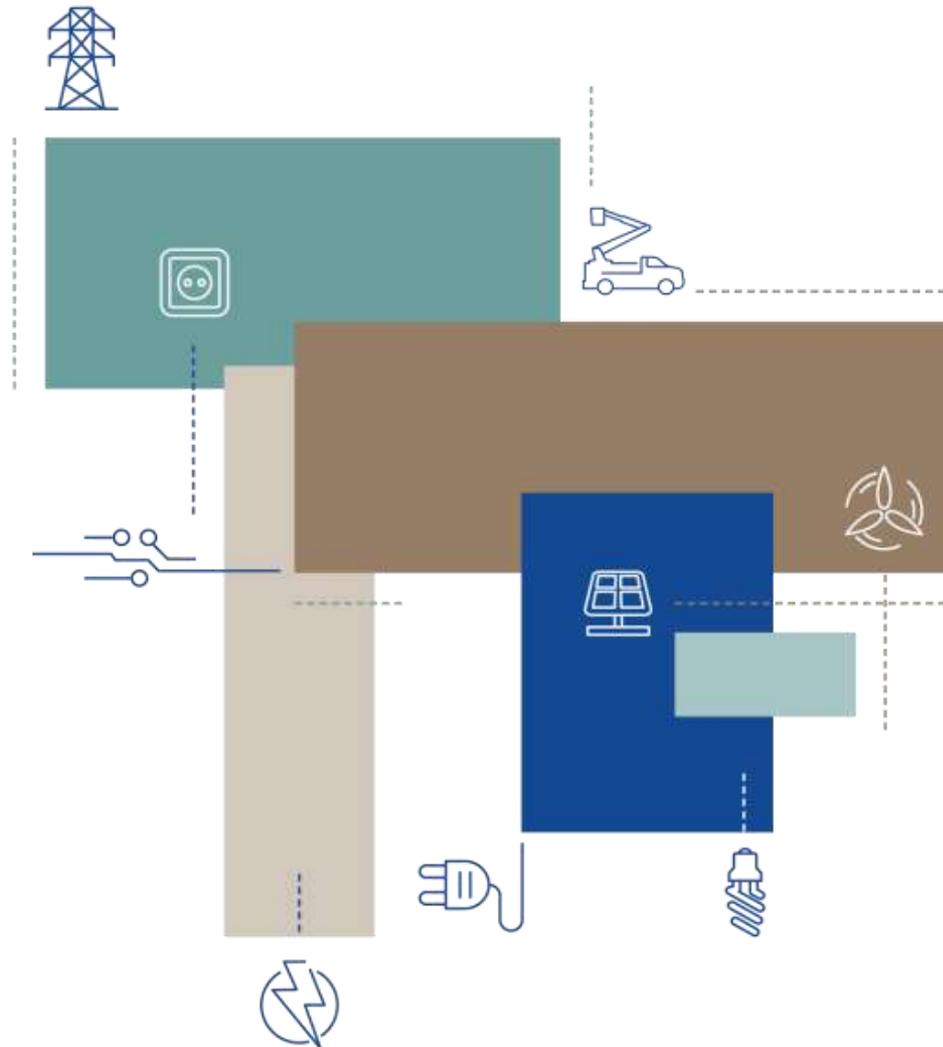


Eskom group annual results

for the year ended 31 March 2018



23 July 2018

This presentation is available at www.eskom.co.za/IR2018

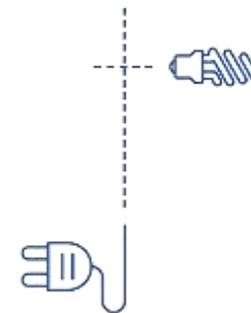
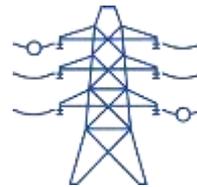
From “business as usual” to
“transition towards
sustainability”

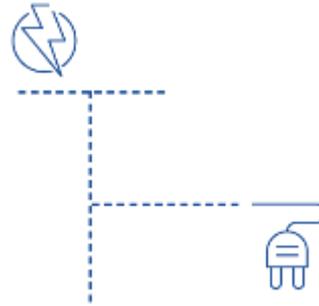
Key priorities to position
Eskom for growth

Operational performance

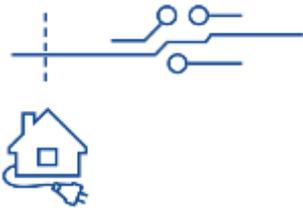
Financial performance

Conclusion





From “business as usual” to
“transition towards sustainability”



- Eskom has experienced difficult years following leadership and governance instability
- A new board and leadership team was appointed to **clean up, stabilise, and set Eskom up for future growth**
- Despite experiencing a difficult year:
 - **Improved liquidity**
 - **Continued improvement in operational performance**
 - **Advancement in governance and control systems**
- A strategic review is being undertaken in partnership with the shareholder to **build the Eskom of the future**

There will be pressure until FY2020, as we transition towards financial and operational sustainability, requiring resolute, tough and decisive leadership

From “business as usual” to “transition towards sustainability”

Pre-January 2018: business as usual

- Lack of long-term integrated strategy
- Skewed towards compliance, minimum strategic engagement

- Dislocation between operations and government expectations (statement of intent, corporate plans & shareholder compacts)

- Compounding this is poor performance
 - Qualified audit opinion
 - Allegations of corruption and mismanagement
 - Governance challenges
 - Negative investor sentiment

-
- Leadership instability
 - 10 CEOs in 10 years
 - 6 Boards in 10 years

-
- Procrastination on decisions and actions by all stakeholders

“The overall financial performance of the business had been good, with the Design-to-Cost strategy showing positive results as reflected by an increase in revenue...”

