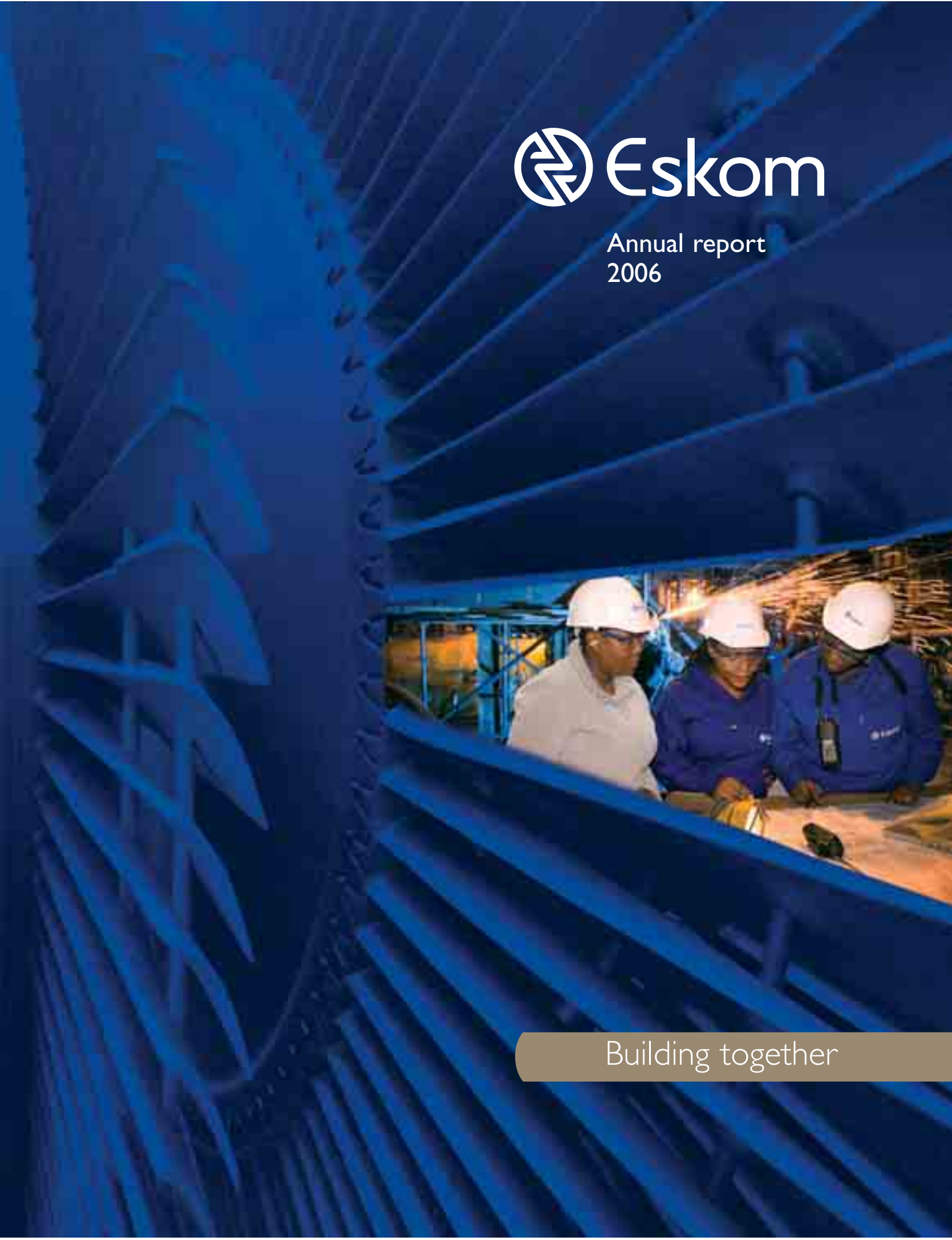
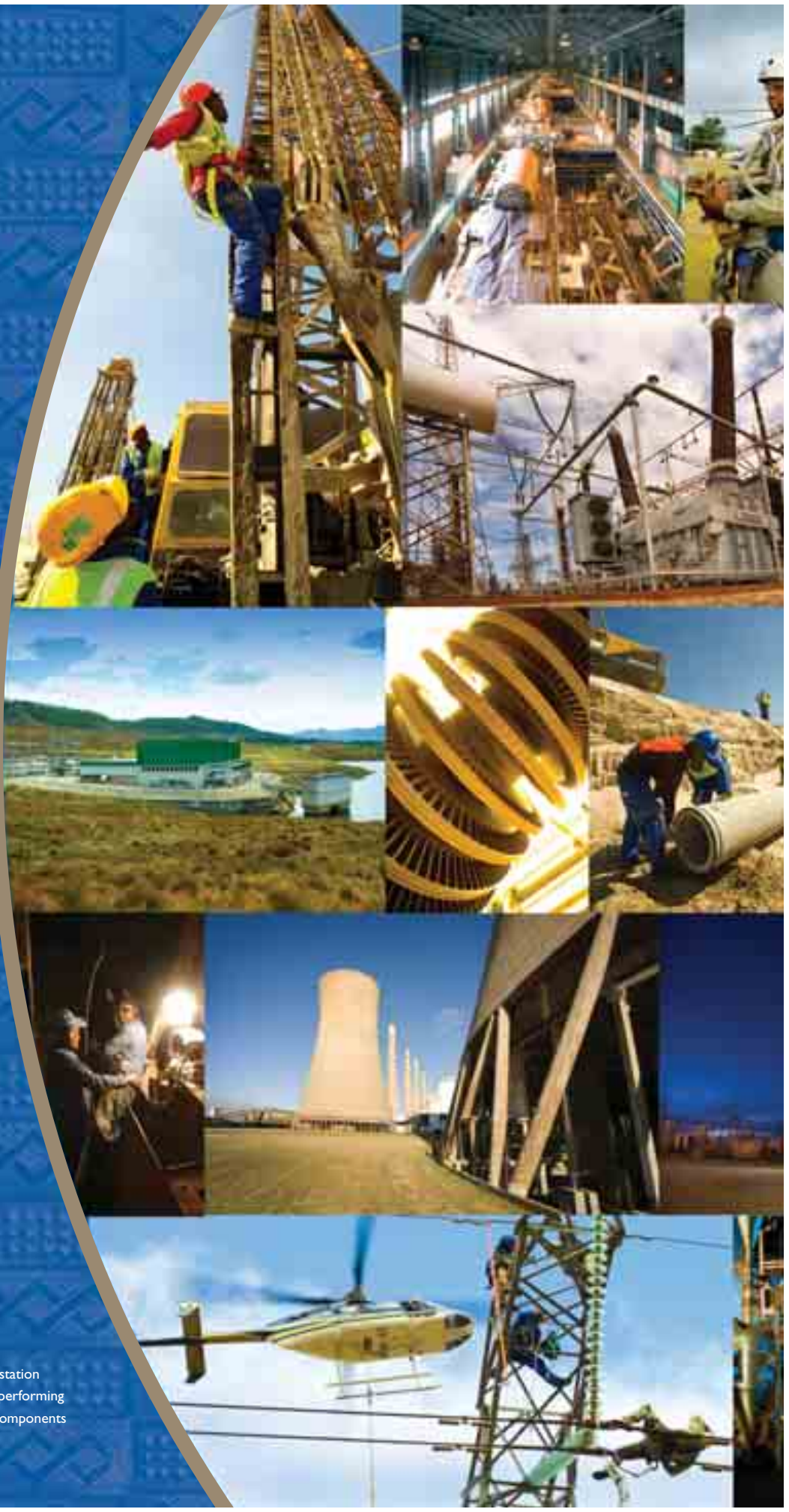


Eskom

Annual report 2006

Building together

CONTENTS



Cover

Background photograph: Rotor at Camden power station
Main photograph: Members of the Camden team performing quality control on refurbished components

Vision

Together building the powerbase for sustainable growth and development

Profile

Routine maintenance at Palmiet pumped storage scheme

Scope of report

This annual report, which covers the 12-month period from 1 April 2005 to 31 March 2006, is an integrated sustainability report based on a balance of economic, environmental, social and technical performance.

Comparative information reflects the 15-month period from 1 January 2004 to 31 March 2005 as Eskom changed its financial year end from December to March at the request of its shareholder. This makes comparability of results difficult. Where possible and practical, performance information for the 12-month comparable period ended 31 March 2004 or the 12 months ended 31 March 2005 has been included to enable meaningful comparisons with a similar period.

Eskom is committed to aligning itself with international sustainability reporting initiatives. This annual report with additional sustainability information, where appropriate, is available on the Eskom website. Reference has been made in the report wherever additional information appears in the web-based report. The internet report is available at www.eskom.co.za/annreport06

Nature of business, major products and services

Eskom is a vertically integrated operation that generates, transmits and distributes electricity to industrial, mining, commercial, agricultural, redistributors and residential customers, as well as the purchase and sale of electricity from and to Southern African Development Community (SADC) countries.

Eskom is regulated under licences granted by the National Electricity Regulator (NER)[1] in terms of the Electricity Act, 41 of 1987 and the National Nuclear Regulator in terms of the National Nuclear Regulatory Act, 47 of 1999.

Through its subsidiary Eskom Enterprises (Pty) Limited, Eskom also undertakes non-regulated activities related to the energy and electricity supply industry, including the provision of electricity-related services to African countries connected to the South African grid and the rest of Africa. Eskom's core markets are, in order of priority, South Africa, SADC and then the rest of Africa.

The core businesses of other subsidiaries, Eskom Finance Company (Pty) Limited, Escap Limited and Gallium Insurance Company Limited include granting home loans to employees and the management and insurance of relevant risks to Eskom. The mortgage book of Eskom Finance Company was largely securitised after year end and Eskom will dispose of the company in the next financial year. Eskom's corporate social investment is mainly carried out through the Eskom Development Foundation, a section 21 company.

Countries in which operations are located

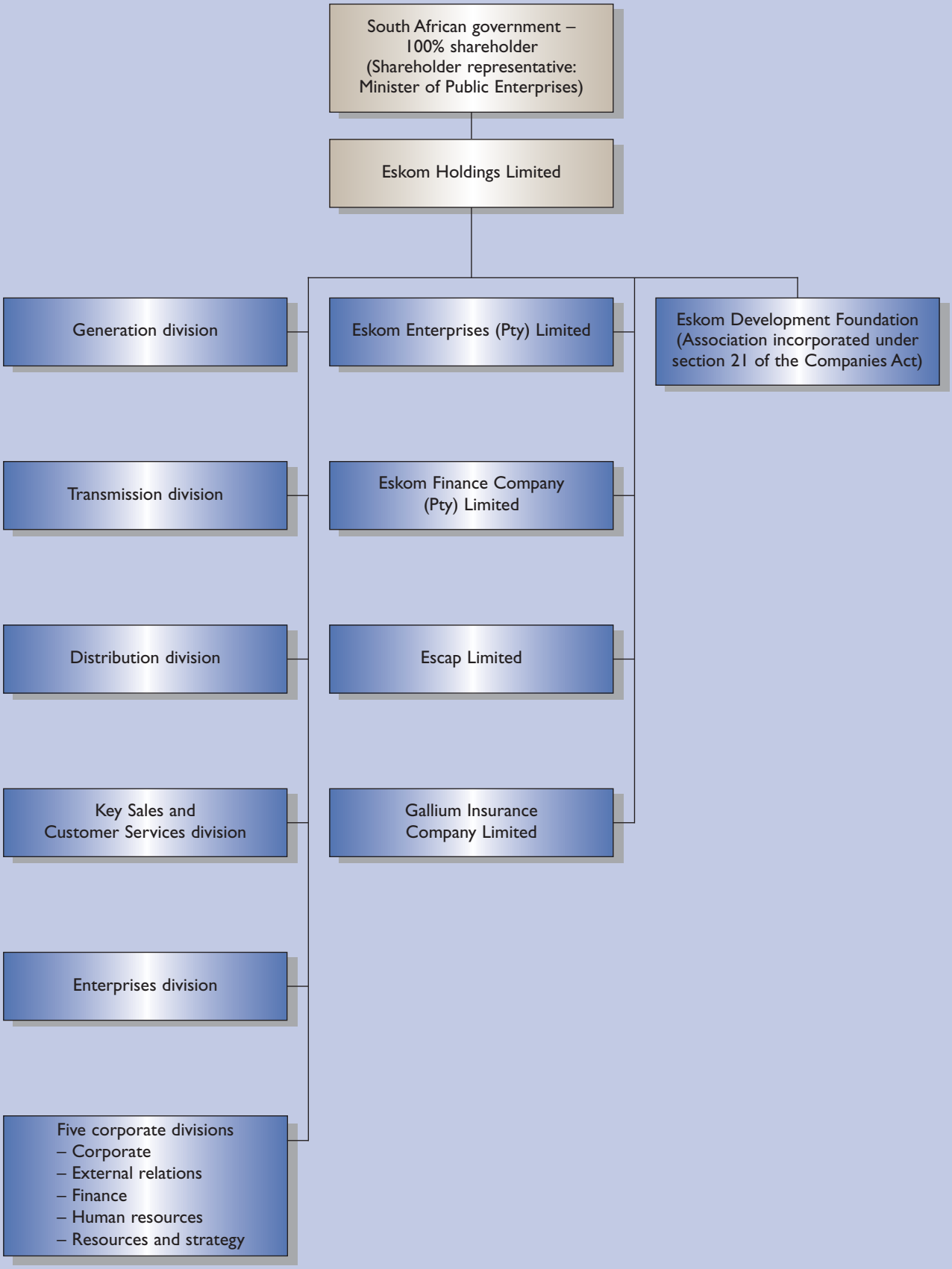
The operations of Eskom are located in South Africa. Eskom Enterprises has subsidiaries on the African continent, with its head office in Johannesburg, South Africa, and other offices in Uganda, Nigeria, Mali, Mozambique, Zambia and Lesotho.

Regional breakdown of sales

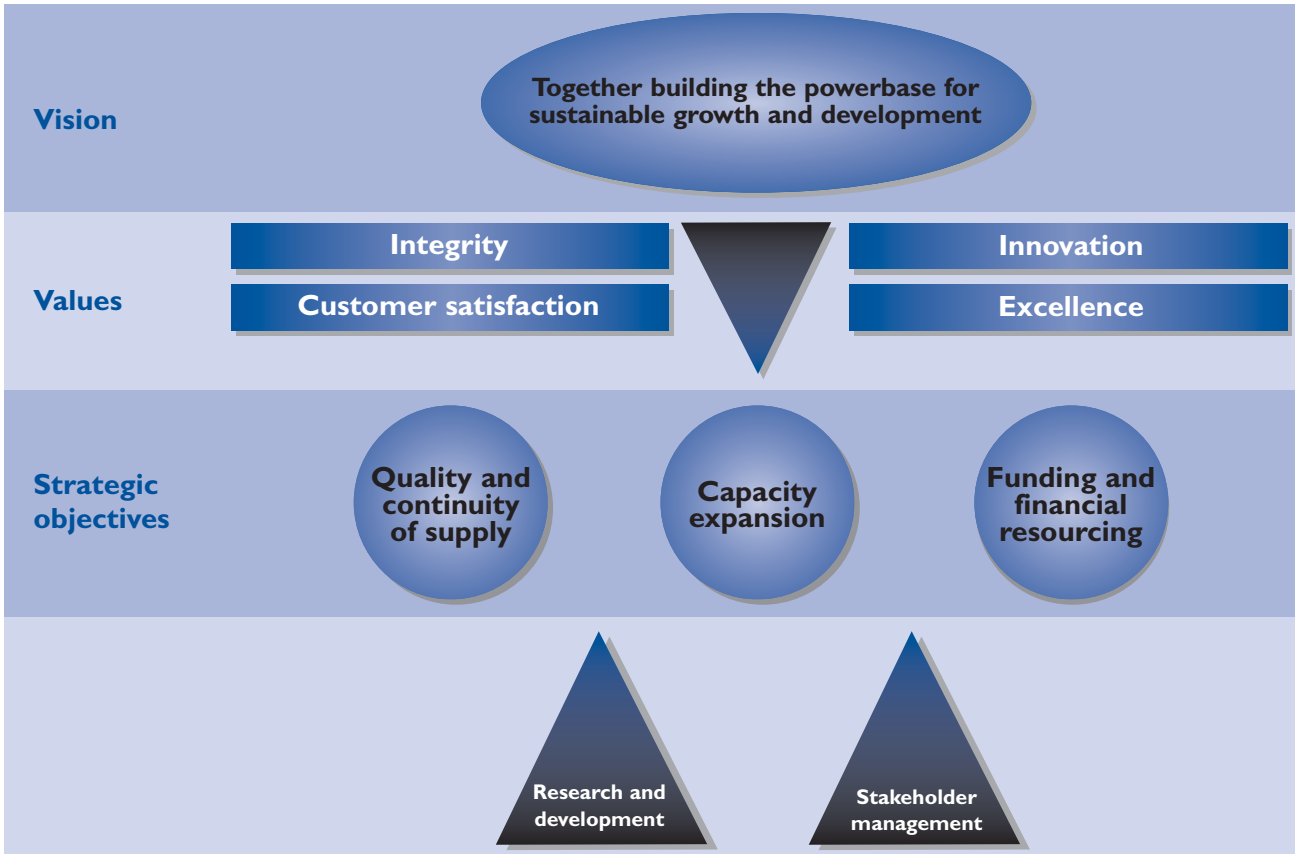
The majority of sales are in South Africa, with only a small percentage of sales elsewhere in the southern African region. Refer to financial statements note 5 on page 130.

1. Changed to National Energy Regulator of South Africa (Nersa) effective 1 April 2006.

Organisational structure



Vision, values and strategic objectives



Vision

Eskom's new vision, *together building the powerbase for sustainable growth and development*, was developed to align itself with the capacity expansion era.

Eskom has a responsibility to the country to ensure that sustainable development becomes a reality. It plays a major role in accelerating growth in the South African economy by providing a high-quality supply of electricity to satisfy the needs of the country. Eskom's vision means:

Together	One Eskom, unified, working together in partnership with others
Building	Planning for the future, building South Africa's economy
Powerbase	Providing the electricity foundation for positive sustainable development
Sustainable	Ensuring continued delivery on economic, environmental and social outcomes
Growth	Empowering South Africa, its people and the economy
Development	Securing a brighter future for all and integrating the first and second economy

Key competence

Eskom's key competence is the ability to develop and manage the entire extended electricity supply value chain to deliver high-quality, low-cost electricity. This is achieved through proprietary technology optimising low-grade coal, and efficient use of water.

Core strategy

Eskom's core strategy is based on the following:

- focusing on the core business of electricity supply to maximise shareholder value in economic, social and environmental returns
- keeping the lights burning through optimal use and operation of its assets, resources and skills
- ensuring the sustainability of the business through balanced financial, social and environmental decision-making
- ensuring world best practice technical performance is achieved
- managing assets and future capital investments to ensure adequate electricity supply to meet the needs of South Africa
- making selected viable investments in the Southern African Development Community (SADC) countries connected to the grid to ensure security of supply in South Africa
- balancing supply and demand to ensure security of supply for in South Africa

Southern Africa grid map

The map indicates the South African power network and interconnections with neighbouring countries

Executive summary

Eskom's results for the financial year to 31 March 2006 reflect broad-based robust performance in the company and subsidiaries with the balance sheet debt-to-equity ratio at a very healthy 0,18 for the group. The operating financial performance for the company was encouraging given low sales growth and technical problems experienced during the year. Safety, lower than budgeted sales volumes, unplanned automatic grid separations and higher than budgeted primary energy costs were areas of concern and is receiving management attention.

Eskom raised €500 million (offshore) and R2,5 billion (local) in capital markets, and R1,6 billion of the mortgage book of Eskom Finance Company was securitised on 31 May 2006.

As the supply of affordable and reliable electricity underpins development, Eskom takes its responsibility for satisfying the energy requirement of a growing South African economy very seriously. It has embarked on a R97 billion capital expansion programme to ensure continuity and reliability of supply to its customers. The group capital expenditure for the period was R10,9 billion against a budget of R9,7 billion as expenditure was accelerated to meet growing electricity demand.

Highlights of the review period included:

- benchmarking Eskom's sustainability performance against the JSE's Socially Responsible Investment (SRI) index indicated a score that meets the minimum requirements for inclusion in the index, and one that is comparable to top performers in the category for high environmental impact
- an unqualified audit opinion of non-financial information, and independent assessment of sustainability reporting
- the implementation of a multi-faceted demand-side management programme which achieved electricity savings 13,4% ahead of target. Initiatives include raising awareness on using energy more efficiently and shifting energy usage patterns
- the introduction of a multi-year price determination, enabling better long-term planning by stakeholders
- exceeding annual electrification targets by connecting 106 968 new customers (bringing the total to date to 3,3 million)
- 98% of municipalities are now participating in the free basic electricity initiative, benefiting 1,0 million households – although there is still a long way to go to ensure all qualifying consumers receive their free monthly electricity
- best-ever performance in reducing particulate emissions with a 21,4% year-on-year reduction
- introduction of Eskom's long-term climate change strategy, which includes assessing alternative energy sources, energy efficiency measures and research and development
- significant progress in Eskom's research and development programmes spanning renewable energy sources and optimal use of non-renewable sources
- further enhancements to already-stringent corporate governance practices

Lowlights of the review period included:

- the most significant challenge was the protracted disruption to power supplies to the Western Cape, which were the cumulative result of several technical malfunctions – some isolated and some inter-related – and extraordinary circumstances, such as fires and fog that caused pollution on the lines with consequential flashovers. Refer to page 51 for further details
- slow progress in the electricity distribution industry restructuring programme
- not achieving our safety targets, despite intensive, group-wide campaigns that span all operations, employees and suppliers. This has led to a renewed and focused commitment to provide a safe and healthy working environment for all employees and contractors. Refer to page 66 for further details

Summary – performance against targets

Further detail on these performance areas appear in the report as indicated.

Achieved	Page	Not achieved	Page
• Operational sustainability index	49	• Productivity	49
• Return on total assets	49	• Unplanned automatic grid separations	49
• Interest coverage	49	• Energy availability factor	49
• Debt:equity ratio	49	• Distribution supply loss index	49
• Weighted average cost of capital	49	• Expansion (megawatts added)	49
• Transmission supply interruptions	49	• Fatalities	50
• Enhanced MaxiCare	49	• Disabling injury incidence rate	50
• Employment equity	50	• Environmental legislation contravention	50
• Relative particulate emissions	50	• Water consumption	50
• Demand-side management	54		
• Customer service index	55		
• Human resources sustainability index	59		
• Black economic empowerment procurement	62		
• Electrification programme	65		

Key statistics

	Group			Company			
	2006 (12 months)	2005[1] (15 months)	2003 (12 months)	**2006 (12 months)**	2005[1] (15 months)	2003 (12 months)	Page
Financial/business performance							
Profit for the period, Rm	**4 635**	5 411	3 417	**5 064**	4 497	3 226	104
Cash flows from operating activities, Rm	**12 096**	15 302	13 451	**11 748**	13 947	13 275	105
Average selling price of electricity, cents per kWh[2]				**17,05**	16,04	16,05	177
Average total cost of electricity sold, cents per kWh[3]				**13,99**	14,25	13,61	–
Return on total assets, %[4]	**9,19**	12,71	9,97	**9,95**	11,46	10,21	8
Debt: equity[4]	**–**	–	0,08	**0,05**	0,04	0,13	8
Debt: equity (including long-term provisions)[4]	**0,18**	0,17	0,29	**0,26**	0,25	0,33	8
Productivity (decline)/improvement for the period, %				**(2,1)**	1,80	2,50	91
Customer/technical performance							
Total electricity sold, GWh				**208 316**	256 959	196 980	172
Coal burnt in power stations, Mt				**112,1**	136,4	104,4	77
Energy availability factor, %				**87,4**	89,5	87,5	57
Peak demand on integrated system, MW				**33 461**	34 195	31 928	54
Unplanned automatic grid separations/ 7 000 hours				**1,55**	1,33	1,78	58
Environmental/safety performance							
Specific water consumption by power stations, ℓ/kWh sent out[5]				**1,32**	1,27	1,29	78
Relative particulate emissions, kg/MWh sent out				**0,21**	0,26	0,28	71
Carbon dioxide emissions, Mt[6]				**203,7**	247,0	190,1	172
Radiation release, milliSieverts (mSv)				**0,0049**	0,0079	0,0123	71
Disabling injury incidence rate, index				**0,40**	0,45[7]	0,37	67
Work-related fatalities, number				**10**	19	5	67
Social performance							
Employment equity, %				**60,1**	57,9	56,3	62
Gender equity, %				**31,8**	28,9	27,8	62
People with disabilities, %				**2,5**	2,0	1,4	62
Electrification, number of homes connected per period				**106 968**	222 314	175 396	65

1. Represents, unless indicated otherwise, the 15-month period from 1 January 2004 to 31 March 2005.
2. Average price of electricity sold based on total sales.
3. Average total cost of electricity sold calculated as operating expenditure and net interest (including fair value adjustment on financial instruments) and based on external sales.
4. Calculated on the basis described in the five-year review.
5. Volume of water consumed per unit of generated power sent out, excluding rain and mine water used.
6. Calculated figures based on coal characteristics and the power station design parameters.
7. Calculated for the period 1 April 2004 to 31 March 2005.

Five-year financial review

	Group				
	2006 (12 months) Rm	2005 (15 months) Rm	2003 (12 months) Rm	2002 (12 months) Rm	2001 (12 months) Rm
Balance sheet					
Non-current assets	**89 894**	76 585	73 319	65 877	59 643
Current assets	**38 258**	33 221	26 180	16 605	17 266
Total assets	**128 152**	109 806	99 499	82 482	76 909
Capital and reserves	**50 562**	47 233	42 841	37 717	34 148
Non-current liabilities	**49 612**	41 390	33 266	31 701	26 672
Current liabilities	**27 978**	21 183	23 392	13 064	16 089
Total equity and liabilities	**128 152**	109 806	99 499	82 482	76 909
Income statement					
Revenue	**36 607**	43 207	32 948	29 684	26 112
Other net gains	**4 236**	4 144	4 079	2 476	3 060
Changes in inventories of finished goods and work in progress	**813**	280	(13)	91	(116)
Employee benefit expense	**(7 907)**	(10 497)	(7 514)	(6 446)	(5 400)
Depreciation and amortisation expense	**(4 903)**	(5 532)	(4 070)	(3 480)	(3 742)
Net impairment loss reversed/(impairment loss)	**96**	(258)	(698)	(139)	(131)
Other expenses[1]	**(17 546)**	(18 285)	(14 173)	(11 477)	(9 912)
Interest expense	**(4 656)**	(5 447)	(5 328)	(5 281)	(6 099)
Share of profit of associates and joint ventures	**35**	74	45	26	–
Profit before tax	**6 775**	7 686	5 276	5 454	3 772
Income tax expense	**(2 154)**	(2 313)	(1 859)	(1 727)	(1 211)
Profit for the period from continuing operations	**4 621**	5 373	3 417	3 727	2 561
Profit for the period from discontinued operations	**14**	38	–	–	–
Profit for the period	**4 635**	5 411	3 417	3 727	2 561
Cash flow					
Cash generated from operations	**13 074**	15 515	13 535	12 911	11 209
Income tax paid	**(978)**	(213)	(84)	(52)	(70)
Cash flows from operating activities	**12 096**	15 302	13 451	12 859	11 139
Cash (used in)/generated by investing activities	**(8 560)**	(5 345)	(3 311)	(2 191)	898
Cash effects of financing activities	**(1 564)**	(8 873)	(11 915)	(8 125)	(10 598)
Net increase/(decrease) in cash and cash equivalents for the period	**1 972**	1 084	(1 775)	2 543	1 439
Ratios					
Earnings protection (profitability indicators)					
Return on total assets, %[3]	**9,19**	12,71	9,97	13,07	11,01
Return on average equity, %	**9,45**	11,93	8,48	10,37	7,86
Total operating expenditure/revenue, %	**66,90**	65,26	64,84	60,24	60,00
Net pre-tax interest coverage	**2,74**	2,69	2,17	2,22	2,07
EBITDA interest coverage	**3,86**	4,16	3,48	3,22	3,91
Liquidity	**1,37**	1,57	1,12	1,27	1,07
Solvency	**1,65**	1,75	1,76	1,84	1,80
Cash flow protection (cash flow adequacy indicators)					
Funds from operations/average total debt, %	**29,10**	43,78	43,43	44,96	36,49
Funds from/(utilised in) operations/capex, %	**141,31**	286,29	406,25	586,90	(1 240,42)
Funds from operations/net interest coverage, %	**6,76**	9,70	9,96	4,57	3,93
Capital structure					
Debt:equity	**–**	–	0,08	0,24	0,41
Debt:equity (including long-term provisions)	**0,18**	0,17	0,29	0,46	0,62
Interest coverage	**3,86**	5,74	4,30	2,88	2,29
Other					
Value created per employee, R000	**681**	808	578	570	338
Credit rating					
Standard and Poor's					
– Foreign currency	BBB+/Stable	BBB/Stable	BBB/Stable	BBB-/Positive	BBB-/Stable
– Local currency	A-/Stable	A-/Stable	A-/Positive	A-/Stable	A-/Stable
Moody's					
– Foreign currency	A2/Stable	Baa1/Stable	Baa1/Stable	Baa1/Stable	Baa2/Stable
– Local currency	A1/Stable	A3/Stable	A3/Stable	A3/Stable	Baa1/Positive
FitchRatings					
– Local currency	A-/Stable	A-/Stable	A-/Stable	BBB+/Stable	BBB+/Stable

	Company				
2006 (12 months) Rm	2005 (15 months) Rm	2003 (12 months) Rm	2002 (12 months) Rm	2001 (12 months) Rm	
90 241	73 673	72 473	65 484	59 536	
33 973	32 342	23 742	14 702	15 173	
124 214	106 015	96 215	80 186	74 709	
48 263	44 714	41 223	36 412	33 361	
48 746	40 750	32 364	31 099	26 176	
27 205	20 551	22 628	12 675	15 172	
124 214	106 015	96 215	80 186	74 709	
35 558	41 387	31 780	28 158	24 983	
5 279	4 790	4 792	2 642	3 235	
459	393	(51)	(37)	(134)	
(7 285)	(9 017)	(7 362)	(6 249)	(5 163)	
(4 626)	(5 261)	(3 817)	(3 301)	(3 632)	
898	(116)	(852)	(138)	(95)	
(18 283)	(19 885)	(14 122)	(11 034)	(9 684)	
(4 841)	(5 761)	(5 334)	(5 290)	(6 109)	
–	–	–	–	–	
7 159	6 530	5 034	4 751	3 401	
(2 095)	(2 033)	(1 808)	(1 566)	(1 154)	
5 064	4 497	3 226	3 185	2 247	
–	–	–	–	–	
5 064	4 497	3 226	3 185	2 247	
12 603	13 992	13 305	12 608	9 911	
(855)	(45)	(30)	–	–	
11 748	13 947	13 275	12 608	9 911	
(8 637)	(5 101)	(3 273)	(1 665)	1 097	
(913)	(8 982)	(11 943)	(8 482)	(10 690)	
2 198	(136)	(1 941)	2 461	318	
9,95	11,46	10,21	11,92	10,21	
10,89	10,47	8,31	9,13	7,11	
67,44	67,13	63,80	61,70	60,68	
2,75	2,34	2,11	2,06	1,62	
3,54	3,62	3,39	3,01	2,42	
1,25	1,57	1,05	1,16	1,00	
1,64	1,73	1,75	1,83	1,81	
28,30	39,93	42,76	44,01	32,40	
136,02	273,42	405,59	757,24	(903,46)	
5,92	8,03	8,46	4,73	3,75	
0,05	0,04	0,13	0,30	0,48	
0,26	0,25	0,33	0,52	0,68	
3,72	4,65	3,80	2,74	2,24	
710	759	625	587	506	

Definitions of ratios

Return on total assets: net operating income[2] expressed as a percentage of total assets.[3]

Return on average equity: net profit divided by average equity.

Total operating expenditure[4]/revenue: total operating expenditure divided by revenue after making an adjustment for depreciation.

Net pre-tax interest coverage: net profit before tax adjusted by financial market interest expense before capitalised interest divided by the financial market interest, expense before capitalised interest.

EBITDA interest coverage: net operating income adjusted for interest income, depreciation and amortisation divided by the financial market interest expense before capitalised interest.

Liquidity: current assets divided by current liabilities.

Solvency: total assets divided by total liabilities.

Funds from operations/average total debt: cash flows from operating activities divided by the average total financial market liabilities.

Funds from operations/capex: cash flows from operating activities divided by cash used in investment activities adjusted for capitalised interest.

Funds from operations/net interest coverage: cash flows from operating activities divided by interest expenditure adjusted for capitalised interest.

Debt:equity: net financial market investments and liabilities divided by total reserves.

Debt:equity including long-term provisions: net financial market investments and liabilities plus non-current portion of retirement benefit obligation, decommissioning and nuclear waste management and closure, pollution and rehabilitation divided by total reserves.

Interest coverage: net operating income divided by net interest income and expenditure including the fair value gain or loss on financial instruments other than embedded derivatives.

Value created per employee: value created divided by number of employees as per value added statement.

1. *Includes raw materials and consumables, work performed and capitalised, and other operating expenditure.*
2. *Net operating income: revenue less operating expenditure.*
3. *Total assets are reduced by financial market assets and interest receivable, since Eskom's funding is managed in a single pool of financial market assets and liabilities.*
4. *Total operating expenditure: expenditure before net interest expense, fair value (loss/gain), taxation.*

Board of directors

1 MV (Valli) Moosa (49)
Chairman

BSc (Durban-Westville)

Appointed: August 2005

Executive chairman Lereko Investments
Non-executive director Sanlam, South African Airways, Imperial Holdings, Sun International
Member Auditor-general's advisory board
President World Conservation Union

2 TS (Thulani) Gcabashe (48)
Chief executive

BA (Botswana), MURP (Ball State Univ, USA), Programme for Executive Development (International Institute for Management Development, Lausanne, Switzerland)

Appointed: July 2002

Chairman Eskom executive management committee, Eskom Enterprises
Director Standard Bank Group, South African Energy Association, National Research Foundation
Trustee Business Map Foundation, Freedom Park Trust

3 MF (Frans) Baleni (46)
Non-executive director

BA (Dev Studies)(UJ), Cert HR (Unisa)

Appointed: July 2002

Director Rand Mutual Assurance, National Labour and Economic Development Institute, Elijah Barayi Memorial Training Centre

4 M (Mustafa) Bello (52)
Non-executive director

BEng (Civil) Ahmadu Bello University, Zaria

Appointed: August 2005

5 LCZ (Zee) Cele (53)
Non-executive director

BCom, (Fort Hare), PostGrad Dip Tax, MAcc (Tax) (Univ of Natal) Executive Leadership Development Programme (Cambridge, USA)

Appointed: August 2005

Director Tsogo Sun, Ithala Development Corporation KZN, Ushaka Management

6 Dr BM (Brian) Count (55)
Non-executive director

MA (Mathematics)(Cambridge University) PhD (Physics) (Exeter, UK)

Appointed: July 2002

Chairman Progressive Energy

7 LG (Lars) Josefsson (56)
Non-executive director

MSc (Applied Physics) (Chalmers University Sweden), Professor, Cottbus University, Germany

Appointed: July 2002

8 WE (Wendy) Lucas-Bull (52)
Non-executive director

BSc (Wits)

Appointed: July 2002

Director Alexander Forbes, Dimension Data Holdings plc, Development Bank of Southern Africa

9 PM (Mpho) Makwana (36)
Non-executive director

BAdmin (Hons) (Univ Pretoria), EDP (North Western Univ)

Appointed: July 2002

Chairman Epitome Investments
Director Arabella SA, Monitor Group SA
Trustee International Marketing Council (Brand SA)

10 JRD (Jacob) Modise (39)
Non-executive director

BCom, BAcc, CA(SA), MBA (Wits), AMP (Harv), AMP (Samford)

Appointed: July 2002

Director Batsomi Group, Altron, Blue IQ Investments
Trustee Nelson Mandela Children's Fund

11 AJ (Allen) Morgan (58)
Non-executive director

BSc, BEng (Electr) (US)

Appointed: July 2002

Chairman Kumba Resources

12 SA (Sintu) Mpambani (53)
Non-executive director

MSc (Univ London)

Appointed: July 2002

Founder member Untu Consultancy
Member South African Public Administration, South African Economic Society

13 U (Uhuru) Nene (46)
Non-executive director

MSc (Structural Eng) (Patrice Lumumba, Moscow Russia USSR)

Appointed: August 2005

14 B (Bongani) Nqwababa (40)
Finance director

BAcc (Hons) (Zim), CA (Zim), MBA (Manchester and Wales, UK)

Appointed: September 2004

Chairman Eskom Finance Company, Escap, South African Revenue Service Audit committee
Director Eskom Enterprises, Rotek Industries, Rosherville Properties, Rosherville Vehicle Services, Roshcon

15 V (Versha) Mohanlal Rowjee (35)
Non-executive director

BCom (Wits)

Appointed: July 2002

Director Disability Empowerment Concerns

Executive management committee

1 TS (Thulani) Gcabashe (48)
Chief executive

BA (Botswana), MURP (Ball State Univ, USA), Programme for Executive Development (International Institute for Management Development, Lausanne, Switzerland)

Date appointed to Exco: July 2002

Chairman Eskom Enterprises
Director Standard Bank Group, South African National Energy Association, National Research Foundation
Trustee Business Map Foundation, Freedom Park Trust

2 B (Bongani) Nqwababa (40)
Finance director

BAcc (Hons) (Zim), CA (Zim), MBA (Manchester and Wales, UK)

Date appointed to Exco: September 2004

Chairman Eskom Finance Company, Escap Limited, South African Revenue Service Audit committee
Director Eskom Enterprises, Rotek Industries, Rosherville Properties, Rosherville Vehicle Services, Roshcon

Provide financial and procurement strategy, policies, assurance and strategic services to the Eskom group.

3 N (Nthobi) Angel (52)
Managing director – External Relations division

BA (Hons) (Ghana), MSc (Soc) (Zim)

Date appointed to Exco: June 2005

Director ABSA Bank

Manage external stakeholder interface through effective influencing of the business environment. Manage external and internal communications.

4 BA (Brian) Dames (40)
Managing director – Enterprises division

BSc (Hons) (Western Cape), MBA and graduate diploma in utility management (Samford Univ, USA)

Date appointed to Exco: August 2004

Chairman Rotek Industries, Roshcon
Chief executive officer Eskom Enterprises

Design, build and refurbish electricity assets, lead project development for the group, be the custodian of Eskom's non-regulated businesses and offer strategic and commercial lifecycle services to the divisions.

5 JA (Johnny) Dladla (43)
Managing director – Key Sales and Customer Service division

BA (Com) (Hons) (Fort Hare), Chartered Marketer (SA), AMP (Harv)

Date appointed to Exco: September 2003

Director O'Brian Marketing

Proactively manage contestable customer relationships and trade energy from Generation and international sources to contestable customers in South Africa (consumers of >100GWh) and international customers.

6 Dr SJ (Steve) Lennon (47)
Managing director – Resources and Strategy division

MSc (Phys Metallurgy), PhD (Wits)

Date appointed to Exco: July 2002

Chairman International Chamber of Commerce's environmental and energy commission, board of trustees Fossil Fuel Foundation
Director EDI Holdings, Electric Power Research Institute, Eskom Enterprises

Support growth, innovation and sustainability of Eskom group by influencing strategic direction, and ensuring strategy execution and optimal portfolio of assets.

7 M (Mpho) Letlape (47)
Managing director – Human Resources division

BSc (Comp Sci, Psych) (Fort Hare)

Date appointed to Exco: July 2002

Director Nakatomi Corporation

Provide human resources strategy, direction, policies and assurance, strategic services to Eskom group. Drive culture change through effective change management and implementing appropriate programmes.

8 PJ (Jacob) Maroga (46)
Managing director – Transmission division

BSc (Electrical Eng) (Wits), AMP (Harv)

Date appointed to Exco: July 2002

Director EDI Holdings

Optimally operate and maintain lifecycle of South African transmission network.

9 EN (Ehud) Matya (43)
Managing director – Generation division

BSc (Eng) (Wits)

Date appointed to Exco: July 2002

Operating and maintenance of all Eskom's Generation assets throughout the plant lifecycle, nuclear operations and strategic primary energy sourcing.

10 PD (Duncan) Mbonyana (51)
Managing director – Corporate division

MBA (Brunel, UK)

Date appointed to Exco: August 2004

Chairman MKC, Lesotho Telecom, Ezi-Cel
Director Rotek Industries, Roshcon.

Assure regulatory compliance, ensure effective governance, develop policies for compliance assurance and provide strategic services.

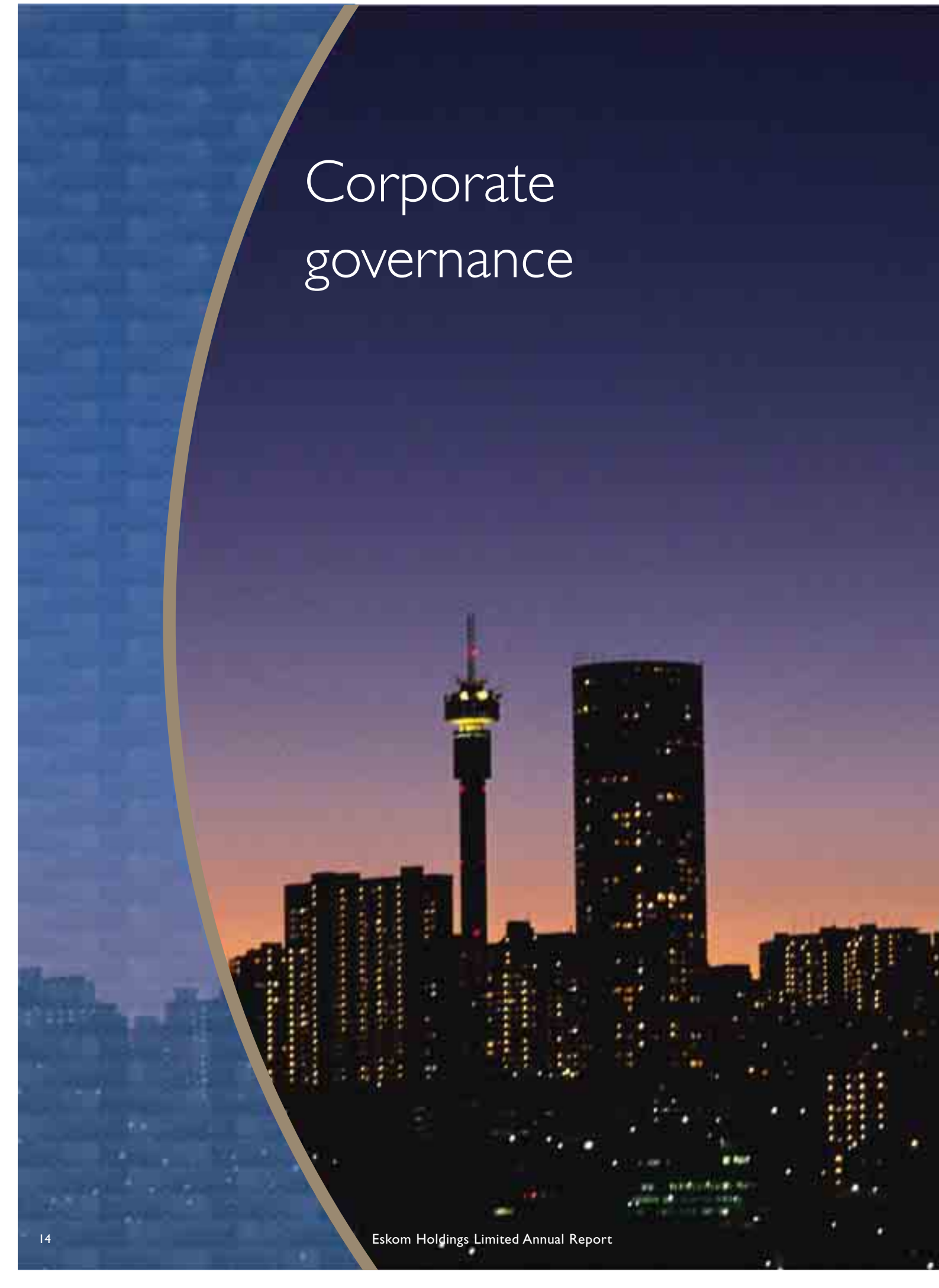
11 M (Mongezi) Ntsokolo (45)
Managing director – Distribution division

BSc (Electrical Eng) (Wits), Hons B, (B&A) (USB) MBA (USB), Senior Executive Programme (Wits/Harvard)

Date appointed to Exco: September 2003

Manage the retail business and optimally operate and maintain South African distribution network, play active role in restructuring of the electricity distribution industry.

Corporate governance



The group's drive to deliver new capacity and ensure that its build programme is on time will be founded on a sound corporate governance environment

Introduction

Eskom's approach to corporate governance goes beyond complying with the letter and spirit of relevant governance codes because the group believes that good governance is an essential part of outstanding performance.

As Eskom's operating environment becomes more challenging, the importance of superior governance practices is even more pronounced. The group's drive to deliver new capacity and ensure that its build programme is on time will be founded on a sound corporate governance environment that ensures fundamental principles are not compromised in times of operational pressure. As such, management performance measures include achieving Eskom's objectives efficiently and timeously without compromising its commitment to accountability, fairness, transparency and responsibility.

This approach ensures that Eskom regularly reviews its processes and practices for legal compliance, uses funds in an economic, efficient and effective manner and adheres to good corporate governance practices which are continually benchmarked against international standards, and appropriate to its circumstances.

The statutory duties, responsibilities and liabilities imposed on the directors of Eskom by the Companies Act, 61 of 1973 as amended, are augmented by those contained in the Public Finance Management Act, 1 of 1999 (PFMA), as amended. Eskom is also guided by the King Report on Corporate Governance for South Africa 2002 (King II Report), as well as the Protocol on Corporate Governance in the Public Sector 2002.

Key initiatives during the period to ensure continued compliance with good corporate governance included:

- an evaluation of the performance of the Eskom board of directors
- an annual review of the terms of reference of board committees
- a review of board submission documents to enhance information going to the board
- enhancing of the declaration of conflict of interest process
- the development of corporate governance practice notes to assist the organisation with specific governance issues

The board acknowledges the importance of ongoing improvement in this critical area, such as initiatives to improve stakeholder participation and effective reporting and disclosure to stakeholders.

Rural electrification

Recommissioning in progress on the generation floor at Camden power station

Shareholding

The government of the Republic of South Africa is the sole shareholder of Eskom. The shareholder representative is the Minister of Public Enterprises.

Shareholder compact

In terms of the treasury regulations issued in accordance with the PFMA, Eskom must, in consultation with its executive authority (Minister of Public Enterprises), annually agree on its key performance objectives, measures and indicators. This is annexed to the agreed principles in the shareholder performance agreement (shareholder compact) concluded between Eskom and its shareholder. Refer to page 49 for actual performance in terms of the annexure.

The compact is not intended to interfere in any way with the normal principles of company law. The relationship between the shareholder and the board is preserved, as the board is responsible for ensuring that proper internal controls are in place and that Eskom is effectively managed. The compact promotes good governance practices in Eskom by helping to clarify the respective roles and responsibilities of the board and the shareholder and ensuring there is agreement on Eskom's mandate and key objectives. Refer to page 31 in Chairman's report.

Governing bodies

Board of directors

Composition of the board

The details of directors appear on page 11.

Eskom has a unitary board structure comprising 13 non-executive directors and two executive directors. The majority of non-executive directors are independent.

Directors, appointed by the Minister of Public Enterprises, are drawn from diverse backgrounds (local and international) and represent the demographics of the Republic of South Africa. The directors bring a wide range of experience and professional skills to the board.

Eskom's articles of association stipulate that the shareholder will, after consulting with the board, appoint the chairman, chief executive and non-executive directors of the company. The executive directors are appointed by the board, after obtaining approval from the shareholder.

The term of office of a non-executive director does not exceed a period of three years. Non-executive directors retire by rotation and are eligible for re-election.

TN Msomi, SV Zilwa and SE Funde retired by rotation in July 2005. LCZ Cele, U Nene and M Bello were appointed as independent, non-executive directors in August 2005.

R Khoza retired as the chairman of Eskom in July 2005 and MV Moosa was appointed in his stead as independent, non-executive chairman in August 2005.

The terms of office of the remaining non-executive directors expired at the annual general meeting in 2005. As they were eligible for re-election, they were re-appointed for a further three-year period.

Executive directors are permanent employees in terms of Eskom's conditions of service. The chief executive's term of office is three years.

Meetings of the board are scheduled annually in advance. Special meetings are convened when required to address specific material issues. Teleconferencing facilities are available to directors or members of committees unable to attend meetings. During the reporting period, eight board meetings were held. The attendance of members at board meetings is reflected below.

Role and function of the board

The board is the accounting authority of Eskom in terms of the PFMA.

In keeping with good corporate governance practices, the board has developed a board charter and identified its role.

www.eskom.co.za/annreport06 for more information.

Members	Apr[1] 2005	Jun 2005	Sep 2005	Oct[1] 2005	Oct 2005	Dec 2005	Feb 2006	Mar 2006
RJ Khoza[2, 3] (chairman)	✓	✓	n/a	n/a	n/a	n/a	n/a	n/a
VM Moosa[2, 4] (chairman)	n/a	n/a	✓	✓	✓	✓	✓	✓
MF Baleni[2]	A	✓	✓	✓	✓	✓	✓	✓
M Bello[2, 4]	n/a	n/a	✓	A	A	✓	✓	✓
LCZ Cele[2, 4]	n/a	n/a	✓	✓	✓	✓	✓	✓
BM Count[2]	A	✓	✓	✓	✓	✓	✓	✓
SE Funde[2, 3]	A	✓	n/a	n/a	n/a	n/a	n/a	n/a
TS Gcabashe[5]	✓	✓	✓	✓	✓	✓	✓	✓
LG Josefsson[2]	✓	✓	✓	A	A	✓	✓	A
WE Lucas-Bull[2]	A	A	A	A	✓	✓	A	✓
PM Makwana[2]	A	A	✓	A	A	A	✓	✓
JRD Modise[2]	✓	✓	✓	✓	✓	✓	✓	✓
AJ Morgan[2]	✓	✓	✓	✓	✓	✓	✓	✓
SA Mpambani[2]	✓	✓	✓	✓	✓	✓	✓	✓
TN Msomi[3, 6]	A	A	n/a	n/a	n/a	n/a	n/a	n/a
U Nene[2, 4]	n/a	n/a	✓	✓	✓	✓	✓	A
B Nqwababa[5]	✓	✓	✓	✓	✓	✓	✓	✓
VM Rowjee[2]	✓	✓	✓	✓	✓	✓	✓	✓
SV Zilwa[2, 3]	✓	A	n/a	n/a	n/a	n/a	n/a	n/a

1. *Special meeting.*
2. *Independent non-executive director.*
3. *Retired July 2005.*
4. *Appointed August 2005.*
5. *Executive director.*
6. *Non-executive director.*

✓ *Present.*
A *Absent with apologies.*

The shareholder compact promotes good governance practices in Eskom

Delegation of authority

The power and authority to lead, control, manage and conduct the business of Eskom – including the power and authority to delegate – vests with the board to ensure Eskom remains a sustainable and viable business of global stature. It retains full and effective control over the operations of the organisation. This responsibility is facilitated by a well-developed governance structure comprising various board committees, subcommittees of the executive management committee (Exco) and a comprehensive delegation-of-authority framework. This framework assists in controlling the decision-making process and does not dilute the duties and accountabilities of directors. The framework is regularly reviewed and was last reviewed by the board in June 2005.

Board evaluation and performance

An evaluation of the performance of the board and individual directors was conducted at the end of the financial year.

The performance of the board committees is evaluated against their respective terms of reference. The human resources, remuneration and ethics committee facilitates the evaluation of senior management.

Liveline team hard at work

Pilot scale combustion test facility

Director induction and orientation

New directors are taken through an induction programme to enhance their understanding of Eskom's legislative framework, governance processes and the nature and operations of the business.

Continuous training is provided, on request, to meet the needs of each director or group of directors. Directors are also continually updated on new laws and regulations.

Directors' remuneration

Non-executive directors receive a honorarium and fee for their contributions to the board and committees on which they serve. Fees are determined by the shareholder, after consultation with the board. Non-executive directors are also reimbursed for out-of-pocket expenses incurred on behalf of the company. The rewards and remuneration of executive directors are determined by the human resources, remuneration and ethics committee.

Refer to pages 95 to 99 for further information on directors' remuneration.

Company secretarial function

Directors have unrestricted access to the advice and services of the company secretary, and those of the secretariat department. Directors are entitled to obtain independent professional advice, at Eskom's expense, should they deem this necessary.

The company secretary, together with the assurance functions in the corporate division, monitors Eskom's compliance with the requirements of the PFMA, Companies Act and other relevant legislation; and reports to the board in this regard.

Board committees

Several board committees assist the board in discharging its responsibilities. This assistance is rendered in the form of recommendations and reports submitted to board meetings, ensuring transparency and full disclosure of committee activities. Each committee operates within the ambit of its defined terms of reference that sets out the composition, role, responsibilities, delegated authority and requirements for convening meetings. All committees, except Exco, comprise a majority of non-executive directors.

Audit committee

The committee comprises five non-executive directors, including an independent non-executive director (who is not the chairman of the board) as chairman.

The committee monitors compliance with relevant legislation and ensures an appropriate system of internal control is maintained to protect Eskom's interests and assets. It reviews the activities and effectiveness of the corporate audit department (internal audit). It is also responsible for evaluating the independence, objectivity and effectiveness of the external auditors and for reviewing accounting and auditing concerns identified by internal and external audit. The head of the corporate audit department and the external auditors have unrestricted access to the chairman of the committee, and to the chairman of Eskom. The committee reviews the accuracy, reliability and credibility of statutory financial reporting and recommends the annual financial statements and the annual report of the Eskom group, as presented by management and reviewed by the external auditors, for approval by the board.

Audit committee

Members	Jun 2005	Jun 2005	Aug 2005	Oct[1] 2005	Nov 2005	Dec[1] 2005	Mar 2006
JRD Modise (chairman)	✓	✓	✓	✓	✓	✓	✓
LCZ Cele[2]	n/a	n/a	n/a	✓	✓	✓	✓
LG Josefsson	✓	✓	✓	A	A	A	✓
PM Makwana	A	A	✓	A	A	A	A
SA Mpambani	A	✓	✓	✓	✓	✓	✓
TN Msomi[3]	✓	A	n/a	n/a	n/a	n/a	n/a

Seven committee meetings were held during the review period. These were attended by the external auditors, the finance director, the head of the corporate audit department and relevant corporate officials. Attendance of members at committee meetings is reflected above.

Risk management committee

The risk management committee comprises three non-executive directors, the finance director and the managing director (Generation division). It is chaired by an independent non-executive director.

The committee ensures that the company's risk management strategies and processes are aligned with best practices.

Three meetings were held during the year, dealing with the integrated risk management strategy and processes, risk tolerance and appetite, risk accountabilities, major risk exposures and emerging risk issues. Attendance of members at these meetings is reflected at the bottom of the page.

Investment and finance committee

The investment and finance committee comprises five non-executive directors, the chief executive and finance director and is chaired by an independent non-executive director.

The committee reviews Eskom's investment strategy and makes recommendations to the board. It evaluates and approves business cases for new ventures or projects, approves criteria and guidelines for investments, and approves investments within its delegated authority.

Risk management committee

Members	Jun 2005	Nov 2005	Mar 2006
SE Funde (chairman)[3]	✓	n/a	n/a
AJ Morgan (chairman)[4]	✓	✓	✓
JRD Modise	✓	✓	✓
M Bello[2]	n/a	A	A
B Nqwababa	✓	A	✓
EN Matya	A	✓	✓

1. Special meeting.
2. Appointed August 2005.
3. Retired July 2005.
4. Appointed as chairman August 2005.
✓ Present.
A Absent with apologies.

Several board committees assist the board in discharging its responsibilities

The committee monitors and oversees the financial health of Eskom, including the review of budgets and financial and business plans. Eight committee meetings were held during the period. Attendance of members at these meetings is reflected on the next page.

