Eskom

Shift performance,
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Reviewed condensed group interim financial statements

for the six months ended 30 September 2013

1923–2013

Contents

The reviewed condensed group interim financial statements have been prepared under the supervision of the acting chief financial officer (CFO), CM Henry CA(SA). These condensed group interim financial statements have been approved on 28 November 2013.

Currency of financial statements

The condensed group interim financial statements are expressed in South African rand (R).

The following are approximate values of R1.00 to the selected currencies and one unit of the selected currencies to the rand:

	R1.00 to the selected currencies			One unit of the selected currency to the rand		
	30 September 2013	31 March 2013	30 September 2012	30 September 2013	31 March 2013	30 September 2012
EUR	0.07	0.08	0.09	13.60	11.82	10.68
USD	0.10	0.11	0.12	10.05	9.21	8.28
GBP	0.06	0.07	0.07	16.22	13.96	13.38
CHF	0.09	0.10	0.11	11.11	9.70	8.83
JPY	10.00	10.00	9.09	0.10	0.10	0.11

Currency	Abbreviation
Euro	EUR
United States dollar	USD
Pound sterling (United Kingdom)	GBP
Swiss franc	CHF
Japanese yen	JPY

Approval of the condensed group interim financial statements

The condensed group interim financial statements from page 6 to page 22 for the six months ended 30 September 2013 have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS), the presentation and disclosure requirements of International Accounting Standards (IAS) 34 *Interim Financial Reporting*, and in the manner required by the Companies Act of South Africa, 71 of 2008. In the opinion of the directors, based on the information available to date, the condensed group interim financial statements fairly present the financial position of the group at 30 September 2013 and the results of the operations and cash flow information for the six months then ended. The condensed group interim financial statements have been approved by the board of directors and signed on its behalf by:

ZA Tsotsi
Chairman

28 November 2013

BA Dames
Chief executive

28 November 2013

CM Henry
Acting chief financial officer

28 November 2013

Independent auditors' review report on the condensed group interim financial statements to the Minister of Public Enterprises

Introduction

We have reviewed the accompanying condensed group interim financial statements of Eskom Holdings SOC Limited, which comprise the condensed group statement of financial position at 30 September 2013, and the condensed group income statement and statements of comprehensive income, changes in equity and cash flows for the six months then ended and selected explanatory notes. The board of directors are responsible for the preparation and presentation of these financial statements in accordance with the recognition and measurement requirements of IFRS, the presentation and disclosure requirements of IAS 34 *Interim Financial Reporting* and the requirements of the Companies Act of South Africa, 71 of 2008. Our responsibility is to express a conclusion on these condensed group interim financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed group interim financial statements of Eskom Holdings SOC Limited for the six months ended 30 September 2013, are not prepared, in all material respects, in accordance with the recognition and measurement requirements of IFRS, the presentation and disclosure requirements of IAS 34 *Interim Financial Reporting* and the requirements of the Companies Act of South Africa, 71 of 2008.

KPMG Inc
Per **HG Motau**
Chartered Accountant (SA)
Registered auditor
Director

28 November 2013

85 Empire Road
Parktown
2193

SizweNtsalubaGobodo Inc
Per **JE Strauss**
Chartered Accountant (SA)
Registered auditor
Director

28 November 2013

20A Morris Street East
Woodmead
2191

Condensed group statement of financial position

at 30 September 2013

	Reviewed 30 September 2013 Rm	Audited 31 March 2013 Rm	Reviewed 30 September 2012 Rm
Assets			
Non-current assets	402 416	378 775	358 920
Property, plant and equipment and intangible assets	366 366	344 271	327 400
Investment in equity-accounted investees	322	296	283
Future fuel supplies	7 741	8 121	6 631
Investment in securities	8 339	8 574	10 316
Loans receivable	8 716	8 425	8 187
Derivatives held for risk management	7 672	5 420	2 615
Other assets	3 260	3 668	3 488
Current assets	79 241	53 241	73 154
Inventories	14 584	12 251	10 855
Investment in securities	4 659	8 776	8 609
Loans receivable	75	114	107
Derivatives held for risk management	3 709	1 906	539
Trade and other receivables	17 477	14 925	19 072
Other assets	8 544	4 649	6 572
Cash and cash equivalents	30 193	10 620	27 400
Non-current assets held-for-sale	8	8	14
Total assets	481 665	432 024	432 088
Equity			
Capital and reserves attributable to owner of the company	123 446	109 139	115 666
Liabilities			
Non-current liabilities	294 950	264 446	262 680
Debt securities	124 879	106 526	97 854
Borrowings	95 582	84 250	100 706
Embedded derivatives	8 211	10 095	3 609
Derivatives held for risk management	13	840	1 500
Deferred tax	21 354	15 806	18 758
Deferred income	11 989	10 907	10 138
Employee benefit obligations	11 099	10 282	9 180
Provisions	17 334	20 087	15 847
Other liabilities	4 489	5 653	5 088
Current liabilities	63 269	58 439	53 742
Debt securities	2 604	2 517	7 937
Borrowings	13 715	9 663	6 863
Embedded derivatives	1 402	1 386	1 232
Derivatives held for risk management	621	572	2 763
Employee benefit obligations	3 169	3 629	3 780
Provisions	6 779	6 648	2 162
Trade and other payables	26 354	28 999	23 115
Taxation	–	9	13
Other liabilities	8 625	5 016	5 877
Total liabilities	358 219	322 885	316 422
Total equity and liabilities	481 665	432 024	432 088

