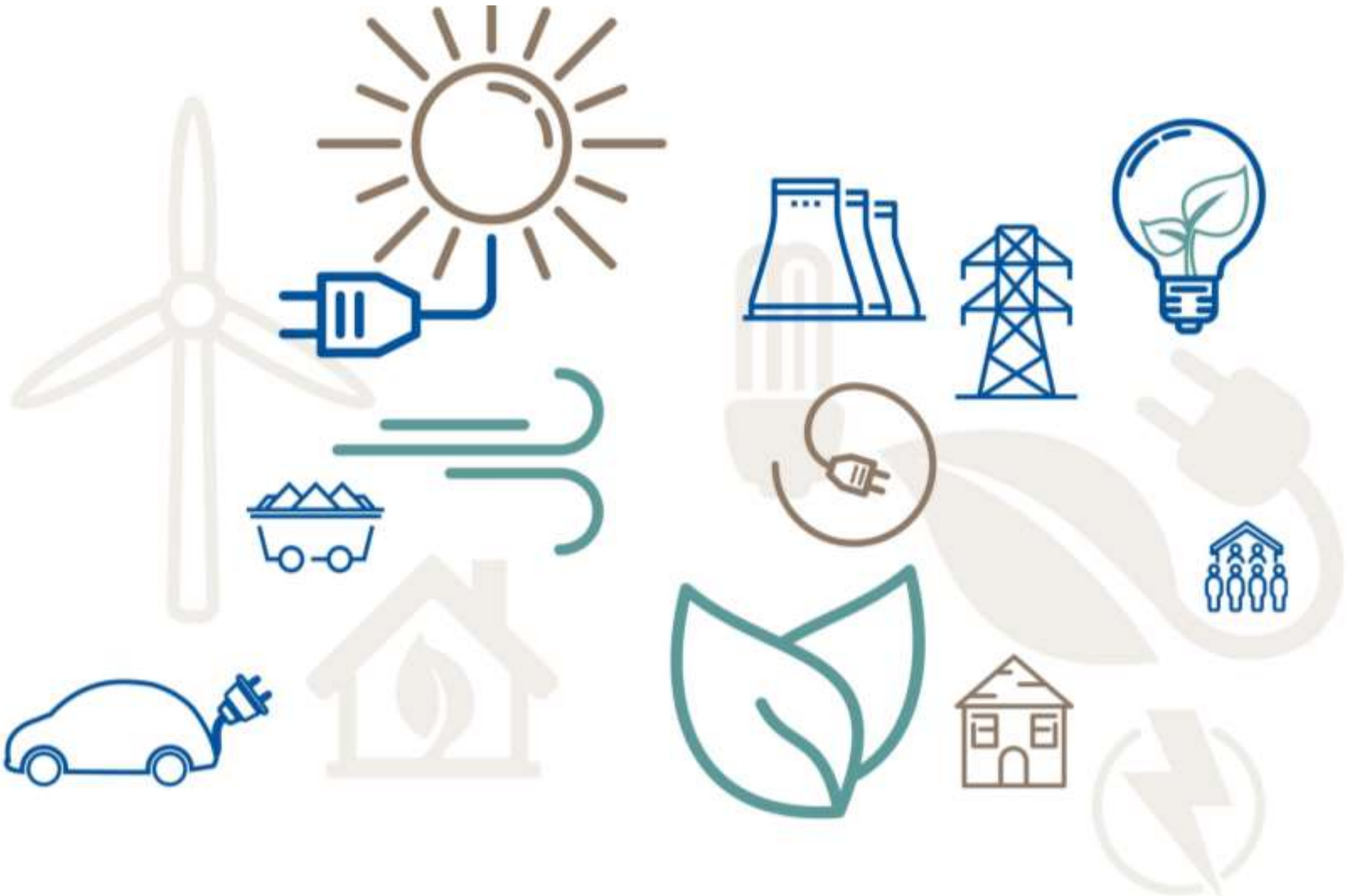
Eskom group interim results

for the six months ended 30 September 2019



28 November 2019 The results presentation is available at **www.eskom.co.za/IR2019/interim**

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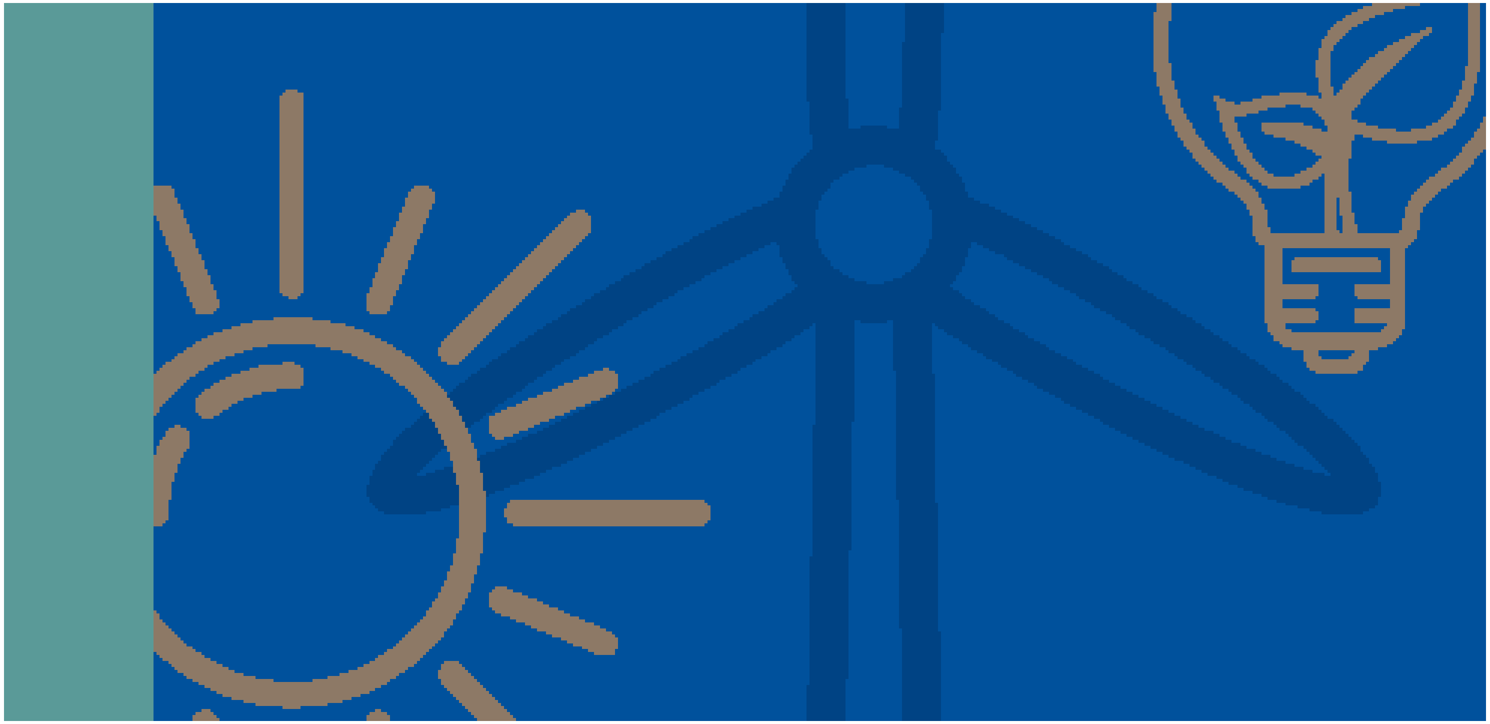


Driving Eskom's turnaround for sustainability

- Eskom's strategy to stabilise, separate and grow the company to achieve financial and operational sustainability is aligned to DPE's special paper
- Last year, we announced the four pillars of our turnaround strategy, namely:

1. ❖ Revenue optimisation through achieving cost-reflective tariffs and increasing sales volumes
2. ❖ Cost curtailment through cash savings on operational and capital costs, and working capital, to improve liquidity and financial sustainability
3. ❖ Debt relief through Government support
4. ❖ Unbundling Eskom into three entities under a holding company

Eskom's turnaround journey

- The Generation nine-point recovery programme to improve operational performance ensured no loadshedding during winter
- However, loadshedding was required for five days during October and November to stabilise the system, due to unacceptably high levels of unplanned load losses and a shortage of emergency reserves
