

# Eskom group interim results

for the six months ended 30 September 2017



**30 January 2018**

This presentation is available at  
[www.eskom.co.za/IR2017/interim](http://www.eskom.co.za/IR2017/interim)



**Overview of key challenges**

**Leadership and governance**

**Operational performance**

**Financial performance**

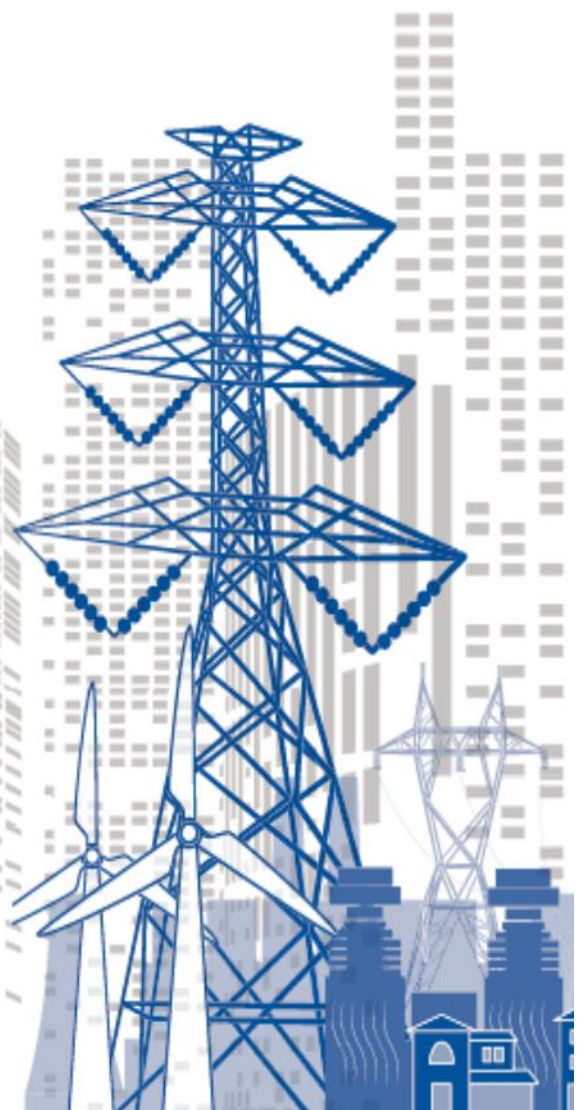
**Conclusion**



An illustration on the left side of the slide depicts a large blue high-voltage power transmission tower in the foreground. Behind it, there are several smaller towers and a wind turbine. The background features a stylized city skyline with various building silhouettes in shades of blue and grey.

## Overview of key challenges

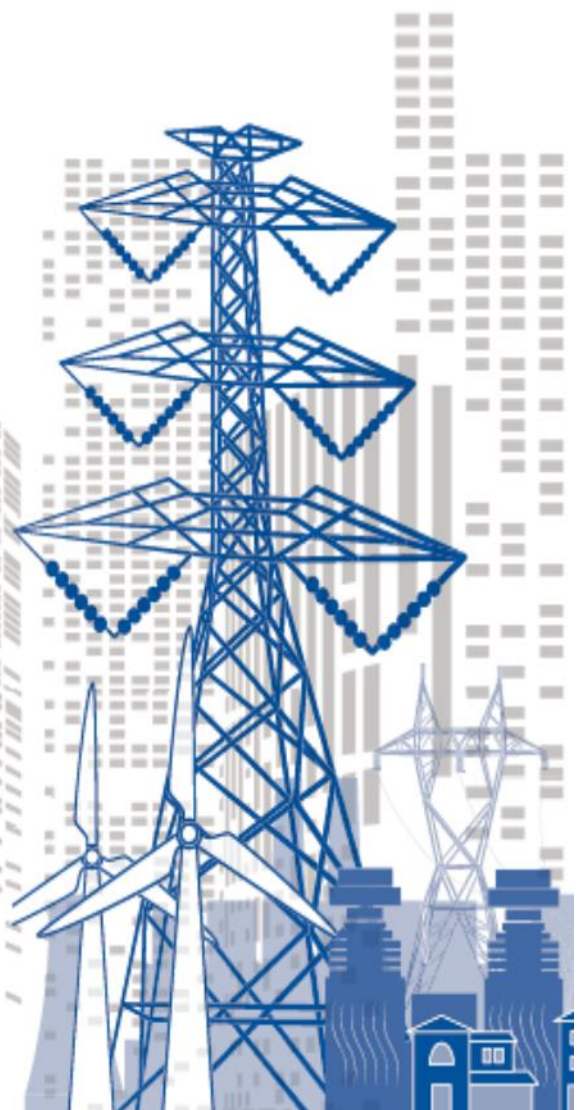
- Business performed well operationally
- Financial challenges experienced during the first six months, primarily due to:
  - ❖ Flat revenue attributable to the 2.2% price increase for 2017/18 and sales volumes declining by 1.9%, exacerbated by escalating municipal arrear debt
  - ❖ 2016/17 audit qualification on irregular expenditure
  - ❖ Access to funding restricted
- Government prioritised the resolution of governance and liquidity concerns affecting Eskom
- Managing liquidity remains a key focus area