Investment and finance committee

Members	May 2005	Jun 2005	Aug 2005	Sep[1] 2005	Nov 2005	Jan[1] 2006	Mar 2006	Mar[1] 2006
WE Lucas-Bull (chairman)	✓	✓	✓	A	✓	✓	✓	✓
M Bello[2]	n/a	n/a	n/a	A	A	A	A	A
BM Count	✓	A	✓	✓	✓	✓	✓	✓
SE Funde[3]	✓	A	n/a	n/a	n/a	n/a	n/a	n/a
TS Gcabashe	✓	A	✓	A	✓	✓	✓	✓
LG Josefsson[4]	✓	✓	✓	n/a	n/a	n/a	n/a	n/a
AJ Morgan	✓	✓	✓	✓	✓	✓	✓	✓
U Nene[2]	n/a	n/a	n/a	✓	A	✓	A	A
B Nqwababa	✓	✓	✓	✓	A	✓	A	✓

Tender committee

The tender committee comprises five non-executive directors, including an independent non-executive chairman.

The committee assists the board in making procurement decisions, approves procurement policies, tenders and contracts within its delegated authority and ensures that Eskom's procurement system and processes are fair, transparent, competitive and cost effective.

Seven committee meetings were held during the period. Attendance of members at committee meetings is reflected below.

Tender committee

Members	Apr[1] 2005	May 2005	Aug 2005	Nov 2005	Dec[1] 2005	Mar 2006	Mar[1] 2006
MF Baleni (chairman)	✓	✓	✓	✓	✓	✓	✓
LCZ Cele[2]	n/a	n/a	n/a	✓	A	✓	✓
AJ Morgan	✓	✓	✓	✓	✓	✓	✓
SE Mpambani	✓	✓	✓	✓	✓	✓	✓
VM Rowjee	✓	✓	✓	✓	✓	✓	✓

1. Special meeting.
2. Appointed August 2005.
3. Retired July 2005.
4. Resigned September 2005.
√ Present.
A Absent with apologies.

Human resources, remuneration and ethics committee

This committee comprises three non-executive directors and the chief executive. It is chaired by an independent non-executive director. The chief executive recuses himself when his remuneration is considered.

The committee:

- influences and approves human resources policies and strategies and monitors compliance with the Employment Equity Act, 55 of 1998
- makes recommendations to the board, for approval by the shareholder, on the remuneration policy for executive and non-executive directors
- makes recommendations to the board on the appointment and removal of executive and non-executive directors and senior management
- ensures that Eskom appropriately demonstrates its commitment to organisational integrity
- monitors the ethical conduct of the company, its management, employees and suppliers

The chairman ensures sufficient time is allocated to each of the areas within the terms of reference of the committee. In particular, there are dedicated slots for ethics, human resources policies, executive remuneration and succession planning.

Five meetings were held during the period. The attendance of members at these meetings is reflected on the next page. The former chairman of the committee, Mr RJ Khoza, attended the August meeting to effect a seamless transfer of the chairmanship to Mr PM Makwana.

Human resources, remuneration and ethics committee

Members	May 2005	Aug 2005	Oct[1] 2005	Nov 2005	Mar 2006
RJ Khoza (chairman)[2]	✓	✓	n/a	n/a	n/a
PM Makwana (chairman)[3]	✓	✓	✓	✓	✓
BM Count	✓	✓	✓	✓	✓
TS Gcabashe	✓	✓	✓	✓	✓
VM Rowjee	✓	✓	✓	✓	✓

Sustainability committee

The sustainability committee comprises five non-executive directors and the chief executive. It is chaired by an independent non-executive director.

The committee addresses integrated sustainability (economic, environmental and social) issues. It approves and makes recommendations to the board on policies, strategies and guidelines, particularly for safety, health, environmental, quality and nuclear issues. The committee performs an oversight function to provide assurance that nuclear safety at Eskom's facilities exceeds compliance with minimum regulatory and internal standards, while remaining consistent with international best practice.

Three meetings were held during the period. Attendance of members at these meetings is reflected below.

Sustainability committee

Members	May 2005	Aug 2005	Mar 2006
RJ Khoza (chairman)[2]	✓	n/a	n/a
MF Baleni (chairman)[3]	✓	✓	✓
SE Funde[2]	A	n/a	n/a
TS Gcabashe	✓	A	✓
LG Josefsson[4]	n/a	✓	✓
WE Lucas-Bull[4]	n/a	n/a	A
MV Moosa[4]	n/a	n/a	✓
TN Msomi[2]	A	n/a	n/a
U Nene[4]	n/a	n/a	✓
VM Rowjee[5]	n/a	✓	n/a

1. *Special meeting.*
2. *Retired July 2005.*
3. *Appointed as chairman August 2005.*
4. *Appointed August 2005.*
5. *Co-opted member for August 2005.*
6. *These are divisional managing directors and not directors of the company.*

✓ *Present.*
A *Absent with apologies.*

Ad hoc electricity distribution industry restructuring committee (EDI committee)

The EDI committee comprises three non-executive directors, the chief executive and finance director. It is chaired by an independent non-executive director.

The committee was established in June 2005 to assist with Eskom's contribution to the electricity distribution industry restructuring process. It assists the board in developing strategic positions regarding this process.

Four meetings were held during the period. Attendance of members at these meetings is reflected on the next page.

Executive management committee (Exco)

Exco comprises the chief executive, finance director and the managing directors[6] of Eskom's divisions. It is chaired by the chief executive. Details of the Exco members appear on page 13.

The committee assists the chief executive in guiding and controlling the overall direction of the business and in exercising executive control. It is responsible for ensuring the effective management of the day-to-day operations of the business.

Exco is assisted in carrying out its delegated duties by its procurement, operations, investment and sustainability subcommittees.

Twenty-seven Exco meetings were held during the period. Two of these were strategic workshops. Attendance of members at these meetings is reflected on the next page.

Re-taping the harness of a high voltage transformer at Rotek

Ad hoc electricity distribution industry restructuring committee (EDI committee)

Members	Aug 2005	Sept 2005	Nov 2005	Jan 2006
AJ Morgan (chairman)	✓	✓	✓	✓
MF Baleni	✓	✓	✓	✓
TS Gcabashe	✓	✓	A	✓
JRD Modise	✓	✓	✓	✓
B Nqwababa	✓	✓	A	✓

Executive management committee

Members	Attendance (27 meetings held)
TS Gcabashe (chairman)	26
NL Angel[1]	20
BA Dames	27
JA Dladla	24
SJ Lennon	26
ME Letlape	23
PJ Maroga	25
EN Matya	25
PD Mbonyana	22
M Ntsokolo	25
B Nqwababa	26

1. Appointed June 2005.
✓ Present
A Absent with apologies.

Public Finance Management Act

The board is the accounting authority in terms of the PFMA, in which Eskom is listed as a schedule 2 public entity. This act also applies to subsidiaries and entities owned or controlled by Eskom, as they are also classified as schedule 2 public entities.

The PFMA focuses on financial management with related outputs and responsibilities. Eskom has an ongoing process of awareness, education and advice on the PFMA to the business.

Directors comply with their fiduciary duties as set out in the PFMA. The responsibilities of the board, in terms of the PFMA, include taking appropriate action to ensure:

- economic, efficient, effective and transparent systems of financial and risk management and internal control are in place
- a system is maintained for properly evaluating all major capital projects prior to making a final decision on each project
- implementation of appropriate and effective measures to prevent irregular or fruitless and wasteful expenditure, expenditure not complying with legislation, or losses from criminal conduct
- all revenue due to Eskom is collected
- the economic and efficient management of available working capital
- the definition of objectives and allocation of resources in an economic, efficient, effective and transparent manner

Integrated risk management

The Eskom integrated risk management strategy and process is a focus area in the organisation. Risks and opportunities, against business objectives, are identified during risk assessments throughout the organisation, from both a line and functional perspective. Risk integration between divisions and subsidiaries is reviewed by various committees to ensure a coordinated approach to risk mitigation measures.

The process of risk management, including a related system of internal control, is the responsibility of the board. Management is

accountable to the board for the design, implementation and monitoring of the process of risk management, and integrating risk management into the day-to-day activities of the organisation.

Risk accountability is defined by the risk accountability matrix, which is periodically updated to ensure relevance. Risk categories defined in the matrix include finance, technical, environmental, legal, human resources, information, stakeholders, regulatory and strategic. Each category has separate subcategories that ensure all risk areas are covered, and promote effective risk identification and evaluation.

A methodology for determining major risk values has been defined. This will assist the organisation to better identify which risks should receive priority and will show the value of risk mitigation measures. Aligned to this valuation methodology are risk tolerance levels for the organisation and risk appetite parameters for each functional risk area. A tolerance level for the organisation has been proposed and is currently being refined before implementation. Refer to the directors' report on page 88 for information regarding Eskom's major risks.

www.eskom.co.za/annreport06 for more information.

Ethical business conduct

Eskom is committed to the highest standard of ethical conduct in all its actions and decisions, underpinned by its key value of integrity. The organisation strives to act in a manner that promotes trust, dependability and honesty at all times.

The ethics office, a section of the risk management department, endeavours to inculcate a high standard of ethical conduct in the Eskom group. It assists the chief executive in setting the framework, rules, standards and boundaries for ethical behaviour.

This is achieved through an ethics management programme, based on King II recommendations and other best-practice initiatives.

Priorities addressed during the financial year included:

- an independent ethics climate survey was conducted among stakeholders to review the Eskom business conduct policy. The survey gave stakeholders the opportunity to participate in developing a code of ethics that would reflect the ethical values shared by all Eskom stakeholders. The representative sample of respondents included members of the board, employees, labour unions, customers and suppliers. Employees will have an opportunity to influence the revised code of ethics before its expected implementation during the next financial year
- a conflict of interest policy and procedure to manage declarations, where the emphasis is on procurement practices, is under development for implementation during the next financial year
- the corporate audit department conducted ethics audits throughout the organisation to monitor compliance with the business conduct policy and verify ethics status reports
- there was ongoing ethics awareness training
- unethical conduct, crime and irregularities can be reported via a dedicated helpline, website and e-mail address, as well as an external confidential toll-free crime line. These reporting facilities are also available to Eskom's stakeholders

The integrated risk management strategy and process is a focus area in the organisation

- a database is maintained of all reported unethical behaviour. The database tracks areas that require specific attention and monitors progress of investigations. Access to the database is restricted to maintain confidentiality of whistle-blowers
- the ethics website provides information to employees on the business conduct policy, including key ethical issues, frequently asked questions and training material
- employees are required to record gifts given and received in a courtesy register. The business conduct policy provides guidance on what may be considered acceptable gifts and entertainment

www.eskom.co.za/annreport06 for more information.

Internal control

The board has ultimate responsibility for establishing a framework for internal control. The controls throughout Eskom focus on those critical risk areas identified by operational risk management, and confirmed by executive management. Controls are designed to provide cost-effective assurance that assets are safeguarded, and that liabilities and working capital are efficiently managed. Organisational policies, procedures, structures and approval frameworks provide direction, accountability and segregation of responsibilities, and contain self-monitoring mechanisms.

Koeberg nuclear power station profiled against Table Mountain

Safety check in progress for liveline work

Both management and the corporate audit department closely monitor controls and actions taken to correct deficiencies as they are identified.

Audit

In line with the requirements of the PFMA and good governance, corporate audit, (Eskom's internal audit function) provides the audit committee and management with assurance on the appropriateness and effectiveness of internal controls in place. This is achieved by an independent, objective appraisal and evaluation of risk management processes, internal controls and governance processes, as well as by identifying corrective actions and suggested enhancements to controls and processes. The risk-based audit plan covers major risks emanating from Eskom's integrated risk management process. The audit plan responds to changes in Eskom's risk profile.

The corporate audit department is fully supported by the board and audit committee, and has full, unrestricted access to all organisational activities, records, property and personnel.

The external auditors are responsible for independently auditing and reporting on the financial statements in conforming with International Financial Reporting Standards.

Technical audit

The corporate technical audit department provides assurance to executive management, through the audit function, on the technical, environmental, quality and safety performance of Eskom. It also carries out incident investigations and performance monitoring. The department is responsible for the measurement and verification of energy efficiency and load shifting projects in Eskom, which is a new function with the aim to participate in all energy management-related activities.

Audit programmes are based on one- and three-year cycles. Additional safety, health, environmental, quality and technical risk audits, reviews, assessments and incident investigations are conducted.

Security risk management

The board is responsible for ensuring that an integrated crime-prevention plan is implemented to minimise the risk of, and opportunity for, crime and irregularities – particularly fraud.

The security risk management department was established to provide a cost-effective risk-based approach to address threats of crime and irregularity against Eskom. This includes strategies of crime prevention, detection, response and investigation that support business objectives.

Where serious fraud, corruption and irregularities are suspected and reported, forensic investigations (a section of security risk management) investigate and establish the facts to enable management to deal appropriately with the issues, and to prevent recurrence.

Stakeholder engagement

Eskom values constructive dialogue and relationships with stakeholders. Ongoing interaction enables the business to improve customer service, satisfy stakeholder needs, meet regulatory requirements and play a more significant role as a catalyst for economic growth and nation-building.

Eskom has a formal and continuous programme of engaging with specific groups of stakeholders and addressing issues that are critical to the execution of its business strategy.

Stakeholder engagement

Stakeholder issues identified and the response strategy and control measures include:

Issue	Response strategy/control measures	Page reference
National electricity supply constraints	• Embarked on build and return-to-service programme to increase capacity • Refurbishment and network-strengthening projects under way to enhance quality of supply • Western Cape recovery plan implemented	29, 36, 51
Appropriate planning procedures to enable Eskom to manage future challenges	• A robust planning process is in place that is annually reviewed and updated with expected changes in supply and demand • Planning process is aligned to that of the Department of Minerals and Energy and Nersa • Follows a process of public participation with environmental impact assessments	36, 51, 54
Management and retention of critical skills	• Consolidating and optimising existing skills and resources • Source critical skills from multiple sources, with a focus on BEE • Internal training and development programmes and recruitment practices focuses on building skills base • Eskom Learning Institutions increased intake of students	39, 59, 64
Safety standards and the prevention of fatalities	• Renewed focus area from top management and down into organisation • Electrical safety awareness initiatives implemented to educate the public about the dangers of electricity inside and outside the home • Renewed focus on behavioural safety programmes to address vehicle fatalities • Quality of job observations and safe working procedures improved	26, 39, 66
Comprehensive maintenance of assets	• Maintenance practices, procedures and programmes refocused to take account of ageing critical plant • Focus on enhancing engineering, operating and maintenance skills • Pipelining of sufficient critical staff for the future has been accelerated through recruitment and training initiatives • Large maintenance partners included to ensure skills are focused on priorities such as quality assurance	39, 55
Management of HIV and Aids among employees	• Manages impact of HIV and Aids through integrated response strategies. • Strategies which aim to empower employees through self-awareness, education and training, care and support, high risk areas, policies and practices, information management, communication and partnerships • Special focus on Voluntary Counselling and Testing • Employee assistance programmes in place	40, 61, 64
Minimising environmental impact	• Environmental management system implemented to ensure continual improvement in managing the impacts on the environment • Environmental management an integral part of decision and business processes • An environmental help-line allows both internal and external stakeholders to engage with Eskom on environmental issues	26, 29, 30, 69
Affordable and sustainable tariffs	• Eskom supports the Nersa objective of safeguarding the interests of customers and is committed to fair pricing and consultation with the Nersa • Eskom intends to keep the price of electricity as low as possible, combined with a pricing policy that ensures gradual, stable and predictable price increases	39, 87

Eskom regularly reviews the effectiveness of its stakeholder programme. This includes surveying stakeholders to understand shifts in perceptions and needs. During the review period, Eskom commissioned an independent research consultancy, African Institute of Corporate Citizenship, to facilitate two formal sessions with stakeholders for feedback on the 2005 Eskom annual report and the process of reporting to stakeholders in general. It was encouraging that the overall response was positive. Many of the issues raised – spanning economic, social and environmental concerns – have been addressed in this report.

Eskom will continue to make every effort to enhance this engagement process and address stakeholder issues and requirements.

To present a balanced and understandable assessment of its position, Eskom continually strives to ensure that reporting and disclosure to stakeholders is relevant, clear and effective. The organisation emphasises integrated reporting on economic, environmental and social matters, as well as being transparent in addressing both positive and negative aspects. Local and international guidelines for sustainability reporting, including the Global Reporting Initiative (2002) and King II, are used in compiling the annual report.

The 2005 annual report was independently benchmarked against best practice in integrated sustainability reporting to ensure continual improvement and relevance of information reported. The findings and recommendations were considered in preparing this annual report.

www.eskom.co.za/annreport06 for more information.

Eskom identified the main stakeholders to whom it is accountable and who it expects to use this annual report. Primary and secondary stakeholders were identified in the preparation of the report.

Eskom engages with stakeholders in a variety of ways, including:

- government and regulatory bodies – regular one-on-one engagement, joint working groups, shareholder compact and written communication
- customers – one-on-one engagement, call centres, customer satisfaction surveys, newsletters, joint working groups, internet, conferences and dedicated account managers
- employees – Eskom plasma and touch screens, intranet (internal website), electronic communication, internal publications, newsletters, conferences, annual road shows by executive management throughout the country and employee satisfaction surveys
- unions – one-on-one engagement, joint working groups, consultative forums, negotiating councils and structures
- financial community (investors, financiers and rating agencies) – road shows, internet, Eskom publications, regular interaction and presentations
- media – regular press conferences and briefings, one-on-one interviews, internet and Eskom publications
- suppliers – procurement policies and procedures, supplier forums, one-on-one engagement and internet. Refer to the stakeholder engagement table on the previous page

Sustainability, occupational hygiene, safety and environmental management

The chief executive, as chairman of the sustainability subcommittee of Exco, is accountable for Eskom's overall sustainability performance.

The co-ordination and determination of Eskom's strategic direction on sustainability, including environment, occupational hygiene and safety is undertaken through the Eskom sustainability, environment and occupational hygiene and safety liaison committees.

Eskom's safety, health and environmental policy, the National Environmental Management Act, 107 of 1998 and the Occupational Health and Safety Act, 85 of 1993, remain the guiding principles for achieving the group's occupational health, safety and environmental strategies and performance targets. The operations subcommittee of Exco monitors and assesses occupational hygiene, safety and environmental performance and reviews major incidents to ensure the necessary corrective measures are taken. Overall strategies are reviewed by the sustainability committee of the board.

www.eskom.co.za/annreport06 for more information.

Nuclear safety

The independence of the nuclear safety assurance function from the electricity production function is assured by separating Eskom's nuclear infrastructure into two structures. The nuclear business arena is directly accountable to the managing director of the Generation division for all aspects of electricity production at Koeberg power station, including safety. The nuclear safety and compliance section, a separate department in the Generation division with its own technical experts and resources, provides independent assurance of nuclear safety and compliance with licence requirements.

Eskom has a three-tier system of nuclear safety governance, in line with international

best practice. The first tier is the sustainability committee of the board, which dedicates a number of its meetings each year to nuclear considerations. These meetings are attended by a number of experienced international nuclear experts, thus bringing an international perspective to the committee's deliberations. The second tier is the nuclear management committee, chaired by the managing director of the Generation division. This committee monitors, reviews and recommends for approval aspects of the Eskom nuclear business, including nuclear policy, standards and rules in relation to international standards and benchmarks and Eskom's overall business requirements. The third tier is the safety review group, a forum that brings together nuclear expertise from different parts of Eskom to debate and evaluate nuclear safety issues, and make appropriate recommendations to senior management and the higher tiers of committees.

www.eskom.co.za/annreport06 for more information.

Corporate citizenship

The objective of government's Accelerated and Shared Growth Initiative for South Africa (Asgisa) is to promote economic growth and halve poverty and unemployment by 2014.

Eskom's contribution is centrally co-ordinated and facilitated through the office of the chief executive. Eskom's most significant contribution to Asgisa will continue to be through its core business of supplying affordable, reliable electricity, thereby facilitating economic growth. Eskom will also optimally leverage associated activities, including its current corporate social investment (CSI) programmes, for the development of the second economy.

Eskom's activities are aimed at contributing to the development of the disadvantaged where it operates. CSI activities include initiatives for skills development, job creation, education and health.

Many of Eskom's CSI initiatives are executed by the Eskom Development Foundation, a company established for this purpose.

The Eskom Development Foundation has a board of directors that uses various committees to manage the grant-making activities of the company.

www.eskom.co.za/annreport06 for more information.

Subsidiaries

Eskom Enterprises (Pty) Limited

Eskom Enterprises and its subsidiaries, in South Africa and across the African continent, subscribe to the principles of good corporate governance and high ethical standards.

Board of directors

Eskom Enterprises' board comprises the chief executive: B Dames, the Eskom chief executive: TS Gcabashe, the Eskom finance director: B Nqwababa and an Eskom managing director: S Lennon.

There were no changes to the board during the period under review. At the annual general meeting, B Nqwababa was re-elected as shareholder representative.

Board committees

The audit, integrated risk management, investment and finance as well as the tender and procurement committees are governed by written terms of reference and are integrated with Eskom governance structures.

The board committees met regularly during the period under review, and were effective.

Internal control

The Eskom Enterprises board bears ultimate responsibility for the group's system of internal and financial control. Controls are designed to provide cost-effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. Organisational policies, procedures, structures and approval frameworks provide direction, accountability and segregation of responsibilities.

The corporate audit department provides the internal audit function for Eskom Enterprises.

Other material Eskom subsidiaries

Eskom's other wholly-owned subsidiaries – Eskom Finance Company (Pty) Limited, Eskom Development Foundation, Escap Limited and Gallium Insurance Company Limited – are governed by independent board structures and internal control measures. The directors are fully accountable to Eskom as shareholder, through the shareholder compact. The subsidiaries comply with the requirements of the PFMA and Companies Act, 61 of 1973 as amended and are guided by the principles of good governance.

Chairman's report

For the board, Eskom's role in a changing South Africa has three thrusts: economic, social and environmental

This is my first report as Eskom's chairman. I am rapidly becoming more familiar with a state-owned entity of global stature where a tradition of stringent corporate governance standards is continually being enhanced. Given that Eskom touches the lives of the majority of South Africans every day, this attention to continual improvement is both a civic duty and business imperative.

Globally, Eskom is well among the top 10 power companies by sales, and 11th by generating capacity. It has some of the largest coal-fired power stations in the world and is an established and innovative forerunner in meeting the demands of life in the 21st century.

Eskom's financial results for the year underscore the strength of the group and should not be overshadowed by the unfortunate incidents in the Western Cape. Eskom's response strategy was clear-headed and its partnerships with other role players ensured predictability and minimised inconvenience. This extra-ordinary combination of factors tested Eskom's systems to the utmost and they passed, confounding those who argued that a national energy crisis was unfolding.

A new era

Eskom's new vision is *Together building the powerbase for sustainable growth and development.*

In formulating a new vision to drive the group, cognisance was taken of industry trends and changes – locally and abroad – and challenges specific to Eskom. These ranged from increasing demand and diminishing surplus capacity to future funding. The result is a group focused on expansion, strengthening existing networks, managing risk and extending its skills base. The board is confident that Eskom has the strategies, structures and management teams to achieve its vision.

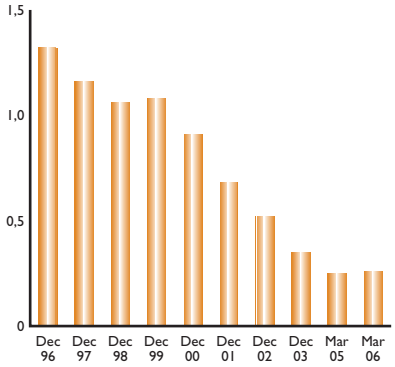
Eskom's role in a changing South Africa

For the board, Eskom's role in a changing South Africa has three thrusts: economic, social and environmental:

- On the economic side, the supply of energy is pivotal in the national drive to eliminate poverty and stimulate the economy. Eskom, in turn, is a vital participant in supplying energy
- economic goals are underpinned by social goals, specifically the objectives of the country's reconstruction and development programme. As a subscriber to the United Nations Millennium Development Goals, South Africa has a moral duty to improve the quality of life of its citizens. Again, a basic requirement is energy
- the quality of life of all citizens will be forever harmed if we neglect the impact of environmental change, specifically climate change. South Africa is a responsible member of the global community, with an important role to play in combating climate change. The development of renewable and non-fossil fuel primary energy sources is crucial and Eskom is making significant progress in investigating alternative technologies as well as using our coal resources more efficiently and with lower impact

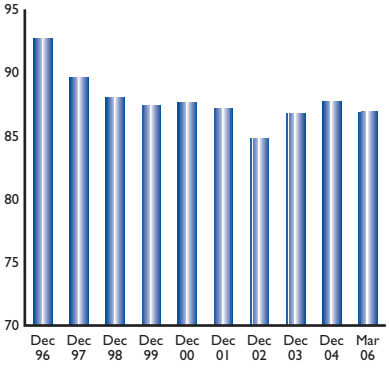
Eskom debt:equity, including long-term provisions

Ratio



Electricity tariff increase deflated by average consumer price index

Price index



Base = 100 in 1995

Eskom's ambitious capacity enhancement programme is detailed in the chief executive's report. As a board and in support of national economic growth, our duty is to prioritise this programme and ensure its steady and efficient implementation.

Supporting national goals

As part of its accelerated shared growth initiative for South Africa, government aims to ensure electricity for every South African by 2012. This is a formidable challenge in a developing country that has a sizeable low-income population and vast distances to cover in reaching rural settlements.

For Eskom, core programmes in attaining this goal are free basic electricity – 50kWh/month for qualifying households – and the electrification programme. To date, Eskom has connected millions of households, schools and clinics to the national grid as part of the latter programme. Progress with the former initiative has been slower, given the need to first contract with identified municipalities. Once contracted, municipal authorities have to determine qualifying customers whose meters must then be reconfigured. Encouragingly, good progress was made during the year with almost all of the identified municipalities now under contract and meters reconfigured for 84% of qualifying customers.

Climate change

Given the serious threat of climate change to sustainable national development, Eskom finalised a robust plan in 2005 in line with government's response strategy. In 2006, the strategy was rolled out. Priority areas include climate change criteria as part of decision-making, continual improvement in reporting, commitment to national and international government and business processes, and participation in the Clean Development Mechanism. Refer to page 75 in the directors' report.

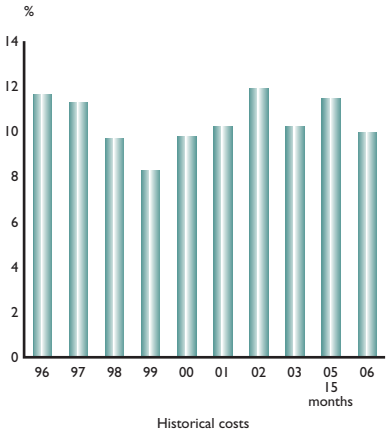
Our aim is to reduce the quantity of greenhouse gases emitted per megawatt of electricity generated. Achieving this goal requires, among others, assessing our energy mix and considering all options in planning for future electricity supply. Refer to page 74 in the directors report. Non-generation measures to reduce greenhouse gas emissions include the demand-side management programme and other energy efficient initiatives. Eskom is also a signatory to the voluntary business accord that supports the national energy efficiency initiative. The success of demand-side management in the Western Cape indicates the significant opportunities which can be achieved nationally in the future.

We believe adaptation to climate change is important, as studies show that parts of South Africa will experience increased drought due to climate change. The board is particularly encouraged by the early successes achieved in Eskom's drive for energy efficiency and energy saving, which demonstrates the willingness of consumers to adapt their use of electricity to a more sustainable model. I believe the combination of energy efficiency and energy saving can play a significant role in reducing greenhouse gas emissions and thus mitigate the effects of climate change. In context, the energy saving achieved in the past two reporting periods through demand-side management programmes is enough to electrify a small town. Demand-side management will become a permanent feature of the drive for energy efficiency and savings as the programme is rolled out nationally.

We remain committed to reporting on our climate change priorities, specifically the strategy roll-out and participation in processes aimed at dealing with climate change adaptation and mitigation, and our performance in reporting carbon dioxide emissions. Refer to page 172.

On the supply-side, Eskom's renewable energy strategy was implemented during

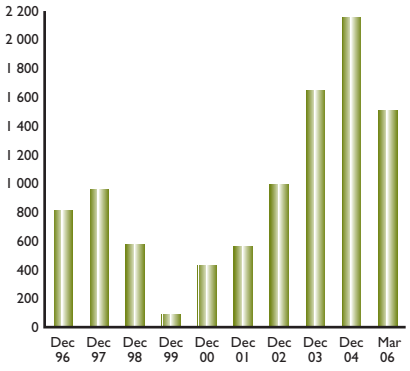
Eskom rate of return on total assets after tax



Historical costs

Eskom productivity improvement for all resources

Rm – 2006 rand



The sum of the cumulative annual productivity savings over the 10-year period amounted to R9 736 million.

the year. Renewable sources that have been evaluated are wind, solar, wave, tidal, ocean current, biomass and hydro. Refer to page 76 in the directors' report. Among other issues, research has focused on how renewable technology interacts with the South African environment and has highlighted unique factors that can impact its performance. Eskom also participated in a Department of Minerals and Energy pilot project on green power trading and contributed to the development of draft market rules. Eskom will act as the independent market operator for the duration of the project.

Shareholder compact

In 2004, the Minister of Public Enterprises refocused state-owned enterprises as catalysts for economic development. This was in line with government's investment-led strategy to achieve higher levels of investment by improving the use of resources across the spectrum. Eskom revised its business model to ensure a robust enterprise, capable of meeting the current and future needs of a changing customer base by focusing on its core business – generating, transporting, trading and retailing of electricity.

Annually, Eskom's key performance objectives, measures and indicators are agreed with the shareholder and encapsulated in a shareholder compact. Enshrined in the compact are the principles of good governance and absolute compliance with the laws of the land. Refer to page 16 in corporate governance and 49 in directors' report.

Essentially, the board is responsible for ensuring these targets are met, particularly capacity expansion, capital efficiency and capital deployment. Through the Chairperson's Forum, a co-operative initiative between state-owned enterprises, the board is also responsible for ensuring that knowledge is shared.

Industry fundamentals

The restructuring of the electricity supply and distribution industries and the national drive for energy efficiency have long been contentious issues, given the plethora of affected parties and the need to balance the resources and requirements.

While progress is being made in developing an optimal solution for South Africa, we believe the most pressing consideration is fulfilling the demands associated with steady economic growth. This sustained growth is effectively absorbing the surplus capacity in the national electricity supply system, underscoring the importance of urgent and appropriate decisions to support future growth while meeting the government's targets of universal access.

Dividend policy

With the build programme under way and the company's desire to fund its own capital programme, the board believes it would not be appropriate to pay dividends during this period.

A formidable team

Eskom is home to a vast base of knowledge and intellectual capital – people who are experts in fields as diverse as physics and finance. It is also home to several of the very few women in the world in charge of power stations. In many respects, I believe Eskom is about scale – the sheer size of its power stations, the intellectual capital that keeps them functioning and the innovation that delivers progress to the world. As a board, it is also a pleasure to work with such a strong and passionate management team under the able leadership of the chief executive Thulani Gcabashe. We are confident the collective skills and dedication of these individuals will keep Eskom among the leaders in its field globally, to the benefit of South Africa and its people.

Eskom is home to a vast base of knowledge and intellectual capital – people who are expert in fields as diverse as physics and finance

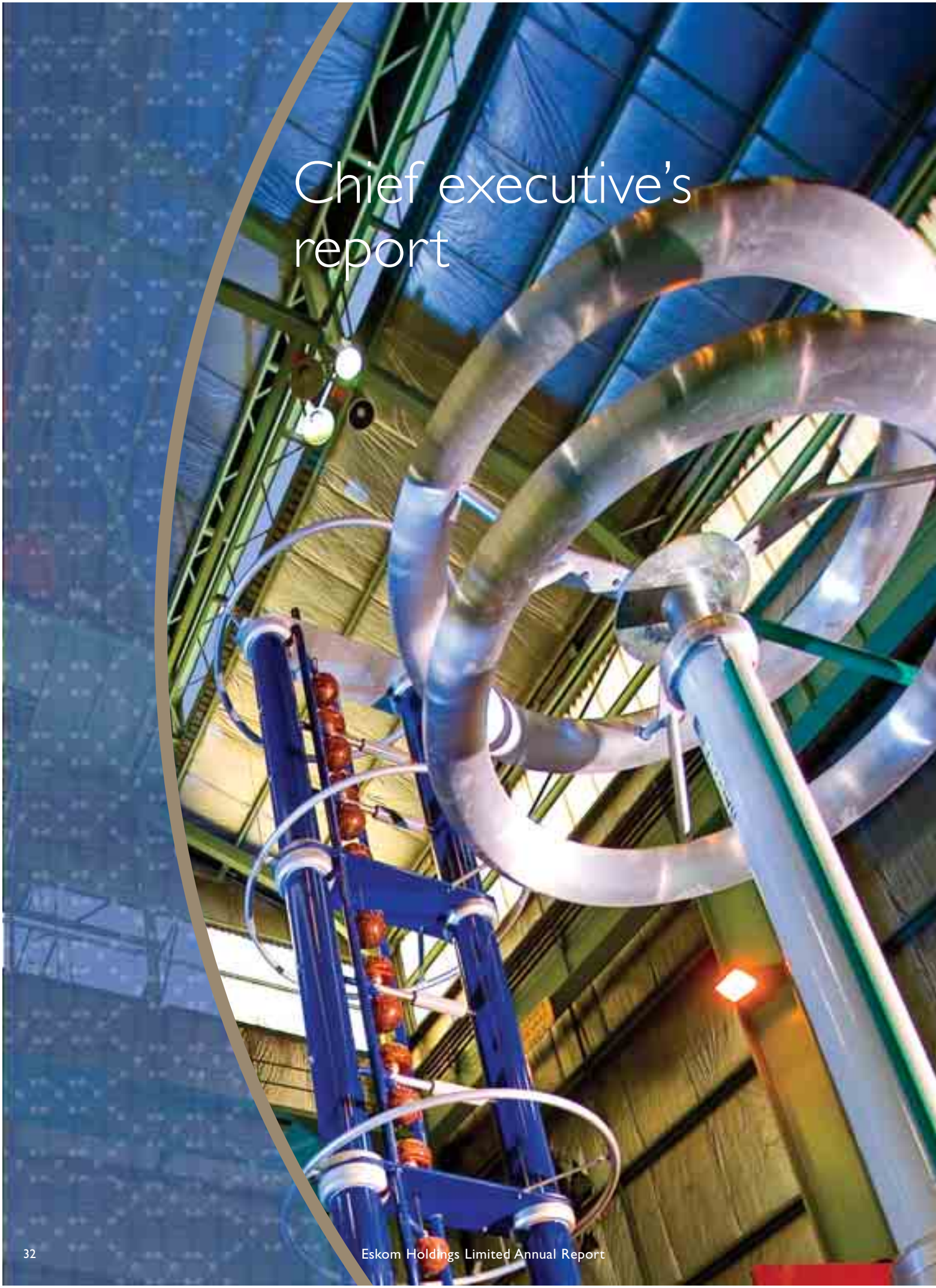
Acknowledgments

Eskom enjoys the support of its shareholder, particularly the Department of Public Enterprises that plays such an active and engaging role. The synergy between Eskom and the department will underpin the progress of numerous development initiatives. The Parliamentary Portfolio Committee has given a new dimension to its oversight responsibilities through active, constructive and transparent interaction. We value these relationships and will continue building on this strong base.

During the period, Nonkululeko Msomi, Sindi Zilwa and Eddie Funde retired from the board and we thank them for their valuable contributions while in office. My personal thanks to Reuel Khoza, chairman of Eskom for eight years, for making the transition so seamless for me.

Valli Moosa
Chairman

Chief executive's report



Eskom is well positioned to meet rising demand, given its financial strength, technical skills, planning capacity and operating performance

Eskom's overall business performance for the year has been commendable. However, we faced significant technical challenges, particularly the supply and transmission of electricity to the Cape (including parts of Eastern Cape, the Western Cape and parts of the Northern Cape).

These challenges have highlighted the importance of the watershed period Eskom is now entering. We are moving from the comfort zone of having surplus electricity over the past 20 years to a sustained period of building new capacity to satisfy the higher demand for electricity that accompanies strong national economic growth.

Eskom is well positioned to meet rising demand, given its financial strength, technical skills, planning capacity and operating performance. Accordingly, we have confidently embarked on a massive capacity expansion programme to meet this demand while also confronting the challenges of an ageing transmission and generation system. This is a rolling five-year programme (currently totalling R97 billion) with stipulated annual targets included in our compact with government.

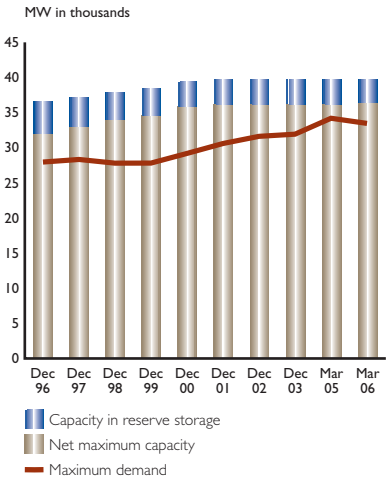
Performance overview

Undoubtedly, the most momentous events concerning Eskom during the review period were the supply disruptions to the Cape. These incidents attracted criticism from many quarters, much of it understandable and justified. In retrospect – and without diminishing the impact of these disruptions to businesses, consumers and the fiscus – the speed of our response, the ingenuity of our engineers and the willingness of Eskom teams at every level to manage and minimise the impacts, reinforced our confidence in our ability to meet all eventualities, particularly in mobilising scarce resources at times across the breadth of South Africa.

The Cape incidents highlighted the critical importance of a reliable supply of electricity and, therefore, the necessity of upgrading the country's electricity grid to meet the energy needs of our country now and in the future.

Eskom reports to stakeholders on the basis of the triple bottom-line – economic, environmental and social. Our previous annual report was reviewed by stakeholders. Refer to page 24 in corporate governance. We were encouraged by the positive comments received and have addressed to the best of our abilities the concerns and issues raised by stakeholders in feedback sessions. This is a process that will continue as we strive to align our reporting standards to global best practice such as the Global Reporting Initiative and the United Nations Global Compact. Refer to page 66 in the directors' report.

Generation plant capacity and maximum demand



Real GDP growth versus Eskom sales (GWh) growth

Construction being carried out at Atlantis open cycle gas turbine site

Cooling towers and stacks at Camden power station

Economic

Eskom's financial performance for the year was achieved against modest sales volume growth of 0,8% and the start of an ambitious build programme with its concomitant investment in the resource base.

The group's pre-tax profit, including the favourable impact of embedded derivatives of R1,3 billion, was R6,8 billion. This compares to R7,6 billion for the 15-month period to March 2005.

Tight cost control and good working capital management enabled us to retain our international competitive position as the world's lowest-cost producer, despite the sharp increase in primary energy costs and the implications of managing an ageing plant.

Our group return on assets was 9,19%, which is in line with the margin allowed by the regulator.

Illustrating the strength of our balance sheet, we had two very successful bond issues during the year – one a Euro bond and the other a local bond – that together raised R6,0 billion.

At year end and after the bond issue, our balance sheet still had a healthy debt:equity ratio of 0,18. This places our group in a sound position to fund the R97 billion build programme and ensure we are capable of satisfying the electricity demands of a fast-growing South African economy.

Debt-management strategies in areas such as Soweto received specific attention. Given that conventional credit-management procedures have had limited effect in Soweto, we are supplementing these with technological solutions such as split metering and prepaid online vending. Pilot projects have been approved to assess the impact on revenue collection, and monitor meter-tampering and bypassing of meters. Other targeted initiatives include a loyalty incentive programme, blacklisting defaulting customers and recovering outstanding debt by converting defaulting customers to prepayment (with a portion of the cash allocated to debt recovery and the balance to prepaid units).

Social

During the year, we exceeded our annual electrification targets by connecting 106 968 new customers, bringing the cumulative total to 3,3 million. By year end, 98% of municipalities and 84% of qualifying customers were participating in the free basic electricity initiative. One million households are now benefiting from this project, although we acknowledge there is still much to do to ensure all qualifying consumers receive their free monthly electricity. These initiatives are closely aligned with national goals of improving access to electricity and the quality of life of low-income households.

Eskom's commitment to advancing black economic empowerment in South Africa was underscored during the period when the group allocated more than R11 billion of discretionary expenditure to small and medium black economic empowerment enterprises (including those owned by black women). In future, the percentage of discretionary expenditure allocated to these companies will be aligned with government's code of best practice on

black economic empowerment spent reporting. Eskom also exceeded its employment equity targets for black staff and women at managerial level, and people with disabilities. Refer to page 62 in the directors' report.

Environment

By the very nature of its activities, Eskom has an impact on the environment. Effectively managing and mitigating this impact is a priority. It is also the catalyst for innovation. Using satellite and cell phone technology and working in partnership with the Council for Scientific and Industrial Research, we developed pioneering technology in remote sensing for bush fires that ensures rapid response to minimise environmental and infra-structural damage. Equally, the 21% reduction in particulate (ash) emission from our coal-fired power stations during the year was our best performance ever.

Several parts of Eskom have now been certified to the ISO 14001 standard, including our Transmission division and elements in Eskom Enterprises. During the year, R693 million was spent on capital and operational environmental activities.

Technical

Despite the technical challenges experienced with the supply to the Western Cape, overall technical performance was fair with Unplanned Automatic Grid Separations (UAGS) (which measure plant reliability of service provided to the electrical grid) reflecting 1,55 separations/7 000 hours. Most of the plant is approaching the middle of its design life, impacting both performance and required outage time for maintenance and refurbishment.

The energy availability factor of 87,4% (2005: 89,5%) was achieved against a target of 89,2%, primarily due to more forced outages.

There were 38 interruptions to Transmission customers. System minutes lost (with a severity of less than one system minute) were well within the target. However, five major incidents with a severity greater than one system minute were registered as a result of the rolling outages in the Western Cape and parts of Northern and Eastern Cape. A total of 66,27 system minutes were lost.

Given the supply chain challenges Eskom faces in operating and maintaining an ageing infrastructure while expanding its network, a major strategic sourcing initiative is under way. It is expected to produce savings of R490,0 million in the 2007 financial year and some R7,0 billion by March 2010. This project is aimed at developing Eskom's supply chain capability and making these cost reductions sustainable by streamlining commercial processes and technical specifications, and working more closely with major suppliers and contractors.

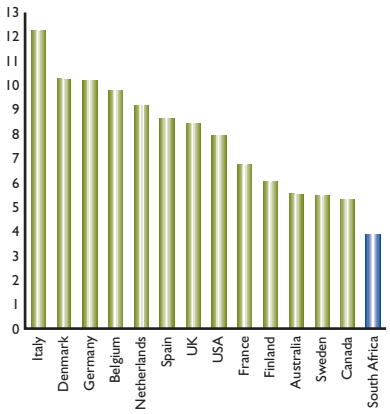
Business drivers supporting our new vision

Following the implementation of our new business model over the last two years (ie by focusing on our core business – generating, transporting, trading and retailing of electricity), we reviewed our vision to align with a new era of capacity expansion: *Together building the powerbase for sustainable growth and development.*

Tight cost control and good working capital management enabled us to retain our international competitive position as the world's lowest-cost producer

World industrial electricity prices from a representative utility in each country

US cents per kWh

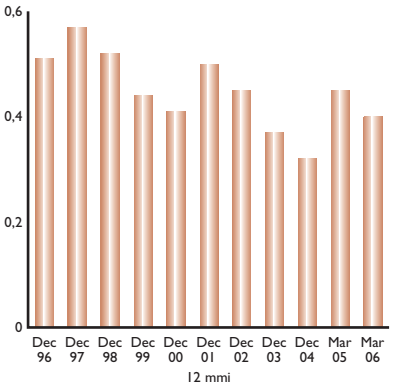


The survey is based on electricity prices in 2005 for the supply of 1 000kW for a site with a monthly usage of 450 000kWh. All prices are in US cents per kilowatt hour and exclude VAT. Where there is more than a single supplier, an unweighted average of available prices was given.

Source: Extract from © 2004 – 2005 NUS Consulting Group International Electricity Survey and Cost Comparison, April 2005.

Eskom disabling injury incidence rate

Index



Disabling injury incidence rate (DIIR) expresses the number of employees that suffered a disabling injury over a 12-month period.

Eskom's new vision harnesses the energy of the group, where each division has a unique strategic capability. Together, we are focused on achieving our primary goal and the ancillary initiatives that support it. The Enterprises division is mandated to design and build new capacity and refurbish existing infrastructure while the line divisions are focused on operating and maintaining the core electricity business. Inherent in the vision is the notion of disposing of non-core businesses.

At all times, our focus is on electricity; first for South Africa, then the Southern African Development Community (SADC) region and, ultimately, the rest of Africa.

Meeting South Africa's energy needs – currently

Simplistically, if government is to meet its 6% per annum growth target, Eskom will need to augment existing national capacity by 2 000MW per annum over the next 20 years.

To contextualise, the continued economic growth in South Africa over the last decade has all but utilised Eskom's surplus generation capacity. To date, the lowest reserve margin at peak has been 7,9%, highlighting the urgency of the capital expansion programme.

On the basis of demand for electricity growing at 2,0 – 3,0% per annum, projections show that Eskom would run out of excess peaking capacity in 2007, and excess base load in 2010.

We have therefore prepared short- and long-term plans to satisfy anticipated demand and avoid any potential capacity shortfalls.

Eskom has total nominal capacity of 42 011MW, with 36 398MW available on the system. The balance has been mothballed and is being gradually returned to service. Another 4 200MW is available through imports from Mozambique and specific contracts with certain customers. Given the forecast peak demand for winter 2006 of 35 100MW, there is sufficient capacity to meet demand and operational reserve requirements for this period. System stability will be of paramount importance with generation and transmission networks operating at full capacity.

Short-term capacity expansion and network stabilisation plans will see continued measures to increase power generation capacity and strengthen the national power transmission grid. Two open cycle gas turbine power stations, at Atlantis and Mossel Bay, will come on line before the winter of 2007, and additional units from the three mothballed power stations – Camden, Grootvlei and Komati – will also come on line.

Meeting the country's energy demands – in future

To align its reserve margin with international norms, Eskom has planned for a capacity reserve of 15% (including demand-side management savings) over the long-term. The functional reserve on the system will differ at any point due to factors such as maintenance at power stations or deviations in demand from forecasts.

Feasibility studies and environmental assessments are under way for a range of future power-sourcing opportunities and technologies, from conventional pulverised coal to renewable energy sources. We are also investigating the potential for imported power from neighbouring countries.

Eskom's longer term projects are aimed firstly at increasing peaking capacity. Given that coal-fired power stations (including the world's largest indirect dry-cooled power station in Kendal) contribute nearly 90% of our generating capacity, we have several long-standing contracts with mines to produce and supply coal solely for Eskom. Each power station targets a 20-day coal stockpile.

The pumped storage schemes enhance system security by supplying peak demand power and voltage stabilisation. In total, hydroelectric power and pumped storage schemes account for some 5% of our nominal generating capacity.

Although Eskom's power stations have the capacity to supply all South Africa's current electricity requirements, we also import hydroelectric power from Cahora Bassa in Mozambique. We expect that our imports of electricity will increase in future and have initiated a number of projects to improve and expand the transmission network in southern Africa. For security and supply of strategic reasons, imports will be limited to the reserve margin of 15%.

Eskom conducts ongoing and exhaustive research into future power technologies and energy sources under its integrated strategic electricity plan (ISEP). ISEP has been adapted to integrate and expand on existing supply-side and demand-side planning activities (electricity generation and transmission capacity planning are

examples of supply-side activities, while tariff design and geyser ripple control are examples of demand-side activities). A broad range of sustainability issues are integrated into the ISEP process.

In terms of South Africa's goal of establishing a sustainable renewable energy industry, government has set a target for renewable energy to contribute 10 000GWh of final energy consumption by 2013. Eskom is investigating options for diversifying the energy mix over time, including renewable energies. A wind energy pilot plant is already operating, while research and development continues on solar, ocean current, and biomass technologies.

Equally, Eskom's demand-side management programme aims to provide lower-cost alternatives by focusing on the judicious use of electricity rather than expanding the generation system. This joint initiative between the Department of Minerals and Energy, the National Energy Regulator of South Africa and Eskom aims to save 4 255MW of generation capacity over 25 years. Consumers are incentivised to use electricity more efficiently outside Eskom's peak demand periods. After improving on last year's target by 30%, demand-side management again exceeded the 2005 target, realising planned savings of 171MW.

Once the immediate need for new peaking capacity has been met through, among other initiatives, two new open cycle gas turbine plants and returning mothballed capacity to service, Eskom will embark on a programme of building greenfield coal-fired base load capacity on existing coal mines. A decision to proceed with the coal-fired Project Alpha (2 100MW) was made in December 2005. Further investment decisions on new base load capacity will be taken during 2006. Alternative technologies such as combined-cycle gas turbines and nuclear are also enjoying close attention.

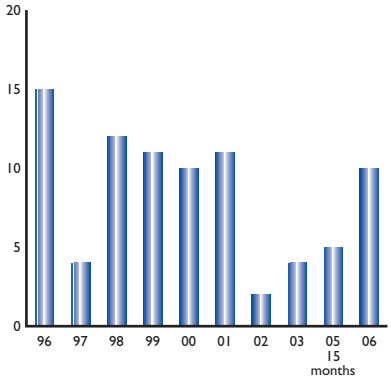
The transmission grid is also being strengthened. The Western Cape area is experiencing considerable economic growth but generation plants are far away, which requires strengthening of the transmission corridor. In addition, the country's northern corridor, serving the platinum basin where much mining expansion is taking place, is being reinforced. As part of the network strengthening programme, environmental impact assessments for a number of transmission power line projects have been completed, or are under way.

Beyond 2009, there are potential investment opportunities for independent power producers in line with government's decision for new players to provide for South Africa's generating needs. Government is presently facilitating the process and further decisions are awaited. In the current phase, independent power producers are expected to invest about R9 billion, or 30% of new capacity, in addition to Eskom's R97 billion.

Given the long-term nature of Eskom's investments, and their importance to sustainable national economic growth, the board and its subcommittees consider many different factors before taking a decision. This includes the needs of our shareholder and other considerations such as financial, social, macroeconomic, environmental, primary energy diversification, legislative and regulatory.

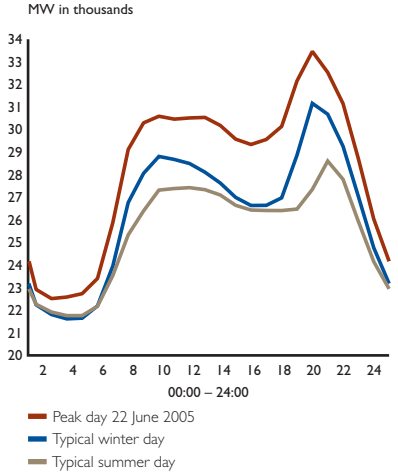
Eskom's demand-side management programme aims to provide lower-cost alternatives by focusing on the judicious use of electricity rather than expanding the generation system

Low-frequency incidents below 49,50Hz



Low frequency is an indicator of imbalance of instantaneous supply and demand due to unexpected unit trips and/or immediate shortages on the electrical system. With effect from 2002, Eskom's frequency control target was reduced from 49,70Hz to 49,50Hz following an international benchmarking exercise.

Electrical demand patterns



Funding our capacity expansion programme

Eskom's R97 billion capacity expansion programme will be funded largely from operational cash flows, commercial instruments and export credit agreements. During the review period, Eskom's excellent credit rating was evident from the response to our initial financing programmes:

- in February, Eskom launched a benchmark seven-year €500 million bond, returning to the international bond market after four years. At 3,4 times oversubscribed, the bond was allocated among 104 investors, mostly in Europe and Asia. This geographical distribution underscores Eskom's reputation as an issuer. Fixed coupon payment will be at 4% euro interest rates
- in March, Eskom registered a domestic R65 billion multi-term note programme, comprising seven different bonds. The first, ES33, was launched with an authorised amount of R10 billion and initial issue of R2,5 billion. The ES33 has a maturity date of 15 September 2033, making it the longest tenor bond in the history of the South African bond market at 27,5 years. The auction was 1,2 times oversubscribed, and well supported by local bond fund managers as a fair deal for both investors and issuer. Fixed coupon is at 7,5% South African interest rates
- in May 2006, Eskom became the first South African state-owned enterprise to securitise R1,6 billion of Eskom Finance Company's mortgage book. The issue was 3,5 times oversubscribed at prices below and within price guidance

Tariff structures

During the review period, and with the approval of our shareholder, Eskom finalised the first multi-year price determination tariff structures with the National Energy Regulator of South Africa (Nersa), effective 1 April 2006 to 31 March 2009. Refer to page 87 in the directors' report. Nersa awarded Eskom a real price increase of 1% over the next three years. This will not compromise South Africa's competitive advantage of being the lowest-cost global producer of electricity.

During the 1990s prevailing regulations resulted in effective real reductions in tariffs of 24%. The introduction of a multi-year pricing structure is critical to our short and long-term strategies and enables more informed forward planning for customers due to the price stability of the three-year agreement.

Eskom's continued financial strength depends on our ability to recover the full cost of producing and delivering power to customers; and the efficiency of our own delivery processes. Finding the balance between low cost of production and cost recovery is an ongoing challenge and multi-year tariff structures will assist in this regard.

Sustainability

Eskom ensures the sustainability of the business through balanced financial, social and environmental decision-making. As the first local signatory to the United Nations Global Compact, Eskom supports and upholds the 10 principles of the compact in the areas of human rights, labour standards, the environment and anti-corruption. Our commitment is largely affirmed through implementation of the sustainability strategy. The Eskom sustainability performance index is used to measure our overall performance. Refer to page 48 in the directors' report.

During the year, Eskom was assessed against the criteria of the JSE Socially Responsible Investment (SRI) Index that measures companies on their sustainability and triple bottom-line commitment. While Eskom, as an unlisted entity, does not qualify for inclusion in this index, nonetheless our score complies with the minimum requirements for the SRI index, and is comparable to the top performers in the high environmental impact category.

Safety

It is with great sadness that I report 10 employee fatalities in the year. Refer to page 67 in the directors' report. We extend our deepest condolences to their families, friends and co-workers. Our goal remains a safe workplace, and every loss of a colleague is deeply felt.

Each of these losses has touched me personally because they could have been avoided.

At Eskom, we are armed with the knowledge and training to do our jobs safely. Our managers and supervisors check that all work is carried out safely. We have intensified our efforts to improve our occupational hygiene and safety but, more importantly, we have to get our employees to *live* safety first. Through awareness, training and enforcing safety measures, we are determined to reach our goal of making Eskom not only a rewarding place to work, but a safer place too.

Eskom ensures the sustainability of the business through balanced financial, social and environmental decision-making

Extensive customer education campaigns about the safe use of electricity and a comprehensive safety code for suppliers and contractors are producing results, but we will not be satisfied until preventative behaviour becomes commonplace. Refer to page 68 in the directors' report.

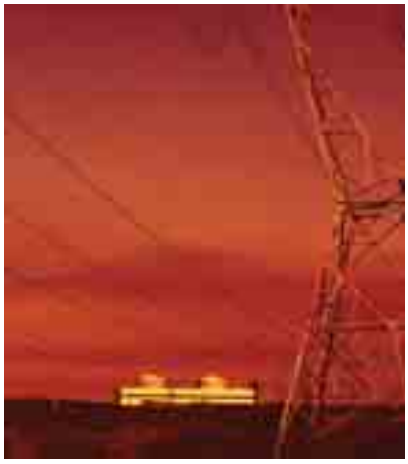
Maintenance programme

The assumed commercial life of our power stations is approximately 40 years. A number of our power stations are at what is called their midlife and thus require extensive maintenance including inspecting and replacing major components. Our maintenance plans are reviewed and enhanced annually in accordance with historic maintenance data to ensure that we can proactively mitigate the impact of potential breakdowns with appropriate maintenance programmes. Management are applying prudence in this area to ensure that the required maintenance is fully implemented to achieve reliability and continuity of supply.

Skills – the lifeblood of our business

In a growing economy, competition for skills in the marketplace intensifies and

The high voltage yard at Apollo substation



Koeberg power station feeds into the national transmission grid

finding sufficient and suitable skills becomes ever more challenging. In keeping with many of the country's largest businesses, Eskom is contributing to state targets in building and developing the pool of skills. For these programmes to be effective, commitment to their success must cascade from the highest level in both the public and private sectors.

