Integrated results for the year ended 31 March 2015

11 August 2015

This presentation is available at **www.eskom.co.za/IR2015**

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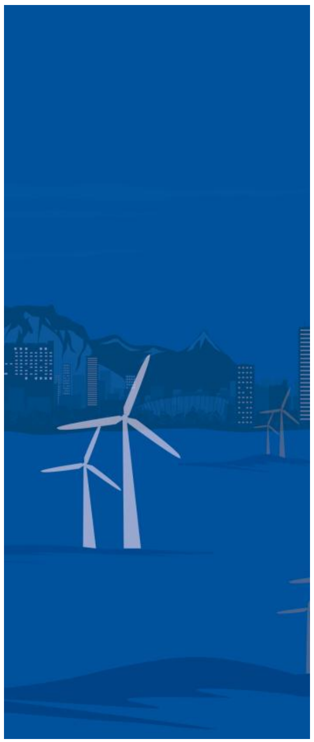
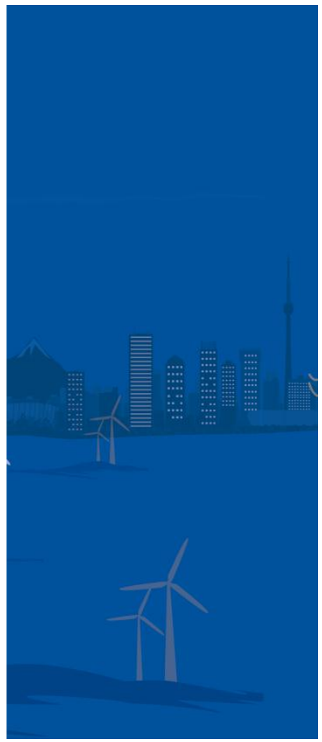
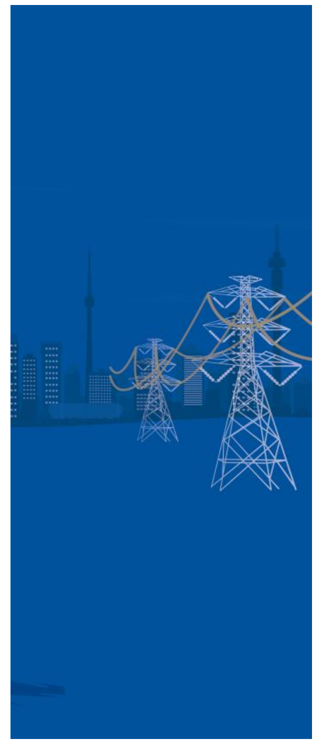
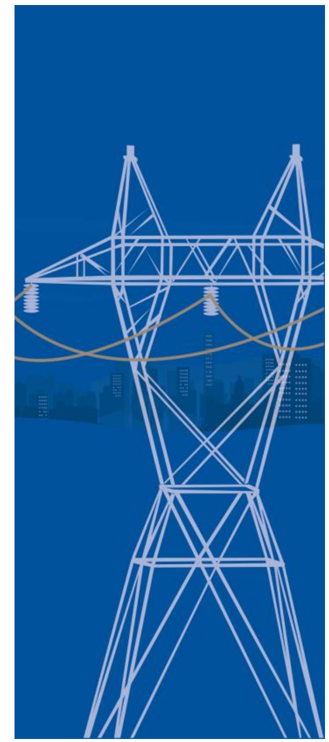








Throughout this presentation, **year end** refers to 31 March 2015, while **period or year** refers to the year ended 31 March 2015 and **comparative period or prior year** to the year ended 31 March 2014
A list of **abbreviations** and **glossary of terms** are available on pages 116-118 of the integrated report

Sustainability dimensions supporting our strategy

Our rapidly changing environment requires a response that will **stabilise the business** and **ensure sustainability**

To **execute our strategy** and **deliver on our mandate**, we focus on eight sustainability dimensions:

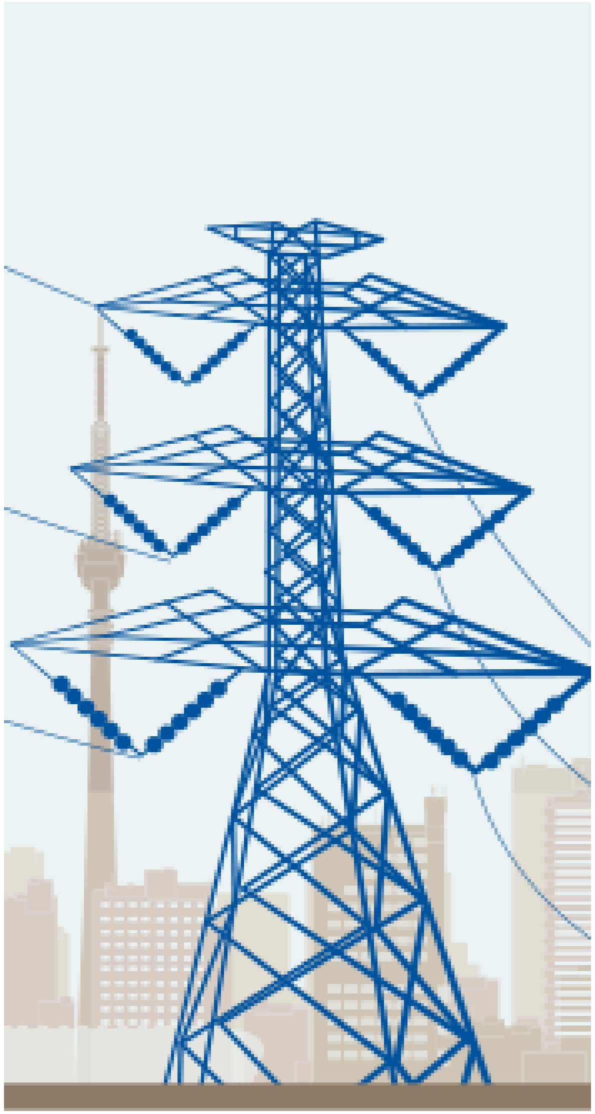
- **Core areas** revolve around the tension between financial sustainability, operational sustainability, revenue and customer sustainability and sustainable asset creation
- Beyond that**, we also need to ensure a positive wider impact** on the environment, the contribution to a sustainable skills base, as well as to strategic transformation and social sustainability objectives

Safety and security are the foundation for all our operations and are key to our performance and sustainability

Refer to pages 5-6 in the IR for more information

Overview of the year

Sustainable power for a better future



- Achieved **EBITDA** of **R25.2 billion** (EBITDA margin: 17%), despite a 19% increase in primary energy costs
- Internal **cost savings** of **R9 billion** achieved
- **Supplied 96%** on average of the country's **electricity needs**
- External **funding** of **R49.5 billion** raised, together with **R23 billion** allocated by shareholder subsequent to year end, will assist in **closing the funding gap** and **easing liquidity pressures**
- **Capital expenditure** of R53 billion during 2014/15
- **New build programme** added 6 237MW generation capacity, 5 816km transmission lines and 29 655MVA substation capacity since 2005
- **IPP capacity of** 1.8GW is connected and providing power to the grid

Financial review

Financial recovery on the path to financial sustainability

Eskom

Financial performance	
Revenue ⬆ **6.9%**	EBITDA of **R25.2bn**
Other opex ⬆ **2%**	BPP savings **R9bn**

Key financial ratios	
EBITDA margin **17%**	Interest cover ⬇ to **0.47**
Debt/equity ⬆ to **2.37**	Gearing ⬆ to **70%**

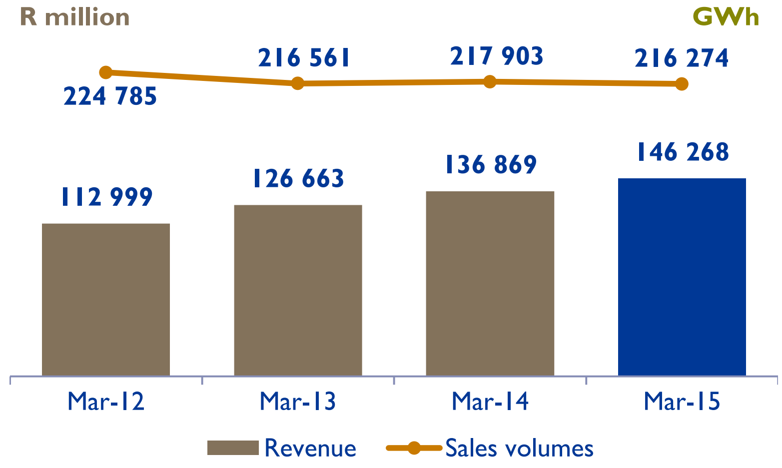
The **financial health** is **under strain**, driven by a number of key factors:

- **Inappropriate return on assets** over a sustained period due to above-inflation cost increases, declining sales volumes and **lack of cost-reflective electricity price**
- Escalating municipal and Soweto **arrear debt**
- **Deteriorating balance sheet** in this investment phase, **funded through borrowings**

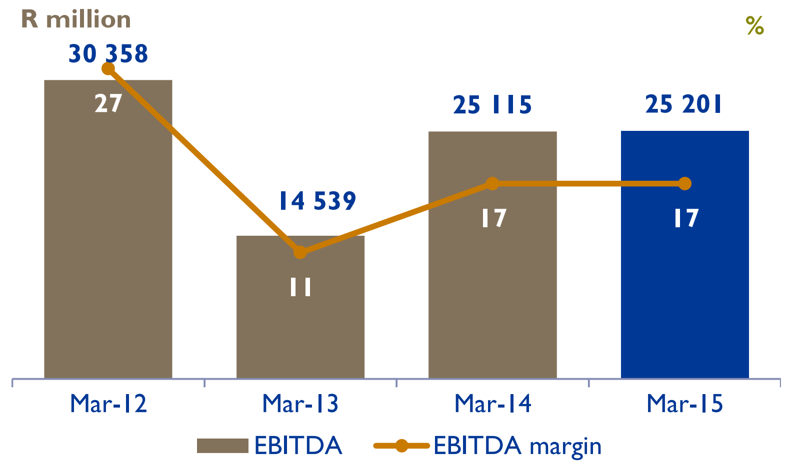
Refer to pages 84-85 in the IR for more information

Financial sustainability means securing sufficient returns to replace existing capacity and fund future growth

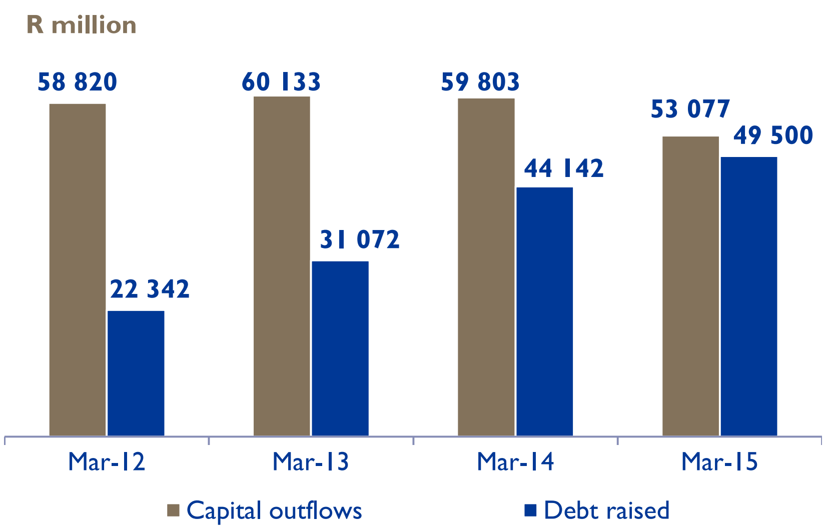
Electricity volumes and revenue



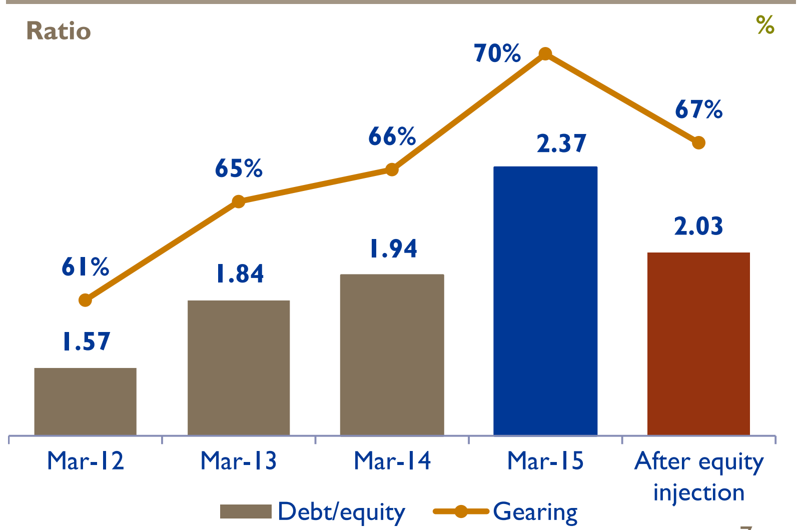
Operating performance



Funding our capital expenditure



Solvency



Income statement for year ended 31 March 2015

Eskom

R million	Audited year to 31 March 2015	Audited year to 31 March 2014	% change
Revenue	**147 691**	138 313	7
Other income	**4 444**	1 441	208
Primary energy	**(83 425)**	(69 812)	(19)
Other operating expenses (including depreciation and amortisation)	**(59 564)**	(58 293)	(2)
Profit before net fair value gain/(loss) and net finance cost *	**9 146**	11 649	(21)
Net fair value gain/(loss) on financial instruments	**630**	(620)	101
Net fair value gain on embedded derivatives	**1 310**	2 149	(39)
Profit before net finance cost	**11 086**	13 178	(16)
Net finance cost	**(6 109)**	(4 058)	(51)
Share of profit of equity-accounted investees, net of tax	**49**	43	14
Profit before tax	**5 026**	9 163	(55)
Income tax	**(1 366)**	(2 137)	36
Net profit for the year	**3 660**	7 026	(48)
(Loss)/profit for the period from discontinued operations	**(42)**	63	(167)
Profit for the year	**3 618**	7 089	(49)
*** EBITDA**	**25 201**	25 115	—

1. Figures refer to the group's results, which have been audited by the independent auditors, SizweNtsalubaGobodo Inc.

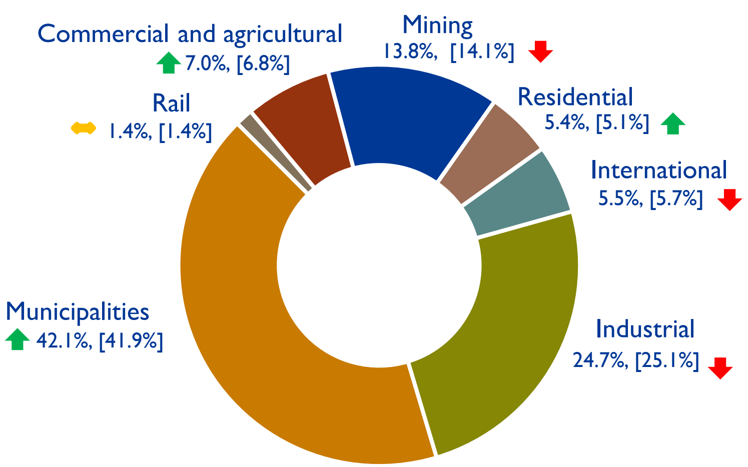
Refer to page 88 in the IR for more information

We need to protect our revenue stream and achieve growth to ensure that we earn an appropriate return

Eskom

- **Declining electricity volumes** (0.7% below prior year) were largely caused by:
  - Impact of industrial action in platinum sector
  - Contraction in the gold mining sector
  - Closure of the Bayside aluminium smelter
  - Depressed commodity prices
- **Load shedding** led to sales of 548GWh being foregone

Electricity volumes by customer type[1]