Condensed group income statement

for the six months ended 30 September 2013

	Note	Reviewed six months ended 30 September 2013 Rm	Reviewed six months ended 30 September 2012 Rm	Audited year ended 31 March 2013 Rm
Revenue	17	77 815	73 368	128 869
Primary energy[1]		(31 266)	(24 973)	(60 748)
Net employee benefit expense	18	(12 989)	(11 628)	(23 599)
Depreciation and amortisation expense		(5 920)	(4 722)	(9 968)
Net impairment loss		(682)	(486)	(1 011)
Other operating expenses		(9 111)	(10 045)	(23 123)
Operating profit before net fair value gain/(loss) and net finance (cost)/income		17 847	21 514	10 420
Other income		197	516	1 155
Net fair value loss on financial instruments, excluding embedded derivatives		(998)	(1 292)	(1 655)
Net fair value gain/(loss) on embedded derivatives		1 868	698	(5 942)
Operating profit before net finance (cost)/income		18 914	21 436	3 978
Net finance (cost)/income		(1 853)	(3 785)	3 027
Share of profit of equity-accounted investees, net of tax		26	22	35
Profit before tax		17 087	17 673	7 040
Income tax		(4 846)	(5 044)	(1 857)
Profit for the period		12 241	12 629	5 183
Attributable to:				
Owner of the company		12 241	12 629	5 183

1. *Primary energy relates primarily to the acquisition of coal, uranium, water, gas and diesel that are used in the generation of electricity together with the environmental levy.*

Condensed group statement of comprehensive income

for the six months ended 30 September 2013

	Reviewed six months ended 30 September 2013 Rm	Reviewed six months ended 30 September 2012 Rm	Audited year ended 31 March 2013 Rm
Profit for the period	12 241	12 629	5 183
Other comprehensive income/(loss)	2 066	(66)	853
Items that may be reclassified subsequently to profit or loss	1 795	7	1 418
Available-for-sale financial assets – net change in fair value	(154)	213	43
Cash flow hedges	2 669	(149)	1 992
Foreign currency translation differences on foreign operations	(15)	(39)	(49)
Income tax thereon	(705)	(18)	(568)
Items that may not be reclassified subsequently to profit or loss	271	(73)	(565)
Remeasurement of post-retirement medical aid benefits	376	(101)	(772)
Income tax thereon	(105)	28	207
Total comprehensive income for the period	14 307	12 563	6 036
Attributable to:			
Owner of the company	14 307	12 563	6 036

Condensed group statement of changes in equity

for the six months ended 30 September 2013

	Reviewed six months ended 30 September 2013 Rm	Reviewed six months ended 30 September 2012 Rm	Audited year ended 31 March 2013 Rm
Balance at beginning of the period	109 139	103 103	103 103
Total comprehensive income for the period	14 307	12 563	6 036
Balance at end of the period	123 446	115 666	109 139
Comprising			
Equity reserve	30 520	30 520	30 520
Share capital[1]	–	–	–
Cash flow hedge reserve	5 922	1 605	2 959
Available-for-sale reserve	210	443	321
Unrealised fair value reserve	(7 369)	(281)	(3 648)
Insurance reserve	–	90	–
Foreign currency translation reserve	2	27	17
Accumulated profit	94 161	83 262	78 970
Total equity	123 446	115 666	109 139

