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The group's condensed interim financial statemens are available on Eskom's website at www.eskom.co.za/IR2016/interim

Group reviewed interim results for the six months ended 30 September 2016

Surplus capacity available to support economic growth

Revenue increased by **10.5%** year-on-year to R97.1 billion

EBITDA increase of **23.1%** to R31.5 billion

Cash flow from operating activities increased by **38.6%** to R31.9 billion

86% of funding for the year secured

Plant availability increased to 78.49%

Ingula Units 4, 2 and 1 in commercial operation, adding **999MW** of peaking capacity

Medupi Unit 5 synchronised to the national grid on 8 September 2016 (794MW installed capacity)

Almost 15 months of **no load shedding** to November 2016

Electrification connections increased by **139%** to 99 869

Business overview

During the six months ended 30 September 2016, Eskom continued to further stabilise the business with improved operational and financial performance, with almost 15 months of no load shedding. Eskom is now delivering excess electricity capacity, so it will not be a constraint to South Africa's future growth. Our five year plan to 2020/21 aims to re-establish Eskom as a catalyst for growth.

Our five year plan is grounded on the "design-to-cost" paradigm, which is underpinned by two maxims, namely cost optimisation and moderate price increases. Achieving this paradigm shift will require us to:

- Continue the turnaround in Generation performance by increasing plant availability (EAF) to 80% by 2020/21
- Deliver the new build programme within the latest schedule, by completing Ingula by 2017, Medupi by 2020 and Kusile by 2022; and optimise the capital portfolio through prioritisation based on our core business
- Increase electricity sales volumes
- Ensure revenue certainty through the RCA regulatory mechanism and preparation for MYPD 4
- Direct a cost containment effort focused on primary energy, manpower and other external spend to ensure long-term sustainability of the business
- Strengthen and stretch the balance sheet in the short term, while establishing long-term stability
- Ensure regulatory and legal compliance in order to maintain our licence to operate and promote a sustainable business, including environmental and N–1 grid compliance
- Deliver on Government's strategic objectives by meeting targets on transformation, facilitating the entry of independent power producers (IPPs) and other key initiatives

Financial performance

Revenue amounted to R97.1 billion for the six months to September 2016 (September 2015: R87.9 billion), an increase of 10.5%, due to the NERSA-approved price increase in 2016, supported by a marginal increase in sales volumes.

Electricity sales of 108 576GWh (September 2015: 107 307GWh) were 1.2% higher than the comparative period. The net growth is made up of a decline in local sales volumes of 0.6%, coupled with an increase in energy exports. 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, still in its infancy, addresses cross-border sales, local demand stimulation, public-private partnerships, corporate development and unregulated revenues.

International sales have increased by 31.6% to 7 841GWh. Non-firm sales are being made to Zambia and Zimbabwe. Eskom was also able to increase exports to Namibia, Botswana and Swaziland. These sales are made mainly during off-peak hours, but with the increasing excess capacity, sales are also made during peak hours. Eskom has ensured that sales contracts with SAPP trading partners are sufficiently flexible to allow supply to be restricted during emergency situations in South Africa, if required.

With the anticipation of additional surplus capacity in the coming months and years, Eskom is focusing on signing long-term power supply agreements with regional partners. Engagements with utilities and mining houses active in the region have commenced.

Primary energy costs of R40.4 billion (September 2015: R41 billion) decreased by 1.5%, compared to an average increase of 18.8% over the last five financial years, reversing a significantly negative trend. Own generation costs of R26 billion (September 2015: R28.2 billion) generated 110 170GWh (September 2015: 109 245GWh). Independent power producers (IPPs) generated 4 948GWh (September 2015: 3 998GWh) at a cost of R8.7 billion (September 2015: R6.5 billion). Eskom spent R4.2 billion and R1.4 billion respectively on the environmental levy and international electricity purchases (September 2015: R4.1 billion and R2.1 billion).

Business productivity cash savings of R8 billion (September 2015: R8.9 billion), against a year-end target of R17 billion, have been achieved during the six months. Inception-to-date savings at 30 September 2016 amount to R36.4 billion against a target of R34.3 billion.

The group EBITDA of R31.5 billion has increased significantly by 23.1% (September 2015: R25.6 billion). The EBITDA margin improved to 32.7% (September 2015: 32.5%).

