	–	–	12
Indirect transactions – liabilities at nominal value					
National departments		9	423	9	423
Total due to related parties		126 503	126 791	132 405	132 957
Guarantees					
Guarantees received and used					
Guarantees received – national departments		350 000	350 000	350 000	350 000
Domestic multi-term note programme		150 000	150 000	150 000	150 000
General guarantees		200 000	200 000	200 000	200 000
Guarantees used – national departments		276 831	215 233	276 831	215 233
Domestic multi-term note programme		138 084	111 226	138 084	111 226
General guarantees		138 747	104 007	138 747	104 007
Guarantees still available	5.3	73 169	134 767	73 169	134 767
Guarantees issued		209	281	1 277	1 367
National departments	45.2	156	183	156	183
Subsidiaries, associates and joint ventures	45.1	53	98	1 121	1 184

Commitments

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

1. *The effective interest rate on the loans to subsidiaries is 7.55% (2017: 7.99%).*
2. *Refer to note 25 for effective interest rate and maturity date relating to intercompany instruments.*
3. *Purchase transactions with related parties are on an arm's length basis with payment terms of 30 days from invoice date.*

48. Events after the reporting date

Mr PS Hadebe was appointed as group chief executive effective from 1 June 2018.

49. Directors' remuneration

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

The directors' remuneration has been updated in line with the the guidelines in the King IV report. The total remuneration earned (single total figure of remuneration) reflects earnings attributable to the performance delivered during the year, while the total cash value reflects the earnings received by each incumbent during the year. The cash value is calculated by removing the value earned but not settled in the current year while the cash value earned but not settled from the prior year that was subsequently settled during the year is added back.

The long-term bonus is now disclosed as part of the total remuneration earned when the performance conditions attached to the bonus are met (previously disclosed in the year when the cash was paid). The 2017 remuneration has been restated for comparison purposes.

49.1 Executive directors and group executives

The remuneration of the group chief executive and the chief financial officer (executive directors) and Exco members (group executives) are disclosed below. Eskom's prescribed officers are the group executives. The executive directors have fixed term contracts, except for the acting CFO who is a permanent employee. The group executives have permanent contracts based on Eskom's standard conditions of service.

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

Name	Salaries R'000	Short-term bonus R'000	Long-term bonus R'000	Notice payment R'000	Other payments R'000	Total remuneration earned R'000	Cash value earned, not yet paid R'000	Prior year cash value earned paid R'000	Total cash value of remuneration R'000
2018									
Executive directors	7 461	–	–	2 564	907	10 932	–	3 989	14 921
PS Hadebe	1 649	–	–	–	4	1 653	–	–	1 653
C Cassim	1 649	–	–	–	84	1 733	–	–	1 733
B Molefe	–	–	–	–	–	–	–	2 110	2 110
A Singh	4 163	–	–	2 564	819	7 546	–	1 879	9 425
Group executives	32 719	–	–	–	2 488	35 207	–	16 409	51 616
JA Dladla	1 070	–	–	–	151	1 221	–	–	1 221
T Govender	3 956	–	–	–	128	4 084	–	2 731	6 815
P Govender	2 445	–	–	–	511	2 956	–	–	2 956
MM Koko	3 714	–	–	–	346	4 060	–	2 623	6 683
WF Majola	2 509	–	–	–	85	2 594	–	–	2 594
S Maritz	3 061	–	–	–	464	3 525	–	1 569	5 094
AA Masango	3 617	–	–	–	126	3 743	–	2 138	5 881
A Noah	3 388	–	–	–	94	3 482	–	2 428	5 910
MM Ntsokolo	3 883	–	–	–	378	4 261	–	2 878	7 139
EM Pule	3 339	–	–	–	98	3 437	–	2 042	5 479
MP Sebola	591	–	–	–	69	660	–	–	660
HJ Steyn	456	–	–	–	29	485	–	–	485
N Zibi	690	–	–	–	9	699	–	–	699
	40 180	–	–	2 564	3 395	46 139	–	20 398	66 537
2017									
Executive directors	10 866	3 989	–	–	1 480	16 335	(3 989)	3 937	16 283
B Molefe[1]	6 029	2 110	–	–	958	9 097	(2 110)	2 469	9 456
A Singh	4 837	1 879	–	–	522	7 238	(1 879)	1 468	6 827
Group executives	23 915	8 851	7 558	–	1 165	41 489	(16 409)	10 165	35 245
T Govender	3 303	1 385	1 346	–	120	6 154	(2 731)	1 899	5 322
P Govender	88	–	–	–	–	88	–	–	88
MM Koko	3 885	1 496	1 127	–	79	6 587	(2 623)	1 691	5 655
WF Majola	592	–	–	–	9	601	–	–	601
S Maritz	2 625	1 138	431	–	155	4 349	(1 569)	–	2 780
AA Masango	3 413	1 290	848	–	225	5 776	(2 138)	1 392	5 030
A Noah	3 196	1 091	1 337	–	94	5 718	(2 428)	1 717	5 007
MM Ntsokolo	3 663	1 346	1 532	–	199	6 740	(2 878)	1 974	5 836
EM Pule	3 150	1 105	937	–	284	5 476	(2 042)	1 492	4 926
	34 781	12 840	7 558	–	2 645	57 824	(20 398)	14 102	51 528

1. *Contribution from Eskom to EPPF of R30 million upon his exit from Eskom not included as the matter is subject to legal proceedings.*

Notes to the financial statements (continued)

for the year ended 31 March 2018

49. Directors' remuneration (continued)

49.1 Executive directors and group executives (continued)

Salaries

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

Short-term bonus

The short-term incentive bonus is paid after year end.

Attached to PS Hadebe's interim appointment were set performance conditions that if satisfactorily achieved would entitle him to a performance incentive, subject to the minister's approval. These conditions only vested after year end, however, PS Hadebe has since decided to forgo any payment in light of the group's current financial situation.

