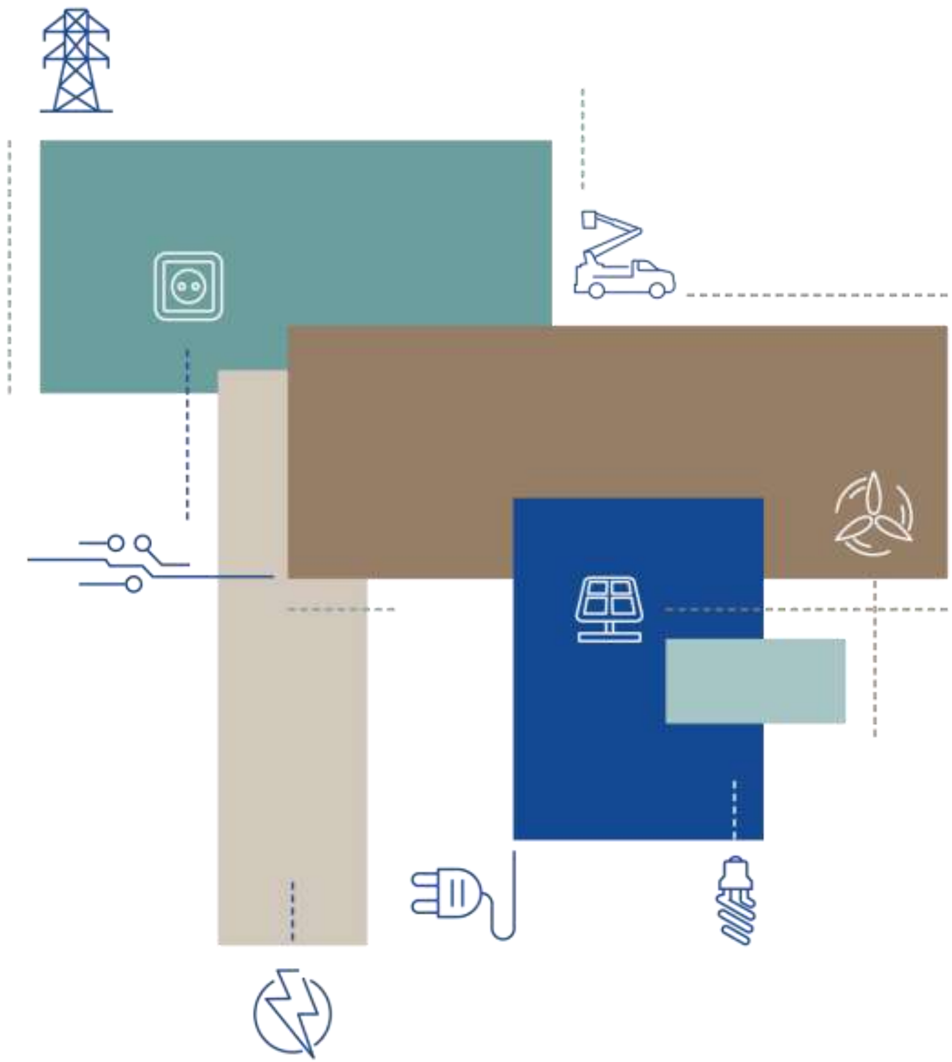
Eskom group interim results

for the six months ended 30 September 2018



28 November 2018

This presentation is available at **www.eskom.co.za/IR2018/interim**

Contents

Eskom

Executive summary

Executive summary

- Eskom is facing severe challenges:
  - **Financially**: Eskom is in a **debt reliant liquidity situation** that has resulted from low tariffs, decline of 0.8% in sales volumes year-to-date, primary energy and employee benefit costs increasing, and the continuing new build programme
  - **Operationally**: Eskom is facing reduced generation performance, low coal stock levels, and increases in municipal arrear debt
- Notwithstanding the above challenges, Eskom's Board and leadership have dedicated their efforts on **five key priorities** to create a platform for future growth
  - Addressing poor **governance** and controls
  - Improving **liquidity**
  - Ensuring a **financially viable** entity
  - Completing phase 1 of the **strategic review**, currently being discussed with the shareholder ministry
  - Executing a nine-point Generation **recovery programme**

Progress and achievements

Eskom has made progress in positioning itself for future growth

1	**Clean up**	**Reposition Eskom as a trusted state-owned entity** • Efforts to a cleaner audit report • Effecting a culture of consequence management • Recovered irregular expenditure of approximately R1billion
2	**Stabilise**	**Improve financial health** • Secured 73% funding for 2018/19 (R52 billion) and 22% of funding for 2019/20 • Increasing domestic appetite • International bond issue over subscribed • Fitch Ratings lifted negative ratings watch
3	**Efficiency optimisation**	**Prepare for growth** • RCA granted by NERSA for R32.7 billion • Cost containment (opex and capex reduction) • Municipal arrear debt remains a challenge
4	**Future Eskom growth**	**Strategic review** • Completed Phase 1 of strategic review • Strategy blueprint under review at Board and Ministry level
5	**Recovery programme**	**Nine-point Generation recovery programme** • Improve performance of existing and new power stations • Recover coal stock pile levels

Amidst this significant progress, the road to a sustainable business is a long one

Eskom has made significant progress towards becoming a trusted SOC

- **14 implicated** senior executives **exited**
- **12 criminal cases** opened, five of which involve **nine senior executives**
- Total of **1 049** outstanding **cases** since April 2018, of which **858** have been **finalised**, resulting in **99 employee exits**
- As at end of October 2018, **a total 269 whistle blow cases** are under investigation, **75 of these have been completed**. Of the 75, total sanctions issued (i.e. actions taken) are 47
- **Remedial action** has been taken against **25 staff doing business with Eskom**; 7 exited
- **Lifestyle audits** of senior management in progress
- Investigated all **irregular supplier contracts** (so far, five are no longer doing business with Eskom). **Recovered R902 million** from McKinsey with an additional R99 million recovered relating to interest
- Cooperating with eight **regulatory bodies conducting major investigations**[1]

1. National Treasury procurement investigations, Zondo Commission, Hawks, SIU, Parliamentary Inquiry, National Director of Public Prosecutions, Standing Committee on Public Accounts and SAPS

Overview of performance

While progress has been achieved, Eskom's financial and operational situation has continued to deteriorate in 2018

Financial lowlights

- Reduced profit before tax to R1 billion (Sept 2017: R8.9 billion)
- 25% increase in municipal arrear debt (including interest) R17 billion[1] (Mar 2018: R13.6 billion)
- Pressure on operating cost from the wage settlement and the impact of the coal costs
- Ever increasing debt levels

Operational lowlights

- EAF was 75.01% to September 2018, below target of 78%; dropping to 74.2% in October 2018
- 10 stations below Grid code - coal stock days requirement
- Generation's coal fleet continues to face challenges
- The impact of the decline has resulted in the increased utilisation of emergency resources such as OCGTs
- Despite having a recovery programme, loadshedding cannot be ruled out for the remainder of the year

Eskom has defined an ambitious turnaround plan, largely within its own control, to improve financial performance by 2023

There will be pressure in the short to medium term, as we transition towards financial and operational sustainability, requiring resolute, tough and decisive leadership

