Eskom | Powering your world

The group's annual integrated results are available on Eskom's website at www.eskom.co.za/IR2015
Scan the code to be directed to the site

Group audited condensed financial results for the year ended 31 March 2015

Business overview

Despite tough operating conditions during the year under review, EBITDA (earnings before interest, taxation, depreciation and armotisation) increased to R25.2 billion (2013/14: R25.1 billion), reflecting a marginal increase against the prior year. Even with primary energy costs increasing by 19%, the EBITDA margin of 17% was maintained, by containing operating costs to a 2% increase year-on-year, due to internal cost savings of R9 billion, in terms of our Business Productivity Programme.

We have communicated for some time that the national power system is constrained due to the lack of available generating capacity. To balance and protect the power system, we had to resort to expensive supply-side options, such as the open-cycle gas turbine (OCGT) plant and relying on independent power producers (IPPs), as well as demand-side options such as interruptible load agreements, load curtailment by key industrial customers and energy efficiency efforts by other customers to balance supply and demand. When we could not meet demand, we had to resort to controlled, rotational load shedding. Notwithstanding this, we still supplied electricity to an average of 96% of the country when load shedding was implemented in stage 1.

We are fully aware of the negative impact load shedding has on our customers and the economy. While load shedding is regrettable, we are committed to performing the necessary maintenance to improve the long-term health of our plant, while attempting to minimise load shedding. We need a buffer of 3 000MW to 5 000MW for the foreseeable future to enable the maintenance backlog to be closed and to avoid the need for load shedding into the future.

During November 2014, we developed a Turnaround Strategy to arrest the operational and financial decline and stabilise the business. The Turnaround Strategy focuses on four key areas, namely financial sustainability, operational sustainability, sustainable asset creation as well as revenue and customer sustainability.

Financial sustainability

Electricity revenue rose by 6.9% to R147.7 billion (2013/14: R138.3 billion), with EBITDA increasing to R25.2 billion (2013/14: R25.1 billion), despite electricity volumes declining by 0.7% to 216 274GWh (2013/14: 217 903GWh). Besides the implementation of load shedding, electricity volumes were affected by industrial action in the platinum sector, contraction in the gold mining sector, closure of the Bayside aluminium smelter and depressed commodity prices. Primary energy costs increased by R13.6 billion, driven by increased use of IPPs and amounts due in terms of the Medupi coal supply agreement. The utilisation of OCGTs during periods of constrained capacity remains high, in order to balance supply and demand.

Despite an increase in cash generated by operations to R27.3 billion (2013/14: R23.6 billion), cash reserves declined by R10.8 billion to R8.9 billion. Debt securities and borrowings increased to R297.4 billion (2013/14: R254.8 billion) due to funding of R49.5 billion raised in terms of our borrowing programme, coupled with repayments of capital and interest of R14.4 billion and R17.1 billion respectively. Two ratings agencies reduced our credit rating to sub-investment grade.

The revenue gap resulting from the MYPD 3 revenue determination and increased primary energy costs are putting pressure on our liquidity and compromising our financial sustainability. This is further impacted by an inappropriate return on assets as a result of cost increases above inflation, lower sales volumes and the lack of a cost-reflective electricity price over a sustained period.

Accordingly, we are working on steps to address our liquidity and future financial sustainability, including migration to a cost-reflective electricity price, initiating a revenue adjustment application for 2014/15, the second year of the MYPD 3 period, recovery of arrear customer debt, mainly from defaulting municipalities and realisation of targeted cost savings under the Business Productivity Programme. We will continue with our borrowing programme to source additional funding and, with Government support, we aim to avoid further credit ratings downgrades.

Subsequent to year end, the shareholder approved an equity injection of R23 billion, together with the conversion of the R60 billion subordinated shareholder loan. Furthermore, we had R191 billion in unutilised Government guarantees available at year end, which, together with the equity injection, will improve key financial metrics and assist in easing liquidity pressures.

