Eskom group annual results

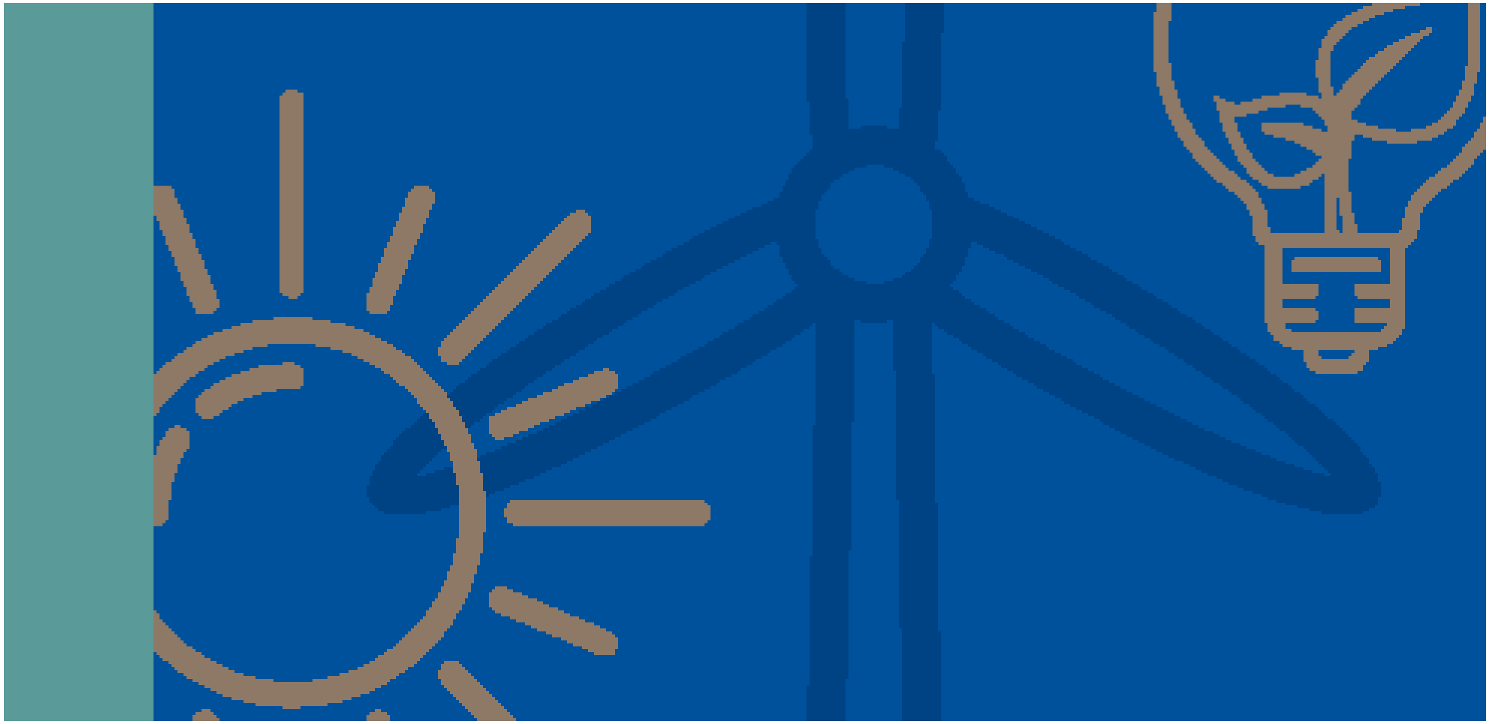
for the year ended 31 March 2019

30 July 2019

The results presentation is available at **www.eskom.co.za/IR2019**

Contents

High-level overview



Driving turnaround for sustainability

- Disappointing results with declining financial, operational and environmental performance
- Encouraging progress to instil governance and to root out financial mismanagement, malfeasance and maladministration
- Generation nine-point recovery programme realises positive results in plant performance through winter, with no loadshedding since 24 March 2019
- Government financial support arrests short-term liquidity concerns and relieves financial pressure
- Turnaround strategy to stabilise, separate and grow the company for financial and operational sustainability remains urgent
- It is critical to create a country energy plan as the next few years pose tough challenges for Eskom and the energy industry

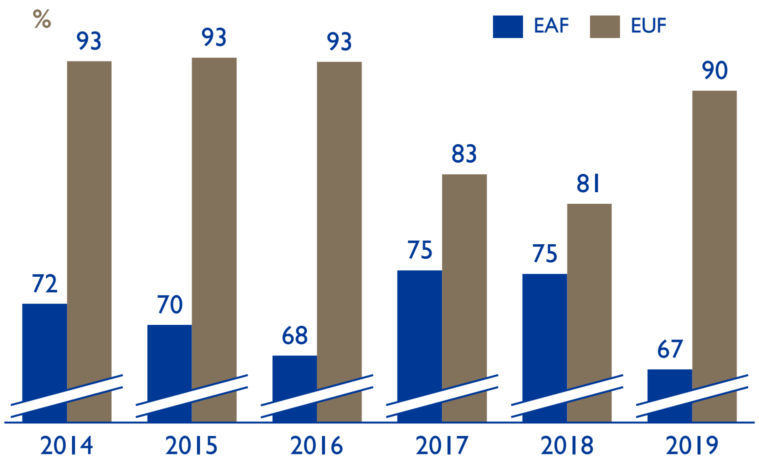
Overview of results

- Net loss after tax of R21 billion
- 30 days of rotational loadshedding
- Industrial action further impacts operations and finance
- Generation energy availability factor (EAF) at 70%
- Total spend on diesel-generated power of R6.5 billion to minimise the magnitude of loadshedding (Eskom and independent power producers)
- Municipal arrear debt rose to R20 billion
- Environmental performance deteriorates further
- Leadership stability with Chief Operating and Chief Financial Officers appointed