Depreciation increased by 31.4% to R10 billion (September 2015: R7.6 billion) due to the generation and transmission plant placed into commercial operation since August 2015. A net fair value loss on financial instruments of R1.9 billion was recorded for the period (September 2015: R3 million profit, restated), impacted by exchange and interest rates. An increase in the gross interest expense and a reduction in borrowing cost being capitalised, resulted in an increase in net finance cost of 86.8% to R6.5 billion (September 2015: R3.5 billion).

The group achieved a net profit after tax of R9.4 billion (September 2015: R10.3 billion, restated) for the period ended 30 September 2016.

Funding

The group's net cash inflow from operating activities was R31.9 billion for the period (September 2015: R23 billion), representing an increase of 38.6%. Cash flows used in investing activities amounted to R29.3 billion (September 2015: R26.5 billion). Refer to the section on the capacity expansion programme for the progress on the build programme.

The group's liquidity position has improved significantly, with liquid assets increasing by 81.6% from R24.1 billion a year ago, to R43.8 billion at 30 September 2016. The group has access to adequate resources and facilities to continue as a going concern for the foreseeable future.

Eskom has secured funding of R78 billion for financial years 2016/17 and 2017/2018. For the current financial year, 86% of the R69 billion funding requirement has been secured. This includes three loan facilities with the African Development Bank amounting to R20 billion, a R7 billion short-term credit facility with the China Development Bank, as well as committed facilities of R7 billion. The remaining 14% required for the year, which constitutes R10 billion, will be raised through domestic medium-term notes, commercial paper, development financing and export credit agreements.

On 14 September 2016, Moody's announced its decision to place Eskom on credit review.

Debt management

Municipal arrear debt increased from R5.6 billion at 30 September 2015 to R9.2 billion at 30 September 2016. Eskom is considering the prepaid billing as a way of dealing with the growth in municipal electricity debt. The provision for arrear debt for municipalities has increased by R2.5 billion since September 2015.

Soweto outstanding debt (excluding interest) increased from R4.6 billion at 30 September 2015 to R5.2 billion at 30 September 2016. Eskom is currently installing prepaid meters in Sandton, Midrand, Soweto, Kagiso and other areas around Gauteng. This is in order to increase revenue collection and address Eskom's debt collection challenges. In Soweto, Sandton and Midrand, we installed 12 123 smart meters from April 2016 to date. We aim to install 18 000 prepaid meters in Soweto, Sandton and Midrand for the year ending March 2017.

Economic regulation

NERSA allowed Eskom additional revenue of R11.2 billion for the 2016/17 financial year in respect of the Regulatory Clearing Account (RCA) application for 2013/14.

The Port Elizabeth Chamber of Commerce appealed against the decision by NERSA, after which the North Gauteng High Court set aside NERSA's decision and remitted it back to NERSA. NERSA and Eskom announced that they will appeal the ruling. The 2016/17 tariff to direct customers and municipalities will remain in force.

Eskom applied for further RCA adjustments for the 2014/15 and 2015/16 financial years, amounting to R19.2 billion and R23.6 billion respectively, through the MYPD methodology. These have now been placed on hold by NERSA due to the court case. Eskom will submit a revenue application in due course.

Operating performance

There has been a significant improvement in plant availability compared to the previous period. Plant availability improved from 71.23% for the six months to September 2015, to 78.49% for the six months to September 2016, exceeding the year-end target of 72%. Unplanned breakdowns have improved from 14.75% for the six months to September 2015 to 9.73% in the current period. Unplanned outages due to tube leaks have decreased by 32.8%. Partial load losses have improved and the energy lost due to partial load losses has decreased by 37%. The higher level of planned maintenance in the previous year is starting to bear fruit.

As a result of this increased availability and the additional generating capacity added, the reliance on open-cycle gas turbines (OCGTs) has reduced considerably. Diesel usage decreased from R6.7 billion in the six months to September 2015 to R288 million in the current period.

Coal stock increased to 76 days at 30 September 2016 (September 2015: 57 days), as part of a risk mitigation strategy. A total of 6.6Mt coal was transported by rail (September 2015: 6.2Mt).

Particulate emissions performance has improved compared to the previous period, to 0.29kg/MWh sent out (September 2015: 0.34kg/MWhSO). Water usage related to power station operations for the period was 1.45ℓ/kWhSO (September 2015: 1.37ℓ/kWhSO), worse than target and the prior period performance. Water usage at coal-fired stations remains high, partially due to the dry hot weather resulting in higher evaporation, although certain operational issues also need attention.