Minister of Public Enterprises, June 2017

New Minister of Public Enterprises in 2018 emphasised the importance of alignment of the shareholder compact, Corporate Plan and business strategy

2018 State of the Nation Address sets the tone for a new transition

Strengthen governance and root out corruption



Remove Board members from any role in procurement



Review the funding model of SOEs



Transition from “business as usual” approach towards sustainability

January 2018: Eskom transition

- Appointment of new Board
- Immediate Board focus:
 1. Clean up
 2. Stabilisation
- Transition from “business as usual” to the Eskom of the future
- Noting Eskom’s size, challenges, complexity and role in the economy, the Board approved a three-person top team comprising a GCE, CFO and COO

Key decisions by the Board

Governance

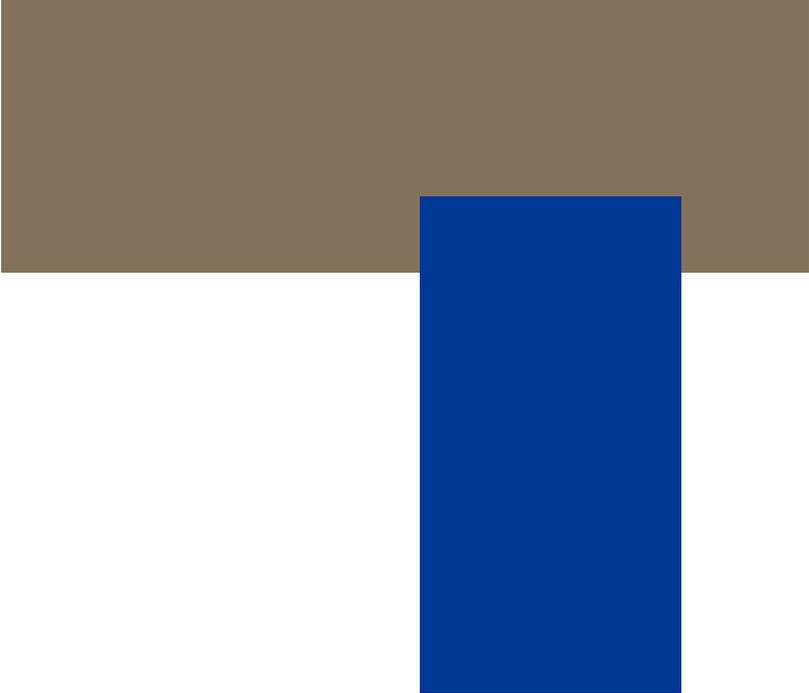
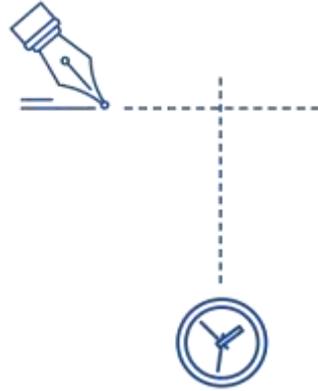
- Committed to the highest level of governance
- Reviewing the purpose, mandate and powers of all sub-committees
- Decision making by board sub-committees temporarily elevated to the board

Corporate Plan

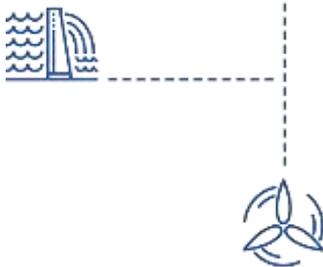
- Concerns raised regarding 2017 Corporate Plan
 - Debt to increase from R387 billion to R600 billion within four years
 - Gearing increasing from 72% to 80%
- Permission from the shareholder to submit a one-year plan

Financial sustainability

- Emphasis to be placed on maximising revenue and containing costs
- Challenge NERSA decision in court – 2018/19 tariff increase insufficient



Key priorities to position Eskom for growth



Clean up ①

Reposition Eskom as the most trusted state-owned entity

- Instill transparent and effective governance
- Initiative to address qualified audit identified more irregular expenses

Stabilise ②

Improve financial health

- 21% increase in EBITDA from R37.5 billion in FY2017 to R45.4 billion in FY2018
- RCA determination of R32.7 billion
- Improved liquidity by raising R57 billion since January 2018
- Capex and opex reduction to achieve financial viability

Efficiency optimisation ③

Prepare for growth - New initiatives to increase EBITDA

- Target 500MW additional demand
- Reduce arrear debt
- Manage risk of increasing coal costs
- Optimise staff productivity levels

Future Eskom to grow the business ④

Become an innovative and data-driven utility

- Grow new markets and products while retaining and growing existing clients
- Achieve long-term sustainability and developmental mandate
- Sustainable business model for Eskom

Significant progress towards becoming a trusted SOC



- ✓ **10 implicated** senior executives **exited**. Finalisation of outstanding disciplinary hearings relating to senior executives being accelerated
- ✓ **11 criminal cases** opened, five of which involve **nine senior executives**
- ✓ Total of **1 049** outstanding **disciplinary cases** since April 2018, of which **628** have been **finalised**, resulting in **75 employee exits**
- ✓ **239 whistle-blowing cases** investigated, **122** of which have been **concluded**. Disciplinary process is under way in respect of **67 confirmed cases**
- ✓ **Remedial action** has been taken against **25 staff doing business with Eskom**; **7** exited
- ✓ **Lifestyle audits** of senior management in progress. There is effective **declaration of interest**
- ✓ Investigated all **irregular supplier contracts** (so far five no longer doing business with Eskom – the amount spent with these companies in the past three years was **R2.3 billion**). **Recovered R902 million** from McKinsey; pursuing interest recovery
- ✓ Cooperating with eight **regulatory bodies conducting major investigations**¹

1. National Treasury procurement investigations, Zondo Commission, Hawks, SIU, Parliamentary Inquiry, National Director of Public Prosecutions, Standing Committee on Public Accounts and SAPS

Efforts are improving liquidity and financial viability to achieve positive shift in investor confidence

Improved liquidity

- Raised R57 billion since January 2018
- Raised 22% to date of R72 billion borrowing requirement for 2018/19
- Firm commitment to increase funding to 62% of 2018/19 borrowing requirement
- Discussion with lender at advance stage; will increase funding to more than 80% of 2018/19 borrowing requirement
- In addition, firm commitment to secure 34% of R56 billion funding for 2019/20 borrowing requirement
- Growing investor appetite for Eskom bonds

Financial viability

Reprioritise capex

- Restricted capex to R45 billion over the next five years, a saving of R55 billion
- Risks and tradeoffs have been identified to mitigate against impact of capex reduction

Reduced opex

- Restrict total operating cost to below inflation, releasing efficiencies of R11 billion per annum
- Kept maintenance at current levels

However this is not sufficient, and tough decisions are required
Initiatives identified to increase EBITDA margin to 35% by optimising capex, opex and maintenance, while improving productivity and efficiency