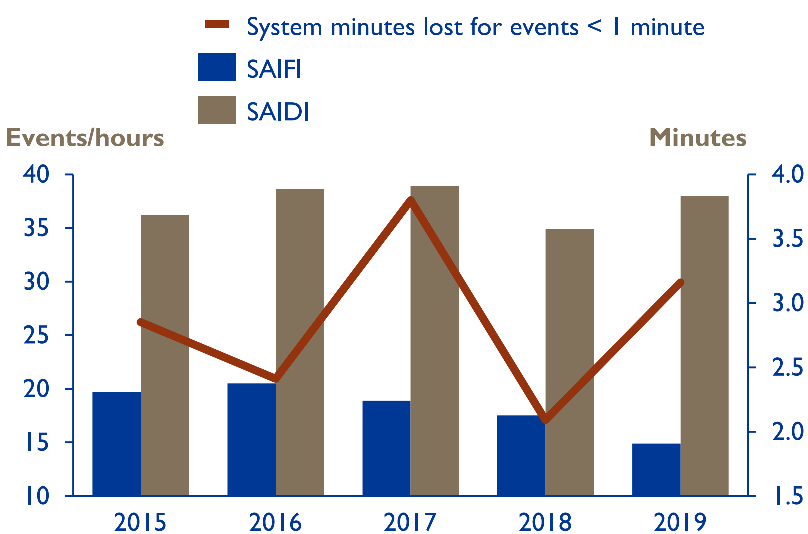
Operational performance

Network performance stable as generating plant performance declines

Coal plant availability & utilisation



Network performance



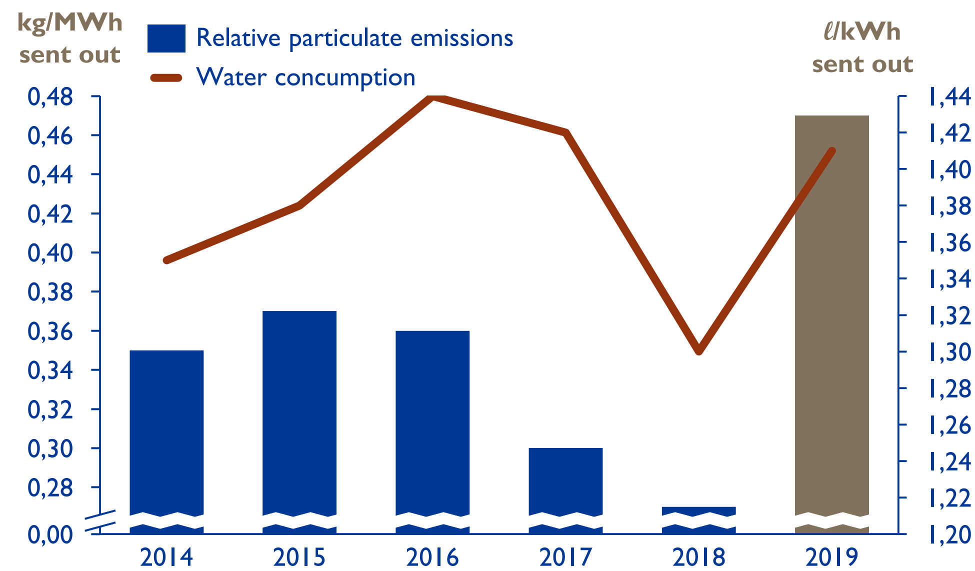
- Generation EAF declined from 78% to 70%
- Coal plant EAF declined from 75% to 67% - energy utilisation factor (EUF) increasing to 90% from 81%; average plant life > 37 years
- Transmission and Distribution networks show stable performance
- 540MVA transformer capacity installed; 379km of high-voltage transmission lines commissioned
- Coal stock levels improve over the period

1. System average interruption frequency index 2. System average interruption duration index

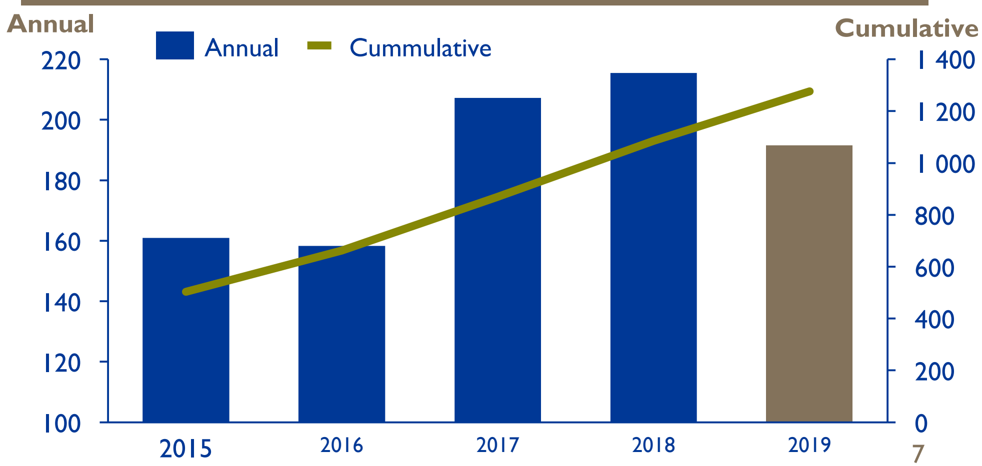
Environmental and safety performance declines, socio-economic performance stable

- Increase water consumption and deteriorating particulate emissions
- 191 585 new households connected (2018: 215 519)
- Lost-time injury rate of 0.31 (2018: 0.24). Regrettably, three employee fatalities (2018: three) and three contractor fatalities (2018: 11)
- B-BBEE attributable spend of R85 billion
- Spend with black-owned suppliers of R52 billion
- Racial, gender and disability equity improved, albeit small
- 933 139 beneficiaries through CSI programmes

Environmental performance



Electrification (number – 000s)