1. Invoiced amount.

Eskom’s strategy

We have a comprehensive plan to drive performance improvements within Eskom

Eskom

1 Align the business and operating model to the future Vision

Example Initiatives

(Re-) Build critical **capabilities**

Drive culture of **performance & accountability**

2 **Revenue growth**

3 **Primary energy optimisation**

4 **Operating model**

5 **Cost efficiency**

6 **Capital effectiveness**

Example Initiatives

- Drive **short-term growth** with pricing incentives
- Grow **cost plus mine** volumes and reduce costs
- **Ring-fencing (Profit and Loss)**
- Launch **operational improvements** across Gx, Dx and Tx
- **Zero-base, prioritize CAPEX** and apply **lean design** principles

7 Enable an effective turnaround

Example Initiatives

Launch **turnaround steerco**

Setup and launch **turnaround office**

Partnership between Eskom and the shareholder is essential

Financial performance

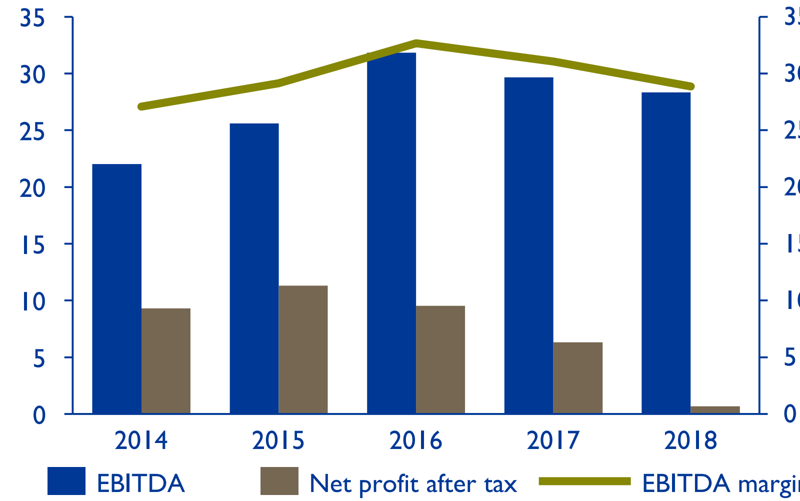
Most financial ratios deteriorated and are expected to worsen further towards year end

Eskom

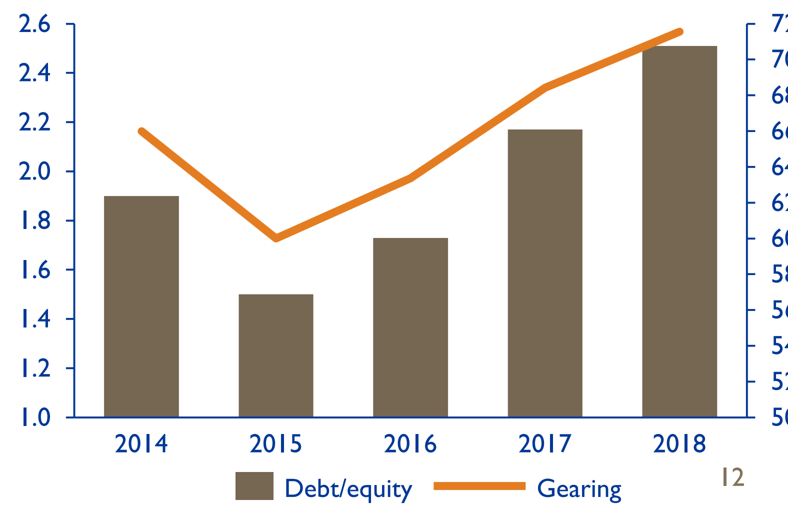
Ratio	Sept 2018		Sept 2017	Mar 2019[1]
EBITDA margin, %	**28.87**	↓	31.05	20.92
Cash interest cover, ratio	**1.55**	↑	1.50	1.06
Debt service cover, ratio	**0.60**	↓	0.99	0.52
Gross debt/EBITDA, ratio	**16.59**	↓	14.11	13.38
Debt/equity (including long-term provisions), ratio	**2.51**	↓	2.17	2.96
Gearing, %	**72**	↓	68	75
Free funds from operations after interest as % of gross debt, %[2]	**2.19**	↓	3.39	1.09

1. Performance for the year ended 31 March 2019 projected at September 2018.
2. Based on ratings agency methodology.
3. Unless otherwise indicated, years on graphs refer to September figures, e.g. 2018 refers to September 2018.

Profitability



Solvency



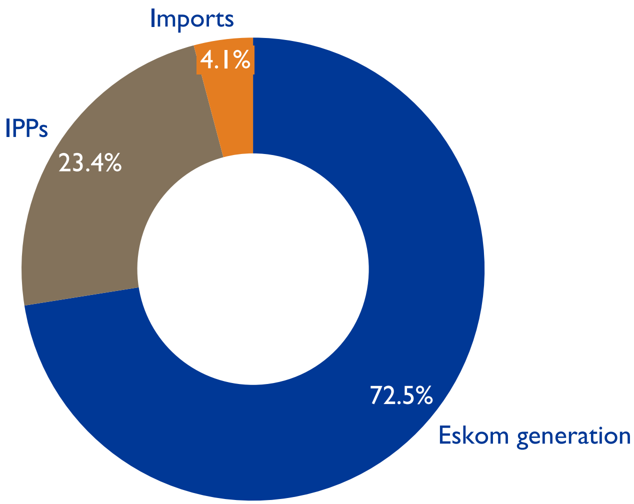
Income statement
for the six months ended 30 September 2018

R million	Sept 2018	Sept 2017	YoY % change
Revenue	**98 104**	95 505	3
Other income	**1 678**	730	130
Primary energy	**(46 146)**	(41 257)	12
Employee benefit expense	**(16 944)**	(15 153)	12
Net impairment reversal/(loss)	**594**	(679)	
Other expenses	**(8 963)**	(9 490)	(6)
EBITDA (Profit before depreciation and amortisation and net fair value loss)	**28 323**	29 656	(4)
Depreciation and amortisation expense	**(12 870)**	(10 877)	18
Net fair value (loss)/gain on financial instruments and embedded derivatives	**(821)**	105	
Net finance cost	**(13 733)**	(10 026)	37
Share of profit of equity-accounted investees, net of tax	**22**	26	(15)
Profit before tax	**921**	8 884	(90)
Income tax	**(250)**	(2 572)	(90)
Net profit for the period	**671**	6 312	(89)