An illustration on the left side of the slide depicts a large blue high-voltage power transmission tower in the foreground. Behind it, there are several smaller towers and a wind turbine. The background features a stylized city skyline with various building silhouettes in shades of blue and grey.

## Leadership and governance

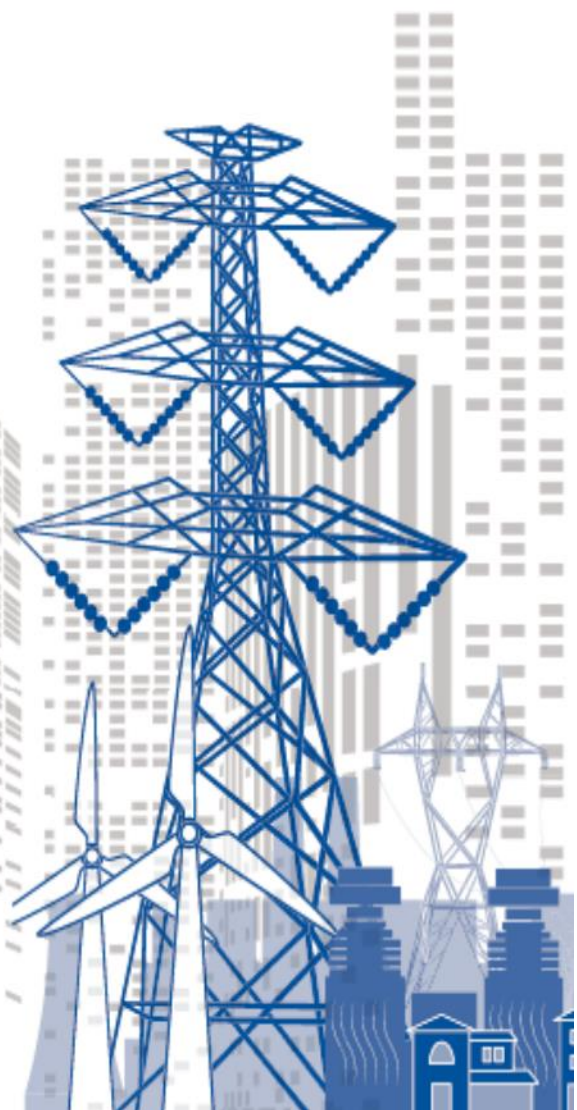
- New Board appointed by Government on 20 January 2018, with Mr Jabu Mabuza as Chairman
- Mr Phakamani Hadebe appointed as Interim Group Chief Executive
- Board is in the process of appointing a permanent Group Chief Executive and Group Chief Financial Officer within the next three months
- Board is dealing with executives facing allegations of serious corruption and other acts of impropriety



A blue line-art illustration on the left side of the slide depicts a large high-voltage electricity pylon in the foreground. Behind it, there are several smaller pylons and a wind turbine. The background features a stylized city skyline with various building silhouettes. The entire illustration is rendered in shades of blue and grey.

