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Proposed Address

Dr Jabu Mabuza, Eskom Board Chairman

2017/18 Annual Results Announcement

23 July 2018

Media Session

Honourable Minister of Public Enterprises, Pravin Gordhan

Members of the Eskom Board

Eskom Group Chief Executive, Phakamani Hadebe

Members of the media

Ladies and gentlemen

Good morning

Our annual results announcement comes at a time when Eskom has arguably reached a tipping point as we stabilise Eskom for a new transition.

Before I start with the business of the day, please allow me to acknowledge the Minister of Public Enterprises, Mr Pravin Gordhan, whom we are privileged to host.

Minister, we are grateful for your unwavering support and guidance in this journey of renewal. As a noted advocate for good corporate governance, our non-negotiable mandate to root out financial mismanagement, malfeasance, and maladministration in the organisation is affirmed by your support.

Ladies and gentlemen, in a business-as-usual results announcement much time is spent on the numbers however, I think we would all agree that today is not business as usual and so it is important to put in context the results we are sharing with you this morning…

Firstly, let me start by clarifying that these results are for the year ended 31 March 2018. This is important because the bulk of this 12-month period falls outside of the Board and Phakamani’s tenure. Put differently, only 69 days of our tenure is reflected in these results that we are presenting today.

Eskom is undoubtedly facing one of the most difficult times in the organisation’s 95-year history.
For the period under review, despite achieving good operational performance, Eskom experienced a tumultuous year, characterised by weak financial ratios, coupled with leadership and governance issues.

It is no secret that a number of our challenges in the year under review stemmed mainly from the qualified audit we incurred in the year ended 31 March 2017, which was due to:

- completeness of the irregular expenditure information in terms of PFMA requirements;
- the many allegations of financial mismanagement against senior officials; and
- a myriad of other issues related to lapses in governance processes and other internal controls.

These challenges, amongst others, were widely stated as the biggest contributors to the deterioration of confidence in Eskom by financial markets which constrained our access to funding, leading to a liquidity crunch and consequently raising serious concerns regarding the long-term financial viability and going-concern status of the group at the interim reporting period ended 30 September 2017.

Simply put, Eskom's back was against the wall needing to raise R20bn within 30 days after having had no access to funding since July 2017.

It was against this backdrop - in the wake of various ratings downgrades, facing thee ultimatum to release our results immediately or have our JSE listed bonds delisted and with 21 days into the last quarter of the year under review - that we took office with a clear mandate to stabilise Eskom.

This history I believe is relevant as it provides for much needed perspective.

With all this in mind, the main focus of the board was therefore centred on addressing, through quick and decisive actions, three critical and inter-related issues seen as underpinning stabilisation:

- addressing governance-related matters with urgency;
- finding neat solutions to the liquidity issues on the face of credit rating downgrades and zero funding appetite by funders; and
- releasing the then delayed interim results on a going-concern basis and avoiding an audit qualification.

While we have made significant progress in terms of consequence management, governance controls and executive leadership stability, the road ahead remains difficult as we sustain this recovery to transition for future growth.

A first step of many in executing our mandate was the release of our interim results without a qualification and in so doing avoiding a delisting of our bonds (which would have launched us further into our deepening liquidity crisis). We believe our actions within a 10-day period in office resulted in the independent auditors issuing an emphasis of matter opinion relating to our going-concern status.

It is critical to contextualise the audit review opinion issued at our interim review period as we unpack the results for the year under review:

- interim reporting does not require a review of the information required by the PFMA, and as such the audit opinion only reflected compliance related to reporting in terms of IFRS

For the period under review, we unfortunately, hard as we worked at it – could not avoid an audit qualification on our PFMA compliance. Our International Financial Reporting Standards (IFRS) compliance has however come out with no qualification – an improvement from the emphasis of matter incurred for year ended March 2017.

While the Board is disappointed that a qualified audit could not be avoided for this financial year, our view is that our challenges, in their nature, cannot be solved overnight. We are comfortable that great strides have been made in our key focus areas, with a number of initiatives being set in motion to address these key issues in a sustainable manner.

I will come back to this point on the qualification but first let me pick up on few things within our stated areas of focus…

The Board has intensified the clean-up campaign that, since inception, has seen several executives and staff members implicated in serious allegations of misconduct fall by the wayside.

Criminal proceedings have also been instituted, where relevant, and the finalisation of outstanding disciplinary hearings has been accelerated.

We continue to pursue wrongdoing and take corrective action within the legal framework. I believe that our commitment to improving our governance practices has in the medium term resulted in a greater number of issues of irregularity and impropriety coming to light, but will, in the long term set us up to achieve our renewal objectives.

