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The group's condensed interim financial statemens are available on Eskom's website at www.eskom.co.za/IR2017

Group audited condensed financial results for the year ended 31 March 2017

Revenue increased by **7.9%** to R177.1 billion

Own generation cost decreased by **8.5%** to R60.1 billion, with **IPP expenditure** up 30.8% to R19.8 billion

Total primary energy cost down by 2.3%

EBITDA increased by **14.4%** to R37.5 billion

Cash flow from operating activities increased by **23.1%** to R45.8 billion

Generation plant availability increased from 71.1% to 77.3%

Medupi Unit 5 in commercial operation since 3 April 2017, adding installed capacity of **794MW**

All Ingula units in commercial operation since January 2017, adding installed capacity of **1 332MW**

Kusile Unit 1 synchronised to the national grid on 26 December 2016

Medupi Unit 4 synchronised on 31 May 2017

Electrification connections increased by **31%** year-on-year to 207 189, with universal access at approximately 90%

Business overview

In its first year of implementation, the Design-to-Cost (DTC) strategy delivered significant success as Eskom achieved the required stability to navigate changing industry dynamics. However, the resuscitation of the business financially will be tested by the 2.2% increase for 2017/18.

Eskom will build on recent performance and efficiency improvements and become a more customer-centric organisation that partners with key sectors to stimulate industrial activity, thereby increasing electricity consumption to enable economic growth and job creation.

The business is targeting a number of key improvements over the next five years:

- Encouraging increased electricity demand to support economic growth, by achieving annual growth of 2.1% in local demand and 8% in export sales
- Reducing primary energy spend by R43 billion through greater efficiencies and industry restructuring
- Optimising planned capital expenditure by R25 billion and adding a private sector partnership strategy
- Driving efficiencies by applying advanced analytics, to deliver R6 billion EBITDA improvement
- Releasing R105 billion in Government guarantees, while maintaining a moderate electricity price path

Financial performance

Revenue amounted to R177.1 billion (2016: R164.2 billion, restated), an increase of 7.9%, due to the NERSA-approved price increase in 2016.

Electricity sales of 214 121GWh were 0.2% lower than the previous year, although export sales volumes have increased by 12.1% to 15 093GWh (2016: 13 465GWh) mainly due to the drought in Southern Africa. Eskom took advantage of this situation to utilise its excess capacity. A strategy to address the decline in local sales volumes has commenced, and will address both the retention of sales to existing customers and the stimulation of sales growth. The strategy covers both local demand stimulation and cross-border sales.

In order to grow export sales, new agreements have been concluded with a number of regional trading partners, ranging between 50MW and 200MW. Agreements have already been concluded with BPC of Botswana, NamPower of Namibia, ZESA of Zimbabwe and Copperbelt Energy Corporation of Zambia. Agreements are being finalised with SNEL of the Democratic Republic of Congo and ZESCO of Zambia. Long-term agreements with LEC of Lesotho and SEC of Swaziland are in place.

Primary energy costs of R82.8 billion are 2.3% lower than the previous year (2016: R84.7 billion) compared to an average increase of 18.8% over the last five financial years, reversing a significantly negative trend. Own generation costs (including environmental levy) of R60.1 billion (2016: R65.7 billion) generated 215 358GWh (2016: 215 933GWh) and reflects a decrease of 8.5% compared to the previous year. The increase in coal purchase cost per ton was contained to 3.5% which is well below inflation of about 6%. Eskom spent R2.7 billion on international electricity purchases and R0.2 billion on other primary energy costs (2016: R3.7 billion and R0.2 billion respectively). To ensure optimal generation costs we will continue to apply the least-cost merit order dispatch of power stations.

Independent power producers (IPPs) generated 11 529GWh (2016: 9 033GWh) at a cost of R19.8 billion (2016: R15.1 billion), reflecting an increase of 30.8% compared to the previous year. The average IPP unit cost increased to 188c/kWh (2016: 171c/kWh), as proportionately more energy was procured from renewable IPPs (RE-IPPs) at a higher cost than other IPPs. This cost is much higher than Eskom's short-run marginal cost and the average price of electricity. We will continue to engage with Government, also collaborating closely with DoE and NERSA, to manage IPP programme risks and mitigate any unintended negative operational and financial impacts on Eskom.