Long-term bonus

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

Awards vested

Name	Vested on 31 March 2018		Vested on 31 March 2017	
	Awarded shares	Payable R'000	Awarded shares	Paid R'000
T Govender	2 574 094	–	2 423 818	1 346
MM Koko	–	–	2 028 856	1 127
S Maritz	–	–	776 646	431
AA Masango	1 624 104	–	1 526 406	848
A Noah	2 556 648	–	2 407 391	1 337
MM Ntsokolo	2 930 405	–	2 759 328	1 532
EM Pule	1 791 402	–	1 686 820	937
	11 476 653	–	13 609 265	7 558

Performance awards awarded on 1 April 2015 vested on 31 March 2018 with a vesting rate over the three-year period of 38.73% payable at R1.26 per phantom share. The board applied its discretion and resolved that the awards vested at 0% due to the current financial constraints Eskom finds itself in.

Performance awards awarded on 1 April 2014 vested on 31 March 2017 with a vesting rate over the three-year period of 49.42% payable at R1.25 per phantom share. The board applied its discretion and reduced the vesting percentage to 44.42%.

Awards to vest

Name	To vest on 31 March 2020			To vest on 31 March 2019		
	Awarded Shares	Expected amount to settle R'000	Accrued liability R'000	Awarded Shares	Expected amount to settle R'000	Accrued liability R'000
T Govender	–	–	–	2 702 801	1 703	1 054
AA Masango	–	–	–	2 866 500	1 806	1 118
A Noah	–	–	–	2 684 480	1 691	1 047
MM Ntsokolo	–	–	–	3 076 945	1 938	1 200
EM Pule	–	–	–	2 646 000	1 667	1 032
	–	–	–	13 976 726	8 805	5 451

No performance awards were issued for the 1 April 2017 cycle (that would have vested on 31 March 2020) due to Eskom's current financial constraints.

Performance awards awarded on 1 April 2016 (vesting 31 March 2019) are currently estimated to vest at a vesting rate of 50% at R1.26 per share. The value of the performance awards allocated does not take into account the impact of performance conditions over the applicable three-year performance period.

	2018 R'000	2017 R'000
Long-term bonus provision movement reconciliation		
Balance at beginning of the year	26 348	14 380
Service cost accrued	6 040	17 654
Effect of changes in rates of vesting including board's discretionary adjustments	(6 630)	(958)
Forfeited	(12 749)	–
Settled	(7 558)	(4 728)
Balance at end of the year	5 451	26 348
Notice payment		
Notice payment was in terms of contractual agreement.	2 564	–
Other payments		
Other payments consist of accumulated leave paid out on resignation and fees related to telephone costs, security services and operating vehicle expenditure.	3 395	2 645
Housing loans		
C Cassim	2 955	–[1]
P Govender	–	3 741
AA Masango	495	511
EM Pule	–	84
HJ Steyn	1 565	–[1]
	5 015	4 336

The interest rate on the loans from EFC at 31 March 2018 was 8.50% (2017: 8.75%). The loans are repayable over a maximum period of 30 years. On resignation the terms and conditions applicable to ex-employees are applied.

49.2 Non executive directors

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

JA Mabuza (chairman)[2]	–	–
N Carrim	–	189
M Cassim	–	56
RDB Crompton	101	–
RSN Dabengwa	95	–
SD Dingaan	464	–
S Gounden	460	–
ZW Khoza	941	839
VJ Klein	120	872
R Kumalo	–	57
M Lamberti[3]	110	–
GM Leonardi	452	665
SN Mabaso-Koyana	115	–
C Mabude	232	918
NVB Magubane	95	–
MW Makgoba	233	–
BCE Makhubela	543	–
B Mavuso	112	–
JM Molisane[4]	–	–
PE Molokwane	640	–
TH Mongalo	196	–
DV Naidoo	–	194
P Naidoo	759	924
BS Ngubane[5]	257	1 253
MV Pamensky	–	472
JG Sebulela	101	–
	6 026	6 439

1. *Home loans for key management personnel are only disclosed for the periods when they were an executive director or group executive.*
2. *The chairman did not earn any director's fees for the 2018 financial year.*
3. *Fees earned repaid to Eskom on 16 April 2018.*
4. *JM Molisane is employed by DPE and does not get paid directors' fees by Eskom to attend meetings.*
5. *Includes R19 250 for out-of-pocket expenses reinbursed during the period 1 April 2016 to 31 January 2017.*

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 that have not been adopted early by the group. These standards and interpretations will be applied in the first year that they are applicable to Eskom.

Topic	Summary of requirements	Impact
IFRS 9 *Financial instruments* (1 January 2018)	IFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. This standard replaces IAS 39 *Financial instruments: recognition and measurement*	The group is in the process of implementing the requirements of IFRS 9. It has developed a detailed plan to assess the impact of IFRS 9
	Classification and measurement of financial assets IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 includes three principal classification categories for financial assets namely measured at amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale	The group made an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management
	Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated but instead the hybrid financial instrument is assessed for classification as a whole	Financial assets that are held-for-trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets
		In assessing whether the contractual cash flows are solely payments of principal and interest, the group considered the contractual terms of the instrument. This included assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition
		The group does not believe, based on the assessment of the classification and measurement of financial assets, that IFRS 9 will have a material impact on its financial trading assets, derivatives held for risk management, loans receivable, trade and other receivables, investment in debt securities and cash and cash equivalents
	Impairment of financial and contract assets IFRS 9 replaces the incurred loss model in IAS 39 with a forward looking expected credit loss (ECL) model for calculating impairment on financial assets. The ECL model will be determined on a probability weighted basis and will require considerable judgement as to how changes in economic factors affect ECL	The group has started defining the ECL model's approach and methodology. The group has performed an IFRS 9 ECL data readiness assessment and gap analysis to assess the implications of IFRS 9 on its trade receivable portfolios and finance lease receivables. It is considering conceptual modelling approaches per portfolio and is in the process of developing the ECL measurements
	The new impairment model will apply to financial assets measured at amortised cost or fair value through other comprehensive income, except for investments in equity instruments and contract assets	
	Loss allowances will be measured on one of the following bases: • 12-month ECL: ECL that result from possible default events within 12 months after the reporting date • lifetime ECL: ECL that result from all possible default events over the expected life of a financial instrument	Modelling elements will include the following for each portfolio: • provision matrix modelling, where applicable • probability of default, loss given default and expected amount at default models and benchmarks for corporate type portfolios • forward-looking economic scenarios