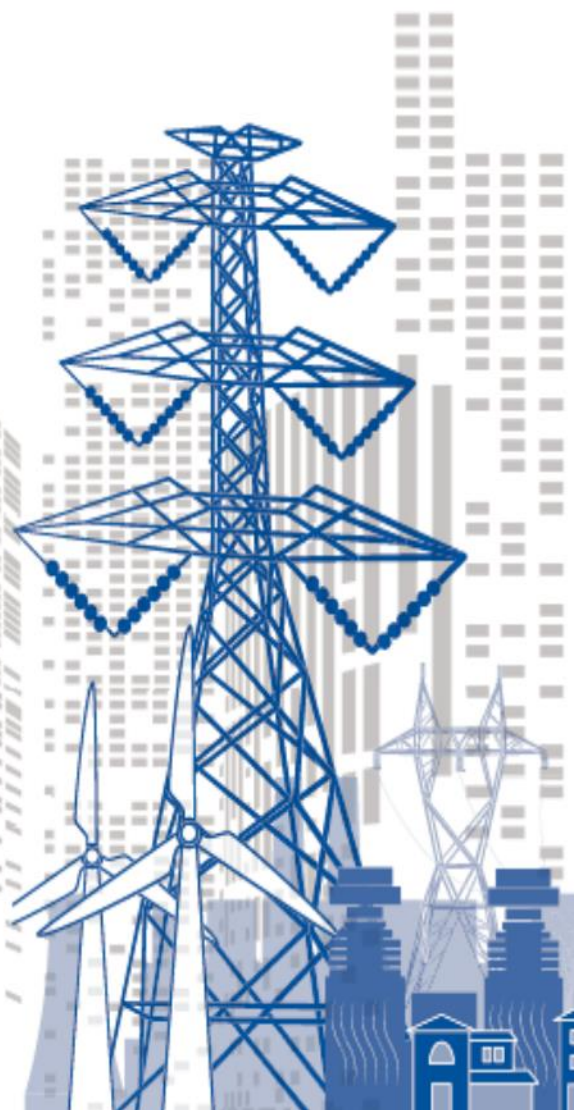
## Operational performance

- Generation plant performance improved, with plant availability at 83.2% (Sept 2016: 78.4%)
- Transmission system minutes lost at 1.04 (Sept 2016: 2.74), with no major incidents
- Distribution network interruption frequency improved, although interruption duration declined slightly
- 100 380 households electrified
- Kusile Unit 1 and Medupi Unit 5 achieved commercial operation, adding combined installed capacity of 1 594MW
- 350km transmission lines constructed and 1 000MVA transformer capacity commissioned





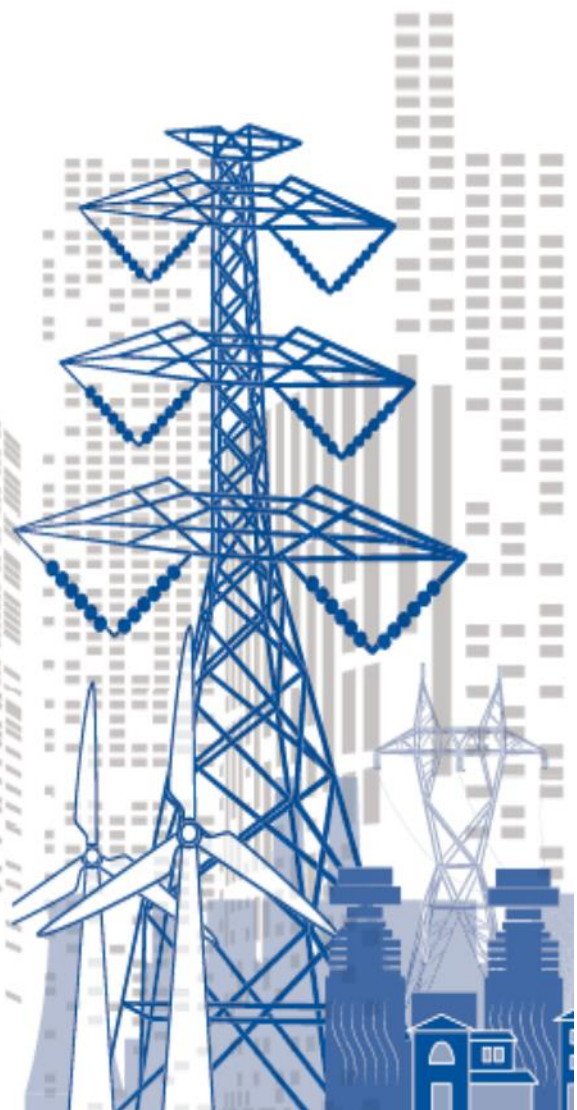
- Significant improvement in environmental performance, with particulate emissions of 0.25kg/MWhSO (Sept 2016: 0.29), and water usage of 1.29ℓ/kWhSO (Sept 2016: 1.43)
- Lost-time injury rate improved to 0.23 (Sept 2016: 0.28)
- Regrettably, Eskom suffered two employee fatalities (Sept 2016: one) and five contractor fatalities (Sept 2016: three)
- B-BBEE attributable spend of 71.2% (Sept 2016: 65.4%), and spend with black-owned suppliers of 38.9% (Sept 2016: 30.2%)
- Employment of female employees in senior management positions 36.9% (Sept 2016: 28.5%)