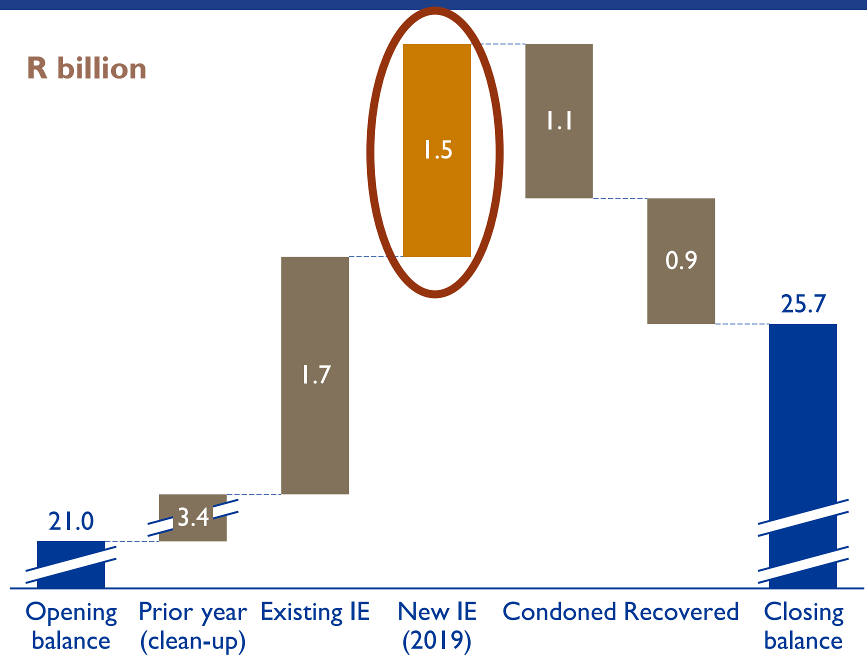


Financial performance

Overview of financial performance

- EBITDA of R31.5 billion (2018: R45.4 billion)
- Cost savings of R9.9 billion achieved, but absorbed by cost overruns to minimise loadshedding
- Net loss after tax of R20.7 billion (2018: R2.3 billion)
- Net cash from operations of R32.7 billion (2018: R37.6 billion)
- 58% of funding requirement for 2020 secured to date
- Audit opinion
  - Material uncertainty regarding Eskom's status as a going concern
  - Modified audit opinion relating to PFMA

Process to manage irregular, fruitless and wasteful expenses improved; more work required



Irregular expenses	Number	R million
Exceed monetary threshold	1	170
Sole source	3	327
Consignment stock	1	488
Tender process	2	161
Other	175	377
Total	**182**	**1 524**

Outstanding issues

- Request permission from National Treasury to accept electronic BBBEE certificates
- Improve management of panels and lifecycle management of contracts
- Enhance information system to accurately report on designated sectors
- Obtain condonation from National Treasury to clear closing balance

Decline in EBITDA and net loss recorded

Income statement R billion	**March 2019**	**March 2018**	**YoY % change**
Revenue	**180**	177	3
Other income	**2**	1	~
Primary energy	**(99)**	(85)	(17)
Net employee benefit expenses	**(33)**	(29)	(13)
Net impairment loss	**-**	(1)	~
Other expenses	**(18)**	(18)	-
EBITDA	**31**	45	(31)
Depreciation and amortisation expenses	**(30)**	(23)	(29)
Net fair value loss on financial instruments and embedded derivatives	**(3)**	(2)	~
Net finance cost	**(28)**	(23)	(19)
Loss before tax	**(29)**	(3)	~
Income tax	**8**	–	~
Net loss for the year	**(21)**	(2)	~

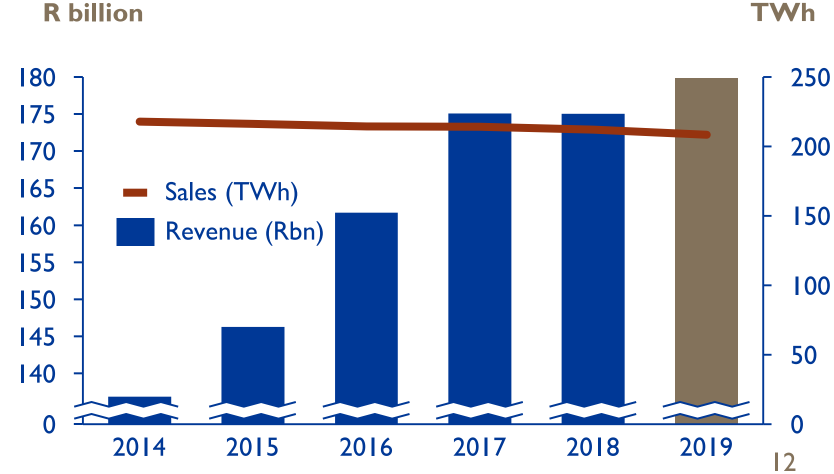
- Revenue: negatively impacted by IFRS 15 and pre-commissioning capitalisation
- Primary energy cost: higher OCGT utilisation, higher coal cost and increased IPP production
- Employee benefit cost increased: wage settlement of bargaining employees
- Depreciation growth: commissioning of new power station units and accelerated depreciation on Komati
- Finance costs: growth in borrowings

Revenue before IFRS adjustments increased by 4%

	March 2019	March 2018	% Growth
Revenue, R billion			
Local	179	171	5
International	8	10	(14)
Total billed revenue	**187**	**180**	**4**
IFRS adjustment	(7)	(3)	
Total revenue	**180**	**177**	**3**
Sales, TWh			
Local	196	197	(0.5)
International	12	15	(18.4)
Total sales	**208**	**212**	**(1.8)**

- Reduction in sales mainly in mining and residential categories
- Other categories remain stable
- International sales reduced
- Average price increase of 5.8%, from 85c/kWh to 90c/kWh
- Volume variance – (R3 billion); price variance R7 billion
- IFRS 15 applies cash basis for defaulting customers, negatively impacting revenue

