

# Eskom Key Strategic Priorities



CHANGE



Leadership



Accountability



OLD WAY



NEW WAY

21 May 2020

# Eskom faces a number of key challenges

## A challenging point of departure ...



### Debt

- Debt approaching R450bn
- Unable to service debt from own EBITDA
- Must borrow to service debt



### Revenue

- Volume declining +1% per year
- Tariffs not cost reflective
- R38bn in receivables outstanding



### Costs

- Opex increased 30% in 5 years, reaching R151bn in FY19
- Large increases in employee & coal costs
- Procurement costs are above market norms



### Operations

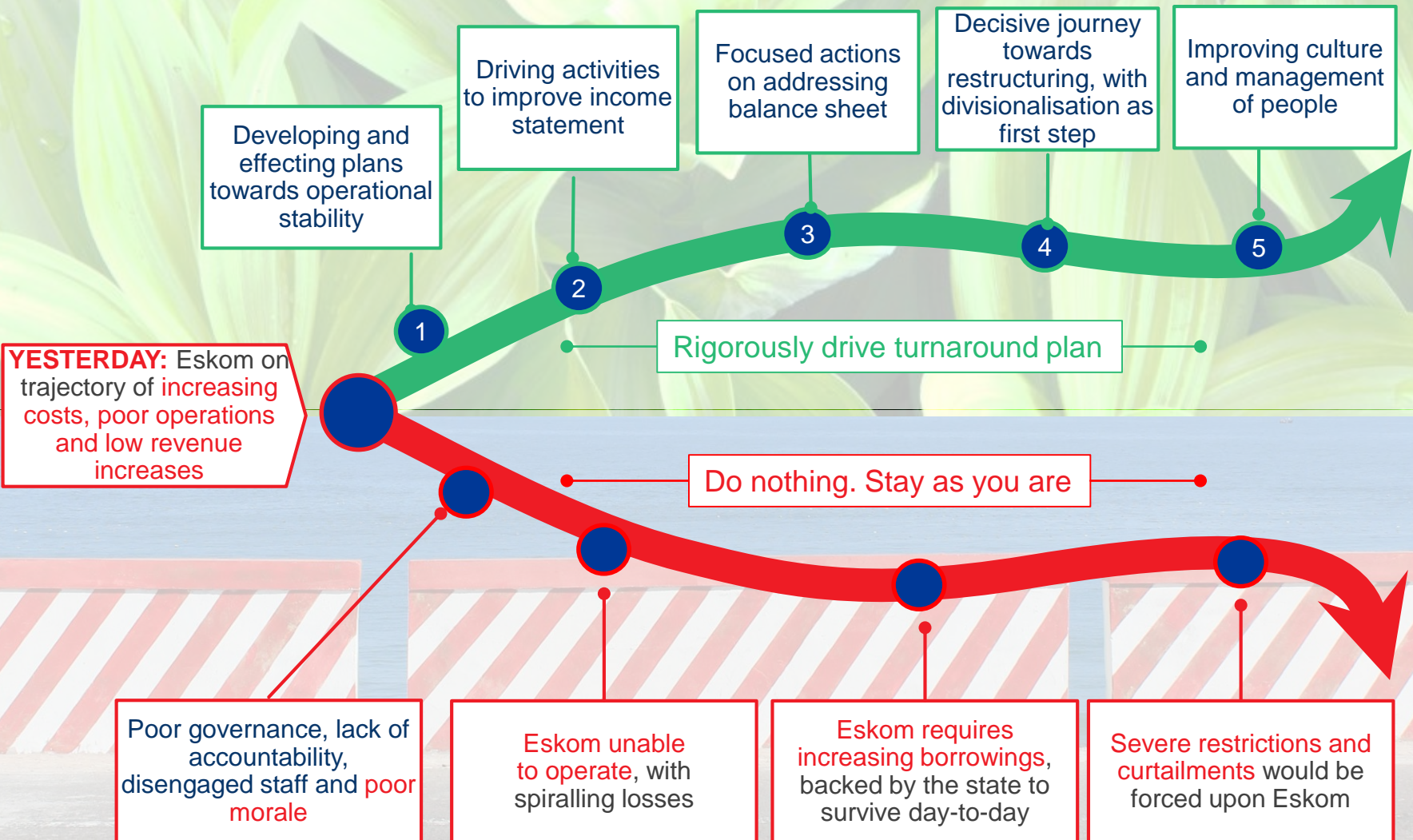
- EAF below 70% during FY19 & FY20
- Load shedding, increased costs, lost revenue
- Environmental challenges



### Outdated Business Model

- Utility death spiral
- Operational and structural inefficiencies
- Lack of transparency
- Change in energy landscape

# We are taking decisive action to turn Eskom around



**Eskom's failure is not an option**

# Despite major challenges in the past four months, Eskom has seen good progress in the Five Key Elements of the Turnaround

Despite major recent challenges, which include IT failure, COVID-19, and loadshedding, Eskom has made progress in its turnaround.