At national level, Eskom supports the government's accelerated shared growth initiative and I represent the organisation on the task team for the government's joint initiative on priority skills acquisition. Through such initiatives, we are incrementally building our skills base. However, augmenting this by using non-traditional sources and resources must also be an option, given the time constraints we face as a country.

Within Eskom, we are meeting the challenge of skills development in two ways: firstly by critically examining our existing resources to optimise potential by honing skills or reskilling. This is a viable option for an organisation with considerable depth of skills that must be adapted to the fast changing environment. Secondly, our internal training programmes and recruitment practices are focused on building and retaining the skills base by ensuring rewarding and fulfilling careers for individuals.

Specific programmes meet the requirements of Eskom and, by extension, those of the country, by developing skills at every level in the most critical disciplines for our business: engineering, financial, scientific study, research and development, design, project managers and planners. Refer to page 60 in the directors' report.

HIV and Aids

In recent years, Eskom has acquired a sound understanding of the prevalence rates of this disease – among age groups, geographic locations and business divisions. This formed the basis of educational intervention programmes, and continual monitoring of their effectiveness towards achieving our targets of zero new HIV infections, zero Aids-related deaths and zero mother-to-child transmissions by 2010.

Voluntary testing and counselling remains a key tool in combating this pandemic. It was gratifying to see the benefits of increased awareness and behavioural change evidenced by the number of staff who undertook voluntary testing and counselling. During the period 50% of all staff was tested, which compares favourably with the anticipated 30%.

Partnerships in Africa

Eskom's revised mandate focuses on supplying electricity, beginning with South Africa and the Southern African Development Community (SADC). Eskom is a member of the Southern African Power Pool. Founded in 1995, this is now a mature alliance with numerous benefits from bilateral initiatives over the years. By combining the coal resources of the south with hydropower in the north, we have built a strong, integrated regional energy system. Importantly, this diversified energy base gives investors regional options, as

opposed to site-specific, and strengthens the investment case for SADC as a whole.

Eskom also participates in several associations elsewhere in Africa that promote co-operation and skills exchanges between members. We believe these initiatives are essential in building momentum for change in Africa's energy sector and advancing the goals of Nepad.

Exciting projects are under way to develop hydropower resources in the region, notably in the Democratic Republic of Congo and Mozambique. Refer to page 66 in the directors' report. Further afield, we continue our work in countries where we already have operations.

Acknowledgments

The continued growth and effectiveness of a state-owned entity the size of Eskom owes much to the commitment and input of our shareholder, particularly at departmental level. We thank Mr Alec Irwin, the Minister of Public Enterprises, and Ms Lindiwe Hendricks, the outgoing Minster of Minerals and Energy, for their considerable contributions. We welcome the new minister to the minerals and energy portfolio, Ms Buyelwa Sonjica, and trust we will continue to build on the solid relationship developed with this department. We acknowledge our past constructive interactions with the National Electricity Regulator and support the formation of the National Energy Regulator of South Africa (Nersa) effective 1 April 2006, which will regulate the electricity, piped gas and nuclear sectors.

The collective counsel of our board of directors, particularly that of our new chairman, Valli Moosa, and the multi-faceted skills each member brings to our deliberations are invaluable. My gratitude also goes to Reuel Khoza, who left Eskom after eight years as chairman. Invaluable, too, is a management team that is arguably one of the best and most dedicated in the industry in Africa. Behind this team are some 30 000 individuals who continue to inspire at every level and underpin our status as a world-class organisation.

The future

The historical challenge facing industries such as our own, is to maintain the balance between demand and supply. For Eskom, this will require seamlessly interlocking several elements: steady and superior operational performance, proactive infrastructural investment, appropriate pricing structures and a level of customer service that sets us apart. Collectively, we need to manage demand more effectively by reducing the inefficient use of electricity that, in turn, will ensure the equitable availability of this resource for all citizens.

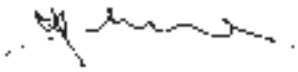
Specifically for Eskom, our success will be measured by our ability to run the current system efficiently through effective asset and resource management and to deploy our capital expenditure to accelerate the realisation of national goals.

Our shareholder compact this year stipulates several critical targets we must reach for generation, transmission and distribution capacity expansion, network strengthening and refurbishment. This requires 1 041MW of generation capacity to be installed and commissioned and 410km of transmission lines and 500MVA of transformer capacity to be installed. We have also agreed to further reductions in particulate emissions, the specific water consumption levels of our power stations and to extending our skills development programmes to 4 000 people, including new trainees and bursars.

The profitability in the 2007 financial year will be lower mainly due to a change in the regulatory return methodology, higher primary energy costs and much higher repairs and maintenance commensurate with the age of plant.

Key to achieving these objectives is the human element. Our people must be enthusiastic and committed. We must have the ability to develop the managers of tomorrow – people who are equipped to provide a fine blend of technical skills and planning capacity with people skills, all within a desire to service the electricity needs of a growing nation.

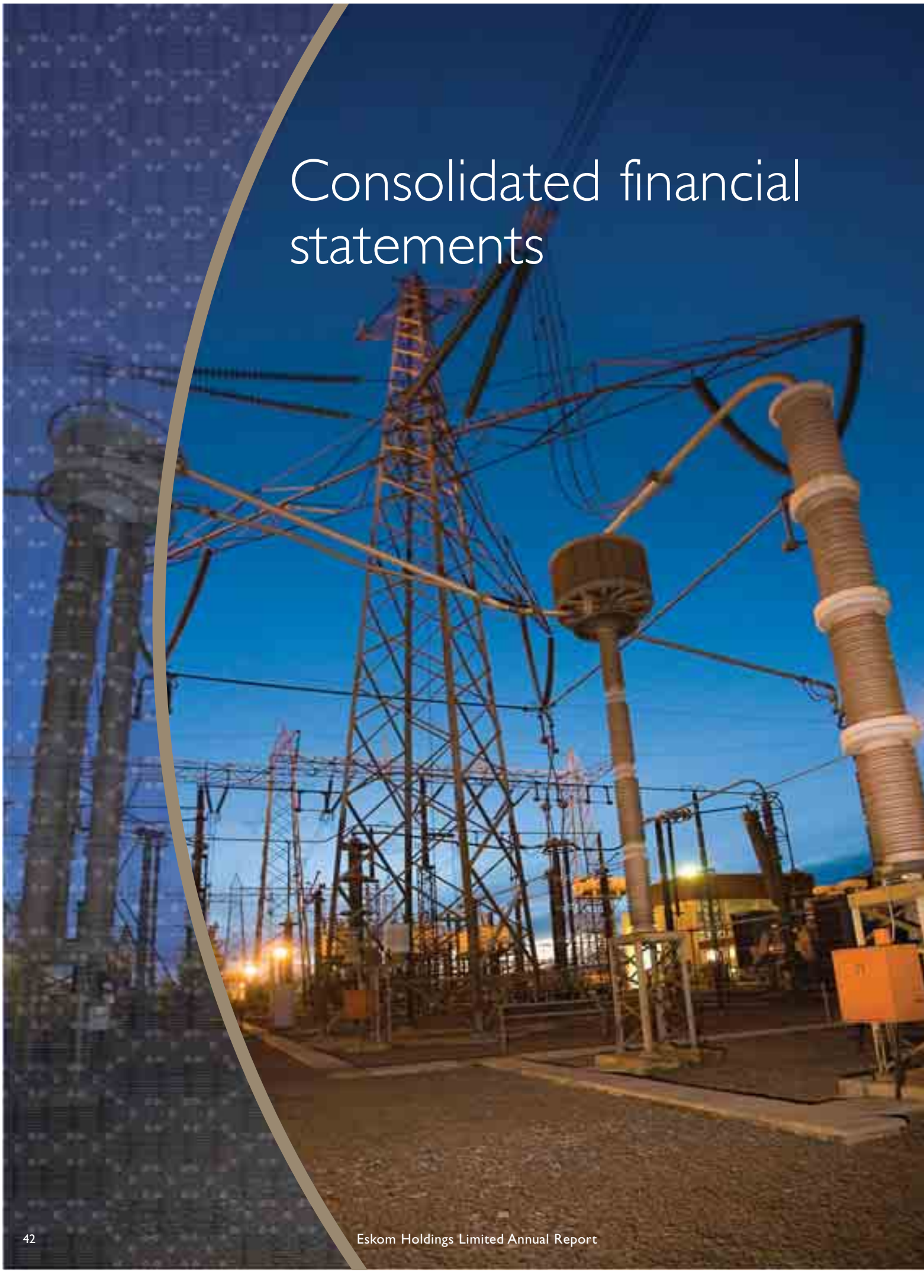
We are confident that, in Eskom, these elements are in place. We have both the experience and commitment to meet these challenges and play our part in the ongoing development of South Africa.



Thulani S Gcabashe

Chief executive

Consolidated financial statements



Statement of responsibilities and approval

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

The financial statements are the responsibility of the directors. The external auditors are responsible for independently auditing and reporting on the financial statements.

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

The directors have reviewed the group's cash flow forecast for the year ending 31 March 2007 and the risks and challenges for the future. In light of this review and the current financial position, they are satisfied that the group has adequate resources or has access to adequate resources to continue in operational existence for the foreseeable future.

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

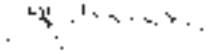
The directors are of the opinion, based on the information and explanations given by management and the corporate audit department and discussions with the independent external auditors on the result of their audits, that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements, and accountability for assets and liabilities is maintained.

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

In the opinion of the directors, based on the information available to date, the financial statements fairly present the financial position of Eskom and the group at 31 March 2006 and the results of its operations and cash flow information for the year.

The financial statements of Eskom and the group for the year ended 31 March 2006 have been approved by the board of directors and signed on its behalf on 15 June 2006 by

Valli Moosa
Chairman



Thulani S Gcabashe
Chief executive

Report of the independent auditors to the Minister of Public Enterprises

We have audited the financial statements of Eskom Holdings Limited (Eskom) and the group set out on pages 46 to 170 for the year ended 31 March 2006. The financial statements of Eskom and the group are the responsibility of Eskom's accounting authority. Our responsibility is to express an opinion on these financial statements based on our audit. The performance information set out in the directors' report on pages 46 to 101 is the responsibility of Eskom's accounting authority. Our responsibility is to express an opinion on whether the performance information furnished in terms of sub-section 55(2)(a) of the Public Finance Management Act, 1 of 1999, as amended is fair in all material respects and, on a basis consistent with that of the preceding period.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit was also planned and performed to obtain reasonable assurance that our duties in terms of sections 27 and 28 of the Public Audit Act, 25 of 2004, have been complied with. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our opinion on the performance information engagement is based on a test of the reliability of the performance information by way of conducting interviews and holding discussions with management, key personnel and/or stakeholders of Eskom and the group and assessing data trends as well as obtaining an understanding of the systems used to generate, aggregate and report the performance information. We conduct site visits on a sample basis to test systems and data and inspecting premises where necessary. An audit also includes assessing the completeness, accuracy, existence and validity of the performance information as well as reviewing and analysing collected information and effecting re-calculations where considered appropriate and applying suitable criteria as relevant to the subject matter reported, where the criteria is based on Eskom's internal policies and procedures and shareholder's compact and is available from Eskom on request.

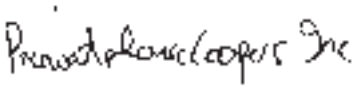
This performance information engagement was conducted in accordance with the International Standards for Assurance Engagements, Assurance Engagements other than audits/reviews of historical information (ISAE 3000). Therefore, we planned and carried out our work in order to obtain reasonable, rather than absolute, assurance on the reliability of the performance information as set out in the directors' report. We believe our work provides a reasonable basis for our opinion.

Non-financial performance information is subject to more inherent limitations than financial data, given both their nature and the methods used for determining, calculating or estimating such data. We have not undertaken work to confirm that all relevant issues are included, nor have we carried out any work on data reported in respect of future projections and targets.

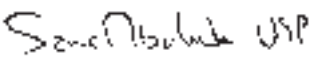
In our opinion the financial statements fairly present, in all material respects, the financial position of Eskom and the group at 31 March 2006 and the results of their operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 61 of 1973, as amended, in South Africa, the Public Finance Management Act, 1 of 1999, as amended, and the Public Audit Act, 25 of 2004.

The performance information of Eskom and the group furnished in terms of section 55(2)(a) of the Public Finance Management Act, 1 of 1999, as amended, fairly presents in all material respects Eskom and the group's performance for the year ended 31 March 2006 against predetermined objectives and is, where applicable, consistent with that of the preceding year.

The transactions of Eskom and the group that had come to the auditor's attention during auditing were in all material respects in accordance with the mandatory functions of Eskom, as determined by law or otherwise.



PricewaterhouseCoopers Inc
Registered Accountants and Auditors
Chartered Accountants (SA)



SizweNtsaluba VSP
Registered Accountants and Auditors
Chartered Accountants (SA)

Johannesburg
15 June 2006

Report of the audit committee

Report of the Audit Committee in terms of regulations 27(1)(10)(b) and (c) of the Public Finance Management Act, 1 of 1999, as amended

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

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

- the effectiveness of the internal control systems
- the risk areas of the entity's operations covered in the scope of internal and external audits
- the adequacy, reliability and accuracy of financial information provided by management and other users of such information
- accounting and auditing concerns identified as a result of internal and external audits
- the entity's compliance with legal and regulatory provisions
- the effectiveness of the corporate audit department
- the activities of the corporate audit department, including its annual work programme, co-ordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations
- the independence of and objectivity of the external auditors

The audit committee is of the opinion, based on the information and explanations given by management and the corporate audit department and discussions with the independent external auditors on the result of their audits, that 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.

Nothing significant, other than reported in the directors' report, has come to the attention of the audit committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the period under review.

The audit committee has evaluated the financial statements of Eskom Holdings Limited and the group for the year ended 31 March 2006 and, based on the information provided to the audit committee, considers that they comply, in all material respects, with the requirements of the Companies Act, 61 of 1973, as amended, and the Public Finance Management Act, 1 of 1999, as amended, and International Financial Reporting Standards. The audit committee concurs that the adoption of the going concern premise in the preparation of the financial statements is appropriate. The audit committee has recommended the adoption of the financial statements by the board of directors.

Jacob Modise
Chairman

15 June 2006

Statement by company secretary

In terms of Section 268G(d) of the Companies Act, 61 of 1973, as amended, I certify that the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Act, and that all such returns are true, correct and up to date.

Mohamed Adam
Company secretary

15 June 2006

CONTENTS

Directors' report

Introduction

The directors are pleased to present their report, including a comprehensive view of operations, and the audited financial statements for Eskom Holdings Limited (Eskom) and the group for the 12-month period ended 31 March 2006. A more comprehensive report is available on the Eskom website:

🌐 *www.eskom.co.za/annreport06 for more information..*

Performance

During the review period Eskom had a sound financial performance, delivered on social commitments and sustained technical performance, while taking due care to manage environmental impact. While there has been an overall year-on-year improvement in safety performance, it is still a major area of concern for the organisation. Refer to page 66 on safety performance.

The key risks were updated and mitigating strategies put in place. Refer to page 88.

Scope

The information in this report reflects Eskom's performance over a 12-month period from 1 April 2005 to 31 March 2006. Prior information reflects the 15-month period from 1 January 2004 to 31 March 2005 (when Eskom changed its year end at the request of its shareholder). Where possible and practical, performance information for the 12-month period ended 31 December 2004 or the 12-month period ended 31 March 2005 has been included to enable meaningful comparisons with a similar period.

This report addresses the performance of the Eskom group and includes relevant statutory information, with particular reference to the:

- Public Finance Management Act, 1 of 1999 (PFMA), as amended
- Companies Act, 61 of 1973, as amended

In addition to compliance with relevant legislation, the focus of reporting is on demonstrating good governance practices by way of material, relevant and transparent disclosure to all stakeholders. Eskom's focus in managing the business is based on a balance of economic, technical, social and environmental performance.

Compliance with legislation

The directors believe Eskom has complied, in all material respects, with the provisions of the PFMA and other applicable legislation during the review period.

Governance structures and processes

Effective governance structures and processes, in terms of best practices, have been implemented in Eskom and its subsidiaries. The behaviour of all staff is governed by the business conduct policy. Refer to pages 15 to 27 in corporate governance.

Internal control

Various internal control assurance functions, including internal audit, have confirmed that the systems of internal control are both in place and effective in all significant respects. Refer to pages 23 and 24 in corporate governance.

Function and objectives of the business

Nature of the business

Eskom generates, transmits and distributes electricity to customers. Through its subsidiary, Eskom Enterprises (Pty) Limited, Eskom undertakes non-regulated activities, relating to energy and the electricity supply industry. Refer to page 2 in profile.

Sustainability

The sustainability challenge for Eskom is to provide affordable energy and related services through the integration and consideration of economic development, environmental quality and social equity into business practices to achieve sustainable performance improvements and underpin development. Eskom's sustainability strategy acknowledges the guiding principles adapted from the *Sustainability in the Electricity Utility Sector* reports published by the World Business Council for Sustainable Development. These principles are aligned with Eskom's commitment to the United Nations Global Compact and its 10 principles. Refer to page 66. The strategy is not a separate initiative, but ingrained in the business planning and operations and also integrated with all other strategic initiatives in Eskom.

Eskom's approach to sustainability is rooted in its vision. Eskom's sustainability strategy brings together many activities to ensure the sustainability of the organisation in the short and long term through integrated economic, environmental and social objectives. Key challenges addressed in the strategy are based on Eskom's values.

During 2005, the strategy was reviewed:

- to ensure it was in line with national and international sustainability trends
- to align it with changed circumstances and priorities

The revised strategy will go through internal approval processes before it is formally peer reviewed by a third party.

🌐 *www.eskom.co.za/annreport06 for more information.*

As part of the sustainability strategy, Eskom has started reporting performance against the sustainability performance index; the roll-out of the climate change and renewable energy strategies; and initiated a supply chain management strategy.

Benchmarking Eskom's sustainability performance

Eskom's sustainability performance, using 2005 data, was independently assessed by SR&I and KPMG against the Socially Responsible Investment (SRI) index of the JSE. Participation in the index is open to companies listed in the FTSE/JSE All Share Index. In the 2005/6 review of the SRI index 62 companies participated, of which 58 qualified for inclusion in the index. Eskom is not eligible for inclusion in the index, but was assessed against the index criteria, which forms a benchmark for integrating the triple bottom line into business activities, and provides stakeholders with a unique tool to assess company performance. Eskom's assessment against the criteria indicated not only a score that complies with the minimum requirements for inclusion in the SRI index, but a score that is comparable to the top performers in the category for high environmental impact.

🌐 *www.eskom.co.za/annreport06 for more information.*

Eskom sustainability performance index

The Eskom sustainability performance index was implemented during the financial year after thorough testing. The index uses 21 selected technical, economic, environmental and social measures and compares performance to set parameters, both short and long term. The index is considered during executive performance reviews.

The overall performance is considered sustainable if the score is greater than or equal to three on a five-point scale.

Overall performance for the reporting period was 3,4 with sector scores as follows:

- Technical: 3,9. The areas of good performance were overall customer satisfaction and demand-side management performance. The score was adversely influenced by the energy availability factor and reserve margin
- Economic: 3,6. This sector performed well overall
- Environmental: 3,0. The overall thermal efficiency and line losses on the power line network were areas of relative poor performance
- Social: 3,0. Although race and gender equity performed well, the overall sector performance was adversely affected by the poor safety performance

With all sectors above three, the overall performance for the review period is regarded as sustainable.

🌐 *www.eskom.co.za/annreport06 for more information.*

Objectives

Regulated business

A five-year business plan setting out Eskom's strategic direction, as well as critical indicators for managing the business effectively, was developed and updated after considering the input of key stakeholders. The board approved the business plan, including predetermined strategic and operational objectives. Key performance indicators linked to these objectives are included in the budget as well as the shareholder compact with the government.

Annual budgets are aligned with the medium-term business plan. Key indicators are used to measure performance against budget and targets, and are reported monthly to Exco in group and divisional business reports, as well as quarterly to the board and shareholder. Divisional objectives are included within Eskom's objectives, and are communicated and measured at appropriate levels using relevant indicators. Refer to page 49.

Non-regulated business

A three-year business plan – setting out the strategic direction and priorities of the Eskom Enterprises group, as well as the performance indicators critical for managing the business effectively – was developed, taking into account the change in role and focus of Eskom Enterprises.

Other subsidiaries also prepare business plans, which incorporate the objectives and performance indicators approved by their boards of directors.

High-level performance for the period

An overview of the Eskom group's business performance – as measured against predetermined objectives included in the shareholder's compact – is shown in the following table. Detailed performance is described in the remainder of the report. Refer to page 16 in corporate governance for more information on the shareholder compact.

Eskom high-level performance

Objectives	Key performance indicators	Targets March 2006	Performance results March 2006	Page number
1. Economic Improve management of resources through:				
• Maintaining long-term financial viability	• Return on total assets, %	≥ 9,1%	Exceeded – 9,95% (2005: 11,46%)	8, 83
	• Interest cover (EBITDA), %	≥ 3,51%	Exceeded – 3,54% (2005: 3,62%)	8, 80
	• Debt: equity			
	– Including long-term provisions	≤ 0,30	Exceeded – 0,26 (2005: 0,25)	8, 83
	– Excluding long-term provisions	≤ 0,05	Achieved – 0,05 (2005: 0,04)	83
	• Weighted average cost of capital, %	≥ 11,10	Exceeded – 11,49% (2004: 14,5%)	
	• Productivity, % (Rm)	≥ 1,5%	Not achieved – (2,1%) (2004: 1,8%)	90
		R446m	Not achieved – (R645m) (2004: R485m)	
• Managing treasury risk	• Manage treasury exposure within mandate[1]	Yes	All treasury activities managed within approved mandate	86
• Operational efficiency	• Operational sustainability index, %	≥ 80,0%	Exceeded – 87,50% (2005: 90,40%, 2004: 89,10%)	57
	• Generation plant reliability (unplanned automatic grid separations), trips	≤ 1,50	Not achieved – 1,55 (2005: 1,33, 2004: 1,39)	58
	• Generation plant availability (energy availability factor), %	≥ 89,2%	Not achieved – 87,4% (2005: 89,5%, 2004: 89,5%)	57
	• Transmission supply interruptions, number	≤ 42	Achieved – 38 (2005: 39, 2004: 33)	58
• Focusing on customer satisfaction	• Enhanced MaxiCare, %	≥ 83,60%	Exceeded – 94,20% (2005: 85,00%, 2004: 83,00%)	56
	• Distribution supply loss index, measured in minutes per month	≤ 4,80	Not achieved – 9,66[2] (2005: 4,20)	59
	• Restoration time (customer service index), %	≥ 75,00%	Exceeded – 81,02% (2005: 77,99%, 2004: 76,91%)	55
• Expansion	• New generation plant, megawatts added	380MW	190MW (2005: 0MW)	
	• Transmission capacity increments put into commercial operation, Rm	R852m	Exceeded – R974m (2005: R647m)	

1. *Detail mandate included in the shareholder compact.*
2. *Includes the impact of the transmission and Koeberg events and load shedding-related interruptions. The performance for the period was 4,71 when the impact of these events is excluded.*

Eskom high-level performance continued

Objectives	Key performance indicators	Targets March 2006	Performance results March 2006	Page number
2. Socio-economic Demonstrate exemplary corporate citizenship and harmony with society through:				
• Employment equity	• Black management, professional and supervisory staff at the end of the period, %	≥ 59,4%	Exceeded – 60,1% (2005: 57,9%, 2004: 58,5%)	62
	• Women management, professional and supervisory staff at the end of the period, %	≥ 31,1%	Exceeded – 31,8% (2005: 28,9%, 2004: 30,0%)	62
	• Disabled staff, %	≥ 2,4%	Exceeded – 2,5% (2005: 2,0%, 2004: 1,9%)	62
• HIV and Aids support	• Amount spent on education, treatment, counselling, prevention (SAAVI and training of medical practitioners), Rm	R17m	Contributed R2m (2005: R17m)	63
• Black economic empowerment (procurement)	• Discretionary expenditure, %	65%	Exceeded – 67% Total BEE spent R11 068,8m[1] (2005: Total BEE spent R10 334,0m[2])	62, 63
	• Women empowerment of BEE, %	15%	Exceeded – 17% Total spent R1 286,7m[1] (2005: R1 086,0m[2])	62, 63
• Specific social investments	• Expenditure on Eskom Development Foundation, Rm	R55,4m	Spent R42,1m (2005: R50,3m, 2004: R41,7m) Total spent on corporate social responsibility – R110,5m (2005: R159,8m, 2004: R133,8m)	63
	• Rural development, Rm	R20,0m	Spent R13,6m (2005: R19,8m, 2004: R15,6m)	63
3. Safety, health and environment Manage Eskom's impact on the environment by demonstrating exemplary commitment	• Employee safety, disabling injury incident rate	< 0,40	Not achieved – 0,40 (2005: 0,45)	67
	• Public safety, continuous improvement, number of fatalities	Lower than reported in 2005	Not achieved – 34 (2005: 31 (12 months), 40 (15 months))	67
	• Reported legal contraventions of environmental legislation in terms of the operational sustainability index, number	0	Not achieved – 1 (2005: 3, 2004: 2)	69, 71
	• Specific water consumption, ℓ/kWh sent out	≤ 1,30	Not achieved – 1,32 (2005: 1,28, 2004: 1,26)	71, 78
	• Relative particulate emissions, kg/MWh sent out	≤ 0,26	Exceeded – 0,21 (2005: 0,26, 2004: 0,27)	71, 72

1. *Amounts exclude VAT*
2. *Amounts include VAT*

1. Focus on the customer

This section covers the major challenges faced during the period and Eskom's responses. It also covers proactive capacity planning, initiatives to improve customer satisfaction and detailed technical performance.

1.1 Western Cape electricity supply

During the review period, there were a number of power failures and load shedding incidents in the Western Cape due to multi-technical failures that resulted in capacity constraints.

Eskom regards load shedding as a last resort, given its adverse economic impact and inconvenience. Eskom's national control centre first uses a number of other measures to manage daily supply shortages to avoid load shedding as far as possible.

The risk of power interruptions is increased when one of Koeberg's units is shut down, transmission lines are out of service or demand for electricity to the Cape exceeds the limits of the transmission system.

A high level of air pollution and numerous fires near lines and substations, with unusually high levels of mist, caused repeated flashovers on transmission lines to the Western Cape.

The programme to replace glass insulators with silicon composite insulators has been accelerated and successfully completed. An intensive washing programme has been implemented since January 2006 to address insulator pollution problems on problem lines. All substations have been cleaned (spray washed) or coated with silicon grease.

Koeberg unit 1 tripped on 25 December 2005 because of severe damage caused by a foreign object in the generator, damaging both the rotor and the stator. The reactor was placed in controlled shutdown, in line with operating procedures. The National Energy Regulator of South Africa (Nersa) commenced an investigation into the power outages in the Western Cape and the final report has not yet been issued.

The repair of the Koeberg unit 1 generator and the refuelling outage for unit 2 received priority attention from Eskom management.

An agreement was negotiated with Electricité de France to supply Eskom with a replacement rotor and stator bars required to repair the damage to unit 1. An investigation to identify the root cause was initiated.

A refuelling outage for Koeberg unit 2 was scheduled to start in early March 2006. Eskom decided, in consultation with the National Nuclear Regulator, to postpone the refuelling outage to have at least one Koeberg unit on line after the prolonged and unplanned outage of unit 1. Eskom synchronised Koeberg unit 1 to the grid in May 2006 and began the refuelling and maintenance outage of unit 2 shortly afterwards.

An accelerated demand-side management programme was implemented in the Cape in February 2006. A target of 400MW per day is being pursued through separate strategies for the residential market and industrial and commercial markets.

Two open cycle gas turbines plants, of approximately 500MW each, are being built in Atlantis and Mossel Bay. These are liquid fuel plants primarily designed for peaking capacity, but can be expanded into combined-cycle mode for mid-merit or base load operation. They are scheduled for completion by mid-2007.

www.eskom.co.za/annreport06 for more information.

1.2 Capacity planning and management

Eskom is responding to the growing electricity demand and need to establish new generation capacity in South Africa over the next few years. The capital expansion has a projected cost of R97 billion over five years (this has increased from the original projection of R84 billion following the acceleration of certain projects, and higher national growth levels). Generation capacity can be met by harnessing different energy sources and applying different technologies. These technologies differ markedly in their generation costs, performance and utilisation characteristics, suitability for the South African environment and state of commercial development. The choice of generation technology is multi-faceted and complicated and has to be conducted within the context of the South African policy framework, and legal and regulatory framework.

Foundation work at Atlantis open cycle gas turbine site

Liveline team replacing insulators

Eskom uses a modelling tool called integrated strategic electricity planning (ISEP) to plan its future capacity strategy. By analysing usage patterns and growth trends in the economy, and matching these with the performance features of various generation technologies and demand-side management options, ISEP identifies the timing, quantity and type (base load or peaking) of new capacity required over the next 20 years. It also provides the framework to investigate a wide range of new supply-side and demand-side technologies, while optimising investments and returns.

The plan is reviewed annually as part of Eskom's strategic and business planning process. The most recent plan (ISEP10) was approved in October 2005. The focus was to provide a robust plan that considers all the variables of Eskom and its shareholder. Sustainability issues continue to be integrated into the ISEP process including the assessment and internalisation, where possible, of relevant externalities. Refer to page 70.

The original capacity expansion programme was based on a forecast of 4% GDP growth per annum over the next few years, resulting in 2 – 3% per annum growth in electricity demand. This translated into an additional 1 100MW of capacity per year. Eskom has accelerated the expansion programme in line with government's drive to boost economic growth to 6% by 2010, and investment decisions will be based on this growth target. It is estimated that this will result in average growth in demand of 4,4% per annum, requiring approximately 47 252MW of new capacity – more than double the total existing capacity – to satisfy new demand to be built between 2005 and 2025, or roughly 2 000MW per annum. This is one of several possible scenarios for the sector based on the government target of a 6% GDP growth. Flexibility is therefore required to mitigate the risk of over-investing with the danger of stranded assets.

All investments identified through ISEP are subject to a rigorous investment appraisal process. This includes approval by the board, the National Energy Regulator and the Department of Public Enterprises.

Despite the size of its operations, Eskom is not the only participant in the South African electricity industry and a national supply-and-demand view is required. In developing South Africa's capital expansion programme for the energy sector, three plans are used as input: the Department of Minerals and Energy's national integrated energy plan, the National Energy Regulator's national integrated resource plan and Eskom's ISEP.

Government has also taken the decision that Eskom will build approximately 70% of the new capacity required in South Africa. The balance is expected to come from

independent power producers (IPPs). It is likely that Eskom will, in the short to medium term, be the counterparty in the power purchase agreements with these IPPs. The first of these is expected to consist of 1 000MW of oil-fired gas turbines for peaking use that would be commissioned by the end of 2009.

Coal, gas and nuclear options are being evaluated for board decision in the next financial year.

Capacity investment plans

Despite recent cost escalations, the most attractive supply-side option remains the return to service of three mothballed power stations – Camden, Grootvlei and Komati – which were placed in reserve storage during a period of high excess capacity on the Eskom system. Work has commenced on this project and the first unit from Camden came into commercial operation in July 2005. When fully operational by 2011, these stations should provide an additional 3 600MW of capacity.

Two units at Camden power station were planned to be put into commercial operation during the period. Many scope-of-work changes which impacted on time and cost have been identified. Unit 6 entered commercial operation in July 2005 and unit 7 has been commissioned but is not yet in commercial operation. A new significant change of scope relating to low pressure turbines and the reconfiguration of the coal handling facility have been identified, which resulted in postponing the commercial operation date.

Feasibility studies for new power stations over the longer term (2007 – 2010) are well advanced. Projects include combined cycle gas turbine plants, each with a minimum capacity of 1 800MW (base load). An investment decision has been made to build a minimum of 2 100MW coal power plant in the Lephalale area and planning advanced for a 1 330MW Braamhoek pumped storage facility in the Drakensberg on the border between Free State and KwaZulu-Natal.

Transmission expansion projects

The cost of transmission is playing a crucial role in locating Eskom's new generation capacity. Many new plants are planned for coastal regions to avoid the cost of transporting electricity from inland power stations to the Eastern and Western Cape. Eskom is implementing a number of key transmission projects over the next five years that include:

- strengthening the corridor to the Western Cape where recent outages illustrated the need to supplement power from Koeberg with inland electricity
- improving the transmission network to the Eastern Cape
- integrating the planned peaking power gas turbines in Atlantis and Mossel Bay into the grid
- installing new lines to new mining developments, such as platinum mines in Limpopo and iron ore projects in the Northern Cape
- strengthening of the KwaZulu-Natal transmission network

The most attractive supply-side option remains the return to service of three mothballed power stations – Camden, Grootvlei and Komati

🌐 *www.eskom.co.za/annreport06 for more information.*

Long-term capacity

In the long term, options such as Westcor (3 500MW), Pebble Bed Modular Reactor (PBMR) (165MW units) and conventional nuclear (unit sizes from 700MW to 1 600MW) are being evaluated. A concentrating solar thermal option in the Northern Cape (100MW) could also contribute, but costs are high.

Eskom continues to investigate a number of options, including conventional pulverised fuel plants, pumped storage schemes, gas-fired plants, nuclear plants (PBMR and conventional), greenfield fluidised bed combustion technologies, renewable energy technologies (mainly wind and solar projects) as well as import options.

There are also potential power plant development projects external to South Africa, which could contribute to power trading in the Southern African Power Pool.

Timeframe for new capacity

The graph shows the national position and includes approximately 5% of capacity and sales contributed by non-Eskom generators and imports from neighbouring countries. The ISEP plan considers it prudent to maintain a 15% reserve margin, as reflected in the graph.

The peak demand for the review period was 33 461MW (2005: 34 195MW).

🌐 *www.eskom.co.za/annreport06 for more information.*

Demand-side management

Eskom's demand-side management programme aims to provide lower-cost alternatives to generation system expansion by focusing on the use of electricity. Consumers are encouraged to use electricity more efficiently and at times outside Eskom's peak periods. This is a joint initiative between the Department of Minerals and Energy, National Energy Regulator and Eskom and it aims to save 4 255MW of generation capacity over a 25-year period.

The annual target of 152MW of energy-efficiency and demand-side management projects in completion stage was exceeded by 12,66% with 171MW (2005: 237MW (15 months)) implemented.

Demand-side management

Description	Target 2006 MW	Completed 2006 (12 months) MW	Completed 2005 (15 months) MW
Projects completed in 2006	**152**	**171**	237

Performance in 2006 was as indicated in the table above.

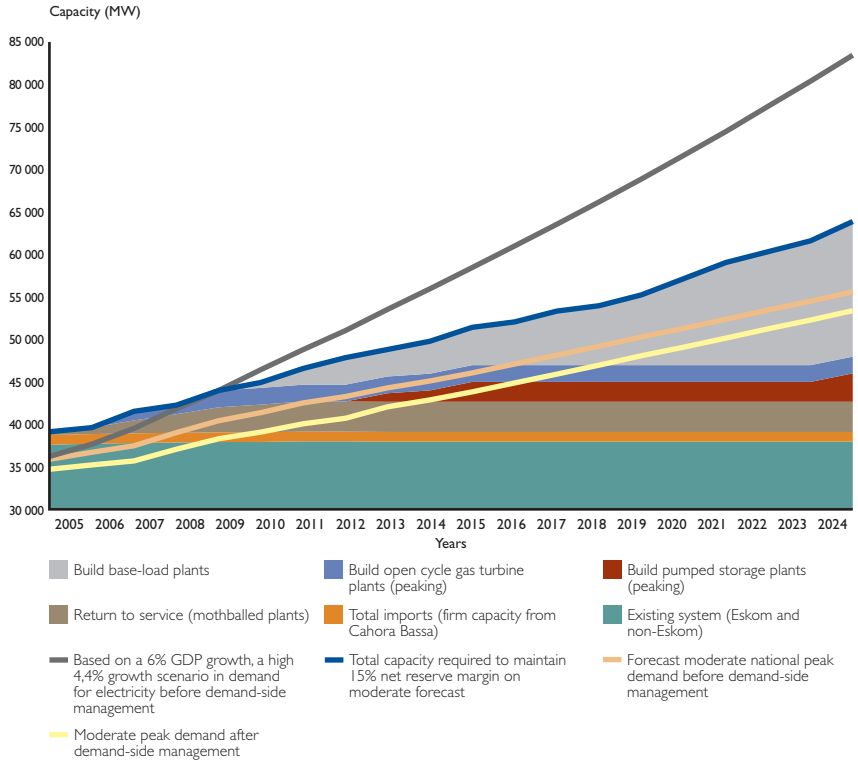
This performance is being verified by independent measurement and verification entities as there is a time lag of up to six months before savings can be verified. Of the 171,3MW associated with these implemented projects, 63,8MW were measured and verified resulting in actual savings of 72,3MW. This performance reflects an over achievement of 13,4% higher than initially planned.

🌐 *www.eskom.co.za/annreport06 for more information.*

Environmental impact assessments

Environmental impact assessments are undertaken to ensure informed decision-making and to meet legislative requirements. Prior to the start of construction of a capacity expansion-related project, an environmental authorisation is required. This is issued by the relevant environmental authority based on an environmental impact assessment by an independent consultant. The process is one of the critical paths of the project life cycle and a delay in obtaining the necessary authorisation can result in significant risks.

Timeframe for new capacity outlook



Eskom continues to ensure informed decision-making and that the environmental consequences of its decisions are known.

Environmental authorisations were obtained after completion of the impact assessments for two open cycle gas turbine power stations in Mossel Bay and Atlantis. The environmental impact assessments continued for a base load coal-fired power station in the Lephalale, Witbank and Vaal areas and the Pebble Bed Modular Reactor at Koeberg power station. Assessments also continued for transmission power lines, as part of the Eskom Cape strengthening and platinum basin projects, and power lines and access roads for the Braamhoek pumped storage scheme.

www.eskom.co.za/annreport06 for more information.

1.3 Maintenance

Generation

Transformer failures, skills shortages and the effects of high load factors on boiler plant contributed to the decline in plant performance during the review period. To address the problems, additional attention has been placed on improving engineering, operating and maintenance skills and the pipeline of critical staff for the future has been accelerated.

Technical failures are being analysed to highlight organisational and behavioural deficiencies with the help of large maintenance partners to ensure that there is focus on priorities such as quality assurance. Balanced life-of-plant-plans for all power stations have been improved further to ensure that maintenance and capital expenditure address obsolescence and ageing of critical plant items.

Transmission

In the Transmission division, 97% of all planned and unplanned work for the period was completed. Certain planned maintenance could not be done because of the difficulty in obtaining line outages.

The capital expansion programme, outage constraints and a shortage of skilled staff in high-voltage maintenance and commissioning are future maintenance challenges.

Distribution

Distribution has planned expenditure of approximately R1,6 billion per annum on refurbishment and strengthening of the distribution network, as per the five-year business plan. Refurbishment projects will focus on older networks with the intention of extending the life of the asset and reducing the operating costs of the network. Strengthening projects will focus on expanding network capacity to accommodate the increase in load or consumption in specific growth areas. Similar expenditure has been incurred on related projects over the last few years.

1.4 Customer satisfaction

Eskom's efficiency is pivotal to South Africa's economic prosperity, transformation and sustainable development. By constantly monitoring customer satisfaction, Eskom can plan more effectively to ensure it delivers the required service at the required time and price.

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Customer perception

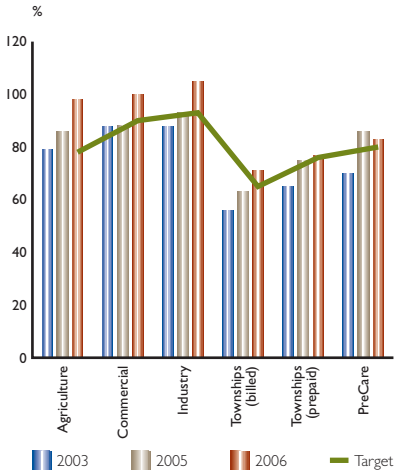
Eskom uses a number of statistical perception surveys, conducted by an independent organisation, to measure customer satisfaction with service delivered.

Customer service index

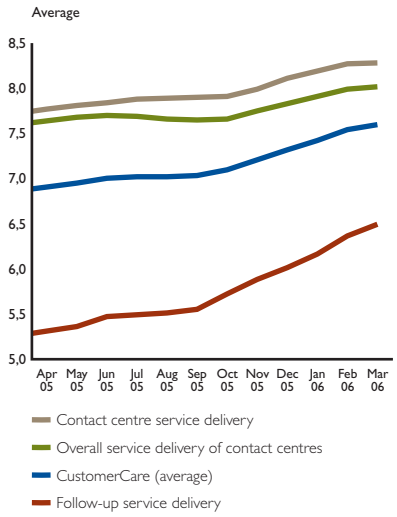
The customer service index combines the results of various customer service perception studies and relevant internal customer service measurements. The index score at March 2006 was 85,34% (2005: 78,96%), against a target of 81,07%. This substantial improvement was due to focused management action in attaining the goals of its long-term customer service strategies. As the weights and components of the index change every year in line with business priorities, the March 2005 performance of 78,96% was adjusted to 80,08% for year-on-year comparison.

The restoration time index score for March 2006 was 81,02% (2005: 77,99%) against a target of 75,00%.

Enhanced MaxiCare total quality index



CustomerCare 12-month moving average



1. *Monthly survey where retail customers and newly electrified residential customers rate both importance and perceived performance on detailed service issues where results are the total quality index percentage against importance.*
2. *Monthly survey where key customers rate both importance and perceived performance on detailed services issues where results are the total quality index percentage against importance.*
3. *Monthly survey where customers who have phoned the Eskom contact centre are asked to rate the various aspects of their experience on a scale of one to 10.*

Enhanced MaxiCare[1]

The total quality index summarises the enhanced MaxiCare results and gives a broad indication of the quality of service delivered (sampled from all customers). The importance and perceived performance of individual service aspects measured are taken into account. The average index for enhanced MaxiCare for all customer categories at March 2006 was 94,2% (2005: 85,0%), against a target of 83,6%.

KeyCare[2]

The KeyCare total quality index gives an overall indication of how major key customers rate service received from Eskom. Interviews are conducted at three interfaces in the companies; general manager, engineering and accounting. The KeyCare index performance was 109% (2005: 111%) against a target of 106%.

CustomerCare[3]

The CustomerCare survey measures the satisfaction of customers who phoned the contact centre in the previous week. On a scale of one to 10, customers rated contact centre service delivery at 31 March 2006 as 8,27 (2005: 7,72) against a target of 8,00 and additional work done to complete the request (follow-up service delivery) at 6,49 (2005: 5,30) against a target of 7,70.

The customer relationship management solution, implemented in November 2004, contributed significantly to this improvement by tracking and automatically escalating customer queries for resolution. Management focus and front-line staff training and motivation also contributed to the improvement.

Call volumes answered by contact centres, as measured during a 12-month moving window, increased to 2,83 million at 31 March 2006 (2005: 2,66 million). The contact centre service level at 31 March 2006 improved to 81,5% (2005: 78,5%) of calls answered within 30 seconds.

🌐 *www.eskom.co.za/annreport06 for more information.*

1.5 Broadening the electricity industry

The Department of Minerals and Energy (DME) is procuring approximately 1 000MW of new generation capacity from the private sector. This is in line with government's objectives to introduce private-sector participation and promote black economic empowerment in the energy sector. This will be achieved through a competitive tender process for independent power producers to provide the required capacity by the first quarter of 2009.

One open cycle gas turbine plant (of approximately 300MW) is planned for the Eastern Cape and another plant (of approximately 750MW) will be built in KwaZulu-Natal. As part of its R97 billion expansion programme, Eskom is playing an active role as the purchaser of this energy and provider of transmission infrastructure. The process to identify the successful bidder by the DME is expected to be finalised in the next financial year.

Electricity distribution industry restructuring

In September 2005, the government amended its model on restructuring the electricity distribution industry. Plans to create six regional electricity distributors (REDs) were refined and the model presently being discussed is the creation of six metro distributors (metro REDs) and a national distributor for non-metro areas.

Metro REDs will merge Eskom supply areas within metro boundaries with existing metro electricity businesses, while the national distributor will consist of the balance of Eskom supply areas and electricity supply areas outside the boundaries of metro municipalities.

This proposal is being analysed by EDI Holdings (Pty) Limited, the project company responsible for implementing the government's industry restructuring policy. Final policy decisions by government are expected shortly. Eskom has continued its engagement with various stakeholders to provide support and inputs into this process.

1.6 Technical performance

Operational sustainability index

The purpose of the operational sustainability index is to reflect overall technical performance, while balancing the low-cost production of electricity with sustainable long-term reliability. The operational sustainability index, through its monitoring process, assists management to achieve the smooth and sustainable long-term technical running of Eskom. The operational sustainability index, a 12-month moving average, combines 20 (2005: 17) weighted indicators into a composite index. A new distribution measure was introduced and two previous submeasures were included as individual measures.

The operational sustainability index is reviewed annually to ensure appropriate indicators are measured, and that standards and alarms are realistic. International and regional trends are monitored and, where appropriate, included in the index. This index is used as an input into senior management's performance bonuses.

The score for the 12 months ended 31 March 2006 was 87,5% (2005: 90,4%) against a minimum threshold of 80,0%. This is the lowest score achieved at financial year end since 2001, due primarily to significantly lower scores in the Generation and Transmission divisions.

In the Generation division, where annual availability, reliability, plant health and nuclear performance are measured, a score of 86,6% was achieved (2005: 100,0%). The decrease was largely attributable to nuclear performance which scored 33,0% compared to 100,0% in 2005 as a result of the Koeberg unit 1 stator failure.

In the Transmission division, the score was 77,6% (2005: 100,0%) for measures which cover aspects of availability, reliability, disturbance and power quality. The overall score decreased due to the availability measure which scored 41,0%. This was largely as a result of the supply problems in the Western Cape.

The operational sustainability index reflects overall technical performance, while balancing the low-cost production of electricity with sustainable long-term reliability

The Distribution division's measures of availability, reliability, disturbance, voltage quality and customer service achieved a score of 100,0% (2005: 82,0%). The score increased as a result of improvement of the distribution customer component of this measure. This is the first time since inception of the index that a score of 100% was achieved by this division at the end of the financial year.

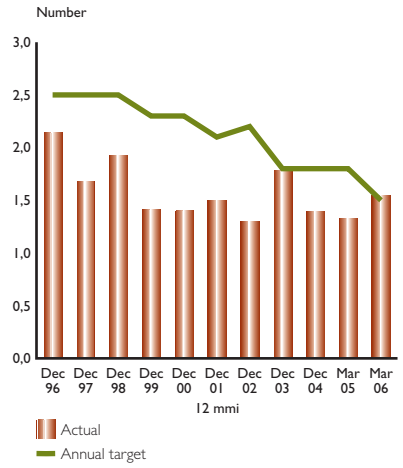
The common section, where accountability (weighting) is shared between divisions – consisting of low-frequency incidents, under-frequency load shedding, customer response, KeyCare, environmental and safety – scored 86,8%. Previously only environmental and safety were common measures.

Generation plant performance

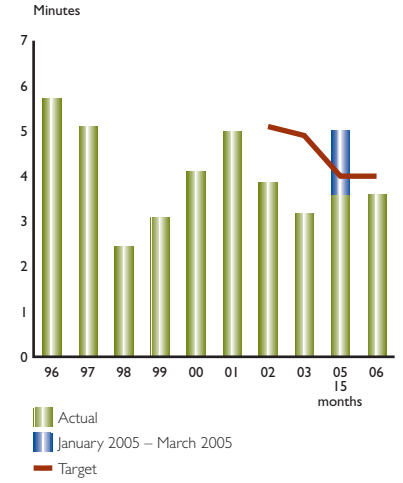
Generation energy availability factor

The energy availability factor measures plant availability and takes into account energy losses not under the control of plant management, as well as internal non-engineering constraints. During 2006, a performance of 87,4 % (2005: 89,5%) was achieved against a target of ≥ 89,2%, primarily due to higher forced outages.

Unplanned automatic grid separations per 7 000 operating hours – generating system

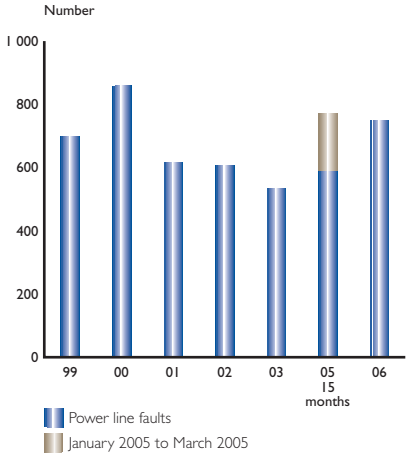


System minutes for incidents less than one system minute



No targets were set for system minutes <1 before 2002. Large interruption events (all individual events ≥1 system minute) are reported separately from 2002 to ensure trends in the underlying performance of the system are understood.

Power line faults



Plant unit capability factor

In December 2005, Eskom experienced an abnormal catastrophic failure relating to the turbine generator at Koeberg power station unit 1. This is reflected in the average unit capability factor, together with other forced outages, during the period of 88,7% (2005: 89,9% (12 months)) against a target of ≥ 90,0%.

Unplanned automatic grid separations

Unplanned automatic grid separations/ 7 000 hours, a base load plant indicator, is a measure of the reliability of service provided to the electrical grid, and measures the number of supply interruptions per operating period (7 000 hours on average). During 2006, this indicator measured 1,55 (2005: 1,33 (12 months)) unplanned automatic grid separations/ 7 000 hours against a target of ≤ 1,50.

Transmission system performance

The key measures that directly impact continuity of supply to customers are system minutes lost and the number of interruptions.

During the review period, 38 interruptions (2005: 39) were reported against a target of 42.

A total of 3,59 system minutes lost (for incidents less than one system minute) (2005: 5,01 (15 months), 2004: 3,59), was recorded against a target of 4,00.

Five major incidents (2005: 1) with a severity greater than one system minute were registered as a result of the outages in the Western Cape and parts of Northern and Eastern Cape. The system minutes lost were as follows:

- 16 November 2005 – 1,34
- 23 November 2005 – 8,25
- 18 February 2006 – 1,57
- 19 February 2006 – 27,38
- 28 February 2006 – 27,73

Distribution system performance

The distribution system performance is measured by the network interruption and quality of supply measures.

Network interruption performance measures comprise reliability of supply (frequency of supply interruptions) and availability of supply (duration of the supply interruptions) to customers. Quality of supply measures reflect the quality of electricity supplied to customers and comprise voltage dips (X, T, S and Z type), voltage regulation, total harmonic distortion and voltage unbalance-related measures.

The 12-month moving average targets for these measures are based on the regulatory and business requirements to improve the overall technical performance levels and customer satisfaction. Significant emphasis was placed on an integrated improvement strategy with specific initiatives and deliverables, to improve technical performance levels.

The table alongside provides an overview of the distribution

waveform quality measures, disturbance and transformer unavailability measures. The distribution and reticulation network transformer unavailability levels are measured by the distribution supply loss index (DSLI) and reticulation supply loss index (RSLI) respectively.

The 2006 disturbance targets were amended to incorporate a new measurement methodology in comparison to the previous period. The revised method incorporates voltage dip trend of individual sites rather than exceptions to the total number of sites. A target of 54% indicates the percentage of total sites not expected to meet their individual site targets. The performance for these indicators is reflected in the table below.

The DSLI performance includes the impact of Koeberg-related interruptions of supply. The DSLI performance was 4,71 if these load shedding events are excluded from the actual measure.

In addition to the DSLI and RSLI an additional lead indicator, system average interruption duration index (SAIDI), will be measured and reported from the next financial period.

2. Management of human resources

2.1 Human resources sustainability index

The human resources sustainability index is a measure of Eskom's ongoing ability to achieve its human resources objectives. The index comprises 24 (2005: 26) people measures spanning employee satisfaction, employee competence, equity, and employee health and wellness. The measures are reviewed annually to ensure they remain appropriate. The index target of 80,0% was exceeded with an achievement of 86,3%[7] (2005: 84,5%).

2.2 Human resources shared services

The human resources shared services unit was piloted for corporate divisions in 2004 and roll-out began in February 2005 to the Enterprises, Transmission and Generation divisions, with the aim of integrating all divisions in Eskom by March 2007. The objectives of shared services are to:

- achieve greater business efficiencies
- allow more focus on core competencies
- increase customer service and information levels

The unit handled over 5 000 requests per month and the service level agreement performance was 89%, ahead of the target of 80%.

Distribution system performance

Measure		Target March 2006 (12 months)	Actual March 2006 (12 months)	Actual[1] March 2005 (12 months)
Waveform quality index	Regulation[2], %	**97,0**	**99,0**	99,5
	Unbalance[3], %	**97,0**	**99,5**	100,0
	Harmonics[4], %	**98,0**	**100,0**	100,0
Disturbance index	Type X dips[5, 6], %	**54,0**	**38,0**	96,3[6]
	Type S dips[4, 6], %	**54,0**	**27,6**	96,3[6]
	Type T dips[4, 6], %	**54,0**	**27,0**	99,4[6]
	Type Z dips[4, 6], %	**54,0**	**30,1**	98,8[6]
Transformer unavailability index	DSLI, minutes per month	**4,80**	**9,66**	4,20
	RSLI, hours per month	**1,60**	**1,73**	1,54

1. *Represents the 12-month moving average from 1 April 2004 to 31 March 2005.*
2. *Reflects the ability to control deviations from the nominal supply voltage contracted with customers.*
3. *Reflects the ability to keep the three phases of the supply voltage electrically balanced, ie displaced by 120 degrees relative to one another and the same magnitude.*
4. *Reflects the ability to avoid higher-order frequencies in the 50Hz supply voltage.*
5. *Reflects the ability to minimise faults and breaker operations at various voltage levels.*
6. *Comparability is not possible as the measurement methodology has been changed for the current period.*
7. *Excludes Enterprises division as it was decided that the information relating to this division, except for the training cost, will be excluded from this reporting cycle.*

Training and skills transfer at Eskom learning institutions

Eskom employees in the Palmiet pump storage scheme control room

2.3 Change management

An integral element of successfully driving organisational change is aligning employees' behaviour to support Eskom's strategic objectives. Accordingly, a permanent change management office provides relevant and strategic impetus to various business initiatives.

2.4 People development

Skills acquisitions

It is critical to the success of the capital expansion programme to ensure that Eskom has sufficient human resources with proven skills and abilities to fill the jobs created by the project.

Learnerships

Learnerships are structured learning programmes combined with practical work experience that enable employees to improve their skills for their own benefit and that of the organisation. Apart from training current employees, learnerships also provide training for unemployed people who benefit by improving their prospects for future employability, and assist in addressing critical skills shortages.

In 2006, Eskom indentured 595 (2005: 853) learnerships with the Energy Sector Education and Training Authority (Eseta).

Bursaries and scholarships

Bursaries are available for tertiary studies at university and university of technology levels, to talented young South Africans who could become employees in future. In addition, 217 Eskom employee dependants have been awarded scholarships from 2001 to 31 March 2006.

Training and development

Eskom is committed to training and developing all employees and contributing to skills development within the group and in the broader South African community through learnerships. Skills development is a prerequisite for all employees; it is managed through personal development plans, acquired competencies and associated training completed.

Training[1] and learnerships

	Actual 2006 (12 months)	Actual 2005 (15 months)	Actual 2004 (12 months)
Training			
Total training cost, Rm	**543**	654	518
Learnerships			
Bursary-holders and trainees, number	**2 163[2]**	1 568	1 447
Black bursary-holders and trainees, %	**89**	85	86
Women bursary-holders and trainees, %	**55**	55	54

1. Training is focused on bridging the competency gap, rather than the absolute amount spent.
2. Includes learnerships as reported by the Eseta.

Vision E

Vision E is a transformational leadership development programme that embraces the concept of African leadership and uses a blended (eLearning and classroom) learning approach to develop the competencies of Eskom leaders at managerial and professional levels. In Eskom 1 947 (66%) managers and professionals have completed both aspects of the programme, and 2 801 (95%) have completed the eLearning part.

Eskom Learning Institutions

Eskom Learning Institutions provide Eseta-accredited in-house technical and non-technical training. Technical training includes short courses, skills programmes and learnerships in specific disciplines as well as distribution (high voltage, medium voltage, low voltage, reticulation, maintenance and protection) training. In non-technical areas, training covered courses focused on business understanding workshops, practitioner skills enhancement, personal computer training, education and development. During the period, the institutions presented 61 396 (2005: 44 856) student training days of which 31 508 days were technical learnerships consisting of NQF levels 2 and 3 in the following disciplines: measurement – control and instrumentation, electrical, and mechanical and fabrication.