At 30 September 2016, total IPP capacity of 4 793MW was available to the system (September 2015: 3 268MW). This included renewable IPPs of 2 879MW, IPP peakers of 1 005MW and short-term IPPs of 909MW. In total, we purchased 4 948GWh from IPPs (September 2015: 3 998GWh), at an average cost of 191c/kWh. Renewable IPPs delivered energy at an average load factor of 30.2% (September 2015: 28.5%) over the six months, at an average cost of 218c/kWh.

Transmission system minutes lost less than 1, of 2.74 system minutes lost, is below expectations for the six months to September 2016 (September 2015: 1). Year-to-date performance has been impacted by a few relatively large incidents involving plant failures. The Distribution system average interruption frequency index of 19.8 events (September 2015: 19.6) and system average interruption duration index of 38.3 hours (September 2015: 35.6) are better than target; an improvement in performance has been seen since March 2016.

Operation Khanyisa, the Eskom-led anti-electricity theft campaign, is steadily making progress. Since 2013, the campaign has helped reduce Eskom's distribution losses from 7.12% to 5.81%. This translates to about R1.4 billion savings every year. The campaign has helped to recover R618 million in previously unbilled revenue over the same period, and resulted in the arrest of 50 electricity theft suspects and the opening of 26 cases on the court roll.

Despite our commitment to safety, we sadly experienced one employee and four contractor fatalities during the period (September 2015: two employees and nine contractors). The Board of Directors and employees of Eskom convey their sincere condolences to the affected families.

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.

Units 4, 2 and 1 at Ingula Power Station have been in commercial operation since 10 June, 22 August and 30 August 2016 respectively. The remaining unit at Ingula (Unit 3) has already been synchronised to the grid, and is undergoing repairs after experiencing problems during the test phase. The unit is on track for commercial operation by 2017.

The commercial operation of the three units at Ingula has added an extra 999MW of peaking capacity, contributing to ensuring security of power supply for South African homes and businesses. Besides being a catalyst for economic growth, a stable power supply will also enable Eskom, together with municipalities, to roll out electrification programmes to make life easier for millions of households who currently rely on other fuel sources for domestic cooking and heating.

Unit 6 of Medupi Power Station has been in commercial operation since August 2015. Unit 5 was synchronised to the national grid on 8 September 2016, at which time the Minister of Public Enterprises, Ms Lynne Brown, congratulated Eskom's inspirational leadership for getting the build programme back on track. The synchronisation of Unit 5 marks a key milestone towards the full commercial operation of the unit ahead of its scheduled commercial operation in March 2018. Good progress is also being made on Unit 4 of Medupi.

Eskom's Group Chief Executive, Brian Molefe said: "The Medupi Unit 5 synchronisation is a clear indication that we are on track on delivering the entire new build programme to the country. This milestone further strengthens our position that load shedding is becoming a thing of the past. I am thrilled by this achievement. Eskom has turned a corner."

The Kusile Power Station project is making significant strides. Unit 1 continues to achieve set milestones, on the path to commercial operation by the second half of 2018. Key milestones achieved include the completion of the chemical clean in August 2016 and first fire using oil in September 2016. The Kusile project has mechanically completed and commissioned the first wet flue gas desulphurisation, thereby being the first to install the technology, not only in South Africa, but the continent of Africa. Unit 2 is progressing well. The project completed hydro-testing of the Unit 2 boiler on 1 October 2016, which will positively influence the achievement of boiler registration.

While the construction of Transmission substations is on target, the construction of lines is behind target, mainly due to delayed permits and licences, difficult construction terrain, adverse weather and contractor performance hampering progress. Eskom has revised the schedules of these lines in to achieve the year-end target.

Empowerment and CSI

Procurement from B-BBEE compliant suppliers achieved 65.38% (September 2015: 87.59%) of total measured procurement spend, which included spend with black-owned suppliers of 30.18% (September 2015: 38.03%). The large reduction in the performance in the current year is due to the large number of suppliers being without a valid B-BBEE certificate, due to changes to the Codes during the period. Mechanisms to collect valid certificates are in place, to ensure that year-end targets are achieved. A total of 80.4% of Eskom-wide procurement was committed to local content, against a target of 70%.

At 30 September 2016, 61.67% of senior management were black (September 2015: 61.32%), while 28.5% of senior management were female (September 2015: 27.83%). 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). It is envisaged that opportunities which arise due to attrition will be targeted and reserved for women. Employees with disabilities constitute 2.75% of the workforce, and there are 3 569 learners in the pipeline.