Topic	Summary of requirements	Impact
IFRS 9 *Financial instruments* (1 January 2018) (continued)	Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition while the 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has a low credit risk at the reporting date	The group is considering applying the policy choice that allows for lifetime ECL measurement to always apply for trade receivables and contract assets without a significant financing component The group will quantify the impact of the IFRS 9 impairment when the ECL model is finalised
	Classification of financial liabilities IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities	The group has not designated any financial liabilities at FVTPL and it has no intention to do so currently
	All fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss under IAS 39, whereas under IFRS 9 these fair value changes are generally presented as follows: • the change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income • the remaining change in the fair value is presented in profit or loss	The classification of financial liabilities is not expected to change. The group will however perform an assessment to determine measurement impacts relating to Eskom bonds designated as FVTPL as subsequent measurement adjustments may require a split between profit or loss and other comprehensive income based on the impact of own credit risk
	Hedge accounting The group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of those in IFRS 9 when initially applying IFRS 9	The group is assessing the potential impact of the IFRS 9 hedge accounting requirements on its current hedging strategies under IAS 39 to be able to identify: • differences between current hedge accounting documentation and those required under IFRS 9 • differences between current hedging strategies and the related current accounting treatment and what is allowed under IFRS 9 • differences in the approach to calculating hedge effectiveness under IFRS 9 as applicable to the group's exiting hedge strategies • potential alternative hedging strategies • whether any additional risk management strategies will qualify for hedge accounting
	IFRS 9 requires the group to ensure that hedge accounting relationships are aligned with the group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness	
	IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. It is possible that more risk management strategies will qualify for hedge accounting under the new model	If the group decides to adopt the IFRS 9 general hedging model, all hedges from a qualitative and quantitative point of view will be assessed to ensure that the hedge accounting relationships are aligned with the group's risk management objectives and strategy. Hedge documentation will also be updated to take into account the changes brought about by IFRS 9
	IFRS 9 also contains new requirements for accounting for certain costs of hedging that were not included in IAS 39. These include the costs of the time value of purchased options, the forward element of forward contracts and foreign currency basis spreads	The group currently separates the forward element for forward exchange contracts relating to cash flow hedges. Forward elements relating to forward exchange contracts which are not part of a cash flow hedge need to be assessed as a cost of hedging as currently these are not presented separately The group will quantify the impact of applying IFRS 9 hedging when the hedging requirements are finalised

50. New standards and interpretations (continued)

50.1 Standards, interpretations and amendments to published standards that are not yet effective (continued)

Topic	Summary of requirements	Impact
IFRS 9 *Financial instruments* (1 January 2018) (continued)	Disclosure IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECL	The group will do an analysis to identify data gaps against current processes and will determine whether any updates are required to systems and controls that are necessary to capture the required data
	Transition Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below	The group will assess the implications of the various transition options on its financial statements
	IFRS 9 includes an exemption from the requirement to restate comparative information for prior periods with respect to classification and measurement including impairment changes The hedge accounting requirements in IFRS 9 are generally applied prospectively, with limited exceptions. In particular, comparative information may need to be restated for the cost of hedge accounting that is applied retrospectively	The group will determine, based on the outcomes of the classification assessment of financial instruments, impact assessment on hedge accounting and the ECL model developed, which transition option to apply
IFRS 15 *Revenue from contracts with customers* (1 January 2018)	IFRS 15 establishes a comprehensive framework for determining whether, when and how much of revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue* and IAS 11 *Construction contracts* and their related interpretations IFRS 15 provides a single control-based revenue recognition model and clarifies the principles for recognising revenue from contracts with customers. The core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers	The group is in the final stages of implementing the requirements of IFRS 15 The group has identified its key performance obligations to be the sale of electricity, upfront connection charges, transportation of third-party energy over the Eskom network and services relating to recoverable work and other ad hoc services It has been decided, after careful consideration of the impact that the adoption of IFRS 15 would have on the current revenue recognition pattern of the group, that IFRS 15 will be adopted using the full retrospective approach making use of the practical expedient for completed contracts. It is expected that there will be no material impact on retained earnings because of the use of the practical expedient as there were not any open contracts at 1 April 2017 The amount of revenue recognised for the 2018 financial year will however be restated in the 2019 financial year because of the following significant changes to the revenue recognition of the group: Collectability recognition criterion The group will apply the collectability recognition criteria in IFRS 15 to all contracts entered into after 1 April 2017 The group will identify all customers with a low net payment history and where there is evidence of continued supply of electricity due to socio-economic pressure. Where both of these factors are present, the group will conclude that these contracts fail the collectability criterion and that the general revenue recognition model in IFRS 15 will not apply. Revenue for these contracts will be accounted for on a cash basis. This is not expected to change the revenue recognised in the current financial year materially as Eskom applied a policy of not recognising revenue for electricity sales to these customers that would be accounted for on a cash basis in terms of IFRS 15
IFRS 15 *Revenue from contracts with customers* (1 January 2018) (continued)	The IFRS 15 transitional provisions allows for full retrospective implementation (with practical expedients) as well as a modified retrospective approach	Accounting for capital contributions The group recognised upfront connection charges received from customers in cash or non-cash consideration after 30 June 2009 in profit or loss upon receipt. The connection charges represent a material right in terms of IFRS 15 through an upfront payment over the expected customer relationship period. The connection charges will be amortised in terms of IFRS 15 over the expected customer relationship period. This will reduce the revenue recognised in the 2018 financial year for contracts entered into after 1 April 2017 The group is in the process of quantifying the exact impact of the above changes
Amendments to IFRS 4 Applying IFRS 9 with IFRS 4 *Insurance contracts* (1 January 2018)	This amendment provides for a temporary exemption from IFRS 9 for a reporting company with predominantly insurance activities as the different effective dates of IFRS 9 and the new insurance contracts standard could have a significant impact on insurers	Impact not material. The group will not be making use of the temporary exemption for its insurance subsidiary as IFRS 9 will be implemented fully
IFRIC 22 *Foreign currency transactions and advance consideration* (1 January 2018)	IFRIC 22 clarifies that the transaction date for the purpose of determining the exchange rate to be used on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity can apply this interpretation either retrospectively or prospectively on initial application	Impact not material. Eskom will apply this interpretation prospectively from 1 April 2018
IFRIC 23 *Uncertainty over income tax treatments* (1 January 2018)	IFRIC 23 clarifies that where it is unclear how tax law applies to a particular transaction or circumstance, an entity will have to assess whether it is probable that the tax authority will accept the entity's chosen tax treatment. Where it is probable that the tax authority may not accept the chosen tax treatment, disclosure about judgements made, assumptions and other estimates used; and the potential impact of uncertainties that are not reflected may be required. The interpretation also requires the entity to reassess the judgements and estimates applied if the facts and circumstances change	The group is evaluating the detailed requirements of the standard to assess the impact on the financial statements
IFRS 16 *Leases* (1 January 2019)	IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an arrangement contains a lease*, SIC-15 *Operating leases – incentives* and SIC-27 *Evaluating the substance of transactions involving the legal form of a lease*	The group is currently in the process of evaluating the detailed requirements of the standard to assess the impact on the financial statements