- Despite positive financial performance for the first half of the year, cash flows remain severely constrained
- Financial performance is cyclical, with a loss projected by year end
- Eskom remains reliant on Government support to maintain a positive cash balance by 31 March 2020
- Progress to instil governance and root out financial mismanagement, malfeasance and maladministration is encouraging

Financial performance

Financial environment remains challenging

- EBITDA of R30.6 billion (Sept 2018: R28.3 billion)
- Net profit after tax of R1.3 billion (Sept 2018: R0.6 billion)
- Net cash from operations of R19.7 billion (Sept 2018: R26.7 billion)

1. Eskom has lodged applications with the High Court to review NERSA's recent tariff determinations

- Decline in sales continues, with sales volumes 1.29% lower than Sept 2018, with growth hampered by capacity shortages and economic conditions

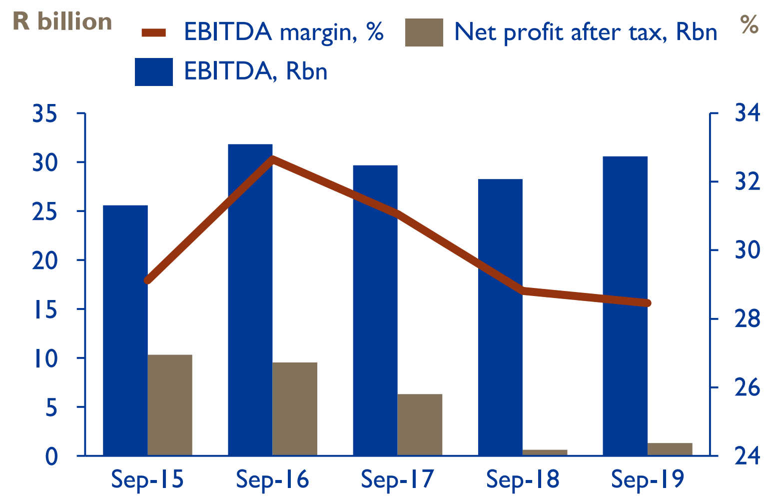
2. While savings of R5.6 billion have been achieved, savings to year end are expected to be negatively affected by cost overruns on diesel usage to stabilise the grid, as well as escalating municipal arrear debt
3. Government support of R49 billion for 2019/20 and R56 billion for 2020/21 aimed at debt relief, to support Eskom's status as a going concern