## Financial performance

- External auditors have issued an unqualified review conclusion, with an emphasis of matter regarding Eskom's going concern position
- EBITDA of R30 billion (Sept 2016: R32 billion), due to 2.2% tariff increase and declining sales, offset by cost containment measures
- Net profit after tax of R6 billion (Sept 2016: R10 billion), with higher depreciation and net finance cost due to new build units coming online
- Net cash from operations of R22 billion (Sept 2016: R32 billion), due to lower profit and increase in municipal arrear debt
- Liquid assets of R9 billion (Sept 2016: R30 billion)



# Year-on-year financial performance

## Financial performance

Revenue **R96bn**

↓ 2%

EBITDA **R30bn**

↓ 6.8%

Cash from operating activities **R22bn**

↓ 30%

Primary energy cost

↑ 2%

## Key financial ratios

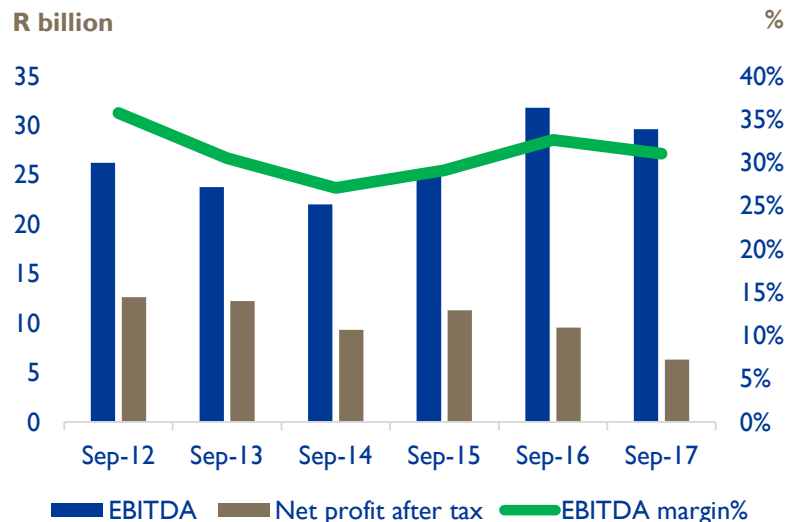
Cash interest cover ratio **1.5**  
(Sept 2016: 2.7) ↓

Debt service cover ratio **1.0**  
(Sept 2016: 1.9) ↓

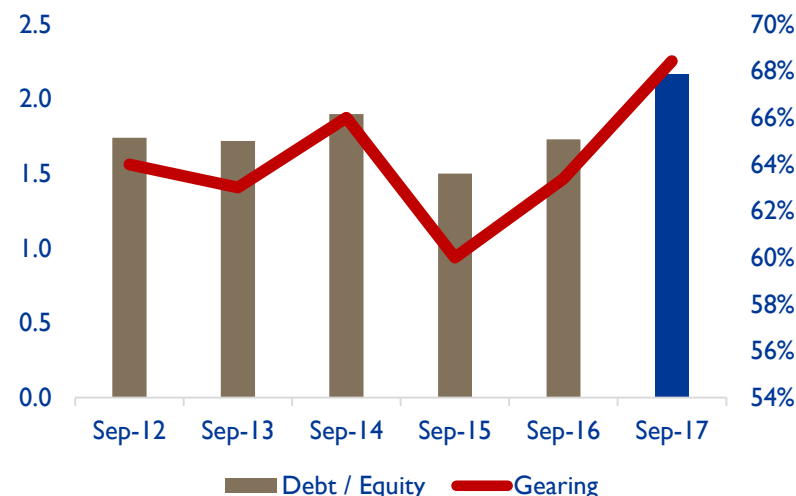
FFO as % of gross debt **3.4%**  
(Sept 2016: 5%) ↓