Eskom committed R74.7 million to corporate social investment during the period (September 2015: R63.1 million), impacting 120 246 beneficiaries (September 2015: 49 867), an increase of 143.3%. Two trusts funded by the Eskom Foundation in the current year contributed a significant number of beneficiaries.

Eskom electrified 99 869 households during the six months (September 2015: 41 778), an increase of 139%. The implementation of the new performance centre established at our head office in Megawatt Park, which focuses solely on the delivery of electrification, has enabled the significant increase in connections. Eskom is gearing itself up for even better results over the rest of the year, during which focus will be placed on building required infrastructure, while also continuing to electrify households across the country. Eskom is aiming to achieve 200 204 connections by year end, against the target of 169 722 set by the Department of Energy.

Governance

Mr Romeo Kumalo and Ms Mariam Cassim resigned as directors, on 12 and 14 April 2016 respectively. Ms Nazia Carrim and Ms Viroshini Naidoo did not make themselves available for reappointment as directors at the annual general meeting on 1 July 2016. No new appointments were made to the Board at the annual general meeting.

During May 2016, Ms Elsie Pule was appointed as Group Executive: Human Resources. Mr Sean Maritz was appointed as Group Executive: Information Technology with effect from 1 June 2016.

Outlook

Eskom currently has excess capacity, which is projected to grow steadily over the next three years. We call on customers to increase their consumption and engage Eskom proactively to take advantage of the excess capacity situation.

Condensed group interim financial information

Condensed income statement

for the six months ended 30 September 2016

	Sept 2016 Rm	Restated Sept 2015 Rm	Movement %
Continuing operations			
Revenue	97 131	87 876	11
Other income	752	1 369	(45)
Primary energy	(40 380)	(40 999)	2
Net employee benefit expense	(15 758)	(13 806)	(14)
Net impairment loss	(615)	(122)	(404)
Other expenses	(9 634)	(8 723)	(10)
Profit before depreciation and amortisation and net fair value loss (EBITDA)	31 496	25 595	23
Depreciation and amortisation expense	(9 998)	(7 609)	(31)
Net fair value loss on financial instruments	(1 875)	3	–
Net finance cost	(6 535)	(3 498)	(87)
Share of profit of equity-accounted investees, net of tax	18	28	(36)
Profit before tax	13 106	14 519	(10)
Income tax	(3 750)	(4 172)	9
Profit for the period	9 356	10 347	(10)

Condensed group statement of financial position

at 30 September 2016

	Sept 2016 Rm	Restated Sept 2015 Rm	Movement %
Assets			
Property, plant and equipment and intangibles	554 555	486 730	14
Liquid assets	43 766	24 104	82
Working capital	44 119	43 753	1
Other assets	46 640	57 145	(18)
Total assets	689 080	611 732	13
Equity	186 581	171 117	9
Liabilities			
Debt securities and borrowings	332 920	297 449	(12)
Working capital	49 647	49 330	1
Other liabilities	119 932	93 836	(28)
Total liabilities	502 499	440 615	(14)
Total equity and liabilities	689 080	611 732	(13)

Condensed group statement of cash flows

for the six months ended 30 September 2016

	Sept 2016 Rm	Restated Sept 2015 Rm	Movement %
Net cash from operating activities	31 933	23 040	39
Net cash used in investing activities	(29 276)	(26 518)	(10)
Net cash from financing activities	(837)	7 430	(111)
Cash and cash equivalents at the beginning of the period	28 454	8 863	221
Foreign currency translation	(10)	(5)	(100)
Effect of movements in exchange rates on cash held	22	36	(39)
Non-current assets held-for-sale	(25)	–	–
Cash and cash equivalents at the end of the period	30 311	12 846	136
Investment in securities	13 455	11 258	20
Liquid assets at the end of the period	43 766	24 104	82

Condensed group interim financial statements

The condensed group interim financial statements have been prepared under the supervision of the Chief Financial Officer, Mr Anoj Singh CA(SA), and reviewed by the group's independent auditors, SizweNtsalubaGobodo Inc. The reviewed condensed interim financial statements of the group, together with the unmodified review opinion, are available for inspection at Eskom's registered office and on www.eskom.co.za/IR2016/interim.

The condensed group interim financial statements were approved by the Board of Directors on 27 October 2016. There were no significant events after the reporting date which impact these results.

Disclaimer

Eskom Holdings SOC Ltd
Reg No 2002/015527/30

Head office

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

www.eskom.co.za

HKLM 1167