- A total of 61% of 2019/20 funding requirement secured to September 2019

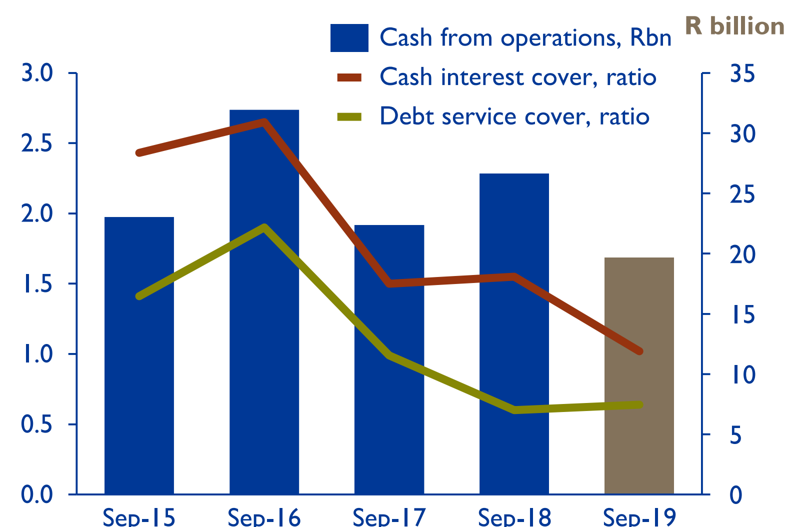
Most financial ratios deteriorated and are expected to deteriorate further before improving

Measure	Sept 2019		Sept 2018
Revenue, R million	**107 502**	↑	98 104
EBITDA, R million	**30 592**	↑	28 263
Net profit/(loss) after tax, R million	**1 325**	↑	627
EBITDA margin, %	**28.46**	↓	28.81
Cash interest cover, ratio	**1.02**	↓	1.55
After Govt support	**1.14**		n/a
Debt service cover, ratio	**0.64**	↑	0.60
After Govt support	**1.14**		n/a
Gross debt/EBITDA, ratio	**16.55**	↓	16.59
Debt/equity (including long-term provisions), ratio	**2.82**	↑	2.51
Gearing, %	**74**	↑	72

Profitability



Cash from operations



Increase in EBITDA year-on-year; net profit recorded in the first half of the year

R million	Sept 2019	Sept 2018	YoY % change
Revenue	**107 502**	98 104	10
Other income	**677**	1 678	(60)
Primary energy	**(52 018)**	(46 146)	(13)
Employee benefit expense	**(16 454)**	(16 944)	3
Net impairment (loss)/reversal	**(781)**	594	
Other expenses	**(8 334)**	(9 023)	8
EBITDA (before net fair value loss)	**30 592**	28 263	8
Depreciation and amortisation	**(13 503)**	(12 870)	(5)
Net fair value loss on financial instruments and embedded derivatives	**(480)**	(821)	42
Net finance cost	**(14 804)**	(13 733)	(8)
Share of profit of equity-accounted investees, net of tax	**40**	22	82
Profit before tax	**1 845**	861	114
Income tax	**(520)**	(234)	(122)
Net profit for the period	**1 325**	627	111

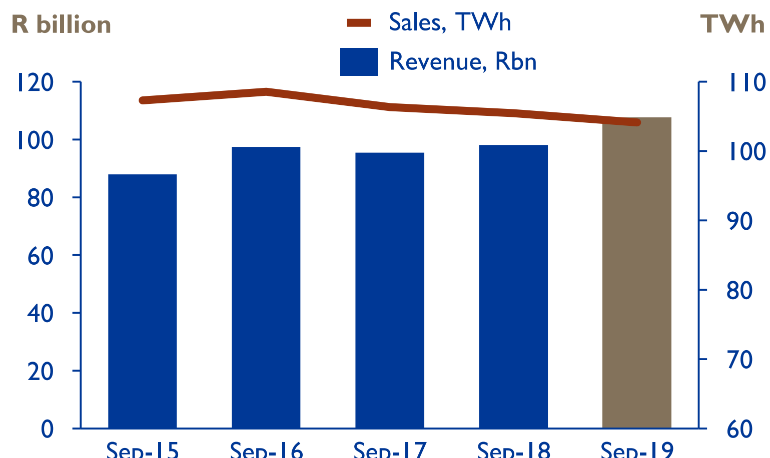
- Revenue: negatively impacted by capitalisation of pre-commissioning revenue
- Primary energy cost: higher coal cost and OCGT utilisation; increased IPP production
- Employee benefit cost declined: once-off payment to unionised staff in prior year, coupled with headcount reduction through attrition – vacancies not filled
- Depreciation growth: commissioning of new power station units and accelerated depreciation on Komati
- Finance costs: growth in borrowings and higher rates

Total revenue increased by 10% despite declining local sales volumes

	Sept 2019	Sept 2018	YoY % change
Revenue, R million			
Local	**108 568**	99 459	9
International	**6 151**	4 129	49
Gross electricity revenue	**114 719**	103 588	11
Net revenue not recognised	**(4 145)**	(4 601)	10
Total electricity revenue	**110 574**	98 987	12
Other revenue	**1 134**	518	119
Capitalised	**(4 206)**	(1 401)	(200)
Total revenue	**107 502**	98 104	10
Sales, GWh			
Local	**96 640**	99 367	(3)
International	**7 476**	6 115	22
Total sales	**104 116**	105 482	(1)

- Reduction of 2.7TWh in local sales, mainly in industrial and distributor categories
- International sales increased
- Average electricity price of 110c/kWh increased by 12.1%, below NERSA's overall tariff determination of 13.87% due to a change in mix and consumption patterns