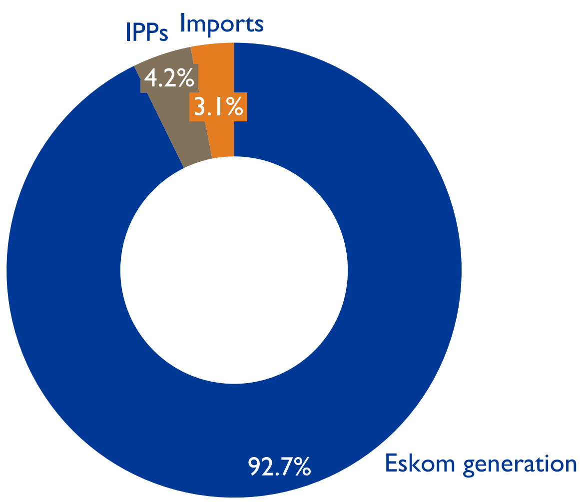
- Sales volumes down by 0.8%; revenue up by 2.7%
- Other income includes R902 million recovered from McKinsey
- Coal cost increase contained to 7%, but IPP costs up 29%, mainly due to volumes being 25% higher
- Employee benefit expense increased due to wage settlement and once-off payment to unionised staff
- Depreciation increased due to commissioning of new units
- Increased finance costs linked to less interest capitalised, and growth in borrowings
- Impact of implementing IFRS 15 increased loss by R1.5 billion
- Impact of IFRS 9 negligible

Primary energy costs increased by 11.9% year-on-year

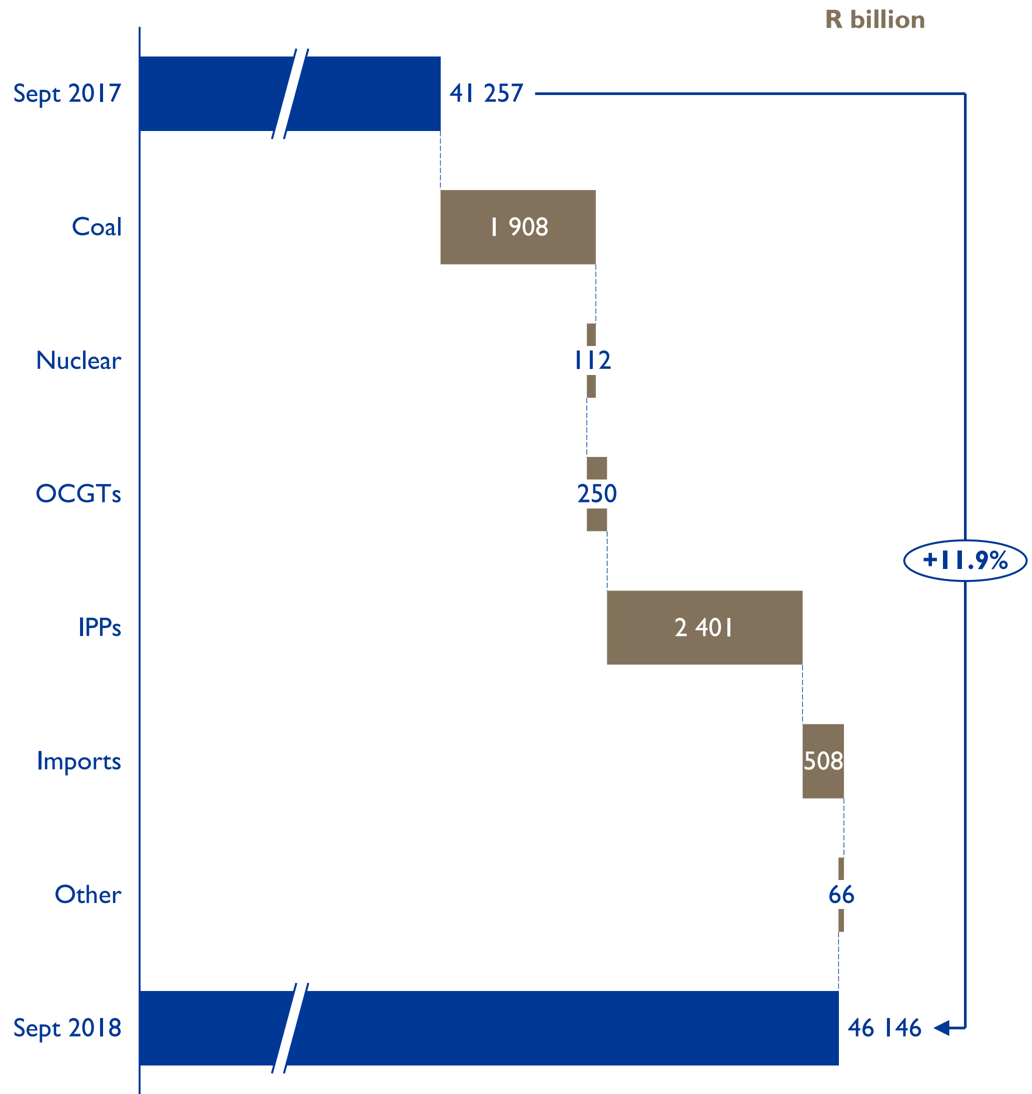
Percentage of primary energy cost



Contribution to GWh produced



Year-on-year analysis



Financial position
at 30 September 2018

R million	Sept 2018	Sept 2017	YoY % change
Property, plant and equipment and intangible assets	**645 092**	614 195	5
Working capital	**49 209**	50 383	(2)
Cash and cash equivalents	**17 342**	8 507	104
Other assets	**49 339**	50 489	(2)
Total assets	**760 982**	723 574	5
Equity	**174 633**	182 618	(4)
Debt securities and borrowings	**419 213**	367 027	14
Working capital	**46 654**	50 582	(8)
Other liabilities	**120 482**	123 347	(2)
Total equity and liabilities	**760 982**	723 574	5

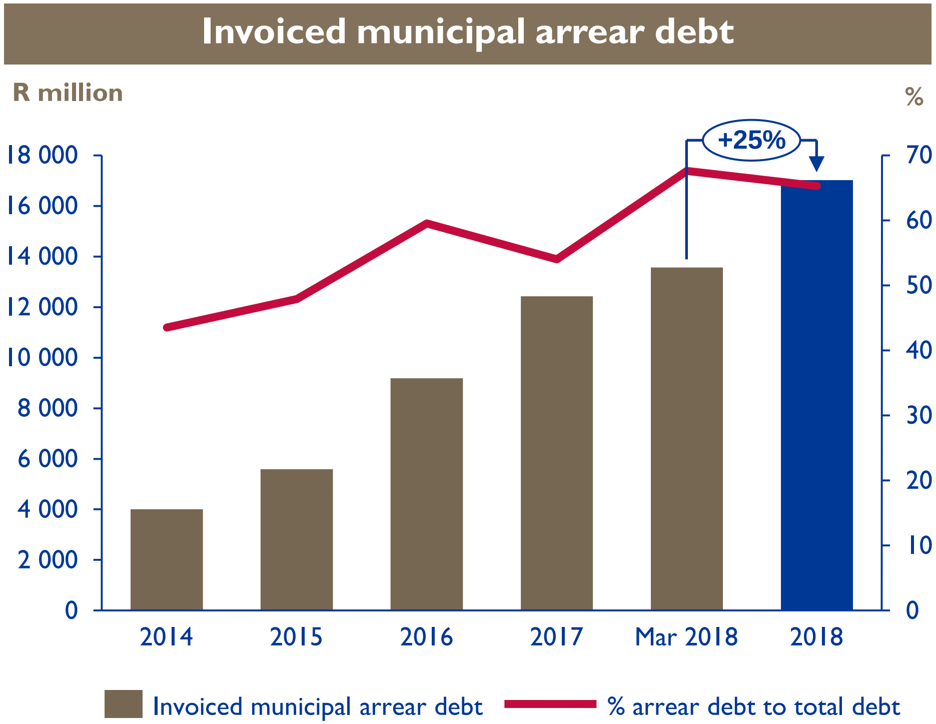
Growth in property, plant and equipment is mostly funded by borrowings, with the balance of net borrowings supporting an improvement in liquidity