50. New standards and interpretations (continued)

50.1 Standards, interpretations and amendments to published standards that are not yet effective (continued)

Topic	Summary of requirements	Impact
IFRS 16 *Leases* (1 January 2019) (continued)	**Lessee accounting** IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 *Statement of cash flows* Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease Lessees will need to apply judgement in deciding on the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee IFRS 16 can be applied using either a retrospective approach or a modified retrospective approach with optional practical expedients for lessees. The lessee will have to apply any elections consistently to all of its leases When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition **Lessor accounting** IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating or finance leases, and to account for those two types of leases differently IFRS 16 also requires enhanced disclosures to be provided about a lessor's risk exposure, particularly to residual value risk	
Annual improvements 2017 (1 January 2019)	The annual improvements deal with additional guidance for applying the acquisition method to particular types of business combinations (IFRS 3 *Business combinations*), accounting for acquisitions of interests in joint operations (IFRS 11 *Joint arrangements*), income tax consequences of payments on financial instruments classified as equity (IAS 12 *Income taxes*), and borrowing costs eligible for capitalisation (IAS 23 *Borrowing costs*)	The group is currently in the process of evaluating the detailed requirements of the improvements to assess the impact on the financial statements

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, interpretations and amendments to existing standards for the first time for the financial year ended 31 March 2018. The nature and effect of the changes are as follows:

Topic	Summary of requirements	Impact
Amendments to IAS 7 *Disclosure initiative* (1 January 2017)	The amendments introduce new disclosure for changes in liabilities arising from financing activities, by providing a reconciliation between the opening and closing balances	Impact not material. Net debt reconciliation has already been presented previously
Amendments to IAS 12 *Recognition of deferred tax assets for unrealised losses* (1 January 2017)	The amendments clarify the requirements for recognition of deferred tax assets arising from unrealised losses on debt instruments measured at fair value	Impact not material. Deferred tax assets have already been accounted for in line with the amendment
Annual improvements 2016 (1 January 2017)	This amendment clarifies that disclosure requirements for interests in other entities also apply to interests that are classified as held-for-sale or distribution	Impact not material. The group has been disclosing for entities held-for-sale in accordance with this clarification in the past

51. Information required by the Public Finance Management Act

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

51.1 Irregular expenditure

Irregular expenditure is defined as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation. The scope is very broad as it includes all transgressions of any laws and regulations as well as internal policies and procedures regardless of whether the breaches were deliberate or accidental, or if they happened unknowingly or in good faith, or if value was received or not.

It is irrelevant whether or not the expenditure was justified from a business perspective. If there was a contravention of any law and regulation when the expenditure was incurred, the non-compliance has to be reported as irregular expenditure. The fact that irregular expenditure was reported does not imply that the expenditure was not authorised, that it was fruitless and wasteful expenditure or that the group did not attain value from the transaction.

Condonation of the irregular expenditure is obtained from the relevant internal governance structure, government department or National Treasury.

Notes to the financial statements (continued)