Of course key to achieving this objective is also a stable and capable executive leadership and, as such, the appointment of Mr Phakamani Hadebe as the permanent Group Chief Executive was prioritised and finalised.

The Board also resolved that the size, functional diversity and complexity of the institution warranted a three-person top team, comprised of a Group Chief Executive (GCE), a Chief Financial Officer (CFO) and a Chief Operating Officer (COO). This culminated in the appointment of Mr Jan Oberholzer as the Chief Operating Officer as announced recently.

We are still in the process of appointing a CFO and believe that finding the right candidate is key not only for stabilisation and restoration, but also for the design and execution of our strategy for the future Eskom.

Ladies and gentlemen, despite the improvement in Eskom’s liquidity position, the organisation continues to face significant financial and liquidity challenges in the short to medium term, mainly due to the high debt burden, low sales growth, high primary energy and employee benefit expenses, as well as finance costs.

The reality is that, while Eskom generates adequate cash to meet its operational requirements, it has to borrow to service debt and for investment activities. Prioritising financial sustainability and strengthening of the balance sheet, while minimising reliance on debt and government guarantees, remain priorities. In this regard, we are continuously reviewing our operational and capital expenditure to maximise savings and improve cash flows.

We are mindful that, to be able to achieve longer-term business and financial sustainability, a significant improvement in financial and business discipline is required. This all speaks to our long-term strategy that we are in the process of designing.

Coming back to the results of our audit…

Similarly to our position at interim reporting, there were no issues identified by the independent auditors regarding the reporting in terms of IFRS - a small win looking at the emphasis of matter issued in the previous year.

That being the case, the auditors have however qualified the completeness of the information required by the PFMA on irregular expenditure, fruitless and wasteful expenditure and losses due to misconduct.

The qualification arose as a result of the following:

- Our procurement procedures generally did not comply with the PFMA;
- Some of our performance information – in relation to addressing our previous PFMA issues - could not be relied upon;
- The intensified clean-up led to further irregular expenditure being reported; and
- Our focus on improving governance and embedding processes as well as ensuring that all requirements were adhered to from 2012

The exercise relating to the last two points resulted in a significant increase in the number of reported irregular expenditure in 2018 (from R3.0bn to R19.6bn), with many of the items reported arising in prior years.

We unfortunately also find ourselves in a position where we still do not know what we do not know and as we further scrape the barrels, we could find other issues that could result in further irregular expenditure reported in the 2019 annual financial statements due to transgressions from the past.

I want to reiterate this point - whilst a qualification may be seen as a regression following an emphasis of matter audit opinion at interim reporting, this should be seen in the correct context:

- as at March 2017 we had an emphasis of matter relating to our IFRS compliance compared to a clean audit now;
- the interim review did not include PFMA related matters which the current qualification relates to; and
- the mandate to clean-up necessitated greater effort to surface and deal with all issues that pre-date the current Board in order to ensure sustainable clean governance in the long-term.

Ladies and gentlemen, Eskom remains motivated to move towards a successful future – to deliver on our commercial and developmental mandate and to remain South Africa's trusted and credible electricity supplier.

I want to reiterate the comments I made at the Interim Results announcement on 30 January this year that I strongly believe that with the right governance structures at Board and executive management level, the priority is entrenching financial and business discipline as a foundation to restoring the credibility and integrity of the utility with financial markets. These are some of the key principles that are critical to stabilise, reform and ultimately set Eskom up for sustained success.

As we share our annual results, I would like to thank the Board for their concerted effort in turning Eskom around by making difficult decisions in the best interests of Eskom and the country. My sincere gratitude also goes to Phakamani Hadebe for the excellent work he has done since joining Eskom in January this year. Phakamani has a strong reputation of turning around organisations, and in light of Eskom's current financial challenges, we are fortunate to have someone with his financial expertise to steer Eskom towards achieving our vision for the future.

I also wish to extend a particular word of thanks to those of our employees who had the courage to denounce the acts of wrongdoing they witnessed in this once-great organisation.
Lastly, but most importantly, to the more than 47 000 Eskom Guardians who are committed to keeping the lights on to power our great nation, thank you for your resilience and professional outlook in the face of adversity.

As a parting shot, I want to challenge us all to look at our results with a slightly different set of lenses - that they represent a base for restoration and renewal. The damage was not done overnight and so cannot be fixed overnight. We have to take some short-term pain to achieve the long-term gains and the Eskom of the future we all want to see.

I will shortly ask Phakamani and his team to expand on details in our annual results. However before we do that, I would like to invite the Honourable Minister to briefly address you.

Thank you.