The increase in operating expenditure to R58.4 billion (2016: R49.1 billion) is driven largely by an increase of 13.4% in employee benefit costs and other operating expenses. Other operating expenses were negatively impacted by a 26.3% increase in respect of decommissioning provisions for dedicated coal mines. Eskom spent R14.1 billion (2016: R13.3 billion) on repairs and maintenance during the year.

Eskom implemented the Business Productivity Programme (BPP) in 2013; it aims to deliver cost saving opportunities to assist in closing the MYPD 3 revenue shortfall. Savings of R20.2 billion (2016: R17.5 billion) were achieved this year against a target of R17 billion. The savings were achieved mainly from cash savings from coal operational expenditure, employee benefit costs and other expenses. Inception-to-date savings amount to R48.7 billion against a target of R43 billion.

The group EBITDA of R37.5 billion shows a healthy 14.4% increase (2016: R32.8 billion, restated). The electricity EBITDA margin has improved further to 21.44% (2016: 20.29%, restated). This is largely due to the 9.4% price increase and lower primary energy costs. The group achieved a net profit after tax of R0.9 billion (2016: R5.2 billion, restated) for the year.

Depreciation has increased to R20.3 billion (2016: R16.6 billion) due to new plant of R64 billion being commissioned. The net fair value loss for the group on financial instruments, including embedded derivatives, was R1.7 billion (2016: R1.5 billion), and arose from foreign exchange rate movements and fair value adjustments, as well as premium and volume variances on forward exchange contracts due to the ongoing hedging of interest and capital repayments on foreign borrowings.

An increase in the gross interest expense and a reduction in borrowing cost being capitalised under IAS 23 due to plant being brought into use, resulted in an increase in net finance cost of 81.6% to R14.4 billion (2016: R7.9 billion).

Funding

The group's net cash inflow from operating activities was R45.8 billion for the year (2016: R37.2 billion), reflecting an increase of 23.1%. Cash flows used in investing activities were R62.3 billion for the year (2016: R58.6 billion).

The group's liquidity position, comprising cash and cash equivalents plus investment in securities, was R32.5 billion at 31 March 2017. Eskom secured the revised funding requirement of R58 billion, reduced from the original requirement of R68.8 billion due to expected cash savings realised in the business.

Eskom also has committed banking facilities of R6.25 billion available. A total of 53%, including the committed facilities, of the funding requirement of R71.7 billion for the 2018 financial year has already been secured. National Treasury has extended the current Government guarantee framework agreement from 31 March 2017 to 31 March 2023. At this stage no further credit enhancement mechanisms are expected from Government.

During the financial year, Standard & Poor's (S&P) downgraded Eskom's foreign and local currency credit ratings and Fitch downgraded Eskom's local currency credit rating. Since year end, S&P, Fitch and Moody's downgraded Eskom's credit ratings. The downgrades are not expected to negatively impact the borrowing programme except for an increase in the cost of debt.

The Board approved a revised borrowing programme of R338 billion, covering the period 1 April 2017 to 31 March 2022. We have to repay interest of R213 billion over the next five years, with debt repayments of R200 billion, with a peak of R63 billion in 2020/21. Cash interest cover and debt service cover ratios will both come under pressure as debt servicing increases over the medium term. Nevertheless, cash flow from operations is expected to be sufficient to cover debt and interest payments.

Debt management

Municipal arrear debt increased from R6 billion at 31 March 2016 to R9.4 billion at 31 March 2017 and remains unacceptably high, despite numerous interventions.

During January and February 2017, supply was interrupted to four municipalities in the North West Province, two in the Northern Cape and two in Mpumalanga. In response to concerns raised by municipalities and SALGA, we have tabled a number of proposals to various Parliamentary committees. The proposals are being considered by our Board, and if approved, external approvals will be obtained where required.

We are involving municipalities to implement a pilot project in two provinces to install prepaid electricity meters for their customers. The project aims to improve revenue collection on behalf of these municipalities and enable settlement of municipal electricity bills.