for the year ended 31 March 2018

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

51.1 Irregular expenditure (continued)

	Note	Balance at beginning of the year Rm	Expenditure Rm	Condoned Rm	Derecognised[1] Rm	Balance at end of the year Rm
2018						
Group						
PFMA		2 312	12 005	(15)	–	14 302
Use of sole source	(a)	27	4 882	–	–	4 909
Tender processes not adhered to	(b)	207	249	–	–	456
Incorrect classification as emergency procurement	(c)	8	354	(15)	–	347
Tender process not followed and insufficient delegation of authority	(d)	2 070	–	–	–	2 070
Modifications exceeding allowed amounts	(e)	–	6 520	–	–	6 520
PPPFA		118	4 724	(737)	–	4 105
Incorrect tender process applied	(f)	82	1 556	(737)	–	901
Tax clearance certificates	(g)	36	3 168	–	–	3 204
CIDB regulations						
Contracts awarded without following CIDB requirements	(h)	2	592	–	–	594
National Treasury instructions						
Contracts not in accordance with National Treasury guidelines	(i)	–	1 398	–	–	1 398
Internal processes and rules						
Commitments made before approval	(j)	53	721	(629)	–	145
Various commercial requirements						
Breach of more than one commercial requirement	(k)	–	161	–	–	161
Other		–	8	–	–	8
		2 485	19 609	(1 381)	–	20 713
Company						
PFMA		2 308	7 030	(4)	–	9 334
Use of sole source	(a)	27	220	–	–	247
Tender processes not adhered to	(b)	207	104	–	–	311
Incorrect classification as emergency procurement	(c)	4	203	(4)	–	203
Tender process not followed and insufficient delegation of authority	(d)	2 070	–	–	–	2 070
Modifications exceeding allowed amounts	(e)	–	6 503	–	–	6 503
PPPFA		118	3 849	(594)	–	3 373
Incorrect tender process applied	(f)	82	1 109	(594)	–	597
Tax clearance certificates	(g)	36	2 740	–	–	2 776
CIDB regulations						
Contracts awarded without following CIDB requirements	(h)	2	589	–	–	591
National Treasury instructions						
Contracts not in accordance with National Treasury guidelines	(i)	–	1 398	–	–	1 398
Internal processes and rules						
Commitments made before approval	(j)	53	352	(294)	–	111
Various commercial requirements						
Breach of more than one commercial requirement	(k)	–	41	–	–	41
Other		–	8	–	–	8
		2 481	13 267	(892)	–	14 856

1. *Refers to irregular expenditure that is not recoverable and was not condoned in terms of the PFMA.*

	Note	Balance at beginning of the year Rm	Expenditure Rm	Condoned Rm	Derecognised[1] Rm	Balance at end of the year Rm
2017						
Group						
PFMA		324	2 402	(104)	(310)	2 312
Use of labour broker		10	–	(10)	–	–
B2B engineering tools		310	–	–	(310)	–
Use of sole source	(a)	–	27[2]	–	–	27
Tender processes not adhered to	(b)	–	207[2]	–	–	207
Incorrect classification as emergency procurement	(c)	4	98[2]	(94)[2]	–	8
Tender process not followed and insufficient delegation of authority	(d)	–	2 070[2]	–	–	2 070
PPPFA		11	108	–	(1)	118
Incorrect tender process applied	(f)	11	72[2]	–[2]	(1)	82
Tax clearance certificates	(g)	–	36[2]	–[2]	–	36
NEMA						
Premature construction commencement		7	–	(7)	–	–
CIDB regulations						
Contracts awarded without following CIDB requirements	(h)	–	91[2]	(89)	–	2
Internal processes and rules						
Commitments made before approval	(j)	1	448[2]	(396)[2]	–	53
Other		5	–	(5)	–	–
		348	3 049	(601)	(311)	2 485
Company						
PFMA		314	2 304	–	(310)	2 308
B2B engineering tools		310	–	–	(310)	–
Use of sole source	(a)	–	27[2]	–	–	27
Tender processes not adhered to	(b)	–	207[2]	–	–	207
Incorrect classification as emergency procurement	(c)	4	–	–	–	4
Tender process not followed and insufficient delegation of authority	(d)	–	2 070[2]	–	–	2 070
PPPFA		11	108	–	(1)	118
Incorrect tender process applied	(f)	11	72[2]	–[2]	(1)	82
Tax clearance certificates	(g)	–	36[2]	–[2]	–	36
NEMA						
Premature construction commencement		7	–	(7)	–	–
CIDB regulations						
Contracts awarded without following CIDB requirements	(h)	–	91[2]	(89)	–	2
Internal processes and rules						
Commitments made before approval	(j)	1	241[2]	(189)[2]	–	53
Other		5	–	(5)	–	–
		338	2 744	(290)	(311)	2 481

1. *Refers to irregular expenditure that is not recoverable and was not condoned in terms of the PFMA.*
2. *Prior period corrected.*

Notes to the financial statements (continued)

for the year ended 31 March 2018

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

51.1 Irregular expenditure (continued)

Expenditure analysis

	Note	2018 Current year Rm	2018 Prior years Rm	2018 Total Rm	2017 Total Rm
Group					
PFMA		9 544	2 461	12 005	2 402
Use of sole source	(a)	2 600	2 282	4 882	27
Tender processes not adhered to	(b)	170	79	249	207
Incorrect classification as emergency procurement	(c)	263	91	354	98
Tender process not followed and insufficient delegation of authority	(d)	–	–	–	2 070
Modifications exceeding allowed amounts	(e)	6 511	9	6 520	–
PPPFA		1 529	3 195	4 724	108
Incorrect tender process applied	(f)	12	1 544	1 556	72
Tax clearance certificates	(g)	1 517	1 651	3 168	36
CIDB regulations					
Contracts awarded without following CIDB requirements	(h)	373	219	592	91
National Treasury instructions					
Contracts not in accordance with National Treasury guidelines	(i)	–	1 398	1 398	–
Internal processes and rules					
Commitments made before approval	(j)	477	244	721	448
Various commercial requirements					
Breach of more than one commercial requirement	(k)	118	43	161	–
Other		8	–	8	–
		12 049	7 560	19 609	3 049
Company					
PFMA		6 784	246	7 030	2 304
Use of sole source	(a)	58	162	220	27
Tender processes not adhered to	(b)	31	73	104	207
Incorrect classification as emergency procurement	(c)	192	11	203	–
Tender process not followed and insufficient delegation of authority	(d)	–	–	–	2 070
Modifications exceeding allowed amounts	(e)	6 503	–	6 503	–
PPPFA		1 430	2 419	3 849	108
Incorrect tender process applied	(f)	2	1 107	1 109	72
Tax clearance certificates	(g)	1 428	1 312	2 740	36
CIDB regulations					
Contracts awarded without following CIDB requirements	(h)	373	216	589	91
National Treasury instructions					
Contracts not in accordance with National Treasury guidelines	(i)	–	1 398	1 398	–
Internal processes and rules					
Commitments made before approval	(j)	207	145	352	241
Various commercial requirements					
Breach of more than one commercial requirement	(k)	18	23	41	–
Other		8	–	8	–
		8 820	4 447	13 267	2 744

(a) **Use of sole source**

Irregular expenditure was incurred on contracts that were incorrectly classified as a sole source rather than on a single source basis or an open tender process should have been followed. Internal processes have been enhanced and all sole source requests need to be approved by the relevant group executives. The revised overarching procedure was improved to reflect alignment to the National Treasury requirements on sole and single source requests.