Key initiatives to drive growth and efficiency

Grow sales

- Stimulate sales by developing new products and services and optimising tariffs
- Confirmed 3.5 TWh sales growth initiatives, resulting in R2.9 billion additional revenue over two years, with nine deals signed
- Target revenue recovery of R600 million per annum
- Accelerate customer connections

Reduce arrear debt

- Intensify credit management
- Collect additional R1 billion per annum from municipalities
- Together with Government, seek solutions to solve municipal arrear debt
- Installation of prepaid meters to continue

Manage risk of increasing coal costs

- Prioritisation of capex investments into cost-plus mines
- Optimisation of logistics costs, including migration from road to rail
- Collaboration with state-owned mining company

Optimise productivity levels

- Holistic review and robust stakeholder discussions to identify optimal productivity improvement solutions

Decisions required by stakeholders to position Eskom for future growth and achieve developmental mandate

Considerations to enable the Eskom of the future



Alignment on **key policy issues in partnership** with the shareholder



Review business model to adapt to technological, environmental, social and regulatory changes

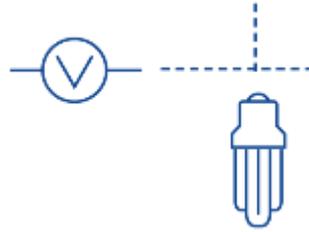


Create an understanding of the **skills and capabilities** required to drive growth

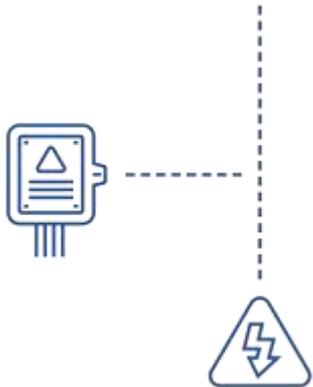


Identify **new growth markets and products** to drive **revenue growth**

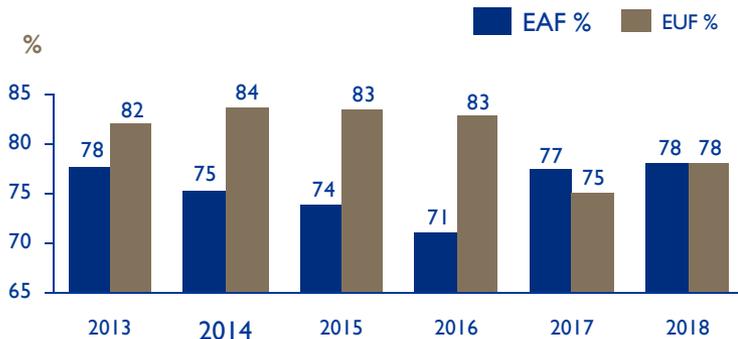
The world is changing very fast and utilities are adapting; it is important that Eskom adapts to the changing needs of customers



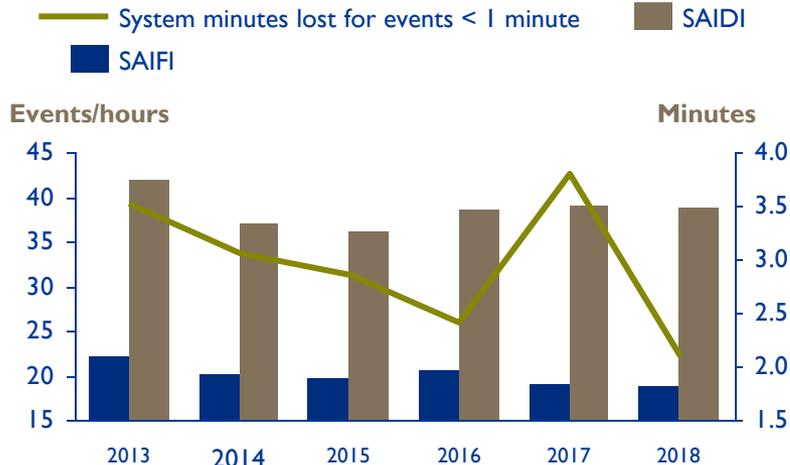
Operational performance



Plant availability & utilisation



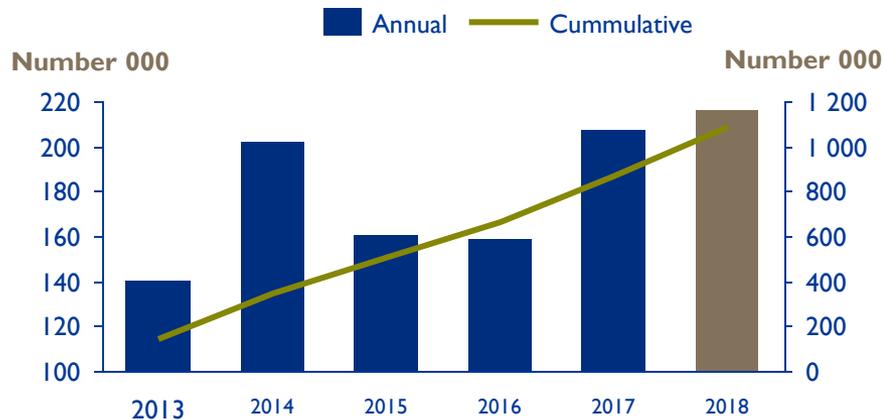
Network performance



- Generation plant availability improved from 77.3% to 78%
- Significant improvement in environmental performance:
 - Particulate emissions from 0.30 to 0.27kg/MWhSO
 - Water usage from 1.42 to 1.30l/kWhSO
- Transmission achieved best performance in 10 years: system minutes lost improved from 3.8 to 2.1
- Distribution network improvement
 - (SAIFI¹) improved from 18.9 to 18.7 events
 - (SAIDI²) improved from 38.9 to 38.8 hours
- Reviewed Medupi and Kusile dates
 - Three units of Medupi and one unit of Kusile in commercial operation, with combined installed capacity of 3 181MW
- 2 510MVA transformer capacity installed; 722km of high-voltage transmission lines commissioned