Cash flow statement
for the six months ended 30 September 2018

R million	Sept 2018	Sept 2017	YoY % change
Net cash from operating activities	**26 668**	22 361	19
Cash required for debt servicing	**(45 220)**	(23 254)	94
Net cash shortfall before investing activities	**(18 552)**	(893)	
Acquisition of property, plant and equipment and intangibles	**(17 750)**	(28 526)	(38)
Cash flow used in other investing activities	**(323)**	(1 137)	(72)
Net cash shortfall before financing activities	**(36 625)**	(30 556)	
Debt raised	**33 688**	12 035	180
Cash flow from other financing activities	**3 908**	6 658	(41)
Net increase/(decrease) in cash and cash equivalents	**971**	(11 863)	

Cash from operating activities is not sufficient to cover debt servicing, with funding raised needed to fund capital expenditure as well as the debt servicing shortfall

Arrear debt continues to escalate



- Invoiced municipal arrear debt (including interest) increased to R17 billion (Mar 2018: R13.6 billion), an increase of 25%
- Initiatives to encourage payment are having little effect
- Government intervention is needed to resolve the impasse
- Invoiced Soweto SPU arrear debt (including interest) increased to R12.6 billion; payment level <10%
- International arrears – R715 million

Customer payment levels:

- Top customers – 100%
- Municipalities – 92%
- Large power users – 99%
- Small power users – 99%

Municipal payment levels:

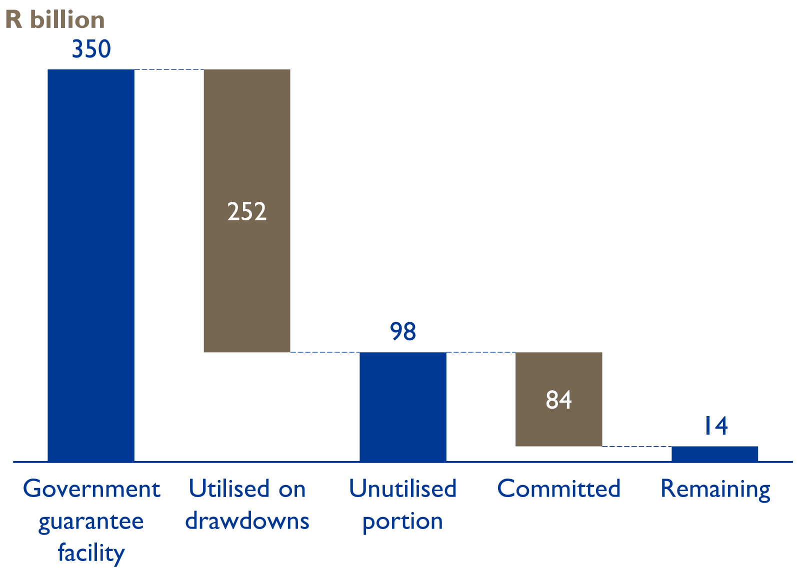
- Metros – 100%
- Top 11 defaulters – 38%
- Rest of municipalities – 90%

Eskom has already secured 73% of funding required for the 2018/19 financial year

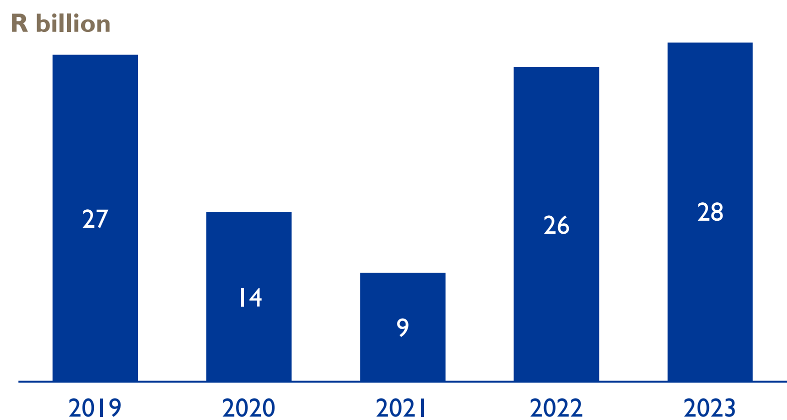
R billion	Plan	Committed
DFIs	14 685	21 274
ECAs	2 590	1 544
International bonds	19 950	21 647
Domestic bonds and notes > 1 year	13 000	6 529
Domestic bonds and notes < 1 year	6 860	1 984
Structured products	15 000	–
Total funding	**72 085**	**52 978**
% secured		**73%**

With Government support, Eskom remains a going concern, assuming an adequate tariff increase combined with continued cost savings initiatives, as well as successful execution of the borrowing programme. The revised strategy will further support this

Guarantees utilised in funding capex



Nominal maturities of guaranteed debt



Status update on NERSA revenue applications

- Eskom has reviewed the NERSA 5.23% increase for 2018/19 through a High Court application. The legal process is under way
- NERSA made RCA balance decision for 2014/15 to 2016/17 of R32.7 billion Reasons for decision have not been published. Clarity needs to be established on whether MYPD methodology and precedents were applied
- This RCA balance will be recovered through tariffs over four years, from 1 April 2019 onwards
- The RCA balance application of R21.6 billion for 2017/18 has been submitted
- MYPD 4 revenue application (2019/20 to 2021/22) for efficient costs has been submitted to NERSA
  - Public hearings are scheduled for January 2019
  - NERSA's decision is to be announced on 1 March 2019
  - The decision impacts Eskom's financial situation and forward financial sustainability of Eskom
- NERSA's regulation processes are of interest to investors and the ratings agencies, and are crucial to their involvement and assessment of the future trajectory of Eskom's financial and operational sustainability

Independent auditors’ opinions

	March 2017	Sept 2017 (interim review)	March 2018	Sept 2018 (interim review)
IFRS	▲ (1)	●	●	●
Going concern	●	▲ (2)	▲ (2)	▲ (2)
PFMA	■ (3)	n/a (4)	■ (5)	n/a (4)

■ Modified ▲ Emphasis of matter ● Unmodified

(1) Prior year restatement due to non-accounting for assets built by customers
(2) Uncertainty that may cast significant doubt on the group’s ability to continue as a going concern (similar to emphasis of matter)
(3) Incomplete reporting of irregular expenditure
(4) No reporting requirement at half-year
(5) Incomplete reporting of irregular expenditure, fruitless and wasteful expenditure and losses due to criminal conduct