Gross debt/EBITDA ratio **14.1**  
(Sept 2016: 12) ↓

## Profitability



## Solvency



# Income statement for six months ended 30 September 2017

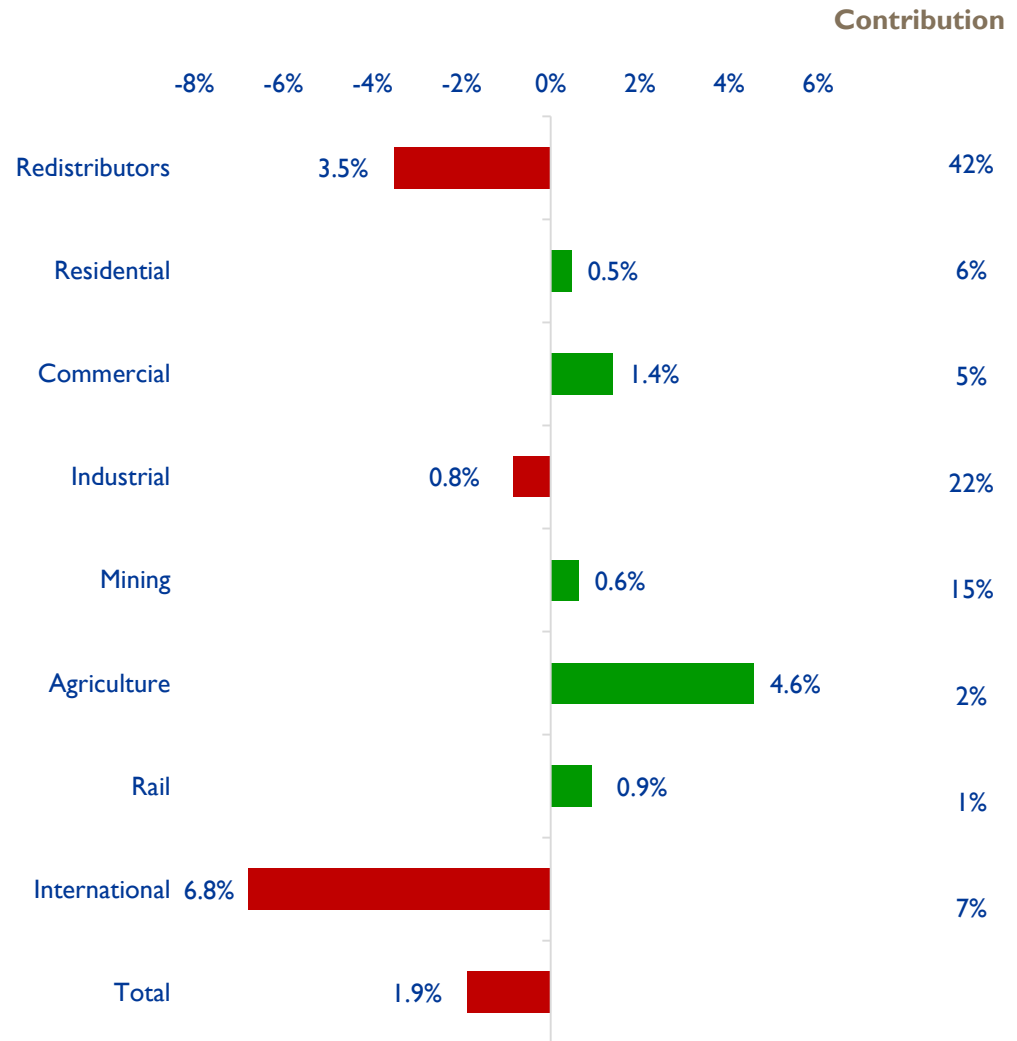
<b>R billion</b>	<b>Sept 2017</b>	<b>Sept 2016</b>	<b>YoY % change</b>
Revenue	96	97	(2)
Other income	–	1	(3)
Primary energy	(41)	(40)	(2)
Net employee benefit expense	(15)	(16)	4
Net impairment loss	(1)	(1)	(10)
Other expenses	(9)	(9)	2
<b>Profit before depreciation and amortisation and net fair value loss (EBITDA)</b>	<b>30</b>	<b>32</b>	<b>(7)</b>
Depreciation and amortisation expense	(11)	(10)	(8)
Net fair value loss on financial instruments and embedded derivatives	–	(2)	106
Net finance cost	(10)	(7)	(53)
<b>Profit before tax</b>	<b>9</b>	<b>13</b>	<b>(34)</b>
Income tax	(3)	(4)	33
<b>Net profit for the period</b>	<b>6</b>	<b>10</b>	<b>(34)</b>