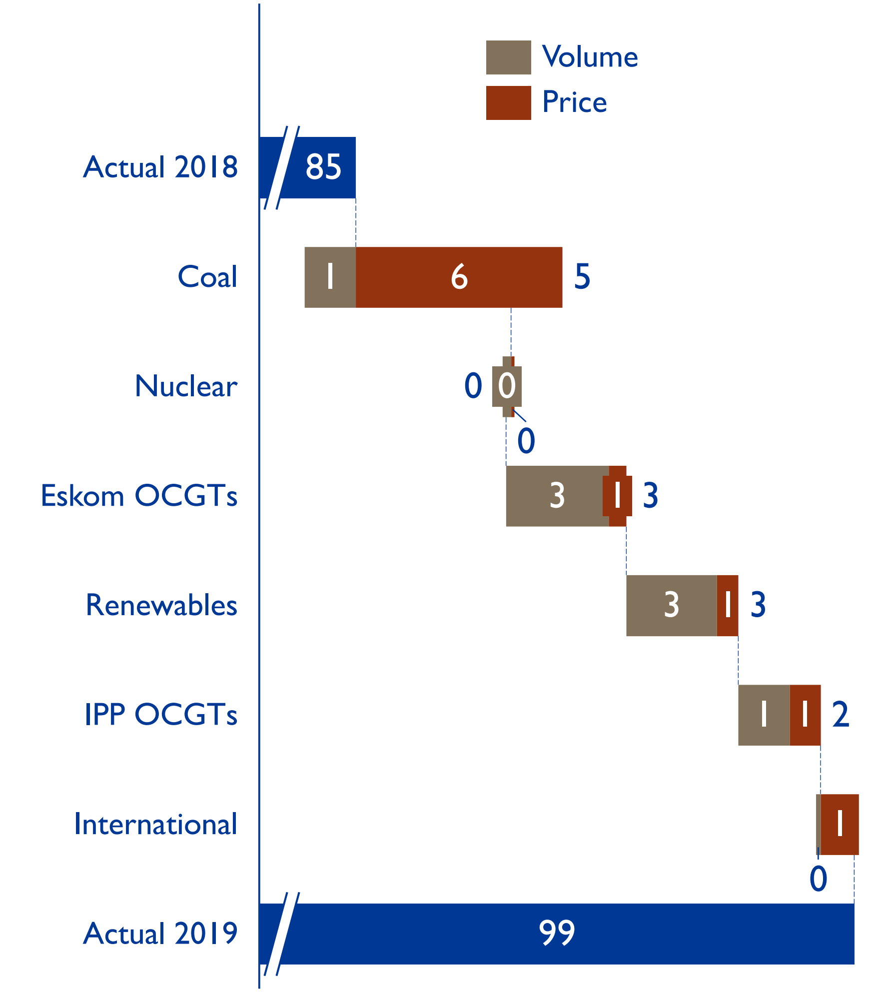
Sales and revenue



Primary energy cost increased by 17%

- Eskom production volume reduced and renewable IPP production volume increased
- Total (Eskom and IPP) OCGT cost of R6.5 billion, an increase of R5.9 billion
- Renewable IPPs is 4.8% of total production and 22% of total cost
- Eskom total cost increased by R7.8 billion
- Renewable IPP cost increased by R3.2 billion and IPP OCGTs by R2.4 billion

Cost increase, R billion



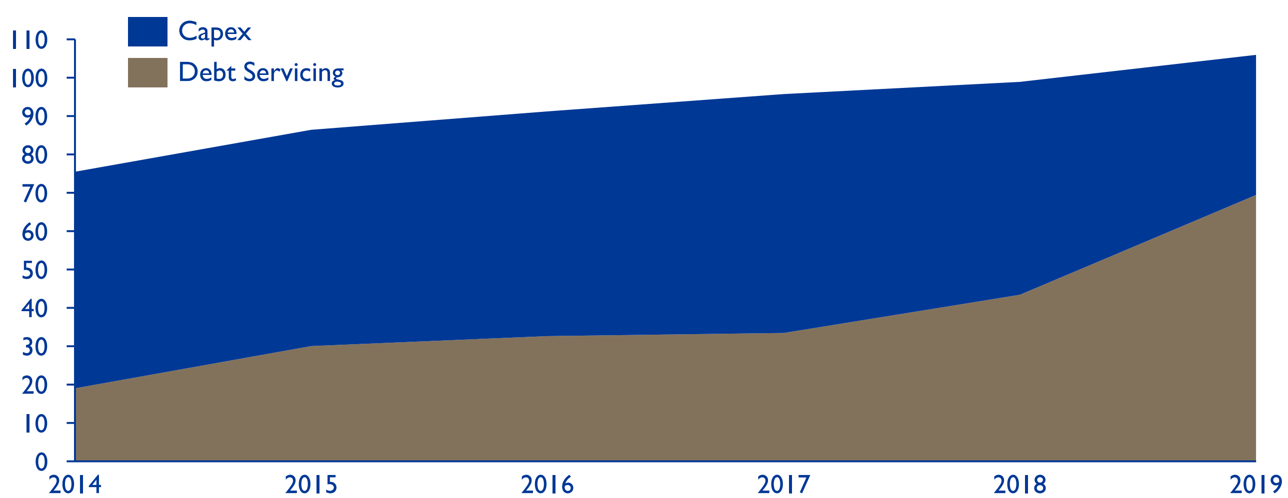
Debt exceeding R440 billion

Financial position, R billion	March 2019	March 2018	YoY % change
Property, plant and equipment and intangible assets	**656**	635	3
Working capital	**50**	46	9
Liquid assets	**12**	24	(52)
Other assets	**41**	32	18
Total assets	**758**	739	3
Equity	**153**	170	(10)
Debt securities and borrowings	**441**	389	13
Working capital	**49**	44	12
Other liabilities	**115**	136	(16)
Total equity and liabilities	**758**	739	3

Cash from operations not sufficient to service debt

Cash flow statement, R billion	March 2019	March 2018	YoY % change
Net cash from operating activities	**33**	38	(13)
Cash required for debt servicing	**(69)**	(44)	(60)
Net cash movement before investment activities	**(36)**	(7)	~
Cash flow used in investment activities	**(36)**	(55)	35
Cash flow from financing activities	**58**	58	~
Net decrease in cash and cash equivalents	**(14)**	(4)	~