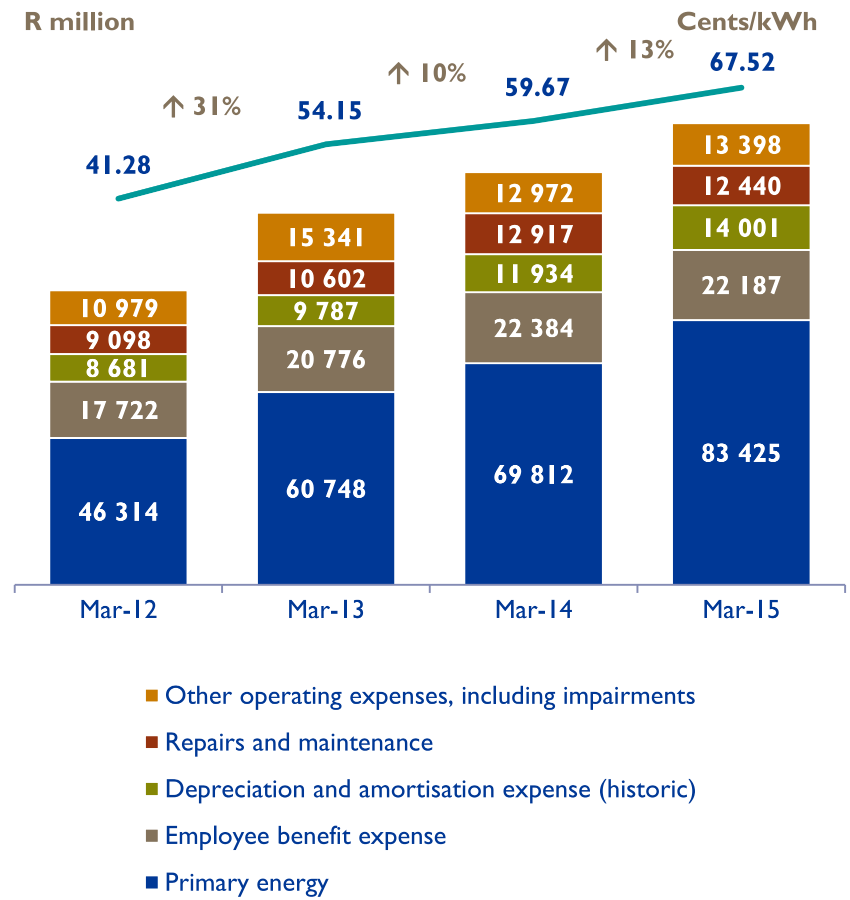
1. Percentages reflect the sales proportions for the current period. Percentages in brackets are those for the year to 31 March 2014.

Refer to page 96 in the IR for more information

Electricity operating expenses analysed

- The **electricity operating cost** per kWh sold is 67.52c/kWh[1] compared to the 2013/14 actual of 59.67c/kWh
- **Primary energy** cost has increased by 19% year-on-year, significantly above both inflation and the 8% tariff increase
- **Other operating expenses** within our control have remained fairly flat due to cost-savings and efficiency initiatives under the **BPP programme**, reflecting only a 2% increase year-on-year
- Headcount reduced by 1% to **46 490 group** employees (2013/14: 46 919)
- **Impairment on arrear debt** amounted to 2.17% of revenue (2013/14: 1.10%)

Electricity operating expenses



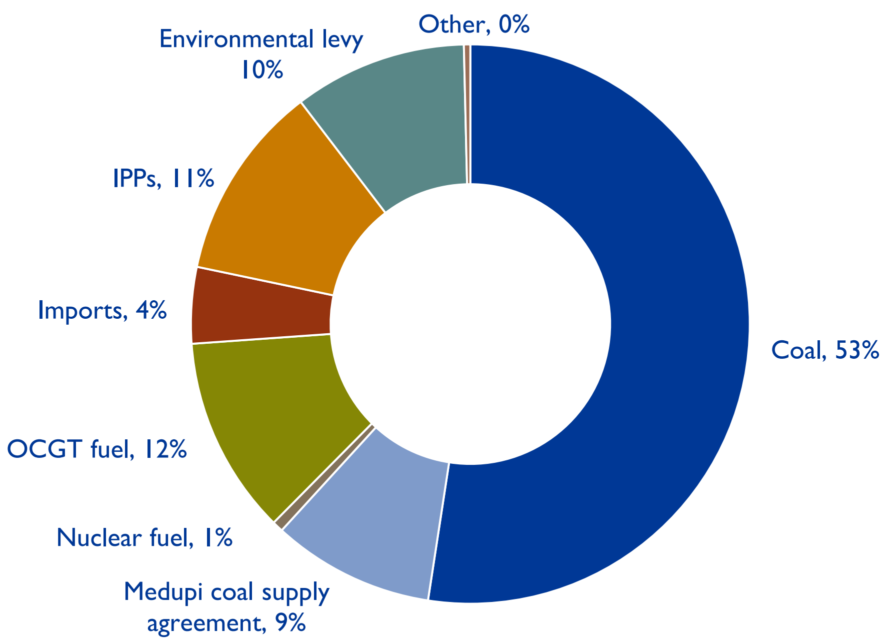
1. Cents/kWh figures are calculated based on total electricity sales numbers for the period.

Refer to pages 96-99 in the IR for more information

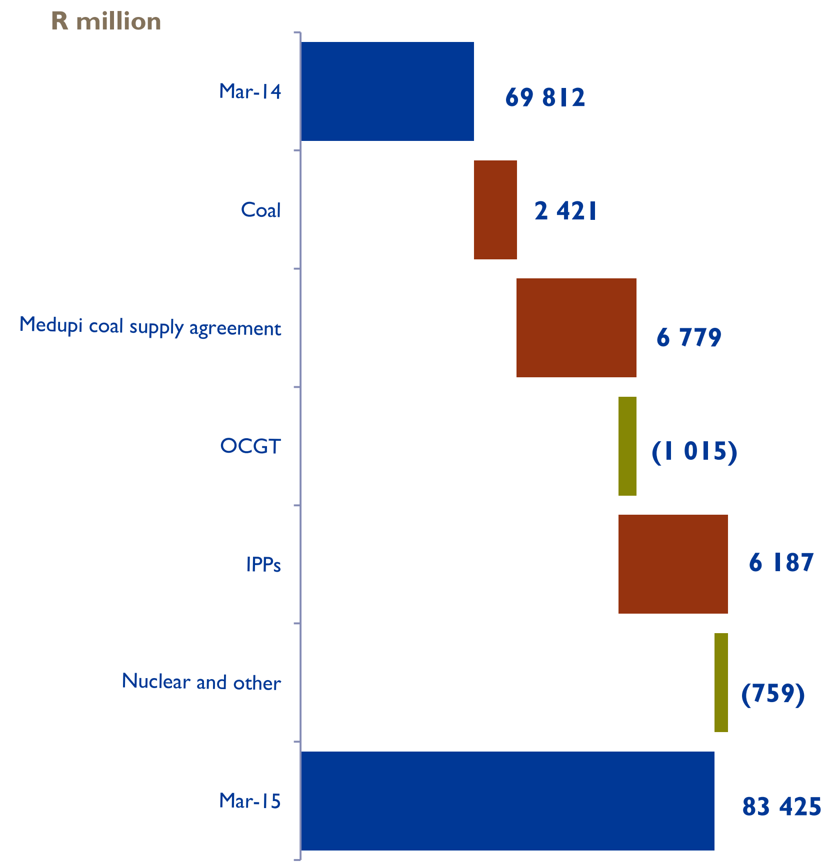
Primary energy costs analysed

Primary energy cost increased by 19% year-on-year, significantly above inflation and the 8% tariff increase

Primary energy cost breakdown



Year-on-year analysis



Refer to page 97 in the IR for more information

Financial position

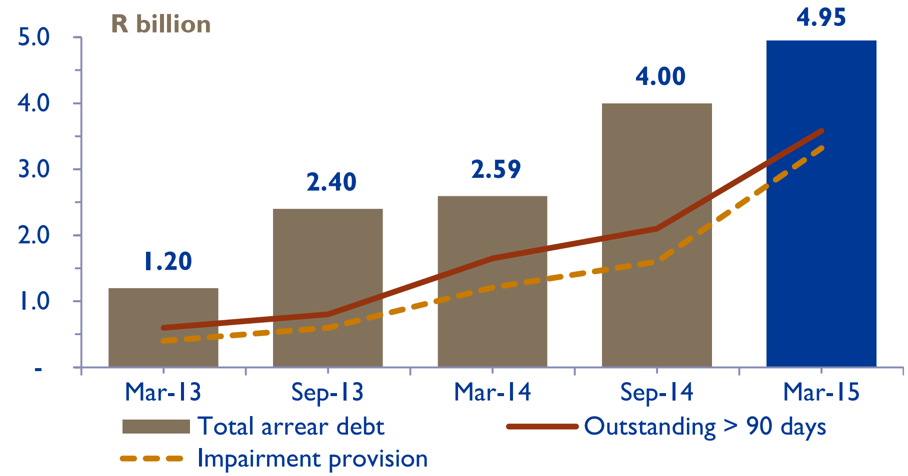
Growth in property, plant and equipment (PPE) funded by debt raised