Soweto arrear debt (excluding interest) increased to R5.3 billion at 31 March 2017 (R4.7 billion at 31 March 2016). We will continue to implement technologies to prevent tampering with meters, and facilitate the conversion of customers to prepaid. Eskom is currently installing prepaid meters in Sandton, Midrand, Soweto and Kagiso. This is in order to increase revenue collection and address Eskom's debt collection challenges. Eskom installed 29 599 smart meters during the year in those areas. During the same period, 13 528 meters were converted to prepaid metering.

Economic regulation

Eskom submitted the 2014/15 Regulatory Clearing Account (RCA) application of R19.2 billion to NERSA in May 2016, while the 2015/16 RCA application of R23.6 billion was submitted in July 2016.

On 16 August 2016, the North Gauteng High Court set aside NERSA's decision regarding the 2013/14 RCA and remitted it back to NERSA. NERSA and Eskom were granted permission in November 2016 to appeal the High Court decision. The appeal was heard on 4 May 2017; the Supreme Court of Appeal upheld NERSA and Eskom's appeal on 6 June 2017. Eskom is now awaiting feedback from NERSA on the way forward regarding the outstanding RCA applications for 2014/15 and 2015/16. NERSA granted Eskom a tariff increase of only 2.2% for 2017/18.

NERSA has supported Eskom's request for a single-year application for 2018/19. Eskom submitted a one-year tariff application on 19 April 2017 for consultation to National Treasury and SALGA. Eskom made a formal application for a 19.9% increase to NERSA on 9 June 2017 and is expecting NERSA's determination by December 2017 for implementation on 1 April 2018.

We will continue to moderate the tariff trajectory to stimulate economic growth. However, we face a number of challenges such as doubt about revenue determination and RCAs.

Operating performance

The energy availability factor (EAF) improved significantly from 71.1% for the year to March 2016 to 77.3% for the year to March 2017, exceeding the year-end target of 72%. We are well placed to achieve an EAF of 80% by 2019/20. As a result of this increased availability and additional generating capacity added, the reliance on open-cycle gas turbines (OCGTs) has reduced considerably. Diesel usage decreased by R8.4 billion compared to the previous year.

A total of 13.2Mt coal was transported by rail (2016: 13.6Mt).

Particulate emissions performance at 0.30kg/MWhSO is an improvement on last year's performance of 0.36kg/MWhSO. Water usage related to power station operations for the year was 1.42ℓ/kWhSO, better than last year's performance of 1.44ℓ/kWhSO.

At 31 March 2017, total IPP capacity of 5 027MW was available to the system (2016: 3 392MW). Renewable IPPs delivered energy at an average load factor of 30.7% (2016: 30.7%) over the year, at an average cost of 209c/kWh (2016: 223c/kWh).

The combination of stagnant demand growth, improved plant performance and an increase in IPP capacity, is expected to result in excess generation capacity over the medium term. We will manage the surplus capacity by placing units in cold reserve or lean preservation, growing local and export sales, and consider decommissioning coal-fired power stations, but in a way that optimises coal, people and capital costs across our fleet. We will only decommission power stations after completion of a thorough impact study on people and the community.

The transmission system minutes lost <1 performance target of 3.8 was attained notwithstanding the negative impact of a few relatively large incidents involving plant failures which occurred in the first half of the financial year (2016: 2.41) and an excellent 1.60 line faults per 100km performance was achieved against a target of 2.2 (2016: 1.51). The frequency and duration of distribution network incidents was better than target, with interruption frequency showing an improvement on last year.

Eskom KeyCare and Top Customer KeyCare, which measure the satisfaction of our large industrial customers, both improved over the year.

Eskom's safety performance remains a concern, particularly in light of the number of fatalities and serious injuries suffered by employees, contractors and the public. Contractor and public fatalities reduced compared to the prior year. Unfortunately, despite our intense commitment to safety, we suffered four employee fatalities (2016: four) and six contractor fatalities (2016: 13). Our heartfelt condolences to the families, friends and colleagues of the people who lost their lives in the line of duty.

Capacity expansion programme

Eskom is building new power stations and high-voltage power lines to meet South Africa's growing energy demand. The capacity expansion programme will increase Eskom's generating capacity by 17 384MW by 2022, and includes one pumped storage and two coal-fired power stations.