Progress on cleaning up irregular expenditure

- Compliance plan includes detailed checks on sole source and emergency procurement, together with contract review on all newly-placed contracts, together with the execution on large-value contracts (> R1 billion)
- Key breaches have been analysed – measures are being put in place to prevent recurrence
- Procurement procedures have been reviewed for effectiveness and potential risk
- Engagements with National Treasury are under way – contracts totalling R10 billion have been submitted for condonation
- Furthermore, Eskom will:
  - Streamline management and reporting of investigations
  - Update procedures for reporting fruitless and wasteful expenditure, as well as criminal and revenue losses
  - Ensure consequence management in the disclosure cycle
- Key priorities are:
  - Addressing and condoning (where possible) all instances that were identified at year end
  - Ensuring legislative compliance of all contracts placed
  - Establishing monitoring and compliance controls and reporting systems
  - Internal education on PFMA identification and reporting of irregular expenditure, with active training under way
- Phase 2 of the plan has clear milestones and deliverables to ensure success at the 2019 year end

Financial outlook

- Historically, any profitability generated during the first half of the year is eroded during the second half, due to lower summer tariffs and higher planned maintenance
- The full impact of the wage settlement will be experienced over the next six months, combined with higher OCGT usage to avoid/minimise loadshedding
- Additional funds are required to increase maintenance to improve generation plant performance, and also to recover coal stock days
- A loss before tax of R11.2 billion was budgeted for the 2018/19 year; current indications are that the actual loss will be worse than the budget
- Financial ratios are expected to weaken further, particularly EBITDA margin, gearing and cash interest cover
- Municipal arrear debt is expected to continue to negatively affect cash flows
- We expect to successfully execute the borrowing programme for 2018/19
- Eskom requires significant stakeholder support, specifically Government

Eskom's status as a going concern

- The Eskom Board assessed the ability of the group to continue as a going concern, taking into account the key aspects that influence this decision
- Their decision in support of the going concern status considered a number of mitigating strategies and actions to address the risks identified
- The turnaround of Eskom is a journey over time that is highly dependent on active involvement of the shareholder, NERSA and other stakeholders
- Eskom cannot solve the financial and operational sustainability challenges that it faces alone – the shortfall in tariff cannot be solved through cost reductions alone, and further indebtedness adds to the problem
- The Board continues to manage and implement these strategies as this is a priority to ensure that they materialise to deliver as expected to achieve the turnaround
- Ultimately a part of the solution will impact either the electricity consumer or the taxpayer

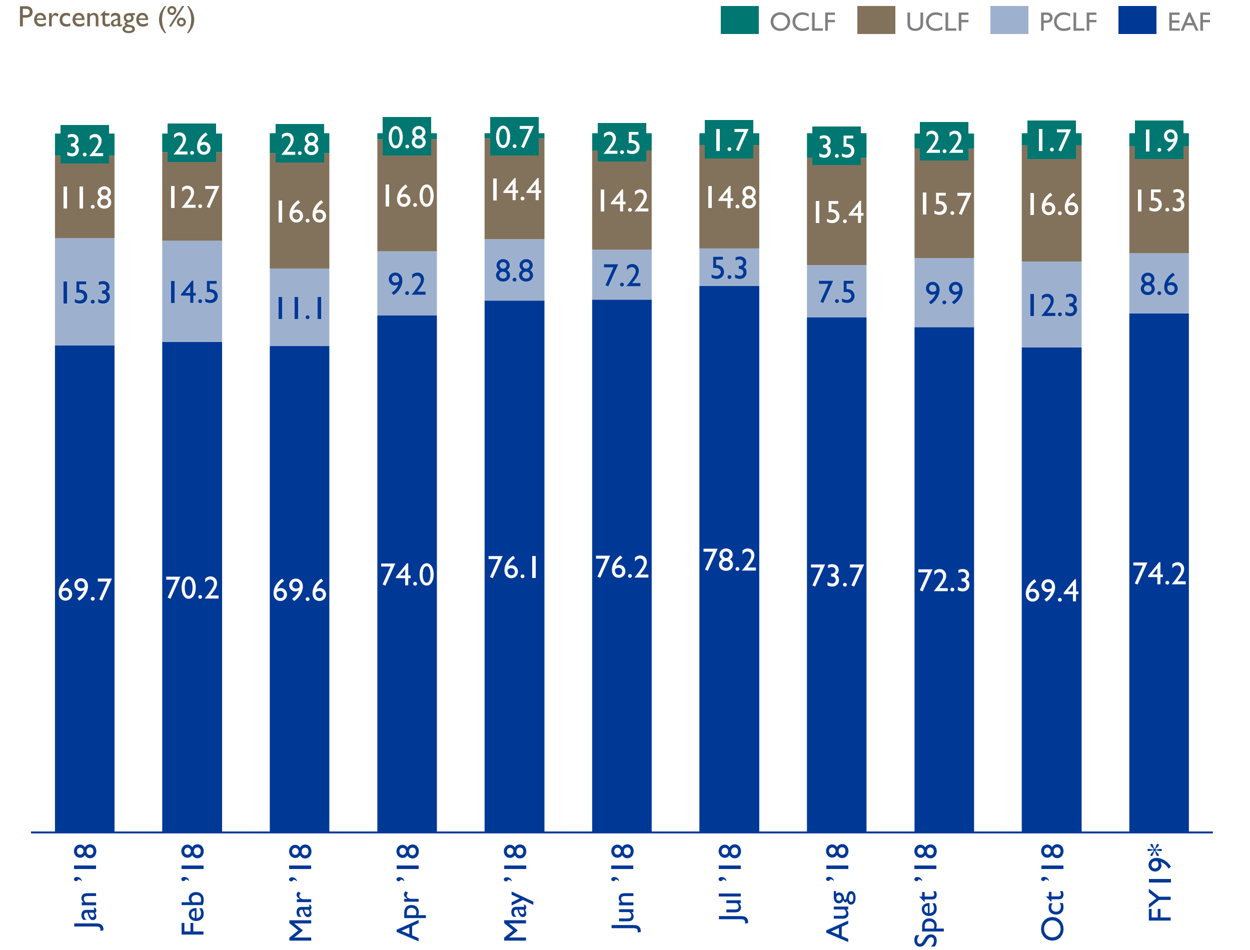
Operational performance

Despite challenges in generation, Eskom has achieved significant milestones in other divisions

Division	Description
Generation	• Year-to-date performance: ○ 74.2% Energy availability (EAF) as at end October financial year ○ 8.82% Planned maintenance (PCLF), forecasted to exceed year-end target of 9% ○ 15.69% Unplanned maintenance (UCLF) and 1.75% Other capacity losses (OCLF)
Transmission	• Overall system performance on track and positive • Sustained maintenance execution with 99% of planned work completed
Distribution	• Improved customer experience by reducing outage durations (34.9 vs target of 38) and frequency of interruptions (14.3 vs target of 19.8) • 82 371 New electrification connections completed – above target
New build	• Medupi Units 3 and 2 synchronised to the national grid on 8 April and 7 October 2018 • Additional 1 500 MW from Medupi Unit 3 and Kusile Unit 2 commercial operation (CO) projected within this financial year • 540 MW transformer capacity commissioned and 227.5 km line build on track

However, Generation availability has deteriorated to below what we aspired to achieve