Sales and revenue



Production decreased by 4.3TWh but primary energy cost increased by 13%

	Sept 2019			Sept 2018			
	Cost, R million	**Sent out, GWh**	**Unit cost, R/MWh**	**Cost, R million**	**Sent out, GWh**	**Unit cost, R/MWh**	**R/MWh YoY % change**
Coal and other[1]	**36 026**	**98 037**	**367**	32 570	104 901	310	↑ (18)
Nuclear	**732**	**7 564**	**97**	568	5 538	102	↓ 5
OCGTs[2]	**1 100**	**331**	**3 327**	310	108	2 876	↑ (16)
Total Eskom generation[3]	**37 858**	**105 932**	**357**	33 448	110 547	303	↑ (18)
Renewable IPPs	**11 241**	**5 220**	**2 153**	9 710	4 845	2 004	↑ (7)
IPP OCGTs[4]	**926**	**169**	**4 389**	1 083	232	4 664	↓ 6
Total IPPs[4]	**12 167**	**5 389**	**2 223**	10 793	5 077	2 126	↑ (5)
International purchases	**1 993**	**3 703**	**538**	1 905	3 721	512	↑ (5)
Total primary energy	**52 018**	**115 024**	**452**	46 146	119 345	387	↑ (17)

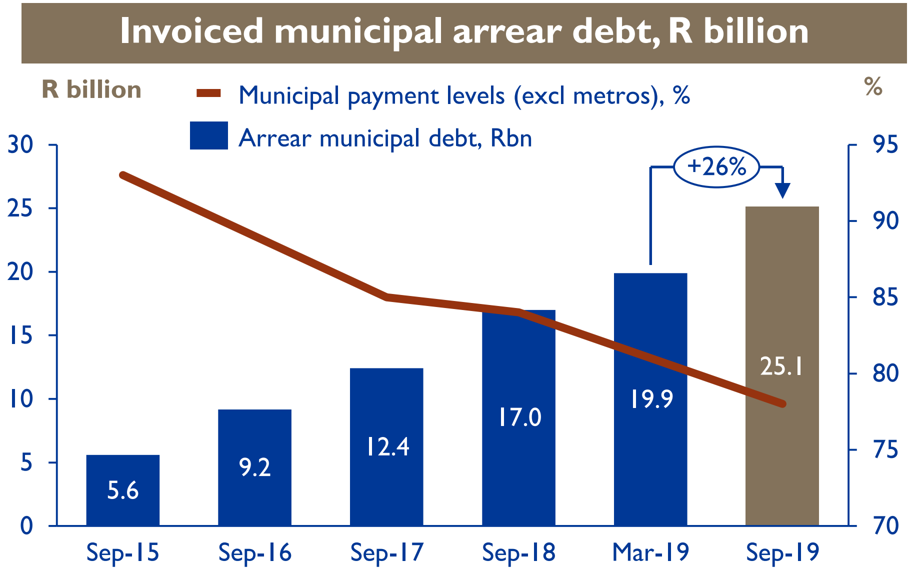
1. Excluding Medupi and Kusile pre-commissioning production of 5 099GWh
2. OCGT cost comprises fuel, start-up cost and storage and demurrage charges
3. The Eskom generation cost includes only fuel-related costs, and excludes other costs like maintenance and staff costs
4. IPP unit cost is calculated on fuel cost (variable cost) only, and excludes maintenance and capacity charges. Maintenance is included in the total cost shown

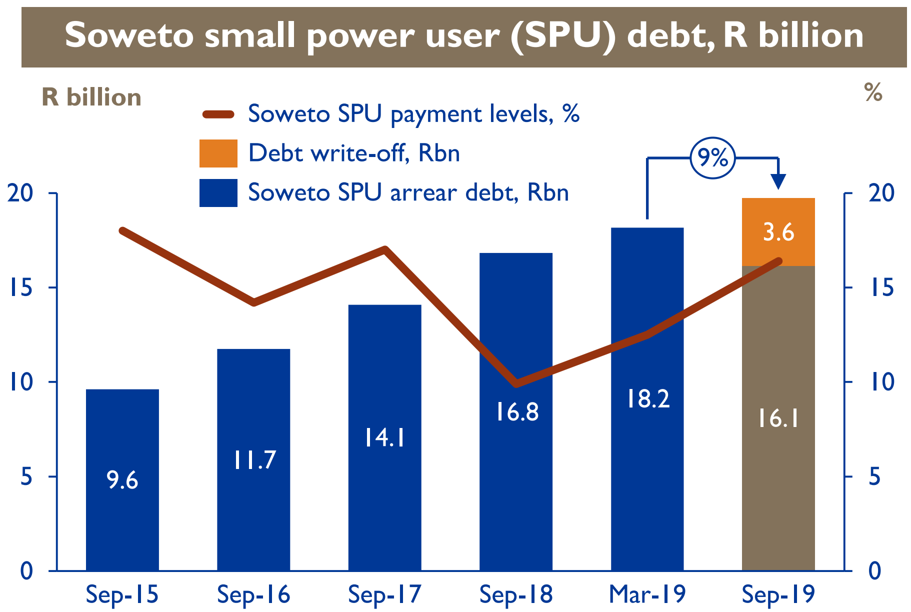
Cash from operations is insufficient to service debt commitments and a portion of investing activities without Government support