R million	Audited year to 31 March 2015	% of total	Audited year to 31 March 2014	% of total	% change
PPE and intangible assets	**458 881**	**82**	404 389	80	13
Working capital	**35 488**	**6**	31 811	6	12
Liquid assets	**17 359**	**3**	30 583	6	(43)
Other assets	**51 156**	**9**	38 210	8	34
Total assets	**562 884**	**100**	504 993	100	11
Equity	**122 247**	**22**	119 784	24	2
Debt securities and borrowings	**297 434**	**53**	254 820	50	17
Working capital	**44 063**	**8**	44 821	9	(2)
Other liabilities	**99 140**	**17**	85 568	17	16
Total equity and liabilities	**562 884**	**100**	504 993	100	11

Refer to page 87 in the IR for more information

Arrear debt and debtors ageing

Arrear municipal debt (excluding interest)

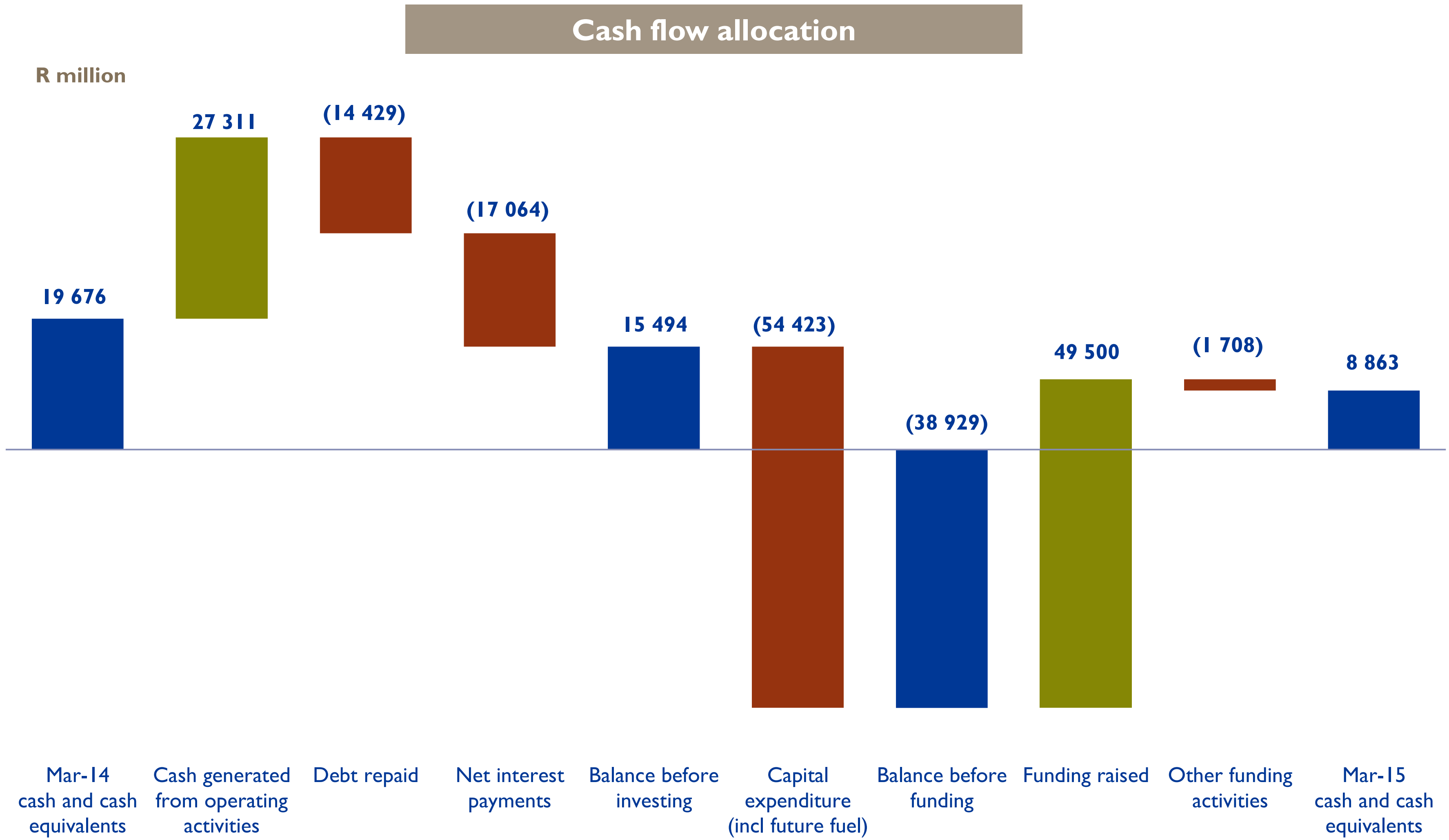


- The increase in **arrear municipal debt** to R5 billion and arrear **Soweto debt** to R4 billion is of serious concern
- Approximately 55% of the amount outstanding is **within the due date**

Electricity debtors age analysis, R million	**Total**	**Within due date**	**< 60 days overdue**	**> 60 days overdue**
Large power users, excluding municipalities	**6 146**	5 859	226	61
Large power users, municipalities	**9 848**	4 896	854	4 098
Small power users	**2 228**	1 324	163	741
Soweto	**4 182**	160	174	3 848
Other customers	**848**	596	230	22
Total at 31 March 2015, gross amount	**23 252**	12 835	1 647	8 770
Total at 31 March 2015, net after IAS 18 adjustment	**22 657**	12 719	1 349	8 589
% of gross amount	**100%**	55%	7%	38%

Refer to pages 60-62 in the IR for more information

Despite liquidity constraints, we maintained operations and capital commitments



Refer to pages 90 & 99 in the IR for more information

Funding through borrowing programme used to fund investment phase

Borrowing programme R billion	Actual year to 31 March 2015	Target year to 31 March 2016
Domestic bonds	**12.4**	8.0
International bonds & loans	**21.7**	16.5
Commercial paper	**0.2**	10.0
DFI financing	**10.5**	7.2
ECA financing	**1.7**	10.6
DBSA	**3.0**	3.0
Total funding	**49.5**	55.3

Credit ratings at 31 March 2015

STANDARD & POOR'S RATINGS SERVICES McGRAW HILL FINANCIAL	b- to ccc+	Moody's	b3	FitchRatings	B