Operational performance continues to improve

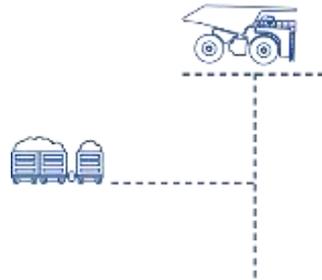
Electrification



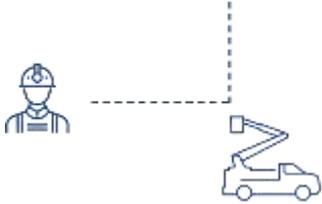
Safety

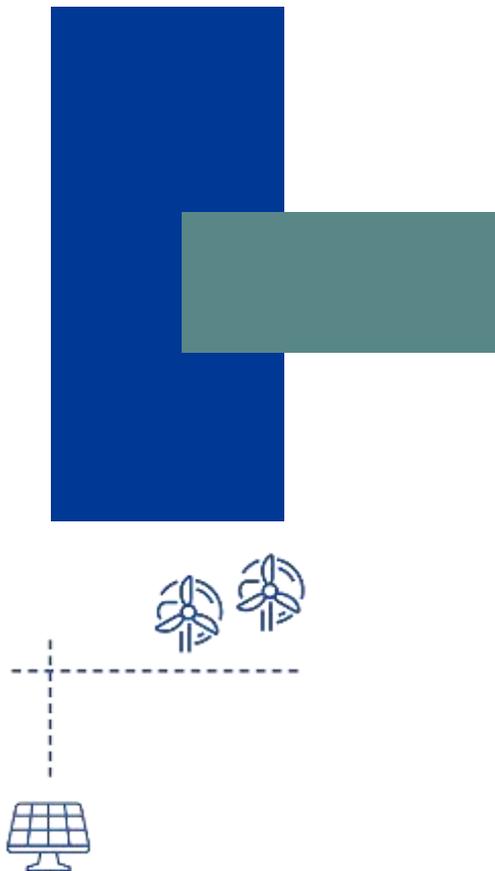


- 215 519 households connected (2017: 207 436)
- More than one million households connected since 2013
- Lost-time injury rate improved to 0.23 (2017: 0.39), the best since 2008
- Regrettably, Eskom suffered three employee fatalities (2017: four) and 12 contractor fatalities (2017: six)
- B-BBEE attributable spend of 80%
- Spend with black-owned suppliers of 45%
- Employment of female employees in senior management positions 38% (2017: 37%)
- Coal stock remains a focus area to achieve adequate levels



Financial performance





- EBITDA of R45.4 billion (2017: R37.5 billion)
- Net loss after tax of R2.3 billion (2017: R0.9 billion profit)
- Net cash from operations of R37.6 billion (2017: R45.8 billion)
- Liquid assets of R22.3 billion (2017: R32.5 billion)
- 22% of funding requirement for 2018/19 secured to date
- Modified audit opinion

Eskom complies with IFRS and PFMA reporting requirements and is audited on that basis



The purpose of the PFMA is to **regulate financial management** of expenditure, and ensure assets and liabilities of entities are managed efficiently and effectively

- **Irregular expenditure:** expenditure other than unauthorised expenditure, **incurred in contravention** of or that is not in accordance with a requirement **of any applicable legislation or policy**
- **Fruitless and wasteful** expenditure: expenditure which was **made in vain and would have been avoided** had reasonable care been exercised

- An **external auditor expresses an opinion** about the **fairness** of the **financial position** and financial **performance** of an entity:
- **Unmodified:** a true and fair view of the entity's operations
- **Modified**
 - **Qualified:** auditors take exception to a certain accounting application
 - **Adverse:** a conflict between the auditor and entity
 - **Disclaimer:** no opinion due to limitations by the entity

	March 2017	September 2017 (interim review)	March 2018
IFRS	 (1)		
Going concern		 (2)	 (2)
PFMA	 (3)	n/a (4)	 (5)

 Modified

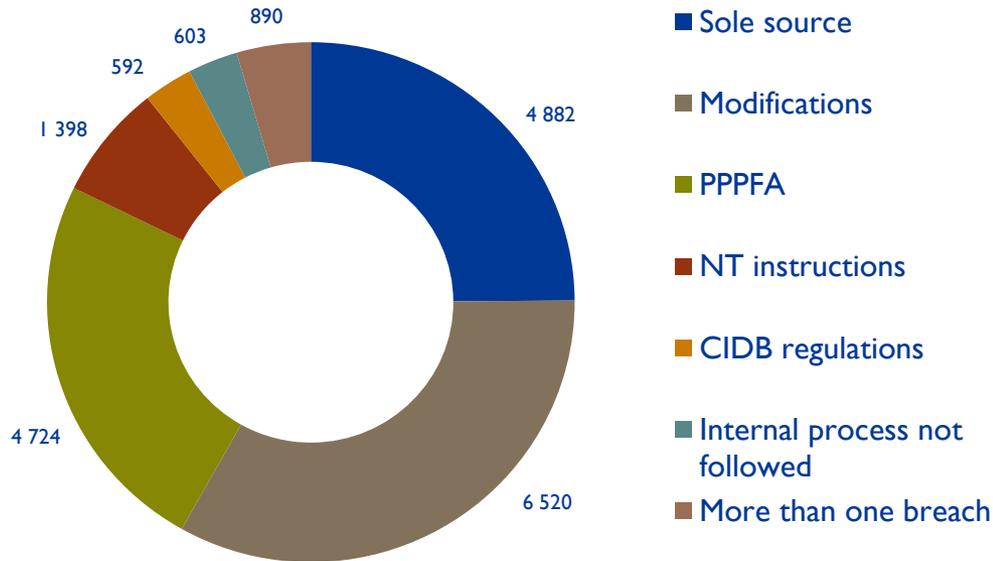
 Emphasis of matter

 Unmodified

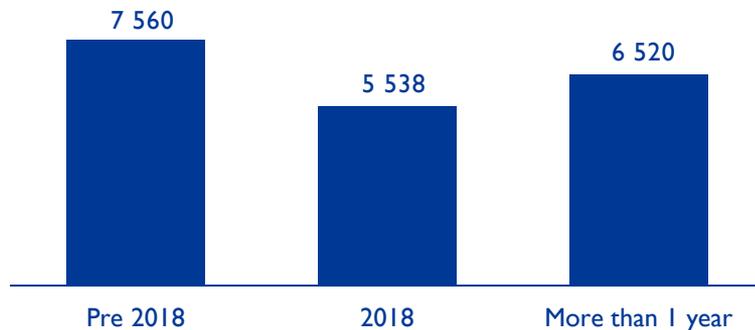
- (1) Prior year restatement due to non-accounting for assets built by customers
- (2) Uncertainty that may cast significant doubt on the group's ability to continue as a going concern (similar to emphasis of matter)
- (3) Incomplete reporting of irregular expenditure
- (4) No reporting requirement at half-year
- (5) Incomplete reporting of irregular expenditure, fruitless and wasteful expenditure and losses due to criminal conduct