R million	Sept 2019	Sept 2018	YoY % change
Net cash from operating activities	**19 675**	26 656	(26)
Cash required for debt servicing (capital and interest)	**(31 017)**	(45 220)	31
Net cash shortfall before investing activities	**(11 342)**	(18 564)	
Acquisition of property, plant and equipment and intangibles	**(11 856)**	(17 738)	33
Cash flow used in other investing activities	**(643)**	(323)	(99)
Net cash shortfall before financing activities	**(23 841)**	(36 625)	
Debt raised	**15 737**	33 688	(53)
Cash flow from other financing activities	**440**	3 908	(89)
Net cash (shortfall)/surplus before Government support	**(7 664)**	971	
Government support[1]	**13 500**	–	
Net increase in cash and cash equivalents	**5 836**	971	

1. Government support is restricted for use to service debt

Arrear debt continues to increase





- Invoiced municipal arrear debt (including interest) increased by R5.2 billion since March 2019, to R25.1 billion
- Payment level of 78% by municipalities (excluding metros) on amounts billed, declining from 93% four years ago. Payment level of 44% for top 20 defaulters
- Invoiced Soweto SPU arrear debt (including interest) at R16.1 billion (Mar 2019: R18 billion) after writing off *in duplum* interest of R3.6 billion; payment level of 16%
- Eskom welcomes the zero tolerance for non-payment articulated by the President, when he indicated that consumers must pay for services received

Debt continues to increase, exceeding R450 billion

Financial position, R million	Sept 2019	Sept 2018	YoY % change
Property, plant and equipment and intangible assets	**659 734**	645 131	2
Working capital – inventory and receivables	**60 725**	48 846	24
Liquid assets	**7 814**	17 342	(55)
Other assets	**55 622**	49 339	13
Total assets	**783 895**	760 658	3
Equity	**168 747**	174 397	(3)
Debt securities and borrowings	**454 207**	419 213	8
Working capital – payables	**48 670**	46 654	4
Other liabilities	**112 271**	120 394	(7)
Total equity and liabilities	**783 895**	760 658	3

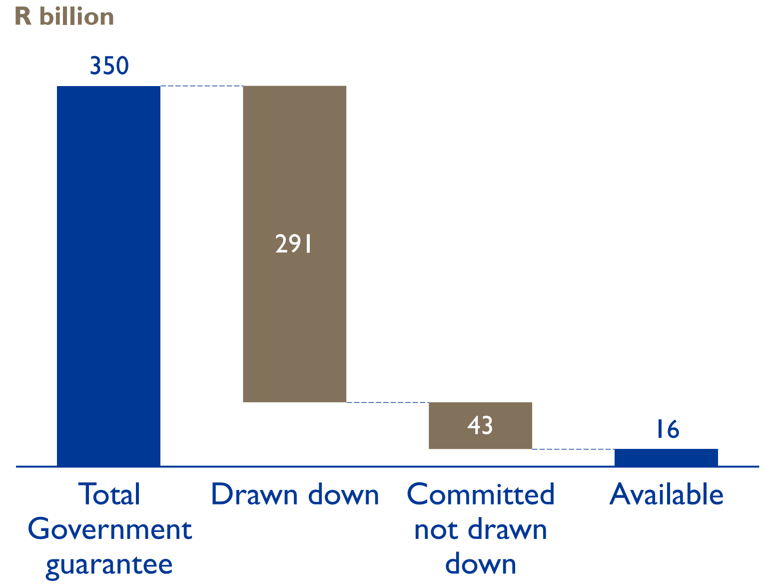
Total of 61% of funding secured for 2020 financial year (at 30 September 2019)

R billion	Target	Committed
DFIs	22.2	21.9
ECAs	1.4	0.3
Domestic bonds and notes > 1 year	7.9	4.5
Domestic bonds and notes < 1 year	4.4	1.4
Structured products	3.0	–
International bonds	7.4	–
Total funding[1]	**46.2**	**28.1**
Percentage secured		**61%**

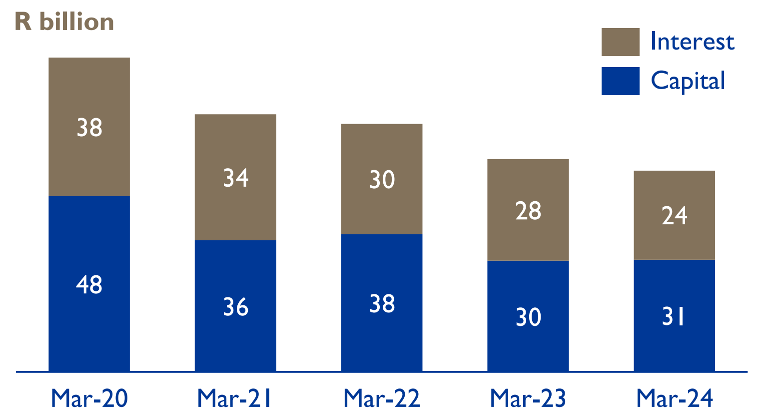
A total of R17.6 billion has been drawn down on facilities to 30 September 2019