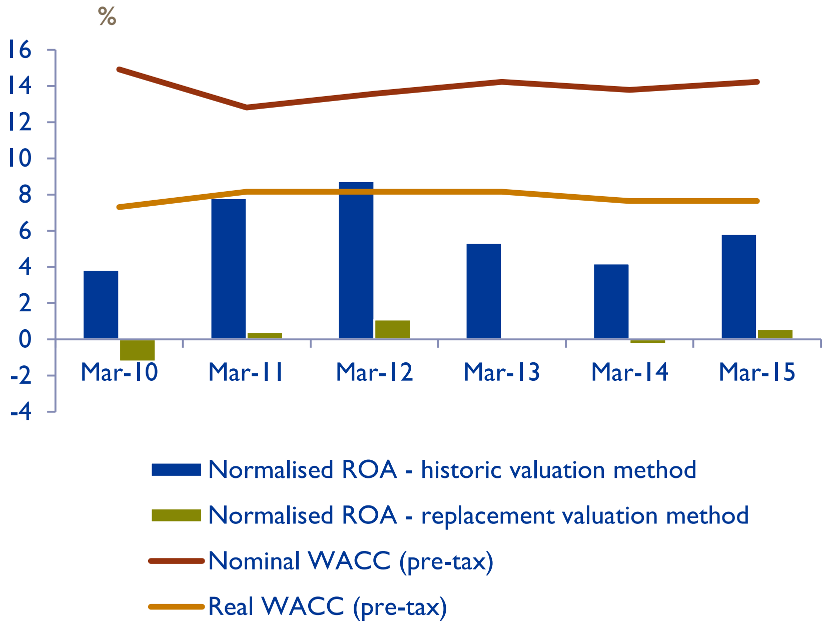
← Sub-investment grade →

Refer to page 100 in the IR for more information

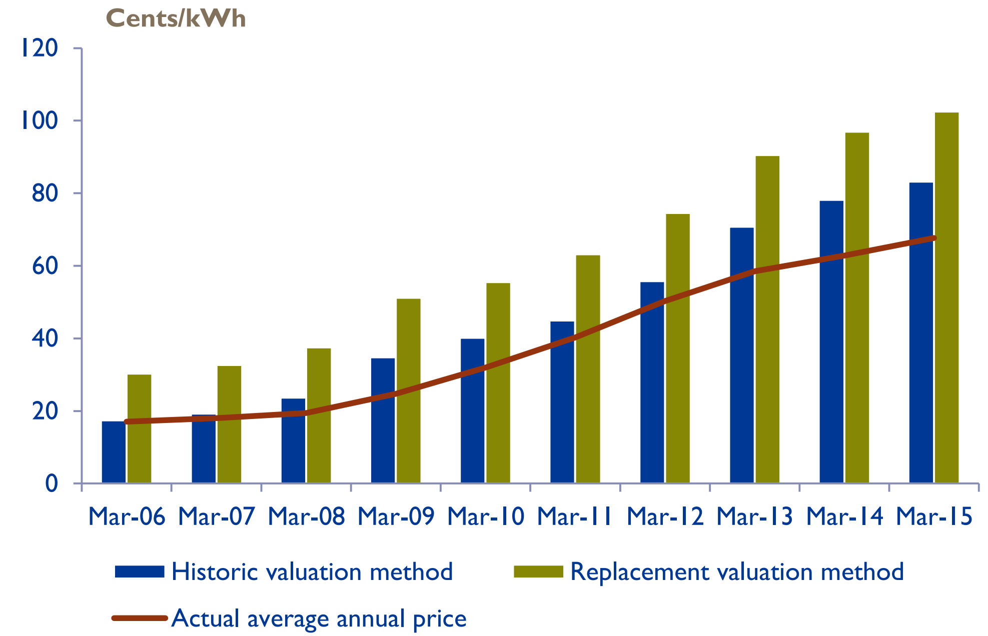
Cost-reflectivity and normalised rate of return

- Electricity Pricing Policy requires a **cost-reflective** price of electricity to ensure the recovery of **efficient costs**, thereby providing a fair return and supporting **financial sustainability**
- NERSA calculates **rate of return on assets** based on the depreciated replacement cost, not the historical cost
- Pre-tax real **rate of return** for the year is 0.57% against a pre-tax real WACC of 7.65%

Return on assets



Cost-reflective prices



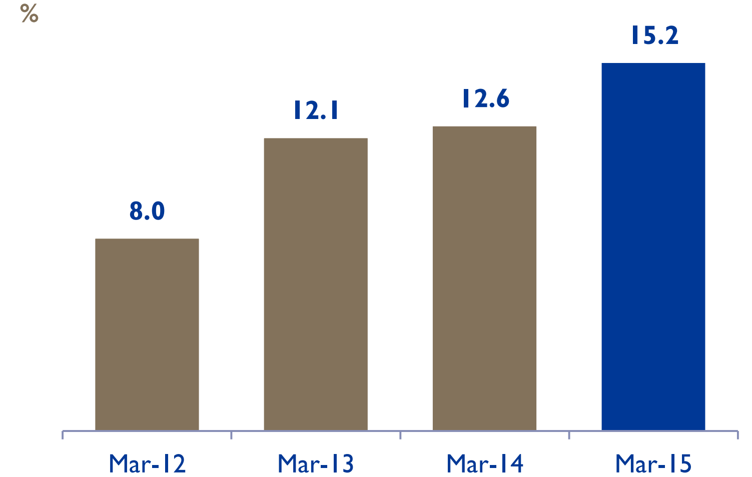
Refer to pages 94-95 in the IR for more information

Operating performance

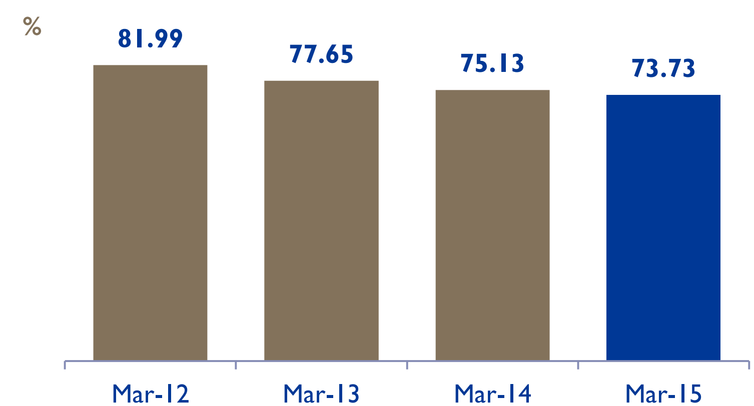
Generation fleet performance volatile over the period

- The average age of the base load fleet is **34 years**
- **Increased unplanned maintenance**, from breakdowns of ageing plant, limiting the opportunity for planned maintenance and impacting plant availability
- **Plant availability** (EAF) remains stable at around 73%, requiring gradual improvement
- **Partial load losses reduced**, easing pressure on the constrained power system
- **Plant** operated at high levels, **utilisation** of 83.4% is approximately 20% above the international norm
- **Improved plant performance** in the last quarter, with reduction in unplanned automatic grid separations (UAGS trips) and boiler tube failures
- More maintenance of plant during previous winter, with minimal load shedding in line with **Generation Sustainability Strategy**

Unplanned maintenance (UCLF)

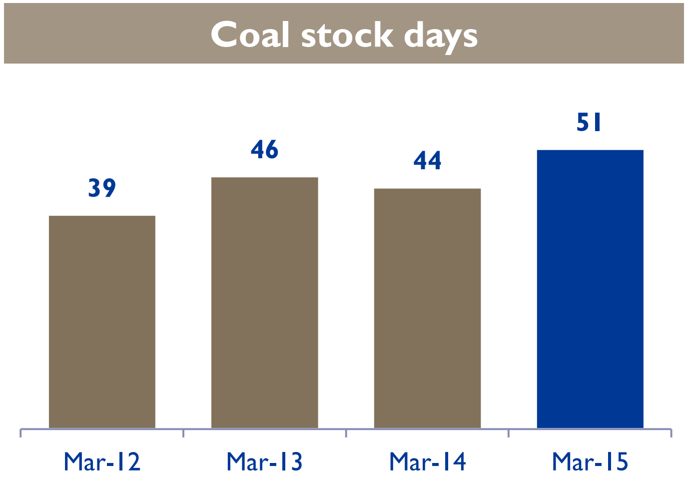


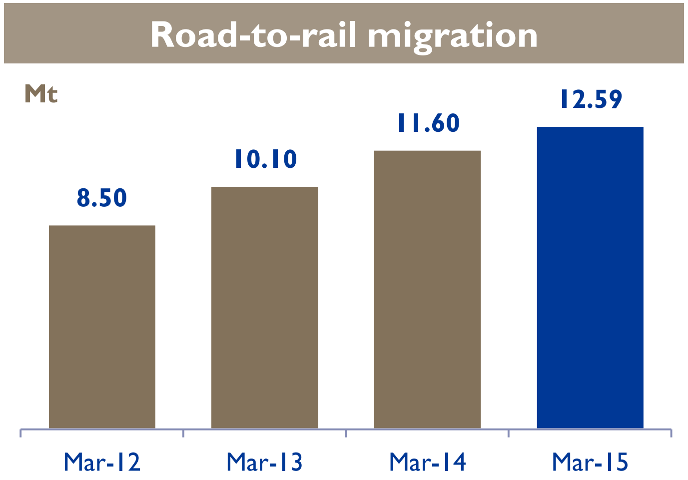
Plant availability (EAF)



