Directors' report (continued)
for the year ended 31 March 2017

Funding
The group's net cash inflow from operating activities was R45.8 billion (2016: R37.2 billion) for the year, reflecting an increase of 23.1%. The liquidity position, comprising cash and cash equivalents plus investment in securities, was R32.5 billion (2016: R38.7 billion) at 31 March 2017. Eskom also has an additional R6.3 billion committed bank facilities available. The group therefore has access to adequate resources and facilities to continue as a going concern for the foreseeable future.

The board approved a revised borrowing programme of R338 billion for the period 1 April 2017 to 31 March 2022. National Treasury extended the current government guarantee framework agreement to 31 March 2023 thereby enabling Eskom in obtaining its required funding. A total of 53% (excluding the current cash and cash equivalents) of the funding requirement of R71.7 billion for the 2018 financial year has already been secured. Potential funding sources have been identified and plans are in place to secure the rest of the required funding.

Standard & Poor's downgraded Eskom's foreign and local currency credit ratings while Fitch only downgraded Eskom's local currency credit rating during the 2017 financial year. Both rating agencies further downgraded Eskom in April 2017. Moody's also downgraded Eskom's rating to a negative outlook on 13 June 2017.

Eskom was not severely impacted by the credit rating downgrades but may be impacted with increased funding cost in the future, even though the current market conditions remain constructive for funding.

Refer to the integrated report on page 90 for more information.

Economic regulation
NERSA granted Eskom a price increase of 2.2% for 2018. Eskom will focus on further internal cost efficiencies and sales growth programmes to mitigate the shortfall of the below inflation price increase.

Eskom submitted the 2015 regulatory clearing account (RCA) application of R19.2 billion to NERSA in May 2016, while the 2016 RCA application of R23.6 billion was submitted in July 2016. The 2017 RCA application will be submitted in July 2017.

The High Court of South Africa set aside NERSA's decision regarding the 2014 RCA on 16 August 2016 and remitted it back to NERSA. NERSA and Eskom were granted permission to appeal the decision. The court case was held on 4 May 2017 and the Supreme Court of Appeal upheld NERSA and Eskom's appeal on 6 June 2017. Eskom is awaiting feedback from NERSA on the way forward regarding the RCA applications.

NERSA approved Eskom's request for a single-year price increase application for 2019. Eskom submitted a one-year application on 19 April 2017 for consultation to National Treasury and South African Local Government Association. Eskom made a formal application to NERSA on 9 June 2017 and is expecting NERSA's determination before 31 December 2017 for implementation on 1 April 2018.

Refer to the integrated report on page 87 for more information.

Debt management
Arrear municipal debt (including interest) increased from R6.0 billion in 2016 to R9.4 billion at 31 March 2017 and remains unacceptably high despite numerous interventions. The Soweto arrear debt (excluding interest) increased to R5.3 billion (2016: R4.7 billion) at 31 March 2017.

Eskom will continue to implement technologies to prevent tampering with meters and to facilitate the conversion of post-paid customers to prepaid. Eskom is currently installing prepaid meters in Sandton, Midrand, Soweto and Kagiso. Eskom installed 29 599 smart meters during the year in these areas and 13 255 meters were converted to prepaid split metering. Eskom is also engaging with municipalities in two provinces to implement a pilot project to install prepaid electricity meters for their customers.

Refer to the integrated report on page 38 for more information.

Operating performance
The energy availability factor (EAF) improved from 71.07% to 77.30% for the year, exceeding the target of 72.00%. Particulate emissions of 0.30kg/MWhSO improved on the 2016 performance of 0.36kg/MWhSO. Water usage related to power station operations for the year was 1.42ℓ/kWhSO, better than last year's performance of 1.44ℓ/kWhSO.

The combination of improved plant performance, stagnant demand growth and an increase in IPP capacity is expected to result in excess generation capacity over the medium term. Eskom will consider options to manage any surplus generating capacity, including placing units in cold reserve or lean preservation (where units can be fully recalled to meet demand). Any decision to decommission power stations will only be made as a last resort in a way that optimises coal, people and capital costs across the fleet.

The transmission system minute <1 performance target was achieved with a performance of 3.80 (2016: 2.41), notwithstanding the negative impact of a few relatively large incidents involving plant failures during the year and a 1.60 (2016: 1.51) line faults per 100 km performance was achieved against a target of 2.2. The frequency and duration of distribution network incidents were better than target, with interruption frequency showing an improvement from 2016.

The KeyCare and Top Customer KeyCare measures, which measure the satisfaction of large industrial customers, improved during the year.

Eskom's safety performance remains a concern, particularly in light of the number of fatalities and serious injuries suffered by employees, contractors and the public during the year. The number of contractor and public fatalities reduced compared to 2016. Unfortunately, despite Eskom's intense commitment to safety, there were four (2016: four) employee and six (2016: 13) contractor fatalities.

Refer to the integrated report on page 42 for more information.

Notes to the financial statements (continued)

for the year ended 31 March 2017

5. Financial risk management (continued)

5.1 Credit risk (continued)

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

(a) Trade and other receivables (continued)

Trade receivables (continued)

Local small power users

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

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

Soweto receivables are an identified high-credit risk area subject to specific credit risk management. The collection of revenue from customers in Soweto remains a challenge. The enhancement of credit control strategies and monitoring of payment levels in this area continue to receive management attention. The payment levels expressed as a percentage of billed revenue (excluding interest) for the year was 16% (2016: 18%). The residential revenue management strategy, which includes Soweto, continues to be implemented. The strategy entails implementation of split metering technology, conversion of meters to prepayment and stepping up disconnections for customers to improve payment levels.

An analysis of trade receivables days outstanding is presented below:

	Carrying amount	Not impaired[1]					Impaired				
		Not past due	Days past due 0-15	16-45	46-75	>75	Not past due	Days past due 0-15	16-45	46-75	>75
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Group and company											
2017											
Individually assessed for impairment											
International	1 582	806	–	–	–	–	189	86	203	288	10
Gross	1 704	806	–	–	–	–	189	86	203	288	132
Impairment	(122)	–	–	–	–	–	–	–	–	–	(122)
Local large power users – municipalities	7 207	1 284	–	–	–	–	4 421	188	390	100	824
Gross	11 102	1 284	–	–	–	–	4 430	781	1 782	379	2 446
Impairment	(3 895)	–	–	–	–	–	(9)	(593)	(1 392)	(279)	(1 622)
Local large power users – other	7 149	6 971	69	20	2	4	16	2	8	4	53
Gross	7 560	6 971	69	20	2	4	27	4	22	12	429
Impairment	(411)	–	–	–	–	–	(11)	(2)	(14)	(8)	(376)

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