1. Gross of commercial paper

Guarantee utilisation

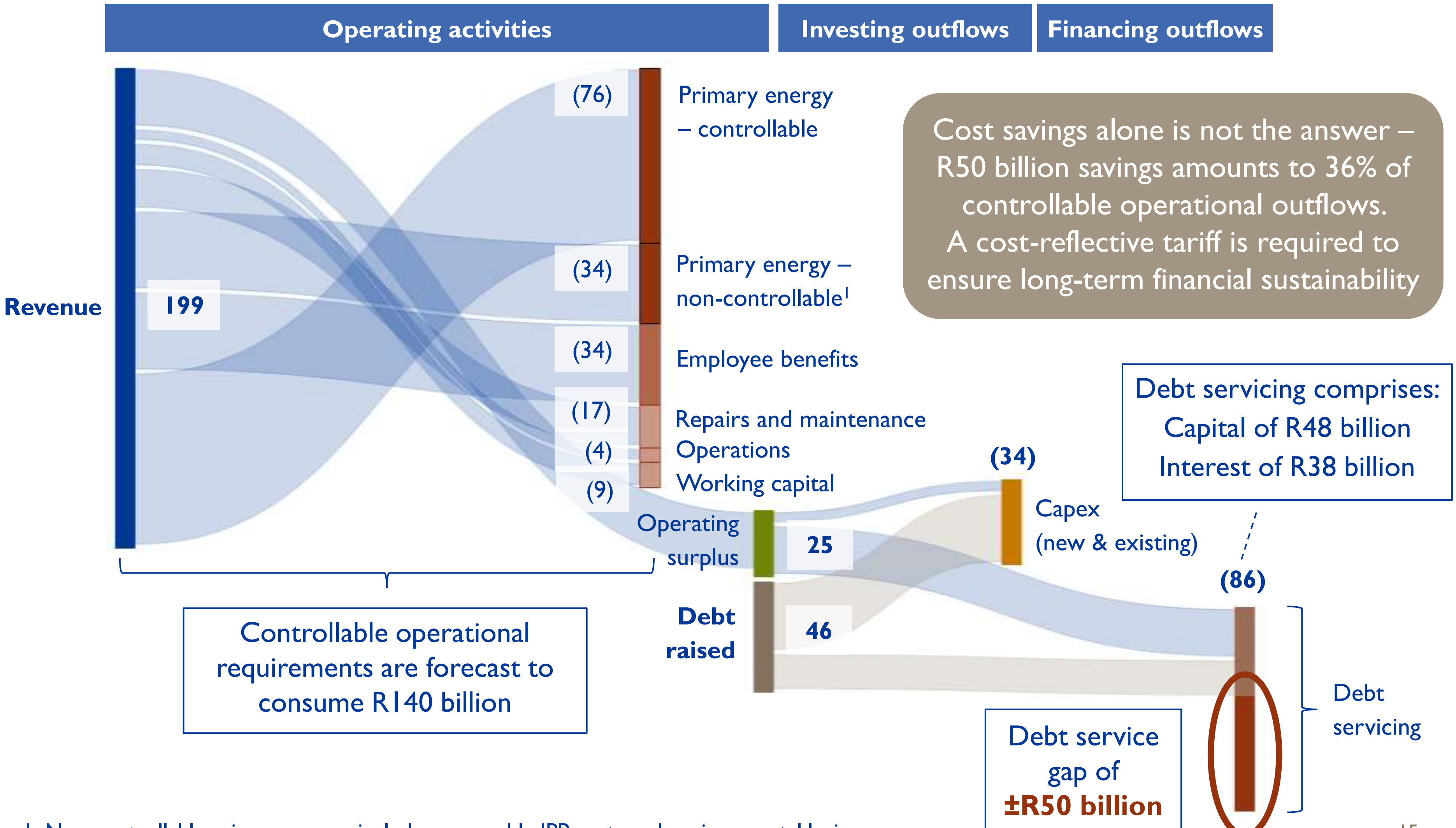


Projected debt maturity profile



Projections indicate we are unable to service debt and fund capex through operations and debt raising alone

Forecast cash flows to 31 March 2020, R billion



Cost savings alone is not the answer – R50 billion savings amounts to 36% of controllable operational outflows. A cost-reflective tariff is required to ensure long-term financial sustainability

Debt servicing comprises:
Capital of R48 billion
Interest of R38 billion

Controllable operational requirements are forecast to consume R140 billion

Debt service gap of **±R50 billion**

1. Non-controllable primary energy includes renewable IPP costs and environmental levies

Loss similar to 2019 is projected to year end

- Despite the profit recorded for the first half of the financial year, we are projecting a loss at year end, similar to that recorded in the prior year
- Performance in the second half of the year has historically been worse than the first:
  - Revenue: lower summer tariffs combined with lower sales volumes in the second half of year, resulting in a decline in revenue compared to the first six months
  - Primary energy: lower production from Eskom coal-fired stations due to higher summer maintenance; higher production by RE-IPPs, specifically solar PV; higher coal burn cost due to more expensive coal being used from increased stockpiles and contractual price increases; as well as the possibility of higher OCGT usage
  - Employee benefit expense: the full impact of annual salary increases (7% for bargaining unit per negotiated wage agreement; 2.8% for managerial levels) is felt
  - Other opex: higher maintenance costs linked to additional funding provided for the Generation nine-point programme and network strengthening in all divisions to support operational recovery
- EBITDA for the second half of the year is expected to show a break-even position, before the effect of depreciation and net finance cost, thereby resulting in an overall projected loss