Significant increase in the reported irregular expenses in 2018, amounting to R19.6 billion

R million



R million



- Internal processes enhanced to improve reporting and governance
- PPPFA includes tax clearance certificated (R3.2 billion)
- Recovered R902 million from McKinsey (not included in figures, in process of recovering interest)
- Identified all modifications that require National Treasury approval
- 60% of incidents relate to administrative non-compliance
- R10 billion of condonations awaiting approval

Irregular expenditure does not necessarily mean **fruitless and wasteful** expenditure

Income statement for the year ended 31 March 2018



R billion	March 2018	March 2017	YoY % change
Revenue	177	177	–
Other income	1	2	(13)
Primary energy	(85)	(83)	(3)
Net employee benefit expenses	(29)	(33)	11
Net impairment loss	(1)	(2)	67
Other expenses	(18)	(24)	23
EBITDA (Profit before depreciation and amortisation and net fair value loss)	45	38	21
Depreciation and amortisation expenses	(23)	(20)	(14)
Net fair value loss on financial instruments and embedded derivatives	(2)	(2)	(3)
Net finance cost	(23)	(14)	(61)
(Loss)/profit before tax	(3)	1	
Income tax	–	–	
Net (loss)/profit for the year	(2)	1	

- Sales down by 0.9%; revenue up by 0.8%
- Primary energy cost contained
- Employee benefit costs and operating expenses lower due to decrease in provisions
- Depreciation growth due to commissioning of new assets and power station units
- Finance costs linked to less costs capitalised and growth in borrowings

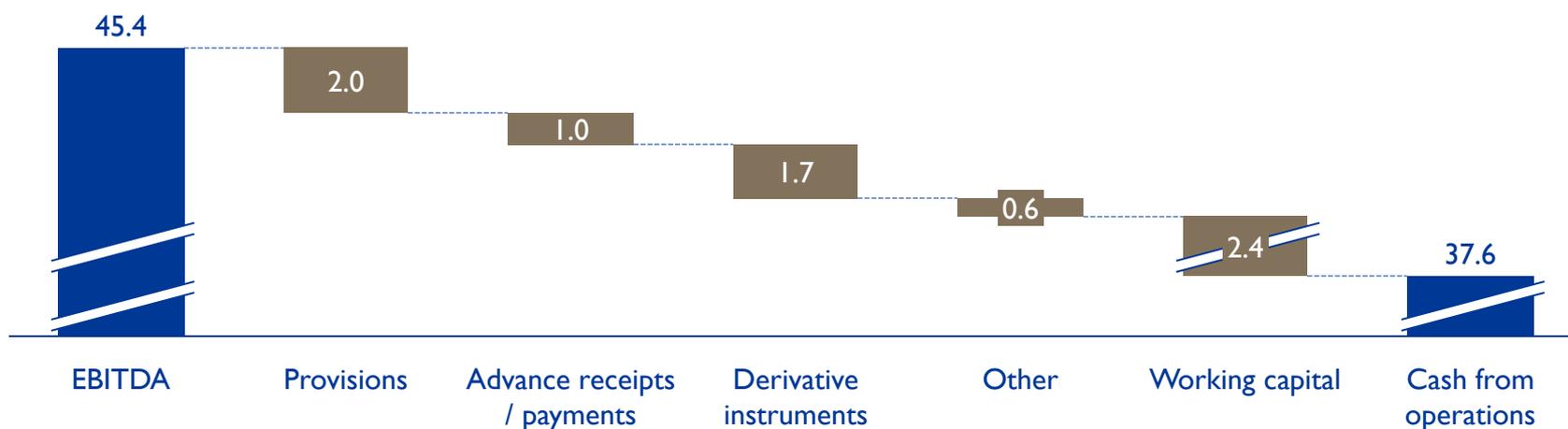
Financial position at 31 March



R billion	March 2018	March 2017	YoY % change
Property, plant and equipment and intangible assets	635	593	7
Working capital	46	44	14
Liquid assets	23	33	(31)
Other assets	36	41	(5)
Total assets	739	710	4
Equity	170	176	(4)
Debt securities and borrowings	389	355	9
Working capital	44	52	(15)
Other liabilities	136	127	8
Total equity and liabilities	739	710	4