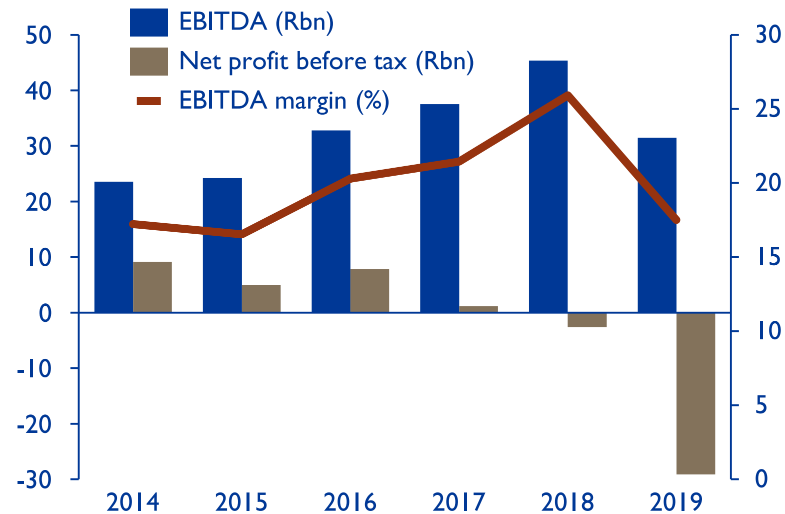
Substantial increase in cash required for debt servicing, R billion



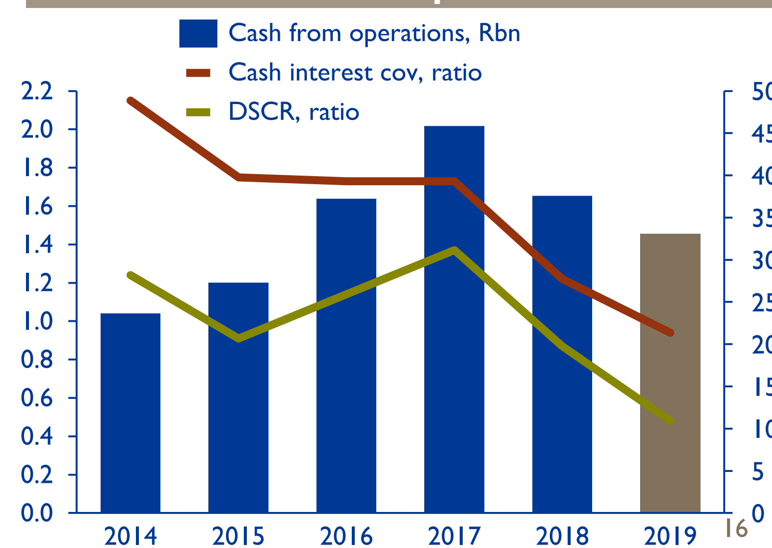
Most financial ratios deteriorated and are expected to deteriorate further before improving

Ratio	March 2019	March 2018	
EBITDA margin, %	18	26	⬇
Cash interest cover, ratio	0.9	1.2	⬇
Debt service cover, ratio	0.5	0.9	⬇
Gross debt/EBITDA, ratio	15.6	9.7	⬆
Debt/equity (including long-term provisions), ratio	3.1	2.5	⬆
Gearing, %	76	72	⬆
Free funds from operations after interest as % of gross debt, %	(1)	2	⬇