The clean-up of the full population of sole and single source requests at transaction level is part of the second phase of the recovery programme. Condonation of single source procurement transactions will be submitted to National Treasury.

(b) **Tender processes not adhered to**

Contracts were awarded without following the approved internal tender processes. All transgressions identified are being investigated and the group is in the process of obtaining relevant condonation.

Various initiatives were implemented to address the shortcomings including:

- the importance of adherence to the supply chain policies and procedure was reinforced
- updated guidelines and checklists were communicated to employees
- awareness roadshows for the sourcing teams were conducted
- document management and compliance is a key deliverable of an individual performance measurement
- dedicated function established to monitor and ensure compliance
- system improvements that allow for enhanced contract workflow approval and tagging of emergency transactions that allow for better monitoring
- a new document management system (open text) is being implemented that creates easy access to all supporting contract documentation

One-on-one meetings were held with defaulting procurement practitioners with signed acknowledgement of the engagement. Where appropriate, disciplinary action was instituted.

(c) **Incorrect classification as emergency procurement**

Irregular expenditure was incurred where emergency purchases did not meet the National Treasury requirements for emergency procurement. The group is engaging with National Treasury to confirm the threshold level of emergency procurement transgressions that have to be condoned by National Treasury.

Identified weaknesses were addressed by raising the approval level for emergency procurement to group executive level. This resulted in a significant reduction in the number of emergency procurement transactions since October 2017. Appropriate action is taken against implicated individuals as investigations are completed.

(d) **Tender process not followed and insufficient delegation of authority**

Irregular expenditure was reported previously because contracts were placed without proper delegation of authority or not following the correct procurement processes in the quality management department. The total irregular expenditure incurred was independently confirmed to be R2 070 million and fruitless and wasteful expenditure was R510 million.

Disciplinary action has been instituted against another two employees and action against other employees involved are being evaluated. Eskom is still engaged in civil action including arbitration with one of the main suppliers. An application has been made to National Treasury to permit the removal of this issue from the irregular expenditure balance.

(e) **Modifications exceeding allowed amounts**

National Treasury issued an instruction effective 1 May 2016 that approval is required where modifications to original contract values are more than 20% or R20 million for construction-related goods, works or services and 15% or R15 million for all other goods or services.

Eskom sought guidance when the instruction was issued as to whether the lesser of or greater of the two thresholds (percentage (20% / 15%) or rand value (R20 million / R15 million)) for contract variation should be applied to determine when approval from National Treasury should be obtained. It was only clarified that Eskom's interpretation and implementation of the instruction was incorrect at a meeting held on 29 May 2018.

Eskom identified all modifications since 1 May 2016 that should have obtained National Treasury approval based on the percentage or value threshold interpretation. The number reported as irregular expenditure is in the process of being verified. It has not been split between the current and the prior year and could be overstated. Eskom will submit a request for condonation to National Treasury after review by Eskom's adjudication authority.

Appropriate consequence management will be taken in cases where Eskom's interpretation of the percentage and value threshold were not correctly applied. Eskom issued a revised instruction on 6 June 2018 communicating the change to the percentage or value threshold interpretation to ensure that there is full compliance to this requirement going forward.

(f) **Incorrect tender process applied**

The Preferential Procurement Policy Framework Act (PPPFA) requires that monetary thresholds for determining the appropriate bidding process applicable to specific transactions must be inclusive of VAT. Eskom incorrectly applied the thresholds exclusive of VAT and as a result certain procurement was done using the incorrect bidding process. Approval has been received from National Treasury on a bulk condonation submission for the 2016 and 2017 financial years. A further submission going back to inception of the legislation from December 2012 will be submitted to National Treasury for approval.

The group's procurement procedure has been amended to specify that contracts should be evaluated on a VAT inclusive basis. Awareness sessions and training has been provided to relevant employees. No disciplinary action was taken against employees as this non-compliance resulted from a shortcoming in the procurement processes.

Notes to the financial statements (continued)

for the year ended 31 March 2018

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

51.1 Irregular expenditure (continued)

(g) Tax clearance certificates

The PPPFA regulations require that tenders may only be awarded to a person whose tax matters have been declared to be in order by the South African Revenue Service (SARS). There was uncertainty on how this was to be applied for transactions with foreign suppliers and, as a result, the appropriate tax clearance was not always received. The uncertainty was subsequently clarified by SARS and they created a mechanism whereby a supplier's tax status can be confirmed.

An application for condonation has been made to National Treasury for transgressions in the 2016 and 2017 financial years. All transgressions from December 2012 are being reviewed and will be submitted for condonation to National Treasury.

No disciplinary action was taken against employees as this non-compliance resulted from a clarification issue in the procurement process. Disciplinary action is instituted as appropriate for non-process related incidents.

(h) Contracts awarded without following CIDB requirements

Irregular expenditure was incurred as the CIDB regulation regarding the grading of contractors based on the contract value was not adhered to. Application for condonation will be made to National Treasury including evidence of relevant consequence management against implicated individuals.

(i) Contracts not in accordance with National Treasury guidelines

Eskom entered into consulting contracts on a risk-based remuneration model without obtaining approval from National Treasury before concluding the contracts. One contract was subsequently terminated and the supplier and subcontractor were paid a settlement of R1 398 million. Eskom is pursuing recovery of the monies paid and a review application has been made to the court. Disciplinary action was instituted against the employees involved and they subsequently resigned. Criminal charges have been laid against the implicated individuals. The matter is being investigated by the Directorate for Priority Crime Investigation (hawks). Investigation into the other identified risk-based remuneration contracts is under way.