1. *Nominal amount.*

Condensed group statement of cash flows

for the six months ended 30 September 2013

	Reviewed six months ended 30 September 2013 Rm	Reviewed six months ended 30 September 2012 Rm	Audited year ended 31 March 2013 Rm
Cash flows from operating activities			
Profit before tax	17 087	17 673	7 040
Adjustment for non-cash items	8 876	12 300	22 620
Changes in working capital	(12 256)	(10 092)	(828)
Cash generated from operations	13 707	19 881	28 832
Net cash flows (used in)/from financial trading assets	(3 317)	(854)	1 701
Net cash flows from/(used in) financial trading liabilities	4 853	(173)	(2 317)
Net cash flows from/(used in) current derivatives held for risk management	4 469	(586)	(331)
Income taxes paid	(87)	(86)	(216)
Net cash from operating activities	19 625	18 182	27 669
Cash flows used in investing activities			
Proceeds from disposal of property, plant and equipment	51	45	36
Acquisitions of property, plant and equipment and intangible assets	(21 639)	(25 244)	(55 381)
Expenditure on future fuel supplies	(1 444)	(926)	(2 533)
Increase in non-current loans receivable	(291)	(752)	(990)
Other cash flows from investing activities	(1 197)	148	460
Net cash used in investing activities	(24 520)	(26 729)	(58 408)
Cash flows from financing activities			
Debt raised	29 475	17 804	31 120
Debt repaid	(4 819)	(2 021)	(7 149)
Decrease in investment in securities	4 050	3 756	5 047
Decrease in finance lease liabilities	(14)	(5)	(31)
Interest received	1 257	1 470	2 765
Interest paid	(5 481)	(4 632)	(9 968)
Net cash from financing activities	24 468	16 372	21 784
Net increase/(decrease) in cash and cash equivalents	19 573	7 825	(8 955)
Cash and cash equivalents at beginning of the period	10 620	19 450	19 450
Cash and cash equivalents at beginning of the period attributable to non-current assets held-for-sale	–	125	125
Cash and cash equivalents at end of the period	30 193	27 400	10 620

Selected notes to the condensed group interim financial statements

for the six months ended 30 September 2013

1. General information

Eskom Holdings SOC Limited, 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, municipalities, and residential customers and to international customers in southern Africa.

2. Basis of preparation

The reviewed condensed group interim financial statements of Eskom as at and for the six months ended 30 September 2013 comprise the company and its subsidiaries (together referred to as the group) and the group's interest in associates and joint arrangements. The reviewed condensed interim group financial statements do not include all of the information required for full financial statements and should be read in conjunction with the Eskom Holdings SOC Limited 31 March 2013 annual financial statements. The annual financial statements of the group as at and for the year ended 31 March 2013 are available for inspection at the company's registered office and on the Eskom website at www.eskom.co.za. The condensed group interim financial statements are prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS), the presentation and disclosure requirements of IAS 34 *Interim Financial Reporting,* and in the manner required by the Companies Act of South Africa, 71 of 2008. The financial statements have been prepared on the going-concern basis.

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

- embedded derivatives
- financial instruments classified as held-for-trading
- financial instruments classified as available-for-sale
- post-retirement employment medical benefits

3. Significant accounting policies

The accounting policies applied by the group in these condensed group interim financial statements are consistent with those applied by the group in the audited financial statements as at and for the year ended 31 March 2013, except for the following new or revised statements and interpretations implemented during the six months ended 30 September 2013.

The nature and effect of the changes are as follows:

IFRS 10 *Consolidated Financial Statements*

The group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees, by focusing on whether the group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

The group reassessed the control conclusion for its investees at 1 April 2013. As a consequence, the group has changed its control conclusion in respect of its investment in South Dunes Coal Terminal (SDCT) SOC Limited, which was previously accounted for as a subsidiary to now be accounted for as a joint arrangement. The effect of this change is regarded to be immaterial.

IFRS 11 *Joint Arrangements*

The group has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, the group classified its interests in joint arrangements as either joint operations or joint ventures depending on the group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the group considers the structure of the arrangements, the legal form of any separate arrangement, the contractual terms of the arrangements and other facts and circumstances. Previously the structure of the arrangement was the sole focus of the classification.

The group has re-evaluated its involvement in its joint arrangements. There was no change in the accounting of its joint arrangements, except for SDCT SOC Limited that has now been accounted for as a joint operation.

IFRS 13 ***Fair Value Measurement***

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRS. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements regarding fair value measurements in other IFRS, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required in interim financial statements. The group has therefore included additional disclosures in this regard (see note 16).

In accordance with the transitional provisions of IFRS 13, the group has applied the new fair value measurement guidance prospectively.