2.5 Employee relations

The decision-making process in Eskom includes employee input through a dual process: direct communication with managers and professionals, and consultation with employees in the bargaining unit through their recognised trade unions. Both approaches are based on the principle of encouraging employee participation for better co-operation in the workplace.

During the period, there were various provincial industrial actions against the high unemployment rate and job losses in South Africa. The industrial action had no significant impact on Eskom, with 51 man days lost this year (2005: 49). There was no industrial action against Eskom as an organisation.

Eskom concluded a two-year salary and conditions of service agreement with trade unions in 2005.

2.6 Remuneration and benefits

Incentives and performance management

A performance management system, linked to an incentive scheme, was rolled out throughout Eskom by March 2005. The online system for performance contracting (eContract) developed during 2004 went live during 2005. There were 5 029 employees identified to use the system of whom 4 023 (80%) have been trained. The roll-out and conversion from a paper-based system will continue in the new financial year.

Flexible benefits

The primary objectives of the flexible benefits package project were to give employees a choice in structuring their remuneration packages to attract and retain skills, and adopt best business practice. A process of consultation was concluded in July 2005 and the decision taken to adopt this approach for all management and professional employees.

It is critical to the success of the capital expansion programme to ensure that Eskom has sufficient human resources with proven skills and abilities

2.7 Health and wellness

Eskom has a comprehensive health and wellness programme comprising psychosocial assistance, sports and recreation, biokinetics, spiritual wellness, occupational health and medicine, travel medicine, expatriate health, health education and promotion.

Managing the impact of HIV and Aids

Eskom is committed to managing the impact of HIV and Aids through integrated response strategies; to empower employees through knowledge and awareness, and enhance business sustainability. Special focus was given to voluntary counselling and testing. The 30,0% target for voluntary counselling and testing for HIV and Aids was exceeded with an achievement of 50,3%.

3. Socio economic

3.1 Equity

Employment equity

Eskom aims to demonstrate exemplary corporate citizenship and harmony with society through its continued focus on affirmative action and actively promoting women and disability equity.

🌐 *www.eskom.co.za/annreport06 for more information.*

Employment equity

	Target March 2006	Actual March 2006	Actual March 2005
Eskom Holdings Limited			
Race			
– Black[1] staff at managerial[2] level, %	> **59,4**	**60,1**	57,9
– Black staff at all levels, %	**n/a**[3]	**70,0**	69,1
Gender			
– Women at managerial level, %	> **31,1**	**31,8**	28,9
– Women at all levels, %	**n/a**[3]	**24,7**	23,3
People with disabilities, %	> **2,4**	**2,5**	2,0
Internal promotions			
– Black staff at all levels, %	**n/a**[3]	**78,1**	75,3
– Women at all levels, %	**n/a**[3]	**39,7**	44,4
Eskom Enterprises (Pty) Limited			
Race			
– Black staff at managerial level, %	**53,0**	**49,7**	39,6
– Black staff at all levels, %	**n/a**[3]	**50,3**	52,6
Gender			
– Women at managerial level, %	**21,0**	**18,4**	14,4
– Women at all levels, %	**n/a**[3]	**18,8**	14,9
Eskom Finance Company (Pty) Limited			
Race			
– Black staff at managerial level, %	**52,0**	**54,8**	50,0
– Black staff at all levels, %	**n/a**[3]	**57,5**	56,2
Gender			
– Women at managerial level, %	**70,0**	**64,5**	70,0
– Women at all levels, %	**n/a**[3]	**69,9**	72,0

3.2 Corporate citizenship

Accelerated and shared growth initiative for South Africa

The government's stated accelerated and shared growth initiative for South Africa (Asgisa) aims to promote economic growth and to halve poverty and unemployment by 2014. Eskom's most significant contribution to Asgisa will continue to be through its core business of supplying affordable, available and quality electricity to facilitate economic growth. In addition, Eskom can leverage its associated activities in bridging the gap between the first and second economy.

These associated activities include:

- optimising Eskom's proposed capital infrastructure investment programme for local content, skills development, small and medium enterprise, black women-owned businesses and black economic empowerment participation
- capacity-building initiatives
- accelerating the electrification drive to facilitate achieving government's stated objective of universal access by 2012
- focusing its current corporate social investment programmes to deliver increasingly on the Asgisa objectives of job creation, poverty alleviation and capacity building

Black economic empowerment (BEE)

As part of its procurement policies and managerial support programmes, Eskom continues to support small, medium and micro enterprises and large black businesses for the supply of goods and services, thereby contributing to BEE. The amounts reported include expenditure on both coal and demand-side management. Refer to page 77. In 2006 Eskom procured 67% of discretionary expenditure from BEE against a target of 65%.

In line with Eskom's policy framework for the economic empowerment of women, there is an increased focus on the promotion and empowerment of black women entrepreneurs to facilitate their participation in the mainstream economy. Eskom exceeded its target of 15% of discretionary expenditure from BEE by procuring 17% from black women-owned businesses.

Eskom will review its policies to align them with the code of good practice as developed by the Department of Trade and Industry for the implementation of broad-based black economic empowerment.

🌐 *www.eskom.co.za/annreport06 for more information.*

1. *Black, Asian and Coloured South Africans.*
2. *Managers, professionals and supervisors in the CU to F Band levels on the Paterson grading.*
3. *No target set.*

BEE expenditure

	Target 2006 (12 months) Rm	Actual 2006[1] (12 months) Rm	Actual 2005[2] (15 months) Rm
Eskom Holdings Limited			
Total BEE expenditure	**10 197,6**	**11 068,8**	10 334,0
Black women-owned business (included in total BEE expenditure)	**1 114,6**	**1 286,7**	1 086,0
Eskom Enterprises (Pty) Limited			
Total BEE expenditure	**579,4**	**600,8**	567,0
Escap Limited			
Total BEE expenditure	**11,8**	**10,9**	11,3

Eskom continues to support small, medium and micro enterprises and large black businesses for the supply of goods and services, thereby contributing to BEE

Corporate social investment

Eskom's corporate social investment (CSI) programmes are aimed at contributing to the development of the disadvantaged. Eskom's CSI activities for the review period include various initiatives for skills development, job creation, education and health, described below.

Corporate social investment

	Target 2006 (12 months) Rm	Actual 2006 (12 months) Rm	Actual 2005 (15 months) Rm	Actual 2004 (12 months) Rm
Social, economic development and national programmes	**26,7**	**25,3**	30,9	24,7
Eskom mathematics and science education programme	**3,2**	**3,9**	4,3	3,6
Legacy projects[3]	**4,6**	**6,0**	6,8	6,4
Donations (Eskom Development Foundation, Chairman and Chief Executive Fund)	**10,3**	**8,1**	11,7	9,1
Rural development[4]	**20,0**	**13,6**	19,8	15,6
South African Aids Vaccine Initiative	**15,0**	**–**	15,0	15,0
Health care professionals training	**2,0**	**2,0**	2,0	2,0
Eskom public scholarship programme[5]	**45,8**	**46,3**	59,9	48,0
– Mathematics and science students	**7,0**	**7,4**	16,1	10,4
– Other scholarships[6]	**32,2**	**33,9**	41,0	28,5
– Learnerships	**6,6**	**5,0**	2,8	9,1
Cause-related initiatives	**5,9**	**5,3**	9,4	9,4
– Expo for young scientists	**5,4**	**4,8**	5,9	5,9
– Proudly South African campaign	**0,5**	**0,5**	3,5	3,5
	133,5	**110,5**	159,8	133,8

1. *Amounts exclude VAT.*
2. *Amounts include VAT.*
3. *The Development Foundation's legacy programme focuses on support for priorities adopted at the World Summit for Sustainable Development hosted in South Africa in 2002; which are supported by the South African government.*
4. *The budget variance emanates from implementation challenges which are being resolved. The release of funds had to be managed to focus on sustainability initiatives. The situation is gradually improving.*
5. *Cost spent included in the training cost on page 60.*
6. *The other scholarships amounts include experiential trainees, tertiary support education programme, university and university of technology bursaries, Van der Bijl and Straszacker scholarships.*

Harvesting gerberas at the Timbali project at Nelspruit

Students doing practical work at the electrical workshop at a further education and training college in Limpopo equipped by the Eskom Development Foundation

Eskom Development Foundation

Many CSI programmes are executed by the Eskom Development Foundation, a section 21 (not-for-profit) company. The Development Foundation's mission is to contribute to improving the lives of the disadvantaged through integrated, efficient and effective development programmes. During the period, the Development Foundation approved grants and donations to the value of R42,1 million; benefiting 200 982 people, with particular emphasis on support for women (2 797), youths (192 306) and people with disabilities (3 709). Since inception on 1 January 1999 to 31 March 2006, the Development Foundation has invested R370,8 million in grants and donations.

During the review period, the Development Foundation received a number of awards, including being rated as one of the top three most caring companies[1] in South Africa, and among the top five in this category since 1994. Eskom and Absa were also rated as having the most hands-on approaches to corporate social investment[2].

South African Aids Vaccine Initiative

Eskom continues to support the South African Aids Vaccine Initiative (SAAVI) in its search for a vaccine. SAAVI, co-ordinated by the Medical Research Council, was set up to co-ordinate the research, development and testing of affordable and effective HIV and Aids vaccines for southern Africa. At 31 March 2006 R82,5 million has been contributed since the inception of this initiative in 2000. Eskom has committed to continue funding this research until 2007.

Foundation for professional development

Eskom contributes to the funding, governance and strategic direction of the training programme for health care professionals hosted by the Foundation for professional development in the clinical management of HIV and Aids. This programme aims to ensure that health care workers have the knowledge and skills to care for people living with HIV and Aids. As a founding sponsor, Eskom contributed R6 million to the programme over three years, beginning in 2003.

Rural development

Eskom supports government's integrated sustainable rural development programme which aims to empower rural communities with limited resources and improve the lives of South Africans. Eskom invested R13,6 million to complete eight schools, one multi-purpose community centre and a goat-farming project.

Skills development and public scholarship programme

In line with the objectives of Asgisa, Eskom intends to maximise its skills development in conjunction with the capital expansion programme. This will be achieved through optimising the use of its existing training facilities, providing in-service training and development, awarding merit bursaries, involving

1. *Rated by Corporate and Social Market Research in Corporate Care Check, August 2005.*
2. *Rated by Trilogue Publishers in CSI Handbook, 8th Edition.*

suppliers and contractors and the industry at large in the training and development of learners. As such, Eskom has committed to train 4 000 learners by the end of 2007. Refer to page 60.

The South African Centre for Essential Community Services (SACECS)

Through SACECS, Eskom aims to identify, develop and implement technologies with a beneficial impact on the quality of life of South African communities. This has resulted in poverty alleviation programmes, through applying technological research, such as the fish farm in Dindi village.

Electrification

The Department of Minerals and Energy (DME) started funding the national electrification programme in April 2001. Eskom is responsible for implementing the programme in its licensed areas of supply on behalf of the DME. Operating costs continue to be the responsibility of licensed distributors.

Since the inception of Eskom's electrification programme in 1991, a total of 3 317 525 homes have been electrified.

The results of the electrification programme were:

Electrification

	Target 2006 (12 months)	Actual 2006 (12 months)	Actual 2005 (15 months)
Total connections, number	**104 854**	**106 968**	222 314
Direct connections, excluding farm workers, number	**98 069**	**101 621**	219 885
Farm worker connections, number	**982**	**1 105**	2 429
Special projects[1], number	**5 803**	**4 242**	n/a
Capital expenditure, Rm	**506**	**496**	891
Farm worker connections incentives paid, Rm	**3**	**2**	5
Special projects, Rm	**48**	**44**	n/a

Electrification of schools and clinics

Funds applied to the electrification of grid schools and clinics	Target 2006 (12 months)		Actual 2006 (12 months)		Actual 2005 (15 months)	
	Number	Rm	Number	Rm	Number	Rm
DME	**375**	**51,9**	**473**	**36,5**	1 286	79,8

1. The special projects were at the request of the DME.

The electrification of schools and clinics has been fully funded by the DME through the National Electrification Fund since 2002. Funding for projects committed but not completed in the previous period had been carried forward.

Free basic electricity

The national electricity basic services support tariff policy seeks to bring relief, through government intervention, to low-income households and to ensure optimal socio-economic benefits from the national electrification programme. Qualifying customers are eligible to receive 50kWh of free electricity every month.

Two categories of customers receive free basic electricity, namely:

- billed customers: customers who receive a monthly bill for electricity consumption, where their free electricity is automatically included via an adjustment on their monthly bill
- prepaid customers: customers who buy prepaid electricity tokens. Free basic electricity can only be issued if the customer collects the token from an electricity vendor

Eskom is a service provider for free basic electricity in its areas of supply. Payment for this is recoverable from municipalities at a standard tariff. Any shortfall from differences between the actual customer tariff and the applied free basic electricity standard tariff, implementation costs or other costs is recoverable from government.

The results of the free basic electricity programme were as follows:

Description	2006 (12 months)	2005 (15 months)
Municipalities identified to provide free basic electricity, number	**239**	238
Municipalities contracted to provide free basic electricity, %	**98**	88
Customers approved by municipalities to receive free basic electricity, number	**1 254 199**	750 000
Customers with meters reconfigured to receive free basic electricity, number	**1 048 000**	585 000
Reconfigured customers consuming free basic electricity over the 12-month period, average %	**55**	57
Invoiced to contracted municipalities, Rm	**107,0**	64,8
Tariff shortfall recoverable from government, Rm	**12,0**	6,2

3.3 Support for New Partnership for Africa's Development (Nepad)

During the review period, the dedicated Nepad team refined its role from developing to facilitating projects and international relations.

Eskom is focusing on increasing the generation and transmission power infrastructure in South Africa. It will however continue to play a pivotal role in the Southern African Power Pool in the South African Development Communities region. It will continue to partner with other power utilities on projects that are mutually beneficial, aimed at increasing generation capacity, strengthening the regional grid and facilitating training and development with utilities in the region. During the review period, the following was achieved:

- establishing Western power corridor project as a joint venture company for:
  - the construction of Inga III hydro-power station with a generation capacity of 3 500MW on the Congo River in the Democratic Republic of Congo (DRC)
  - the construction of hydro-power generation projects on the Capanda River in Angola with a potential generation capacity of 7 000MW
  - in Namibia, this project will see the development of hybrid transmission lines carrying power to DRC, Angola, Botswana, Namibia and South Africa with distances exceeding 3 000km and providing an important western grid
- signing the regional inter-governmental memorandum of understanding

🌐 *www.eskom.co.za/annreport06 for more information.*

3.4 United Nations Global Compact

The United Nations Global Compact asks companies to embrace, support and enact 10 universal principles on human rights, labour standards, environment and anti-corruption. Eskom – as a signatory to the compact – continues its support through its sustainable practices by participating in the international process and playing an active role in the national network. Eskom hosted a number of South African company chief executives in October 2005 to gain support from South African companies for the compact and to develop the national network.

🌐 *www.eskom.co.za/annreport06 for more information.*

4. Safety and environment

4.1 Occupational hygiene and safety risk management

Performance

Eskom is committed to provide a safe and healthy working environment to all its employees and contractors. Although there were improvements in safety performance during the review period, the overall occupational hygiene and safety performance was below expectation and remains a priority. A revised safety strategy was implemented in early 2005 to address performance, and is discussed alongside.

The executive management has continued to emphasise occupational hygiene and safety as a key priority for Eskom.

The disabling injury incidence rate (DIIR[1]) and number of fatalities are key indicators of Eskom's hygiene and safety performance. Although there have been fewer disabling injuries compared to the previous period, their severity is cause for concern. Mitigating action has been prioritised.

1. DIIR expresses the number of workers who suffered a disabling injury during a 12-month period.

Safety performance

	Target March 2006 (12 months)	Actual March 2006 (12 months)	Actual March 2005[1] (12 months)	Actual March 2005[2] (15 months)
Work-related safety				
Total fatalities, number	**n/a**	**10**	17	19
Electrical contact fatalities, number	**n/a**	**3**	3	3
Vehicle accident fatalities, number	**n/a**	**2**	8	10
Other fatalities, number	**n/a**	**5**	6	6[3]
Disabling injury incidence rate including occupational diseases	**<0,40**	**0,40**	0,45[4]	n/a[5]
Electrical contact injuries, number	**n/a**	**25**	16	20
Public safety				
Total public fatalities, number	**n/a**	**34**	31	40
Electrical contact fatalities, number	**n/a**	**20**	21	29[6]
Fatalities as a result of other causes, number	**n/a**	**14**	10	11
Contractor safety				
Total contractor fatalities, number	**n/a**	**12**	13	17
Electrical contact fatalities, number	**n/a**	**5**	4	5
Other fatalities, number	**n/a**	**7**	9	12

There was a year-on-year decrease in the number of both employee and contractor fatalities during the period. Of the 10 employee fatalities, three were attributed to electrical contact, three to falls from heights, two to motor vehicle accidents, one to burns and one to a conveyor belt accident.

The decrease in contractor fatalities can be attributed to awareness campaigns on construction health and safety management as well as more stringent measures to ensure that contractor health and safety plans address the risks these individuals face.

1. *Period from 1 April 2004 to 31 March 2005.*
2. *Period from 1 January 2004 to 31 March 2005.*
3. *Adjusted as one fatality took place in December 2005, while the incident that resulted in the fatality took place in March 2005. Includes Eskom Enterprises (three fatalities).*
4. *Adjusted to include Enterprises division.*
5. *Only calculated as a 12-month moving average.*
6. *Adjusted to include one fatality that was reported after finalisation of the prior annual report.*

There was an increase in public fatalities to 34 (2005: 31). Nearly 40% of these fatalities can be attributed to vehicle accidents involving members of the public.

During the review period, numerous interventions were introduced as part of the safety strategy to ensure a high level of involvement in occupational hygiene and safety throughout the organisation. These included introducing a comprehensive communication strategy, increased management visibility and leadership in the field of occupational hygiene and safety, monitoring the behaviour of staff and contractors and benchmarking exercises with best-practice organisations to enable Eskom to continuously improve programmes. More detail on these interventions is provided below:

The role of leadership in behavioural safety

The ability of senior management members to actively demonstrate their commitment to safety is a key component to improving safety and business performance. Safety management evaluations conducted by DuPont Safety Resources have reinforced best practices in this area and the practical contribution management can make in influencing behaviour in the workplace.

A contravention booklet and health and safety toolkit was developed to assist managers with identifying occupational hygiene and safety-related non-conformances at work.

Maintenance work being carried out at Apollo substation

Research at the fuels and combustion technology centre

Safety communication

A communication strategy to improve the safety awareness culture in Eskom was developed. Monthly themes based on safety risks faced by employees were communicated through various Eskom media. This included the dissemination of daily safety tips on the Eskom intranet, and monthly safety presentations distributed to all managers for discussion with their staff. Mass media campaigns relating to public safety continued during the period. These focused on electricity-related criminal acts and electrical safety awareness.

Contractor and construction management

In light of Eskom's expansion and new projects, there is increased risk of health and safety-related incidents. To mitigate this, the group has formulated a construction safety, health and environment management procedure – specific to Eskom – to supplement construction regulations.

Benchmarking exercises

DuPont Safety Resources assisted Eskom in benchmarking current practices to:

- identify observed strengths in current behaviours, attitudes, practices, procedures and systems
- identify areas requiring improvement
- make recommendations for improvement actions

These results will be evaluated and a plan developed to address identified shortcomings to achieve a higher standard of health and safety performance.

Electrical and plant safety

Managing electrical safety is mainly achieved through the implementation of the Eskom operating regulations for high-voltage systems and the national plant safety regulations. These are top-level interventions used to promote safety in the power network and plant-related environment, and are overseen by committees comprising representatives from across the Eskom business. These committees and substructures support the drive for zero electrical contact incidents and minimisation of operating errors. During the period, the programme focused on contractor authorisation, job observations, comprehensive risk assessment, increased frequency of line inspections and awareness campaigns for employees, contractors and members of the public.

Vehicle safety

Vehicle safety campaigns continued in 2006, and focused on driver training and awareness. A workshop was held to develop vehicle safety specifications for Eskom vehicles. Discussions were held with the National Association of Automobile Manufacturers of South Africa, which assisted in drafting vehicle safety specifications for Eskom's future needs. As part of the promotion on vehicle safety, licence disk-holders and brochures highlighting the causes of vehicle accidents and steps to avoid accidents were distributed to all employees.

Occupational hygiene

Verifications were conducted at all divisions in specific business units to

evaluate whether occupational hygiene programmes and personnel running these programmes complied with legal requirements. Occupational hygiene audits were also conducted on many sites to identify areas for improvement or focus areas, among others asbestos programmes.

A booklet was developed for Eskom employees to improve general knowledge about occupational hygiene.

Fire risk management and emergency planning

Audits were conducted on internal requirements and defined best-practice criteria to ensure the adequacy of fire protection systems.

Emergency planning incidents that occurred challenged the activation of emergency plans. Where required, remedial action was taken, including improving the understanding that emergency planning encompasses business continuity as well as personal safety.

🌐 *www.eskom.co.za/annreport06 for more information.*

Nuclear safety performance

Eskom's nuclear safety performance meets world standards when measured against the latest information on pressurised water reactors of similar design. Unavailability on some safety systems that were higher than historically achieved, as well as numerous plant trips (mostly externally induced), have however challenged the group's ability to sustain the excellent performance levels (Institute of Nuclear Power Operations best quartile) achieved prior to these incidents. Koeberg's performance is calculated monthly using the performance indicator procedures of the World Association of Nuclear Operators and benchmarked against the latest quarterly results from this body.

Regular reviews of Koeberg power station, compared with international industry best practice, are carried out as part of Eskom's ongoing commitment to nuclear safety. These are coupled with self-assessments and various technical support missions by international experts.

🌐 *www.eskom.co.za/annreport06 for more information.*

4.2 Environmental management system

The Eskom occupational hygiene, safety and environmental policy commits the business to the implementation of appropriate management systems to address environment, safety and occupational hygiene issues to minimise risk and ensure continual improvement. Certification to the ISO 14001 standard continues to be implemented in Eskom, with the following divisions and subsidiaries now certified:

- Corporate divisions
  - Corporate sustainability
  - Corporate technical audit
- Transmission division
- Rotek Engineering (Pty) Limited
- Roshcon (Pty) Limited

A communication strategy to improve the safety awareness culture in Eskom was developed

Where environmental risks have been identified in other parts of Eskom, self-evaluation audits and management reviews are undertaken to determine whether the environmental management system conforms to planned arrangements and has been implemented and maintained in terms of ISO 14001. As an example, the Generation division maintained compliance with the standard in 2005 through external audits.

🌐 *www.eskom.co.za/annreport06 for more information.*

Environmental legal requirements

Current performance

During the period, 55 (2005: 44) environmental legal contraventions were classified by the Eskom environmental liaison committee, the governance body tasked with providing guidance and direction on environmental compliance in the group.

There was a major increase in the number of water-related contraventions from 9 to 24, mainly because of heavy rains during the first months of 2006. The release of water from power stations contravenes the conditions of their water permits as the power stations are not allowed to release water effluent from site.

Internal audits on the implementation of conditions of authorisation (obtained through environmental impact assessment records of decision issued to Eskom) identified that these conditions were contravened in 17 cases. These related to marking power lines (mitigation against bird collisions), communication with interested and affected parties on the records of decision and giving notice to the authorities before beginning construction. Measures were put in place to ensure compliance to conditions of authorisation.

Only one (2005: nine) contravention on emissions from Eskom power stations was registered and one (2005: two) contravention related to waste management practices.

Three (2005: nil) contraventions for oil spillage and three (2005: 10) for cutting protected vegetation without the necessary permit were reported. Six (2005: one) other contraventions were reported. One was for disturbance of an unmarked grave and the remainder were of an administrative nature involving, for example, not displaying water plant and operator certificates.

All legal contraventions are fully and formally recorded, tracked and reported to Exco for information. Audits and other investigations are undertaken where necessary.

Contraventions of environmental legislation in terms of the Eskom sustainability index

Under certain conditions, contraventions of environmental legislation are referred to Exco for attention. These include instances where censure was received from authorities, legal contraventions were not reported to government, or where the contravention was not timeously addressed. Managing directors can escalate any significant contravention to Exco if deemed appropriate. These contraventions are classified as contraventions of environmental legislation under the operational sustainability index.

Only one contravention was escalated during the period. This involved removing protected vegetation near a power line without an appropriate permit. This had a significant impact, and the relevant authority issued a letter of censure to Eskom. Refer to table on page 71.

🌐 *www.eskom.co.za/annreport06 for more information.*

Environmental accounting

Environmental accounting is the practice of identifying and reporting on expenditure incurred for environmental purposes.

During the period, R339 million (2005: R380 million) was spent on capital and R354 million (2005: R381 million) on operational environmental activities.

🌐 *www.eskom.co.za/annreport06 for more information.*

Most of the expenditure in the Generation division was for air quality management at coal-fired power stations, rehabilitation at coal mines and expenditure on the Eskom capacity expansion programme. Expenditure incurred by the Distribution division was mostly for environmental assessments for power line and substation construction projects, while that in Transmission division was for disposing of polychlorinated biphenyls (PCB).

Environmental externalities

Environmental externalities[1] refer to costs and benefits experienced by third parties, as a result of the actions of an organisation, which are not accounted for in the price of the product.

Environmental externalities are technology- and site-specific in much the same way as environmental impacts. It would be wrong to assume that international estimates of environmental externalities associated with electricity generation can be adopted for the environmental management of the electricity supply industry in South Africa. External studies were undertaken on various electricity supply options including:

- return to service of previously mothballed coal-fired plant
- new coal-fired plant
- pumped storage options
- combined cycle gas turbine plant
- pebble bed modular reactor plant
- residential load management and commercial and industrial energy efficiency

1. Based on the definition by the European Commission studies, 1998.

- open cycle gas turbines
- hydroelectric plant
- solar
- wind

All options were found to have both positive and negative externalities, but considerable difficulty was experienced in attributing a monetary value to these, due to the scarcity of local impact studies reporting quantifiable dose-response relationships and costs, particularly in the environmental and social arenas.

Eskom has studied environmental externalities since 1995. As this research was needed to include non-financial considerations in Eskom's decision-making processes, the traditional analysis of environmental externalities was extended to include social and economic impact assessments. In the short term, multi-criteria decision-making approaches have offered a more realistic option for incorporating externality considerations into business decision-making processes.

All major investment decisions now use a comparative analysis technique which includes financial and non-financial measures.

www.eskom.co.za/annreport06 for more information.

Environmental performance

Environmental performance is assessed and measured through the operational sustainability index. The environmental component of this index comprises four equally-weighted key performance indicators, reflected in the table below.

Performance against key environmental indicators was satisfactory except for specific water consumption. A contributing factor to the increase in specific water consumption was hot, dry and windy conditions during August to November 2005. This led to most coal-fired power stations experiencing higher evaporation rates and using more water for dust suppression on ash disposal sites. Refer to page 78.

Environmental performance indicators

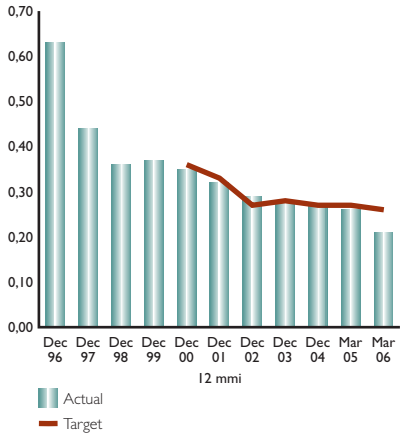
	Target March 2006 (12 months)	Actual March 2006 (12 months)	Actual March 2005 (12 months)	Actual December 2004 (12 months)
Operational sustainability index indicators				
Relative particulate emissions, kg/MWh sent out[1, 2]	**≤0,26**	**0,21**	0,26	0,27
Specific water consumption, ℓ/kWh sent out[3]	**≤1,30**	**1,32**	1,28	1,26
Enhanced PreCare/MaxiCare – environmental component	**≥80,00**	**101,06**	93,01	n/a[4]
Reported legal contraventions in terms of the operational sustainability index	**0**	**1**	3	2
Other performance indicators				
Radiation exposure, milliSieverts per annum	**0,25[5]**	**0,0049**	0,0079	0,0087
Net raw water consumption, Mℓ	**n/a**	**291 516**	282 271	277 557

1. *Figures are calculated as a 12-month moving index.*
2. *Amount of ash emitted per unit of generated power sent out (excluding Camden power station).*
3. *Volume of water consumed per unit of power sent out by all generating stations (excluding Camden power station).*
4. *Not calculated for that period.*
5. *National Nuclear Regulator limit.*

The Apollo control room

Relative particulate emissions

kg/MWh sent out



Targets prior to 2000, were based on coal-fired power stations only.

Environmental events are reported monthly to the Eskom environmental liaison committee where they are classified as events, legal contraventions or contraventions of environmental legislation in terms of the operational sustainability index. Of the 55 (2005: 44) legal contraventions reported, one (2005: three) was registered against the operational sustainability index. Refer to page 70 for more information on legal contraventions.

🌐 *www.eskom.co.za/annreport06 for more information.*

Air quality management

Particulate emissions

The emission of particulates (ash) is regulated by the chief air pollution control officer (Capco) of the Department of Environmental Affairs and Tourism. Registration certificates for individual power stations are issued by the Capco. These state the actual quantity of particulate emissions that may be emitted from power station stacks during a 31-day period as well as the level of emission allowed in milligrams per standard cubic metre (mg/Sm^3).

The performance target for particulate emissions of ≤ 0,26kg/MWh (2005: ≤ 0,27kg/MWh) sent out was achieved, and is the best ever achieved by Eskom. Retrofitting fabric filter bags at Arnot power station was the main contributor to this improved performance in the last 12 months. Total particulate emissions reduced by 21,4% year-on-year.

🌐 *www.eskom.co.za/annreport06 for more information.*

Gaseous emissions

Eskom annually calculates the quantities of oxides of nitrogen (NO_x), sulphur dioxide (SO_2) and carbon dioxide (CO_2) emitted from power stations based on the coal characteristics and power station design parameters. Refer to page 172 for quantities.

🌐 *www.eskom.co.za/annreport06 for more information.*

Ambient air quality

Atmospheric pollution from industrial sources, including the power-generating industry, continues to be a major concern in South Africa. It is important that all pollution sources contributing to ambient air quality are taken into account if regional planning on air quality is to be conducted. Data from continued ambient air quality monitoring can contribute key information for future strategic planning.

Eskom has operated an ambient air quality monitoring network since the 1980s which includes strategic sites in the immediate vicinity of certain power stations as well as research sites. The network provides national and regional information on long-term trends in air quality from various sources.

The ambient network measures not only Eskom emissions, but all emissions from surrounding sources. Monitoring equipment is calibrated against National Meteorological Laboratory standards in a laboratory accredited by the South African National Accreditation System

together with the sites. All sites, except two, are equipped to monitor SO_2, NO_x, ozone (O_3), fine particulate matter (FPM) and the relevant meteorological parameters of wind speed, wind direction and ambient temperature. The remaining two sites are equipped to monitor SO_2, FPM and meteorological parameters.

Results indicate that annual concentrations of SO_2, NO_x and FPM at all sites, except Leandra, are within the standards of the National Environmental Management Air Quality Act. The FPM annual concentration was above the limit at the Leandra site, which is not directly influenced by any Eskom sources, as it monitors adjacent residential emissions.

🌐 *www.eskom.co.za/annreport06 for more information.*

Land, biodiversity and quality of supply management

Eskom's policy on land management requires the sustainable use and maintenance of all Eskom land to ensure conformance with applicable legislation and optimise asset value. In some cases, partnerships are established to achieve these goals.

Nature reserves have been established where feasible, and biodiversity managed in terms of the site objectives. Koeberg Nature Reserve, for example, has been managed as a site of high biological significance for some years. It is now a prime example of the *fynbos strandveld* and is used for research and investigation purposes. Hiking trails have been developed and the reserve offers visitors an ecotourism experience unique in the area.

In accordance with the requirements of the record of decision of the Braamhoek pumped storage scheme in the Drakensberg, near the town of Van Reenen, approximately 8 000 hectares of grassland will be conserved. It will be managed to optimise habitats for threatened species in the area, and conserve a unique section of grasslands and wetlands on the escarpment. The Braamhoek partnership was formed to focus on environmental conservation before, during and after construction of the planned pumped storage scheme. Partnership members are BirdLife South Africa, Eskom and the Middelpunt Wetland Trust. The partnership was formed to help conserve wildlife, particularly the White-winged Flufftail *(Sarothrura ayresi)*, a critically endangered species that visits the wetland.

Other areas, including the Plattekloof site in Edgemead, Cape Town, and areas around some substations and power stations are managed to maintain ecological diversity. This integrated use of land has benefits for both society and Eskom, with biodiversity in the area serving as an indicator of environmental conditions, as well as a buffer between Eskom infrastructure and local communities.

Every effort is made to reduce the impact of power lines and other infrastructure on biodiversity, eg birds and mammals. The strategic partnership between Eskom and the Endangered Wildlife Trust (EWT) started 10 years ago. The EWT partnership has become an international centre of excellence in monitoring and mitigating avian interaction.

Every effort is made to reduce the impact of power lines and other infrastructure on biodiversity

Because fires under power lines affect the quality of electricity supply, early detection is important to trigger actions to reduce this impact. Eskom, in partnership with the Satellite Application Centre of the Council for Scientific and Industrial Research (CSIR), has developed a fire-detection system. The application of remote sensing with cellphone technology in the active fire information system is the first of its kind in the world, and allows Eskom to respond quickly to fires under power lines, which should reduce damage and disruption of power supply.

🌐 *www.eskom.co.za/annreport06 for more information.*

Waste management

Eskom supports the government's commitment to waste reporting and tracking as defined in the national waste management strategy.

Conservation of resources is continually promoted through careful resource use, reducing waste generation, recycling, re-use and appropriate disposal. For example, at

Waste type

	2006 (12 months)	2005 (15 months)
Materials containing asbestos, tons	**6 655**	6 100
Polychlorinated biphenyls, tons	**243**	33
Low-level radioactive waste (Koeberg)		
– steel drums, cubic metres	**91,3**	282,5
Intermediate-level radioactive waste (Koeberg)		
– concrete drums, cubic metres	**52,4**	114,5
Ash, million tons	**±33**	±40

Eskom head office, 182 tons (2005: 240 tons (15 months)) of paper were recycled.

The divisions report on different waste streams, which vary in significance according to their operations. Reporting includes general domestic waste, garden refuse, building rubble, metals, fluorescent tubes, and health care risk waste. Metals, paper and printer cartridges are recycled.

In terms of significant waste streams, quantities of waste disposed of are shown above.

The increased amount of asbestos disposed of reflects asbestos management programmes at Camden, Grootvlei and particularly Komati power stations. The increase in the disposal of polychlorinated biphenyls reflects equipment upgrading and replacement. The year-on-year change in the radio active waste quantities (Koeberg) is dependent on the number of outages and refuelling during the period.

Of the approximately 33 million tons of coal ash produced at Eskom's coal-fired power stations over the 12-month period, 5,4% (2005: 4,8%) was recycled. Ash for recycling was collected from Lethabo, Kendal and Matla power stations. This ash is used, among other uses, in the production of cement. All remaining ash is disposed of in ash dams and dumps at power stations and rehabilitated using soil and local vegetation to minimise the impact on the environment.

🌐 *www.eskom.co.za/annreport06 for more information.*

Climate change

Eskom views climate change as a serious threat to national sustainable development priorities of poverty eradication and economic growth and recognises the need for a climate change policy and strategy. A robust strategy was developed in 2005 in line with government's national climate change response strategy which recognises that both opportunities and risks that exist in the consideration of climate change. In 2006, the roll-out of the strategy was implemented. Priority areas include climate change criteria as part of decision-making, continual improvement in reporting, commitment to national and international government and business processes, including strengthening the clean development mechanism.

As part of the strategy, Eskom reiterated its aim of reducing the percentage of coal in the primary energy mix by 10% by 2012. This goal was first declared at the World Summit on Sustainable Development in 2002 and was reconfirmed at the national climate change conference hosted by DEAT in October 2005.

In planning for future electricity supply, Eskom assesses all options. These include conventional pulverised coal as well as carbon-reducing options such as gas, nuclear, clean coal technologies and renewables. Refer to page 76 for information on Eskom's renewable energy strategy. Non-generation options that are imperative to reducing greenhouse gas emissions include the demand-side management programme and other energy efficient initiatives. In line with this, Eskom has initiated a project to reduce internal energy use by efficiency improvements. Eskom is also committed to the national energy efficiency white paper and has signed the voluntary business energy efficiency accord. Eskom regards adaptation to climate change as important, as studies show that parts of South Africa will experience

increased drought due to climate change. Thus, Eskom is determining what policies and actions will be required to manage the area of adaptation, such as determining the optimal use of water.

Climate change criteria are included as part of Eskom's investment decision-making criteria. Specific climate change criteria include assessing options based on potential carbon dioxide emissions, thermal efficiency of the plant, clean development mechanism potential and potential for carbon sequestration. Eskom has also begun investigating a carbon capture and storage strategy.

Eskom remains committed to reporting on its climate change priorities, specifically the strategy roll-out and participation in processes aimed at dealing with climate change adaptation and mitigation, and its performance in reporting carbon dioxide emissions. Refer to page 172 for table of CO_2 emissions.

CO_2 avoidance through Eskom's energy efficiency component of demand-side management activities in 2006 includes:

CO_2 reduction

	Actual GWh sent out[1] 2006	Actual kt CO_2 avoided 2006
Projects completed in 2006 (115MW)	**277**	271

1. This performance is being tracked by independent measurement and verification entities as there is a time lag of up to six months before savings can be demonstrated.

Eskom's commitment to the national and multilateral processes

Eskom has direct representation on the national committee on climate change which advises the Minister of Environmental Affairs and Tourism on pertinent matters. South Africa is developing the second national communications protocol as part of its international obligations under the United Nations' framework convention on climate change. Eskom will provide information and comments where relevant. This includes participating in the project to develop a greenhouse gas inventory for the country. Eskom will also serve on the South African delegation to the conference of the parties to the United Nations' convention on climate change, as well as the carbon sequestration leadership forum.

Eskom provides input to several other related international bodies, such as the intergovernmental panel on climate change. Eskom participates with various international groups concerned with climate change such as the World Business Council for Sustainable Development, the International Chamber of Commerce's climate and energy task forces and the International Emissions Trading Association. Eskom participates by providing comments on documents prepared by these organisations for international processes, particularly in providing a developing-country perspective where relevant.

Eskom remains committed to a multilateral process by supporting the Kyoto protocol mechanisms such as that on clean development. Eskom submitted four voluntary project information notes to the national authorities in March 2006 as the first step in the development of clean development projects. These projects include renewables, fuel switching and efficiency options. Eskom will continue to assess the potential for clean development projects that contribute to South Africa's sustainable development. As part of this work, Eskom has initiated studies to determine the carbon emission factor for the South African grid.

Other information relevant to climate change is detailed elsewhere in this report. This includes:

- Eskom's renewable energy strategy
- Eskom's demand-side management programme
- energy efficiency initiatives
- integrated strategic electricity planning
- emission statistics

Refer to page 52, 54, 76 and 172.

www.eskom.co.za/annreport06 for more information.

The motor driving the turbine at the Palmiet pumped storage scheme

Klipheuwel wind demonstration facility near Cape Town

Renewable energy

Renewable energy technologies are among the supply-side options being considered by Eskom. The organisation has developed a renewable energy strategy which outlines a number of focus areas, including research and development, investigating investment and clean development mechanism[1] opportunities and regional considerations such as the development of hydro resources.

Renewable energy sources which have been evaluated are wind, solar, wave, tidal, ocean current, biomass and hydro. Through the South African Bulk Renewable Energy Generation (SABRE-Gen) programme, a vehicle was established to enable the evaluation of multi-MW, grid-connected generation. The initiatives all follow the same functional structure: namely the identification of promising options, an assessment of the financial and economic viability as well as resource potential in the country, the implementation of demonstration projects to conduct operational research and the provision of strategies for the uptake and sustainable deployment of the technologies where feasible.

The wind and concentrating solar power components are the most advanced, with a wind-demonstration facility in the Western Cape and a large-scale concentrating solar power project in the feasibility stage. The Klipheuwel wind energy-demonstration facility was commissioned in February 2003 and has delivered significant operational and research-related information. A total of 12,2GWh has been generated since commissioning, and the wind turbines are operating at an average availability of 90%. Research has focused on how the technology interacts with the South African environment and has highlighted unique factors that can impact its performance.

The concentrating solar power project is assessing the feasibility of constructing a 100MW central receiver-type power plant in the Northern Cape. The feasibility study focuses on addressing technology risk issues, while refining the financial scenario facing such a development.

The bio-energy and wave initiatives are still in the early stages of project development.

Eskom participated in a pilot project by the Department of Minerals and Energy which investigates green power trading. Eskom contributed to the development of draft market rules and will act as the independent market operator for the duration of the project.

A number of pilot projects on solar water heating are under way in residential and commercial buildings, with an additional pilot at an industrial site under investigation.

Energy efficiency

An internal advisory body on energy efficiency has been established to guide the organisation on energy efficiency programmes and initiatives. Eskom has initiated a project to save energy through internal efficiency programmes, as it is a major user of

1. *The Kyoto Protocol established emissions trading and joint implementation between developed countries and a clean development mechanism (CDM) to encourage joint emission-reduction projects between developed and developing countries.*

Coal burnt and coal purchased

	2006 (12 months)	2005 (15 months)	2004 (12 months)
Coal burnt, million tons – actual	**112,1**	136,4	109,5
– budget	113,6	133,8	106,4
Coal purchased, million tons – actual	**111,7**	137,8	112,7
– budget	125,3	135,0	106,8
BEE purchases, million tons	**26,2**	28,6	23,2

energy. This project has been approved by Exco and is being implemented. The programme aims to optimise consumption through education of employees, and identification and implementation of efficiency projects at Eskom installations. Eskom staff will serve as an example to local communities and industry and assist in implementing an energy-efficient culture in South Africa.

🌐 *www.eskom.co.za/annreport06 for more information.*

4.3 Energy purchases and resource management

Eskom continued to review its fuel supply options and plant operating methodology to reduce costs and improve efficiency and flexibility.

Coal

Eskom has long-term coal supply contracts with mines to ensure the continuous supply of coal to the power stations. Coal procurement was extremely difficult during the review period. It began with lower electricity growth than budgeted, compared to the previous periods. This would normally have resulted in a lower burn at the more expensive coal-fired stations. However, because of a number of technical problems, combined with the daily electricity load profile, the decrease in coal burn at the more expensive stations did not materialise as expected. The most significant impact on the coal burn was when Koeberg unit 1 went down in December 2005, requiring additional coal supplies at more expensive stations. Refer to table above.

Although weather conditions were favourable for coal production up until December 2005, extraordinary rainfalls for the first three months of 2006 resulted in significant production problems at the open cast mines. The increase in demand at certain power stations as a result of the Koeberg incident as well as other electricity production problems lead to significant decreases in coal stocks at these stations. Additional coal supplies had to be purchased on an emergency basis to mitigate supply risks.

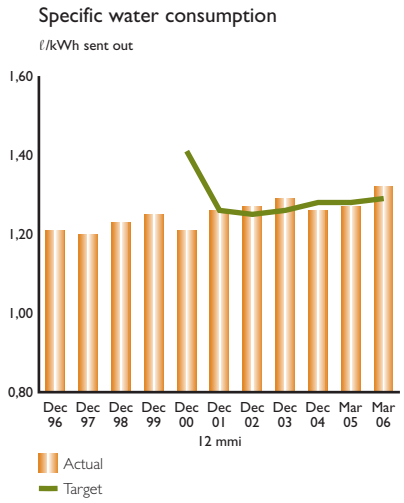
Transport of coal by rail and road remained problematic throughout the period. Road and rail transport is used when purchasing coal from sources other than from tied collieries. A number of road transporters have not performed in line with expectations. The limited capacity of rolling stock necessitated greater use of road transport to Majuba power station. These issues are now receiving urgent management attention as it is anticipated that it should be resolved early in the new financial period.

Renewable energy technologies are among the supply-side options being considered by Eskom

The conditions of provincial and national roads used by Eskom's transporters have deteriorated during the period despite regular communication with the relevant road transport authorities and the Minister of Public Enterprises, to speed up road repairs. Eskom's communication efforts will be intensified in the period ahead.

The Majuba coal transport project, which consists of a heavy haul rail link between Ermelo and Majuba power station, will be constructed by Eskom, pending approval by the Minister of Public Enterprises. Coal supplies will continue to be transported by road and the general freight railway line until the expected completion date of 31 December 2009.

The Steenbras Dam feeds Palmiet pumped storage station



Targets prior to 2000, were based on coal-fired power stations only.

Black economic empowerment (BEE)

Eskom continues to support BEE coal-mining initiatives when purchasing coal, as well as using BEE road transport companies for transport of coal. Refer to page 62.

Water

Power stations use raw water from government water schemes and mine water at Lethabo and Tutuka. The target in litres/kilowatt hour sent out (ℓ/kWhSO) for water is determined from a weighted average of individual power station targets, based on the budget production plan for that financial period. Each power station benchmarks its targets against historical performance and theoretical water consumption.

In the review period, performance was influenced by relatively drier conditions in the first half, the unplanned outage of Koeberg unit 1 and poorer-than-expected performance at some power stations. Refer to table below.

The assurance of water supply to power stations in the Mpumalanga highveld was identified as a risk due to increasing demand and decreasing yield. On 11 October 2005, Eskom finalised a 20-year water-supply agreement with DWAF to construct a pipeline linking the Vaal River Eastern subsystem with Vaal Dam. DWAF has mandated the Trans Caledon Tunnel Authority (TCTA) to fund and implement this project by October 2007.

Eskom continues to liaise closely with DWAF to ensure effective and efficient management of water supply systems serving existing power stations and planning water infrastructure projects for new power stations.

Hydro and pumped storage schemes

Hydro-electric power stations and pumped storage schemes provide a cost-effective generating technology to respond rapidly to peak electricity demand. Hydro, pumped storage schemes and gas-turbine power stations contributed 1,84% (2005: 1,67%) of total energy produced by Eskom power stations.

🌐 *www.eskom.co.za/annreport06 for more information.*

Water used in the production of electricity

	Actual 2006 (12 months)	Actual 2005 (15 months)	Actual 2005 (12 months)
Water used at Eskom power stations, Mℓ	**291 516**	347 135	282 271
Electricity produced, GWh	**221 216**	273 404	220 611
Specific water consumption, ℓ/kWh sent out	**1,32**	1,27	1,28

5. Economic

5.1 Financial performance

Income statement

The business performance for the period was as follows:

	Target 2006 (12 months) Rm	Actual 2006 (12 months) Rm	Actual 2005 (15 months) Rm
Profit before fair value gain/(loss) on embedded derivatives and taxation	**n/a**[1]	**5 453**	7 690
Eskom Holdings Limited	**4 721**	**5 741**	6 458
Eskom Enterprises (Pty) Limited	**215**	**389**	296
Escap Limited	**166**	**154**	227
Gallium Insurance Company Limited	**221**	**341**	144
Intergroup eliminations	**–**	**(1 172)**	565
Fair value gain/(loss) on embedded derivatives	**n/a**[1]	**1 322**	(4)
Eskom Holdings Limited	**(580)**	**1 418**	72
Eskom Enterprises (Pty) Limited	**–**	**(96)**	(76)
Profit before tax	**4 779**	**6 775**	7 686
Less: Taxation	**n/a**[1]	**(2 154)**	(2 313)
Eskom Holdings Limited	**(1 504)**	**(2 095)**	(2 033)
Eskom Enterprises (Pty) Limited	**(61)**	**(91)**	(118)
Escap Limited	**(48)**	**(38)**	(64)
Gallium Insurance Company Limited	**–**	**–**	–
Intergroup eliminations	**–**	**70**	(98)
Profit from continuing operations	**n/a**[1]	**4 621**	5 373
Eskom Holdings Limited	**2 637**	**5 064**	4 497
Eskom Enterprises (Pty) Limited	**154**	**202**	102
Escap Limited	**118**	**116**	163
Gallium Insurance Company Limited	**221**	**341**	144
Intergroup eliminations	**–**	**(1 102)**	467
Profit from discontinued operations: Eskom Finance Company	**25**	**14**	38
Profit for the period	**n/a**[1]	**4 635**	5 411

1. Group targets are not calculated.

Key numbers for the group include:

	Target 2006 (12 months)	Actual 2006 (12 months)	Actual 2005 (15 months)
Sales			
Eskom electricity sales – external, GWh	**212 472**	**207 921**	256 453
Eskom electricity sales growth – external, GWh %	**3,0**[1]	**(18,9)**[2]	30,5[3]
Eskom electricity sales growth – external Rm %	**4,6**[1]	**(13,9)**[4]	30,3
Revenue	**n/a**[5]	**36 607**	43 207
Electricity revenue – external, Rm	**35 580**	**35 425**	41 127
Electricity revenue – internal, Rm	**74**	**88**	96
Other revenue – external, Rm	**107**	**45**	164
Subsidiaries – external, Rm	**1 167**	**1 103**	1 587
Subsidiaries – internal, Rm	**3 200**	**3 589**	4 087
Intergroup eliminations	**–**	**(3 643)**	(3 854)
Other gains			
Interest income	**n/a**[5]	**2 951**	3 936
Eskom Holdings Limited	**n/a**[6]	**2 939**	4 091
Subsidiaries	**n/a**[7]	**267**	247
Intergroup eliminations	**–**	**(255)**	(402)
Fair value gains/(loss) on financial instruments	**n/a**[5]	**1 134**	(99)
Eskom Holdings Limited	**(681)**	**1 211**	(26)
Subsidiaries	**–**	**(77)**	(73)
Interest expense	**n/a**[5]	**(4 656)**	(5 447)
Eskom Holdings Limited	**n/a**[6]	**(4 841)**	(5 761)
Subsidiaries	**n/a**[7]	**(80)**	(84)
Intergroup eliminations	**–**	**265**	398
Impairment (expense)/reversal	**–**	**96**	(258)
Eskom Holdings Limited	**–**	**898**	(116)
Eskom Enterprises (Pty) Limited	**–**	**27**	(307)
Intergroup eliminations	**–**	**(829)**	165
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	**n/a**[5]	**12 249**	14 828
Eskom Holdings Limited	**11 086**	**12 476**	13 487
Subsidiaries	**666**	**932**	822
Intergroup eliminations	**–**	**(1 159)**	519
Key ratios			
Interest cover (EBITDA), %			
Eskom Holdings Limited	**≥ 3,51**	**3,54**	3,62

1. Target sales growth for the review period compared to the 12 months from 1 April 2004 to 31 March 2005.
2. Actual sales growth was 0,8% when comparing to the 12 months 1 April 2004 to 31 March 2005.
3. Actual sales growth was 5,1% for the 12 months from 1 January 2004 to 31 December 2004 and negative 1,2% for the three months from 1 January 2005 to 31 March 2005.
4. Actual sales growth was 4,4% when comparing to the 12 months 1 April 2004 to 31 March 2005.
5. Group targets are not calculated.
6. Net interest income and expenditure target R1 809 million.
7. Net interest income and expenditure target R37 million.

Eskom Holdings Limited

When reading this commentary on the financial performance of the company, it should be borne in mind that, due to the change in the financial year end at 31 March 2005, a 12-month period is being compared with a 15-month period.

The operating financial performance for the company was most encouraging given the low sales growth, and the technical problems experienced during the period. Operating costs were well contained, and savings more than compensated for the increase in primary energy costs. Embedded derivatives impacted the results by R1,4 billion, highlighting the volatility associated with accounting for embedded derivatives.

The actuarial valuation of the post-retirement medical aid provision reflected a reduction in the required liability of R594 million at 31 March 2006 and this amount has been written back in the income statement.

A review of the impairment provision for the investment in Eskom Enterprises raised in the last two years indicated that R828 million could be released this year, which is also reflected in the income statement. Refer to note 10 of the financial statements on page 137.

Eskom is now in a tax paying position and the current tax charge to the income statement was R1 317 million and R855 million was paid to the South African Revenue Service during the review period.

Subsidiaries

Eskom Enterprises (Pty) Limited

Eskom Enterprises, domiciled in South Africa, was registered to accommodate all the non-regulated energy-related activities of Eskom in South Africa and its energy-related activities outside of South Africa.

The group performance exceeded expectations, with core businesses contributing to the improved performance. Rotek Engineering (Pty) Limited made a significant contribution to the results due to an increase in activities relating to the Eskom capital expansion programme. During the review period Arivia.kom (Pty) Limited bought back its shares from Denel (Pty) Limited which increased Eskom Enterprises' shareholding from 45,06% to 58,50%. The results of Arivia for 1 March 2006 to 31 March 2006 contributed R210 million to revenue and a net loss of R1 million to the group.

Eskom Finance Company (Pty) Limited

The Eskom Finance Company was established as a vehicle to achieve Eskom's commitment to enabling its employees to have access to accommodation while optimising costs to Eskom and its employees. The company makes home loans available at favourable interest rates to employees of the Eskom group.

Eskom, the shareholder of Eskom Finance Company, has taken a decision – in line with the Department of Public Enterprises' strategy – to dispose of this company as a going concern, subject to the continuation of the current services it delivers to Eskom and its employees. To implement this decision, the joint transaction team of senior officials from the Department of Public Enterprises and Eskom are implementing a project to effect the disposal within the next 12 months and appropriately position the company after disposal in line with its strategic intent in a manner that will address concerns from all major stakeholders.

The operating financial performance for the company was encouraging

Escap Limited

Escap was established in 1993 to reduce Eskom's overall cost of risk management and insurance. It forms part of the risk financing strategy to formalise the insurance function and acts as a vehicle for creating reserves and additional insurance capacity.

During 2006, the following issues in the insurance portfolio were reviewed:

- the Eskom group insurance and risk financing strategy
- the need for two captive insurance companies
- the level of deductibles that divisions should carry to promote comprehensive risk management

The results of the reviews going into 2007 are as follows:

- better use of captive reserves as the total asset class risk retention was increased by 100% and various increases in other classes
- use of Escap as the main insurer of Eskom risks
- use of Gallium significantly reduced
- substantial increases in divisions' deductibles based on their loss profiles
- capacity of the divisions to afford self-insurance levels

Escap's results show a small underwriting profit of R9 million. Therefore, the net profit after tax of R116 million mainly reflects the effect of investment returns of R145 million for the period.

Gallium Insurance Company Limited

Gallium, a captive insurance subsidiary of Eskom registered in the Isle of Man, was established in 1995. It has provided cover for less predictable risks and for those risks where insurance cover is generally not available. In future, these risks will be covered by Escap while Gallium will be used for longer term liabilities, such as environmental liability.

Gallium's results show a substantial underwriting profit of R258 million, mainly due to the lower claims experienced during the period. Net profit of R342 million is also positively influenced by investment returns of R86 million for the period.