Refer to pages 49-52 in the IR for more information

Securing Eskom's resource requirements





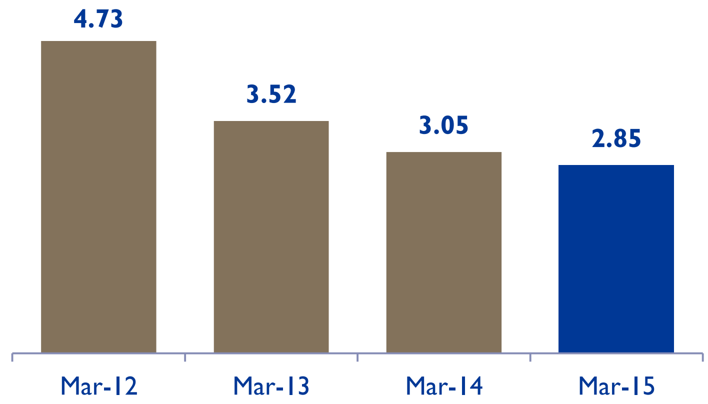
- A total of 119.2Mt of **coal burnt** during the year
- A short-term solution is in place after the collapse of the **main coal silo** at Majuba Power Station; an interim solution is due soon
- Migration of coal deliveries from **road to rail** continues to increase
- 313 078Mℓ net raw **water consumed**
- Mokolo Crocodile Water Augmentation Project Phase 1 is **delivering water** to Medupi

Refer to pages 46-49 in the IR for more information

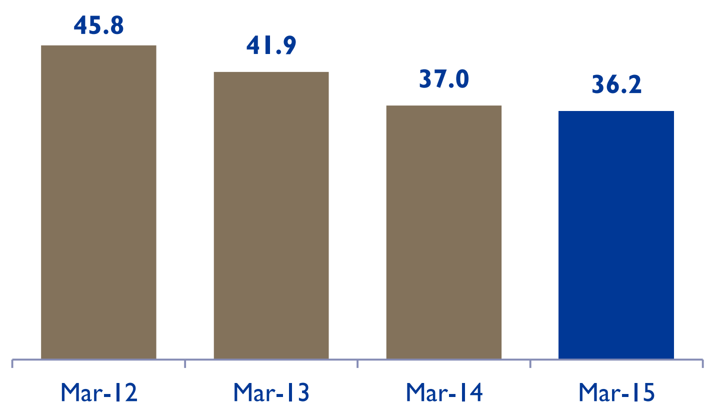
Network technical performance improves

- Excellent Transmission performance with **System minutes lost** at 2.85
- **Energy losses** show small improvement from 8.9% to 8.8%
- System **interruption duration** (SAIDI) improves from 37.0 to 36.2 hours per annum
- System **interruption frequency** (SAIFI) improves from 20.2 interruption to 19.7
- More planned maintenance undertaken, which improves **network reliability**
- Network risks remain, with **ageing assets** and vulnerabilities due to network unfirmness

System minutes lost < 1 minute



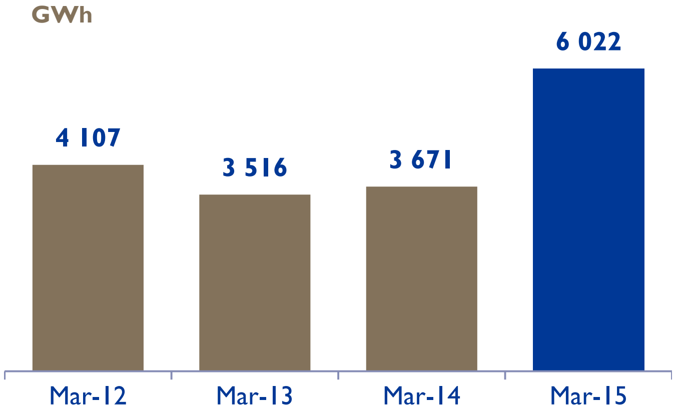
Interruption duration (SAIDI)



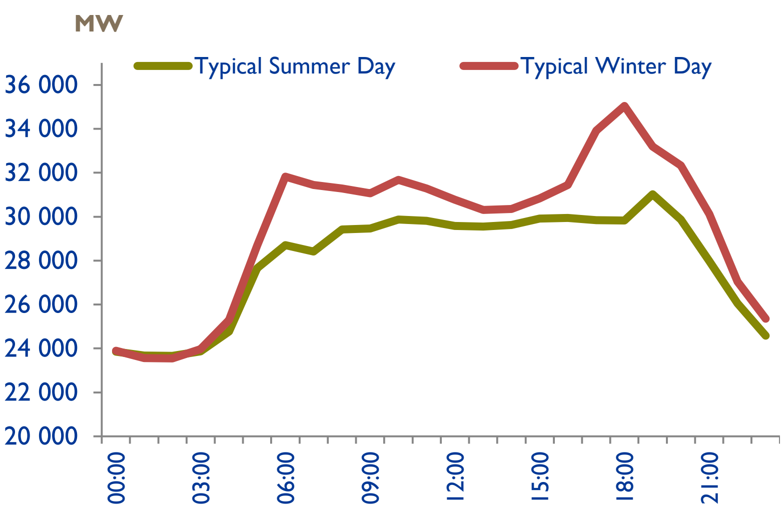
Refer to pages 53-54 in the IR for more information