IAS 1 ***Presentation of Financial Statements***

The group has modified the presentation of items of other comprehensive income in its condensed statement of other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be reclassified. Comparative information has been re-presented accordingly.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities or total comprehensive income of the group.

IAS 19 ***Employee Benefits***

The revised IAS 19 had no impact on the accounting policy with respect to the basis for determining the income or expense related to the defined benefit plan as there are no plan assets.

IAS 34 ***Interim Financial Reporting***

The amendment to IAS 34 clarifies that the group needs to disclose both total assets and liabilities for a particular reportable segment. This was already disclosed previously in the financial statements of the group. There is therefore no impact as a result of the amendment.

4. Income tax expense

Income tax expense for the interim period is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year, which is applied to the pre-tax income of the interim period.

5. Seasonality of interim results

The sale of electricity is subject to seasonal fluctuations where revenue is normally higher for the first six months of the financial year (winter months), as compared to the summer months, both in terms of tariff energy charges and peak demand.

6. Unusual changes impacting the condensed group interim financial statements

There have not been any unusual changes impacting the condensed statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows during the six months ended 30 September 2013.

7. Critical accounting estimates and judgements

Estimates and judgements are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The significant estimates and judgements made by management in applying the accounting policies and the key sources of estimating uncertainty were substantially the same as those applied to the financial statements as at and for the year ended 31 March 2013. The forward electricity price used to value the embedded derivatives and the government loan at 30 September 2013 is based on the Multi Year Price Determination three (MYPD 3) tariff increase of 8% for the period 2013/14 to 2017/18, whereafter a forecasted return on the regulatory asset base is used until maturity. Another key estimate in the valuation of embedded derivatives includes the forecast of United States (US) production price index (PPI), which is based on an internal model that simulates US PPI using other observable market prices such as South African consumer price index and ZAR/USD forward exchange rates.

The inclusion of counterparty credit risk in the valuation of certain derivatives (ie cross currency and interest rate swaps) in terms of IFRS 13 resulted in a fair value loss of R932 million included within net fair value loss on financial instruments, excluding embedded derivatives.

Selected notes to the condensed group interim financial statements *continued*

for the six months ended 30 September 2013

8. Issuances, repurchases and repayments of debt securities

The nature of the group's issuances, repurchases and repayments of debt securities are consistent with those reported previously. The details of the debt raised and repaid by the group are disclosed in the statement of cash flows.

9. Dividend paid

No dividend was paid to the shareholder during the six months ended 30 September 2013 (March 2013: nil; September 2012: nil).

10. Segment information

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

The following summary describes the operations in each of the group's reportable segments:

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

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

	Generation Rm	Transmission Rm	Distribution Rm	Group customer services Rm	Group capital Rm	All other segments Rm	Corporate and other Rm	Inter-segment transactions Rm	Group Rm
30 September 2013 (reviewed)									
External revenue	–	3 451	261	73 354	–	749	–	–	77 815
Inter-segment revenue/recoveries	51 296	4 754	13 230	(69 276)	–	4 275	–	(4 279)	–
Total revenue	51 296	8 205	13 491	4 078	–	5 024	–	(4 279)	77 815
Primary energy	(27 922)	(3 168)	–	(43)	(133)	–	–	–	(31 266)
Net employee benefit expense	(3 282)	(749)	(3 362)	(704)	(414)	(1 625)	(2 853)	–	(12 989)
Depreciation and amortisation expense	(3 116)	(603)	(1 399)	(5)	(38)	(138)	(663)	42	(5 920)
Net impairment (loss)/reversal	(10)	(14)	(1)	(670)	–	13	–	–	(682)
Other operating expenses	(8 356)	(1 344)	(4 256)	(1 334)	117	(2 873)	3 139	5 796	(9 111)
Operating profit/(loss) before net fair value (loss)/gain and net finance (cost)/income	8 610	2 327	4 473	1 322	(468)	401	(377)	1 559	17 847
Other income	237	146	142	245	47	248	245	(1 113)	197
Net fair value (loss)/gain on financial instruments, excluding embedded derivatives	(132)	(107)	62	26	(948)	46	55	–	(998)
Net fair value gain on embedded derivatives	–	–	–	1 868	–	–	–	–	1 868
Operating profit/(loss) before net finance income/(cost)	8 715	2 366	4 677	3 461	(1 369)	695	(77)	446	18 914
Net finance (cost)/income	(1 293)	(371)	(272)	107	(22)	(65)	63	–	(1 853)
Share of profit of equity-accounted investees	–	–	–	–	–	8	18	–	26
Profit/(loss) before tax	7 422	1 995	4 405	3 568	(1 391)	638	4	446	17 087
Income tax	–	–	–	–	–	(146)	(4 577)	(123)	(4 846)
Profit/(loss) for the period	7 422	1 995	4 405	3 568	(1 391)	492	(4 573)	323	12 241
Other information									
Total segment assets	106 909	30 334	60 429	15 015	191 341	23 083	73 821	(19 267)	481 665
Total segment liabilities	30 167	1 965	22 361	17 226	13 119	15 554	274 060	(16 233)	358 219
Capital expenditure (including borrowing costs capitalised)	4 167	1 515	5 237	–	18 098	163	1 492	(1 253)	29 419