Operational performance

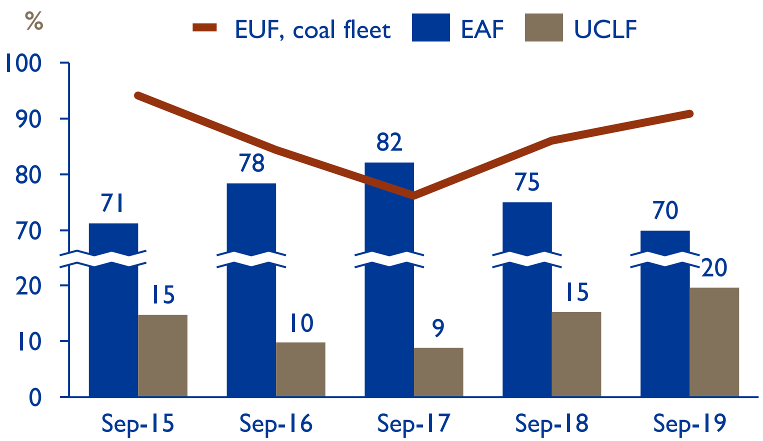
Implementation of the Generation nine-point recovery programme is showing good progress

- The medium-term programme aims to address critical pain points to fast-track improvement in Generation performance and plant availability
- Only one station's coal stock level remains below minimum (Mar 2019: nine)
- Improvement in availability of new build units due to defects being addressed
- Two major units on outage (Lethabo Unit 5 of 593MW and Duvha Unit 1 of 575MW) are expected to be returned to service by the end of January 2020
- Utilisation of open-cycle gas turbines down on the previous six months
- Average partial load losses continue to exceed the target of 3 500MW, and boiler tube leaks remain a challenge
- Outage effectiveness and timely return to service of units remain a concern, contributing to the high level of unplanned losses
- Environmental performance remains poor, particularly at Kendal and Matla, although some improvement has been achieved by taking units out of service

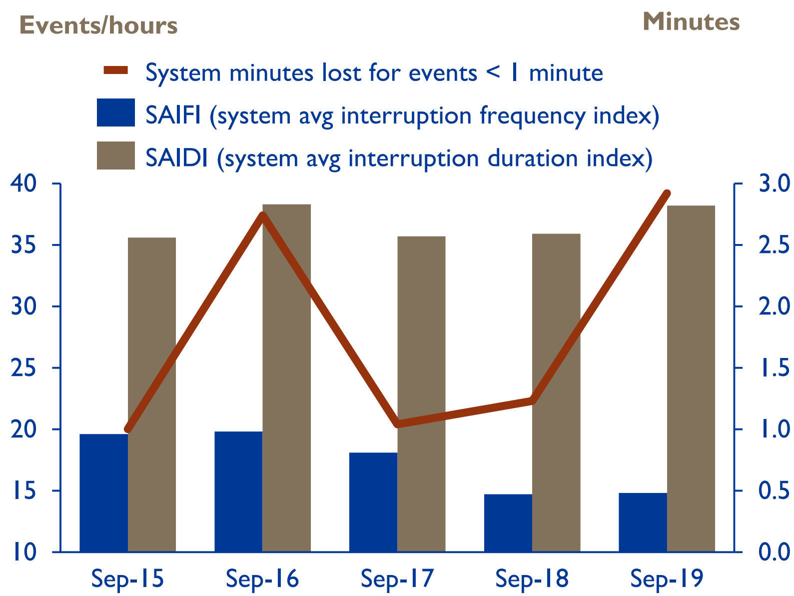
Both generating plant and network performance deteriorates

Eskom

Plant availability & UCLF



Network performance

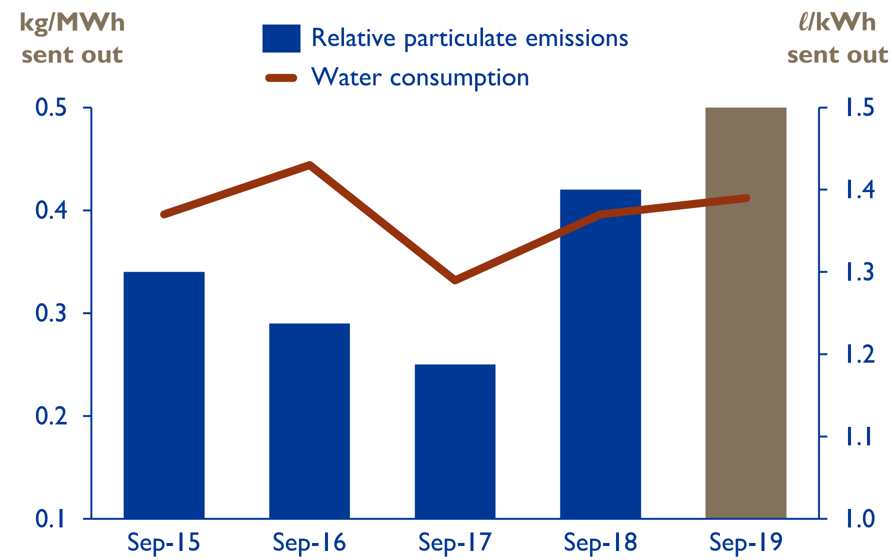


- Generation EAF declined to 69.92% (Sept 2018: 75.01%) due to environmental issues and units on major unplanned outage
- Unplanned maintenance of 19.58% (Sept 2018: 15.22%), with average partial load losses of 3 632MW, requiring high usage of OCGTs to maintain system stability
- Coal stock levels (normalised) improved to 54 days over the period (Mar 2019: 36 days)
- Transmission performance deteriorated due to severe plant failures; Distribution networks delivered stable performance
- Medupi Unit 3 (794MW) achieved commercial operation; 45km of high-voltage transmission lines commissioned