## Operational Stability

Opportunity short-term maintenance implemented due to reduced demand, reliability maintenance project launched, repurposing of power stations EoI launched



## Improved Income Statement

YTD cost savings above target. Focus on procurement savings and reduced spend



## Strong Balance Sheet

Reduction in working capital, capex, and Just Energy Transaction initiated



## Restructuring

Divisional Boards established, Business and Operating Models at advanced stage



## High Performance Culture

New organisational structure being finalised, Values resuscitated, Sense of urgency in place



# Operational Stability

## ESKOM'S OBJECTIVE

- The current generation plant performance still evidences unpredictability and unreliability. The objective is to improve current plant performance and reduce load shedding.

## KEY ELEMENTS OF PROGRESS

- Reliability maintenance
- Capacity initiatives and power procurement
- Coal quality and supply stability
- New build reliability improvements
- Demand side management initiatives
- Environmental issues being addressed
- SAP maintenance and supply chain management project launched
- Tx and Dx reliability projects identified
- Repurposing of power stations and Just energy transition – EoI invited
- Tx and Single Market Operator/ Single Buyer under development





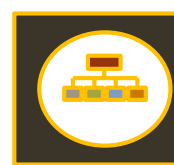
# Improved Income Statement

## ESKOM'S OBJECTIVE

- At a significantly reduced debt balance of R200 billion, a closing cash balance of R30 billion and EBITDA margin of 35%, financial modelling shows that Eskom can achieve independent financial sustainability.

## KEY ELEMENTS OF PROGRESS

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>• Avoid loadshedding</li><li>• Expand margin through efficiency ROA</li><li>• Resolve NERSA tariff disputes</li><li>• Municipal debt negotiations</li><li>• Coal cost renegotiations</li><li>• Fuel oil cost and consumption</li><li>• Diesel consumption reduction</li><li>• Cash fixed cost (VSP)</li><li>• Debt service cost renegotiations</li></ul> | <ul style="list-style-type: none"><li>• IPP renegotiations</li><li>• Repurposing power stations to create revenue streams</li><li>• Procurement being addressed through SAP</li><li>• Spares procurement</li><li>• Price check being rolled out</li><li>• Cataloguing</li><li>• Manage employee benefits costs</li></ul> |
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# Strong Balance Sheet

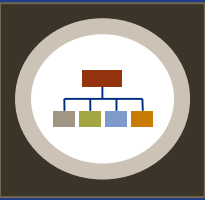
## ESKOM'S OBJECTIVE

- At a significantly reduced debt balance of R200 billion, a closing cash balance of R30 billion and EBITDA margin of 35%, financial modelling shows that Eskom can achieve independent financial sustainability.

## KEY ELEMENTS OF PROGRESS

- Capex cut by R22 bn from R38 bn
- Environmental capex being renegotiated
- Provision for decommissioning (repurposing)
- Spares inventory
- Just Energy Transition transaction





# Restructuring

## ESKOM'S OBJECTIVE

- Eskom end state structure has been clarified, with divisionalising as initial step– entrenching transparency and accountability to drive optimisation of the business capability. Repurposing of assets and disposals of non core assets is underway.

## KEY ELEMENTS OF PROGRESS

- Divisionalisation
  - Gx, Tx, Dx boards established, decision matrices developed
  - Corporate operating model confirmed and implemented
  - Business models advanced stage (Dx business model being refined), other operating models being addressed - Transfer pricing, Relinking advanced  
Financial statement being finalised
- Non-core assets
  - ERI plan submitted
  - Escap strategy being developed
  - EFC strategy developed, awaiting disposal process
- Repurposing PPP
- Functional structure
- End state clarified







## ESKOM'S OBJECTIVE

Eskom's people plan aims to build critical capabilities, drive a culture of performance and accountability, and increase employee productivity.

## KEY ELEMENTS OF PROGRESS

- Corporate values resuscitated
- Internal communication stepped up
- Urgency driven organisation
- High performance culture
  - Production bonus (self funding)
  - Forced ranking for senior management
  - Performance related pay
- Visible felt leadership
- Exco structure finalised and key vacancies being filled



- Comprehensive and focused effort is in place to protect employees and contractors, in compliance with the government's COVID-19 health and safety regulations
- As of 07h00 this morning, **21** Eskom employees and contractors have tested positive for COVID-19 and are receiving the best treatment available
- Maintenance and construction projects have been impacted by the lockdown, contractors are required to comply to COVID-19 health and safety regulations prior to working on site
- Operations at power stations and power networks have continued with minimal disruption
- Where possible, Eskom has supported the national COVID-19 response through measures such as:
  - making the Eskom Academy of Learning available as a quarantine site
  - producing large volumes of hand sanitizer in our research laboratories
  - designed 2 types of cost effective non-invasive ventilators which will now be prototyped as part of the SOE ventilator initiative
  - designed and producing 100,000 low cost N-95 masks for the country's health care workers and Eskom staff
  - designed and deploying a low cost walk-through spray system (in use at Megawatt Park thus far)

- There has been some improvement in EAF in the past month
- Opportunity short-term maintenance is being implemented due to reduced demand
- YTD cost savings above target
- Divisional Boards and Managing Directors have been appointed and Boards convened
- Divisional Business Models have been drafted and the role of the center finalized and being implemented
- Relinking of the employees to the Gx, Tx, and Dx divisions is almost complete
- Notable progress on recoveries as a result of unlawful contracts
- Appointment of GM-Group IT and other key vacancies being finalised.

# Thank you