1. Figures for 2016 were restated due to the impact of accounting for self-built assets.

# Electricity sales volumes decreased 1.9% year-on-year

- Overall electricity sales volumes reduced by 1.9% (2 038GWh) compared to comparative period
- Redistributors declined due to warmer winter conditions and end-users switching to more efficient use of electricity
- International sales declined due to increased hydro use by neighbouring countries after good rainfall in the region

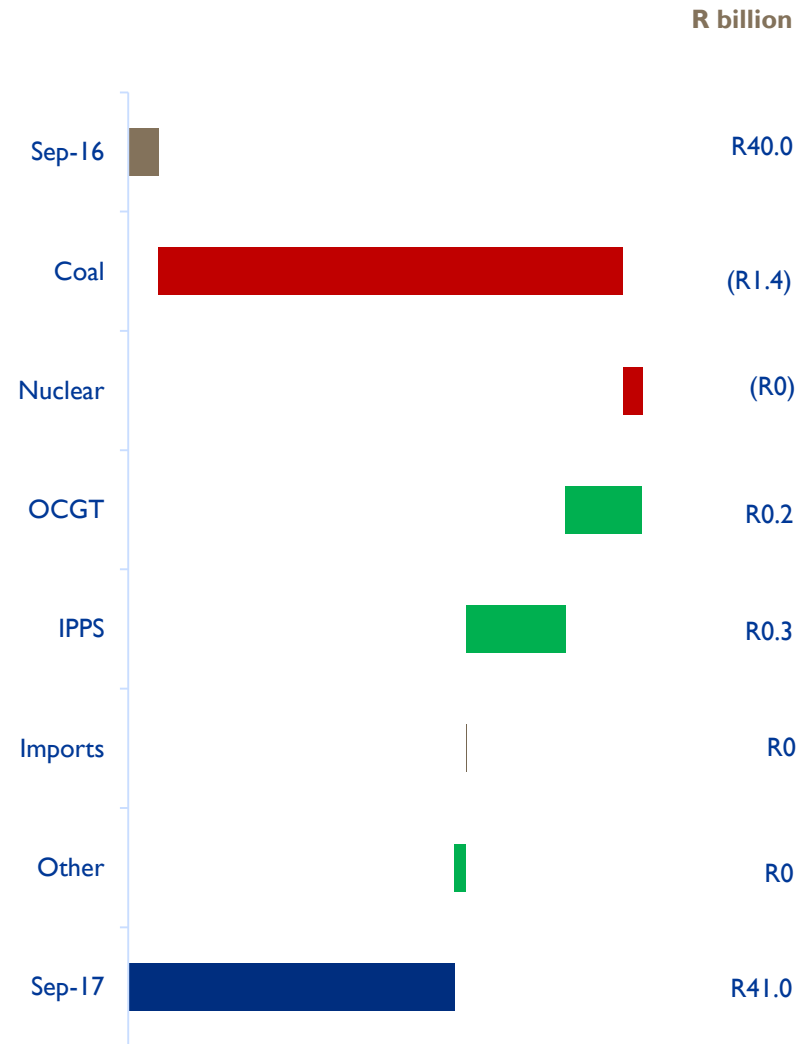
Electricity volumes % growth/(decline) & contribution



# Primary energy cost increase contained

- Historic coal cost increases in excess of 15% per year
- 2017/18 increase in purchase coal cost per ton limited to inflation
- IPP expenditure declined by 3.5%, although volumes supplied by IPPs declined by 17.8%
- Average renewable IPP purchase cost of 205c/kWh (Sept 2016: 218)

## Year-on-year analysis



<b>R billion</b>	<b>Sept 2017</b>	<b>Sept 2016</b>	<b>YoY % change</b>
Property, plant and equipment and intangible assets	<b>614</b>	555	11
Working capital	<b>50</b>	44	14
Liquid assets	<b>16</b>	44	(64)
Other assets	<b>43</b>	47	(7)
<b>Total assets</b>	<b>723</b>	690	5
Equity	<b>183</b>	187	(2)
Debt securities and borrowings	<b>367</b>	333	10
Working capital	<b>49</b>	50	(1)
Other liabilities	<b>124</b>	120	4
<b>Total equity and liabilities</b>	<b>723</b>	690	5