Selected notes to the condensed group interim financial statements *continued*

for the six months ended 30 September 2013

10. Segment information (continued)

	Genera-tion Rm	Trans-mission Rm	Distri-bution Rm	Group customer services Rm	Group capital Rm	All other segments Rm	Corporate and other Rm	Inter-segment transactions Rm	Group Rm
30 September 2012 (reviewed)									
External revenue	–	3 359	219	68 519	–	1 271	–	–	73 368
Inter-segment revenue/recoveries	45 955	3 663	13 246	(62 816)	–	3 342	–	(3 390)	–
Total revenue	45 955	7 022	13 465	5 703	–	4 613	–	(3 390)	73 368
Primary energy	(22 347)	(2 363)	–	(147)	(116)	–	–	–	(24 973)
Net employee benefit expense	(3 225)	(678)	(3 025)	(700)	(355)	(864)	(2 781)	–	(11 628)
Depreciation and amortisation expense	(2 548)	(450)	(1 152)	(6)	(32)	(134)	(431)	31	(4 722)
Net impairment loss	(2)	–	–	(450)	–	(34)	–	–	(486)
Other operating expenses	(7 106)	(1 023)	(3 542)	(2 296)	30	(3 260)	2 675	4 477	(10 045)
Operating profit/(loss) before net fair value (loss)/gain and net finance income/(cost)	10 727	2 508	5 746	2 104	(473)	321	(537)	1 118	21 514
Other income	212	211	157	130	23	165	244	(626)	516
Net fair value gain/(loss) on financial instrument, excluding embedded derivatives	(36)	56	20	(75)	(761)	4	(490)	(10)	(1 292)
Net fair value on embedded derivatives	–	–	–	698	–	–	–	–	698
Operating profit/(loss) before net finance income/(cost)	10 903	2 775	5 923	2 857	(1 211)	490	(783)	482	21 436
Net finance income/(cost)	(2 998)	(567)	(233)	137	(3)	(56)	(65)	–	(3 785)
Share of profit of equity-accounted investees	–	–	–	–	–	5	17	–	22
Profit/(loss) before tax	7 905	2 208	5 690	2 994	(1 214)	439	(831)	482	17 673
Income tax	–	–	–	–	–	(97)	(4 790)	(157)	(5 044)
Profit/(loss) for the period	7 905	2 208	5 690	2 994	(1 214)	342	(5 621)	325	12 629
Other information									
Total segment assets	93 205	24 688	52 952	14 437	174 948	21 824	64 829	(14 795)	432 088
Total segment liabilities	24 878	2 357	18 825	12 076	9 879	15 163	246 176	(12 932)	316 422
Capital expenditure (including borrowing costs capitalised)	4 112	1 204	4 373	5	29 256	264	544	(92)	39 666