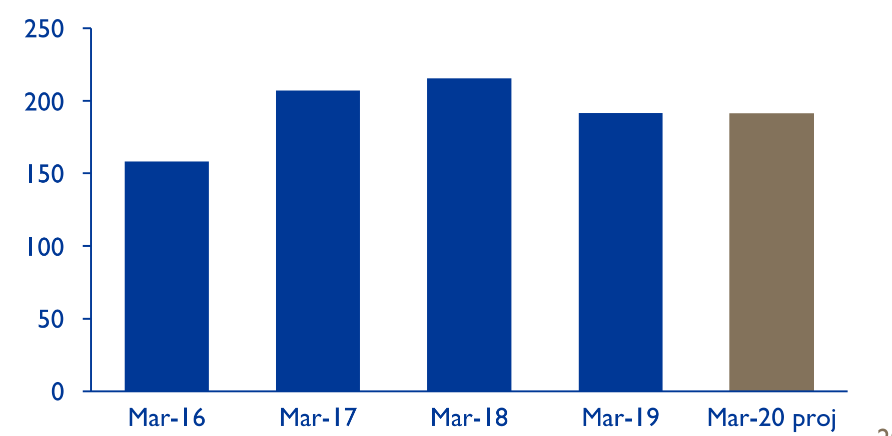
Environmental and safety performance declines, socio-economic performance stable

- Particulate emissions continue to deteriorate, water consumption stable
- 77 679 new households connected (Sept 2018: 65 386)
- Lost-time injury rate of 0.32 (Sept 2018: 0.28). Regrettably, five contractor fatalities were recorded (Sept 2018: one employee and one contractor)
- Preferential procurement (spend with black-owned suppliers) of 60.94% (Sept 2018: 67.80%)
- Continued improvement in racial, gender and disability equity
- 107 581 beneficiaries through CSI programmes

Environmental performance



Annual electrification (number, 000)

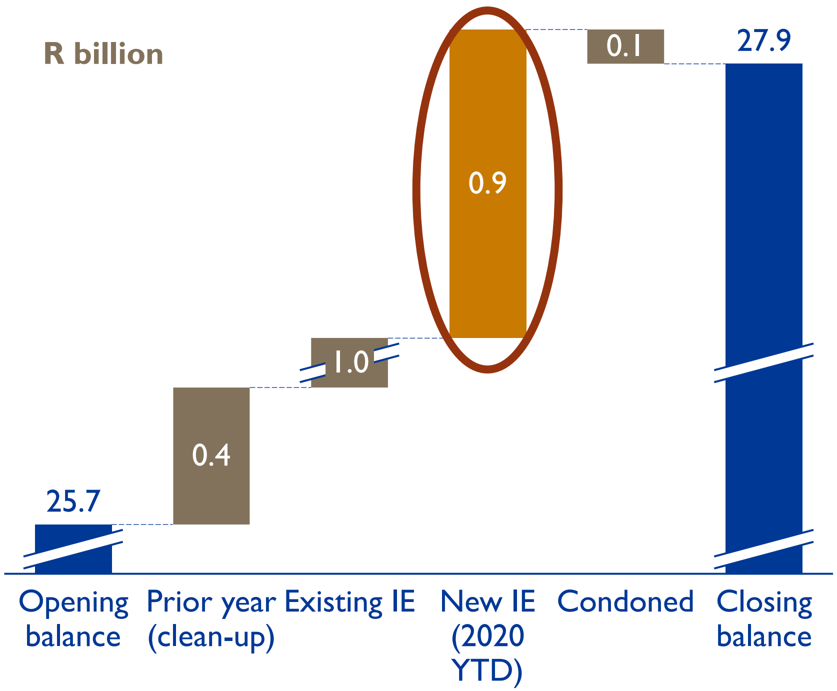


Governance matters

Progress on governance clean-up

- Lifestyle audits of executive senior managers completed, and disciplinary action taken where necessary. High-risk employees handed to SIU for investigation; awaiting feedback
- A total of 145 investigations into fraud, corruption and irregularities completed during the period; disciplinary action recommended in 122 cases
- The Court ordered Trillian to repay R600 million to Eskom. Trillian has appealed the judgment
- Eskom has issued court papers to set aside contracts and recover funds amounting to R207 million from Deloitte Consulting
- Commercial processes have been improved

Process to reduce irregular expenditure continues



New irregular expenditure at Sept 2019	No. of incidents	**R million**
Sole source (ongoing from previous year)	1	856
Other	6	28
Total	**7**	**884**

- Reporting procedures amended to comply with recent National Treasury instructions
- A dedicated function to focus on addressing PFMA violations to be established
- Significant progress on investigations and/or disciplinary action, with some matters referred for criminal or civil action, also leading to dismissals and the pursuit of recovery of losses
- Condonations from National Treasury to be obtained to clear opening balance – until condoned, expenditure on affected contracts will continue to be classified as irregular expenditure

Conclusion

The Eskom journey ahead

- The past six months have seen the release of the long-awaited Integrated Resource Plan as well as DPE's road map for Eskom
- Focus on operational and environmental recovery of our generation fleet continues unabated as we enter the high maintenance summer season
- Eskom welcomes the Government support, recently approved under the Special Appropriation Act, which will be utilised to service debt commitments
- Governance remains a key focus as we continue the clean-up
- The appointment of Mr André de Ruyter as GCE is a welcome step towards furthering leadership stability
- A cost-reflective tariff remains imperative, to provide customers with long-term price certainty. Furthermore, Eskom's existing cost base simply cannot accommodate sufficient efficiencies to bridge the revenue gap

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