Balance sheet

	Group		Company	
	March 2006 Rm	March 2005 Rm	March 2006 Rm	March 2005 Rm
Assets				
Property, plant and equipment and intangibles	**65 475**	59 523	**64 128**	58 288
Investments	**214**	370	**2 114**	1 300
Future fuel supplies	**2 657**	2 471	**2 657**	2 471
Deferred tax	**205**	139	**–**	–
Financial instruments at fair value	**28 027**	18 345	**27 892**	18 254
Financial instruments at cost	**20 133**	18 475	**16 969**	15 563
Trade and other receivables	**5 358**	5 151	**4 884**	4 988
Loans to subsidiaries	**–**	–	**2 311**	2 351
Inventories	**3 681**	2 868	**3 259**	2 800
Loans receivable	**–**	2 464	**–**	–
Assets classified as held-for-sale	**2 402**	–	**–**	–
Total assets	**128 152**	109 806	**124 214**	106 015
Equity	**50 562**	47 233	**48 263**	44 714
Liabilities	**77 590**	62 573	**75 951**	61 301
Financial instruments at fair value	**17 746**	11 379	**17 939**	11 613
Financial instruments at cost	**29 683**	24 328	**29 439**	24 047
Deferred tax	**7 490**	6 908	**7 173**	6 569
Deferred income	**3 043**	2 432	**3 043**	2 432
Retirement benefit obligations	**4 848**	4 980	**4 718**	4 800
Provisions	**6 660**	6 337	**6 262**	5 938
Amounts owing to subsidiaries	**–**	–	**561**	465
Trade and other payables	**7 452**	6 162	**6 181**	5 437
Taxation	**644**	47	**635**	–
Liabilities directly associated with non-current assets classified as held-for-sale	**24**	–	**–**	–
Total equity and liabilities	**128 152**	109 806	**124 214**	106 015

Key numbers

	Target 2006 (12 months)	Actual 2006 (12 months)	Actual 2005 (15 months)
Key ratios			
Return on assets			
Eskom Holdings Limited, %	**≥ 9,10**	**9,95**	11,46
Eskom average total cost of electricity, R/MWh	**146,09**	**147,57**	136,48
Solvency ratios			
Escap Limited, %	**40**[1]	**74**	51
Gallium Insurance Company Limited, %	**100**[2]	**>100**	>100
Debt: equity			
Eskom, excluding long-term provision	**≤ 0,05**	**0,05**	0,04
Eskom, including long-term provision	**≤ 0,30**	**0,26**	0,25

1. *Regulatory target 15,0%.*
2. *Regulatory target 5,3%.*

The balance sheet for the company reflects a very healthy position. The debt to equity ratio (including long-term provisions) has remained much the same at 0,26, despite the two bond issues during the period of just over R6 billion.

In compliance with IFRS, the useful life of all property, plant and equipment had to be reviewed and the expected residual value used to recalculate depreciation backdated to the date of purchase. This resulted in a favourable variance against budget for depreciation in the current period, and an adjustment to the accumulated depreciation to the prior period and retained earnings. Refer to page 169 in the financial statements note 39.

Valuation of assets

Although there is cross-subsidisation between certain customer categories (depending on customers' electricity consumption levels, geographical location and voltage supply levels), Eskom recovers all costs of supplying electricity to its customer base as a whole, and earns a positive return on assets. On this basis, the directors believe no adjustment is required to the value of assets relating to any particular customer category.

The directors believe that, based on the principle of cross-subsidisation, there is no need to raise a provision for the impairment of certain classes of property, plant and equipment in the current period. Depending on how the electricity distribution industry restructuring takes place, it might be necessary for Eskom to raise a provision for impairment in future years.

Impairments

Investment in Eskom Enterprises

Eskom's investment in Eskom Enterprises has been reviewed for impairment, by ensuring that the investment is at least equal to net assets of the Enterprises consolidated group, although two investments by Eskom Enterprises still remain impaired.

Full services network and second network operator

Eskom Enterprises invested R760 million in the full services network, ahead of the introduction of a second telecommunications network operator in South Africa. Initially scheduled for May 2002, the issuing of a licence to the second network operator was issued by the Independent Communications Authority of South Africa to the second network operator on 9 December 2005.

The intended sale of the Eskom portion of the full service network is in progress. The carrying values of all assets, including the fibre optic network, have been reviewed for impairment. The delay in negotiating the asset sale prompted the Eskom board to take a conservative view and leave the full impairment provision of R760 million (2005: R760 million) against this investment.

Mountain Kingdom Communications (Pty) Limited (MKC)

In 2002, Eskom Enterprises invested R216 million in MKC, a company registered in Lesotho.

The Telecom Lesotho licence issued by the Lesotho Telecommunications Authority (LTA) stipulates system expansion targets and to the extent that these targets are not met, penalties are payable to the LTA. During the review period LTA informed MKC that based on a revised agreement the connection targets, other than those relating to year one and two, have been met.

The impairment provision previously raised has been reduced from R208 million to R181 million at 31 March 2006 in the Eskom group financial statements.

Embedded derivatives

Eskom has entered into a number of agreements to supply electricity to electricity-intensive industries, where the revenue of these contracts is based on commodity prices, foreign currency rates or foreign production price indices that gave rise to embedded derivatives. The net impact for the 12-month period was a fair value gain of R1 418 million (2005: 15-month period: R72 million) to the income statement of Eskom and a fair value gain of R1 322 million (2005: R4 million loss) for the group. The impact on the balance sheet remained significant. The embedded derivative assets for Eskom were R6 417 million (2005: R5 076 million) and embedded derivative liabilities were R4 927 million (2005: R5 004 million). The group numbers for embedded derivative assets were R6 419 million (2005: R5 081 million) and embedded derivative liabilities were R5 101 million (2005: R5 085 million).

Provisions

The provision for decommissioning for power station-related environmental restoration at 31 March 2006 was R3 896 million (2005: R3 316 million). The provision for mine-related closure, pollution control and rehabilitation was R968 million (2005: R786 million). The discount rate for these provisions was changed from 5,0% to 4,2%. Refer to page 122 and 154 in the financial statements note 1 and 21.

Revenue management

The board is responsible for establishing systems, procedures, processes and training programmes to ensure efficient and effective revenue management. Adequate cash collection and investment management processes and procedures were in place during the period.

The collection of revenue from small power users in Soweto remains a challenge. The enhancement of credit control strategies and monitoring of payment levels in Soweto continue to receive constant management attention. The payment levels from these customers, expressed as a percentage of billed revenue, decreased to 34% (2005: 38%).

Trade debtors and other receivables at the end of the period are summarised below:

Trade debtors and other receivables

	Group		Company	
	Actual 2006 (12 months) Rm	Actual 2005 (15 months) Rm	Actual 2006 (12 months) Rm	Actual 2005 (15 months) Rm
Trade debtors and other receivables	**6 816**	6 513	**6 190**	6 206
Soweto, takeovers and suspense accounts	**1 101**	982	**1 101**	982
Other trade debtors	**3 375**	3 436	**3 119**	3 178
International debtors	**380**	295	**242**	151
Trade debtors	**4 856**	4 713	**4 462**	4 311
Other receivables (including interest receivable)	**1 960**	1 800	**1 728**	1 895
Provision for doubtful debt, including interest	**(1 458)**	(1 362)	**(1 306)**	(1 218)
Local trade debtors	**(1 320)**	(1 208)	**(1 192)**	(1 086)
International trade debtors	**(24)**	(41)	**–**	(22)
Other receivables	**(114)**	(113)	**(114)**	(110)
Movement in bad and doubtful debt	**191**	134	**174**	93
Local trade debtors	**169**	255	**152**	233
International trade debtors	**–**	(122)	**–**	(133)
Other receivables	**22**	1	**22**	(7)

Management of credit risk

Credit risk is managed as part of the integrated risk management process, which tracks major risk issues, designs mitigating strategies and continually monitors their status.

Capital expenditure

Over R10 billion was spent on capital projects during the review period as stated in the table below.

Funding

As the approved build programme requires significant additional borrowings in the near future, a decision was made to take advantage of favourable local and international market conditions. Eskom entered into a prefunding strategy to reduce liquidity risk in future.

In June 2005, the Eskom board approved the prefunding strategy, taking cognisance of medium-term funding requirements, economic fundamentals, management of liquidity risk and current investor demand. Although the net funding requirement for the review period amounted to R1,7 billion, Eskom successfully started the new funding cycle.

Capital expenditure

Description	2006 (12 months) Rm	2005 (15 months) Rm
Generation division	**5 008**	2 968
New capacity	**2 370**	–
Technical plan projects	**2 382**	2 624
Asset purchase and other	**256**	344
Transmission division	**1 246**	1 565
New strengthening projects	**1 030**	1 405
Land and rights	**18**	41
Production equipment	**55**	55
Capital spares	**110**	19
Asset purchase and other	**33**	45
Distribution division	**4 014**	4 449
Direct customers	**949**	899
Strengthening	**873**	749
Refurbishment	**760**	847
Electrification	**496**	866
Continuous improvement	**184**	231
Asset purchase and other	**752**	857
Other	**187**	(85)[1]
Subsidiaries	**412**	102
Total	**10 867**	8 999

1. *Represents the net movement in work under construction.*

Eskom entered into a pre-funding strategy to reduce liquidity risk in future

Eskom registered a R65 billion multi-term note programme with the Bond Exchange of South Africa in March 2006. The volume was based on bond profiles approved by the board which allow future flexibility. On 15 March 2006, Eskom launched the first bond in the programme – the ES33 – which has a maturity date of 15 September 2033 (a 27,5-year bond). This is the longest tenor bond in the history of the South African bond market. This issue of R2,5 billion with a coupon of 7,50% paid semi-annually and an issue price (yield) of 7,48% was oversubscribed.

A benchmark seven-year maturity bond issue of €500 million was almost three times oversubscribed and priced at SA government's foreign euro issue +10 bonus points. The issue has a 4% coupon and matures in March 2013. It was priced at Euribor +50 bonus points and at Jibar +58 bonus points after the currency risk and interest rate was hedged.

Export credit agency financing was also negotiated and will be drawn down in the new financial year on delivery of the open cycle gas turbine assets.

Proceeds were invested favourably to minimise the carry cost of the strategy.

Demonstrating a prepaid meter to a newly electrified customer

Camden power station refurbishment in progress

Standard and Poor's foreign and local currency ratings are BBB+ and A- (A minus), respectively; and Moody's foreign and local currency ratings are A2 and A1, respectively. FitchRatings local currency rating is A. All ratings carry a stable outlook.

Treasury risk management

Eskom has endorsed the benefits of a centralised treasury function where financial market risk can be consolidated and efficiently managed.

The board approved a mandate to enable the treasury department to react timeously to market conditions and business needs. The mandate sets out the fundamental parameters, supported by detailed instrument, counterparty, volume, tenor and transaction limit profiles. The mandate defines exposure, interest rate sensitivity and duration limits and requires ongoing benchmarking against international best practice. The treasury department complied with its approved mandate during the period. Refer to page 124 in the financial statements note 14.

Eskom actively managed financial market risks (liquidity, interest rate, foreign exchange rate and commodity) during the period. All fixed and ascertainable foreign and short-term commodity exposures were hedged, which minimised the effect of volatility on operational activities because of currency fluctuations. Refer to page 142 in the financial statements note 14.

Value-based management

Financial sustainability over the long term is measured by the value-based management approach, implemented in 2003. Measuring economic performance enables management to identify focus areas for value creation and areas where value is not being added. The major factors influencing Eskom's economic performance are cost of capital used by the business and reported asset lives. Based on the approved targeted weighted average cost of capital, Eskom's economic performance for the 12 months ended 31 March 2006 reflected a marginal reduction in value in comparison to the prior period, mainly due to lower sales growth, increased maintenance costs and increased fuel costs because of changes in production plant mix. Certain economic measures were used as performance indicators in the short-term incentive scheme for employees in the review period

Supply-chain management

Eskom has initiated a strategic sourcing optimisation project known as Sisonke to improve the efficiency and effectiveness of the procurement and commercial processes. A major benefit of this initiative will be the streamlining of the commercial process and technical specifications resulting from in-house synergies and closer working relationships with major suppliers.

A salient feature of this initiative is the implementation of cross-functional and cross-divisional teams to develop appropriate sourcing strategies for complex and costly commodities. Savings targets have been set for each division to deliver a total saving of R490 million in 2007 and R7,0 billion over the next four years to March 2010.

Price regulation

Average price increase and economic regulation

In 2006, a multi-year, incentive-based methodology for price adjustments was introduced by the NER (now Nersa[1]) to replace the annual rate-of-return methodology. This significant transition was implemented over a relatively short period, when measured against international examples. The first multi-year price determination applies from 1 April 2006 to 31 March 2009.

The major differences between the two methodologies are that the new one is more incentive-based and applies to a longer period (1 April 2006 to 31 March 2009). It applies a real (inflation adjusted) rate of return to assets that are inflation indexed. The allowed rate of return for 2007 is 7,3% on a real basis before tax (5,1% after tax).

In February 2006, Nersa announced its final price determination of CPIX[2] + 1% (including the cost of electricity distribution industry restructuring).

Average price increases for the last two years and the next three years under the new method are shown in the table below.

The price increases for 2007 to 2009 are not absolute and will vary in line with actual CPIX changes.

The 2006 financial year will be the last year to which the "clawback" mechanism under the rate-of-return methodology will apply, in terms of which Eskom was deemed to have over-recovered revenue from customers if the actual regulated return earned exceeded that allowed by Nersa. These over-recoveries were used to reduce future price increases.

Under the incentive-based methodology, the clawback changed from a rate of return mechanism to a revenue cap mechanism, with certain designated items qualifying for remeasurement and correction. These items include among others the changes in: CPIX; the cost of electricity purchases from independent power producers (IPPs); fuel cost related to electricity sales volume changes; transmission losses; changes in municipal taxes and demand-side management achievements.

Price increase

	2004 %	2006[4] %	2007 %	2008 %	2009 %
Price increase, %	2,5	4,1	5,1	5,9	6,2

1. *The formation of the National Energy Regulator of South Africa (Nersa) is effective from 1 April 2006 and will regulate three sectors: electricity, piped gas and nuclear.*
2. *CPI excluding interest rates on mortgage bonds (CPIX) is derived by excluding interest rates on mortgage bonds from the basket of goods and services which is used to compile CPI.*
3. *The difference between the Eskom rate of return of 9,95% and the Nersa allowed rate of return of 11,10% is because of certain costs not allowed to be recovered in the tariff, and a lower asset base as certain assets are excluded in terms of the regulatory framework.*
4. *Price increase for the period 1 January 2005 to 31 March 2006.*

The first multi-year price determination applies from 1 April 2006 to 31 March 2009

The allowed rate of return for 2006 was 11,1%[3] on a nominal basis before tax (7,9% after tax). Eskom earned marginally higher returns of 11,49% resulting in an over-recovery of regulated profits of R219 million during the current period.

In terms of IFRS, the clawback is not recognised as a charge to the income statement, nor is the corresponding liability raised.

Present electricity prices are unsustainably low. Prices are based on Eskom's low depreciated asset base, valued at historical net book values. The cost of building a new fossil-fuel power station is six to seven times that of the average cost of the existing power station per megawatt of capacity. The South African economy is continually growing, resulting in the need for significant investments in electricity infrastructure to meet continued growth in demand. The reality of the cost of new capacity will therefore have to be reflected in the future pricing of electricity.

Tariff restructuring

Cost-reflective tariff structures provide pricing signals that promote the sustainable, efficient and effective use of electricity. This principle is entrenched in the energy white paper and forms part of Eskom's strategic pricing direction.

Eskom's tariff restructuring plan (for the period January 2005 to March 2006) continued the work started in 1996.

The changes brought about by this plan have resulted in signals to manage the overall use of electricity more efficiently, not only from an energy perspective but also from a network perspective, which will encourage efficient investments in electricity.

🌐 *www.eskom.co.za/annreport06 for more information.*

Integrated risk management

The integrated risk management process is embedded in the organisation and takes into account risks and opportunities to which it is exposed. The risks and opportunities identified are reviewed for clarity on the elements affecting the potential impact to the business, then risk mitigation or control measures are designed to reduce the probability, frequency or impact of the event. Accountability to manage each is noted to clarify responsibility to manage the risk.

Integrated risk management expertise within Eskom is growing and internal training continues to enhance processes. Each division and main subsidiary has a risk coordinator. Communication flows from the integrated risk management corporate office through these coordinators down the line and back up to board to ensure a common message.

The Eskom capacity expansion programme, during which some R97 billion will be spent, will be a focus area for the integrated risk management teams for the foreseeable future.

Eskom's major risk process continues to identify the key risks that face the organisation. This review is conducted twice a year and follows a bottom-up process from both line and functional areas. The risks identified by divisions and subsidiaries are ranked, and then assessed by senior management to arrive at the major risks.

The identification of risks is an exercise that focuses the organisation on the priorities that become the emphasis of performance. The risks are evaluated in terms of the mitigating factors in place together with the potential impact. The risks identified do not necessarily equate to shortcomings but rather priority focus areas. The major risks are reflected in the table below.

Major risks

	Risk	Risk-mitigation measures
1	Short-term system capacity management – delivery to customers over the next five years and keeping stakeholders informed	• Enhanced maintenance management • Awareness of potential system constraints • Stakeholder communication
		• Improved business continuity and emergency planning
		• Enhanced demand-side management
2	The new build programme relating to capital expenditure to increase capacity (cost and on time) – capital expenditure of R97 billion is anticipated over the next five years and the potential impact of project delays as well as increasing costs have been identified	• Initiation of the environmental impact assessment process as well as land and servitude acquisitions during the prefeasibility and feasibility stages of projects • Implementation and monitoring of a recruitment strategy including succession and skills development • Establishment of integrated project management approach, including managing contracts and contractors
		• Enhanced procurement strategies
3	Adequacy of skills for the business – retention of skills and maintaining a suitable pipeline of staff	• A full skills plan is being developed to clearly identify future business needs. Managing human resources has been established as a board priority for 2007

	Risk	Risk-mitigation measures
4	Sales and revenue – managing external demand for electricity, collecting of revenue and debt management	• A number of initiatives are under way to improve debt management, cost management, sales forecasting and security related to electricity theft
5	Occupational safety – the potential exposure of increasing numbers of accidents as the new build programme continues	• A recruitment drive to ensure sufficient skills and resources is in progress • Safety committees are in place in the affected areas, which track all activities and manage safety-related risks • Training staff and contractors to improve awareness
6	Long-term capacity beyond 2010 – having the right capacity in the long term to meet customer needs, noting the long lead times of installing new capacity	• Closer integration of transmission and generation capacity planning • Diversification of fuel sources • Review of long-term coal-sourcing strategy under way, and increased involvement with mines to manage coal costs • Initiation of environmental impact assessment process at feasibility stage • Investigation of advanced technology options • Investing in low capital expenditure projects for additional reserve margin • Ongoing research and continued close liaison with the Department of Minerals and Energy
7	Information and communication technology related to business interruptions – critical systems and managing of information	• A full review was completed on information and system risks from a business continuity perspective. Implementation of recommendations are under way
8	Electricity distribution industry restructuring – managing people risks related to the electricity distribution industry and potential cost of these changes	• Eskom remains a significant stakeholder and advises on issues and risks in the various risk disciplines as they are identified
9	Changing environmental legislation – potential long-term risks and costs of additional compliance arising from changing environmental legislation	• Eskom will continue to monitor implementation of and comment on new or revised environmental legislation, in particular the air quality act • The shareholder will be kept updated on the potential of increasing costs of compliance • The impact of delays in environmental impact assessments relating to the new build programme has been highlighted as a separate element of this risk
10	Managing accelerated economic growth – the ability to meet accelerated GDP growth in South Africa and supply electricity needs	• Acceleration of new capacity project development • Streamlining investment decision-making • Building flexibility into projects to delay or accelerate commissioning

Mitigation strategies for key risks are regularly reviewed by senior management and presented for discussion to the risk management committee and the board.

For the 2007 year, the board will continue to focus on short-term capacity management, the new build programme and adequacy of skills.

A business continuity management framework, including a major incident management process, is currently under development.

Routine maintenance at the Palmiet pumped storage scheme

A rotor from Camden power station is being balanced at the Rotek facility

Some of the challenges for the 2007 year include the implementation of this framework as well as the development of a communication strategy encompassing reporting key risks within the organisation. The review of a risk assessment software system, which needs to be aligned to shareholder requirements, is in progress.

5.2 Productivity performance

Productivity measurement provides key insights into business performance by analysing the change in net profit between two accounting periods. It measures the impact of productivity, inflation (price recovery) and growth. It highlights the change in use of resources, benefits to customers and other stakeholders as well as growth in the business.

Productivity improvement occurs through the more efficient and effective use of all resources. Price recovery is the relationship between electricity price increases and inflationary impact on the cost of resources to Eskom. Growth in the business represents the change in net profit when resource quantities and prices change at the same rate as electricity sales quantities and prices.

Productivity improvement creates additional wealth and drives sustainable business performance. Price recovery, on the other hand, indicates how wealth created is distributed to stakeholders, particularly customers.

The change in the financial year from December 2004 to March 2005 resulted in a comparison period of 15 months. This distorts the productivity measurement, and also does not take into account seasonality. For this reason the comparative period used is the 12 months ended December 2004.

Overall Eskom performance is summarised below:

	March 2006 (12 months) Rm	December 2004 (12 months) Rm
Profit for the period before tax and adjustments	**7 159**	6 075
Profit for the previous period before tax and adjustments	**6 075**	5 245
Change in profit before fair value adjustment	**1 084**	830
Adjustments not impacting on overall performance[1]	**(2 693)**	(413)
Change in adjusted profit	**(1 609)**	417
This is attributable to:		
Net productivity (decline)/gain	**(645)**	485
Price under recovery	**(1 265)**	(508)
Growth	**301**	440
Total	**(1 609)**	417

1. Fair value gains/losses on financial instruments, asset impairments, insurance proceeds, depreciation adjustments per IFRS and other adjustments are specifically excluded from the productivity calculation.

Overall productivity and price recovery

For the 12-month period ending 31 March 2006, Eskom recorded a productivity decline of 2,1% amounting to R645 million. These results have been negatively impacted by the low weighted sales growth of 1,0% compared to a weighted increase in resources of 3,2%. Anticipated sales growth was 3,6% for 2006 and 2,7% for 2004.

There was a price under-recovery of 4,1% amounting to R1 265 million for the year as a consequence of the 3,9% weighted tariff increase being less than the 8,3% inflationary impact on resources. This means that Eskom has had to absorb the difference, thus benefiting the consumer.

The table below shows the contribution to productivity performance from major resource categories and reflects what is attributable to capacity utilisation and efficiency.

Primary energy reflects a productivity loss of 1,4% amounting to R152 million. It has been negatively impacted by the increase in external electricity purchases, and an increase in generation fuel usage. These are associated with the diminishing surplus capacity, the logistics of having to road-transport coal to certain stations and the effects of addressing the Cape incident when all available own generation units, including oil and gas-fired stations, had to be used.

Manpower costs reflect a negative productivity of 4,5% amounting to R379 million. Increased staffing for the return to service of previously mothballed stations has largely contributed to the negative manpower productivity. These resources will only make a positive contribution to productivity once these units are in commercial operation.

Productivity improvements occurs through the more efficient and effective use of all resources

Capital reflects a 11,7% productivity decline amounting to R682 million, largely from the interest and finance charges and the increased depreciation on the capital expenditure during the year which was in excess of R10 billion.

Other operating costs reflect a productivity gain of 9,0% amounting to R568 million. Despite the increase in materials and contracts expenditure, the rest of other operating expenses were constrained in response to lower sales growth, yielding the achieved net gain. It is expected that these expenditures will show a faster upward movement with the imminent increase in the pace of projects.

Despite the current productivity decline, cumulative benefits through productivity improvements have benefited consumers and other stakeholders by R9 736 million (in 2006 rand) over the past 10 years. Productivity improvement over this period has contributed significantly towards absorbing the impact of inflation on the business, and remains a focus area for sustainable business performance.

	March 2006 (12 months)		December 2004 (12 months)	
	Rm	%	Rm	%
Total productivity (decline)/improvement	**(645)**	**(2,1)**	485	1,8
Primary energy (including electricity purchases)	**(152)**	**(1,4)**	(32)	(0,4)
Manpower	**(379)**	**(4,5)**	349	4,8
Operating expenses	**568**	**9,0**	40	0,8
Capital	**(682)**	**(11,7)**	128	2,4
Total productivity	**(645)**	**(2,1)**	485	1,8
Capacity utilisation	**189**	**0,7**	588	2,2
Efficiency	**(834)**	**(2,9)**	(103)	(0,2)

The imminent capital expansion, including the strengthening of the transmission lines, is likely to affect productivity negatively in the short term until the assets start contributing to revenue. The demand-side management initiative may also have a negative impact on productivity in the short term. However, these initiatives are likely to translate into productivity improvements in the longer term.

The National Productivity Institute has reviewed these productivity results. The review included an examination of the structure of the analysis, the appropriateness of quantity and price drivers, the accuracy of the model and the derivation and presentation of results. In the opinion of the institute, the productivity statement fairly presents the overall performance of Eskom for the 12-month period ended 31 March 2006.

5.3 Value creation and distribution

Value added is the wealth created by the regulated business through the generation, transmission, distribution and selling of electricity and the non-regulated businesses.

Value created from the sale of electricity is the excess of turnover over the costs of generation, transmission and distribution, comprising raw materials and consumables used, services and abnormal items and the excess of turnover over cost of goods and services of non-regulated activities.

The value added statement shows the total wealth created, how it was distributed to meet certain obligations and reward those responsible for its creation, and the portion retained for the continued operation and expansion of businesses.

Value added statement

	Group		Company	
	2006 (12 months) Rm	2005 (15 months) Rm	2006 (12 months) Rm	2005 (15 months) Rm
Value created				
Revenue and staff costs capitalised	**36 796**	43 616	**35 733**	41 565
Less: cost of raw materials and consumables used, services and abnormal items	**(15 381)**	(18 192)	**(14 650)**	(18 927)
	21 415	25 424	**21 083**	22 638
Value distributed				
Salaries, wages and other benefits	**7 907**	10 497	**7 285**	9 017
Social spending	**111**	160	**111**	160
Net interest expense	**1 705**	1 511	**1 902**	1 670
Dividends paid	**1 643**	569	**1 643**	569
Taxation	**2 154**	2 313	**2 095**	2 033
	13 520	15 050	**13 036**	13 449
Value reinvested in the group to maintain and develop operations				
Depreciation and amortisation of property, plant and equipment and intangible assets	**4 903**	5 532	**4 626**	5 261
Net profit after dividends	**2 992**	4 842	**3 421**	3 928
	21 415	25 424	**21 083**	22 638
Value created per employee, R	**681**	808	**710**	759

6. Research, development and demonstration

Research is important to the South African power sector and is normally of a long-term nature. Not all of the research projects will be completed and considered for implementation during any one period. The projected average returns in avoided and direct cost reductions over the past five years were more than 5:1 when compared to research expenditure (excluding costs relating to PBMR). In addition, non-quantifiable benefits in social, environmental and customer satisfaction were realised. Refer to research, development and demonstration expenditure table below.

6.1 Research

Some key research activities undertaken are listed below.

Fine coal research

Between 100 and 200 million tons of ultra-fine coal has been discarded in the Mpumalanga highveld, that has a potential use as fuel for power stations. Approximately 6,0 million tons are added annually. While this coal has a high calorific value, it is unsuitable as fuel for power generation due to the high moisture content. Research has shown that waste heat can be used to dry coal. A design review for a pilot plant was carried out on the technical issues and financial model proposed in the feasibility study. No fatal flaws were identified in the feasibility study proposals and an environmental impact assessment for the project is under way. An amendment to the colliery environmental management plan and an application for a water use licence have been made.

High-voltage direct current research

Eskom has started a large research and development programme to study long-distance high-voltage direct current transmission in sub-Saharan African conditions. The focus of the research is, firstly, on obtaining scientific data and, secondly, the verification of electrical design parameters for transmission lines intended to operate in the 800 – 1 000kV range.

Underground coal gasification

The feasibility of underground coal gasification is currently being investigated by Eskom at the Majuba coalfield, as a means of extracting energy from presently unminable coal resources in one of the most environmentally acceptable manners available. The initial phase for constructing the pilot plant was approved after the successful completion of a prefeasibility study in December 2003, and detailed site characterisation testing in June 2005. The site characterisation objectives were to better understand the suitability of the Majuba coal resource in terms of coal composition and reactivity, and the geology, hydrogeology and rock mechanics of the reserve. It was confirmed that the Majuba coal deposit, specifically the selected site, are technically suitable for this technology.

Knowledge management

Evaluation of an appropriate platform for the optimisation and delivery of knowledge in the organisation was undertaken. Effective solutions were identified for knowledge retention.

Eskom power series

The Eskom power series of technical books is being developed to capture technical skills from experienced engineers and specialists and making this available to young graduates.

Climate change and rainfall

In 2004, an attempt was made to model possible climatic change projections over a specific region of South Africa to aid planning for water resources and power utility expansion. In 2005, a study was undertaken to determine whether any significant observed trends appear in South African rainfall measured over the past 42 years (1960 to 2001), and whether this was due to climate change. It appeared as if there is a seasonal shift in rainfall towards drier conditions in the early winter over the central summer rainfall region, and wetter conditions in the late winter and early summer over the western coastline and interior. The research did not link the changes in rainfall to climate change.

🌐 *www.eskom.co.za/annreport06 for more information.*

Research, development and demonstration expenditure

	2006 (12 months)	2005 (15 months)	2004 (12 months)
Research, development and demonstration, Rm	**167,1**	227,6	188,9
PBMR, Rm	**6,9**	35,0	35,0
Total, Rm	**174,0**	262,6	223,9
Percentage of revenue, %	**0,49**	0,63	0,66

6.2 Demonstration

Eskom's strategic planning takes into account research and development relating to the identification of demonstration plants.

Wind

One of the inherent problems associated with imbedded generation, such as wind turbines, is that this energy is lost if load is shed in large areas. The wind turbines are not designed to endure many emergency shut downs when there is no electricity supply. For this reason, the turbines were manually shut down for extended periods during February 2006.

Solar

The research and demonstration for the solar dish stirling system has confirmed that the dish is not yet a commercially viable option. Improvements in technology will be monitored. Due to damage sustained in 2004, the engine had to be sent to Sweden for repairs. It has been recommended that the system be moved to an academic institute for skills development.

Concentrating solar thermal plant

Previous environmental and technical feasibility studies have identified the Upington area in Northern Cape as a viable site for establishing a concentrating solar thermal power plant. In addition, Upington has one of the highest solar resource values in the world.

Eskom will proceed with the next engineering phase of the project. This phase will concentrate on risk-reduction efforts and updating the business case for the proposed pilot plant. Discussions with technology partners have been initiated and a draft project plan completed.

Ocean energy

Eskom is investigating the feasibility of ocean energy as a future primary energy source. Current research is monitoring and evaluating various international initiatives. Once these studies have been completed, Eskom will assess the feasibility of different technologies for applicability under South African conditions.

Fuel cell

Eskom and the University of the Western Cape have collaborated on fuel cell research for the past three years. This research was mainly for the development of skills in this field. The primary objective of the project is to develop potentially commercial components for direct methanol fuel cells. A variety of commercial and internally produced proton conductive membranes, catalyst and membrane electrode assemblies were produced. Production methods were improved to gain maximum power output from the direct methanol fuel cell.

Nuclear

Eskom's future involvement in PBMR (Pty) Limited will be as a shareholder, once the conditions precedent to the signed shareholders' agreement between itself, British Nuclear Fuels Limited, and the Industrial Development Corporation of South Africa have been fulfilled. Eskom will be the host of the demonstration power plant at its nuclear site at Koeberg in the Western Cape, should the environmental impact assessment and the nuclear licensing processes be successful.

Eskom, through the Generation division, is managing these processes, and is carrying out the associated assessments and reviews of PBMR design and safety analyses prior to submitting its reports and safety case to the relevant authorities.

Although some detail design still needs to be done, plant design has progressed to the point where long-lead materials and hardware have been ordered for the core structures and the core barrel. The supply contract for the main helium circuit pressure boundary was placed in December 2005 and that for the turbo-machinery is expected to be placed in the second half of 2006.

Orders for two test facilities to perform heat transfer tests, at high-pressure and high-temperature, to verify and validate thermo-hydraulic calculations and analyses, were placed in late 2005.

A contract for a helium test facility was placed in November 2004. This facility will enable tests of the critical components of the reactivity control system, reserve shutdown system and the fuel handling system, such as valves and measuring equipment, in helium at operating conditions. Final completion of commissioning of the facility at Pelindaba is planned for the second half of 2006.

Commercialisation of the technology and the launch of production units will follow in approximately 2013

once the technology has been proven on the demonstration power plant. Key work activities undertaken during the review period were:

- progressing the design of the demonstration and pilot plants which, in the case of the former, resulted in securing the basic design baseline in late 2005
- the development of the safety analysis report for the demonstration plant, which, when completed, will be submitted to Eskom for review and acceptance, prior to the issue of the documents to the National Nuclear Regulator
- support to the environmental impact assessments for both the demonstration and pilot plants

www.eskom.co.za/annreport06 for more information.

Required statutory information

Public Finance Management Act

Losses through criminal conduct and irregular, fruitless and wasteful expenditure

Expenditure and losses exceeding R10 million per item or class of closely related items, per the materiality framework agreed with the Department of Public Enterprises, have to be reported in terms of section 55(2)(b).

Irregular or fruitless and wasteful expenditure

No significant irregular or fruitless and wasteful expenditure was incurred during the period.

Criminal conduct

Revenue losses

Electricity revenue losses due to fraud and illegal connections continue to be a focus area. Actions to curtail the losses are tracked to ensure strategies are continuously realigned for relevance and effectiveness.

Some of the steps taken to reduce fraud and illegal connections associated with revenue losses include:

- focus on customer education through the public media
- visibility of Eskom's resources at area level
- focus on successful conviction of transgressors
- field revenue protection audits
- removal of illegal connections
- risk mitigation via the use of upfront cash vending for prepaid customers
- implementation of online vending and new technologies

It is difficult to distinguish between, and quantify, technical and non-technical revenue losses in residential areas.

Conductor theft

There were 449 (2005: 834) recorded incidents in the review period during which 144km (2005: 374km) of line were stolen. The losses are estimated at R16 million, compared to R39 million reported for the 15-month period to March 2005. There is continued collaborative effort between Eskom, other affected state-owned enterprises and the government law enforcement agencies to address conductor theft. Significant progress has been made in the reduction of losses.

Fraud

During the review period, internal investigations into incidents of fraud suffered by the group that were finalised amounted to R21 million. The existing internal control measures in the affected and similar areas have been reviewed and improved. Disciplinary, criminal and/or civil proceedings, as appropriate, have been instituted against those involved.

All allegations of fraudulent activity are investigated.

Schedule 4 of the Companies Act

Directorate and secretariat

The names of the directors appear on page 11 and the address of Eskom's secretariat on the inside back cover.

Changes in the composition of directors appear on page 16 in corporate governance.

Directors' remuneration

Remuneration philosophy

It is essential to retain key individuals over the long term. Eskom's remuneration philosophy is based on the belief that the appropriate remuneration for management should be linked to the retention of skilled leaders and the performance of the organisation.

Remuneration is determined on performance and market factors and consideration is given to short- and long-term incentives as well as basic salary. International and local benchmarks are evaluated to align all packages to companies of a similar size to Eskom. It is Eskom's intent to remunerate in the median of the South African market with the objective of recruiting and retaining the best management team to lead the business.

Remuneration committee

The human resources, remuneration and ethics committee has been established to assist the board in dealing with the human resources policy for Eskom, remuneration of directors and executives, in accordance with the policy approved by the shareholder, nomination of executives for senior positions and conditions of service. Refer to page 20 in corporate governance.

The committee comprises three independent non-executive directors and the chief executive. It is chaired by an independent non-executive director. The chief executive recuses himself when his remuneration is considered. The committee enhances business performance through:

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

Non-executive directors

The remuneration of non-executive directors is based on benchmarking of similar-sized companies. Remuneration is considered by the human resources, remuneration and ethics committee and proposals put forward to the board. The board reviews the proposals and makes recommendations to the shareholder for approval.

Non-executive directors receive a honorarium and fee per meeting for serving on the board and its committees. They are appointed for a three-year term, which is reviewed annually at the annual general meeting.

Chief executive, finance director and divisional managing directors[1]

The human resources, remuneration and ethics committee makes recommendations to the board on the remuneration of the chief executive, finance director and the divisional managing directors. The board approves the remuneration of all divisional managing directors in accordance with a framework approved by the shareholder. The board makes a recommendation regarding the remuneration of the chief executive, which is then approved by the shareholder.

The remuneration of the chief executive, finance director and divisional managing directors is first based on the individual's level of skill, experience and expertise and secondly on the contribution to the performance and success of the group. Remuneration includes a total package and an incentive component comprising both short- and long-term incentives.

The human resources, remuneration and ethics committee annually reviews the structure of the remuneration packages of the chief executive, finance director and divisional managing directors to ensure that the balance between fixed and variable remuneration and short- and long-term incentives and rewards remains appropriate.

The finance director and divisional managing directors, with the exception of the chief executive, have contracts based on Eskom's standard conditions of service. All divisional managing directors are required to give six months' notice of their intention to resign.

The chief executive signed a new three-year contract on 1 January 2005 and is required to give six months' notice.

Remuneration structure

The remuneration of the chief executive, finance director and divisional managing directors consists of the following components:

Guaranteed amount

The chief executive, finance director and divisional managing directors receive a guaranteed pay package. Their remuneration is based on cost to company, which comprises a fixed cash portion, compulsory benefits (medical aid, life cover and pension fund) and optional benefits (motor vehicle benefits). Annual increases are based on the guaranteed amount and with the intent to keep remuneration in line with the market.

Short-term incentives

Short-term incentives are based on achieving individual predetermined performance objectives and targets as included in the performance contracts with the chief executive for each divisional managing director and the finance director. The human resources, remuneration and ethics committee approves the targets set for the chief executive. Should the performance threshold not be achieved, no bonus will be payable.

The short-term incentive scheme is calculated as a percentage of pensionable earnings and is capped at 60%.

Long-term incentives

A new long-term incentive structure has been implemented after review of local and global best practice. The long-term incentives have been designed to attract, retain and reward the chief executive, finance director and the senior executives for performance which ensures the alignment of Eskom's performance objectives with that of the shareholder. Accordingly, a market benchmarked long-term incentive scheme and a deferred bonus scheme were approved effective 1 April 2005.

Long-term incentive scheme

A number of notional performance shares (award performance shares) were awarded to the chief executive, finance director and divisional managing directors at 1 April 2005. The performance shares awarded were attributed a value at the date of grant, based on the fair value of Eskom Holdings Limited at grant date.

1. These are senior executives (managers) and not directors of the company.

The board has set performance conditions in line with the approved business plan and shareholder compact over a three-year performance period, based on the achievement of financial and non-financial targets and gatekeepers. The financial and non-financial targets include key performance indicators on capacity, cost of electricity, people, environmental, customer and quality of supply issues, with an agreed weighting of each area.

The awards will only vest if and to the extent that these targets are met. The potential vesting percentages range between 30% and 100% between a threshold and a stretched target for each measure with an expected (on target) vesting of 50%.

In the event that any of the gatekeepers set out below are not met during the performance period, the board will be entitled in its discretion and despite the achievement of any of the targets above and the percentage of the award performance shares which would otherwise vest, to adjust the vesting percentage.

Any of the following gatekeeper conditions will trigger a review of the vesting percentage:

- the level of disabling injury incident rate is greater than 0,45
- the sustainability committee gives an unfavourable safety report
- Eskom incurs a trading loss per its audited annual financial statements
- the auditors qualify Eskom's annual financial statements
- Eskom commits a significant PFMA contravention

The vesting period for the award performance shares is three years from the date of grant. At the end of the vesting period, the human resource, remuneration and ethics committee will determine the amounts paid to the participants based on:

- the percentage of award performance shares which vest, based on the performance conditions achieved
- the value of the award performance shares based on the fair value of Eskom at the end of the vesting period

In addition to the performance conditions, vesting of the award performance shares is conditional on the participant remaining in Eskom's employment throughout the vesting period. If employment ceases (other than for permitted reasons) during the vesting period, the award will lapse.

Deferred bonus scheme

Eskom awarded the chief executive, finance director and divisional managing directors bonus shares which are notional shares that were attributed a value in terms of Eskom's fair value at 1 April 2005. Participants had the right to accept a certain number of bonus shares, in lieu of payment of a percentage (as determined by the human resource, remuneration and ethics committee) of their annual bonus after tax. The company will determine the value of the bonus shares (based on the fair value of Eskom) at the end of the performance period of three years and the participant will receive a matching amount equal to the value of the bonus shares at the end of the performance period in addition to the value of the accepted bonus shares.

If employment ceases (other than for permitted reasons) during the performance period, only the value (without any matching award) of the bonus shares which were originally accepted by the participant, will be paid on termination of employment.

The following awards were made at 31 March 2006:

Schedule of long-term incentive awards

Name	Award performance shares vesting on 31 March 2008 Number	Deferred bonus scheme shares vesting on 31 March 2008[1] Number
TS Gcabashe	3 920 000	–
BA Dames	1 423 800	44 135
JA Dladla	1 277 438	–
SJ Lennon	1 368 568	177 914
ME Letlape	1 293 204	150 000
PJ Maroga	1 456 081	–
EN Matya	1 579 408	200 000
PD Mbonyana	1 286 303	164 004
B Nqwababa	1 450 728	–
MM Ntsokolo	1 419 600	188 097

The current estimated present value of the award performance shares and the deferred bonus scheme shares is R0,425 per share and R1,05 per share, respectively.

1. Cash was paid over by the individuals to the deferred bonus scheme.

The following payments were made to the directors of Eskom and its main subsidiaries during the 12-month period.

Directors' emoluments

Name	Salary/ fees R000	Bonus and related payments[1] R000	Contributions R000	Expense allowances R000	Pension benefits R000	**Total March 2006 12 months R000**	Total[2] March 2005 15 months R000	Total[3] March 2005 15 months R000
Eskom Holdings Limited								
Non-executive directors								
MV Moosa[4]	700	–	–	–	–	**700**	–	–
RJ Khoza[5]	934	–	176	21	–	**1 131**	2 136	2 136
FM Baleni	223	–	–	–	–	**223**	247	247
M Bello[6]	89	–	–	–	–	**89**	–	–
LCZ Cele	124	–	–	–	–	**124**	–	–
BM Count	458	–	–	–	–	**458**	570	570
SE Funde[7]	48	–	–	–	–	**48**	235	235
LG Josefsson	425	–	–	–	–	**425**	465	465
WE Lucas-Bull	185	–	–	–	–	**185**	202	202
PM Makwana	147	–	–	–	–	**147**	181	181
JRD Modise	232	–	–	–	–	**232**	243	243
AJ Morgan	255	–	–	–	–	**255**	221	221
SA Mpambani	186	–	–	–	–	**186**	215	215
TN Msomi[7]	–	–	–	–	–	**–**	–	–
U Nene[6]	111	–	–	–	–	**111**	–	–
VM Rowjee	181	–	–	–	–	**181**	212	212
SV Zilwa[7]	27	–	–	–	–	**27**	151	151
Executive directors								
TS Gcabashe	4 250	952	–	–	–	**5 202**	6 559	13 045[8]
B Nqwababa[9]	1 822	446	–	–	–	**2 268**	1 556	1 556
WJ Kok	–	–	–	–	–	**–**	1 147	1 147
Total directors	10 397	1 398	176	21	–	**11 992**	14 340	20 826
Divisional managing directors[10]								
N Angel[11]	1 110	144	–	–	–	**1 254**	–	–
BA Dames	1 548	355	–	–	–	**1 903**	1 142	1 142
JA Dladla	1 604	384	–	–	–	**1 988**	3 124	6 161[8]
SJ Lennon	1 694	421	–	–	–	**2 115**	3 441	6 791[8]
ME Letlape	1 609	400	–	–	–	**2 009**	3 241	6 363[8]
PJ Maroga	1 803	435	–	–	–	**2 238**	3 710	7 227[8]
EN Matya	1 965	468	–	–	–	**2 433**	3 956	7 803[8]
PD Mbonyana	1 600	394	–	–	–	**1 994**	3 223	6 258[8]
MM Ntsokolo	1 783	474	–	–	–	**2 257**	3 372	5 776[8]
TJ Matsau[12]	–	–	–	–	–	**–**	6 104	9 263
Total divisional managing directors	14 716	3 475	–	–	–	**18 191**	31 313	56 784

1. *Bonus and related payments include only short-term incentive payments.*
2. *Total payments excluding payments on expiry of five-year contracts.*
3. *Total payments including payments on expiry of five-year contracts.*
4. *Appointed as chairman in August 2005.*
5. *Resigned as chairman in September 2005. Amount includes leave payout on termination.*
6. *Appointed in July 2005.*
7. *Resigned in June 2005.*
8. *Includes concluding of five-year term contracts, payout of bonus bank earned in previous years and payment of restraint of trade.*
9. *Appointed in August 2004.*
10. *Disclosure in terms of regulation 28.1 of the Public Finance Management Act.*
11. *Appointed in June 2005.*
12. *Retired in December 2004. Amount includes pension contributions.*

	Company	
	March 2006 (12 months) R000	March 2005 (15 months) R000
Contributions include Eskom's contributions to the Eskom Pension and Provident Fund, the Executive Group Life Insurance Scheme and medical aid.		
All the executive directors have normal employment contracts with Eskom. The continuation of their service is dependent on satisfactory performance on an ongoing basis and notice periods do not exceed one year. There are no service contracts for non-executive directors. For more information refer to page 20 in the corporate governance statement and page 96 in this report.		
Housing loans to executive directors		
TS Gcabashe	**–**	929
B Nqwababa	**3 110**	2 864
Housing loans to divisional managing directors		
BA Dames	**2 754**	2 789
JA Dladla	**300**	150
SJ Lennon	**–**	673
ME Letlape	**–**	58
PJ Maroga	**3 201**	3 272
PD Mbonyana	**665**	526
MM Ntsokolo	**2 908**	3 181
The interest rate on the loan from Eskom Finance Company (Pty) Limited at 31 March 2006 was 8,5% (2005: 9,0%). The loans are repayable over a maximum period of 30 years. On resignation, the loan is repayable in full within 90 days from date of resignation. After resignation date, the interest rate increases to 2% above the prime lending rate.		

Directors' emoluments continued

Name	Salary/fees R000	Bonus and related payments R000	Contributions R000	Expense allowances R000	**Total March 2006 (12 months) R000**	Total March 2005 (15 months) R000
Subsidiary companies						
Eskom Enterprises (Pty) Limited						
Non-executive directors						
TS Gcabashe[1]	–	–	–	–	**–**	–
B Nqwababa[1]	–	–	–	–	**–**	–
S Lennon[1]	–	–	–	–	**–**	–
KJ Hlongwane[2]	–	–	–	–	**–**	55
DB Mostert[2]	–	–	–	–	**–**	77
DM Ramaphosa[2]	–	–	–	–	**–**	34
DR Geeringh[2]	–	–	–	–	**–**	54
S Dakile-Hlongwane[2]	–	–	–	–	**–**	43
Executive directors						
B Dames[1, 3]	–	–	–	–	**–**	41
E Banda[4]	–	–	–	–	**–**	731
	–	–	–	–	**–**	1 035
Eskom Finance Company (Pty) Limited						
Non-executive directors						
B Nqwababa[5, 6]	15	–	–	–	**15**	10
SM de Wet[5, 6]	45	–	–	–	**45**	15
GI Fourie[6]	10	–	–	–	**10**	10
PB Mabelane[5, 7]	35	–	–	–	**35**	35
VT Makhuvha[5, 8]	15	–	–	–	**15**	20
WJ Kok[5, 9]	–	–	–	–	**–**	10
M de Jager[10]	–	–	–	–	**–**	75
J van der Berg[5, 8]	–	–	–	–	**–**	10
Executive director						
MM Bashe[5]	529	619	138	265	**1 551**	1 144
	649	619	138	265	**1 671**	1 329

1. *Paid by Eskom.*
2. *Resigned in August 2004.*
3. *Appointed in November 2004.*
4. *Resigned in March 2004.*
5. *Fees paid to Eskom.*
6. *Appointed in October 2004.*
7. *Resigned in February 2005.*
8. *Resigned in October 2004.*
9. *Resigned in September 2004.*
10. *Deceased in August 2004.*

Name	Salary/fees R000	Bonus and related payments R000	Contributions R000	Expense allowances R000	**Total March 2006 (12 months) R000**	Total March 2005 (15 months) R000
Escap Limited						
Non-executive directors						
WJ Kok[1,2]	–	–	–	–	**–**	21
R Vivian	85	–	–	–	**85**	96
PK Darbourn[1]	85	–	–	–	**85**	96
SP Ndlovu	85	–	–	–	**85**	104
DJ van den Berg[3]	–	–	–	–	**–**	23
B Nqwababa[4]	31	–	–	–	**31**	15
	286	–	–	–	**286**	355
Gallium Insurance Limited						
Non-executive directors						
PK Darbourn[1]	–	–	–	–	**–**	–
JC Fagher	55	–	–	–	**55**	47
PJV Dougherty	55	–	–	–	**55**	47
JC Boyd	55	–	–	–	**55**	47
	165	–	–	–	**165**	141
Eskom Development Foundation						
Non-executive directors						
LJ Mngomezulu	28	–	–	–	**28**	20
MM Makibelo[1]	–	–	–	–	**–**	–
PD Mbonyana[1]	–	–	–	–	**–**	–
ZC Mjoli[1]	–	–	–	–	**–**	–
ME Mogashoa	12	–	–	–	**12**	7
PJ Mtetwa	34	–	–	–	**34**	37
SM Sathekge	22	–	–	–	**22**	20
JN Seroke	10	–	–	–	**10**	7
T Muranda	5	–	–	–	**5**	–
	111	–	–	–	**111**	91

1. Fees paid to Eskom.
2. Resigned in August 2004.
3. Resigned in October 2004.
4. Appointed in September 2004.

CONTENTS

CURRENCY OF FINANCIAL STATEMENTS

The financial statements are expressed in South African rand (R).

The following are approximate values of R1,00 for selected currencies at:

	March 2006	March 2005
USD	**0,16**	0,16
Pound sterling	**0,09**	0,09
Euro	**0,13**	0,12
Swiss franc	**0,21**	0,19
Japanese yen	**19,07**	17,16

Balance sheets

At 31 March

	Note	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
ASSETS					
Non-current assets		**89 894**	76 585	**90 241**	73 673
Property, plant and equipment	6	**65 033**	59 187	**63 707**	57 952
Intangible assets	7	**442**	336	**421**	336
Investment in associates	8	**72**	245	**5**	4
Investment in joint ventures	9	**142**	125	**95**	95
Investment in subsidiaries	10	**–**	–	**2 014**	1 201
Future fuel supplies	11	**2 657**	2 471	**2 657**	2 471
Loans receivable	12	**–**	2 464	**–**	–
Deferred income tax	13	**205**	139	**–**	–
Available-for-sale financial assets	14.1	**9 509**	4 186	**9 509**	4 186
Financial assets at cost	14.2	**6 414**	3 097	**6 414**	3 097
Derivative financial assets	14.12	**5 377**	4 288	**5 376**	4 284
Trade and other receivables	15	**43**	47	**43**	47
Current assets		**38 258**	33 221	**33 973**	32 342
Loans to subsidiaries	10.1	**–**	–	**2 311**	2 351
Inventories	16	**3 681**	2 868	**3 259**	2 800
Trade and other receivables	15	**5 315**	5 104	**4 841**	4 941
Available-for-sale financial assets	14.3	**500**	215	**500**	215
Other financial assets at fair value through profit or loss	14.4	**10 549**	7 742	**10 416**	7 656
Financial assets at cost	14.5	**3 493**	7 124	**3 493**	7 602
Cash and cash equivalents	14.6	**10 226**	8 254	**7 062**	4 864
Derivative financial assets	14.12	**2 092**	1 914	**2 091**	1 913
Assets classified as held-for-sale	18	**2 402**	–	**–**	–
Total assets		**128 152**	109 806	**124 214**	106 015
EQUITY					
Capital and reserves attributable to equity holder of the company		**50 399**	47 222	**48 263**	44 714
Minority interest		**163**	11	**–**	–
Total equity		**50 562**	47 233	**48 263**	44 714
LIABILITIES					
Non-current liabilities		**49 612**	41 390	**48 746**	40 750
Borrowings	14.8	**24 255**	18 012	**24 030**	17 745
Derivative financial liabilities	14.12	**4 753**	4 859	**4 623**	4 803
Deferred income tax	13	**7 490**	6 908	**7 173**	6 569
Deferred income	19	**3 043**	2 432	**3 043**	2 432
Retirement benefit obligations	20	**4 708**	4 814	**4 582**	4 640
Provisions	21	**5 363**	4 365	**5 295**	4 561
Current liabilities		**27 978**	21 183	**27 205**	20 551
Amounts owing to subsidiaries	10.2	**–**	–	**561**	465
Trade and other payables	22	**7 452**	6 162	**6 181**	5 437
Taxation		**644**	47	**635**	–
Borrowings	14.9	**5 428**	6 316	**5 409**	6 302
Other financial liabilities at fair value through profit or loss	14.10	**11 001**	4 907	**11 368**	5 222
Derivative financial liabilities	14.12	**1 992**	1 613	**1 948**	1 588
Retirement benefit obligations	20	**140**	166	**136**	160
Provisions	21	**1 297**	1 972	**967**	1 377
Liabilities directly associated with assets classified as held-for-sale	18	**24**	–	**–**	–
Total liabilities		**77 590**	62 573	**75 951**	61 301
Total equity and liabilities		**128 152**	109 806	**124 214**	106 015

Income statements

For the period ended 31 March

	Note	Group		Company	
		12 months	15 months	**12 months**	15 months
		2006	2005	**2006**	2005
		Rm	Rm	**Rm**	Rm
CONTINUING OPERATIONS					
Revenue	23	**36 607**	43 207	**35 558**	41 387
Other net gains	24	**4 236**	4 144	**5 279**	4 790
Changes in inventories of finished goods and work in progress		**813**	280	**459**	393
Work performed by the entity and capitalised	25	**9 650**	9 485	**9 572**	9 164
Raw materials and consumables used		**(15 705)**	(15 600)	**(14 189)**	(14 588)
Employee benefit expense	26	**(7 907)**	(10 497)	**(7 285)**	(9 017)
Depreciation and amortisation expense	27	**(4 903)**	(5 532)	**(4 626)**	(5 261)
Net impairment loss reversed/(impairment loss)	28	**96**	(258)	**898**	(116)
Other expenses	29	**(11 491)**	(12 170)	**(13 666)**	(14 461)
Interest expense	30	**(4 656)**	(5 447)	**(4 841)**	(5 761)
Share of profit of associates and joint ventures		**35**	74	**–**	–
Profit before tax		**6 775**	7 686	**7 159**	6 530
Income tax expense	31	**(2 154)**	(2 313)	**(2 095)**	(2 033)
Profit for the period from continuing operations		**4 621**	5 373	**5 064**	4 497
DISCONTINUED OPERATIONS					
Profit for the period from discontinued operations	18	**14**	38	**–**	–
Profit for the period		**4 635**	5 411	**5 064**	4 497
Attributable to:					
Equity holder of the company		**4 657**	5 402	**5 064**	4 497
Minority interest		**(22)**	9	**–**	–
		4 635	5 411	**5 064**	4 497

Cash flow statements

For the period ended 31 March

	Note	Group		Company	
		12 months	15 months	**12 months**	15 months
		2006	2005	**2006**	2005
		Rm	Rm	**Rm**	Rm
Cash flows from operating activities					
Cash generated from operations	32	**13 074**	15 515	**12 603**	13 992
Income taxes paid		**(978)**	(213)	**(855)**	(45)
Net cash from operating activities		**12 096**	15 302	**11 748**	13 947
Cash flows from investing activities					
Proceeds from derecognition of property, plant and equipment		**300**	347	**285**	341
Expenditure on property, plant and equipment		**(10 374)**	(8 650)	**(10 236)**	(8 539)
Expenditure on intangible assets		**(232)**	(357)	**(219)**	(358)
Future fuel supplies		**(844)**	(745)	**(844)**	(745)
Investment in associates, joint ventures and subsidiary companies		**(3)**	23	**15**	38
Cash inflow on acquisition of subsidiary		**63**	–	**–**	–
Non-current trade and other receivables		**85**	160	**4**	160
Loans granted to related parties		**(78)**	123	**40**	141
Expenditure on assets classified as available-for-sale		**68**	–	**–**	–
Dividends received		**4**	3	**–**	–
Interest received		**2 451**	3 751	**2 318**	3 861
Net cash used in investing activities		**(8 560)**	(5 345)	**(8 637)**	(5 101)
Cash flows from financing activities					
Debt raised		**19 179**	18 281	**19 281**	18 263
Debt repaid		**(9 382)**	(15 036)	**(9 060)**	(15 079)
Increase in financial market investments		**(7 258)**	(7 986)	**(7 031)**	(8 061)
Increase in amounts owing to subsidiaries		**–**	–	**96**	245
Interest paid		**(2 460)**	(3 563)	**(2 556)**	(3 781)
Dividends paid		**(1 643)**	(569)	**(1 643)**	(569)
Net cash used in financing activities		**(1 564)**	(8 873)	**(913)**	(8 982)
Net increase/(decrease) in cash and cash equivalents		**1 972**	1 084	**2 198**	(136)
Cash and cash equivalents at beginning of the period		**8 254**	7 170	**4 864**	5 000
Cash and cash equivalents at end of the period	14.6	**10 226**	8 254	**7 062**	4 864

Statements of changes in equity

For the period ended 31 March

	Note	Attributable to equity holder of the company						
		Issued capital[1] Rm	Foreign revaluation Rm	Local revaluation Rm	Insurance reserve Rm	Accumulated profit Rm	Minority interest Rm	Total Rm
GROUP								
Balance at 1 January 2004								
– Previously reported		–	(34)	664	86	39 952	15	40 683
– Effect of prior year adjustments	39	–	–	–	–	2 511	–	2 511
– Effect of deferred tax on prior year adjustments	39	–	–	–	–	(353)	–	(353)
Restated balance		–	(34)	664	86	42 110	15	42 841
Available-for-sale asset movements								
– Fair value losses		–	–	(467)	–	–	–	(467)
Cash flow hedges								
– Fair value gains		–	46	–	–	–	–	46
– Deferred tax thereon		–	(16)	–	–	–	–	(16)
Profit for the period		–	–	–	–	5 402	9	5 411
Dividends paid		–	–	–	–	(569)	–	(569)
Other movements		–	–	–	–	–	(13)	(13)
Transfer of net unrealised revaluation gains net of deferred tax from non-distributable reserves to accumulated profit		–	31	(104)	–	73	–	–
Transfer of insurance reserve to accumulated profit		–	–	–	(9)	9	–	–
Balance at 31 March 2005		**–**	**27**	**93**	**77**	**47 025**	**11**	**47 233**
– Effect of prior year adjustment by subsidiaries		**–**	**(7)**	**7**	**–**	**12**	**–**	**12**
– Reversal of negative goodwill		**–**	**–**	**–**	**–**	**126**	**–**	**126**
Restated balance		**–**	**20**	**100**	**77**	**47 163**	**11**	**47 371**
Available-for-sale asset movements								
– Fair value gains		**–**	**–**	**77**	**–**	**–**	**–**	**77**
Cash flow hedges								
– Fair value gains		**–**	**(96)**	**–**	**–**	**–**	**–**	**(96)**
– Deferred tax thereon		**–**	**32**	**–**	**–**	**–**	**–**	**32**
Profit for the period		**–**	**–**	**–**	**–**	**4 657**	**(22)**	**4 635**
Revaluation of interest in Arivia.kom prior to becoming a subsidiary		**–**	**–**	**12**	**–**	**–**	**–**	**12**
Dividends paid		**–**	**–**	**–**	**–**	**(1 643)**	**–**	**(1 643)**
Minorities in subsidiary acquired		**–**	**–**	**–**	**–**	**–**	**174**	**174**
Transfer of net unrealised revaluation gains net of deferred tax from non-distributable reserves to accumulated profit		**–**	**(355)**	**141**	**–**	**214**	**–**	**–**
Transfer of net unrealised revaluation gains net of deferred tax from accumulated profit to non-distributable reserve		**–**	**–**	**6**	**–**	**(6)**	**–**	**–**
Transfer of insurance reserve to accumulated profit		**–**	**–**	**–**	**(11)**	**11**	**–**	**–**
Balance at 31 March 2006		**–**	**(399)**	**336**	**66**	**50 396**	**163**	**50 562**

	Note	Attributable to equity holder of the company					
		Issued capital[1] Rm	Foreign revaluation Rm	Local revaluation Rm	Insurance reserve Rm	Accumulated profit Rm	Total Rm
COMPANY							
Balance at 1 January 2004							
– Previously reported		–	(23)	667	–	38 559	39 203
– Effect of prior year adjustments	39	–	–	–	–	2 325	2 325
– Effect of deferred tax on prior year adjustments	39	–	–	–	–	(305)	(305)
Restated balance		–	(23)	667	–	40 579	41 223
Available-for-sale asset movements							
– Fair value losses		–	–	(467)	–	–	(467)
Cash flow hedges							
– Fair value gains		–	46	–	–	–	46
– Deferred tax thereon		–	(16)	–	–	–	(16)
Profit for the period		–	–	–	–	4 497	4 497
Dividends paid		–	–	–	–	(569)	(569)
Transfer of net unrealised revaluation gains net of deferred tax from non-distributable reserves to accumulated profit		–	31	(104)	–	73	–
Balance at 31 March 2005		**–**	**38**	**96**	**–**	**44 580**	**44 714**
– Reversal of negative goodwill		**–**	**–**	**–**	**–**	**126**	**126**
Restated balance		**–**	**38**	**96**	**–**	**44 706**	**44 840**
Available-for-sale asset movements							
– Fair value gains		**–**	**–**	**77**	**–**	**–**	**77**
Cash flow hedges							
– Fair value losses		**–**	**(107)**	**–**	**–**	**–**	**(107)**
– Deferred tax thereon		**–**	**32**	**–**	**–**	**–**	**32**
Profit for the period		**–**	**–**	**–**	**–**	**5 064**	**5 064**
Dividends paid		**–**	**–**	**–**	**–**	**(1 643)**	**(1 643)**
Transfer of net unrealised revaluation gains net of deferred tax from non-distributable reserves to accumulated profit		**–**	**(355)**	**141**	**–**	**214**	**–**
Balance at 31 March 2006		**–**	**(392)**	**314**	**–**	**48 341**	**48 263**

Dividends proposed
No dividend has been proposed.