The National Treasury guidelines on risk-based contracts is enforced. No risk-based contracts are allowed.

(j) Commitments made before approval

Irregular expenditure was incurred as a result of non-adherence to internal procurement processes and employees contravening the Eskom Delegation of Authority. These matters are being dealt with on an individual basis and relevant corrective action is being implemented.

(k) Breach of more than one commercial requirement

Investigations identified transgressions of more than one legislative requirement and Eskom procurement policy and procedure as detailed above. Condonation will be requested from National Treasury, where applicable, and improvements made to processes to address each of the breaches.

51.2 Fruitless and wasteful expenditure

	Note	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Major incidents above the materiality threshold (R25 million)		60	510	–	510
Dedisa Grassridge 400kV line project	(a)	60	–	–	–
Quality management department	51.1 (d)	–	510	–	510
Incidents below the materiality threshold (R25 million)	(b)	83	37	56	25
Project management		44	12	20	6
Contract management		8	3	7	3
Non-adherence to procedures		13	4	13	1
Other		18	18	16	15
		143	547	56	535

(a) Line project

Eskom failed to meet the contractual key dates on a 400kV line project due to poor contract management and, as a result, R5 million in penalties and budget overruns of R55 million were incurred. The project manager was suspended and subsequently resigned. The potential for a civil claim against the employee is being assessed. Management is in the process of recruiting appropriate personnel and rolling out contract management training to relevant employees.

(b) Incidents of fruitless and wasteful expenditure below the materiality threshold

There were 241 (2017: 210) incidents of fruitless and wasteful expenditure which were individually or collectively (where items are closely related) below the materiality threshold. Management continues to institute preventive and corrective measures, including disciplinary action, as considered appropriate. Funds are also recovered as relevant based on the outcome of the disciplinary hearings.

51.3 Criminal conduct

	Note	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Theft of conductors, cabling and related equipment	(a)	46	70	46	67
Fraud	(b)	49	24	45	24
Estimated non-technical revenue losses	(c)	1 390	1 300	1 390	1 300
		1 485	1 394	1 481	1 391

(a) Theft of conductors, cabling and related equipment

There were 5 152 (2017: 5 734) incidents relating to theft of conductor, cabling and related equipment during the year. Actions to combat these losses are managed by the Eskom Network Equipment Crime Committee in collaboration with other affected state-owned companies and the South African Police Service. The combined effort resulted in 216 (2017: 235) arrests and R3 million (2017: R5 million) worth of stolen material was recovered.

(b) Fraud

Eskom concluded 37 (2017: 15) investigations into fraud during the year. The internal control measures in the affected and similar areas have been reviewed and enhanced. Disciplinary, criminal and civil proceedings have been instituted against those involved.

(c) Estimated non-technical revenue losses

Non-technical losses arise mainly from meter tampering and bypasses, illegal connections to the electricity network and illegal vending of electricity.

Interventions to reduce non-technical energy losses include:

- implementation of smart/split meter technologies with protective enclosures to prevent access to the meters
- disconnection of illegal connections and tampered meter installations with charging of penalties (tamper fines)
- estimation and recovery of revenue for historic unaccounted energy where tampered metering installations were encountered
- revision of supply group codes on prepaid meters to prevent the use of illegal prepaid vouchers
- investigation and prosecution of criminals perpetrating electricity theft through the sale of illegal prepaid vouchers, illegal electrification and meter tampering services
- customer education, social mobilisation and partnership campaigns to change behaviour

51.4 Matters under investigation

The matters that were reported as being under investigation in the previous year have been dealt with and any relevant irregular and/or fruitless and wasteful expenditure identified was reported in the current year.

The following matters are in the process of being investigated and relevant disclosure will be made in a subsequent period should any losses or expenditure incurred prove to be irregular, fruitless and wasteful or due to criminal conduct:

- non-declaration of interests by employees and tenderers (risk of undue influence)
- procurement of services through panels
- irregularities in procurement and execution of coal contracts
- allegations of impropriety against senior officials
- Eskom appealed against the imposition of penalties and interest by SARS regarding certain VAT returns
- modifications since 1 May 2016 that should have obtained National Treasury approval based on the percentage or value threshold interpretation

There are incidents of alleged fruitless and wasteful expenditure that are currently under investigation. None of these matters are expected to exceed the materiality threshold of R25 million. Many of these occurrences may not qualify as fruitless and wasteful expenditure upon conclusion of the investigations.

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 R393 billion (2017: R554 billion). This shortfall is expected to be eliminated once the electricity price determined in terms of the regulatory methodology, which is based on the depreciated replacement values, is fully phased in by NERSA.