Generation performance for the 2019 financial year



Contributing factors

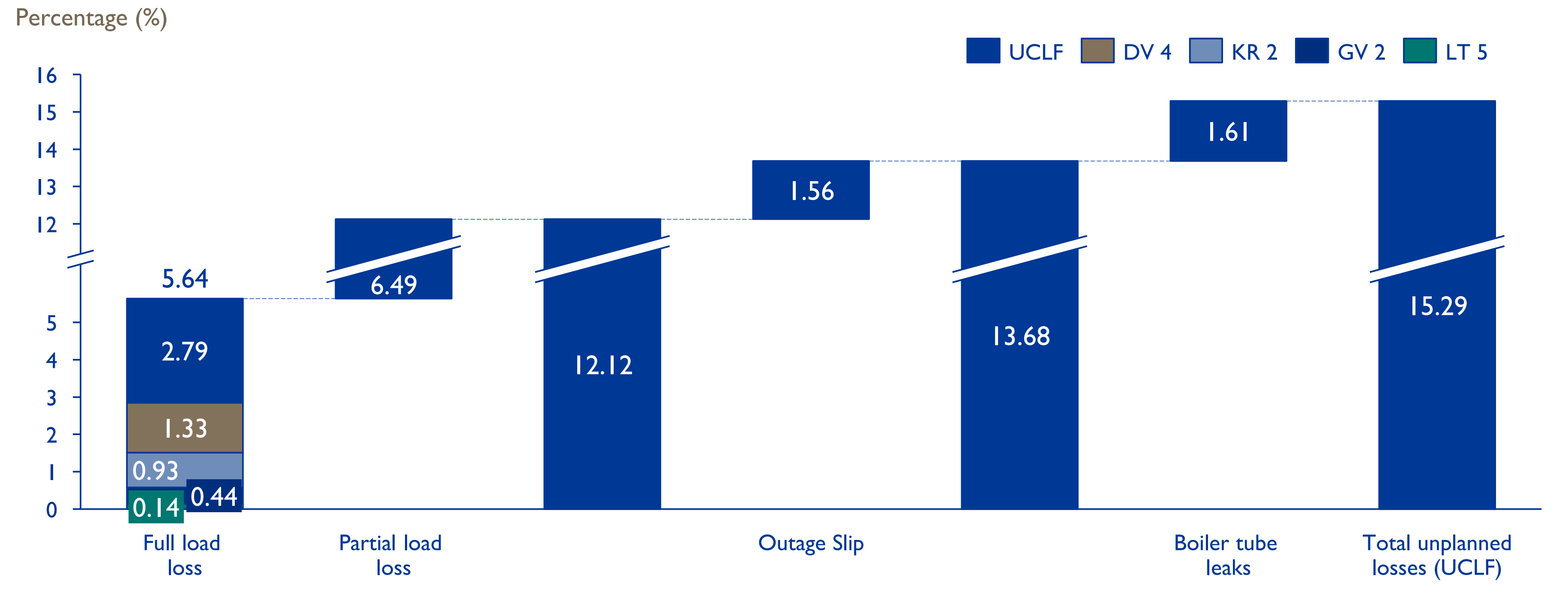
- Undesired coal quality
- Recent strikes
- Financial and capacity constraints leading to minimal refurbishments and maintenance on ageing fleet
- Outage execution (overruns)
- Ops and maintenance skills – availability and training
- Maintenance cost decreased in past five years leading to unsustainability

9-point recovery programme

*Year-to-date figures.
FY 2019 Performance data unaudited and subject to change.
EAF higher in winter due to lower levels of planned maintenance.

Major incidents, as well as full and partial losses were key contributors to the increase in unplanned losses

Build-up of UCLF for 2018/19 from major contributors



Key insights

- Full and partial losses were the highest contributors with a total of 12.12% of total UCLF for FY19 YTD
- Outage slips contributed 1.56% to the total UCLF
- Boiler tube leaks also contributed significantly at 1.61% of total UCLF

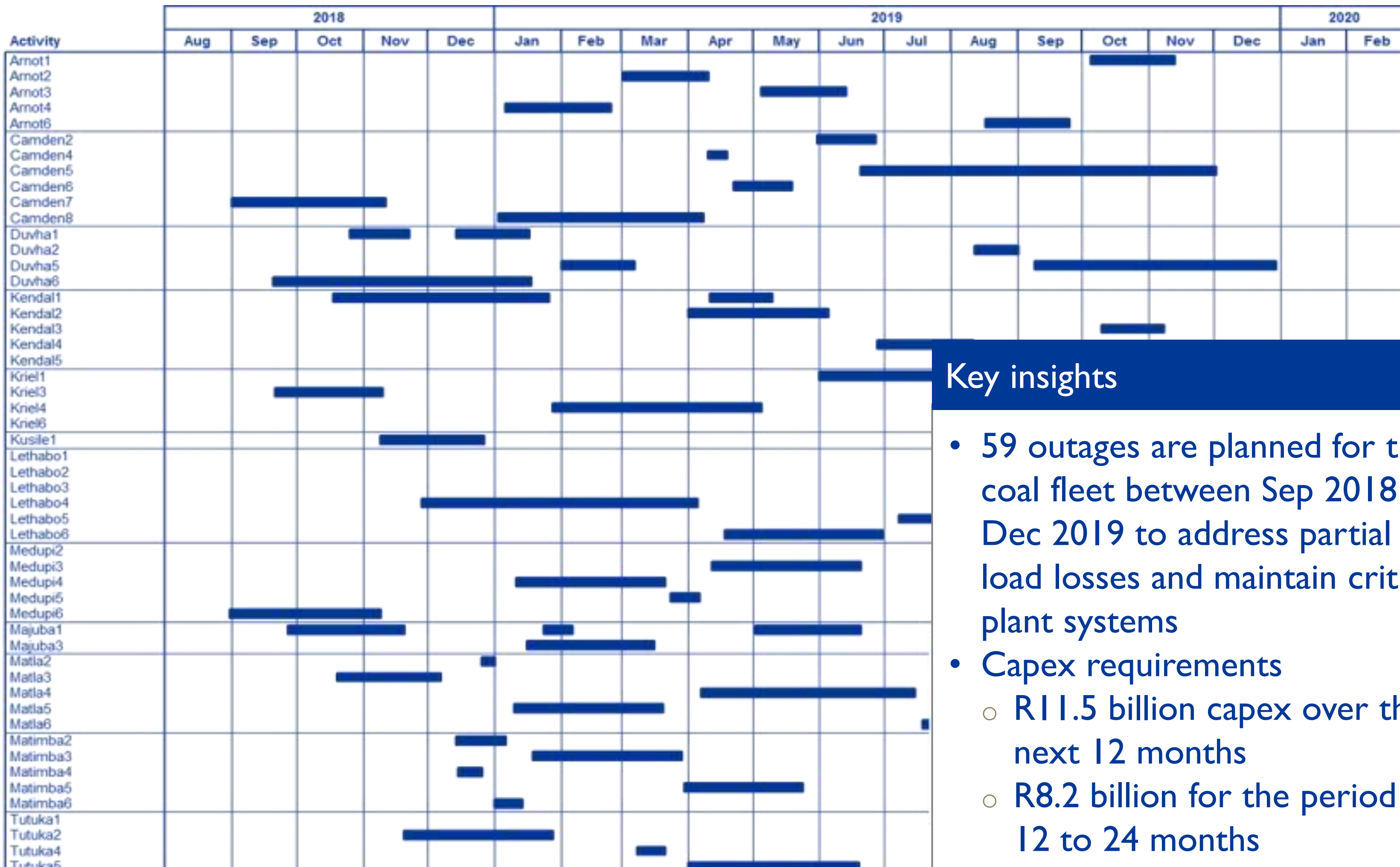
Note: All figures are year to date and unaudited.
Source: Generation UCLF performance Analysis FY2019 YTD (14 Nov 2018 – unaudited data.)