1. Figures for 2016 were restated.



# Cash flow statement for six months ended 30 September 2017

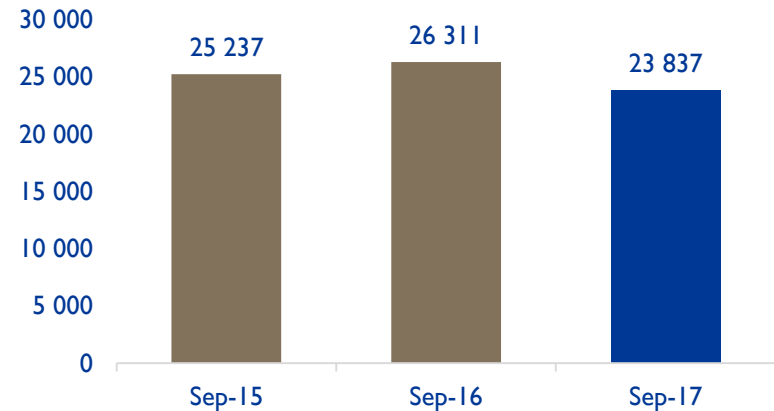
<b>R billion</b>	<b>Sept 2017</b>	<b>Sept 2016</b>	<b>YoY % change</b>
Net cash from operating activities	<b>22</b>	32	(30)
Cash required for debt servicing	<b>(23)</b>	(18)	(26)
Cash flows used in investment activities	<b>(29)</b>	(29)	(1)
Cash flow from financing activities	<b>18</b>	17	6
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(12)</b>	2	

# Overview of capital expenditure

- Stopping or slowing down the new build programme has several negative impacts
  - ❖ Penalties to contractors
  - ❖ Capital expenditure required on existing plant
  - ❖ Thermal efficiency of new stations is significantly better, thus less coal burnt
  - ❖ New plant has lower environmental impact through lower emissions and water usage
- All projects inside approval limits

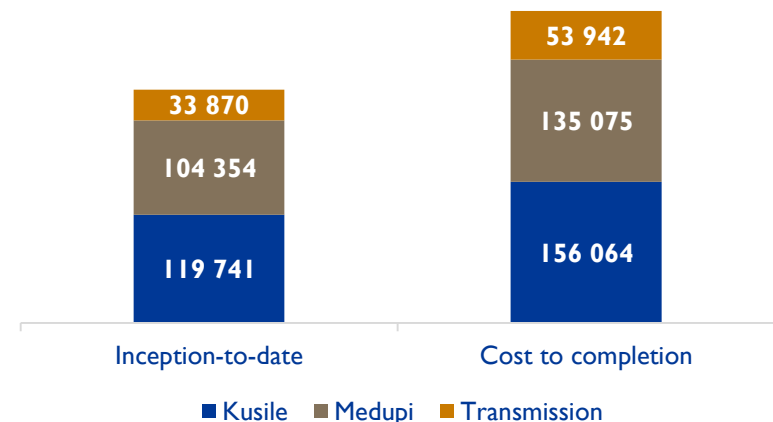
## Total Eskom funded capital expenditure

R million



## Estimated cost to completion

R million



- Arrear debt due by municipalities, including interest, increased from R9.2 billion to R12.4 billion
- During the period, 6 481 split meters were installed in Soweto, and 4 199 meters converted to prepaid meters
- A total of 10 014 smart meters were installed in Midrand and Sandton; 2 986 meters have been converted to prepaid meters during the period

<b>Electricity debtors age analysis, R million</b>	<b>Total</b>	<b>Overdue</b>	<b>Sept 2016 overdue</b>
Large power users, municipalities (including interest)	<b>22 717</b>	12 168	9 181
Large power users, excluding municipalities (including interest)	<b>7 449</b>	258	680
Small power users (SPU) (including interest)	<b>2 568</b>	902	1 205
Soweto SPU (excluding interest)	<b>5 668</b>	5 425	4 997
Other customers (including interest)	<b>1 908</b>	657	–
<b>Total at 30 September 2017</b>	<b>40 310</b>	19 410	16 063