Operational sustainability

Generation plant availability (EAF) declined to 73.73% for the year, compared to 75.13% in the previous year. Unplanned maintenance (UCLF) deteriorated from 12.61% in 2013/14 to 15.22%, partly due to the Duvha Unit 3 incident and the Majuba silo collapse. Plant utilisation (EUF) was at 83.4%, substantially above international norms, as generating units are worked harder and longer. Nearly two-thirds of our coal-fired power stations are past their mid-life, requiring increased maintenance to maintain plant performance at desired levels.

Overall coal stock stood at 51 days at 31 March 2015 (2013/14: 44 days), supporting security of supply. Coal rail performance achieved 12.59Mt (2013/14: 11.6Mt). Particulate emissions of 0.37kg/MWhSO and water usage of 1.38ℓ/kWhSO both declined slightly compared to the previous year (0.35kg/MWhSO and 1.35ℓ/kWhSO respectively).

Excellent network performance was achieved by Transmission and Distribution. Energy losses performance continued to improve, ending the year at 8.79% (2013/14: 8.88%).

Total capacity of 5 701MW has been contracted with IPPs at 31 March 2015, and 1 795MW of renewable energy capacity has already been connected and is providing power to the grid, at an average load factor of 31%. We purchased 6 022GWh from IPPs during the year, at a cost of R9.5 billion (2013/14: 3 671GWh costing R3.3 billion). IPPs play an important role in ensuring security of supply at a time when our generating capacity is closely matched or exceeded by electricity demand, by providing space for maintenance and reducing the need for load shedding. IPPs also provide much needed renewable energy to our energy mix.

Sustainable asset creation

Commercial operation of Medupi Unit 6 is expected during the third quarter of 2015. A number of important milestones have been achieved at Kusile, and Unit 1 is expected to be synchronised in the first half of 2017. The date of first synchronisation of Unit 3 of Ingula has been revised to the second half of 2016, due to the work stoppage imposed following the fatal accident in October 2013. Sere Wind Farm, our first utility-scale renewable project with a generating capacity of 100MW, was placed into commercial operation on 31 March 2015. A total of 318.6km of transmission lines were installed and 2 090MVA substation capacity commissioned under the new build programme during the year.

Since inception of the programme in 2005 to 31 March 2015, we have spent R265 billion on capital expansion and have added 6 237MW of generation capacity, 5 816km of transmission lines and 29 655MVA of substation capacity. Capital expenditure for the year amounted to R53.1 billion (2013/14: R59.8 billion), the majority of which was spent on the Medupi, Kusile and Ingula projects, as well as on extending our transmission and distribution networks. However, the delay in delivering the new build programme, partly due to poor contractor performance and strike action, has placed additional pressure on our ageing fleet of power stations to perform at a time when most are due for major refurbishment.

Revenue and customer sustainability

Municipal arrear debt increased to R5 billion at 31 March 2015 (2013/14: R2.6 billion), while Soweto debt remained high at R4.2 billion (2013/14: R3.6 billion). The residential revenue management strategy is driving energy protection and energy loss programmes, such as Switch OVA!, and improving debt collection.

The Eskom KeyCare index for customer satisfaction achieved an above-target score of 108.7, reflecting continual interaction with key industrial customers. The Enhanced MaxiCare index improved significantly from 92.7 to 99.8, indicating the impact of our customer service improvement programme on residential, small and medium customers.

Safety

Tragically, we reported three employee and seven contractor fatalities during the year. The Board extends its sincere and heartfelt condolences to their family, friends and colleagues. Nevertheless, we continue our commitment to safety. The lost-time injury rate deteriorated slightly to 0.33 (2013/14: 0.31).

Governance

We have seen significant changes in our governance structures. To stabilise the leadership, the Minister of Public Enterprises announced the secondment of Mr Brian Molefe from Transnet to Eskom, as acting Chief Executive, during April 2015. More recently, it was announced that Mr Anoj Singh, Group Chief Financial Officer of Transnet, will be seconded to Eskom for a period of six months, with effect from 1 August 2015.