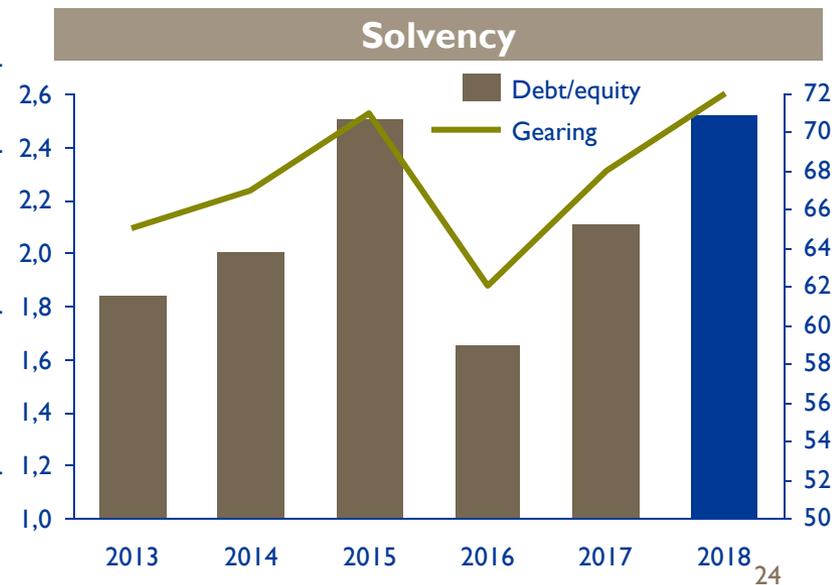
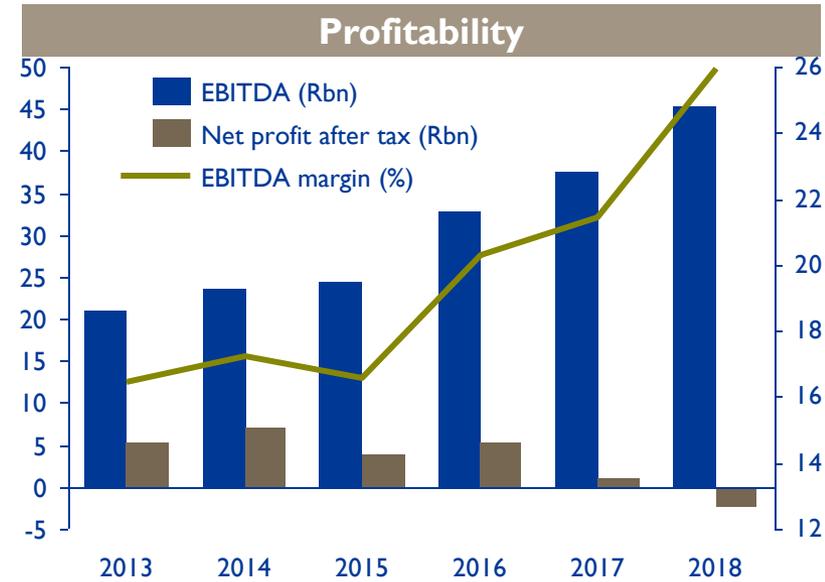
Cash flow statement for the year ended 31 March 2018

R billion	March 2018	March 2017	YoY % change
Net cash from operating activities	38	46	(18)
Cash required for debt servicing	(44)	(36)	(22)
Net cash movement before investment activities	(7)	10	
Cash flow used in investment activities	(55)	(62)	11
Cash flow from financing activities	58	44	32
Net decrease in cash and cash equivalents	(4)	(8)	

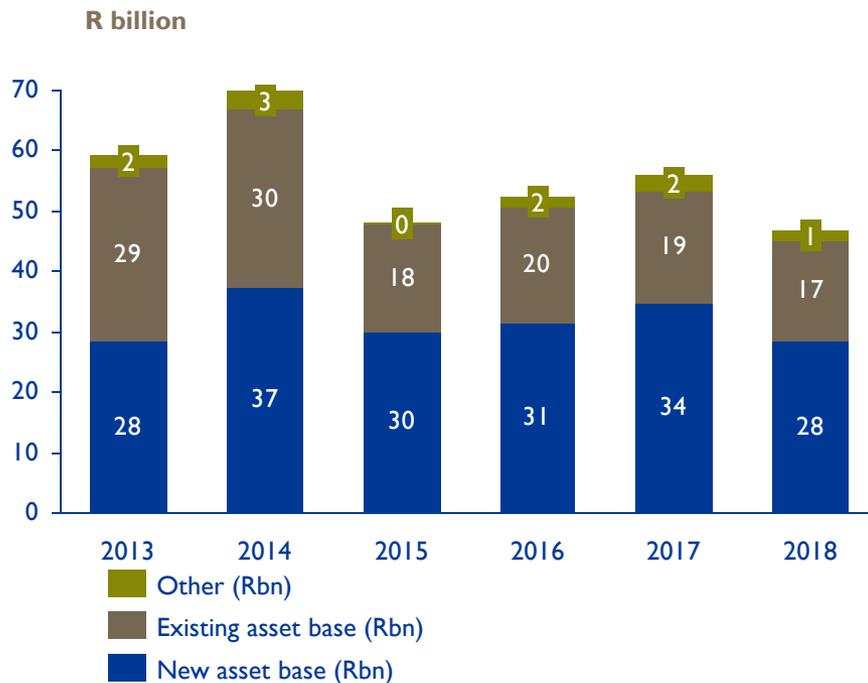


Most financial ratios deteriorated and are expected to deteriorate further before improving

Ratio	March 2018	March 2017	
EBITDA margin, %	25.9	21.4	↑
Cash interest cover, ratio	1.22	1.73	↓
Debt service cover, ratio	0.87	1.37	↓
Gross debt/EBITDA, ratio	9.71	10.84	↑
Debt/equity (including long-term provisions), ratio	2.52	2.11	↓
Gearing, %	72	68	↓
Free funds from operations as % of gross debt, % ¹	9.09	11.69	↓
Free funds from operations as % of total capex, % ¹	77.84	75.11	↑

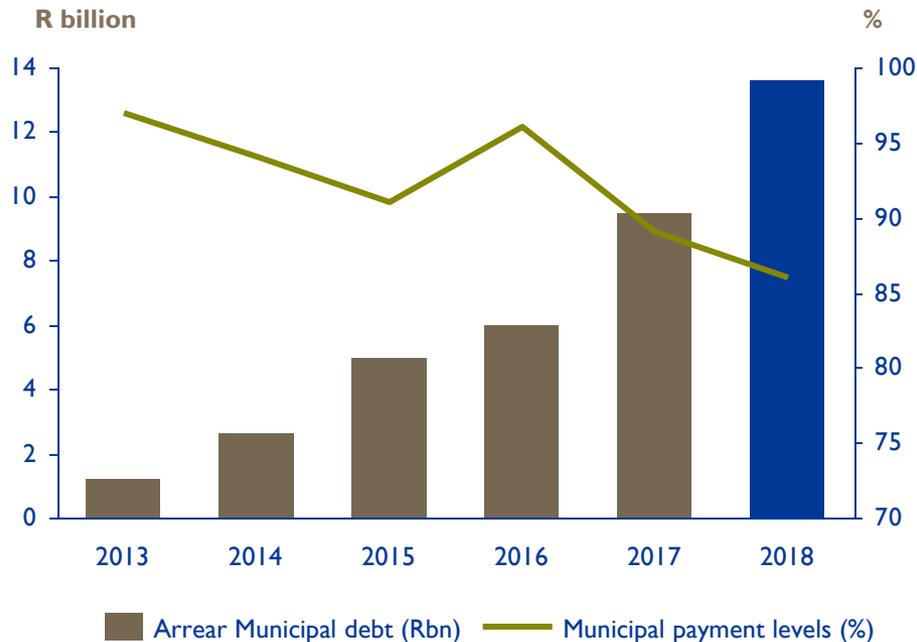


Total Eskom funded capital expenditure



- Total Eskom group funded capital of R47 billion (2017: R56 billion) with R28 billion used to expand the asset base and R17 billion spent on existing assets
- Department of Energy funded electrification capex of R3.4 billion (not included in graph)