Foreign revaluation
The foreign revaluation reserve includes gains and losses on the fair value revaluation of forward exchange contracts and similar instruments designated as cash flow hedges for future anticipated foreign currency denominated transactions. The variable revaluation exists until the maturity of these instruments, which coincides with the maturity of the underlying obligation.

Local revaluation
The local revaluation reserve comprises gains and losses on the fair value revaluation of available-for-sale assets and gains and losses on interest swaps.

Insurance reserve
The insurance reserve is a contingency reserve created in terms of the Short-term Insurance Act, 1998.

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

1. Nominal amount.

Accounting policies

For the 12-month period ended 31 March 2006

1. GENERAL INFORMATION

Eskom Holdings Limited (Eskom), a public company and holding company of the group, is incorporated and domiciled in the Republic of South Africa. Eskom is a vertically integrated operation that generates, transmits and distributes electricity to industrial, mining, commercial, agricultural, redistributors and residential customers locally and to international customers in southern Africa. The nature of businesses of the significant operating subsidiaries is set out in note 10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of Eskom (the company) and its subsidiaries (together the group) are prepared in accordance with the Companies Act, 61 of 1973 and comply with International Financial Reporting Standards (IFRS).

The group financial statements are prepared on the historical cost basis except for certain financial instruments, such as foreign loans, derivative financial instruments, available-for-sale investments and trading assets and liabilities that are stated at fair value or amortised cost at balance sheet date.

Changes in accounting policies and comparability

The group has adopted certain new and amended International Financial Reporting Standards, which are mandatory for financial years beginning on or after 1 January 2005. The effects of adopting these standards are discussed in note 39.

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 January 2006 or later periods but which the group has not early adopted, as follows:

IAS 19 (Amendment), Employee benefits (effective from 1 January 2006)

This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where sufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The group will apply this amendment for annual periods beginning 1 April 2006.

IAS 39 (Amendment), Cash flow hedge accounting of forecast intragroup transactions (effective from 1 January 2006)

The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that:

- the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction
- the foreign currency risk will affect consolidated profit or loss

This amendment is not expected to impact the results in the consolidated financial statements.

IAS 39 (Amendment), The fair value option (effective from 1 January 2006)

This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The group believes that this amendment should not have a significant impact on the classification of financial instruments, as the group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The group will apply this amendment for annual periods beginning 1 April 2006.

IFRS 1 (Amendment), First-time adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and evaluation of mineral resources (effective from 1 January 2006)

These amendments are not relevant to the group's operations as the group is not a first-time adopter of IFRS and does not carry out exploration for and evaluation of mineral resources.

IFRS 6, Exploration for and evaluation of mineral resources (effective from 1 January 2006)

This standard is not relevant to the group's operations.

IFRS 7, Financial instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of financial statements – capital disclosures (effective from 1 January 2007)

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the financial statements of banks and similar financial institutions, and disclosure requirements in IAS 32, Financial instruments: Disclosure and presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The group is currently assessing the impact of IFRS 7 and the amendment of IAS 1. The group will apply IFRS 7 and the amendment to IAS 1 for annual periods beginning 1 April 2007.

IFRIC 4, Determining whether an arrangement contains a lease (effective from 1 January 2006)

IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether:

- fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset)
- the arrangement conveys a right to use the asset

Management is currently assessing the impact of IFRIC 4 on the group's operations.

IFRIC 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds (effective from 1 January 2006)

IFRIC 5 is currently not relevant to the group's operations.

IFRIC 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment (effective from 1 December 2005)

IFRIC 6 is not relevant to the group's operations.

2.2 Consolidation

Investment in subsidiary companies

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

Transactions and minority interest

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Associates and joint ventures

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures are contractual arrangements whereby two or more parties undertake an economic activity that is subject to joint control.

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

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

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

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments.

Primary reporting format – business segments

The group is organised into the following business areas:

- Generation division
- Transmission division
- Distribution division
- Key Sales and Customer Services (Ksacs) division
- Other

Secondary reporting format – geographical segments

The group's business segments operate in two geographical areas, local and international.

Liabilities outside of South Africa comprise foreign loans as well as amounts owed to creditors outside of South Africa by Eskom's subsidiary situated in the Isle of Man, Gallium Insurance Company Limited.

2.4 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in rands, which is the company's functional and presentation currency.

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 the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment 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 are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

2.4 Foreign currency translation (continued)

Transactions and balances (continued)

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions)
- all resulting exchange differences are recognised as a separate component of equity

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholder's equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Owned assets

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

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes:

- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period

Costs may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Works under construction are stated at historical cost. Materials used in the construction of property, plant and equipment are stated at weighted average cost.

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

	Years
Buildings and facilities	10 to 40
Plant	
– Generation	6 to 50
– Transmission	5 to 40
– Distribution	10 to 35
– Test, telecommunication and other plant	3 to 20
Equipment and vehicles	1 to 10

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

2.6 Intangible assets

Goodwill

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Licences

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

2.6 Intangible assets (continued)

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

Rights

Rights consist mainly of servitudes and rights of way under power lines. Rights are not depreciated as they have an indefinite useful life.

Research and development

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets to the extent that such expenditure is expected to generate future economic benefits and comply with the recognition criteria. Other development costs are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Any development expenditure capitalised is amortised over the expected useful life of the underlying assets.

2.7 Leases

Finance leases

Assets subject to finance lease agreements are capitalised at the lower of the fair value and the present value of the minimum lease payments, and the corresponding liabilities are recognised. The assets are depreciated on the straight-line basis over the shorter of their estimated useful lives, or the lease term. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Lease finance charges are included in interest expenditure in the income statement.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.8 Impairment of assets

The carrying amounts of assets stated in the balance sheet, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated at the higher of the net selling price (less costs to sell) and its value in use. An impairment loss is recognised in the income statement whenever the carrying amount exceeds the recoverable amount.

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstances indicate the carrying amount may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

In assessing value in use, the expected future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

A previously recognised impairment loss is only reversed if there has been a change in the estimates used to determine the recoverable amount; however, not to an amount higher than the carrying amount that would have been determined (net of depreciation and amortisation) had no impairment loss been recognised in previous years.

2.9 Financial instruments

Short-term negotiable securities, trading assets and investment securities

Recognition and measurement

Financial assets are held for liquidity, investment and trading purposes. All financial assets are measured initially at cost and include transaction costs where appropriate. These financial assets are recognised on the date of commitment to purchase (trade date) and are derecognised when Eskom no longer has control over the assets or the contractual rights to receive cash flows expire. Realised gains and losses on disposal are determined using the weighted average method.

The appropriate classification of the financial asset is determined at the time of the purchase. Short-term negotiable instruments with fixed maturity, where management has both the intent and ability to hold the security to maturity are classified as held-to-maturity and are carried at amortised cost, using the effective interest rate method.

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

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

All related realised and unrealised gains and losses arising from the change in fair value are recognised in the income statement.

Financial assets that are not held-for-trading purposes, originated by the enterprise or held-to-maturity are classified as available-for-sale assets. Unrealised gains or losses from the changes in fair value are recognised in equity. On disposal of available-for-sale assets, the fair value adjustments accumulated in equity are recognised in the income statement.

Fair value

The fair value of trading assets and available-for-sale assets are based on quoted bid prices. Where pricing models are used, inputs are based on market-related measures at the balance sheet date. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a financial asset with similar terms and conditions at the balance sheet date.

2.9 Financial instruments (continued)

Impairment

A review for impairment indicators is carried out at each financial year end. If impairment indicators are present, an impairment test is carried out. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The recoverable amount of an instrument measured at fair value is the present value of expected cash flows discounted at the current market rate of interest for a similar financial asset. If any such impairment indicators signify that it is probable that the company will be unable to collect all amounts due, a provision for impairment is made to reduce the carrying amount of the asset to its estimated recoverable amount.

Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, requires little or no initial investment and is settled at a future date. All derivatives are accounted for as 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 cost and subsequently re-measured at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models which consider current market and contractual prices for the underlying instruments as well as the time value of money.

All derivative instruments of the group are carried as assets when the fair value is positive and as liabilities when the fair value is negative and there is no offsetting. Realised and unrealised gains and losses are recognised in the income statement.

Hedge accounting

On the date that a derivative contract is designated as a hedging instrument, Eskom designates the derivative as either:

- a hedge of a fair value of a recognised asset or liability (fair value hedge); or
- a hedge of a future cash flow attributable to a recognised asset or liability; a forecast transaction or a firm commitment (cash flow hedge)

A hedge accounting relationship exists where:

- at the inception of the hedge there is formal documentation of the hedge
- the hedge is expected to be highly effective
- the effectiveness of the hedge can be reliably measured
- the hedge has been measured and found to have been highly effective throughout the reporting period
- for a hedge of a forecast transaction, the transaction is highly probable and presents an exposure to variation in cash flows that could ultimately effect net profit

Where a hedge relationship is designated as a fair value hedge, the hedged item is stated at fair value in respect of the risk being hedged. Gains or losses on the remeasurement of both the fair value hedge and the hedged instrument are allocated to the same income statement category.

The effective portion of changes in the fair value of a derivative that is a cash flow hedge is recognised in equity. The ineffective part of any gain or loss is recognised in the income statement. When a hedging instrument or hedge relationship is terminated, but the hedged transaction is still expected to occur, the cumulative gains or losses recognised in equity remain in equity and are recognised in the income statement when the forecasted transaction affects profit or loss.

Loans and advances

Loans and advances originated by Eskom are classified as originated loans. Purchased loans that Eskom has the intent and ability to hold to maturity are classified as held-to-maturity assets. Originated loans and held-to-maturity loans are accounted for at amortised cost.

Repurchase and resale agreements

Securities sold subject to linked repurchase agreements are retained in the financial statements as trading assets. The liability to the counterparty is included under bank overdrafts and other short-term loans.

Securities purchased under agreements to resell are recorded as loans or advances receivable under resale agreements and are included in bank balances and cash equivalents.

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.

Bank overdrafts

This includes bank overdrafts with local banks, any liability as a result of unsettled transactions and other short-term liabilities with original maturity of less than 90 days.

Short-term securities issued, trading liabilities and long-term securities issued

Recognition and measurement

Financial liabilities are issued for funding, liquidity and trading purposes. All financial liabilities are measured initially at cost and include transaction costs where appropriate. These financial liabilities are recognised on the date of commitment to purchase (trade date) and are derecognised when the obligation is discharged, cancelled or expires. Realised gains and losses on disposal are determined using the weighted average method.

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

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

All related realised and unrealised gains and losses arising from the change in fair value are recognised in the income statement.

Financial liabilities held in the trading portfolios are measured at fair value. All related realised and unrealised gains and losses arising from the change in fair value are included in the income statement.

Other financial liabilities that are not held-for-trading purposes are classified as other liabilities and are accounted for on an amortised cost basis. Any profit or loss on early redemption is recognised in the income statement.

Loans raised on the foreign market are initially recognised at the exchange rates prevailing at transaction date. At balance sheet date, foreign loans are restated at closing exchange rates and the resultant profit or loss is recognised in the income statement.

Fair value

The fair value of trading liabilities is based on quoted offer prices. Where pricing models are used, inputs are based on market-related measures at the balance sheet date. Discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for a financial liability with similar terms and conditions.

2.9 Financial instruments (continued)

Short-term securities issued, trading liabilities and long-term securities issued (continued)

Foreign entities

The financial statements of foreign entities are translated into the reporting currency as follows:

- assets and liabilities are translated at rates of exchange ruling at the financial year end
- income and expenditure and cash flow items are translated at a weighted average rate for the period. Dividends are translated at the rate of exchange ruling at the date of the transaction

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the balance sheet date.

Exchange differences arising on the translation of foreign entities are taken directly to a foreign currency translation reserve.

Embedded derivatives

Definition

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

Recognition and derecognition

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

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

Valuation

Non-option based derivatives are separated on terms that result in a fair value at the date of inception of zero. Option-based derivatives are separated on the terms stated in the contracts and will not necessarily have a fair value equal to zero at the initial recognition of the embedded derivative. The fair value will depend on the strike price at inception.

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

The selection of the host contract of an electricity contract is based on the standard electricity tariff specified in the contract and where no standard tariff is specified the tariff that would normally apply to such a customer.

The fair value of the embedded derivative is determined on the basis of its terms and conditions. If this is not possible then the value of the embedded derivative is determined by fair valuing the whole contract and deducting from it the fair value of the host contract.

Valuation methods and inputs

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

- swaps – electricity tariff is swapped for a commodity in a foreign currency
- forwards – electricity tariff or other revenue or expenditure is based on a foreign currency
- options – electricity tariff or other revenue is based on an embedded derivative floor or cap on foreign consumer or production price indices or interest rates. The Monte Carlo simulation technique is used to produce various cap and floor strike prices

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

- spot and forward commodity prices
- spot and forward foreign currency exchange rates
- spot and forward interest rates
- forecasted sales volumes
- spot and forward consumer and foreign production price indices
- spot and forward electricity prices

Disclosure

Embedded derivatives are disclosed as derivative assets or liabilities. The changes in fair value are included in *other net gains* in the income statement. The impact of the fair value gains or losses is taken into account in the calculation of current and deferred taxation.

2.10 Inventories

Coal, maintenance spares and consumables

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis.

Nuclear fuel

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

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

2.11 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The movement in the provision is recognised in the income statement.

2.12 Trade and other payables

Local trade and other payables are stated at nominal value, which approximates fair value.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise balances with local and international banks, monies in call accounts and short-term assets. Cash equivalents are defined as money market assets with an original maturity of less than 90 days.

2.14 Share capital

Ordinary shares are classified as equity.

2.15 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 to the extent that the assets are financed by borrowings. The capitalisation rate applied is the weighted average of the borrowing costs applicable to the borrowings of the group.

2.16 Deferred income tax

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profits or loss. However, deferred income tax is provided in respect of the temporary differences arising on the assets and provisions created in respect of decommissioning and nuclear waste management and closure, pollution control and rehabilitation. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

2.17 Future fuel supplies

Coal

Non-refundable advances to suppliers, together with related borrowing costs thereon, are deferred and amortised against the cost of coal supplied on the basis of the estimated life of the asset procured by the suppliers.

Repayable advances to suppliers are capitalised, and the interest earned thereon is credited to interest income and repaid in terms of the agreements.

Nuclear

Fuel assemblies in the process of fabrication are stated at cost. Hedge accounting is applied to foreign exchange contracts with the effective portion being capitalised during the fabrication period. Advance payments in terms of agreements are capitalised.

2.18 Loans receivable

Loans receivable consist of finance provided to employees of the group mainly for the purchase of immovable property.

2.19 Deferred income

Cross-border leases

Income realised on cross-border lease transactions is deferred. This income is recognised over the period that Eskom is exposed to a risk of a cancellation event on the contract and is allocated to the income statement on the same basis as the risk exposure profile.

Grants

Government grants received relating to the creation of electrification assets are included in non-current liabilities as deferred income, and are credited to the income statement on a straight-line basis over the expected useful lives of the related assets.

Capital expenditure paid in advance

Capital expenditure paid in advance by customers relating to the construction of regular distribution and transmission assets is credited to the income statement on a straight-line basis over the expected useful lives of related assets.

2.20 Insurance reserve

A full contingency reserve of 10% of net premium income is created in Escap Limited in terms of the Short-term Insurance Act, 53 of 1998.

2.21 Employee benefits

Pension obligations

Retirement benefits are provided for employees through the Eskom Pension and Provident Fund. Contributions to the fund are based on a percentage of pensionable emoluments and are expensed in the period in which they are incurred.

Other post-retirement obligations

Provision is made for post-retirement medical contributions by accounting through the income statement 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 each balance sheet date. Actuarial gains and losses are expensed to the income statement. The amount recognised in the balance sheet represents the present value of the post-retirement medical aid contribution as adjusted for unrecognised actuarial gains and losses.

Share-based payments

Eskom has granted cash-settled share-based instruments to eligible employees. The liability for the services received from the employees in exchange for the share-based (phantom shares) payments is recognised at fair value over the vesting period of the instruments. In compliance with IFRS 2, the liability for the service is remeasured at each balance sheet date to its fair value and all changes are recognised in profit and loss. The fair value of the liability is determined using an appropriate valuation model.

2.22 Provisions

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

An onerous contract is a contract under which the unavoidable cost of meeting the obligation exceeds the economic benefit expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

2.22 Provisions (continued)

If the effect is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The impact of the periodic unwinding of the discount is recognised in the income statement as a finance cost as it occurs.

Decommissioning and nuclear waste management

Nuclear and other generation plant

A provision is raised for the estimated decommissioning cost of nuclear and other generation plant and capitalised to the cost of nuclear or other generation plant when it is commissioned. The estimated cost of decommissioning at the end of the productive life of plant is based on engineering estimates and reports from independent experts. Decommissioning cost capitalised to the cost of nuclear or other generation plant, is written off on a straight-line basis over the estimated useful lives of the plant.

Spent nuclear fuel

A provision is created, over the life of the plant, for the management of spent nuclear fuel assemblies and radioactive waste. The annual charge to the income statement is based on the latest available cost information and is included in operating expenditure.

The provisions are restated on an annual basis to reflect the changes in time value of money. The impact of the change in time value of money on the provision is reflected in the income statement.

Closure, pollution control and rehabilitation

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

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

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown, net of value added tax, estimated returns, rebates and discounts and after eliminating sales within the group. Revenue is recognised as follows:

Sale of goods

Sale of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Electricity revenue is recognised when electricity is consumed by the customer.

Sale of services

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

Other revenue

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

2.24 Interest income

Interest income comprises interest receivable on loans, advances, trade receivables and income from financial market investments. Interest is only recognised where it is probable that the economic benefits associated with the transaction will flow to the group. Interest income is recognised on a time proportionate basis that takes into account the effective yield on assets.

2.25 Interest expenditure

Interest expenditure comprises interest payable on borrowings calculated using the effective interest rate method as well as interest resulting from the unwinding of discount on provisions.

2.26 Dividend income

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

2.27 Dividend distribution

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

2.28 Non-current assets classified as held-for-sale

Assets and liabilities falling within the scope of the measurement requirements of IFRS 5 are classified as held-for-sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

The group adopted IFRS 5 from 1 April 2005 prospectively in accordance with the standard's provisions. The non-current assets held-for-sale were previously neither classified nor presented as current assets or liabilities and not measured differently from other assets and liabilities.

Notes to the financial statements

For the 12-month period ended 31 March 2006

3. FINANCIAL RISK MANAGEMENT

Eskom has an integrated risk management framework. For more information on risk, refer to page 22 in the corporate governance and page 88 and 89 in the directors' report.

The management of the financial and market risks takes place within Eskom's centralised treasury function. The objective is to ensure that Eskom is not unduly exposed to financial and market risks.

Eskom treasury's approach is based on risk governance structures; risk management policies; risk ownership and risk identification, measurement and reporting.

3.1 Risk governance structures

A risk governance structure is in place to ensure independent management of risks. The board of directors determines the risk levels and risk appetite for the organisation. The management and monitoring of these risks are delegated to the credit committee and the asset and liability committee (Alco) with overall responsibility always remaining with the board of directors.

The governance structure also includes an independent monitoring and compliance function.

3.2 Risk management policies

Risk management policies are formally documented and approved. The accountability for developing and maintaining risk policies rests with the general manager (treasury).

3.3 Risk ownership

The ownership of the risk management function resides with Alco and the credit committee, under the chairmanship of the finance director and the general manager (treasury).

3.4 Risk identification, measurement and reporting

The risk identification, measurement and reporting takes place by an independent department (risk assessment) and the main areas of activities are:

- understanding business and risk profiles
- develop risk measurement processes, strategies and practices
- monitor, assess and support risk management practices
- report on the state of risk and risk practices to executive management

3.5 Major risks

Eskom has identified the following major risks that the organisation is exposed to:

- credit risk – arising from default of counterparty
- market risk – the risk of a decrease in the market value of a portfolio of financial assets caused by an adverse move in market variables such as bond prices, commodity prices, currency exchange rates and interest rates as well as implied volatilities on all of the above
- liquidity risk – the risk that Eskom has insufficient funds or marketable securities available to fulfil its cash flow obligations on time
- compliance risk – the risk of non-compliance with any statutory requirement of central or local government and includes the South African Reserve Bank, Financial Services Board and various financial exchanges

3.5.1 Credit risk

The risk of counterparty default is managed by setting exposure limits for each counterparty. This process is evaluated and managed by placing reliance on independent rating agencies. A credit committee which is chaired by the finance director, reviews and approves these limits on a quarterly basis. International Swap Derivatives Association (ISDA) netting agreements are in place for all Eskom's major counterparties. For investments where collateral is held, these are reflected under the appropriate category of the issuer of the paper.

There are three components to credit risk which is managed by the credit and Alco committees:

- settlement risk – the risk arises in transactions involving the exchange of values when the group must honour its obligations to deliver without first being able to determine that the group has received the countervalue
- presettlement risk – the risk arises from the potential non-performance by a counterparty to a derivative obligation. The group is exposed to the loss of value through the cost of replacing the transaction at current market rates
- issuer risk – the risk that the issuer of debt instruments defaults on a particular principal payment or set of payments due under the instrument

Credit quality

All external investments held are rated AA or A1 and higher, or fully secured. The mark-to-market and capital-at-risk exposures are as follows:

	Mark-to-market exposure		Capital-at-risk exposure	
	2006 Rm	2005 Rm	**2006 Rm**	2005 Rm
Customers	**2 657**	2 591	**34**	48
Financial market participants	**36 905**	28 423	**5**	3
	39 562	31 014	**39**	51

Counterparty risk

Capital-at-risk and market values of the top 10 counterparties fall broadly into the following categories:

	Mark-to-market exposure		Capital-at-risk exposure	
	2006 Rm	2005 Rm	**2006 Rm**	2005 Rm
Customers	**938**	666	**34**	48
Local banks	**18 751**	12 150	**1**	1
Other local institutions	**5 075**	4 878	**–**	–
Foreign banks	**5 254**	6 795	**1**	1
	30 018	24 489	**36**	50
Percentage of grand total, %	**75,88**	78,96	**92,31**	98,04

3.5.2 Market risk

Market risk exists wherever Eskom treasury has raised debt locally and/or internationally, invested surplus funds and to a lesser degree when trading positions are taken. Market risk is also taken on hedging certain revenue streams.

The management of market risk takes place on an integrated basis, in two separate streams (strategic and trading) through risk limits. A range of various risk measurement methodologies and tools to establish limits, which include value-at-risk (VaR), loss triggers and stress testing as well as other traditional risk management techniques are in place.

Historical VaR is generally used to derive quantitative measures for market risk under normal market conditions and are supplemented by loss triggers to enforce management intervention at predetermined loss levels. Other risk management techniques involve measures which include permissible trading instruments, concentration of exposure as well as quality of paper held.

Currency risk

Currency risk arises primarily from foreign borrowings, imported components and electricity sales in foreign currency. Management follows a conservative approach to currency risk, and therefore forward exchange contracts are used to substantially hedge all known foreign exchange exposures.

Refer to note 14.12 for disclosure on forward exchange contracts.

Interest rate risk

Eskom is primarily exposed to upward interest rate movements on floating debt issued or downward interest rate movements on floating investments purchased, as well as interest rate risk in repricing forward exchange contracts. Floating debt issued and floating investments purchased do not expose Eskom to price risk, as the fair value of these instruments does not change as interest rates change.

Interest rate risk is managed on an integrated basis via a monthly Alco process where strategies are recommended and approved. The sensitivity of the book to interest rates is mainly managed through the use of derivatives (predominantly interest rate swaps) in response to the shape of the yield curve together with management's best estimate of the interest rates.

3. FINANCIAL RISK MANAGEMENT (continued)

3.5.2 Market risk (continued)

Interest rate risk (continued)

Repricing analysis of assets and liabilities

31 March 2006

	Group			Company		
	Within one year Rm	More than 12 months Rm	Non-rate sensitive Rm	Within one year Rm	More than 12 months Rm	Non-rate sensitive Rm
Total assets	**13 755**	**14 175**	**20 230**	**12 867**	**14 173**	**17 821**
Total liabilities	**(15 162)**	**(6 283)**	**(25 984)**	**(15 479)**	**(5 942)**	**(25 957)**
Interest rate sensitivity gap	**(1 407)**	**7 892**	**(5 754)**	**(2 612)**	**8 231**	**(8 136)**
Cumulative interest rate sensitivity gap	**(1 407)**	**6 485**	**731**	**(2 612)**	**5 619**	**(2 517)**

31 March 2005

	Group			Company		
	Within one year Rm	More than 12 months Rm	Non-rate sensitive Rm	Within one year Rm	More than 12 months Rm	Non-rate sensitive Rm
Total assets	17 539	4 813	14 468	15 420	4 809	13 588
Total liabilities	(8 258)	(5 835)	(21 614)	(8 534)	(5 542)	(21 584)
Interest rate sensitivity gap	9 281	(1 022)	(7 146)	6 886	(733)	(7 996)
Cumulative interest rate sensitivity gap	9 281	8 259	1 113	6 886	6 153	(1 843)

Refer to note 14.12 for disclosure on interest rate swaps.

3.5.3 Liquidity risk

Liquidity risk arises primarily from variation in revenue flows, Eskom's commitment to act as a market maker in its own debt instruments as well as to repay principal debt and interest. Eskom's approach to liquidity management includes:

- maintenance of adequate level to short-term marketable securities, including optimal call balances
- effective periodic forecast cash flow management
- implementation of long-term and short-term funding and investment strategies
- diversification of funding and investing activities
- daily independent monitoring of minimum and maximum levels of liquidity
- formal early warning procedures to relevant management enabling a proactive liquidity management approach rather than a reactive approach

Liquid assets under management amounted to R14 800 million for 2006 (2005: R14 570 million).

During the review period, Eskom raised a net debt of R1 905 million (2005: net investor of R7 233 million). Eskom will continue to raise debt, both locally and internationally, to fund the capital expansion programme.

3.5.4 Compliance risk

The Eskom treasury department is subject to supervisory and regulatory legislations which include the Public Finance Management Act, Financial Intelligence Centre Act, Financial Services Board and the South African Reserve Bank. Responsibility for treasury compliance lies with the general manager (treasury) through an independent monitoring and reporting function within the department.

The approach adopted to manage these risks include a combination of the following key activities:

- training staff on their responsibilities related to the various legislation
- implementation of adequate procedures to assist management achieve adherence to the legislative requirements
- effective monitoring and reporting mechanism to ensure compliance

3.5.5 Operational risk management

Eskom recognises operational risk, inclusive of information risk and business continuity, as a significant risk category and manages it within acceptable levels. Eskom continues to develop and expand its guidelines, standards, methodologies and systems in order to enhance the management of operational risk.

To manage operational risk Eskom has established sound practices, including:

- policies and procedures to sustain effective risk management
- ongoing assessment of the effects of changes in the regulatory environment and acquisition of skills and knowledge of best practices to ensure the group's own endeavours are most appropriate for the environment

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Embedded derivatives

Eskom has 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 (mainly dollar or pound sterling) or foreign production price indices that give rise to embedded derivatives. Subsidiaries of Eskom Enterprises also entered into sales contracts where the revenue is based on the dollar, foreign production price indices and foreign interest rates that give rise to embedded derivatives. The contractual periods vary and are up to 25 years.

Where there is no active market for the embedded derivatives, valuation techniques are used to ascertain the fair value of embedded derivatives. Market information was not available for every input for the whole period of the contracts.

The following is the sensitivity analysis of the change in the value of the embedded derivatives if one of the following inputs is changed:

Variable	Description of change	Change %	Increase in unrealised profit Rm	Decrease in unrealised profit Rm
Eskom				
Aluminium	Increase in price	10	2 289	–
Aluminium	Decrease in price	10	–	(2 289)
Rand/USD	Weakening of rand	10	3 209	–
Rand/USD	Appreciation of rand	10	–	(3 281)
Rand interest rates	Parallel shift up	1	1 893	–
Rand interest rates	Parallel shift down	1	–	(2 125)
USD interest rates	Parallel shift up	1	–	(1 731)
USD interest rates	Parallel shift down	1	1 933	–
Consumer price indices	Parallel shift up	1	–	(1 722)
Consumer price indices	Parallel shift down	1	1 541	–
US PPI	Parallel shift up	1	114	–
US PPI	Parallel shift down	1	–	(97)
Subsidiaries				
Uganda interest rates	Parallel shift up	1	4	–
USD interest rates	Parallel shift up	1	–	(6)
Uganda shilling/USD	Weakening of Uganda shilling	10	29	–
Rand/USD	Weakening of rand	10	–	(18)
Euro interest rates	Parallel shift up	1	2	–
ZMK/USD	Weakening of ZMK	10	21	–
ZMK interest rates	Parallel shift up	1	5	–

(b) Post-retirement medical benefits

The group is providing for the cost of post-retirement medical benefits.

The carrying amount of the provision would be an estimated R694 million lower had the 6,5% medical inflation rate used in the valuation decreased by 1% and R875 million higher had the medical inflation rate increased by 1%.

(c) Occasional leave

Based on the current experience, only 5% of the leave is utilised. If the rate at which leave is taken is 10%, then the liability will increase by R21 million.

(d) Decommissioning

The carrying amount of the provision would be an estimated R1 336 million higher had the 4,2% discount rate used in the calculation of the provision decreased by 1% and R983 million lower had the 4,2% discount rate increased by 1%.

	Business segmentation	Generation Rm	Transmission Rm	Distribution Rm	Ksacs Rm	Other Rm	Total Rm	Elimination Rm	Consolidation Rm
5.	**SEGMENT INFORMATION 31 March 2006**								
	Continuing operations:								
	Revenue								
	External sales	**3**	**21**	**21 390**	**14 144**	**4 692**	**40 250**	**(3 643)**	**36 607**
	Intersegment sales	**21 668**	**2 444**	**(10 701)**	**(13 411)**	**–**	**–**	**–**	**–**
	Total revenue	**21 671**	**2 465**	**10 689**	**733**	**4 692**	**40 250**	**(3 643)**	**36 607**
	Result								
	Segment result/ operating profit/(loss)	**3 742**	**1 038**	**2 656**	**(225)**	**1 271**	**8 482**	**(1 171)**	**7 311**
	Interest income						**3 210**	**(259)**	**2 951**
	Interest expense						**(4 921)**	**265**	**(4 656)**
	Fair value gain on financial instruments						**1 134**	**–**	**1 134**
	Share of profit of associates and joint ventures						**35**	**–**	**35**
	Income tax expense						**(2 224)**	**70**	**(2 154)**
	Profit for the period from continuing operations						**5 716**	**(1 095)**	**4 621**
	Discontinued operations:								
	Profit for the period from discontinued operations						**14**	**–**	**14**
	Profit for the period						**5 730**	**(1 095)**	**4 635**
	Other information								
	Segment assets	**36 920**	**9 061**	**26 200**	**7 823**	**52 506**	**132 510**	**(6 974)**	**125 536**
	Investment in equity method associates and joint ventures	**–**	**–**	**4**	**–**	**149**	**153**	**61**	**214**
	Assets classified as held-for-sale	**–**	**–**	**–**	**–**	**2 442**	**2 442**	**(40)**	**2 402**
	Total assets	**36 920**	**9 061**	**26 204**	**7 823**	**55 097**	**135 105**	**(6 953)**	**128 152**
	Segment liabilities	**(11 439)**	**(1 761)**	**(13 118)**	**(6 627)**	**(48 063)**	**(81 008)**	**3 442**	**(77 566)**
	Liabilities directly associated with assets classified as held-for-sale	**–**	**–**	**–**	**–**	**(2 304)**	**(2 304)**	**2 280**	**(24)**
	Total liabilities	**(11 439)**	**(1 761)**	**(13 118)**	**(6 627)**	**(50 367)**	**(83 312)**	**5 722**	**(77 590)**
	Capital expenditure	**5 008**	**1 246**	**4 014**	**–**	**746**	**11 014**	**(147)**	**10 867**
	Depreciation and amortisation	**2 270**	**471**	**1 845**	**1**	**316**	**4 903**	**–**	**4 903**
	Impairment losses	**38**	**4**	**5**	**–**	**1**	**48**	**–**	**48**
	Reversal of impairment losses	**(13)**	**(4)**	**(87)**	**–**	**(868)**	**(972)**	**828**	**(144)**
	Other non-cash expenses	**561**	**(43)**	**671**	**(1 421)**	**896**	**664**	**–**	**664**

Business segmentation	Gene-ration Rm	Trans-mission Rm	Distri-bution Rm	Ksacs Rm	Other Rm	Total Rm	Elimi-nation Rm	Consoli-dation Rm
31 March 2005 (15 months)								
Continuing operations:								
Revenue								
External sales	9	–	24 549	16 829	5 674	47 061	(3 854)	43 207
Intersegment sales	23 785	2 967	(11 839)	(15 660)	747	–	–	–
Total revenue	23 794	2 967	12 710	1 169	6 421	47 061	(3 854)	43 207
Result								
Segment result/ operating profit/(loss)	4 330	1 545	3 138	239	(565)	8 687	535	9 222
Interest income						4 338	(402)	3 936
Interest expense						(5 846)	399	(5 447)
Fair value loss on financial instruments						(99)	–	(99)
Share of profit of associates and joint ventures						74	–	74
Income tax expense						(2 204)	(109)	(2 313)
Profit for the period from continuing operations						4 950	423	5 373
Discontinued operations:								
Profit for the period from discontinued operations						38	–	38
Profit for the period						4 988	423	5 411
Other information								
Segment assets	33 322	8 327	25 426	5 387	42 716	115 178	(5 742)	109 436
Investment in equity method associates and joint ventures	–	–	4	–	318	322	48	370
Total assets	33 322	8 327	25 430	5 387	43 034	115 500	(5 694)	109 806
Total liabilities	(9 484)	(2 075)	(8 818)	(5 300)	(42 426)	(68 103)	5 530	(62 573)
Capital expenditure	2 968	1 565	4 449	–	17	8 999	–	8 999
Depreciation and amortisation	2 503	474	2 300	–	255	5 532	–	5 532
Impairment losses	27	–	13	–	524	564	(165)	399
Reversal of impairment losses	(25)	(6)	(43)	–	(67)	(141)	–	(141)
Other non-cash expenses	181	61	615	9	629	1 495	–	1 495

Nature of business of segments

- Generation – generation of electricity
- Transmission – provide, operate and maintain a transmission network for transmitting bulk electricity
- Distribution – distribution of electricity to redistributors, small and large customers
- Ksacs – manage contestable customer relationships and trading of energy from Generation division and international sources to contestable customers in South Africa
- Other – comprises Corporate divisions and subsidiaries

Intersegment electricity transfers

The interdivisional electricity related transactions are linked to the regulatory approved time-of-use wholesale electricity pricing structure (WEPS) rates.

Reconciliation of movements	Group 12 months 2006 Rm	Group 15 months 2005 Rm
5. SEGMENT INFORMATION (continued)		
Geographical segmentation		
The group's business segments operate in two main geographical areas, South Africa and outside of South Africa. The home country of Eskom, which is the main operating company, is South Africa.		
The group's sales are mainly within South Africa.		
Revenue		
South Africa	**34 824**	41 247
Outside of South Africa	**1 783**	1 960
Total revenue	**36 607**	43 207
Sales are allocated based on the country in which the customer is located.		
Capital expenditure		
South Africa	**10 850**	8 976
Outside of South Africa	**17**	23
	10 867	8 999
Capital expenditure is allocated based on where the assets are located.		

	Group March 2006 Rm	Group March 2005 Rm
Total assets		
South Africa	**127 050**	108 643
Outside of South Africa	**888**	793
	127 938	109 436
Associates and joint ventures	**214**	370
	128 152	109 806
Assets are allocated based on where the assets are located.		

		Group			Company		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	Rm	Rm	Rm	Rm	Rm	Rm
6. PROPERTY, PLANT AND EQUIPMENT						
March 2006						
Land	**295**	**–**	**295**	**258**	**–**	**258**
Buildings and facilities	**2 926**	**(1 228)**	**1 698**	**2 761**	**(1 193)**	**1 568**
Plant – Generation	**51 265**	**(24 879)**	**26 386**	**51 265**	**(24 879)**	**26 386**
– Transmission	**11 993**	**(4 791)**	**7 202**	**11 993**	**(4 791)**	**7 202**
– Distribution	**32 373**	**(12 708)**	**19 665**	**32 373**	**(12 708)**	**19 665**
Regular distribution	**21 239**	**(7 402)**	**13 837**	**21 239**	**(7 402)**	**13 837**
Electrification	**11 134**	**(5 306)**	**5 828**	**11 134**	**(5 306)**	**5 828**
– Test, telecommunication and other plant	**2 604**	**(1 573)**	**1 031**	**447**	**(277)**	**170**
Equipment and vehicles	**5 382**	**(3 261)**	**2 121**	**4 245**	**(2 495)**	**1 750**
Total in commission	**106 838**	**(48 440)**	**58 398**	**103 342**	**(46 343)**	**56 999**
Plant at mothballed power stations	**446**	**(446)**	**–**	**446**	**(446)**	**–**
Works under construction	**6 440**	**–**	**6 440**	**6 513**	**–**	**6 513**
Construction materials	**195**	**–**	**195**	**195**	**–**	**195**
	113 919	**(48 886)**	**65 033**	**110 496**	**(46 789)**	**63 707**
March 2005						
Land	301	–	301	265	–	265
Buildings and facilities	2 829	(1 208)	1 621	2 696	(1 179)	1 517
Plant – Generation	48 308	(22 914)	25 394	48 308	(22 914)	25 394
– Transmission	10 733	(4 380)	6 353	10 733	(4 380)	6 353
– Distribution	29 334	(11 355)	17 979	29 334	(11 355)	17 979
Regular distribution	18 832	(6 618)	12 214	18 832	(6 618)	12 214
Electrification	10 502	(4 737)	5 765	10 502	(4 737)	5 765
– Test, telecommunication and other plant	2 501	(1 463)	1 038	448	(262)	186
Equipment and vehicles	4 102	(2 386)	1 716	3 664	(2 133)	1 531
Total in commission	98 108	(43 706)	54 402	95 448	(42 223)	53 225
Plant at mothballed power stations	586	(556)	30	586	(556)	30
Works under construction	4 569	–	4 569	4 511	–	4 511
Construction materials	186	–	186	186	–	186
	103 449	(44 262)	59 187	100 731	(42 779)	57 952

	Reconciliation of movements	Carrying value beginning of period Rm	Additions and transfers Rm	Disposals Rm	Impairment losses Rm	Reversal of impairment losses Rm	Depreciation Rm	Carrying value end of period Rm
6.	**PROPERTY, PLANT AND EQUIPMENT (continued)**							
	March 2006							
	Group							
	Land	**301**	**4**	**(10)**	**–**	**–**	**–**	**295**
	Buildings and facilities	**1 621**	**138**	**(16)**	**–**	**12**	**(57)**	**1 698**
	Plant	**50 764**	**7 469**	**(82)**	**(8)**	**30**	**(3 889)**	**54 284**
	Equipment and vehicles	**1 716**	**1 072**	**(58)**	**–**	**–**	**(609)**	**2 121**
	Plant at mothballed power stations	**30**	**11**	**(43)**	**–**	**–**	**2**	**–**
	Works under construction	**4 569**	**1 886**	**(15)**	**–**	**–**	**–**	**6 440**
	Construction materials	**186**	**9**	**–**	**–**	**–**	**–**	**195**
		59 187	**10 589**	**(224)**	**(8)**	**42**	**(4 553)**	**65 033**
	Company							
	Land	**265**	**3**	**(10)**	**–**	**–**	**–**	**258**
	Buildings and facilities	**1 517**	**108**	**(16)**	**–**	**12**	**(53)**	**1 568**
	Plant	**49 912**	**7 303**	**(63)**	**(8)**	**3**	**(3 724)**	**53 423**
	Equipment and vehicles	**1 531**	**800**	**(78)**	**–**	**–**	**(503)**	**1 750**
	Plant at mothballed power stations	**30**	**11**	**(43)**	**–**	**–**	**2**	**–**
	Works under construction	**4 511**	**2 002**	**–**	**–**	**–**	**–**	**6 513**
	Construction materials	**186**	**9**	**–**	**–**	**–**	**–**	**195**
		57 952	**10 236**	**(210)**	**(8)**	**15**	**(4 278)**	**63 707**

	Group		Company	
	March 2006 Rm	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
Borrowing costs are capitalised at a weighted average rate of 14,00% (2005: 13,67%).				
Details of land and buildings are available for examination at the registered offices of the respective businesses.				
Included in generation plant are assets leased to an international party and leased back under cross-border lease agreements with a book value of	**3 546**	3 649	**3 546**	3 649
The cross-border lease transactions comprise primary lease terms of 17,8 and 21 years as well as renewal lease terms of 14,8 and 12 years respectively. The renewal leases will be at specified rentals on terms similar to the primary leases. Options at the end of the primary lease terms are either to purchase the rights of the lessor over the assets at a predetermined fixed price or to return the assets to the lessor at no cost but on condition that the lessor may require that the renewal lease be exercised. At the end of the renewal leases the assets will return to Eskom.				
The present value of lease and leaseback obligations was settled in full at commencement of the transactions.				
Lease rentals relating to the lease of property, plant and equipment included in other expenses in the income statement amounted to	**99**	69	**79**	44
Depreciation of property, plant and equipment included in depreciation and amortisation expense in the income statement amounted to	**4 553**	5 096	**4 278**	4 828

		Group			Company		
		Cost Rm	Accumulated amortisation Rm	Carrying value Rm	Cost Rm	Accumulated amortisation Rm	Carrying value Rm
7.	**INTANGIBLE ASSETS**						
	March 2006						
	Rights	**324**	**(221)**	**103**	**324**	**(221)**	**103**
	Computer software	**1 624**	**(1 295)**	**329**	**1 532**	**(1 214)**	**318**
	Goodwill	**10**	**–**	**10**	**–**	**–**	**–**
	Total	**1 958**	**(1 516)**	**442**	**1 856**	**(1 435)**	**421**
	March 2005						
	Rights	283	(221)	62	283	(221)	62
	Computer software	1 357	(957)	400	1 357	(957)	400
	Goodwill	142	(142)	–	–	–	–
	Negative goodwill	(404)	278	(126)	(404)	278	(126)
	Total	1 378	(1042)	336	1 236	(900)	336

Reconciliation of movements	Carrying value beginning of period Rm	Additions and transfers Rm	Derecognition Rm	Reversed to equity Rm	Amortisation Rm	Carrying value end of period Rm
March 2006						
Group						
Rights[1]	**62**	**41**	**–**	**–**	**–**	**103**
Computer software[2]	**400**	**191**	**–**	**–**	**(262)**	**329**
Goodwill[3]	**–**	**10**	**–**	**–**	**–**	**10**
Negative goodwill	**(126)**	**–**	**–**	**126**	**–**	**–**
Brands	**–**	**36**	**(36)**	**–**	**–**	**–**
Total	**336**	**278**	**(36)**	**126**	**(262)**	**442**
Company						
Rights[1]	**62**	**41**	**–**	**–**	**–**	**103**
Computer software[2]	**400**	**178**	**–**	**–**	**(260)**	**318**
Negative goodwill	**(126)**	**–**	**–**	**126**	**–**	**–**
Total	**336**	**219**	**–**	**126**	**(260)**	**421**

Amortisation of intangible assets in the group of R262 million (2005: R252 million) and the company of R260 million (2005: R249 million) is included in depreciation and amortisation expense in the income statement.

Impairment test for rights

Rights consist mainly of servitudes and rights of way under power lines. Rights are not depreciated as they have an indefinite life. A servitude right is granted to Eskom for an indefinite period. The life of the servitude will remain in force as long as the transmission or distribution line is used to transmit electricity.

A servitude will only become impaired if the line to which the servitude is linked is derecognised. In practice a derecognised line will be refurbished or replaced by a new line. The likelihood of the impairment of a servitude right is remote.

1. *Rights are disclosed at cost of purchase.*
2. *Computer software is disclosed at cost of purchase including costs incurred in modifying the software.*
3. *Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition.*

	Note	Group March 2006 Rm	Group March 2005 Rm	Company March 2006 Rm	Company March 2005 Rm
8. INVESTMENT IN ASSOCIATES					
Balance at beginning of the period		**245**	191	**4**	4
Share of profit[1]		**21**	57	**–**	–
Provision for impairment		**(2)**	(12)	**–**	–
Reversal of impairment	28	**84**	–	**84**	–
Other movements		**(276)**	9	**(83)**	–
Balance at end of the period		**72**	245	**5**	4
Directors' valuation		**73**	270	**35**	27

Investments in associates at 31 March 2006 include goodwill of R nil million (2005: R nil million).

Investments in the company are accounted for at cost and the since acquisition share of profits are accounted for in the group.

The group's share of the results of its principal associates, all of which are unlisted, and its share of the assets (including goodwill and liabilities) are as follows:

Name	Country of incorporation	Assets Rm	Liabilities Rm	Revenues Rm	Profit Rm	% interest held
Group						
2006						
Directly held						
PN Energy Services (Pty) Limited[2]	South Africa	**19**	**2**	**14**	**4**	**50**
Transitional Electricity Distributor (Pty) Limited[2]	South Africa	**–**	**–**	**–**	**–**	**50**
Uitenhage Electricity Supply Company (Pty) Limited[3]	South Africa	**20**	**13**	**71**	**2**	**33**
Indirectly held						
Arivia.kom (Pty) Limited[4]	South Africa	**–**	**–**	**611**	**7**	**–**
Elgas SARL[2]	Mozambique	**–**	**–**	**–**	**–**	**25**
Global Electricity Services Company[2]	Libya	**–**	**–**	**–**	**–**	**49**
Ash Resources (Pty) Limited[2]	South Africa	**22**	**8**	**50**	**6**	**25**
Clinker Supplies (Pty) Limited	South Africa	**4**	**2**	**11**	**2**	**50**
Umeme Limited[2]	Uganda	**–**	**–**	**–**	**–**	**44**
		65	**25**	**757**	**21**	
2005						
Directly held						
PN Energy Services (Pty) Limited[2]	South Africa	16	2	16	6	50
Transitional Electricity Distributor (Pty) Limited[2]	South Africa	–	–	–	–	50
Uitenhage Electricity Supply Company (Pty) Limited[3]	South Africa	28	14	69	6	33
Indirectly held						
Arivia.kom (Pty) Limited[4]	South Africa	421	186	717	43	45
Elgas SARL[2]	Mozambique	–	–	–	–	25
Global Electricity Services Company[2]	Libya	–	–	–	–	49
Ash Resources (Pty) Limited[2]	South Africa	11	3	31	2	25
Clinker Supplies (Pty) Limited	South Africa	4	2	9	–	50
Umeme Limited[2]	Uganda	–	–	–	–	44
		480	207	842	57	

Where the above entities' financial year ends differ with that of Eskom, financial information has been obtained from published information or management accounts as appropriate.

1. Share of profit is after tax.
2. Year end is 31 December.
3. Year end is 30 June. The financial results are immaterial.
4. Arivia.kom (Pty) Limited was an associate for the period 1 April 2005 to 28 February 2006 and became a subsidiary on 1 March 2006.

		Group		Company	
		March 2006 Rm	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
9.	**INVESTMENT IN JOINT VENTURES**				
	Balance at beginning of the period	**125**	101	**95**	89
	Share of profit[1]	**14**	14	**–**	–
	Provision for impairment	**–**	44	**–**	44
	Other movements	**3**	(34)	**–**	(38)
	Balance at end of the period	**142**	125	**95**	95
	Directors' valuation	**142**	125	**125**	95

Goodwill of R10 million (2005: Rnil million) arising from investment in joint ventures at 31 March 2006 is disclosed in note 7 Intangible assets. This arose through the acquisition of Arivia.kom (Pty) Limited.

Investments in the company are accounted for at cost and the since acquisition share of profits are accounted for in the group.

The group's share of the results of its principal joint ventures, all of which are unlisted, and its share of the assets (including goodwill and liabilities) are as follows:

Name	Non-current assets Rm	Current assets Rm	Non-current liabilities Rm	Current liabilities Rm	Profit Rm	% interest held
Group						
2006						
Directly held						
Motraco – Mozambique Transmission Company SARL	**238**	**47**	**144**	**37**	**7**	**33**
Indirectly held						
Trans Africa Projects (Pty) Limited[2]	**1**	**24**	**–**	**16**	**4**	**50**
Trans Africa Projects Limited (Mauritius)[2]	**–**	**–**	**–**	**–**	**–**	**50**
Hem~Kom Live Line Engineering (Pty) Limited	**–**	**–**	**–**	**–**	**–**	**50**
EON~Solutions Africa (Pty) Limited	**–**	**6**	**–**	**4**	**3**	**50**
South Dunes Coal Terminal (Pty) Limited	**–**	**–**	**–**	**–**	**–**	**50**
	239	**77**	**144**	**57**	**14**	

Name	Non-current assets Rm	Current assets Rm	Non-current liabilities Rm	Current liabilities Rm	Profit Rm	% interest held
2005						
Directly held						
Motraco – Mozambique Transmission Company SARL	250	33	104	89	13	33
Indirectly held						
Trans Africa Projects (Pty) Limited[2]	1	13	–	11	1	50
Trans Africa Projects Limited (Mauritius)[2]	–	7	–	3	–	50
Hem~Kom Live Line Engineering (Pty) Limited	–	–	–	–	–	50
EON~Solutions Africa (Pty) Limited	–	–	–	–	–	50
South Dunes Coal Terminal (Pty) Limited	1	–	1	1	–	50
	252	53	105	104	14	

	Group		Company	
	March 2006 Rm	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
10. INVESTMENT IN SUBSIDIARIES				
Shares at cost			**184**	184
Indebtedness			**1 970**	1 985
Provision for impairment			**(140)**	(968)
Total interest in subsidiaries			**2 014**	1 201
Directors' valuation			**3 371**	2 673
Aggregate attributable after tax profits of subsidiary companies	**674**	458		

The board revisited the impairment provision in Eskom Enterprises (Pty) Limited. The provision was reduced by R828 million after taking into account the significant improvement in the profit for the period and the net asset value. The reduced impairment provision of R140 million has been based on the net asset value of the investment. For further information refer to page 81 in the directors' report.