Profitability

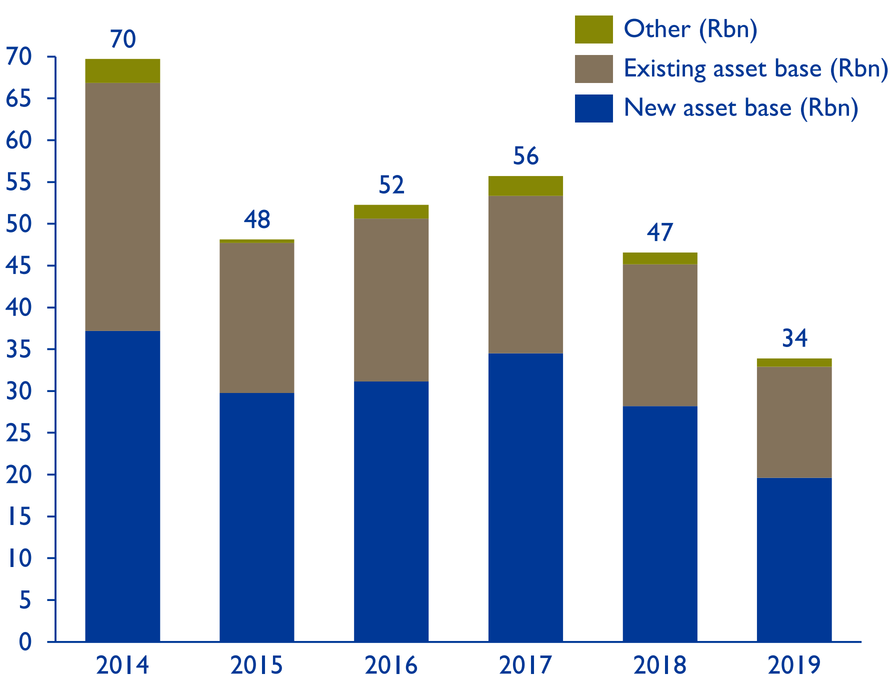


Cash from operations



Reduction in capital expenditure

Total Eskom funded capital expenditure, R billion

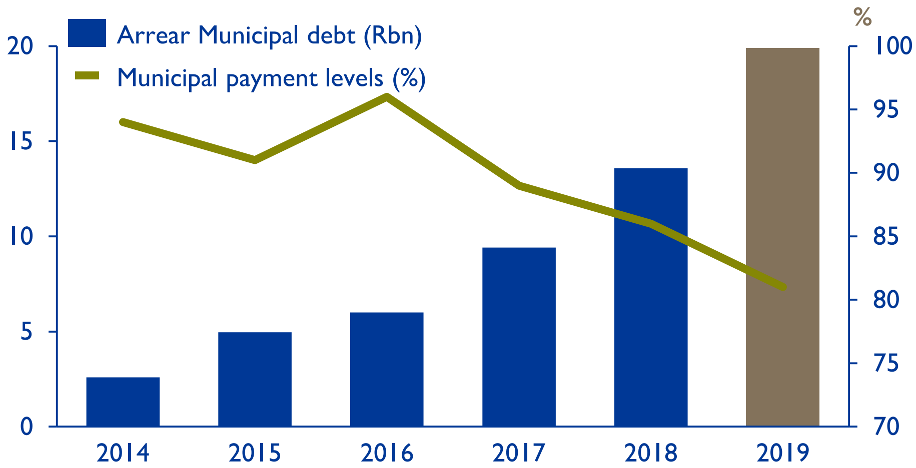


R billion	2019	2018
Medupi	4.9	7.0
Kusile	8.6	13.2
Total	**13.5**	**20.2**

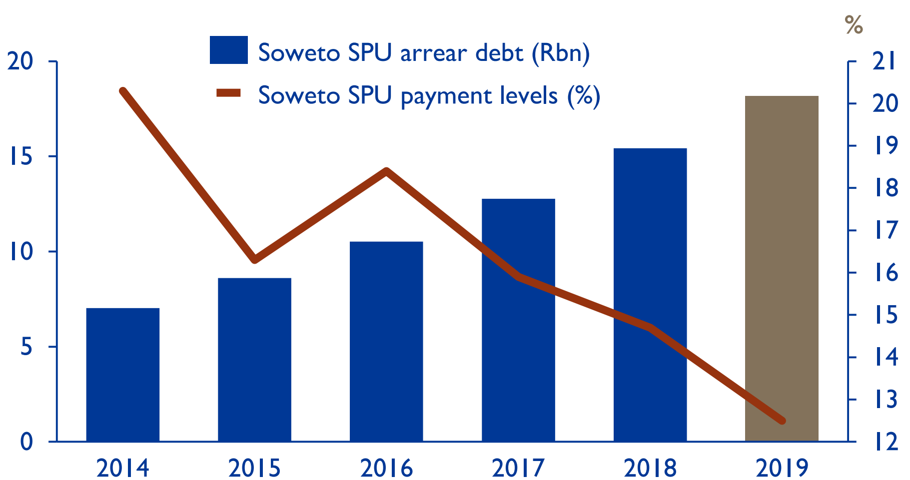
- Total Eskom group funded capital of R34 billion (2018: R47 billion), with R20 billion used to expand the asset base and R13 billion spent on existing assets
- Department of Energy funded electrification capex of R2.8 billion (not shown in graph)

Municipality and Soweto debt increase

Invoiced municipal arrear debt, R billion



Soweto small power user (SPU) debt, R billion

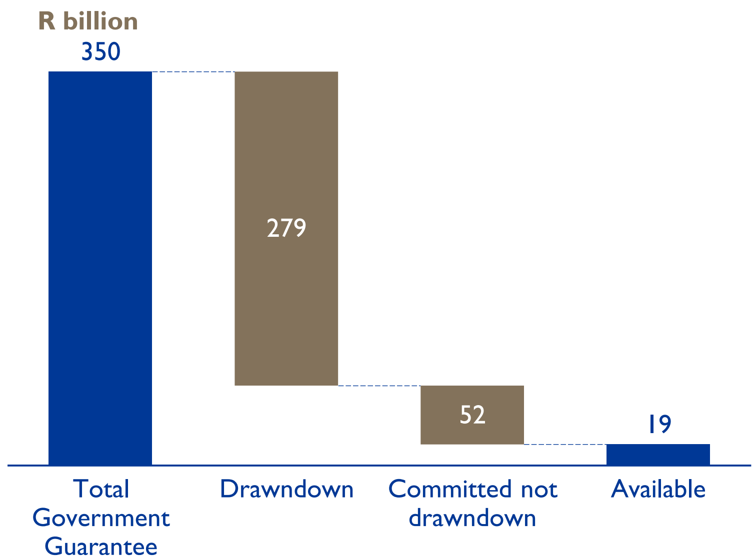


- Invoiced municipal arrear debt (including interest) increased by R6.3 billion, to R19.9 billion
- Current payment level of 81% by municipalities (excluding metros)
- Invoiced Soweto SPU arrear debt (including interest) increased to R18 billion (2018: R15 billion); payment level of 12.5%
- Other overdue debt amounting to R2.5 billion, including R0.8 billion for international customers
- Working with Inter-Ministerial Task Team to address municipal debt
- Liaising with communities in Soweto to address the non-payment culture; legal action taken against customers

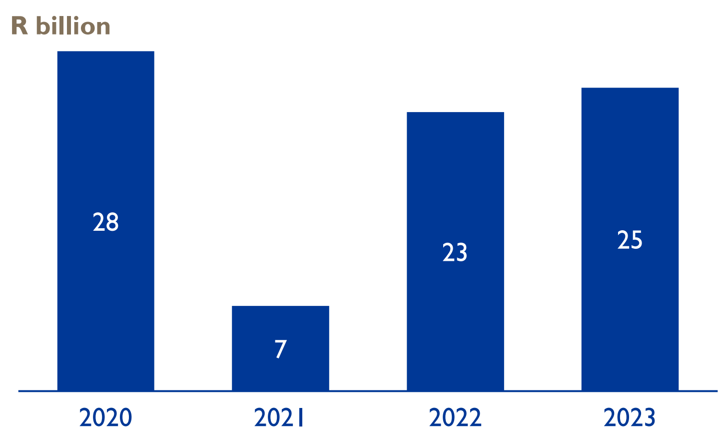
Eskom secures 58% of funding for 2020 financial year-to-date (at 30 June 2019)

R billion	Actual funding 2019	Funding plan 2020	Committed
DFIs	10.5	26.7	22.9
ECAs	0.5	5.4	0.3
International bonds	21.6	-	–
Domestic bonds and notes > 1 year	9.0	6.1	3.2
Domestic bonds and notes < 1 year	3.6	1.0	0.5
Structured products	15.0	7.0	–
Bank funding	3.0		
Total funding[1]	**63.3**	**46.2**	**26.9**
% secured			**58%**

Guarantee utilisation allocation



Nominal maturities of guaranteed debt



1. Gross of commercial paper

Eskom revenue process with NERSA results in non-cost-reflective tariff determination