Invoiced municipal arrear debt



- Invoiced municipal arrear debt (including interest) increased by R4.2 billion, an increase of 44%
- Overdue debt is adequately provided in terms of IFRS
- Current payment level of 86% by municipalities (excluding metros)
- Several initiatives in place to recover the overdue municipal debt, involving Eskom and the shareholder
- Invoiced Soweto SPU arrear debt (including interest) increased to R12 billion; payment level of 15%
- Other overdue debt amounting to R2.2 billion, including R1 billion for international customers



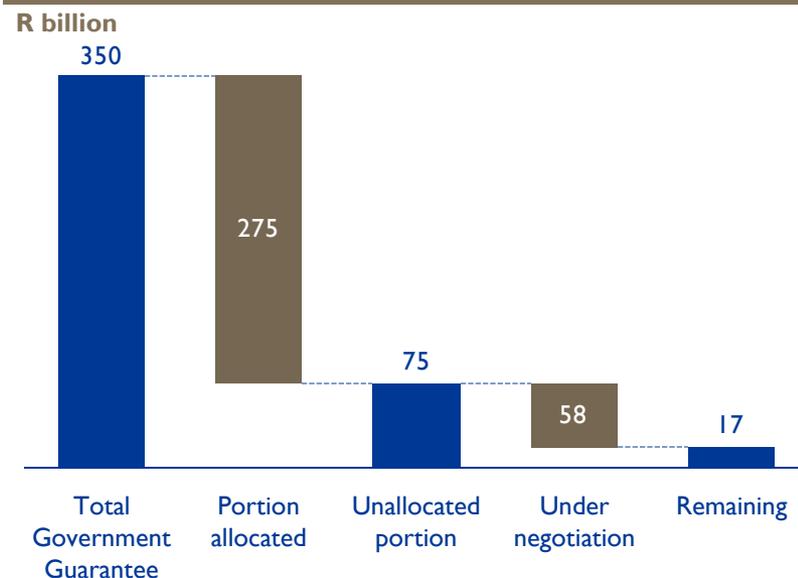
- The external auditors raised an emphasis of matter on Eskom's status as a going concern in their review for the six months ended 30 September 2017
- The steps taken by the shareholder and the Board boosted investor confidence, and the liquidity position improved since January 2018
- Eskom continues to face significant financial and liquidity challenges in the short to medium term, mainly due to the high debt burden, low sales growth and increased finance costs
- Eskom is awaiting the outcomes of the liquidation of the R32.7 billion RCA balance and the MYPD 4 decision, which influences future revenue streams
- The auditors raised uncertainty that may cast significant doubt on the group's ability to continue as a going concern

Eskom has secured 22% of funding for 2018/19 financial year to date

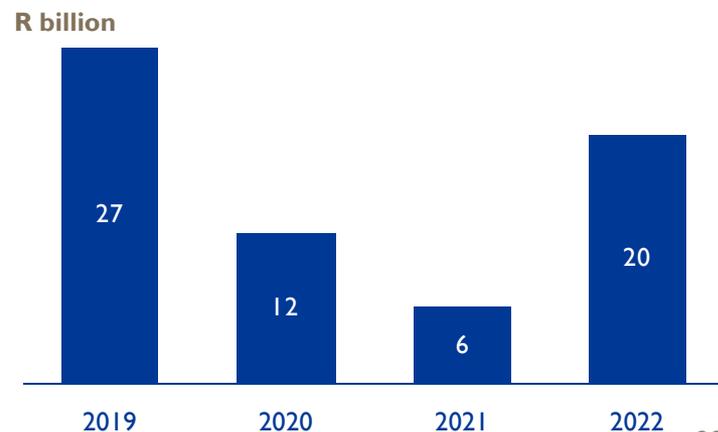
R billion	Funding plan	Committed
DFIs	15.3	8.8
ECAs	5.8	1.0
International bonds	20.0	–
Domestic bonds and notes > 1 year	13.0	5.5
Domestic bonds and notes < 1 year	10.0	0.8
Structured products	8.0	–
Total funding	72.1	16.1
% secured		22%

- Eskom successfully raised R57 billion for the year ended 31 March 2018
- R43 billion of this was raised between January and March 2018