1. Share of profits is after tax.
2. Year end is 31 December.

	Name	Main business	Country of incorporation	Issued/stated share capital R	Interest held %	Investment at cost Rm	Indebted-ness Rm	Provision for impairment Rm
10.	**INVESTMENT IN SUBSIDIARIES (continued)**							
	2006							
	Directly held							
	Eskom Finance Company (Pty) Limited	Finance (employee housing loans)	South Africa	**4 000**	**100**	**1**	**–**	**–**
	Escap Limited	Insurance	South Africa	**179 500 000**	**100**	**180**	**–**	**–**
	Gallium Insurance Company Limited[4]	Insurance	Isle of Man	**4 000 000**	**100**	**4**	**–**	**–**
	Eskom Enterprises (Pty) Limited	Non-regulated electricity supply industry activities and electricity supply and related services outside South Africa	South Africa	**100**	**100**	**1**	**1 970[2]**	**(140)**
	Indirectly held							
	Golang Coal (Pty) Limited	Coal exports	South Africa	**1 000**	**67**	**–**	**–**	**–**
	Eskom Enterprises Global West Africa[3,4]	Operations management	Nigeria	**100**	**100**	**–**	**–**	**–**
	Eskom Energie Manantali SA[3,4]	Energy supply	Mali	**1 000**	**100**	**–**	**–**	**–**
	Eskom Uganda Limited[3,4]	Operations management	Uganda	**100**	**100**	**–**	**–**	**–**
	Pebble Bed Modular Reactor (Pty) Limited	Reactor driven generation project	South Africa	**100**	**100**	**–**	**–**	**–**
	Technology Services International (Pty) Limited	Technical consulting	South Africa	**100**	**100**	**–**	**–**	**–**
	Rotek Industries (Pty) Limited	Maintenance and services	South Africa	**4 000**	**100**	**–**	**–**	**–**
	Rosherville Properties (Pty) Limited	Properties	South Africa	**1**	**100**	**–**	**–**	**–**
	Rosherville Vehicle Services (Pty) Limited	Transport	South Africa	**1**	**100**	**–**	**–**	**–**
	Roshcon (Pty) Limited	Construction	South Africa	**1**	**100**	**–**	**–**	**–**
	Airborne Laser Solutions (Pty) Limited	Aerial surveying technologies	South Africa	**1**	**100**	**–**	**–**	**–**
	Amazing Amanzi (Pty) Limited	Low-energy utility devices	South Africa	**100**	**70**	**–**	**–**	**–**
	Mountain Communications (Pty) Limited[4,5]	Telecommunication	Lesotho	**1 646**	**71**	**–**	**–**	**–**
	Lunsemfwa Hydro Power Company[3,4]	Operations and maintenance services	Zambia	**1 825**	**51**	**–**	**–**	**–**
	Arivia.kom (Pty) Limited[5]	Information technology services	South Africa	**1 709 616**	**59**	**–**	**–**	**–**
						184	**1 970**	**(140)**

The Natal Navigation Collieries and Estate Company Limited and Eskom Development Foundation have not been consolidated due to immaterial amounts.

Name	Main business	Country of incorporation	Issued/stated share capital R	Interest held %	Investment at cost Rm	Indebted-ness Rm	Provision for impairment Rm
2005							
Directly held							
Eskom Finance Company (Pty) Limited	Finance (employee housing loans)	South Africa	4 000	100	[1]	–	–
Escap Limited	Insurance	South Africa	179 500 000	100	180	–	–
Gallium Insurance Company Limited[4]	Insurance	Isle of Man	4 000 000	100	4	–	–
Eskom Enterprises (Pty) Limited	Non-regulated electricity supply industry activities and electricity supply and related services outside South Africa	South Africa	100	100	[1]	1 985	(968)
Indirectly held							
Golang Coal (Pty) Limited	Coal exports	South Africa	1 000	67	–	–	–
Eskom Enterprises Global West Africa[3, 4]	Operations management	Nigeria	100	100	–	–	–
Eskom Energie Manantali SA[3, 4]	Energy supply	Mali	1 000	100	–	–	–
Eskom Uganda Limited[3, 4]	Operations management	Uganda	100	100	–	–	–
Pebble Bed Modular Reactor (Pty) Limited	Reactor driven generation project	South Africa	100	100	–	–	–
Technology Services International (Pty) Limited	Technical consulting	South Africa	100	100	–	–	–
Rotek Industries (Pty) Limited	Maintenance and services	South Africa	4 000	100	–	–	–
Rosherville Properties (Pty) Limited	Properties	South Africa	[1]	100	–	–	–
Rosherville Vehicle Services (Pty) Limited	Transport	South Africa	[1]	100	–	–	–
Roshcon (Pty) Limited	Construction	South Africa	[1]	100	–	–	–
Airborne Laser Solutions (Pty) Limited	Aerial surveying technologies	South Africa	[1]	100	–	–	–
Amazing Amanzi (Pty) Limited	Low-energy utility devices	South Africa	100	70	–	–	–
Mountain Communications (Pty) Limited[4, 5]	Telecommunication	Lesotho	1 646	71	–	–	–
Lunsemfwa Hydro Power Company[3, 4]	Operations and maintenance services	Zambia	1 825	51	–	–	–
					184	1 985	(968)

1. Nominal value.
2. The equity loan to Eskom Enterprises of R1 970 million (2005: R1 985 million) has been subordinated to the extent of R834 million (2005: R1 094 million).
3. Year end is 31 December.
4. Issued/stated capital in foreign currency.
5. The subsidiaries of Mountain Communications (Pty) Limited and Arivia.kom (Pty) Limited have not been disclosed in this schedule.

		Company	
		March 2006 Rm	March 2005 Rm
10.	**INVESTMENT IN SUBSIDIARIES** (continued)		
10.1	**Loans to subsidiaries**		
	Eskom Finance Company (Pty) Limited	**2 273**	2 351
	Eskom Enterprises (Pty) Limited	**38**	–
		2 311	2 351
10.2	**Amounts owing to subsidiaries**		
	Eskom Finance Company (Pty) Limited	**(39)**	(38)
	Eskom Enterprises (Pty) Limited	**(522)**	(427)
		(561)	(465)

		Group		Company	
		March 2006 Rm	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
11.	**FUTURE FUEL SUPPLIES**				
	Coal	**2 613**	2 285	**2 613**	2 285
	Balance at beginning of the period	**2 285**	2 481	**2 285**	2 481
	Additions	**565**	181	**565**	181
	Amortised during the period	**(237)**	(377)	**(237)**	(377)
	Nuclear	**44**	186	**44**	186
	Balance at beginning of the period	**186**	300	**186**	300
	Additions	**279**	787	**279**	787
	Amortised during the period	**(3)**	(4)	**(3)**	(4)
	Transfer from/(to) equity	**5**	(276)	**5**	(276)
	Transfer to inventories	**(423)**	(621)	**(423)**	(621)
	Total	**2 657**	2 471	**2 657**	2 471
12.	**LOANS RECEIVABLE**				
	Secured by mortgages	**–**	2 442		
	Other	**–**	42		
		–	2 484		
	Provision for impairment losses	**–**	(20)		
		–	2 464		
	Maturity analysis				
	Less than three months	**–**	[1]		
	More than three months but less than one year	**–**	5		
	Due between one and five years	**–**	38		
	More than five years	**–**	2 441		
		–	2 484		

Loans receivable are included in Assets classified as held-for-sale in the balance sheet for the current period. Refer to note 18.

1. Nominal value.

		Group		Company	
		March 2006 Rm	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
13.	**DEFERRED INCOME TAX**				
	Deferred tax assets				
	Balance at beginning of the period	**139**	151	**–**	–
	Transfer from/(to) income statement	**66**	(12)	**–**	–
		205	139	**–**	–
	Recoverable within 12 months	**14**	70	**–**	–
	Recoverable after more than 12 months	**191**	69	**–**	–
		205	139	**–**	–
	Deferred tax liabilities				
	Balance at beginning of the period	**(6 908)**	(4 640)	**(6 569)**	(4 429)
	Prior year overprovision	**–**	5	**–**	–
	Restated balance	**(6 908)**	(4 635)	**(6 569)**	(4 429)
	Transfer from income statement	**(599)**	(2 119)	**(605)**	(1 988)
	Transfer (from)/to statement of changes in equity	**(32)**	(151)	**1**	(152)
	Discontinued operation	**(6)**	(1)	**–**	–
	Other	**55**	(2)	**–**	–
		(7 490)	(6 908)	**(7 173)**	(6 569)
	To be settled within 12 months	**(683)**	(877)	**(734)**	(607)
	To be settled after more than 12 months	**(6 807)**	(6 031)	**(6 439)**	(5 962)
		(7 490)	(6 908)	**(7 173)**	(6 569)
	Comprising:				
	Deferred tax assets				
	Property, plant and equipment	**13**	46	**–**	–
	Provisions	**69**	25	**–**	–
	Tax losses	**11**	11	**–**	–
	Other	**112**	57	**–**	–
		205	139	**–**	–
	Deferred tax liabilities				
	Property, plant and equipment	**10 599**	10 146	**10 558**	10 108
	Inventories	**251**	172	**251**	172
	Provisions	**(3 230)**	(3 067)	**(3 230)**	(3 067)
	Tax losses	**–**	(476)	**–**	(476)
	Other	**(130)**	133	**(406)**	(168)
		7 490	6 908	**7 173**	6 569
	Computed tax losses not used, but available for set-off against future taxable income	**–**	1 680	**–**	–
	Unused tax losses available for set-off against future income	**–**	75	**–**	–

		Group		Company	
		March 2006 Rm	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
14.	**FINANCIAL INSTRUMENTS**				
	Non-current assets				
14.1	**Available-for-sale financial assets**				
	Listed marketable securities				
	– Due between one to five years	**7 880**	2 380	**7 880**	2 380
	– More than five years	**1 629**	1 806	**1 629**	1 806
		9 509	4 186	**9 509**	4 186
14.2	**Financial assets at cost**				
14.2.1	Loans and receivables – unlisted securities	**3 014**	2 997	**3 014**	2 997
	– Due between one to five years	**943**	347	**943**	347
	– More than five years	**2 071**	2 650	**2 071**	2 650
	The fair value of loans and receivables for the group and the company amounted to R3 266 million at 31 March 2006 (2005: R3 200 million).				
14.2.2	Assets held-to-maturity – unlisted securities	**3 400**	100	**3 400**	100
	– Due between one to five years	**3 300**	–	**3 300**	–
	– More than five years	**100**	100	**100**	100
	The fair value of assets held-to-maturity for the group and the company amounted to R3 419 million at 31 March 2006 (2005: R102 million).				
	Total financial assets at cost	**6 414**	3 097	**6 414**	3 097
	Current assets				
14.3	**Available-for-sale financial assets**				
	Short-term unlisted securities	**500**	215	**500**	215
14.4	**Other financial assets at fair value through profit or loss**				
	Trading assets – unlisted securities of, or guaranteed by the South African government	**10 416**	7 656	**10 416**	7 656
	Listed shares held at market value	**133**	86	**–**	–
		10 549	7 742	**10 416**	7 656
	Trading assets for the group and company include securities that are repurchase agreements amounting to R4 400 million (2005: R3 900 million).				
14.5	**Financial assets at cost**				
14.5.1	Loans and receivables				
	– Short-term unlisted securities	**2 293**	1 538	**2 293**	2 319
	The fair value of loans and receivables for the group amounted to R2 314 million at 31 March 2006 (2005: R1 533 million). The fair value of loans and receivables for the company amounted to R2 314 million at 31 March 2006 (2005: R2 320 million).				
14.5.2	Assets held-to-maturity				
	– Short-term unlisted securities	**1 200**	5 586	**1 200**	5 283
	The fair value of assets held-to-maturity for the group amounted to R1 200 at 31 March 2006 (2005: R5 586 million). The fair value of assets held-to-maturity for the company amounted to R1 200 million at 31 March 2006 (2005: R5 283 million).				
	Total financial assets at cost	**3 493**	7 124	**3 493**	7 602

		Group		Company	
		March 2006 Rm	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
14.6	**Cash and cash equivalents**				
	Bank balances	**2 857**	3 011	**757**	581
	Unsettled deals	**104**	399	**104**	399
	Other financial assets at fair value through profit or loss	**615**	1 884	**615**	1 884
	Available-for-sale financial assets	**1 064**	960	**–**	–
	Financial assets at cost	**5 586**	2 000	**5 586**	2 000
		10 226	8 254	**7 062**	4 864
14.7	**Effective interest rates**				
	The average effective interest rates for financial assets were as follows:				
	Available-for-sale financial assets, %	**10,77**	10,81	**10,77**	10,81
	Other financial assets at fair value through profit or loss, %	**7,12**	7,37	**7,12**	7,37
	Financial assets at cost, %	**7,50**	7,96	**7,50**	7,96
	Non-current liabilities				
14.8	**Borrowings**				
14.8.1	Liabilities held at fair value – unsettled deals	**1 233**	1 233	**1 233**	1 233
14.8.2	Long-term securities issued at amortised cost	**23 022**	16 779	**22 797**	16 512
	The fair value of long-term securities issued at amortised cost for the group amounted to R29 175 million at 31 March 2006 (2005: R22 346 million). The fair value of long-term securities issued at amortised cost for the company amounted to R28 950 million at 31 March 2006 (2005: R22 079 million).				
	– Euro rand zero coupon bonds issued	**1 300**	1 149	**1 300**	1 149
	– Rand loans	**291**	323	**123**	121
	– Electrification participation notes	**1 471**	1 519	**1 471**	1 519
	– Promissory notes	**86**	74	**86**	74
	– Foreign loans – Euro	**3 797**	65	**3 740**	–
	– Eskom bonds issued	**16 077**	13 649	**16 077**	13 649
	Total borrowings	**24 255**	18 012	**24 030**	17 745
	Maturity analysis				
	Due between one to five years				
	– Liabilities held at fair value	**1 233**	1 233	**1 233**	1 233
	– Long-term securities issued at amortised cost	**10 822**	9 081	**10 597**	8 970
		12 055	10 314	**11 830**	10 203
	More than five years				
	– Long-term securities issued at amortised cost	**12 200**	7 698	**12 200**	7 542
		24 255	18 012	**24 030**	17 745

		Group		Company	
		March 2006 Rm	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
14.	**FINANCIAL INSTRUMENTS** (continued)				
	Current liabilities				
14.9	**Borrowings**				
14.9.1	Bank	**3 220**	2 730	**3 220**	2 730
	– Borrowings	**10**	7	**10**	7
	– Unsettled deals	**3 210**	2 723	**3 210**	2 723
14.9.2	Short-term liabilities held at amortised cost	**2 208**	3 586	**2 189**	3 572
	The fair value of short-term liabilities held at amortised cost for the group amounted to R2 227 million at 31 March 2006 (2005: R3 585 million). The fair value of short-term liabilities held at amortised cost for the company amounted to R2 188 million at 31 March 2006 (2005: R3 571 million).				
	Commercial paper bills issued	**2 063**	1 812	**2 063**	1 812
	Rand loans	**8**	4	**–**	–
	Foreign loans	**43**	1 716	**32**	1 706
	– Euro	**33**	1 694	**22**	1 684
	– GBP	**10**	22	**10**	22
	Eskom bonds issued	**94**	45	**94**	45
	Other	**–**	9	**–**	9
	Total borrowings	**5 428**	6 316	**5 409**	6 302
14.10	**Other financial liabilities at fair value through profit or loss**				
	Liabilities held at fair value				
	– Commercial paper issued in trading portfolios	**8 586**	4 114	**8 953**	4 429
	– Eskom bonds issued in trading portfolios	**2 415**	778	**2 415**	778
	– Term borrowings (related parties)	**–**	15	**–**	15
		11 001	4 907	**11 368**	5 222
14.11	**Effective interest rates**				
	The average effective interest rates for financial liabilities are as follows:				
	Liabilities at cost, %				
	– Euro	**4,83**	6,11	**4,83**	6,11
	– GBP	**8,52**	8,52	**8,52**	8,52
	– Rand	**13,06**	15,51	**13,06**	15,51
	Other financial liabilities at fair value through profit or loss, %				
	– Rand	**7,02**	7,52	**7,02**	7,52

	2006 Group				2005 Group			
	Assets Rm	**Liabilities Rm**	**Fair value of assets Rm**	**Notional amount Rm**	Assets Rm	Liabilities Rm	Fair value of assets Rm	Notional amount Rm
14.12 Derivative financial assets and liabilities								
Derivatives held for trading	**1 036**	**(1 435)**	**(399)**	**22 800**	1 104	(1 329)	(225)	15 310
Foreign exchange derivatives	**181**	**(285)**	**(104)**	**1 961**	507	(483)	24	1 422
– Swaps	**2**	**(14)**	**(12)**	**5**	75	(51)	24	210
– Foreign exchange contracts	**179**	**(271)**	**(92)**	**1 956**	432	(432)	–	1 212
Interest rate derivatives	**834**	**(925)**	**(91)**	**18 978**	544	(693)	(149)	15 164
– Swaps	**832**	**(925)**	**(93)**	**16 090**	525	(667)	(142)	16 058
– Options	**–**	**–**	**–**	**–**	17	(25)	(8)	(160)
– Forwards	**2**	**–**	**2**	**2 888**	2	(1)	1	(734)
Commodity derivatives	**21**	**(225)**	**(204)**	**1 861**	53	(153)	(100)	(1 276)
– Caps and floors	**21**	**(225)**	**(204)**	**1 861**	8	(108)	(100)	(1 276)
– Gold swap	**–**	**–**	**–**	**–**	45	(45)	–	–
Derivatives held for hedging	**14**	**(209)**	**(195)**	**6 342**	17	(58)	(41)	3 580
Derivatives designated as fair value hedges	**7**	**(13)**	**(6)**	**17**	3	(55)	(52)	1 717
Derivatives designated as cash flow hedges	**7**	**(196)**	**(189)**	**6 325**	14	(3)	11	1 863
Embedded derivatives	**6 419**	**(5 101)**	**1 318**		5 081	(5 085)	(4)	
Commodity and/or foreign currency	**6 388**	**(2 348)**	**4 040**		5 049	(1 345)	3 704	
Foreign currency or interest rate	**3**	**–**	**3**		5	(1 379)	(1 374)	
Production price indices and foreign currency	**28**	**(2 753)**	**(2 725)**		27	(2 361)	(2 334)	
Total derivatives	**7 469**	**(6 745)**	**724**		6 202	(6 472)	(270)	

Disclosed as follows:	**Assets**	**Liabilities**	Assets	Liabilities
Current				
– Due within one year	**2 092**	**(1 992)**	1 914	(1 613)
Non-current				
– Due between one to five years	**2 892**	**(2 079)**	2 084	(1 435)
– More than five years	**2 485**	**(2 674)**	2 204	(3 424)
	5 377	**(4 753)**	4 288	(4 859)

	2006 Company				2005 Company			
	Assets Rm	**Liabilities Rm**	**Fair value of assets Rm**	**Notional amount Rm**	Assets Rm	Liabilities Rm	Fair value of assets Rm	Notional amount Rm
14. FINANCIAL INSTRUMENTS (continued)								
14.12 Derivative financial assets and liabilities (continued)								
Derivatives held for trading	**1 036**	**(1 435)**	**(399)**	**22 800**	1 104	(1 329)	(225)	15 310
Foreign exchange derivatives	**181**	**(285)**	**(104)**	**1 961**	507	(483)	24	1 422
– Swaps	**2**	**(14)**	**(12)**	**5**	75	(51)	24	210
– Foreign exchange contracts	**179**	**(271)**	**(92)**	**1 956**	432	(432)	–	1 212
Interest rate derivatives	**834**	**(925)**	**(91)**	**18 978**	544	(693)	(149)	15 164
– Swaps	**832**	**(925)**	**(93)**	**16 090**	525	(667)	(142)	16 058
– Options	**–**	**–**	**–**	**–**	17	(25)	(8)	(160)
– Forwards	**2**	**–**	**2**	**2 888**	2	(1)	1	(734)
Commodity derivatives	**21**	**(225)**	**(204)**	**1 861**	53	(153)	(100)	(1 276)
– Caps and floors	**21**	**(225)**	**(204)**	**1 861**	8	(108)	(100)	(1 276)
– Gold swap	**–**	**–**	**–**	**–**	45	(45)	–	–
Derivatives held for hedging	**14**	**(209)**	**(195)**	**6 342**	17	(58)	(41)	3 580
Derivatives designated as fair value hedges	**7**	**(13)**	**(6)**	**17**	3	(55)	(52)	1 717
Derivatives designated as cash flow hedges	**7**	**(196)**	**(189)**	**6 325**	14	(3)	11	1 863
Embedded derivatives	**6 417**	**(4 927)**	**1 490**		5 076	(5 004)	72	
Commodity and/or foreign currency	**6 388**	**(2 348)**	**4 040**		5 049	(1 345)	3 704	
Foreign currency or interest rate	**–**	**–**	**–**		–	(1 379)	(1 379)	
Production price indices and foreign currency	**29**	**(2 579)**	**(2 550)**		27	(2 280)	(2 253)	
Total derivatives	**7 467**	**(6 571)**	**896**		6 197	(6 391)	(194)	

Disclosed as follows:	**Assets**	**Liabilities**	Assets	Liabilities
Current				
– Due within one year	**2 091**	**(1 948)**	1 913	(1 588)
Non-current				
– Due between one to five years	**2 891**	**(1 949)**	2 081	(1 382)
– More than five years	**2 485**	**(2 674)**	2 203	(3 421)
	5 376	**(4 623)**	4 284	(4 803)

14.13 Derivative instruments

Fair values

The fair value of a derivative financial instrument represents the value of the cash flows (either negative or positive), which would have occurred if the rights and obligations arising from that instrument were closed out in the market place at year end.

Notional amount

The gross notional amount represents the sum of the absolute value of all bought and sold contracts. The amount cannot be used to assess the market risk associated with the position and should be used only as a means of assessing Eskom's participation in derivative contracts.

Use and measurement of derivative instruments

In the normal course of business, Eskom enters into a variety of derivative instruments to hedge foreign exchange and interest rate exposure and to a lesser degree for trading purposes. However, as Eskom does not apply hedge accounting on many of the derivative instruments used to economically hedge interest rate and foreign currency exposure, these are then classified as derivatives held-for-trading purposes in accordance with the requirement of IAS 39. Derivatives used by Eskom in both hedging and trading activities include swaps, options and forwards.

The risks associated with the derivative instruments are actively monitored together with the underlying instrument and across a range of various instruments on a pool basis.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. The major types of swap transactions undertaken by Eskom are as follows:

- interest rate swap contracts entail a contractual exchange of fixed and floating interest payments in a single currency, based on a notional amount and an interest rate reference
- cross-currency interest rate swaps involve the exchange on interest payments based on two currency principal balances and interest reference rates and generally include the exchange of principal at the start and/or end of the contract

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy or sell, a specified amount of a financial instrument or commodity at a predetermined price. The seller receives a premium from the purchaser for this right. Options may be traded over the counter or on a regulated exchange.

Forwards and futures are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified rate. Forward contracts are contracted over the counter to suit the relevant counterparty, whereas futures are standardised contracts transacted on regulated exchanges.

14.14 Embedded derivatives

Background

Eskom has 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 (mainly USD or pound sterling) or foreign production price indices that give rise to embedded derivatives as a result of the different characteristics of these contracts and the host. Subsidiaries of Eskom Enterprises also entered into sales contracts where the revenue is based on the USD, foreign production price indices and foreign interest rates that give rise to embedded derivatives. The contractual periods vary up to 25 years.

The valuations have been based on the assumptions stated further in note 14.14. The electricity price used in determining the fair value of the host contract is based on a recent arm's length transaction and the average change in electricity prices. The host contracts were fair valued by taking into account the ruling prices and the expected forward electricity curve. The electricity forward curve is based on a price increase of 5,10%, 5,90% and 6,20% for the following three years and the consumer price index plus 2% for subsequent years.

The net impact on the income statement for the change in the value of the embedded derivatives of the company is a fair value gain of R1 418 million (2005: R72 million) and a fair value gain of R1 322 million (2005: fair value loss of R4 million) for the group. However, the impact on the balance sheet and sensitivity to the assumptions is significant. The group amount for embedded derivative assets is R6 419 million (2005: R5 081 million) and embedded derivative liabilities is R5 101 million (2005: R5 085 million).

14. FINANCIAL INSTRUMENTS (continued)

14.14 Embedded derivatives (continued)

Assumptions

The spot electricity price is based on the latest announced price in terms of the tariff specified in the electricity sales contract. The forward electricity price is based on the spot price of electricity, the announced increases for the next three years and the change in the local consumer price index (CPI) plus 2% thereafter. The board believes that an electricity tariff increase of CPI plus 2% (on average) is required over the long term to ensure that the sustainability of the electricity business is maintained when the new build programme is taken into account.

Forecasted sales volumes are based on the most likely future sales volumes which have been back-tested against historic volumes.

At inception a margin-based approach was used to determine the spot and forward consumer price indices.

Market information was not available for every input for the whole period of the contracts. Included in the group results is an embedded derivative for one of the subsidiaries in Africa. Due to the absence of observable forward interest rates in excess of five years, the embedded derivative was modelled on a five-year (2005: two-year) rolling basis, ie only cash flows for the next five years were modelled at each valuation date. The valuation of this embedded derivative is a liability of R107 million at 31 March 2006 (2005: R15 million). The valuation of this embedded derivative will be extended to the full duration of the contract when observable data beyond five years becomes available.

The embedded derivatives have been divided into three categories:

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

Management of risks associated to contracts containing embedded derivatives

The risks contained in the contracts containing embedded derivatives are addressed as part of the risk management process.

The following risks are covered:

- credit risk – the risk from default of a counterparty
- market risk – the adverse move in the market variables such as commodities, currency exchange and interest rates
- compliance risk – the non-compliance with the requirements of the South African Reserve Bank

Electricity contracts that contain embedded derivatives are considered for hedging. It is anticipated that hedging in respect of certain commodity exposures will continue to be executed on a short-term basis. The Reserve Bank currently allows Eskom to hedge any foreign exchange risk to a maximum of three years with a foreign counterparty and to a maximum of five years with a local counterparty.

Valuation assumptions

The following valuation assumptions are regarded as the best estimates by the board of directors:

			Years ending 31 March			
Input	Unit	**2006**	2007[1]	2008[1]	2009[1]	2010[1]
Aluminium	USD/tons	**2 512**	2 436	2 326	2 252	2 198
Rand/USD	USD per rand	**0,16**	–	–	–	–
Rand interest rates	Continuous actual/365 days, %	**6,70**	7,09	7,24	7,36	7,44
Dollar interest rates	Continuous actual/360 days, %	**5,06**	5,36	5,35	5,34	5,36
United States' production price indices	Year on year, %	**10,80**	2,90	1,50	2,29	2,29
South African consumer price indices	Year on year, %	**3,90**	6,08	5,02	5,04	5,07

Sensitivity analysis

The approximate change in the value of the embedded derivatives, if one of the inputs is changed, is disclosed in note 4.1 (a) under Critical accounting estimates and assumptions.

1. Forward curve based on financial years.

		Group		Company	
	Note	**March 2006 Rm**	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
15. TRADE AND OTHER RECEIVABLES					
Trade receivables		**4 364**	4 056	**3 529**	3 294
Receivables from subsidiaries		**–**	–	**478**	453
Receivables from other related parties		**492**	657	**455**	564
Other receivables		**1 191**	1 280	**1 045**	1 343
Prepayments		**320**	110	**249**	110
Interest receivable		**449**	410	**434**	442
		6 816	6 513	**6 190**	6 206
Provision for impairment of trade and other receivables		**(1 458)**	(1 362)	**(1 306)**	(1 218)
		5 358	5 151	**4 884**	4 988
Non-current portion		**(43)**	(47)	**(43)**	(47)
– Related parties		**–**	–	**–**	–
– Other receivables		**(43)**	(47)	**(43)**	(47)
Current portion		**5 315**	5 104	**4 841**	4 941
All non-current receivables are due within six years from the balance sheet date.					
16. INVENTORIES					
Coal		**983**	886	**983**	886
Nuclear fuel		**995**	828	**995**	828
Maintenance spares and consumables		**1 725**	1 302	**1 303**	1 092
		3 703	3 016	**3 281**	2 806
Write-down of inventories	28	**(39)**	(234)	**(39)**	(40)
Reversal of write-down of inventories	28	**17**	86	**17**	34
		3 681	2 868	**3 259**	2 800
The cost of inventories recognised as an expense is disclosed in the income statement in the following categories:					
Changes in inventories of finished goods and work in progress		**813**	280	**459**	393
Raw materials and consumables used		**15 705**	15 600	**14 189**	14 588
The group reversed R17 million of a previous inventory write-down. The amount reversed has been included in Net impairment expense in the income statement.					
17. SHARE CAPITAL					
Authorised					
1 000 ordinary shares of R1 each		**1**	1	**1**	1
Issued					
One ordinary share of R1		**1**	1	**1**	1
In terms of the Memorandum and articles of association the unissued share capital is under the control of the government of the Republic of South Africa, represented by the Department of Public Enterprises, as the sole shareholder.					

1. Nominal value

	Note	Group 12 months 2006 Rm	15 months 2005 Rm
18. ASSETS AND LIABILITIES CLASSIFIED AS HELD-FOR-SALE			
The assets and liabilities of Eskom Finance Company (Pty) Limited have been presented as held-for-sale following the approval of the Eskom board of directors on 16 September 2004 to sell Eskom Finance Company (Pty) Limited. The transaction is expected to be completed by 31 March 2007.			
An analysis of the result of discontinued operations and the result recognised on the remeasurement of assets is as follows:			
Income statement			
Revenue		**4**	4
Other net gains		**247**	412
Employee benefits expense		**(21)**	(25)
Depreciation and amortisation expense		**(1)**	(3)
Other expenses		**(40)**	(34)
Interest expense		**(164)**	(299)
Profit before tax		**25**	55
Income tax expense		**(11)**	(17)
Profit for the period from discontinued operations[1]		**14**	38
Cash flow statement			
Operating cash flows		**(11)**	
Investing cash flows		**85**	
Financing cash flows		**(78)**	
Total cash flows		**(4)**	

	Note	Group March 2006 Rm
Balance sheet		
Assets		
Non-current assets		**2 388**
Loans receivable	18.1	**2 383**
Deferred tax asset		**5**
Current assets		**14**
Trade and other receivables		**3**
Cash and cash equivalents		**3**
Financial assets		**39**
Assets classified as held-for-sale		**8**
Less: intercompany eliminations		**(39)**
Total assets		**2 402**
Liabilities		
Non-current liabilities		**–**
Borrowings		**2 273**
Less: intercompany eliminations		**(2 273)**
Current liabilities		**24**
Trade and other payables		**12**
Borrowings		**–**
Provisions		**18**
Less: intercompany eliminations		**(6)**
Total liabilities		**24**

1. The profit for the period from discontinued operations of R14 million (2005: R38 million) excludes the elimination of intercompany transactions as all intercompany transactions that relate to Eskom Finance Company (Pty) Limited have been eliminated in the respective lines under continuing operations in the consolidated income statement.

		Group March 2006 Rm
18.1	**Loans receivable**	
	Maturity analysis disclosed as follows:	
	Less than three months	**1**
	More than three months but less than one year	**14**
	Due between one and five years	**55**
	More than five years	**2 328**
		2 398
	Less: provision for impairment losses	**(15)**
		2 383

		Note	Group March 2006 Rm	Group March 2005 Rm	Company March 2006 Rm	Company March 2005 Rm
19.	**DEFERRED INCOME**					
	Crossborder lease		**97**	125	**97**	125
	Government grant		**2 630**	2 243	**2 630**	2 243
	Capital contributions received from customers		**471**	255	**471**	255
			3 198	2 623	**3 198**	2 623
	Reconciliation of movement					
	Balance at beginning of the period		**2 623**	1 713	**2 623**	1 713
	Additions during the period		**766**	1 107	**766**	1 107
	Income recognised during the period		**(191)**	(197)	**(191)**	(197)
	Balance at end of the period		**3 198**	2 623	**3 198**	2 623
	Less: current portion	22	**(155)**	(191)	**(155)**	(191)
	Non-current portion		**3 043**	2 432	**3 043**	2 432
	The total charge for the group and company of R191 million (2005: R197 million) is disclosed in the income statement in the following categories:					
	Depreciation and amortisation expense	27	**(152)**	(197)	**(152)**	(197)
	Other net gains	24	**(28)**	–	**(28)**	–
	Other revenue		**(11)**	–	**(11)**	–
			(191)	(197)	**(191)**	(197)

Cross-border lease

The deferred income arises from benefits realised through cross-border lease transactions over certain generating plant (refer note 6). The present value of the lease and leaseback commitments was settled in full on commencement of the transactions and a profit resulted.

Government grant

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

Capital contributions received from customers

Contributions are paid in advance by electricity customers for capital expenditure. Amounts relate to capital expenditure paid in advance by customers for the construction of electricity network assets.

	Note	Group March 2006 Rm	Group March 2005 Rm	Company March 2006 Rm	Company March 2005 Rm
20. RETIREMENT BENEFIT OBLIGATIONS					
Balance sheet obligation for:					
Post-retirement medical benefits	20.2	**4 825**	4 962	**4 716**	4 797
Gratuities	20.3	**23**	18	**2**	3
		4 848	4 980	**4 718**	4 800
Less: current portion		**(140)**	(166)	**(136)**	(160)
Non-current portion		**4 708**	4 814	**4 582**	4 640
Net income statement charge for:					
Pension benefits	20.1	**580**	675	**577**	638
Post-retirement medical benefits	20.2	**66**	781	**53**	758
Gratuities	20.3	**5**	19	**(1)**	6
		651	1 475	**629**	1 402
20.1 Pension benefits					
The amounts recognised in the income statement are as follows:					
Contributions		**580**	675	**577**	638

The total charge for the group of R580 million (2005: R675 million) and for the company of R577 million (2005: R638 million) is included in employee benefits in the income statement.

The net benefit liability or asset at the balance sheet date is not accounted for in the financial statements. The rules of the Eskom Pension and Provident Fund 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 Eskom Pension and Provident Fund is registered in terms of the Pension Funds Act, 1956 as amended. All employees are members of the fund. Contributions comprise 20,8% of pensionable emoluments of which members pay 7,3%. The assets of the fund are held separately from those of the group in respect of funds under the control of the trustees.

The fund was actuarially valued on the solvency basis on 31 March 2006 (previous valuation at 31 March 2005).

The actuarial present value of promised retirement benefits at 31 March 2006 was R38 584 million (2005: R28 794 million), while the fair value of the fund's assets was R39 982 million (2005: R30 608 million).

	Group March 2006	Group March 2005	Company March 2006	Company March 2005
The principal actuarial assumptions used, were as follows:				
Long-term interest rate before tax, %	**8,1**	9,0	**8,1**	9,0
Future salary increases, %	**4,1**	5,0	**4,1**	5,0
Future pension increases, %	**4,0**	5,0	**4,0**	5,0
Pensioner mortality	**PA (90) adjusted**	PA (90) adjusted	**PA (90) adjusted**	PA (90) adjusted
In-service member mortality	**PA (90) adjusted less 1 year**	PA (90) adjusted less 1 year	**PA (90) adjusted less 1 year**	PA (90) adjusted less 1 year

	Note	Group March 2006 Rm	Group March 2005 Rm	Company March 2006 Rm	Company March 2005 Rm
20.2 Post-retirement medical benefits					
The group has anticipated expenditure in terms of continued contributions to medical aid subscriptions in respect of employees that retire. The estimated present value of the anticipated expenditure for both in-service and retired members was calculated by independent actuaries at 31 March 2006. An independent actuarial valuation is performed annually.					
Present value of unfunded obligations		**4 825**	4 962	**4 716**	4 797
Unrecognised actuarial losses		**–**	–	**–**	–
Liability in the balance sheet		**4 825**	4 962	**4 716**	4 797
The amounts recognised in the income statement are as follows:					
Current service cost		**172**	302	**172**	292
Interest cost		**435**	505	**422**	492
Net actuarial gain recognised for the period		**(541)**	(26)	**(541)**	(26)
		66	781	**53**	758
With effect from 1 January 2006, the medical aid to which most of the Eskom employees belong, implemented a substantial restructuring of their benefits. This resulted in a significant actuarial gain for the year.					
The total charge for the group of R66 million (2005: R781 million) and for the company of R53 million (2005: R758 million) is disclosed in the income statement in the following categories:					
Employee benefit expense	26	**(369)**	276	**(369)**	266
Interest expense	30	**435**	505	**422**	492
		66	781	**53**	758
The principal actuarial assumptions used for actuarial valuation purposes were:					
Long-term interest rate before tax, %		**7,80**	8,80	**7,80**	8,80
Long-term medical aid inflation, %		**6,50**	6,80	**6,50**	6,80
Movement in the liability recognised in the balance sheet					
Balance at beginning of the period		**4 962**	4 357	**4 797**	4 215
Total expense charged in the income statement		**66**	781	**53**	758
Contributions paid		**(203)**	(176)	**(134)**	(176)
Balance at end of the period		**4 825**	4 962	**4 716**	4 797
Refer to note 4.1(b) for the sensitivity analysis.					

	Note	Group March 2006 Rm	Group March 2005 Rm	Company March 2006 Rm	Company March 2005 Rm
20. RETIREMENT BENEFIT OBLIGATIONS (continued)					
20.3 Gratuities					
The estimated cost of gratuities was accounted for over the potential working life of the employees based on the assessment by independent actuaries, which took into account the probability of employees remaining in Eskom's employ. During 2004, the liability was paid out to employees.					
The amounts recognised in the income statement are as follows:					
Current service cost		**4**	10	**(1)**	6
Interest cost		**1**	9	**–**	–
		5	19	**(1)**	6
The total charge/(recovery) for the group of R5 million (2005: R19 million) and for the company of R(1) million (2005: R6 million) is disclosed in the income statement in the following categories:					
Employee benefit expense	26	**4**	10	**(1)**	6
Interest expense	30	**1**	9	**–**	–
		5	19	**(1)**	6
Movement in the liability recognised in the balance sheet					
Balance at beginning of the period		**18**	1 341	**3**	1 236
Total expense charged to the income statement		**5**	19	**(1)**	6
Payments		**–**	(1 342)	**–**	(1 239)
Balance at end of the period		**23**	18	**2**	3

21. PROVISIONS

Group

Reconciliation of movements	Power station-related environmental restoration Rm	Mine-related closure, pollution control and rehabilitation Rm	Leave pay Rm	Annual and performance bonus Rm	Other Rm	Total Rm
Balance at 1 April 2005	3 316	786	549	1 227	459	6 337
Provision for the period	781	135	1 527	1 748	892	5 083
Interest cost	302	51	–	–	–	353
Write back of provision	(476)	(4)	(1 272)	(1 007)	(692)	(3 451)
Expenditure incurred	(16)	–	(333)	(1 105)	(208)	(1 662)
Balance at 31 March 2006	**3 907**	**968**	**471**	**863**	**451**	**6 660**
Less: short-term portion	**(11)**	**–**	**(46)**	**(863)**	**(377)**	**(1 297)**
Non-current portion	**3 896**	**968**	**425**	**–**	**74**	**5 363**

Reconciliation of movements	Power station-related environmental restoration Rm	Mine-related closure, pollution control and rehabilitation Rm	Leave pay Rm	Annual and performance bonus Rm	Other Rm	Total Rm
Company						
Balance at 1 April 2005	3 316	786	498	1 165	173	5 938
Provision for the period	781	135	1 527	1 698	833	4 974
Interest cost	302	51	–	–	–	353
Write back of provision	(476)	(4)	(1 272)	(1 007)	(649)	(3 408)
Expenditure incurred	(16)	–	(330)	(1 041)	(208)	(1 595)
Balance at 31 March 2006	**3 907**	**968**	**423**	**815**	**149**	**6 262**
Less: short-term portion	**(11)**	**–**	**–**	**(815)**	**(141)**	**(967)**
Non-current portion	**3 896**	**968**	**423**	**–**	**8**	**5 295**

Power station-related environmental restoration

Provision is made for the estimated decommissioning cost of nuclear and other generation plant and for the management of nuclear fuel assemblies and radioactive waste.

The payment dates of total expected future decommissioning costs are uncertain, but are currently expected to be between 2021 and 2050.

The provisions for the estimated decommissioning and waste management cost of nuclear plant have been discounted at 4,2% (2005: 5%).

The payment dates of total expected future spent fuel costs are uncertain, but the majority of the payments are currently expected to be made between 2031 and 2080. The provision for the estimated spent fuel cost has been discounted at 4,2% (2005: 5%). Refer to note 4.1(d) for the sensitivity analysis.

Mine-related closure, pollution control and rehabilitation of coal mines

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

The payment dates of total expected closure, pollution control and rehabilitation costs are uncertain, but are currently expected to be between 2006 and 2067. The provision has been discounted at 4,2% (2005: 5%).

Leave provision

The leave provision includes occasional leave and is valued at remuneration rate. The remuneration rate is based on current salaries and takes into account the probability of leave sold and other factors. The provision has been discounted at 7,8%. Refer to note 4.1(c) for the sensitivity analysis.

Annual and performance bonus

The annual bonus is paid in November and equals one month's salary. The performance bonus is based on the performance of the company and employees.

		Group		Company	
	Note	**March 2006 Rm**	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
22. TRADE AND OTHER PAYABLES					
Trade and other payables		**4 423**	3 190	**3 123**	2 159
Payables to subsidiaries		**–**	–	**570**	772
Payables to other related parties		**707**	546	**707**	514
Accruals		**1 352**	1 365	**1 100**	1 229
Income received in advance		**295**	302	**–**	–
Deferred income	19	**155**	191	**155**	191
Interest accrued		**520**	568	**526**	572
		7 452	6 162	**6 181**	5 437

		Group		Company	
		12 months March 2006	15 months March 2005	**12 months March 2006**	15 months March 2005
	Note	**Rm**	Rm	**Rm**	Rm
23. REVENUE					
Electricity revenue		**35 513**	41 223	**35 513**	41 223
Other revenue		**1 094**	1 984	**45**	164
		36 607	43 207	**35 558**	41 387
24. OTHER NET GAINS					
Insurance proceeds		**–**	6	**519**	404
Interest income[1]		**2 951**	3 936	**2 939**	4 091
– interest and discount amortised on financial market investments		**2 923**	3 892	**2 752**	3 821
– net income from treasury trading		**28**	44	**28**	44
– interest received from subsidiary and associate companies		**–**	–	**159**	226
Fair value gain/(loss) on financial instruments		**1 134**	(99)	**1 211**	(26)
– fair value gains on financial instruments		**1 448**	204	**1 422**	159
– fair value losses on financial instruments		**(314)**	(303)	**(211)**	(185)
Management fee income		**–**	–	**451**	26
Deferred income recognised	19	**28**	–	**28**	–
Net surplus on derecognition of property, plant and equipment		**40**	233	**75**	230
Net profit on disposal of shares		**23**	–	**–**	–
Operating lease income		**56**	65	**56**	65
Dividend income		**4**	3	**–**	–
		4 236	4 144	**5 279**	4 790
25. WORK PERFORMED BY THE ENTITY AND CAPITALISED					
Materials		**1 350**	1 387	**1 348**	1 358
Labour		**189**	409	**175**	178
Transport		**6**	5	**4**	5
External services		**4 597**	4 678	**4 539**	4 669
Internal charges		**2 943**	1 835	**2 943**	1 789
Overheads		**234**	322	**234**	322
Other expenses		**251**	781	**250**	775
Interest	30	**85**	68	**84**	68
Primary energy		**27**	–	**27**	–
Internal revenue		**(32)**	–	**(32)**	–
		9 650	9 485	**9 572**	9 164
26. EMPLOYEE BENEFIT EXPENSE					
Salaries and other staff costs		**7 514**	9 317	**6 902**	7 895
Pension benefits	20.1	**580**	675	**577**	638
Post-retirement medical aid benefits	20.2	**(369)**	276	**(369)**	266
Gratuities	20.3	**4**	10	**(1)**	6
Training and development		**178**	219	**176**	212
		7 907	10 497	**7 285**	9 017
Number of employees		**31 458**	31 475	**29 697**	29 845

1. Interest income includes preference dividends of R164 million (2005: R221 million) for both the group and company.

		Group		Company	
		12 months March 2006	15 months March 2005	**12 months March 2006**	15 months March 2005
	Note	**Rm**	Rm	**Rm**	Rm
27. DEPRECIATION AND AMORTISATION EXPENSE					
Depreciation of property, plant and equipment	6	**4 553**	5 096	**4 278**	4 828
Amortisation of intangible assets	7	**262**	252	**260**	249
Amortisation of future fuel (coal and nuclear fuel)	11	**240**	381	**240**	381
Deferred income (government grant on electrification) recognised	19	**(152)**	(197)	**(152)**	(197)
		4 903	5 532	**4 626**	5 261
28. NET IMPAIRMENT LOSS REVERSED/ (IMPAIRMENT LOSS)					
Impairment of property, plant and equipment	6	**8**	61	**8**	–
Reversal of impairment of property, plant and equipment	6	**(42)**	(11)	**(15)**	(11)
Impairment of intangible assets		**–**	22	**–**	–
Impairment of investment in subsidiaries		**–**	68	**–**	165
Reversal of impairment of investment in subsidiaries		**–**	–	**(828)**	–
Impairment of investment in associates		**1**	14	**–**	–
Reversal of impairment of investment in associates	8	**(84)**	–	**(84)**	–
Reversal of impairment of investment in joint ventures		**–**	(44)	**–**	(44)
Reversal of write-down of inventory	16	**(17)**	(86)	**(17)**	(34)
Write-down of inventory	16	**39**	234	**39**	40
Reversal of impairment of housing loans		**(1)**	–	**(1)**	–
		(96)	258	**(898)**	116
29. OTHER EXPENSES					
Repairs and maintenance		**3 712**	3 533	**3 674**	3 499
Transport		**264**	750	**240**	679
Managerial, technical and other fees		**356**	537	**356**	533
Research and development		**174**	263	**174**	263
Operating lease expense		**99**	69	**79**	44
Directors' emoluments (refer to page 95)		**12**	14	**12**	14
Auditors' remuneration		**33**	27	**22**	18
Impairment of trade and other receivables		**191**	134	**174**	93
Other expenses		**6 650**	6 843	**8 935**	9 318
		11 491	12 170	**13 666**	14 461
30. INTEREST EXPENSE					
Interest and discount amortised		**3 899**	4 551	**4 097**	4 887
– locally issued bonds		**2 252**	2 727	**2 252**	2 727
– other local debt		**1 061**	1 103	**1 259**	1 444
– foreign debt		**586**	721	**586**	716
Other net financial profits and losses					
– exchange differences		**53**	14	**53**	14
Amounts capitalised	25	**(85)**	(68)	**(84)**	(68)
Unwinding of discount on provisions		**789**	950	**775**	928
– post-retirement medical benefit	20.2	**435**	505	**422**	492
– gratuities	20.3	**1**	9	**–**	–
– provisions	21	**353**	436	**353**	436
		4 656	5 447	**4 841**	5 761

		Group		Company	
		12 months March 2006 Rm	15 months March 2005 Rm	**12 months March 2006 Rm**	15 months March 2005 Rm
31.	**INCOME TAX EXPENSE**				
	Current tax	**1 449**	137	**1 317**	–
	Current period	**1 447**	131	**1 317**	–
	Underprovision in prior years	**2**	6	**–**	–
	Secondary tax on companies	**173**	45	**173**	45
	Deferred tax	**532**	2 131	**605**	1 988
	Originating and reversal of temporary differences for the current period	**571**	2 417	**639**	2 276
	Change in tax rate	**–**	(217)	**–**	(216)
	Overprovision in prior years	**(39)**	(69)	**(34)**	(72)
	Total income tax expense in income statement	**2 154**	2 313	**2 095**	2 033
	Computed tax losses	**–**	1 680	**–**	1 643
	Unused tax losses available for set-off against future income	**–**	75	**–**	–
	Reconciliation of effective tax rate	**%**	%	**%**	%
	Taxation as a percentage of profit before tax	**31,80**	30,09	**29,27**	31,10
	Taxation effect of				
	Exempt income	**4,88**	3,42	**4,13**	3,16
	Expenses not deductible for tax purposes	**(6,31)**	(7,06)	**(2,17)**	(7,40)
	Other	**0,05**	0,15	**0,04**	0,02
	Controlled foreign operations income	**0,75**	0,05	**(0,32)**	(0,60)
	Secondary tax on companies	**(2,55)**	(0,60)	**(2,42)**	(0,70)
	Foreign tax rate differential	**(0,20)**	(0,06)	**–**	–
	Used tax losses	**–**	0,29	**–**	–
	Change in tax rate	**–**	2,82	**–**	3,31
	Overprovision in prior years	**0,58**	0,90	**0,47**	1,11
	Standard tax rate	**29**	30	**29**	30
	Deferred tax rate	**29**	29	**29**	29

		Group		Company	
		12 months March 2006 Rm	15 months March 2005 Rm	**12 months March 2006 Rm**	15 months March 2005 Rm
32.	**CASH GENERATED FROM OPERATIONS**				
	Profit before taxation	**6 775**	7 686	**7 159**	6 530
	Adjustments for:	**5 480**	7 097	**4 622**	7 073
	Depreciation and amortisation expense	**4 903**	5 532	**4 626**	5 261
	Net impairment losses (reversed)/impairment losses	**(96)**	258	**(898)**	116
	Net surplus on derecognition of property, plant and equipment	**(40)**	(233)	**(75)**	(230)
	Net movement in provisions	**(580)**	(1 131)	**(533)**	(877)
	Increase in deferred income	**766**	1 107	**766**	1 107
	Other non-cash items	**(9)**	28	**45**	–
	Interest income	**(2 951)**	(3 936)	**(2 939)**	(4 091)
	Interest expense	**4 656**	5 447	**4 841**	5 761
	Net fair value (gain)/loss on financial instruments	**(1 134)**	99	**(1 211)**	26
	Share of profit of associates and joint ventures	**(35)**	(74)	**–**	–
		12 255	14 783	**11 781**	13 603
	Changes in working capital	**819**	732	**822**	389
	Inventories	**(380)**	185	**(58)**	222
	Trade and other receivables	**69**	(878)	**100**	(1 105)
	Trade and other payables	**1 130**	1 425	**780**	1 272
		13 074	15 515	**12 603**	13 992

33. GUARANTEES AND CONTINGENT LIABILITIES

Procedures and governance

33.1 Eskom issues guarantees for strategic and business purposes to facilitate other business transactions.

Contractual guarantees are valued by taking into account discounted future cash flows adjusted by the probability of occurrence of the trigger event. The resultant guarantee is raised as a liability, with the costs being charged to the income statement. The unprovided portion is disclosed as a contingent liability. This is the first year that IFRS 4 has been applied to guarantees. As a result of using discounted cash flows, interest rate risk may arise due to the possibility of the actual yields on assets being different from the rates assumed in the discounting process.

Eskom has an established corporate governance structure and process for managing the risks regarding guarantees and contingent liabilities. All guarantees issued by Eskom are approved by the board, and are managed on an ongoing basis through the quarterly treasury credit committee, and the risk management committee of the board which meets every second month.

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.

33. GUARANTEES AND CONTINGENT LIABILITIES (continued)

Procedures and governance (continued)

33.2 The concentration of risk, and liquidity risk, are assessed on an ongoing basis by the treasury credit committee. Concentration of risk is within acceptable limits. Eskom's guarantees are diverse and unlinked, such that a trigger event for any one guarantee is unlikely to precipitate a trigger event in other guarantees.

33.3 Eskom's liquidity risk is within acceptable limits, and would be funded by a variety of financial assets, disclosed in note 14.

In terms of the cross-border lease (see 33.5 below), Eskom's potential liability of USD 297 million has been fully collateralised, with USD 415 million having been deposited with the letters of credit providers.

Given that there would be fore-warning 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.

	Group		Company	
	March 2006 Rm	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
33.4 Mozambique Transmission Company SARL (Motraco), a private joint venture company between Eskom, Electricidade de Mozambique and Swaziland Electricity Board, owns transmission lines connecting the South Africa, Mozambican and Swaziland national grids to establish a secure source of electrical power for the Mozal aluminium smelter in Maputo, Mozambique. Eskom has guaranteed the long-term debt raised by Motraco. As at 31 March 2006, the outstanding amount was USD 78 million (2005: USD 82 million), which translates to R481 million (2005: R511 million). The guarantee would be triggered if Motraco is unable to meet its obligations in terms of the long-term debt. The risk of default resulting from the political risk in Mozambique is mitigated through a guarantee arranged with an established international insurance company, which specialises in facilitating investments in high risk, low income countries. The risk adjusted credit exposure of Motraco is calculated by applying a rating agency's annual default probabilities. Applying the default probability of 0,28%, the combined financial liability in respect of these guarantees is calculated at R1 million at 31 March 2006. This amount has been raised as a provision in the current year, and is included in the other provisions note 21. The default probability trend into the future is seen to be positive, and changes in variables will not have a significant impact on the income statement. No payments have been made in terms of these guarantees from their inception in 1999. Motraco is currently negotiating the roll over of USD 25 million funding, without the need for an Eskom guarantee. A contingent liability is disclosed for the unprovided portion of the guarantee.	**480**	511	**480**	511

		Group		Company	
		March 2006 Rm	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
33.5	Eskom has provided collateral security in the form of letters of credit from banks in respect of the cross-border lease transactions (refer note 6). The collateral security has been provided to hedge the beneficiary against its exposure to the loss of its remaining investment in the crossborder leases and the cost of replacing the transactions in the market if the lease and leaseback transactions are cancelled. Eskom is ultimately responsible for meeting any potential losses that may arise to the banks should a cancellation event occur. A cancellation event will occur if there is an event of default, an event of loss of the asset or economic obsolescence of the asset. The calculation of the beneficiary's exposure is influenced by pledged securities in the form of US treasury notes that are marked to market semi-annually. The exposure amount is adjusted accordingly. Eskom has guaranteed the payment and facility-related obligations of a special purpose company, established as part of the crossborder lease structures, in favour of all parties to whom the company has such obligations in terms of the lease and leaseback operative documents. At 31 March 2006, the amount guaranteed is USD 297 million (2005: USD 302 million), which, at the year end exchange rate, translates to:	**1 835**	1 884	**1 835**	1 884
33.6	The Department of Minerals and Energy (DME) requires of Eskom to guarantee that it will stand good for the pollution control costs and part of the estimated closure and rehabilitation costs for the collieries with whom Eskom has 'cost plus' coal supply contracts. The guarantee amount is calculated as if the collieries were to close immediately. The guarantee required by the DME is R389 million (2005: R385 million). At the same time, Eskom has raised provisions for estimated pollution control, closure and rehabilitation costs at the end of the life of the collieries, discounted back to 2006. These provisions are included in note 21. A contingent liability disclosed for the unprovided portion of the required DME guarantees at the end of the period, amounted to	**31**	86	**31**	86

		Group		Company	
		March 2006 Rm	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
33.	**GUARANTEES AND CONTINGENT LIABILITIES (continued)**				
33.7	Eskom has indemnified the Eskom Pension and Provident Fund against any loss resulting from the negligence, dishonesty or fraud by the fund's officers or trustees.				
33.8	Eskom Finance Company (Pty) Limited (EFC) has granted loans (secured by mortgage bonds on the properties) to employees of the Eskom group. Eskom group companies have issued guarantees to EFC to the extent that the loan values of employees exceed the current value of the mortgage security. At 31 March 2006 the guaranteed amounts are R170 million (2005: R238 million) for the group and R164 million (2005: R217 million) for the company.				
	Appropriate processes are in place in EFC to manage the timeous collection of loan payments, and this is monitored by Eskom.				
	Historically EFC has absorbed any losses incurred, and has not called up any guarantee payments. Eskom's guarantee exposure is thus governed by the default probability of EFC, which is influenced by the risk of significant fluctuations in interest rates that might cause employees to default on their repayments.				
	The risk adjusted credit exposure of EFC is calculated by applying a rating agency's annual default probabilities. The default probability for the unsecured portion of the EFC loan book (representing 12% of the loan book) is calculated at 27%, while the secured portion of the loan book (88% of the loan book) is calculated at 0,47%. Applying the combined default probability the financial liability in respect of this guarantee is calculated at R6 million at 31 March 2006. This amount has been raised as a provision in Eskom in the current year, and is included in the other provisions note 21.				
	Changes in variables will not have a significant impact on the income statement.				
	The unprovided portion disclosed as a contingent liability for the company and the group, amounted to	**164**	238	**158**	217
33.9	Eskom Enterprises (Pty) Limited has performance bonds totalling R44 million (2005: R101 million) with respect to various contracts. The probability of having to pay out in terms of the performance bonds is calculated after assessing the likelihood of meeting the contract deliverables. Probable future payments are then discounted and the amount raised as a liability.				

		Group		Company	
		March 2006 Rm	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
33.9	The project management processes in place confirm that all but two of the contracts should meet the project deliverables. As a result of contractual disputes, R7 million (2005: Rnil) performance bonds for two contracts have a high probability of being called up. The full amount has been raised as a provision in the current year and is included in the other provisions note 21. Eskom Enterprises (Pty) Limited has not been required to make any previous performance bond payments. The balance disclosed as a contingent liability amounted to	**37**	101	**–**	–
33.10	Guarantees and suretyships, issued on behalf of group companies and third parties, amounted to	**76**	72	**–**	–
33.11	Eskom Enterprises issued letters of support amounting to a total of R158 million (2005: R158 million) to Standard Bank of Lesotho Limited and Lesotho Bank Limited in respect of overdraft facilities extended to Tele-Com Lesotho (Pty) Limited. The letters of support have been extended to 30 June 2006. The bank overdraft is included as a non-current liability in the group and is included in long-term securities issued at amortised cost (refer to note 14.8.2). The probability of the guarantee being called up is low, as the net present value of future cash flows, including the loan repayment, is positive.				