A nine-point recovery programme has been put in place to address key challenges within Generation

1. Fix new plant
2. Fix full load losses and trips
3. Fix units on long-term forced outages
4. Partial losses and boiler tube leaks
5. Fix outage duration and slips
6. Fix human capital
7. Prepare for increased OCGT usage
8. Prepare for rain
9. Fix coal stock piles

Maintenance plan to reduce partial losses and boiler tube leaks

Planned outages for coal fired generating fleet until Nov 2019



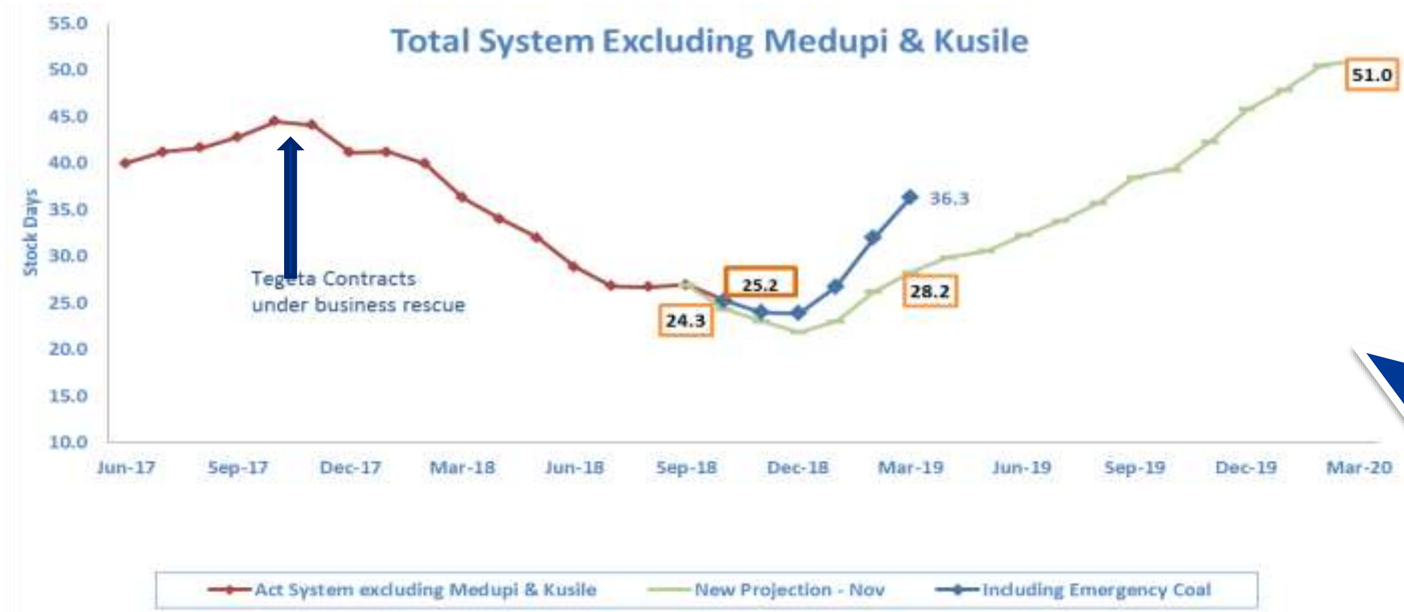
Key insights

- 59 outages are planned for the coal fleet between Sep 2018 and Dec 2019 to address partial load losses and maintain critical plant systems
- Capex requirements
  - R11.5 billion capex over the next 12 months
  - R8.2 billion for the period 12 to 24 months

Source: GPSS outage schedule for coal fleet (Nov 2018).

Simulating the inclusion of 4Mt potential emergency coal shows an increase in total stock days

Actual and forecasted stock days for total system between Jun 2017 and Mar 2020



Simulating the inclusion of 4Mt potential emergency coal shows an increase in total stock days on 31 March 2019 to 36.3 days from the 28.2 days reflected in the recovery programme

Key insights

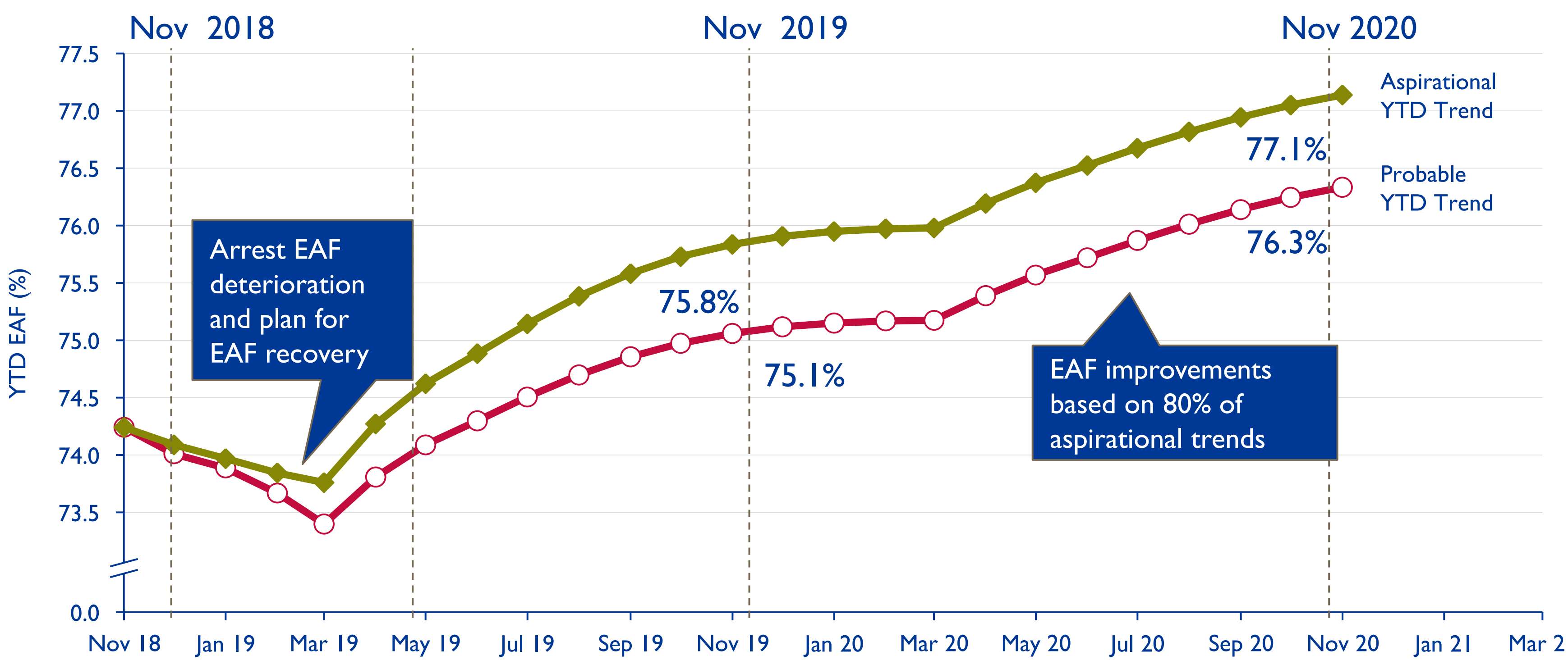
- The success of sourcing the urgent 4Mt will see all stations reaching healthy alarm level and 36.3 system stock days by March 2019 – work in progress
- Only 1.1Mt of the required 4Mt through urgent procurement is currently firm
- The 2.9Mt balance is still to be contracted through the urgent procurement process for first coal in December 2018