	Genera-tion Rm	Trans-mission Rm	Distri-bution Rm	Group customer services Rm	Group capital Rm	All other segments Rm	Corporate and other Rm	Inter-segment transactions Rm	Group Rm
31 March 2013 (audited)									
External revenue	–	5 999	570	120 773	–	1 527	–	–	128 869
Inter-segment revenue/recoveries	86 395	4 739	18 703	(109 855)	–	8 089	–	(8 071)	–
Total revenue	86 395	10 738	19 273	10 918	–	9 616	–	(8 071)	128 869
Primary energy	(52 353)	(5 011)	–	(3 105)	(279)	–	–	–	(60 748)
Net employee benefit expense	(6 302)	(1 379)	(6 119)	(1 344)	(699)	(2 823)	(4 933)	–	(23 599)
Depreciation and amortisation expense	(5 210)	(954)	(2 662)	(12)	(68)	(244)	(882)	64	(9 968)
Net impairment (loss)/reversal	(3)	–	2	(1 020)	1	11	(2)	–	(1 011)
Other operating expenses	(16 045)	(2 317)	(7 480)	(4 784)	204	(5 827)	5 516	7 610	(23 123)
Operating profit/(loss) before net fair value (loss)/gain and net finance income/(cost)	6 482	1 077	3 014	653	(841)	733	(301)	(397)	10 420
Other income	387	686	326	185	73	390	618	(1 510)	1 155
Net fair value gain/(loss) on financial instrument, excluding embedded derivatives	(8)	(4)	48	(2)	(1 535)	22	(176)	–	(1 655)
Net fair value on embedded derivatives	–	–	–	(5 942)	–	–	–	–	(5 942)
Operating profit/(loss) before net finance income/(cost)	6 861	1 759	3 388	(5 106)	(2 303)	1 145	141	(1 907)	3 978
Net finance income/(cost)	3 153	569	(464)	(46)	(30)	(123)	(32)	–	3 027
Share of profit of equity-accounted investees	–	–	–	–	–	9	26	–	35
Profit/(loss) before tax	10 014	2 328	2 924	(5 152)	(2 333)	1 031	135	(1 907)	7 040
Income tax	–	–	–	–	–	(274)	(2 117)	534	(1 857)
Profit/(loss) for the period	10 014	2 328	2 924	(5 152)	(2 333)	757	(1 982)	(1 373)	5 183
Other information									
Total segment assets	106 798	29 190	56 560	10 261	173 884	22 106	50 622	(17 397)	432 024
Total segment liabilities	34 247	2 569	21 328	18 373	13 010	15 055	232 148	(13 845)	322 885
Capital expenditure (including borrowing costs capitalised)	15 290	6 271	9 271	18	28 157	396	2 255	(612)	61 046

Selected notes to the condensed group interim financial statements *continued*

for the six months ended 30 September 2013

10. Segment information (continued)

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

	Revenue			Non-current assets		
	Reviewed 30 September 2013 Rm	Reviewed 30 September 2012 Rm	Audited 31 March 2013 Rm	Reviewed 30 September 2013 Rm	Reviewed 30 September 2012 Rm	Audited 31 March 2013 Rm
Geographical information						
South Africa	74 646	69 870	122 690	376 663	336 752	355 228
Foreign countries	3 169	3 498	6 179	121	71	106
	77 815	73 368	128 869	376 784	336 823	355 334

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

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

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

11. Material events subsequent to 30 September 2013

Eskom negotiated an amendment to its loan agreement with the International Bank for Reconstruction and Development (World Bank) effective 1 November 2013 that converted a portion of the loan from United States dollar to rand denominated currency. Eskom considers the change in currency to be a substantial modification to the original terms of the loan and will therefore account for the modification as an extinguishment of the original loan and the creation of a new loan in accordance with IAS 39. The estimated financial effect of the extinguishment has not yet been finalised.

12. Material changes in property, plant and equipment

Property, plant and equipment increased by R22 223 million for the group during the six months ended 30 September 2013 as compared to those disclosed in the financial statements as at and for the year ended 31 March 2013. This expenditure relates mainly to the cost incurred on the capital expansion programme.

13. Material changes in contingent liabilities

There were no material changes in contingent liabilities during the six months ended 30 September 2013 from those reported in the financial statements for the year ended 31 March 2013.

14. Material changes in capital commitments

There were no material changes in the contracted capital commitments during the six months ended 30 September 2013 from those reported in the financial statements for the year ended 31 March 2013. Eskom is currently in the process of assessing and reprioritising its capital expenditure programme in response to the MYPD 3 tariff determination by the National Energy Regulator of South Africa (NERSA).

15. Issued share capital

There was no change in the issued share capital during the six months ended 30 September 2013.

16. Fair value classification and measurement

16.1 Accounting classification and fair values

The classification of each class of financial assets and liabilities, and their fair values are:

	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total carrying amount Rm	Fair value Rm
30 September 2013 (reviewed)							
Financial assets measured at fair value							
Investment in securities	–	–	12 998	–	–	12 998	12 998
Government bonds	–	–	9 941	–	–	9 941	9 941
Negotiable certificates of deposits	–	–	3 057	–	–	3 057	3 057
Derivatives held for risk management	2 700	–	–	–	8 681	11 381	11 381
Foreign exchange derivatives	2 645	–	–	–	8 570	11 215	11 215
Interest rate derivatives	–	–	–	–	111	111	111
Credit derivatives	27	–	–	–	–	27	27
Commodity derivatives	28	–	–	–	–	28	28
Financial trading assets	5 703	–	–	–	–	5 703	5 703
Repurchase agreements	4 383	–	–	–	–	4 383	4 383
Listed shares	938	–	–	–	–	938	938
Government bonds	282	–	–	–	–	282	282
Other money market securities	100	–	–	–	–	100	100
Financial assets not measured at fair value							
Loans receivable[1]	–	8 791	–	–	–	8 791	7 252
Residential mortgage backed securities	–	8 362	–	–	–	8 362	7 045
Other	–	429	–	–	–	429	207
Cash and cash equivalents	–	30 193	–	–	–	30 193	30 193
Bank balances	–	8 754	–	–	–	8 754	8 754
Unsettled deals	–	1 051	–	–	–	1 051	1 051
Fixed deposits	–	20 388	–	–	–	20 388	20 388
Trade and other receivables	–	17 802	–	–	–	17 802	17 802
Finance lease receivables	–	–	–	–	547	547	547
Total financial assets	8 403	56 786	12 998	–	9 228	87 415	85 876

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

Selected notes to the condensed group interim financial statements *continued*

for the six months ended 30 September 2013

16. Fair value classification and measurement (continued)

16.1 Accounting classification and fair values (continued)

	Held-for-trading Rm	Loans and receivables Rm	Available-for-sale Rm	Liabilities at amortised cost Rm	Other assets and liabilities Rm	Total carrying amount Rm	Fair value Rm
Financial liabilities measured at fair value							
Financial trading liabilities	5 839	–	–	–	–	5 839	5 839
Short-sold government bonds	969	–	–	–	–	969	969
Commercial paper issued	163	–	–	–	–	163	163
Repurchase agreement	4 707	–	–	–	–	4 707	4 707
Embedded derivatives	–	–	–	–	9 613	9 613	9 613
Derivatives held for risk management	447	–	–	–	187	634	634
Foreign exchange derivatives	447	–	–	–	178	625	625
Interest rate derivatives	–	–	–	–	9	9	9
Financial liabilities not measured at fair value							
Debt securities	–	–	–	127 483	–	127 483	133 381
Eskom bonds	–	–	–	94 853	–	94 853	98 338
Promissory notes	–	–	–	10	–	10	10
Commercial paper	–	–	–	1 673	–	1 673	1 673
Eurorand zero coupon bonds	–	–	–	3 276	–	3 276	3 522
Foreign bonds	–	–	–	27 671	–	27 671	29 838
Borrowings	–	–	–	85 941	23 356	109 297	92 998
Development financing institutions	–	–	–	43 491	–	43 491	36 581
Export credit facilities	–	–	–	29 521	–	29 521	30 485
Floating rate notes	–	–	–	2 014	–	2 014	1 698
Commercial paper	–	–	–	10 716	–	10 716	10 877
Subordinated loan from shareholder	–	–	–	–	23 356	23 356	13 158
Rand loans	–	–	–	199	–	199	199
Finance lease liabilities	–	–	–	–	506	506	506
Trade and other payables	–	–	–	26 661	–	26 661	26 661
Total financial liabilities	6 286	–	–	240 085	33 662	280 033	269 632
Net financial assets/(liabilities)	2 117	56 786	12 998	(240 085)	(24 434)	(192 618)	(183 756)

16.2 Fair value hierarchy

The table below analyses fair value measurements for financial instruments categorised into the fair value hierarchy based on the inputs used. The different levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the group can access at the measurement date.

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

Level 3: Unobservable inputs for the asset or liability.

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
30 September 2013 (reviewed)				
Financial assets measured at fair value				
Investment in securities	9 941	3 057	–	12 998
Government bonds	9 941	–	–	9 941
Negotiable certificates of deposits	–	3 057	–	3 057
Derivatives held for risk management	–	11 381	–	11 381
Foreign exchange derivatives	–	11 215	–	11 215
Interest rate derivatives	–	111	–	111
Credit derivatives	–	27	–	27
Commodity derivatives	–	28	–	28
Financial trading assets	1 220	4 483	–	5 703
Repurchase agreements	–	4 383	–	4 383
Listed shares	938	–	–	938
Government bonds	282	–	–	282
Other money market securities	–	100	–	100
	11 161	18 921	–	30 082
Financial liabilities measured at fair value				
Financial trading liabilities	969	4 870	–	5 839
Short-sold government bonds	969	–	–	969
Commercial paper issued	–	163	–	163
Repurchase agreements	–	4 707	–	4 707
Embedded derivatives	–	–	9 613	9 613
Derivatives held for risk management	–	634	–	634
Foreign exchange derivatives	–	625	–	625
Interest rate derivatives	–	9	–	9
	969	5 504	9 613	16 086

16. Fair value classification and measurement (continued)

16.2 Fair value hierarchy (continued)

Transfers

The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. There were no transfers between level 1, 2 or 3 of the fair value hierarchy during the six months ended 30 September 2013.