	2018			2017		
	Historical cost Rm	Adjustments Rm	After revaluation Rm	Historical cost Rm	Adjustments Rm	After revaluation Rm
Summarised group statements of financial position						
Assets						
Property, plant and equipment	630 648	232 435	863 083	588 867	76 747	665 614
Other assets	108 468	–	108 468	121 142	–	121 142
	739 116	232 435	971 551	710 009	76 747	786 756
Equity and liabilities						
Total equity	170 336	167 353	337 689	175 942	55 258	231 200
Deferred tax	15 846	65 082	80 928	18 067	21 489	39 556
Other liabilities	552 934	–	552 934	516 000	–	516 000
	739 116	232 435	971 551	710 009	76 747	786 756
Summarised group income statements						
Profit before depreciation and amortisation expense, net impairment loss and other expenses	62 365	–	62 365	61 040	–	61 040
Depreciation and amortisation expense	(23 132)	(4 033)	(27 165)	(20 300)	(7 250)	(27 550)
Net impairment loss	(553)	19	(534)	(1 669)	484	(1 185)
Other expenses	(18 228)	(219)	(18 447)	(23 570)	(85)	(23 655)
Profit/(loss) before net finance cost	20 452	(4 233)	16 219	15 501	(6 851)	8 650
Net finance cost	(23 089)	(15 547)	(38 636)	(14 377)	(18 233)	(32 610)
Share of profit of equity-accounted investees, net of tax	34	–	34	35	–	35
(Loss)/profit before tax	(2 603)	(19 780)	(22 383)	1 159	(25 084)	(23 925)
Income tax	266	5 539	5 805	(271)	7 024	6 753
(Loss)/profit for the year	(2 337)	(14 241)	(16 578)	888	(18 060)	(17 172)
Summarised group statements of comprehensive income						
(Loss)/profit for the year	(2 337)	(14 241)	(16 578)	888	(18 060)	(17 172)
Other comprehensive (loss)/income	(3 269)	126 336	123 067	(7 298)	22 097	14 799
Revaluation reserve raised/(reversed)	–	175 467	175 467	–	30 690	30 690
Other items of other comprehensive loss	(4 532)	–	(4 532)	(10 119)	–	(10 119)
Income tax thereon	1 263	(49 131)	(47 868)	2 821	(8 593)	(5 772)
Total comprehensive (loss)/income for the year	(5 606)	112 095	106 489	(6 410)	4 037	(2 373)

Appendix – Acronyms, abbreviations and definitions

Accounting, audit and other financial terms

DRC	Depreciated Replacement Cost
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
ECL	Expected Credit Loss
FFO	Free Funds from Operations
FVTPL	Fair Value Through Profit or Loss
IAS	International Accounting Standard/(s)
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard/(s)
ISA	International Standards of Auditing
JSE	Johannesburg Stock Exchange
LIFO	Last-In-First-Out
PPI	Producer Price Index
R	Rand
Rm	Rand millions
SIC	Standing Interpretations Committee of the International Accounting Standards Committee
VAT	Value Added Tax

Currencies

AUD	Australian Dollar
CAD	Canadian Dollar
CHF	Swiss Franc
EUR	Euro
GBP	Pound Sterling (United Kingdom)
JPY	Japanese Yen
NOK	Norwegian Krone
SEK	Swedish Krona
USD	United States Dollar
ZAR	South African Rand

Entities

company	Eskom Holdings SOC Ltd
EFC	Eskom Finance Company SOC Ltd
EPPF	Eskom Pension and Provident Fund
Escap	Escap SOC Ltd
Eskom	Eskom Holdings SOC Ltd
Eskom Uganda	Eskom Uganda Ltd
group	Eskom Holdings SOC Ltd and its subsidiaries
Motraco	Mozambique Transmission Company SARL
Nqaba	Nqaba Finance 1 (RF) Ltd
UEGCL	Uganda Electricity Generation Company Ltd
UETCL	Uganda Electricity Transmission Company Ltd

Legislation

Companies Act	Companies Act, No. 71 of 2008
NEMA	National Environmental Management Act, No. 107 of 1998
PAA	Public Audit Act, No. 25 of 2004
PFMA	Public Finance Management Act, No. 1 of 1999
PPPFA	Preferential Procurement Policy Framework Act, No. 5 of 2000

Appendix – Acronyms, abbreviations and definitions (continued)

Measures

GWh	Gigawatt hour
kg	Kilogram
km	Kilometre
kVA	kiloVolt-Ampere
kWh	Kilowatt hour
kWhSO	Kilowatt hour Sent Out
ℓ	Litre
Mt	Million tons
MVA	Mega volt ampere
MW	Megawatt
MWh	Megawatt hour
MWhSO	Megawatt hour Sent Out

Other

Alco	Asset and Liability Committee
ARC	Audit and Risk Committee
Board	Board of directors
B-BBEE	Broad-Based Black Economic Empowerment
CA(SA)	Chartered Accountant of South Africa
CFO	Chief Financial Officer
CIDB	Construction Industry Development Board
CIO	Chief Information officer
COO	Chief Operating Officer
DPE	Department of Public Enterprises
Exco	Executive Management Committee
GCE	Group Chief Executive
GE	Group Executive
IPP	Independent Power Producer
MYPD	Multi-Year Price Determination
NCD	Negotiable Certificates of Deposit
NERSA	National Energy Regulator of South Africa
RCA	Regulatory Clearing Account
SADC	Southern African Development Community
SAPS	South African Police Service
SARB	South African Reserve Bank
SARS	South African Revenue Services
TASK	Tuned Assessment of Skills and Knowledge
TMPS	Total Measured Procurement Spend

Definitions

Cash interest cover ratio	Net cash flows from operating activities divided by the aggregate of interest paid and received from financing activities
EBITDA	Revenue plus other income minus primary energy, employee benefit expense, net impairment loss and other expenses
EBITDA margin	EBITDA divided by revenue
Free funds from operations	Net cash flows from operating activities minus cash flows from changes in working capital
Liquid assets	Investment in securities (investing portfolio) plus cash and cash equivalents
Net debt	Debt securities and borrowings plus finance lease payables minus investment in securities (investing portfolio) minus financial trading assets (market-making portfolio) plus financial trading liabilities (market-making portfolio) plus derivative liabilities held for risk management (used to hedge other items of net debt) minus derivative assets held for risk management (used to hedge other items of net debt) minus payments made in advance (used to secure borrowings raised) minus cash and cash equivalents
Net debt service cover ratio	Net cash flows from operating activities divided by the aggregate of debt repaid and interest paid and received from financing activities
Net profit margin	Net profit divided by revenue
Working capital current assets	Inventories plus payments made in advance (current) plus trade and other receivables (current) plus taxation asset
Working capital current liabilities	Trade and other payables (current) plus payments received in advance (current) plus provisions (current) plus employee benefit obligations (current) plus taxation liability
Working capital ratio	Working capital current assets divided by working capital current liabilities

Refer to the integrated report on page 127 for definitions relating to the shareholder compact key performance indicators.

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