Outlook

Key initiatives in the short term include the sourcing of funding to support liquidity and financial sustainability. To minimise the impact of load curtailment and load shedding on our stakeholders and the economy, we will reduce unplanned maintenance through planned maintenance, and enhance operational efficiencies to reduce unpredictable plant breakdowns, partial load losses and outage slips. We will also focus on making use of IDM options to reduce electricity demand.

In the medium term, we will commission new generating capacity to alleviate the constrained system and accommodate demand growth.

Condensed group annual financial information

Condensed group statement of financial position at 31 March 2015

	2015 Rm	2014 Rm
Assets		
Property, plant and equipment and intangibles	458 881	404 389
Liquid assets	17 359	30 583
Working capital	35 488	31 811
Other assets	51 156	38 210
Total assets	562 884	504 993
Equity	122 247	119 784
Liabilities		
Debt securities and borrowings	297 434	254 820
Working capital	44 063	44 821
Other liabilities	99 140	85 568
Total liabilities	440 637	385 209
Total equity and liabilities	562 884	504 993

Condensed group income statement for the year ended 31 March 2015

	2015 Rm	Restated 2014 Rm
Continuing operations		
Revenue	147 691	138 313
Profit before net fair value gain/(loss) and net finance cost	9 146	11 649
Net fair value gain/(loss) on financial instruments excluding embedded derivatives	630	(620)
Net fair value gain on embedded derivatives	1 310	2 149
Net finance cost	(6 109)	(4 058)
Share of profit of equity-accounted investees, net of tax	49	43
Profit before tax	5 026	9 163
Income tax	(1 366)	(2 137)
Profit for the year from continuing operations	3 660	7 026
Discontinued operations		
(Loss)/profit for the year from discontinued operations	(42)	63
Profit for the year	3 618	7 089

Condensed group statement of cash flows for the year ended 31 March 2015

	2015 Rm	Restated 2014 Rm
Net cash from operating activities	27 311	23 642
Net cash used in investing activities	(56 386)	(56 461)
Net cash from financing activities	17 954	41 519
Cash and cash equivalents at beginning of the year	19 676	10 620
Foreign currency translation	24	(23)
Effect of movements in exchange rates on cash held	284	504
Cash and cash equivalents at beginning of the year attributable to non-current assets held-for-sale	–	(125)
Cash and cash equivalents at end of the year	8 863	19 676

Annual financial statements

The condensed annual financial statements have been prepared under the supervision of the acting Chief Financial Officer, Ms Nonkululeko Veleti CA(SA), and audited by the group's independent auditors, SizweNtsalubaGobodo Inc. in compliance with Section 30 of the Companies Act, 2008.

The group's independent auditors issued an unmodified audit opinion, which includes an emphasis of matter related to going concern. Details of the going concern assumptions are disclosed in the group annual financial statements, under the directors' report and the notes to the financial statements.

The audited annual financial statements of the group, together with the unmodified audit opinion, are available for inspection at Eskom's registered office and on the Eskom website (www.eskom.co.za/IR2015).

There were no significant events after the reporting date which impact these results.

Approval by Board of Directors

Signed on behalf of the Board of Directors on 28 May 2015.

Dr Ben Ngubane
Acting Chairman

Ms Chwayita Mabude
Chairman: Audit and Risk Committee

Ms Venete Klein
Chairman: Social, Ethics and Sustainability Committee

Disclaimer

This announcement does not constitute an offer to sell or an invitation of any offer to buy securities of Eskom Holdings SOC Ltd (Eskom) or any of its subsidiaries in any jurisdiction. Certain statements in this announcement regarding Eskom's business operations and financial position may constitute forward-looking statements which are not intended to be a guarantee of future results but instead constitute Eskom's current expectations based on reasonable assumptions. Actual results could differ materially from those projected in our forward-looking statements due to risks, uncertainties and other factors.

Head office

Megawatt Park Maxwell Drive Sunninghill Sandton
PO Box 1091 Johannesburg 2000
Tel +27 11 800 2775 Fax +27 86 668 0171

Eskom Holdings SOC Ltd
Reg No 2002/015527/30

HKLM 1036