Ingula Units 2 and 1 were synchronised to the grid on 21 May and 16 June 2016 respectively. Units 4, 2, and 1 were successfully commissioned on 10 June, 22 August and 30 August 2016 respectively, all ahead of schedule. The fourth and final generating unit became operational on 31 January 2017, when Unit 3, which had been damaged during testing in April 2016, was brought into commercial operation. In total, 1 332MW installed peaking capacity was added to the national grid.

Medupi Unit 5 was successfully synchronised to the national grid on 8 September 2016, ahead of the planned schedule and reached full load (794MW) on 17 December 2016. After completing performance, reliability and compliance tests, Unit 5 attained commercial operation on 3 April 2017, ahead of schedule. Kusile Unit 1 was synchronised to the grid on 26 December 2016 and achieved full load (800MW) on 10 March 2017. Medupi Unit 4 was synchronised to the grid on 31 May 2017.

Four OCGT units at Ankerlig and two units at Gourikwa have now been converted to dual-fuel capability. The remaining eight units will be converted by the end of the 2017/18 financial year.

During the year, 585.4km of high-voltage transmission lines were installed and substation capacity of 2 300MVA was installed and commissioned under the new build programme, bringing the total since inception of the capacity expansion programme to 6 747km transmission lines and 34 390MVA substation capacity.

Empowerment

Procurement from B-BBEE compliant suppliers achieved 98.3% of total measured procurement spend (2016: 81.7%) which included spend with black-owned suppliers of 41.5% (2016: 33.6%).

At 31 March 2017, 65.8% of senior management were black (2016: 61.1%), while 36.6% of senior management were female (2016: 29.8%). Eskom has developed an ambitious and rigorous gender equalisation plan which strives to close the gender gap by 2020, through the Eskom Women Advancement Programme (EWAP). Employees with disabilities constituted 2.93% of the workforce, and we had 4 844 learners in the pipeline.

Eskom electrified 207 189 households during the year (2016: 158 016), an increase of 31.1%. The implementation of the new performance centre, which focuses solely on the delivery of electrification, has enabled the significant increase in connections.

Corporate social investment

Eskom committed R225.3 million to corporate social investment during the year (2016: R103.6 million), impacting 841 845 beneficiaries (2016: 302 736).

Governance

The Board proactively embarked on a comprehensive review of the various reports and matters raised pertaining to perceived governance issues (including the State of Capture, PwC, National Treasury and Dentons reports amongst others). Concerns broadly relate to procurement, contract management and governance. Management, under the oversight of the Audit and Risk Committee, has and will continue to implement the action plan to improve the control environment. The Board is confident that significant progress has been made in addressing findings and recommendations.

Mr Romeo Kumalo and Ms Mariam Cassim resigned as directors effective from 12 and 14 April 2016 respectively. Ms Nazia Carrim and Ms Viroshini Naidoo resigned as directors effective from 30 June 2016. Mr Mark Pamensky resigned as director effective from 25 November 2016.

Ms Elsie Pule was appointed as Group Executive: Human Resources, and Mr Sean Maritz was appointed as Group Executive: Information Technology, both effective from 1 June 2016.

Mr Brian Molefe went on early retirement as Group Chief Executive and executive director effective 31 December 2016, after which Mr Matshela Koko, previously Group Executive: Generation, was appointed as Interim Group Chief Executive with effect from 1 December 2016. This was followed by the appointment of Mr Willy Majola as acting Group Executive: Generation with effect from 1 January 2017.

Mr Abram Masango, previously Group Executive: Group Capital, was appointed as Group Executive in the Office of the Chief Executive. Mr Prish Govender was appointed as acting Group Executive: Group Capital in his stead, both with effect from 22 March 2017.

The Board rescinded their decision approving the early retirement of Mr Molefe and he returned as Group Chief Executive on 15 May 2017. Subsequently, the Board rescinded that decision and Mr Molefe was asked to step down as Group Chief Executive on 2 June 2017. Mr Molefe approached the Labour Court on the basis that overturning his reappointment was unlawful. The case has been postponed.

On 6 June 2017, the High Court ruled that Mr Molefe may not return to work until such time as the Labour Court has ruled. On 4 July 2017, the Labour Court postponed the hearing of Mr Molefe's challenge to his dismissal, pending the outcome of the High Court application by opposition parties for his reappointment to be ruled invalid and set aside.