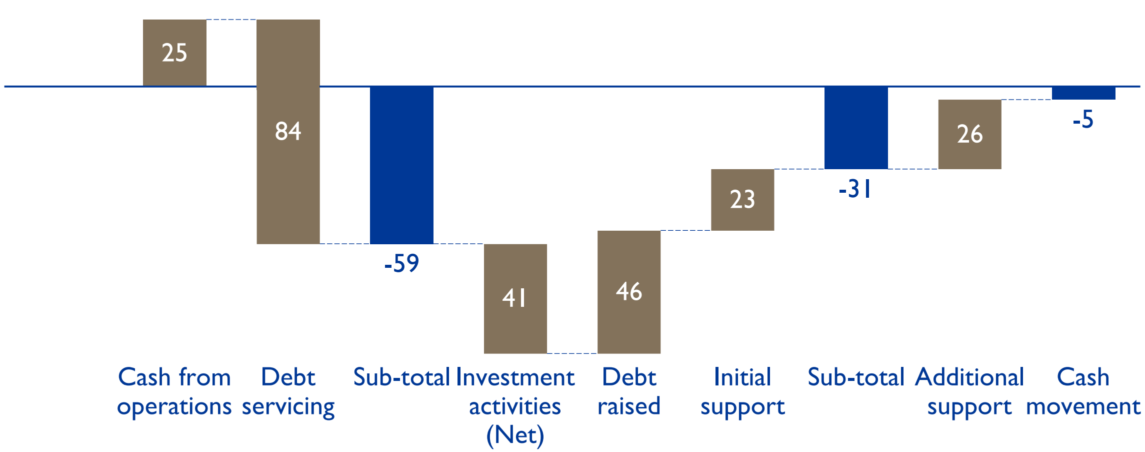
- Lodged reviews of previous NERSA decisions
  - NERSA decisions on the 2015, 2016, 2017 RCA determinations
  - NERSA revenue decision (5.23%) for 2019
- NERSA RCA decision for 2018
  - NERSA made a decision of R3.9 billion in response to an application of R21.6 billion
  - The reasons for the decision still to be published
- NERSA MYPD 4 decision (2020 – 2022)
  - Decision of 9.41% average increase implemented together with the R8 billion RCA recovery, resulting in 13.87% average increase
  - The return on assets reduced with the R23 billion Government support, resulting in a negative return on assets
  - Reasons for the decision still to be published
- Eskom will submit an RCA application for 2019 of around R27 billion

Future financial position

Results for 2020 expected to be similar, before improvements materialise

Financial performance	March 2019	March 2020	
Revenue, R billion	180	207	↑
EBITDA, R billion	31	34	↑
EBITDA margin, %	18	17	→
Net loss after tax, R billion[1]	(21)	(20)	→
Cash interest cover, ratio	0.9	0.7	↓
Debt service cover, ratio	0.5	0.3	↓

Cash flow, R billion



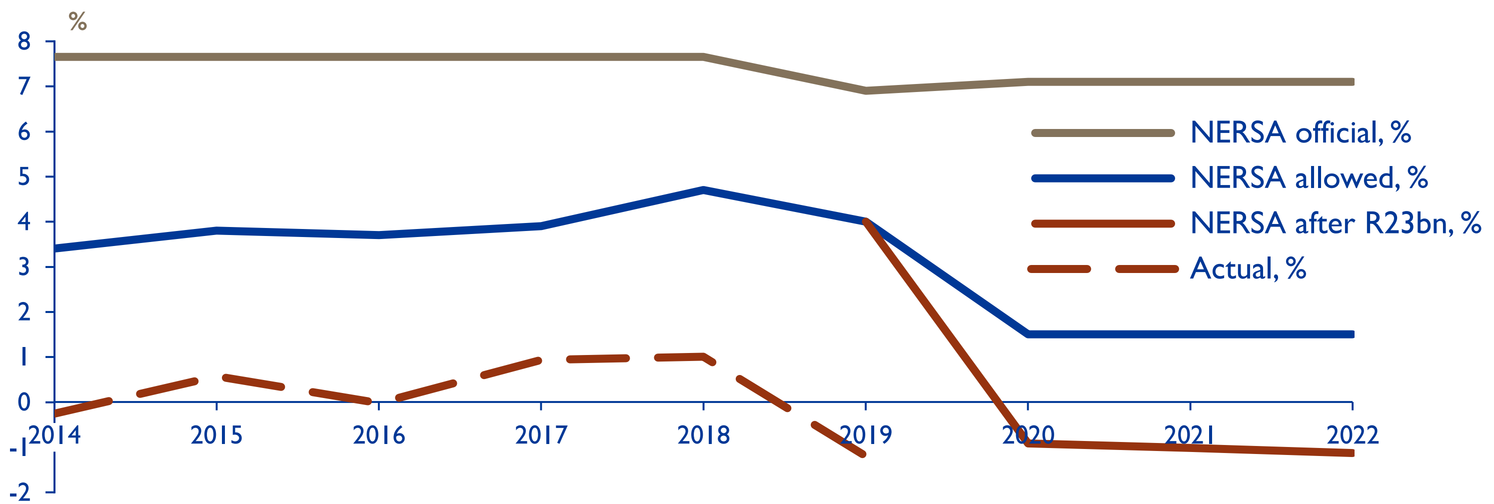
- Results for 2020 expected to be similar to 2019
- Although EBITDA will improve, the net loss is projected to be R20 billion, before Government support, due to an increase in net finance cost
- Cash from operations not sufficient to service debt
- Most ratios maintain negative trend
- Continued Government support required to manage liquidity