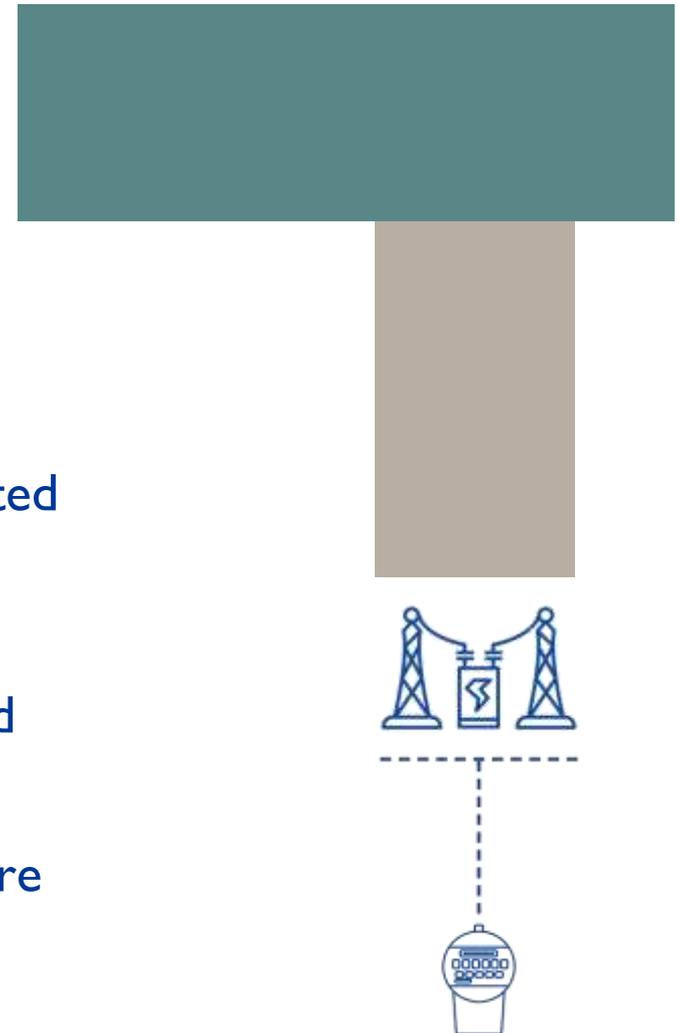
Guarantee utilisation allocation



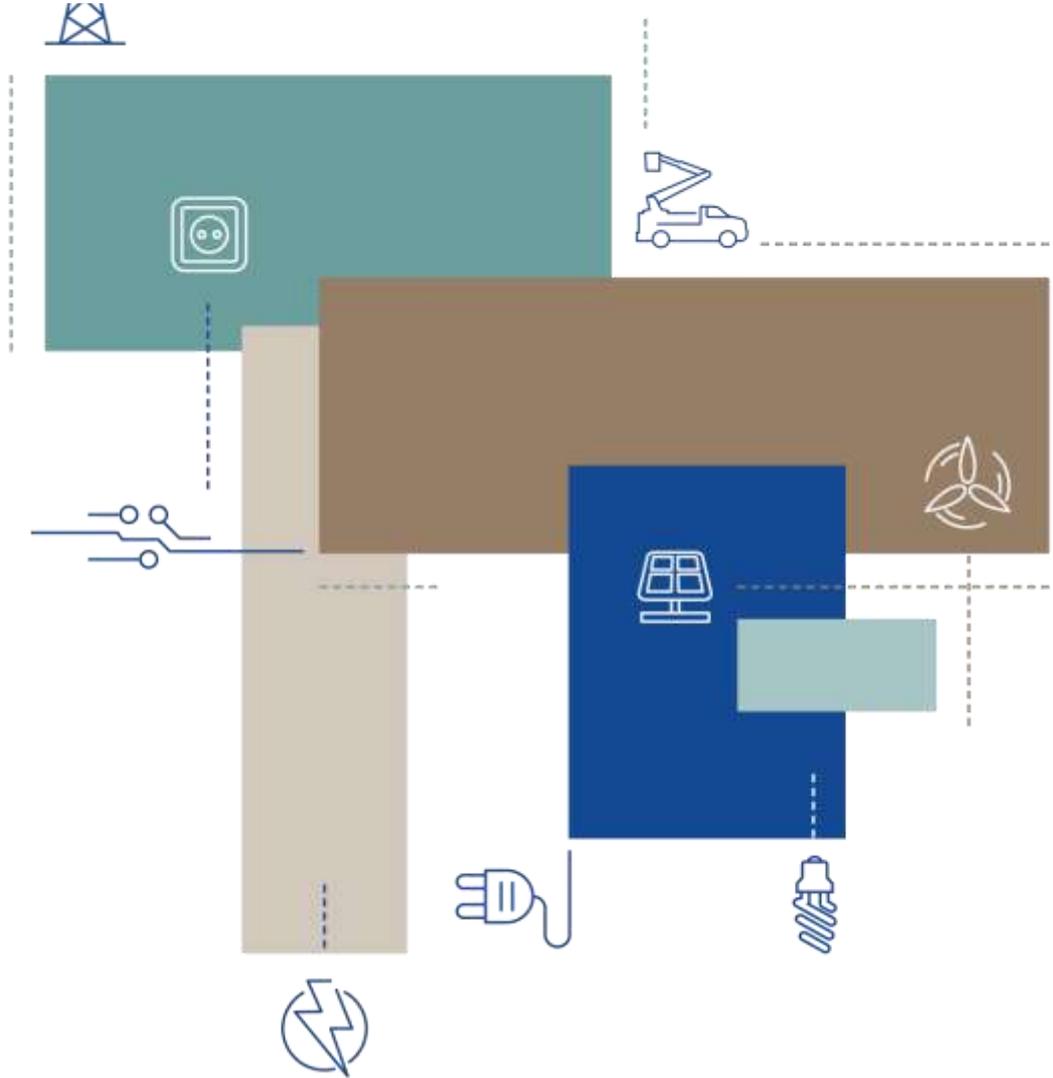
Nominal maturities of guaranteed debt



- Liquidity position improved since January 2018
- Improved investor sentiment
- EBITDA and EBITDA margin % increased
- However, reported a net loss due to increased depreciation and finance costs
- Reduced cash from operations
- Most financial ratios deteriorated and are expected to deteriorate further, before stabilising and improving
- Additional work is required to ensure continued and enhanced PFMA reporting
- Financial performance needs to improve to ensure financial sustainability



Conclusion



- Liquidity improved, operational performance continues to improve
- We are committed to turning around this institution
- Need for alignment between the shareholder compact, Corporate Plan and business operations
- Shareholder support for Board and management
- The transition towards financial and operational sustainability requires resolute, tough and decisive leadership
- A strategic review is being undertaken to re-energise, shift direction and set a firm foundation for Eskom's growth:
 - Strengthening Eskom's financial position and balance sheet
 - Reviewing the business model to respond to global energy industry changes
 - Growing the business into new markets and products
 - Improving trust and restoring labour, investor and stakeholder confidence
 - Reviewing the IPP and coal strategy

National and international recognition for best performance

Sunday Times TOP BRANDS

Top three position in the 2017
community upliftment category

EPRI

ELECTRIC POWER
RESEARCH INSTITUTE

Most attractive key
occupation (electrical
engineers) from engineering
professionals



Awarded the 2017
Technology Transfer Award
for research conducted on
the 765kV insulator project

the **trialogue**
STRATEGIC **CSI**
AWARD 2018

Eskom Contractor
Academy



The Foundation, with the
University of Limpopo, won
the Africa Gold Award and
Overall Global Thematic
Award in Norway, for
entrepreneurship and for
enterprise skills development

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Actual results could differ materially from those projected in any forward-looking statements due to risks, uncertainties and other factors. Eskom neither intends to nor assumes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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