Supplementary supply helps balance generation volatility

Energy purchases from IPPs



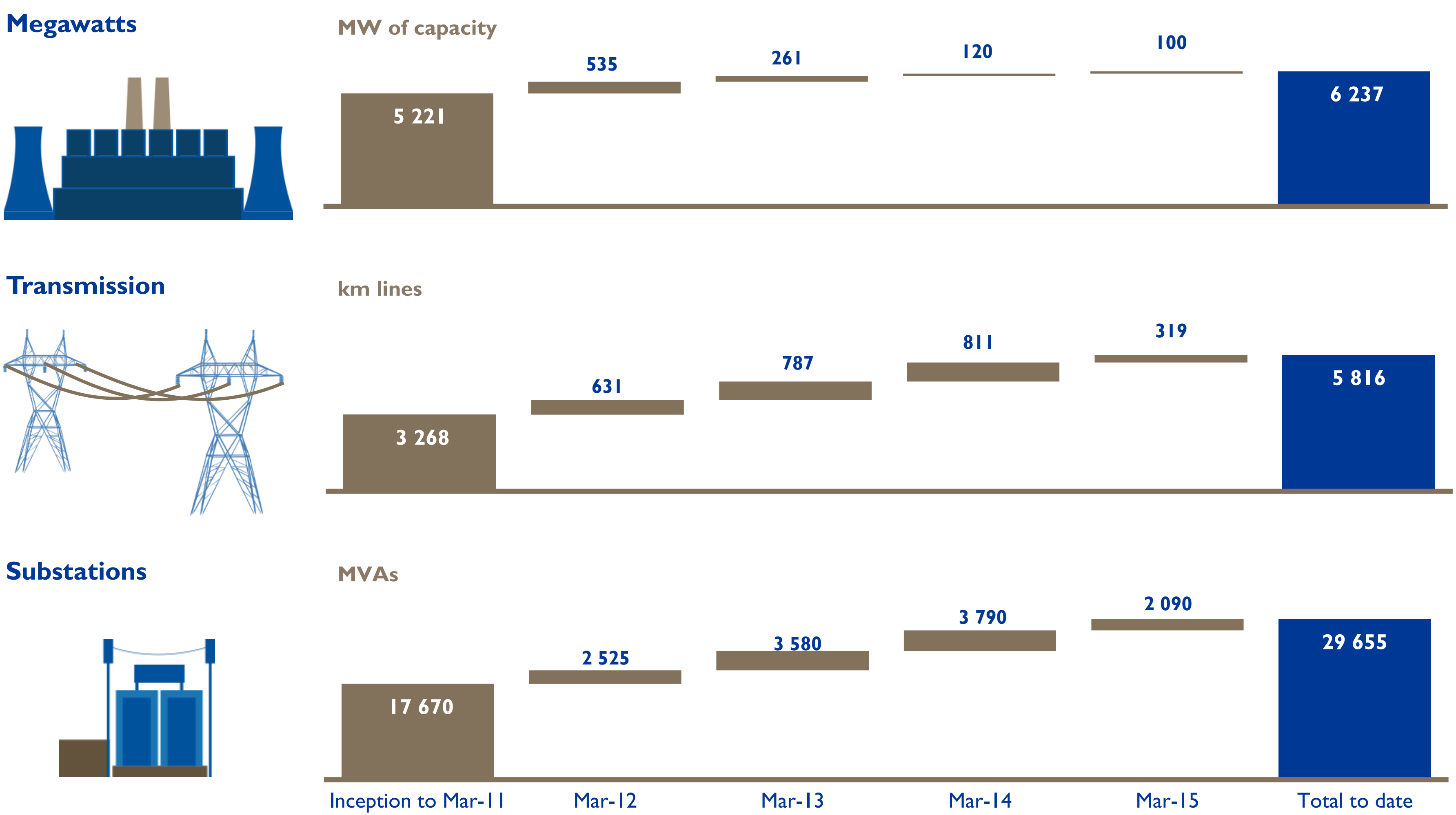
Summer and winter load profiles



- 1 795MW of **renewable energy** independent power producers (**IPPs**) (1 185MW solar and 600MW wind) connected to the grid at an average **load factor** of ±31%
- A total of **5 701MW contracted** with IPPs, of which 3 887MW under DoE's **RE-IPP** programme
- Dispatchable load of 1 356MW is available under the **demand response** programme, assisting in balancing supply and demand
- **Balancing supply and demand** remained a challenge – load shedding necessitated during June 2014, and more frequently from November 2014 onwards

Refer to pages 54-57 in the IR for more information

We remain focused on bringing new capacity online



Refer to page 64 in the IR for more information

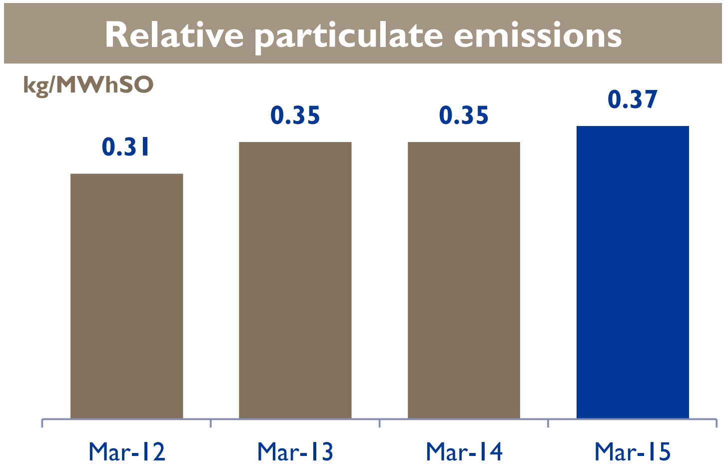
Progress on the new build programme

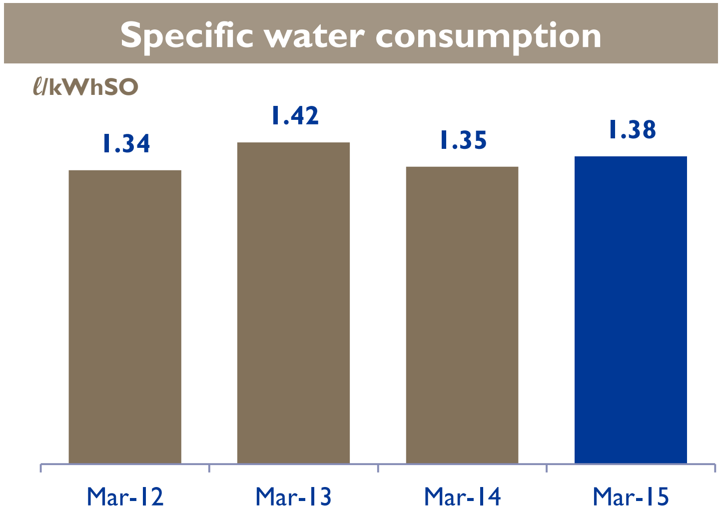
- **100MW Sere Wind Farm** was put into commercial operation on 31 March 2015, **feeding power** into the grid since October 2014
- **Medupi Unit 6** synchronised to the grid on 2 March 2015, with commercial operation expected during the third quarter of 2015
- Construction activities on **the remainder of units** at Medupi are progressing well
- Synchronisation of **Medupi Unit 5** is expected during the first half of 2017
- Kusile successfully replaced the **C&I contractor**, mitigating one of the major project risks
- Good progress on **Kusile Unit 1**, due for first synchronisation in the first half of 2017, and construction on the remainder of units
- Progress at **Ingula** was limited by the Section 54 **work stoppage**; work has resumed and is progressing satisfactorily
- First synchronisation of **Ingula Unit 3** is targeted for the second half of 2016
- Transmission **network** and substation capacity **strengthened** to support IPPs and new generation capacity

Refer to pages 64-69 in the IR for more information

Environmental compliance is critical to our sustainability

- Relative **particulate emissions** performance worsened due to higher plant **utilisation** to support security of supply
- **Specific water consumption** deteriorated slightly since prior year
- **Decrease** in number of environmental legal **contraventions**
- Minimum Emission Standards decision calls for substantial investment in **emissions retrofit programme** by 2025, which is dependent on funding and water availability
- Limits on **ashing storage space** may impact security of supply in future; being addressed in technical plans
- System capacity **constraints** impacting implementation of **initiatives** to improve environmental performance

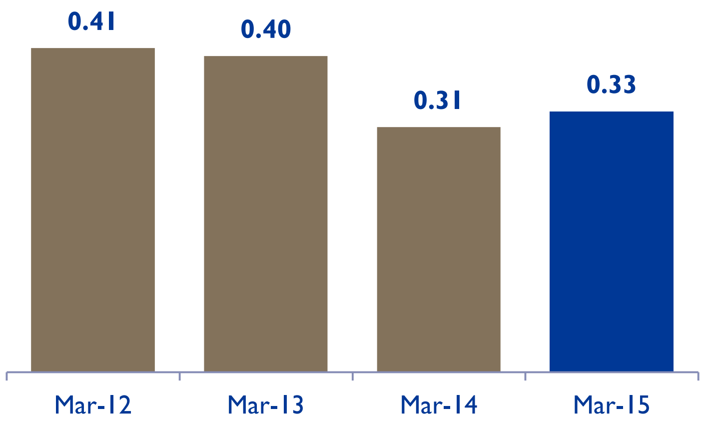




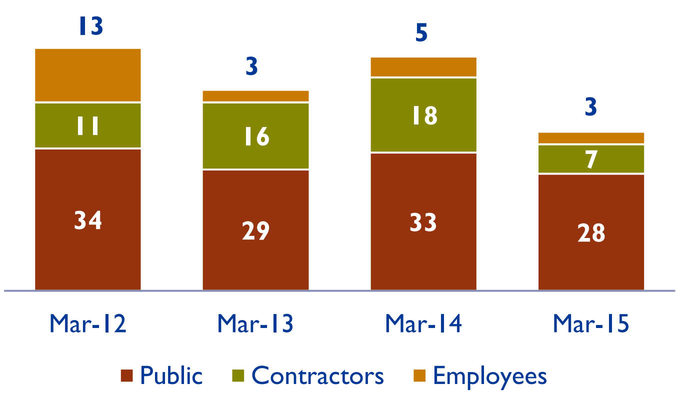
Refer to pages 70-74 in the IR for more information

Safety and security are central to our overall performance

LTIR performance



Fatalities



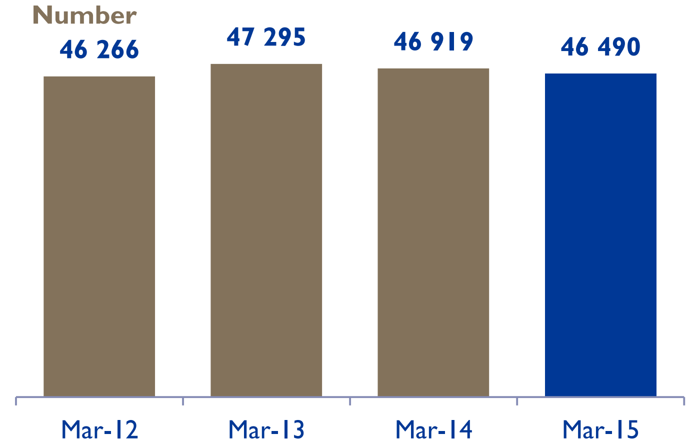
- **Lost-time injury rate (LTIR) performance** worsened slightly but remained better than target
- The number of **fatalities** – employee, contractor and public – have **reduced** against the prior year, but remain much too high
- **Public fatalities**, mainly from electrical contact and motor vehicle accidents, remain a focus area
- Implementation of strategy in response to the **2014 Construction Regulations**, which imposed additional safety compliance responsibilities, is in progress
- **ISO 9001:2008** certification maintained and **OHSAS 18001:2007** achieved at all Group Capital and majority of Generation power stations