1. Before Government support

Price of electricity not sufficient to recover prudent and efficient costs

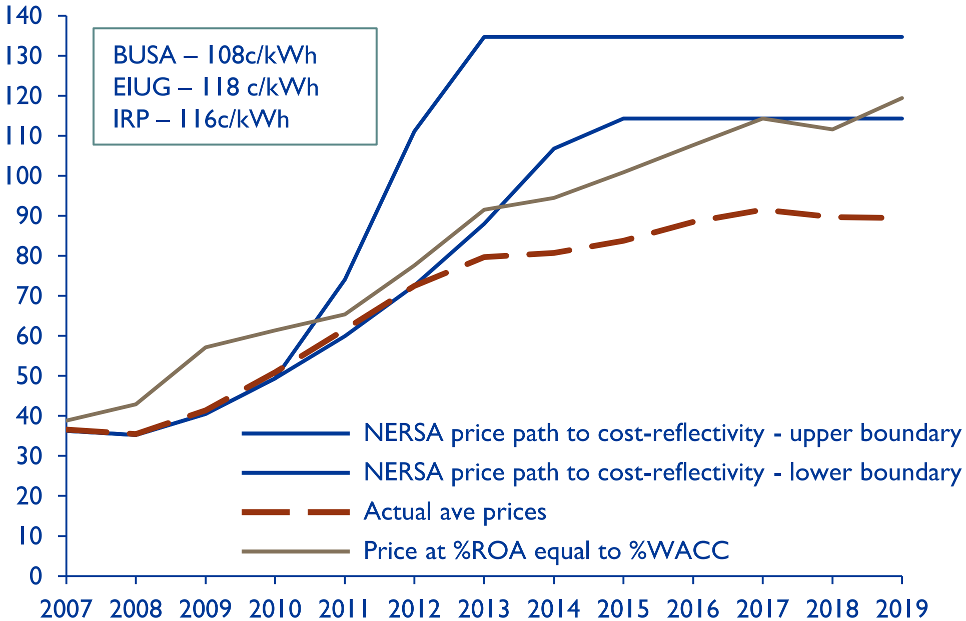
- Eskom has three sources of funds; revenue, borrowings and shareholder support
- Ideally, revenue should be sufficient to redeem the capital over the asset life time and cover the interest cost
- Debt funding exceeding R440 billion, reaching limits
- Eskom has not recovered its prudent and efficient costs and a fair return for many years
- The only short-term option is shareholder support
- Cost savings alone will not solve Eskom's financial health
- The only long-term solution is for the electricity price to migrate to cost reflectivity

NERSA determined return on assets

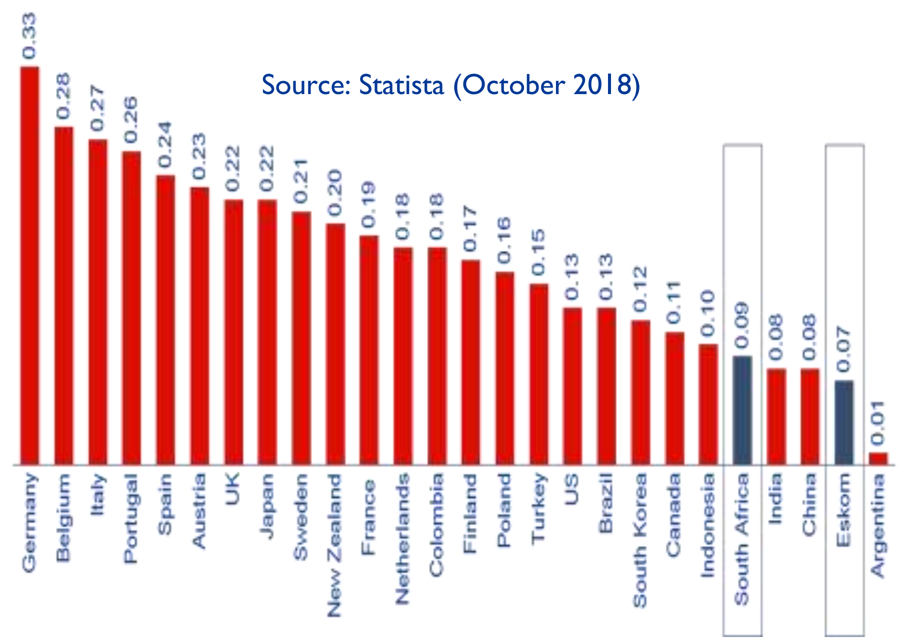


Rapid increase in price of electricity, but still not cost reflective and still low-priced

Price comparison – c/kWh (constant 2019)



Recent international tariff benchmark – US c/kWh

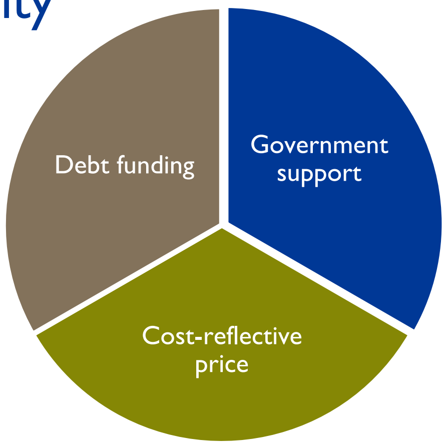


- Various studies confirmed that Eskom's price is below efficient and prudent cost reflectiveness
- Up to this point Eskom's balance sheet has subsidised the consumer
- The current reality is that this is no more possible as reflected in the results
- The result is that Government support is now required to subsidise the consumer

Turnaround plan

Turnaround plan based on four pillars that is critical for future sustainability

- Financial support from Government – Government has shown its commitment in providing liquidity in support of Eskom's status as a going concern, and is reviewing options to optimise the balance sheet
- Cost curtailment
  - Eskom committed to R77 billion cumulative cash savings by 2023
  - Arrest increase in customer debt and recover existing outstanding debt
- Tariff increases through NERSA: Price to migrate to efficient and prudent cost reflectivity to ensure long-term financial sustainability
- Restructuring of Eskom and electricity industry
  - Appointment of Chief Restructuring Officer
  - Functional separation in progress
  - Legal separation to follow



Conclusion

In conclusion

- Governance remains a key focus as we root out financial mismanagement, malfeasance, and maladministration
- Continued focus on operational and environmental recovery of our generation fleet, as we enter high maintenance summer season
- A cost-reflective tariff is necessary, as cost efficiencies alone cannot solve Eskom's financial situation
- The next step in Government support should look at optimising the balance sheet
- Turnaround strategy to stabilise, separate and grow the entity for financial and operational sustainability remain urgent
- National stakeholder involvement necessary to create country energy plan as the next few years pose tough challenges for Eskom and the energy industry

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