Subsequent to year end, Ms Venete Klein resigned as a director on 12 May 2017. Dr Baldwin Ngubane resigned on 12 June 2017, after which Mr Zethembe Khoza was appointed as interim Chairman.

Mr Johnny Dladla was appointed as acting Group Chief Executive and executive director on 22 June 2017. At the annual general meeting held on 23 June 2017, the Minister of Public Enterprises appointed four interim non-executive directors (pending Cabinet approval): Dr Pulane Molokwane, Mr Simphiwe Dingaan, Ms Banothile Makhubela and Mr Sathiaseelan Gounden. Ms Chwayita Mabude's second term came to an end and was not renewed. The remaining non-executive directors were reappointed.

Outlook

The group has access to adequate resources and facilities to continue as a going concern for the foreseeable future.

Our financial position, Generation performance and new build delivery have improved over the past few years and are expected to improve further, given successful implementation of our strategy. The main focus over the medium term will be to increase sales volumes and reduce costs, in order to improve profitability. The biggest challenge will be to moderate the electricity price increase while strengthening our financial position.

Condensed group annual financial information

Condensed income statement
for the year ended 31 March 2017

	March 2017 Rm	Restated March 2016 Rm	% change
Continuing operations			
Revenue	177 136	164 239	8
Other income	1 573	2 390	(34)
Primary energy	(82 760)	(84 728)	(2)
Net employee benefit expense	(33 178)	(29 257)	13
Net impairment loss	(1 669)	(1 170)	43
Other expenses	(23 570)	(18 663)	26
Profit before depreciation and amortisation and net fair value loss (EBITDA)	37 532	32 811	14
Depreciation and amortisation expense	(20 300)	(16 633)	22
Net fair value loss on financial instruments	(1 731)	(455)	280
Net finance cost	(14 377)	(7 919)	82
Share of profit of equity-accounted investees, net of tax	35	43	(19)
Profit before tax	1 159	7 847	(85)
Income tax	(271)	(2 696)	(90)
Profit for the year	888	5 151	(83)

Condensed group statement of financial position
at 31 March 2017

	March 2017 Rm	Restated March 2016 Rm	% change
Assets			
Property, plant and equipment and intangibles	592 848	523 659	13
Cash and cash equivalents and investment in securities	32 503	38 680	(16)
Working capital	43 954	43 615	1
Other assets	40 704	57 216	(29)
Total assets	710 009	663 170	7
Equity	175 942	182 352	4
Liabilities			
Debt securities and borrowings	355 300	322 658	10
Working capital	51 860	52 360	(1)
Other liabilities	126 907	105 800	20
Total liabilities	534 067	480 818	11
Total equity and liabilities	710 009	663 170	7

Condensed group statement of cash flows
for the year ended 31 March 2017

	March 2017 Rm	Restated March 2016 Rm	% change
Net cash from operating activities	45 841	37 242	23
Net cash used in investing activities	(62 286)	(58 590)	(6)
Net cash from financing activities	7 855	40 927	(80)
Cash and cash equivalents at the beginning of the year	28 454	8 863	221
Foreign currency translation	(45)	21	–
Effect of movements in exchange rates on cash held	647	75	762
Cash and cash equivalents transferred to non-current assets held-for-sale	(41)	(84)	(51)
Cash and cash equivalents at the end of the year	20 425	28 454	(28)
Investment in securities	12 078	10 226	18
Liquid assets at the end of the year	32 503	38 680	(13)

Group annual financial statements

The group annual financial statements have been prepared under the supervision of the Group Chief Financial Officer, Mr Anoj Singh CA(SA), and audited by the group's independent auditors, SizweNtsalubaGobodo Inc. who issued a qualified opinion relating to compliance with PFMA and completeness of irregular expenditure. The consolidated annual financial statements are fairly presented, except for the qualification. The audited annual financial statements of the group are available for inspection at Eskom's registered office and on www.eskom.co.za/IR2017.

The group annual financial statements were approved by the Board of Directors on 15 June 2017. There were no significant events after the reporting date which impact these results.

Disclaimer

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