Refer to pages 42-44 in the IR for more information

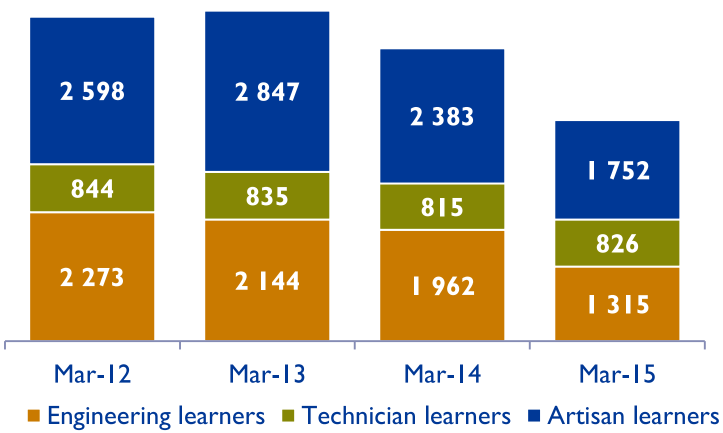
Internal transformation and skills development

- Employee numbers reduced through **limited replacement** of attrition
- Conclusion of a **two-year wage agreement** with organised labour provides stability in the bargaining unit
- Solid performance on **disability equity** and **racial equity**
- **Gender equity** at senior, middle management and professional levels has made notable progress over the past five years
- Our **learner pipeline** has been reviewed and numbers reduced to a sustainable level
- Through the new build programme and skills development initiatives, we are contributing to **building skills** in South Africa

Headcount (including FTCs)



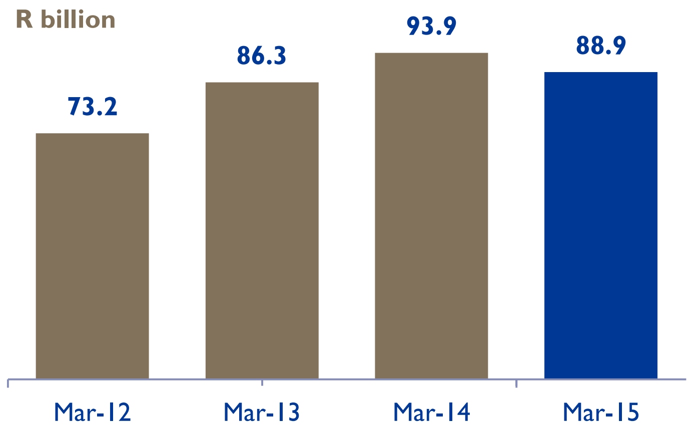
Number of learners



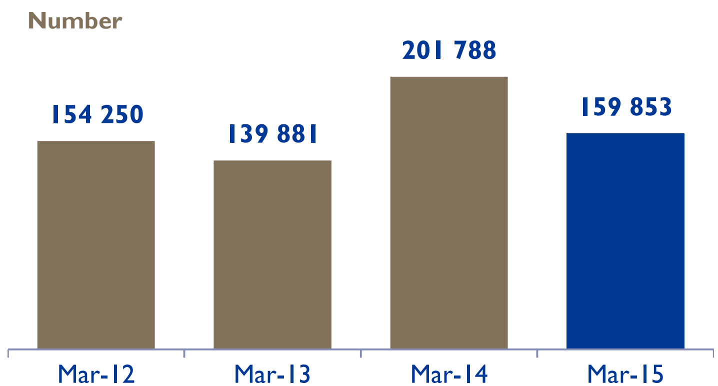
Refer to pages 75-76 & 80 in the IR for more information

Eskom's socio-economic contribution

B-BBEE compliant spend

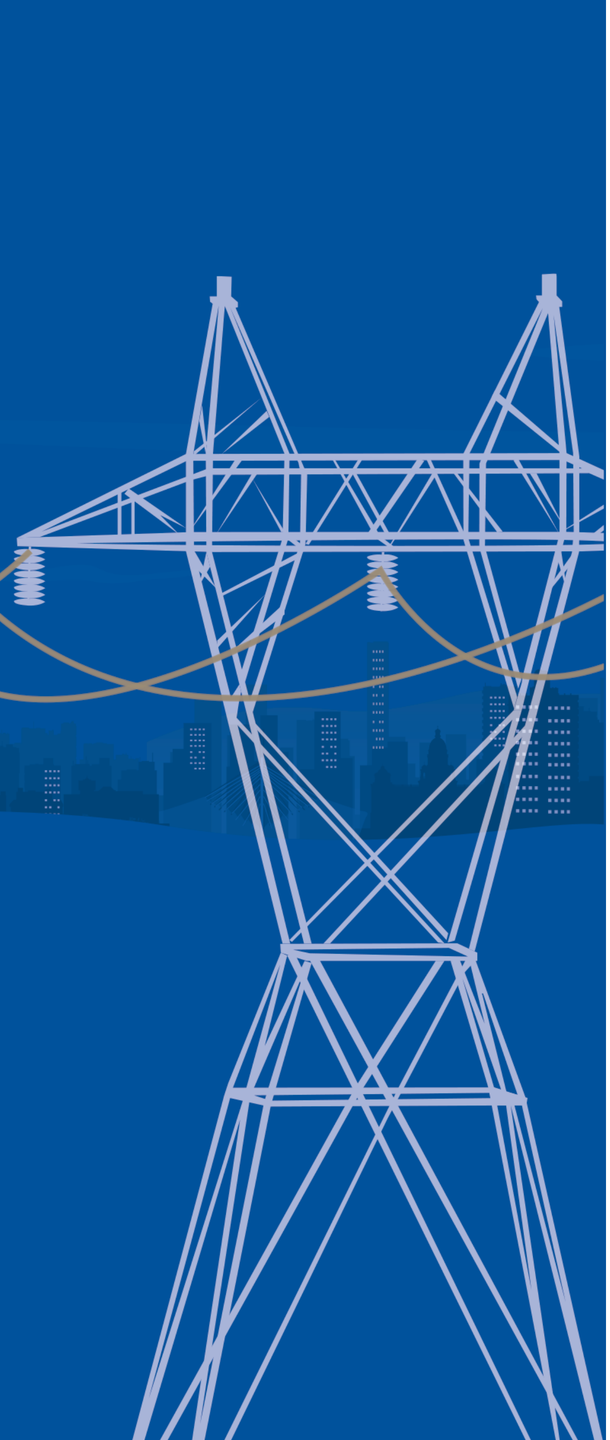


Number of electrification connections



- Good performance against overall **B-BBEE compliant** spend, as well as spend on certain categories of suppliers (black-owned and black women-owned suppliers)
- Eskom Development Foundation initiatives this year benefited **323 882 beneficiaries**, and include completion of five **FET colleges** and seven **rural development projects**
- We **electrified** a total of 159 853 households during the year, and **approximately 4.7 million** since inception in 1991

Refer to pages 77-79 in the IR for more information



Conclusion

Conclusion

- Creating stability is critical to **re-energise** and **grow** the company
- We will **continue to supply** the country's electricity and maintain our plant with **minimal or no load shedding**
- Our medium- to long-term focus involves **improving** the **performance** of our plant:
  - **Increasing efficiencies** from coal-fired plant
  - **Bringing online units** from Medupi, Kusile and Ingula from 2016/17 to alleviate the constrained system and accommodate demand growth
- Financial recovery on the path to financial sustainability through:
  - Driving **internal efficiency** and **cost saving** through BPP
  - Migrating to a **cost-reflective** electricity price
  - Successful execution of the R237 billion **borrowing plan**

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