	<b>Sept 2017</b>	<b>Sept 2016</b>
Average debtors days (all categories)	<b>63</b>	51
% increase	<b>24%</b>	

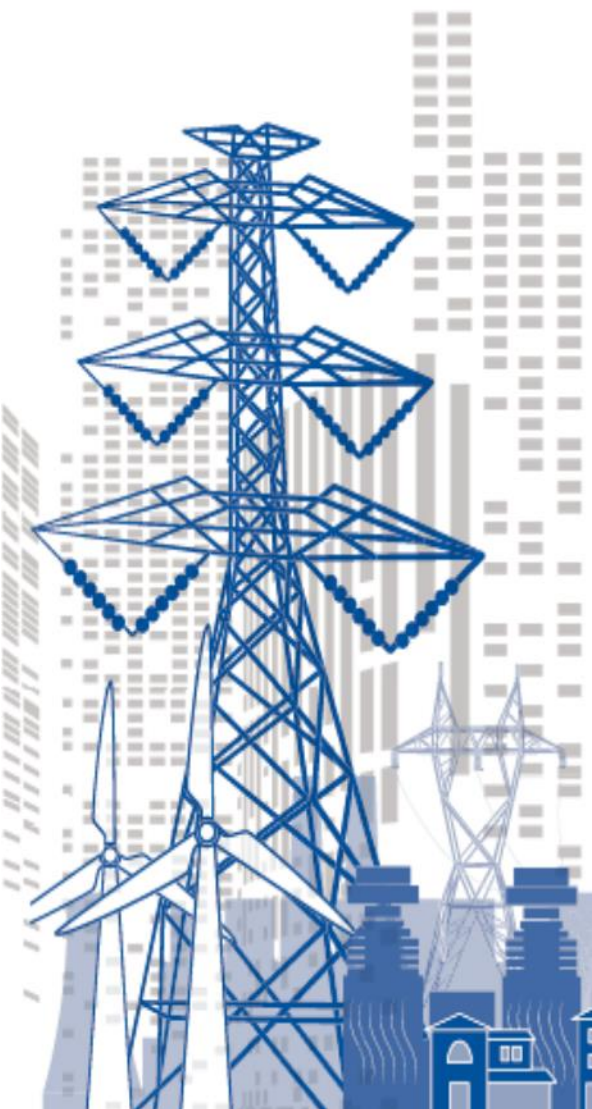
# 54% of funding for 2017/18 financial year secured

<b>R billion</b>	<b>Original funding plan</b>	<b>Revised funding plan</b>	<b>Committed</b>
Signed DFIs	27.4	18.1	18.1
Signed ECAs	2.2	3.6	3.6
Swap restructuring	2.5	2.5	2.5
<b>Subtotal funding secured</b>	<b>32.1</b>	<b>24.2</b>	<b>24.2</b>
New DFIs	12.1	–	–
Domestic bonds	8.0	2.1	2.1
Commercial paper	7.5	3.1	3.1
New ECAs	5.0	–	–
International bonds	7.0	–	–
<b>Funding secured</b>	<b>71.7</b>	<b>29.4</b>	<b>29.4</b>
Available facilities	6.3	0.5	–
Domestic funding	–	25.0	–
<b>Total available funding</b>	<b>78.0</b>	<b>54.9</b>	<b>29.4</b>
<b>% secured</b>			<b>54%</b>

## Credit ratings at 29 January 2018

- 2016/17 financial statements were qualified based on completeness of irregular expenditure reported in terms of the PFMA
- A recovery plan is in place, monitored by Board Audit and Risk Committee
  - ❖ 160 contracts over R1 billion (80%) and 5 110 contracts under R1 billion (80%) reviewed
  - ❖ Emergency procurement over past two years being reviewed
- Plan is on track to address the completeness weakness
- Irregular expenditure can be expected at year end, but should not result in an audit qualification
- Irregular expenses do not imply fruitless and wasteful

## Conclusion



- Operations and new build programme are performing well
- Difficult financial performance attributable to declining sales of 1.9% and price increase of 2.2% mitigated through cost containment
- New Board is addressing the governance and leadership concerns and their focus is on stabilising the organisation
- Given the progress, funding is expected to be unlocked, although it will take time to improve the situation
- Eskom's operating model and capital structure will be reviewed later
- Eskom's cost structure is a key focus area, but financial sustainability cannot be achieved through cost savings alone, the price of electricity must migrate to a more appropriate level



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