		Group		Company	
		March 2006 Rm	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
34.	**COMMITMENTS**				
34.1	**Capital expenditure**				
	Estimated capital expenditure	**79 217**	21 627	**78 137**	21 610
	Contracted	**5 634**	4 043	**4 594**	4 026
	Approved, not yet contracted for	**73 583**	17 584	**73 543**	17 584
	This expenditure will be financed from debt and internally generated funds and is expected to be incurred as follows:	**79 217**	21 627	**78 137**	21 610
	Within one year	**17 068**	6 660	**16 425**	6 643
	Thereafter	**62 149**	14 967	**61 712**	14 967
34.2	**Future minimum operating lease payments**	**292**	170	**156**	151
	Within one year	**93**	79	**55**	73
	Between two and five years	**188**	90	**90**	77
	After five years	**11**	1	**11**	1

34.3 Derivative financial instruments

The range of derivative instruments used includes domestic and foreign interest rate swap agreements, forward rate agreements, forward exchange contracts, commodity option contracts, bond option contracts and currency option contracts.

34.4 Supply of water

Eskom has entered into long-term agreements with the Department of Water Affairs and Forestry to reimburse the department for the cost incurred in supplying water to Eskom. This cost is regarded as part of raw materials and consumables used in the income statement.

34.5 Coal

Eskom has entered into long-term agreements with suppliers for coal purchases. The annual cost of coal is regarded as part of raw materials and consumables used in the income statement.

35. BUSINESS COMBINATIONS

On 1 March 2006, Arivia.kom (Pty) Limited (Arivia) bought back its shares held by Denel (Pty) Limited. This was approved by the remaining two shareholders, Eskom Enterprises (Pty) Limited (a subsidiary of Eskom Holdings Limited) and Transnet Limited. As a result of this transaction, Eskom Enterprises' effective shareholding in Arivia increased from 45,0% to 58,5% and Arivia became a subsidiary of Eskom Enterprises on 1 March 2006.

Arivia is an information technology company operating mainly in South Africa. The major portion of its business is to supply information technology support to the Eskom and Transnet groups.

Arivia contributed revenues of R210 million and a net loss of R1 million to Eskom Enterprises for the period 1 March 2006 to 31 March 2006.

For the period 1 April 2005 to 28 February 2006, when Arivia was an associate company, Eskom Enterprises applied equity accounting to recognise profits of R7 million from Arivia.

Had the increase in the shareholding taken place on 1 April 2005, Arivia's contribution to Eskom Enterprises' revenue for the period would have been R1 480 million, and Eskom Enterprises' share of the profits would have been R20 million.

Details of the net assets acquired and goodwill are as follows:	Rm
Eskom Enterprises' 45,0% share of net fair value of assets before the repurchase	253
Eskom Enterprises' 58,5% share of net fair value of assets after the repurchase	(252)
Goodwill	1

The fair value of the assets and liabilities arising from the acquisition are as follows:

	Fair value Rm	Carrying amount Rm
Property, plant and equipment	215	215
Intangible assets	10	10
Investment in joint ventures	13	13
Intangible assets – trade name	36	–
Trade and other receivables	266	266
Deferred tax assets	36	36
Inventories	32	32
Other assets	17	17
Cash and cash equivalents	63	63
Long-term liabilities	(44)	(44)
Deferred tax liabilities – trade name	(10)	–
Trade and other payables	(119)	(119)
Other liabilities	(82)	(82)
Outside shareholders' interest	(3)	(3)
Net assets	430	404
Net assets as above	430	
Less: attributable to minority interest	(178)	
Net assets acquired	252	
Purchase consideration settled in cash	–	
Cash and cash equivalents held by Arivia.kom when acquired	63	
Net cash inflow on acquisition	63	

There were no acquisitions in the 15-month period ended 31 March 2005.

	Group		Company	
	March 2006 Rm	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
36. RELATED PARTY TRANSACTIONS				
The group is 100% controlled by its shareholder, the government of South Africa represented by the Department of Public Enterprises.				
Eskom and its subsidiaries is a schedule 2 public entity in terms of the Public Finance Management Act. The related party disclosure is in terms of the requirements of IAS 24 Related Parties Disclosures and the specific guidance given by the South African Institute of Chartered Accountants.				
The related parties of Eskom consists mainly of government departments, state-owned enterprises, subsidiaries of Eskom, other public entities in the national sphere of government and key management personnel of Eskom or its shareholder and close family members of these related parties. The list of public entities in the national sphere of government was provided by National Treasury on their website www.treasury.gov.za. They also provided the names of subsidiaries of public entities.				
The comparative information has been based on the list of public entities and their subsidiaries effective at 31 March 2006.				
In addition related parties consist of associate and joint venture companies of the group and post retirement benefit plans for the benefit of employees.				
The following transactions were carried out with related parties:				
Sales of goods and services				
Shareholder, including government departments	**258**	390	**195**	271
State-owned enterprises with joint control or significant influence over Eskom	**967**	1 627	**959**	1 626
Eskom subsidiaries	**–**	–	**1 160**	611
Eskom associates	**4**	22	**2**	3
Joint ventures in which Eskom is a partner	**574**	401	**574**	377
Eskom Pension Fund	**1**	1	**–**	–
	1 804	2 441	**2 890**	2 888
Goods and services are sold to related parties on an arm's length basis at market related prices.				
Government grant funding for electrification				
Department of Minerals and Energy	**694**	700	**694**	700
Dividend payment before secondary tax on companies				
Shareholder	**(1 643)**	(569)	**(1 643)**	(569)
Purchases of goods and services				
Shareholder, including government departments	**(912)**	(694)	**(912)**	(694)
State-owned enterprises with joint control or significant influence over Eskom	**(298)**	(127)	**(293)**	(126)
Eskom subsidiaries	**–**	–	**(3 569)**	(3 841)
Eskom associates	**(628)**	(453)	**(627)**	(451)
Joint ventures in which Eskom is a partner	**(90)**	–	**(90)**	–
Eskom Pension Fund	**(640)**	(664)	**(577)**	(638)
	(2 568)	(1 938)	**(6 068)**	(5 750)
Goods and services are bought from related parties on an arm's length basis at market related prices.				
Sale of property/other assets				
State-owned enterprises with joint control or significant influence over Eskom	**21**	–	**–**	–
Assets are sold to related parties on an arm's length basis at market related prices.				

	Group		Company	
	March 2006 Rm	March 2005 Rm	**March 2006 Rm**	March 2005 Rm
Interest received				
Shareholder, including government departments	**20**	32	**20**	31
Eskom subsidiaries	**–**	–	**164**	305
	20	32	**184**	336
Interest expense				
Shareholder, including government departments	**(25)**	(33)	**(25)**	(33)
Eskom subsidiaries	**–**	–	**(75)**	(65)
	(25)	(33)	**(100)**	(98)
Lease income				
State-owned enterprises with joint control or significant influence over Eskom	**27**	25	**27**	25
Key management compensation				
Refer to directors' emoluments on page 95.				
Year end balances arising from transactions				
Receivables from related parties				
Shareholder, including government departments	**290**	530	**290**	490
State-owned enterprises with joint control or significant influence over Eskom	**65**	54	**62**	33
Eskom subsidiaries	**–**	–	**478**	453
Eskom associates	**28**	37	**–**	5
Joint ventures in which Eskom is a partner	**109**	36	**103**	36
	492	657	**933**	1 017
Electricity sales are normally receivable within 15 or 30 days of invoice date. In most cases, electricity customers have provided Eskom with a guarantee or a cash deposit which approximates three months of electricity sales. All other sales are receivable within 30 days of invoice date.				
Interest receivable on financial market instruments is in accordance with normal market practice.				
Provision for doubtful debts for related parties				
Shareholder, including government departments	**–**	(14)	**–**	–
State-owned enterprises with joint control or significant influence over Eskom	**(1)**	(1)	**–**	–
Eskom associates	**(27)**	(27)	**–**	–
Joint ventures in which Eskom is a partner	**(5)**	–	**–**	–
	(33)	(42)	**–**	–
Payables to related parties				
Shareholder, including government departments	**(683)**	(529)	**(683)**	(497)
State-owned enterprises with joint control or significant influence over Eskom	**(11)**	(3)	**(11)**	(3)
Eskom subsidiaries	**–**	–	**(570)**	(772)
Eskom associates	**(5)**	(7)	**(5)**	(7)
Eskom Pension Fund	**(8)**	(7)	**(8)**	(7)
	(707)	(546)	**(1 277)**	(1 286)
Purchase transactions with related parties are at arm's length with payment terms of 30 days from invoice date.				
Interest payable on financial market instruments is in accordance with normal market practice.				
Indirect transactions – balance sheet assets at nominal value				
Government bonds	**5 169**	4 374	**5 169**	4 374

37. EVENTS AFTER THE BALANCE SHEET DATE

37.1 The Koeberg power station unit 1 rotor was damaged during December 2005. Eskom obtained a replacement rotor from an overseas supplier subsequent to 31 March 2006 which was successfully installed. The damaged rotor is currently being repaired. Eskom is responsible for all transport costs relating to the damaged and replacement rotors and all repair costs relating to the damaged rotor. Certain contingent liabilities relating to the damaged rotor may arise out of the contract with the supplier of the replacement rotor. In terms of the confidentiality of the agreement between the parties, no additional details have been disclosed in terms of paragraph 92 of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

37.2 On 31 May 2006 Eskom Finance Company (Pty) Limited securitised R1,6 billion of its assets (home loans) with the resultant cash proceeds being utilised to redeem R1,6 billion of the loans made by Eskom Holdings to the Eskom Finance Company. In addition, approximately R200 million of assets are expected to be securitised by 31 August 2006 with the proceeds to be utilised in the same way as above.

Eskom Finance Company will be disposed of following the completion of the securitisation process which is in terms of the South African Government Cabinet decision of 2003 and in line with Eskom's strategy of disposing of non-core assets. This disposal is expected to be completed by 31 March 2007 and will result in the full redemption of all Eskom loans to Eskom Finance Company (Pty) Limited.

38. SHARE-BASED PAYMENTS

During the period Eskom had two share-based payment schemes in terms of IFRS 2.

	Long-term incentive plan	Deferred bonus plan
Date of grant	1 April 2005	1 April 2005
Number granted	16 475 130	924 150
Contractual life	3 years	3 years
Vesting conditions	Variable vesting depending on the achievement of non-market performance conditions	Three-year service period
Method of settlement	Cash	Cash
Estimated fair value of instruments granted, R	1,05	1,05
Expected attrition of employees, %	0	0
Expected outcome of performance conditions, %	40,49	Not applicable
Valuation model	Residual value model	Residual value model
Outstanding at the beginning of the period	–	–
Granted during the period	16 475 130	924 150
Forfeited during the period	–	–
Exercised during the period	–	–
Expired during the period	–	–
Outstanding at the end of the period	16 475 130	924 150

Refer to page 95 in the directors' report for further details on the schemes.

39. RESTATEMENT OF COMPARATIVES

Eskom has implemented the following new and revised statements and interpretations:

IAS 1 Presentation of Financial Statements
IAS 2 Inventories
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 Events after the Balance Sheet Date
IAS 16 Property, Plant and Equipment
IAS 17 Leases
IAS 21 The Effects of Changes in Foreign Exchange Rates
IAS 24 Related-parties Disclosure
IAS 27 Consolidated and Separate Financial Statements
IAS 28 Investments in Associates
IAS 31 Interests in Joint Ventures
IAS 32 Financial Instruments: Disclosure and Presentation
IAS 36 Impairment of Assets
IAS 38 Intangible Assets
IAS 39 Financial Instruments: Recognition and Measurement
IAS 40 Investment Property
IFRS 2 Share-based Payment
IFRS 3 Business Combinations
IFRS 4 Insurance Contracts
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
IFRIC1 Changes in Existing Decommissioning, Restoration and Similar Liabilities

The implementation of the above statements and interpretations and impact thereof on the financial statements is indicated on page 170.

The implementation of IAS 16 Property, Plant and Equipment resulted in a change in accounting policy. Eskom previously did not revise the residual value of an asset on an annual basis. As a result of the change in accounting policy, the accumulated depreciation was restated retrospectively.

The implementation of IAS 17 Leases highlighted that lease payments incurred during the period were not recognised on a straight-line basis over the period of the lease. The impact of this treatment was not significant.

The implementation of IAS 38 Intangible Assets from 1 April 2005 has resulted in rights no longer being amortised. The opening accumulated profit for the current period was adjusted.

The implementation of IAS 39 and IFRS 4 Financial guarantee contracts, requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of:

- the unamortised balance of the related fees received and deferred
- the expenditure required to settle the commitment at the balance sheet date

Management considered this amendment to IAS 39 and implemented it during the current financial year

The implementation of IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities has resulted in a change in accounting policy. The interpretation has been implemented retrospectively and as a result an asset has been raised.

The implementation of the revisions to IAS 39 Financial Instruments: Recognition and Measurement has resulted in trade receivables being discounted where required, taking into account impairments and the time value of money. Previously offer or bid prices have not been used in the valuation of financial instruments. Retrospective changes have also been effected for mid prices of certain financial instruments. The impact of the adjustment was a debit of R55 million to accumulated profit after deducting tax of R12 million and a debit to the foreign and local revaluation reserves of R9 million after deducting tax of R3 million.

A subsidiary of Eskom Enterprises (Pty) Limited incorrectly applied the accounting policy on revenue recognition, resulting in contract income being recognised on completion of the contract and not on the percentage of completion method. The impact of the restatement was a credit to accumulated profit of R109 million after deducting tax of R26 million.

The net impact of the changes for the 15-month period ended 31 March 2005 and the opening balance of accumulated profit at 1 January 2004 are shown on page 170.

39. RESTATEMENT OF COMPARATIVES (continued)

	Group			Company		
	Previously reported Rm	Adjustment Rm	Restated Rm	Previously reported Rm	Adjustment Rm	Restated Rm
Balance sheet						
Non-current assets						
Property, plant and equipment	56 701	2 486	59 187	55 635	2 317	57 952
Investment in subsidiaries[1]	–	–	–	3 087	(1 886)	1 201
Available-for-sale financial assets	4 190	(4)	4 186	4 190	(4)	4 186
	60 891	2 482	63 373	62 912	427	63 339
Current assets						
Loans to subsidiaries[1]	–	–	–	–	2 351	2 351
Inventories	2 817	51	2 868	2 598	202	2 800
Trade and other receivables	5 072	32	5 104	4 938	3	4 941
Available-for-sale financial assets	302	(87)	215	216	(1)	215
Other financial assets at fair value through profit and loss	7 668	74	7 742	7 668	(12)	7 656
Derivative financial assets	1 928	(14)	1 914	1 927	(14)	1 913
	17 787	56	17 843	17 347	2 529	19 876
Equity						
Capital and reserves	44 867	2 366	47 233	42 556	2 158	44 714
Non-current liabilities						
Deferred tax	6 538	370	6 908	6 266	303	6 569
Deferred income[1]	2 925	(493)	2 432	2 623	(191)	2 432
Retirement benefit obligations	4 820	(6)	4 814	–	–	–
	14 283	(129)	14 154	8 889	112	9 001
Current liabilities						
Amounts owing to subsidiaries[1]	–	–	–	–	465	465
Trade and other payables[1]	6 711	(549)	6 162	6 208	(771)	5 437
Borrowings	6 309	7	6 316	6 295	7	6 302
Derivative financial liabilities	1 587	26	1 613	1 562	26	1 588
Provisions[1]	954	1 018	1 972	416	961	1 377
	15 561	502	16 063	14 481	688	15 169
Statement of changes in equity						
Accumulated profit	39 952	2 158	42 110	38 559	2 020	40 579
– Opening balance at 1 January	39 952	2 511	42 463	38 559	2 325	40 884
– Effect of deferred tax on prior year adjustment	–	(353)	(353)	–	(305)	(305)
Transfers from reserves	61	21	82	52	21	73
Foreign revaluation reserve	51	(24)	27	62	(24)	38
Local revaluation reserve	96	(3)	93	99	(3)	96
Minority interest	9	2	11	–	–	–
Profit for the period	5 190	212	5 402	4 353	144	4 497
	45 359	2 366	47 725	43 125	2 158	45 283
Cash flow statement						
Cash and cash equivalents at the end of the period	13 627	(5 373)	8 254	10 237	(5 373)	4 864

Previously, cash and cash equivalents were defined as money market assets and liabilities which mature within three months. There has been a retrospective change whereby money market assets and liabilities with an original maturity of less than 90 days are recognised as cash and cash equivalents. Comparatives have been restated accordingly.

1. Comparatives restated due to reallocations between categories.

Tables

1. Comparison to international power companies

Company	Country	Generating capacity (MW)	Rank as per generating capacity	Sales (TWh)	Rank as per sales
RAO UES	Russia	156 600	1	636	1
EdF	France	125 400	2	502	2
TEPCO	Japan	62 825	3	287	6
Exelon/PSEG	USA	52 000	4	238	8
E.On	Germany	51 479	5	404	3
Korea Electric Power Company (KEPCO)	South Korea	50 432	6	294	5
Endesa	Spain	45 908	7	165	16
Enel	Italy	45 740	8	158	17
AES	USA	43 884	9	82	28
RWE	Germany	43 269	10	299	4
Eskom	**South Africa**	**42 011**	**11**	**256**	**7**
Kansai Electric	Japan	41 480	12	144	19
Duke	USA	41 000	13	85	27
Eletrobras	Brazil	40 854	14	178	13
Southern	USA	40 000	15	192	11
AEP	USA	36 000	16	218	9
Taiwan Power (TaiPower)	Taiwan	34 958	17	168	15
Hydro Quebec	Canada	34 571	18	185	12
TVA	USA	33 981	19	171	14
Vattenfall	Sweden	33 000	20	200	10
Chubu	Japan	32 733	21	123	20
FPL	USA	32 649	22	106	23
Entergy	USA	30 000	23	100	25
Electrabel	Belgium	28 193	24	145	18
Dominion	USA	28 100	25	122	21
Iberdrola	Spain	27 791	26	86	26
Progress Energy	Canada	24 500	27	104	24
Kyushu	Japan	19 500	28	80	29
Reliant Energy	USA	19 000	29	67	30
TXU	USA	18 300	30	110	22

Source: Datamonitor plc, a business information company specialising in industry analysis.
Date: April 2006

2. Eskom statistical overview

	2006	2005[1] (15 months)	2004	2003
Sales				
Total sold, GWh[2]	**208 316**	256 959	206 799	196 980[3]
Growth in GWh sales, %[3]	**18,9**[4]	30,5	5,0	4,8
Electricity output				
Total electricity for Eskom system (Eskom stations and purchased), GWh[6]	**232 295**	285 601	229 970	218 412
Total produced by Eskom stations, GWh (net)	**221 216**	273 404	220 152	210 218
Coal-fired stations, GWh (net)	**205 837**	251 914	202 171	194 046
Hydroelectric stations, GWh (net)	**1 141**	903	720	777
Pumped storage stations, GWh (net)	**2 867**	3 675	2 981	2 732
Gas turbine stations, GWh (net)	**78**	–	–	–
Nuclear power station, GWh (net)	**11 293**	16 912	14 280	12 663
Total purchased for Eskom system, GWh	**10 310**	12 197	9 818	8 194
Total consumed by Eskom, GWh[7]	**3 814**	5 043	4 040	3 664
Total available for distribution, GWh[2]	**228 480**	280 557	225 929	214 748
Plant performance indicators				
Total power station nominal capacity, MW	**42 011**	42 011	42 011	42 011
Total power station net maximum capacity, MW[8]	**39 810**	39 810	39 810	39 810
Peak demand on integrated Eskom system, MW	**33 461**	34 195	34 195	31 928
Average energy availability – EAF (UCF), %[9, 10]	**87,4 (88,7)**	89,5 (89,9)[11]	89,5 (90,0)	87,5 (88,7)
Generation load factor, %[10, 12]	**69,7**	69,0	69,2	66,3
Integrated Eskom system load factor, %	**79,8**	78,0	77,4	76,8
Environmental indicators				
Relative particulate emissions, kg/MWh sent out	**0,21**	0,26[11]	0,27	0,28
Specific water consumption, ℓ/kWh sent out[13]	**1,32**	1,27[11]	1,26	1,29
Reported legal contraventions counted in the operational sustainability index, number[14]	**1**	3[11]	2	2
Customer satisfaction (PreCare/MaxiCare), ratio	**–**	8,29[11]	8,31	8,47
Customer satisfaction (Enhanced PreCare/MaxiCare), ratio[15]	**101,06**	93,10	–	–
Net raw water consumption, Mℓ	**291 516**	347 135	277 557	271 940
Coal burnt, kt	**112 096**	136 437	109 508	104 370
Average calorific value, MJ/kg	**19,58**	19,36	19,42	19,41
Average ash content, %	**29,1**	29,6	29,6	28,9
Average sulphur content, %	**0,88**	0,87	0,87	0,92
Overall thermal efficiency, %	**33,8**	34,0	34,0	34,2
Line losses, %	**8,2**	8,2[11]	7,8	8,3
Nitrous oxide (N_2O), t[16]	**3 134**	3 552	2 924	2 580
Carbon dioxide (CO_2), Mt[16]	**203,7**	247,0	197,7	190,1
Sulphur dioxide (SO_2), kt[16]	**1 763**	2 236	1 779	1 728
Nitrogen oxide (NO_x) as NO_2, kt[16]	**877**	994	797	760
Particulate emissions, kt	**45,76**	72,83	59,17	58,65
Ash produced, Mt	**33,4**	40,8	33,1	29,8
Ash sold, Mt	**1,789**	1,957	1,590	1,197
Radiation release, mSv[17]	**–**	–	–	–
Radiation release, mSv[18]	**0,0049**	0,0079[11]	0,0087	0,0123
Low-level waste – steel drums, cubic metres	**91,3**	282,5	258,8	86,9
Intermediate-level waste – concrete drums, cubic metres	**52,4**	114,5	97,5	37,4
Low-level nuclear waste – fuel racks, cubic metres[19]	**–**	697	697	–
Spent nuclear fuel, number of elements (cumulative figure)[20]	**52 (1 505)**	104 (1 453)	56 (1 405)	104 (1 349)
Employees				
Total number at year end[22]	**29 697**	29 845	28 396	28 938
GWh sold per employee	**7,015**	8,854	7,283	6,807
Sales to countries in southern Africa, GWh	**13 122**	16 008	12 954	10 173
Botswana	**1 727**	2 111	1 699	1 390
Mozambique	**8 167**	10 108	8 076	5 875
Namibia	**1 709**	1 821	1 515	1 114
Zimbabwe	**549**	598	532	793
Lesotho[23]	**23**	13	12	38
Swaziland	**760**	872	697	796
Zambia[24]	**187**	465	403	151
Short-term energy market[25]	**–**	20	20	16

2002	2001	2000	1999	1998	1997	1996
187 957[3]	181 511[3]	178 193[3]	173 412[3]	171 457[3]	172 550[3]	165 370[3]
3,5	1,8	2,8	1,1	(0,6)	4,3	7,7
207 233	198 790	194 601	188 475	185 583	187 850	178 884
197 737	189 590	189 307	181 818	183 093	187 811	178 855
181 651	175 223	172 362	165 665	165 473	170 464	163 541
2 357	2 061	1 343	726	1 596	2 092	1 319
1 738	1 587	2 591	2 590	2 420	2 608	2 220
–	–	1	–	3	–	–
11 991	10 719	13 010	12 837	13 601	12 647	11 775
9 496	9 200	5 294	6 657	2 490	39	29
2 354	2 177	3 478	3 507	3 299	3 511	3 130
204 879	196 613	191 123	184 968	182 284	184 339	175 754
42 011	42 011	41 298	40 585	39 872	39 154	38 497
39 810	39 810	39 186	38 517	37 848	37 175	36 563
31 621	30 599	29 188	27 813	27 803	28 329	27 967
89,3(91,7)	92,0(92,5)	92,1(92,8)	91,0(92,5)	91,6(92,7)	90,4(91,5)	89,6(90,6)
62,3	59,8	60,6	61,2	61,6	65,0	63,9
74,0	73,4	74,7	75,9	74,8	74,3	71,5
0,29	0,31	0,35	0,37	0,36	0,44	0,63
1,27	1,26	1,21	1,25	1,23	1,20	1,21
3	2	3	9	9	15	11
8,57	8,43	8,82	8,78	8,90	9,10	8,72
–	–	–	–	–	–	–
251 611	239 233	228 759	227 288	225 280	225 699	216 131
96 460	94 136	92 454	88 470	87 225	90 169	85 401
19,54	19,42	19,50	19,53	19,84	19,68	19,83
28,4	28,8	28,6	28,5	29,1	28,4	27,8
0,92	0,93	0,90	0,96	0,93	0,94	0,97
34,1	34,1	34,4	34,4	34,2	34,5	34,5
8,2	7,2	7,4	6,2	5,9	6,4	5,9
2 246	2 154	2 093	2 010	2 031	2 085	2 004
175,2	169,3	161,2	159,4	163,2	169,0	158,6
1 494	1 500	1 505	1 506	1 583	1 383	1 295
702	684	674	673	669	688	647
57,53	59,64	66,08	67,08	65,21	83,43	112,11
26,2	26,5	24,6	24,3	24,7	23,7	22,2
1,257	1,161	1,126	1,116	1,180	1,118	0,995
0,0005	0,0007	0,0005	0,0005	0,0007	0,0008	0,0008
0,0060	0,0192	0,0059	0,0112	0,0088	0,0122	0,0156
89,04	117,25	72,80	70,77	61,18	89,95	109,06
30,21	45,65	22,10	37,11	22,77	26,26	35,35
–	–	–	–	–	–	–
48 (1 245)[21]	104 (1 197)	52 (1 093)	104 (1 041)	52 (937)	104 (885)	104 (781)
29 359	29 969	32 832	34 027	37 311	39 241	39 857
6,402	6,054	5,427	5,096	4,595	4,397	4,149
6 956	6 710	3 872	3 884	4 093	6 439	5 554
1 124	1 183	986	934	689	748	685
3 907	3 899	1 331	68	385	680	596
598	578	640	562	602	1 295	1 100
298	371	788	1 564	1 521	2 790	2 267
16	40	12	55	209	318	335
799	639	115	701	687	608	571
103	–	–	–	–	–	–
111	–	–	–	–	–	–

1. *Information represents a 15-month period, unless indicated otherwise.*
2. *Difference between electricity available for distribution and electricity sold (includes internal usage) is due to transmission and other losses.*
3. *Includes sales in respect of Department of Water Affairs and Forestry (DWAF) not stated in previous years.*
4. *Actual sales growth was 0,8% when compared to the 12-month period 1 April 2004 to 31 March 2005.*
5. *Own usage is not included in the calculation.*
6. *Includes Eskom electricity produced and delivered to neighbouring countries.*
7. *In respect of pumped storage facilities and synchronous condenser mode of operation. Refer to table 2, note 8, since 1993 energy consumption for water pumped for DWAF has been excluded from this total.*
8. *Includes reserve stored and Transkei generators.*
9. *Capacity hours available times 100 divided by total capacity hours in year.*
10. *After excess capacity.*
11. *Represents the 12-month moving average for 1 April 2004 to 31 March 2005.*
12. *kWh produced times 100 divided by average net maximum capacity times hours in year.*
13. *Volume of water consumed per unit of generated power sent out, excluding rain water used.*
14. *2000 to 2002 are in terms of the revised definition of the operational sustainability index. Since 1998, other environment-related contraventions are also included. Prior to 1998, only water-related incidents were reported.*
15. *The Enhanced MaxiCare replaced the PreCare/MaxiCare from January 2005. Reflects the environmental element of Enhanced MaxiCare.*
16. *Calculated annual figures based on coal characteristics and power station design parameters.*
17. *These indicators are provided for reference purposes. They are the radiation releases previously reported, based on the methodology stipulated by the National Nuclear Regulator prior to 2003.*
18. *To ensure meaningful comparisons between years, indicators have been restated based on the new more conservative methodology approved by the National Nuclear Regulator for use from 1 January 2003. The limit set by the National Nuclear Regulator is ≤ 0,25mSv.*
19. *Waste as a result of re-racking of spent fuel elements at Koeberg power station.*
20. *Spent fuel means nuclear fuel that has been irradiated in, and permanently removed from, the reactor core.*
21. *Correction made to the 2002 figure – one element was under reported.*
22. *Excludes employees of subsidiary companies.*
23. *Lesotho started its own generation in 1999.*
24. *Zambia included as from 2002.*
25. *The short-term energy market consists of all the utilities in the southern African countries that form part of the Southern African Power Pool. Energy is traded on a daily, weekly and monthly basis as there is no long-term bilateral contract.*

3. Power stations in commission

At 31 March 2006

Name of station	Location	Number and capacity of generator sets MW	Total nominal capacity MW[1]	Total net maximum capacity MW[1]	Generators in reserve storage Number	Generators in reserve storage Total rating MW	Other generation Total rating MW[2]
Coal-fired stations (13)			37 678	32 256	22	3 351	–
Arnot[3]	Middelburg, Mpumalanga	6 x 350	2 100	1 980	–	–	–
Camden[4]	Ermelo	8 x 200	1 600	190	7	1 330	–
Duvha[3]	Witbank	6 x 600	3 600	3 450	–	–	–
Grootvlei[4]	Balfour	6 x 200	1 200	–	6	1 130	–
Hendrina[3]	Hendrina	10 x 200	2 000	1 895[1]	–	–	–
Kendal[3, 5]	Witbank	6 x 686	4 116	3 840	–	–	–
Komati[4]	Middelburg, Mpumalanga	5 x 100; 4 x 125	1 000	–	9	891	–
Kriel[3]	Bethal	6 x 500	3 000	2 850	–	–	–
Lethabo[3]	Sasolburg	6 x 618	3 708	3 558	–	–	–
Majuba	Volksrust	3 x 657; 3 x 713	4 110	3 843	–	–	–
Matimba[3, 5]	Lephalale	6 x 665	3 990	3 690	–	–	–
Matla[3]	Bethal	6 x 600	3 600	3 450	–	–	–
Tutuka[3]	Standerton	6 x 609	3 654	3 510	–	–	–
Gas turbine stations[6] (2)			342	342	–	–	–
Acacia	Cape Town	3 x 57	171	171	–	–	–
Port Rex	East London	3 x 57	171	171	–	–	–
Hydroelectric stations (6)			661	600	–	–	61
Colley Wobbles	Mbashe River	3 x 14	42	–	–	–	42
First Falls	Umtata River	2 x 3	6	–	–	–	6
Gariep[7]	Norvalspont	4 x 90	360	360	–	–	–
Ncora	Ncora River	2 x 0,4; 1 x 1,3	2	–	–	–	2
Second Falls	Umtata River	2 x 5,5	11	–	–	–	11
Vanderkloof[7]	Petrusville	2 x 120	240	240	–	–	–
Pumped storage schemes[8] (2)			1 400	1 400	–	–	–
Drakensberg	Bergville	4 x 250	1 000	1 000	–	–	–
Palmiet	Grabouw	2 x 200	400	400	–	–	–
Nuclear power station (1)							
Koeberg[3]	Cape Town	2 x 965	1 930	1 800[1]	–	–	–
Total stations in commission (24)			42 011	36 398	22	3 351	61

1. Difference between nominal and net maximum capacity reflects auxiliary power consumption and reduced capacity caused by age of plant and/or low coal quality.
2. Operational but not included for capacity management purposes.
3. Base-load station.
4. In long-term reserve storage (mothballed).
5. Dry-cooled unit specifications are based on design back-pressure and ambient air temperature.
6. Stations used for peaking or emergency supplies.
7. Use restricted to peaking, emergencies and availability of water in Gariep and Vanderkloof dams.
8. Pumped storage facilities are net users of electricity. Water is pumped during off-peak periods so that electricity can be generated during peak periods.

4. Environmental implications of using or saving one kilowatt-hour of electricity[1]

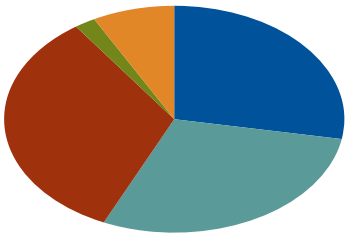
		If electricity consumption is measured in:			
	Factor[2]	kWh	MWh	GWh	TWh
Coal use	**0,54**	kilogram	ton	thousand tons (kt)	million tons
Water use[3, 4]	**1,40**	litre	kilolitre	megalitre	thousand megalitre
Ash produced	**160**	gram	kilogram	ton	thousand tons (kt)
Particulate emissions[4]	**0,22**	gram	kilogram	ton	thousand tons (kt)
CO_2 emissions[5]	**0,978[6]**	kilogram	ton	thousand tons (kt)	million tons
SO_x emissions[5]	**8,463**	gram	kilogram	ton	thousand tons (kt)
NO_x emissions[5]	**4,210**	gram	kilogram	ton	thousand tons (kt)

Use of table: multiply electricity consumption or saving by the relevant factor to determine the environmental implication.

Example 1: Used 90 kWh of electricity.
Water consumption: 90 x 1,40 = 126.
Therefore 126 litres of water used.

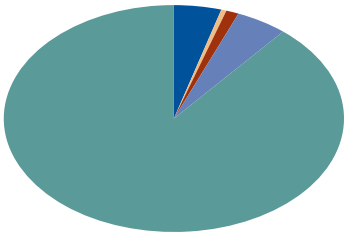
Example 2: Used 90 GWh of electricity.
CO_2 emissions 90 x 0,978 = 88,02.
Therefore 88,02 thousand tons emitted.

South African energy demand

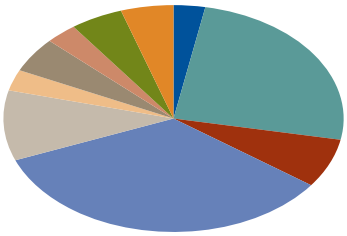


Source: Department of Minerals and Energy 2003 Energy balances report

Eskom electricity generation mix



Eskom research categories expressed as a percentage of total research cost



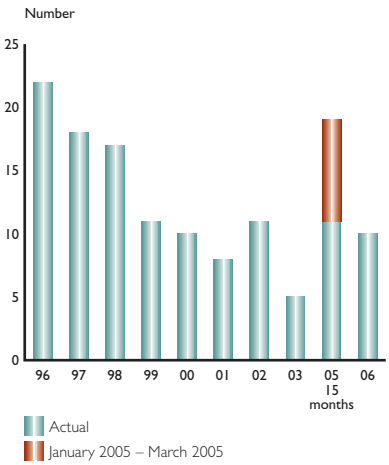
1. *Figures are calculated based on total energy sold by Eskom. Further information can be obtained through the Eskom environmental helpline. Contact details appear on the inside back cover.*
2. *Figures represent the 12-month period from 1 April 2005 to 31 March 2006.*
3. *Volume of water consumed per unit of generated power sent out, excluding rain and mine water used.*
4. *Represents a 12-month moving average.*
5. *Calculated annual figures based on coal characteristics and power station design parameters.*
6. *Represents the Eskom average CO_2 figure. The approved methodology should be followed to calculate the CDM emission factor.*

5. Transmission and distribution equipment in service

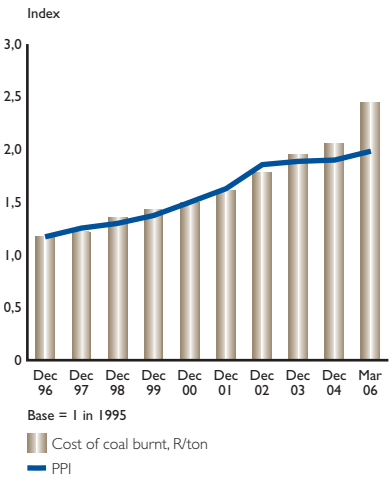
At 31 March 2006

	2006	2005	Change
Power lines			
Transmission power lines, km[1]	**27 406**	27 169	237
765 kV	**1 153**	1 153	–
533 kV DC (monopolar)	**1 035**	1 035	–
400 kV	**15 691**	15 318	373
275 kV	**7 245**	7 383	(138)
220 kV	**1 336**	1 336	–
132 kV	**946**	944	2
Distribution power lines, km	**43 330**	42 988	342
165 – 132 kV	**22 142**	21 801	341
88 – 33 kV	**21 188**	21 187	1
Reticulation power lines, km			
22 kV and lower	**282 361**	277 047	5 314
Total all power lines, km	**353 097**	347 204	5 893
Cables, km	**8 031**	7 743	288
165 – 132 kV	**156**	137	19
22 kV and lower	**7 875**	7 606	269
Total transformer capacity, MVA	**205 662**	202 706	2 956
Transmission, MVA[2]	**118 445**	117 355	1 090
Distribution and reticulation, MVA	**87 217**	85 351	1 866
Total transformers, number	**305 776**	293 049	12 727
Transmission, number	**374**	371	3
Distribution and reticulation, number	**305 402**	292 678	12 724

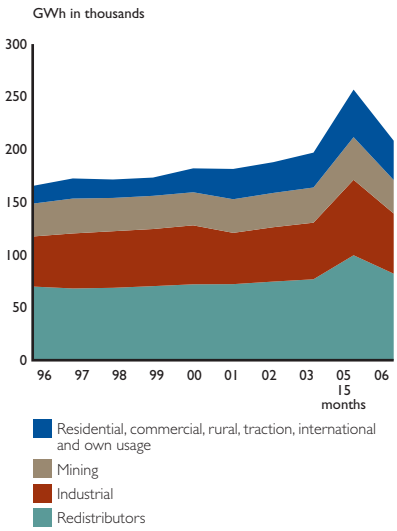
Eskom work related fatalities



Cost of coal burnt versus production price index (PPI)



Sales by category



The sharp peak in 2005 is a result of the 15-month reporting period.

1. Transmission line lengths as per Geographic Information System (GIS) distances.
2. Base of definition: transformers rated > 30 MVA and primary voltage > 132 kV.

6. Sales of electricity to categories of customers

Category	Number of customers[1] 2006	2005	Change %	GWh sold 2006 (12 months)	2005 (15 months)	Change %
Redistributors	**751**	741	1,3	**82 108**	99 661	(17,6)
Residential	**3 628 622**	3 475 330	4,4	**8 904**	10 146	(12,2)
Commercial	**43 572**	42 620	2,2	**7 334**	8 929	(17,9)
Industrial	**3 043**	3 019	0,8	**57 068**	71 629	(20,3)
Mining	**1 097**	1 124	(2,4)	**31 825**	40 557	(21,5)
Agricultural	**80 900**	80 131	1,0	**4 410**	5 605	(21,3)
Traction	**511**	511	–	**3 150**	3 918	(19,6)
International	**10**	10	–	**13 122**	16 008	(18,0)
Internal	**425**	457	(7,0)	**395**	506	(21,9)
	3 758 931	3 603 943	4,3	**208 316**	256 959	(18,9)[2]

7. Net revenue per category of customer

Category	Net revenue 2006 (12 months) Rm	2005 (15 months) Rm	Change %	Average net price c/kWh sold 2006	2005	Change %
Redistributors	**13 248**	15 139	(12,5)	**16,13**	15,19	6,2
Residential[3]	**3 569**	3 927	(9,1)	**40,08**	38,70	3,6
Commercial	**1 664**	1 954	(14,8)	**22,69**	21,88	3,7
Industrial	**8 416**	10 008	(15,9)	**14,75**	13,97	5,6
Mining	**5 151**	6 231	(17,3)	**16,19**	15,36	5,4
Agricultural	**1 449**	1 728	(16,1)	**32,86**	30,83	6,6
Traction	**638**	759	(15,9)	**20,25**	19,37	4,5
International	**1 290**	1 381	(6,6)	**9,83**	8,63	13,9
Internal	**88**	96	(8,3)	**22,28**	18,97	17,4
Total net revenue	**35 513**	41 223	(13,9)	**17,05**	16,04	6,3[2]

1. Customer numbers have been revised to take into account the removal of disconnected customers and homes that no longer exist as a result of floods and other reasons.
2. General price increase approved by Nersa for the period 1 January 2005 to 31 March 2006 equalled 4,1%.
3. Prepayments included under residential.

Glossary

Base load plant	Usually a coal-fired and nuclear plant used to maintain the base load.
Combined cycle	An electric generating technology in which electricity is produced from otherwise lost waste heat exiting from one or more gas (combustion) turbines.
Conductive fog	The unusual combination of fog and dust or ash particles, possibly from recent fires. This fog is instant and unpredictable (as far as Eskom is aware). Some glass insulators used in substations and lines cannot withstand the phenomenon, causing widespread flashovers which initiate tripping of lines and plant.
Daily peak	The maximum amount of energy demanded in one day from a company or utility service.
Decommissioning	Removing a facility (eg reactor) from service, and subsequent actions of safe storage, dismantling and making site available for unrestricted use.
Demand-side management (DSM)	Planning, implementing and monitoring activities to encourage consumers to modify patterns of electricity use, including timing and level of electricity demand.
Disabling injury incident rate (DIIR)	The number of disabling injuries suffered in proportion to manhours worked.
Embedded derivative	An embedded derivative causes some or all cash flows that otherwise would be required by a contract to be modified according to a specified variable such as a currency.
Energy availability factor (EAF)	Measures plant availability and takes into account energy losses not under the control of plant management, as well as internal non-engineering constraints.
Energy efficiency	Programmes aimed at reducing energy used by specific end-use devices and systems, typically without affecting services provided.
Eskom sustainability performance index (ESPI)	Index using technical, economic, environmental and social measures to measure sustainable performance over the short and long term.
Flashover	Electrical breakdown of insulation.
Forced outage	Shutdown of a generating unit, transmission line or other facility, for emergency reasons or a condition in which generating equipment is unavailable for load due to unanticipated breakdown.
Free basic electricity (FBE)	Amount of electricity deemed sufficient to provide basic electricity services to a poor household.
Human resources sustainability index	A measure of Eskom's ability to achieve its human resources objectives.
International Financial Reporting Standards (IFRS)	A set of global accounting standards issued by the International Accounting Standards Board that require transparent and comparable information in general purpose financial statements.
Independent power producer (IPP)	Any entity that owns or operates, in whole or in part, one or more new independent power production facilities.
Interruptible load	Load that can be interrupted in the event of capacity or energy deficiencies on the supplying system.
Interruptible power	Power whose delivery can be curtailed by the supplier, usually under some sort of agreement by the parties involved.
Kilowatt-hour (kWh)	Basic unit of electric energy equal to one kilowatt of power supplied to or taken from an electric circuit steadily for one hour. One kilowatt-hour equals 1 000 watt-hours.
Load	Amount of electric power delivered or required at any specific point on a system.
Load management	Influencing the level and shape of demand for electrical energy so that demand conforms to present supply situations and long-run objectives and constraints.
Load profile	Information on a customer's electricity use over time, sometimes shown as a graph.
Load shifting	A load shape objective that involves moving loads from peak periods to off-peak periods. If a utility does not expect to meet its demand during peak periods but has excess capacity in off-peak periods, this strategy might be considered.
Load shedding	Scheduled and controlled power cuts by rotating available capacity between all customers when demand is greater than supply to avoid total blackouts in the supply area.
Maximum demand	Highest demand of load within a specified period.
Megawatt	One million watts.
Megawatt-hour (MWh)	One thousand kilowatt-hours or one million-watt hours.
Mid-merit power generation	Those installations which generate electricity during the daily periods when electricity demand is higher than average.
Mothball	Plant (ie power stations) placed in long-term storage.
Operational sustainability index	Reflects overall technical performance, while balancing low-cost production of electricity with sustainable long-term reliability.
Outage	The period in which a generating unit, transmission line, or other facility is out of service.
Off-peak	Period of relatively low system demand.
Peak demand	Maximum power used in a given period.
Peaking capacity	Generating equipment normally operated only during hours of highest daily, weekly or seasonal loads.
Peak load plant	Usually a gas turbine or pumped storage scheme used during peak-load periods.
Unit capability factor (UCF)	Measures plant availability and indicates how well plant is operated and maintained.
Power pool	An association of two or more interconnected electric systems with an agreement to coordinate operations and plan for improved reliability and efficiencies.
Primary energy	Energy embodied in natural resources (eg coal, liquid fuels, sunlight, wind, uranium, water).
Pump storage scheme	A plant that usually generates electric energy during peak-load periods by using water previously pumped into an elevated storage reservoir during off-peak periods when excess generating capacity is available.
Reserve margin	Difference between net system capability and system maximum load requirements (peak load or peak demand).
Spent fuel	Fuel assemblies removed from a reactor after several years of use.
Supply-side management (SSM)	Planning, implementing and monitoring supply-side activities to create opportunities for cost-effective purchase, management, generation, transmission and distribution of electricity and all other associated activities.
System minutes	The international benchmark for measuring the severity of interruptions to customers. One system minute is equivalent to time loss of the entire system for one minute at annual peak.
Unplanned automatic grid separations (UAGS)	A measure of the reliability of the service provided to the electrical grid that measures the number of supply interruptions per operating period.

Acronyms

BEE	Black economic empowerment, legislated in South Africa under the Preferential Procurement Policy Framework Act, No 5 of 2000 and the Broad-based Black Economic Empowerment Act, No 53 of 2003.
DEAT	Department of Environmental Affairs and Tourism (RSA)
DME	Department of Minerals and Energy (RSA)
DPE	Department of Public Enterprises (RSA)
DWAF	Department of Water Affairs and Forestry (RSA)
EBITDA	Earnings before interest, tax, depreciation and amortisation
EDI	Electricity distribution industry. Currently being restructured in RSA.
EIA	Environmental impact assessment
ELI	Eskom Learning Institutions
EMPs	Environmental management programmes
EMS	Environmental management system
EPRI	Electric Power Research Institute
ESETA	Energy Sector Education and Training Authority (RSA)
ESP	Electrostatic precipitators
EWT	Endangered Wildlife Trust
Exco	Eskom executive management committee
FBE	Free basic electricity of 50kWh/month to assist low-income households (RSA)
FPM	Fine particulate matter
GWh	Gigawatt hour (1 000MWh)
HRREC	Human resources, remuneration and ethics committee
HRSI	Human resources sustainability index
HTF	Helium test facility
HVDC	High-voltage direct current
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
IPP	Independent power producer
IRM	Integrated risk management
ISEP	Integrated strategic electricity planning
ISDA	International Swap Dealer Association
ISRDP	Integrated sustainable rural development plan
IRMSA	Institute of Risk Management South Africa
KPI	Key performance indicators
kt	Kilotons (1 000 tons)
kWh	Kilowatt hour
kWh SO	Kilowatt hour sent out
LME	London Metals Exchange
LTA	Lesotho Telecommunications Authority
MKC	Mountain Kingdom Communications
MMI	Monthly moving index
MW	Megawatt
MWh	Megawatt hour (1 000kWh)
Mℓ	Megalitre (1 000 000 litres)
Mt	Million tons
NPI	National Productivity Institute
N_2O	Nitrous oxide
NO_x	Nitrogen oxide
Nepad	New Partnership for Africa's Development
NER	National Electricity Regulator (RSA)
Nersa	National Energy Regulator of South Africa (RSA) effective from 1 April 2006
NNR	National Nuclear Regulator (RSA)
NQF	National qualifications framework (RSA)
OHSA	Occupational Health and Safety Act
OSI	Operational sustainability index
PCB	Polychlorinated biphenyls
PBMR	Pebble Bed Modular Reactor
PFMA	Public Finance Management Act (RSA)
PIESA	Power Institute of Eastern and Southern Africa
RDP	Reconstruction and development programme (RSA)
RED	Regional electricity distributor
RoD	Record of decision
SAAVI	South African Aids Vaccine Initiative
SADC	Southern African Development Community
SANAS	South African National Accreditation System
SAPP	Southern African power pool
SAQA	South African Qualifications Authority
SMME	Small, medium and micro-enterprises
SNO	Second network operator (RSA telecommunications)
SOE	State-owned enterprise (RSA)
SO_2	Sulphur dioxide
Sm^3	Standard cubic metre
TASK	Tuned assessment of skills and knowledge
TQI	Total quality index
UCF	Unit capability factor
UCLF	Unplanned capacity loss factor
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
VAT	Value added tax (RSA)
VCT	Voluntary counselling and testing (HIV and Aids RSA)
WANO	World Association of Nuclear Operators

GRI and UN Global Compact index

An index to the 2006 Annual Report based on the Global Reporting Initiative (GRI) sustainability reporting guideline criteria and the 10 principles of the UN Global Compact is provided in the table.

Key: ◆ Fully reported
◆ Partially reported

GRI reference	Description	UN Global Compact Principle[1]	Reference(s) in annual report	Page
Vision and strategy				
1.1 – 1.2 ◆	Vision, strategy statement and statement from CEO	8	Profile – vision, key competency, core strategy Chairman's report and Chief executive's report	2, 4 28, 32
Profile				
2.1 – 2.9 ◆	Organisational profile Details of the organisation List of stakeholders		Profile – key facts, tables 5 and 6 Investments in associates, joint ventures and subsidiaries notes 8 – 10 Executive summary Corporate governance – stakeholder engagement Directors' report: – Introduction, functions and objectives of the business	1 – 5, 176, 177 135 – 140 6 – 9 24 – 26 47
2.10 – 2.16 ◆	Report scope – contact person, reporting period, date of previous report, boundaries of report, significant changes, reporting on joint ventures and restatements		Profile – scope of report and contact information Directors' report – introduction Accounting policies Notes 8 to 10 – Investments in associates, joint ventures and subsidiaries	2, 183 47 108 135 – 140
2.17 – 2.22 ◆	Report profile – applying of GRI principles, criteria and definitions and changes in measurement methods. Internal assurance, independent verification, obtaining additional information		Profile – scope of report Chief executive report Corporate governance – stakeholder engagement Directors' report – Introduction, functions and objectives of the business Directors' report – UN global compact Report of the independent auditors to the Minister of Public Enterprises	2 33 24 – 26 47 66 44
Governance structures and management systems				
3.1 – 3.8 ◆	Structures and governance – governance structure, independence of board, advisors to board, board-level processes, organisational structure, shareholder resolutions Link to executive compensation Mission and value statements		Profile – vision Corporate governance Profile – organisational structure Directors' report – introduction (governance structures, processes and internal control), directors' remuneration	4 14 – 27 3 47, 95
3.9 – 3.12 ◆	Stakeholder engagement – identification, consultation and information from stakeholders and its use		Corporate governance – shareholding, shareholder compact, stakeholder engagement Directors' report – customer satisfaction	16 24 – 26 55 – 56
3.13 – 20 ◆	Overarching policies and management systems: – precautionary principle – external initiatives – business association memberships – major operations decisions – impacts, performance programmes – management system certification status	7	Corporate governance – introduction, risk management committee, integrated risk management Directors' report – Introduction, functions and objectives of the business, sustainability, Western Cape electricity supply, capacity planning and management and environmental impact assessments, socio economic, corporate citizenship, high-level performance for the period, technical performance, safety and environment: environmental management system	15, 19 22 47 51 51 – 55 61 – 66 48 – 50, 57, 66, 69

GRI reference	Description	UN Global Compact Principle[1]	Reference(s) in annual report	Page
Performance indicators				
Economic performance indicators (EC)				
EC1 – 5 ◆	Net sales geographic breakdown of markets by sales Cost of all goods, materials, and services purchased Total payroll and benefits		Key statistics Directors' report – value creation and distribution Balance sheets, income statements Tables – categories of customers Notes to the financial statements – employee benefit	7 92 103 – 104 176 – 177 121
EC6 – 10, 12,13 (additional) ◆	Distributions to providers of capital, increase/ decrease in retained earnings, taxes paid by country, subsidies received by country, donations and total spent on non-core business infrastructure Organisation's indirect economic impacts		Balance sheets and income statements Notes to the financial statements Chairman's report Chief executive's report Directors' report – corporate citizenship (electrification, free basic electricity), environmental externalities	103 – 104 108 – 170 28 32 62 – 66 70
Environmental performance indicators (EN)				
EN1, 2 ◆	Materials: total material use and percent of materials used that are wastes	8	Table 2 – Statistical overview Directors' report – safety and environment: waste management	172 73 – 74
EN3, 4, 17 – 19 (additional) ◆	Energy: direct energy use, indirect energy use, renewable energy, energy consumption footprint and other indirect energy use	8 9	Table 2 – Statistical overview Directors' report – capacity planning and management, renewable energy, energy efficiency, research, development and demonstration	172 51 – 54 76 – 78 93 – 95
EN5, 20 – 22 (additional) ◆	Water: water use, water sources, related ecosystems affected by use of water, ground and surface water use as percentage of annual renewable quantity, total recycling and reuse of water	8 9	Directors' report – technical performance, safety and environment: environmental performance and energy purchases and resource management Table 2 – Statistical overview	57 71 77 – 76 172
EN6, 7, 23 – 29 (additional) ◆	Biodiversity: land in biodiversity-rich habitats, major impacts on biodiversity, land managed, operations and impact on protected and sensitive areas	8	Directors' report – safety and environment: Land, biodiversity and quality of supply management Tables 3 and 5	73 174, 176
EN8 – 13, 31 (additional) ◆	Emissions, effluents and waste: greenhouse gas emissions by gas, ozone depleting substances, NO_x, SO_x air emissions, waste by type and destination, water discharges significant spills, hazardous waste	8 9	Directors' report – environmental legal requirement Environmental performance, waste management, climate change, air quality management Tables 2 and 4	69 71 – 73 72 – 77 172, 175
EN14 – 16, 33 (additional) ◆	Products, services, suppliers and compliance: environmental impacts of products and percent of product's weight that is reclaimable and reclaimed, noncompliance penalties, performance of suppliers	8	Directors' report – safety and environment: Occupational hygiene and safety risk management, environmental legal requirements, energy purchases and resource management	66 69 77
EN34, 35 (additional) ◆	Transport and overall impacts of transport Environmental expenditure by type		Directors' report – safety and environment: environmental accounting, energy purchases and resource management: coal	70 77

1. Principle explained on page 182.

GRI reference	Description	UN Global Compact Principle[1]	Reference(s) in annual report	Page
Social performance indicators: labour practices and decent work (LA)				
LA1, 2 (additional) ◆	Employment: employee benefits		Directors' report – management of human resources: remuneration and benefits, value creation and distribution	61, 92
LA3, 4, 13 (additional) ◆	Labour relations: percentage represented unions by country, employee consultation in regard to operations, worker representation	3	Directors' report – management of human resources: Employee relations	61
LA5 – 8, 14 – 15 (additional) ◆	Health and safety: reporting, committees, standard injury and lost day rates and HIV/Aids policies and programmes Compliance with ILO, formal agreements with trade unions on health and safety	1	Corporate governance – board committees: sustainability, Exco Sustainability, occupational hygiene, safety and environmental management Directors' report – health and wellness, managing the impact of HIV/Aids, occupational hygiene and safety risk management, UN global compact	21 26 61 66
LA9 – 11, 16, 17 (additional) ◆	Training, education, diversity and opportunity: career management, skills management, equal opportunity, female/male ratio in management	6	Directors' report – high-level performance for the period, management of human resources – change management, people development, equity, corporate social investments	48 – 50 60 61 – 66
Social performance indicators: human rights (HR)				
HR1 – 7, 8 – 14 (additional) ◆	Human rights: consideration of human rights impacts, non-discrimination, freedom of association, child and forced labour, revenues distributed to local communities	1 2 3 4 5 6	Corporate governance – ethical business conduct Directors' report – management of human resources, social economic	23 59 – 66
Social performance indicators: society (SO)				
SO1 – 3, 4 – 7 (additional) ◆	Society: impacts on communities' bribery and corruption, political lobbying and contributions policy Awards	10	Corporate governance – Public Finance Management Act, ethical business conduct Directors' report – Introduction, socio economic: electrification, free basic electricity, Nepad, UN Global Compact	22 23 47 61 – 66
Social performance indicators: product responsibility (PR)				
PR1 – 3, 4 – 11 (additional) ◆	Product responsibility: customer health and safety, products and services, advertising and privacy		Directors' report – customer satisfaction, safety and environment: occupational hygiene and safety risk management	55 66 – 69

1 and 2 – Human rights
3 – Freedom of association
4 – Elimination of forced or compulsory labour
5 – Abolition of child labour
6 – Eliminate discrimination
7 – Precautionary approach
8 – Environmental responsibility
9 – Friendly technologies
10 – Work against corruption

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