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

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

Group's valuation processes

The group has established a controlled framework with respect to the measurement of fair values. The framework includes a valuation team that reports to the CFO, and has overall responsibility for all significant fair value measurements, including level 3 fair values.

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

Level 2 fair values

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

Level 3 fair values: embedded derivatives

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

The valuation at initial recognition is adjusted for cash flows since inception. The value of the embedded derivatives, which includes a foreign currency element is first determined by calculating the future cash flows and then discounting the cash flows converted at the relevant interest rate curve and only then is the net present value of the cash flows converted at the rand/foreign currency spot rate to the reporting currency. The fair value of the embedded derivative is adjusted, where applicable, to take into account the inherent uncertainty relating to the future cash flows of embedded derivatives such as liquidity, model risk and other economic factors.

The 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 prices indices
- Liquidity, model risk and other economic factors

Movement analysis

The movement in the fair value measurements in level 3 of the fair value hierarchy is as follows:

	Reviewed six months ended 30 September 2013 Rm
Carrying value at beginning of the period	11 481
Net fair value gain on embedded derivatives	(1 868)
Carrying value at end of the period	9 613

Valuation assumptions

The forward electricity price curve used to value embedded derivatives at 30 September 2013 is based on the current MYPD 3 approved tariff increase of 8% for 2013/14 to 2017/18, whereafter a forecasted return on the regulatory assets base is used until maturity. The contracted electricity price used to value embedded derivatives is based on a combination of the factors in the table below over the contracted period. Forecast sales volumes are based on the most likely future sales volumes, which have been back-tested against historic volumes. The fair value of embedded derivatives takes into account the inherent uncertainty relating to the future cash flows of embedded derivatives such as liquidity, model risk, period and other economic factors.

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

		Period ended 30 September (reviewed)					
Input	Unit	2013	2014	2015	2016	2017	2018
Aluminium	USD per ton	1 794	1 881	1 994	2 094	2 181	2 256
Volatility	Year-on-year (ratio)	0.25	0.25	0.25	0.25	0.25	0.25
Rand interest rate	Continuous actual/365 days (%)	4.97	5.47	5.89	6.22	6.66	7.00
Dollar interest rate	Annual actual/360 days (%)	0.23	0.42	0.60	0.54	0.87	1.27
United States PPI	Year-on-year (%)	0.79	2.28	2.74	1.99	2.14	2.36
Rand/USD	USD per rand	0.10	0.10	0.09	0.09	0.08	0.08

Sensitivity analysis

The approximate change in the value of embedded derivatives if one of the inputs is changed is disclosed below. The only significant unobservable input is the US PPI. The analysis assumes that all other variables remain constant and the possible impact on profit or loss is:

	Reviewed 30 September 2013	
	1% increase Rm	1% decrease Rm
Electricity tariffs	(782)	757
United States PPI	233	(227)

Selected notes to the condensed group interim financial statements *continued*

for the six months ended 30 September 2013

16. Fair value classification and measurement (continued)

16.3 Day-one gain/loss

Derivatives held for risk management

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

Movement analysis

Where applicable, the group recognises a day-one gain or loss on initial recognition of financial instruments accounted for as cash flow hedges. The amounts relating to the day-one loss from the cross currency swaps and interest rate swaps accounted for by the group in derivatives held for risk management, are outlined below:

	Reviewed six months ended 30 September 2013 Rm
Balance at beginning of period	252
Day-one loss recognised during period	(49)
Amortised to profit or loss	(15)
Balance at end of period	188

The day-one gain or loss balance at the end of the period is included within the following categories:

	Reviewed six months ended 30 September 2013 Rm
Debt securities issued	138
Borrowings	50
	188

	Reviewed six months ended 30 September 2013 Rm	Reviewed six months ended 30 September 2012 Rm	Audited year ended 31 March 2013 Rm
17. Revenue			
Electricity revenue	76 294	71 878	126 663
Other revenue, excluding electricity revenue	1 521	1 490	2 206
	77 815	73 368	128 869
18. Net employee benefit expense			
Gross employee benefit expense	15 605	13 972	28 661
Employee benefit expense capitalised to property, plant and equipment	(2 616)	(2 344)	(5 062)
	12 989	11 628	23 599


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