Source: November 2018 Supply Plan (02Nov2018) v1A Including Pipeline sources.

The recovery programme is forecast to improve EAF, extra effort will be made to get closer to our aspiration

Eskom

Comparison of aspirational versus achievable year-to-date EAF for Nov 2018 to Nov 2020



Based on analysis and the recovery programme, the green line is the aspirational recovery trend, while the red line represents the most likely recovery trajectory

Source: Generation EAF improvement estimates required to achieve 78% by FY2021.

Eskom limited loadshedding to three occasions in the current financial year

- In 2018/19, Eskom implemented loadshedding on three occasions, as a last resort to manage system demand
  - On 14 to 16 June and 31 July 2018, as a result of industrial action
  - On 18 November 2018, due to system constraints as well as low reservoir levels at the pumped storage power stations, in order to build up reserves for the week ahead
- Despite every effort made to avoid loadshedding, the system remains constrained and unpredictable as a result of coal shortages and poor plant performance
- Therefore, loadshedding cannot be ruled out for the remainder of the year

Conclusion

We remain committed to turning around the organisation for the benefit of all South Africans

- Although liquidity has improved, financial performance is expected to deteriorate towards year end
- The power system will remain constrained for the foreseeable future, until generation plant performance and coal stock levels improve
- This means that loadshedding in the coming months remains a risk
- The cost of keeping the lights on will further impact financial performance
- While some efforts have been made, tough and painful decisions are necessary to achieve full recovery
- Our turnaround strategy will enable us to go through these difficult times, and this will be shared once it has been concluded at Board and shareholder ministry (DPE) level
- Partnership between Eskom and the shareholder is essential

Disclaimer

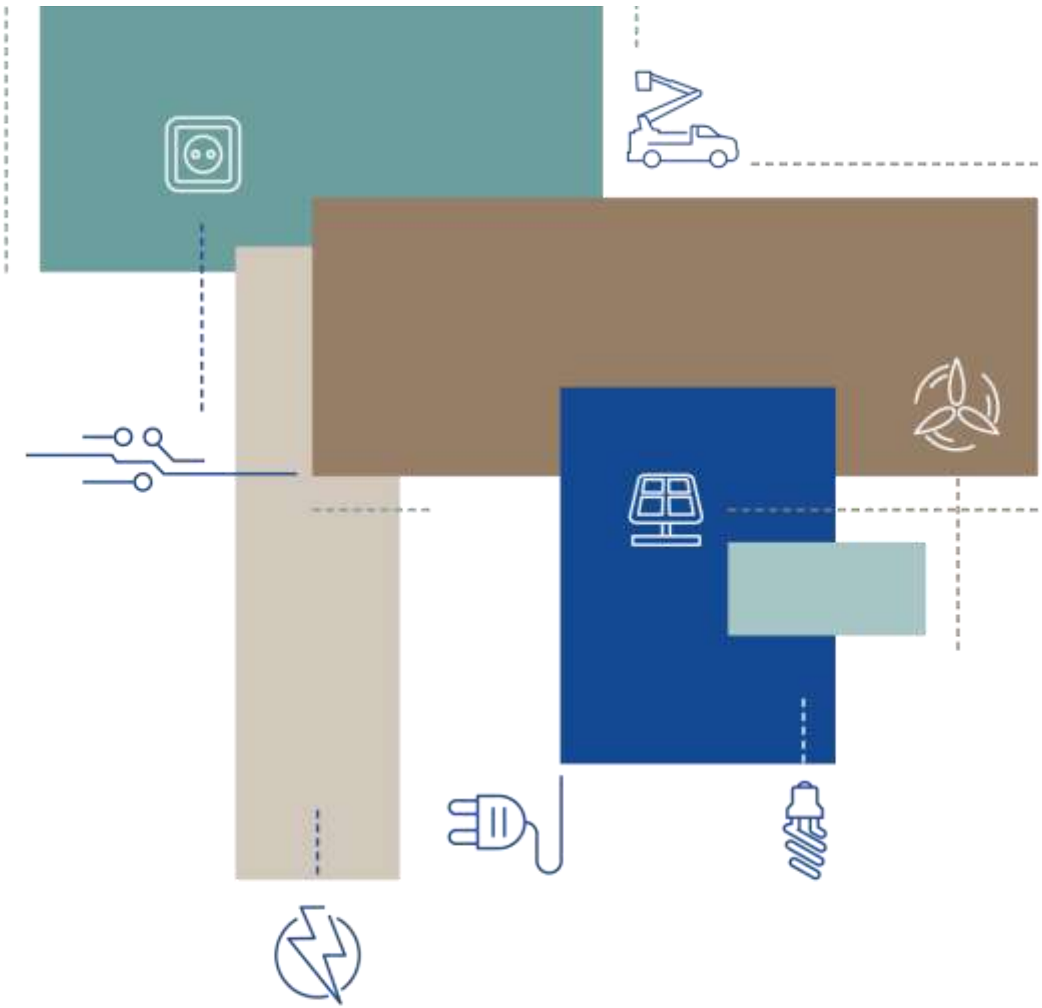
This presentation does not constitute or form part of and should not be construed as, an offer to sell, or the solicitation or invitation of any offer to buy or subscribe for or underwrite or otherwise acquire, securities of Eskom Holdings SOC Ltd (Eskom), any holding company or any of its subsidiaries in any jurisdiction or any other person, nor an inducement to enter into any investment activity. No part of this presentation, nor the fact of its distribution, should form the basis of, or be relied on in connection with, any contract or commitment or investment decision whatsoever. This presentation does not constitute a recommendation regarding any securities of Eskom or any other person.

Certain statements in this presentation regarding Eskom's business operations may constitute "forward looking statements". All statements other than statements of historical fact included in this presentation, including, without limitation, those regarding the financial position, business strategy, management plans and objectives for future operations of Eskom are forward looking statements.

Forward-looking statements are not intended to be a guarantee of future results, but instead constitute Eskom's current expectations based on reasonable assumptions. Forecasted financial information is based on certain material assumptions. These assumptions include, but are not limited to continued normal levels of operating performance and electricity demand in the Customer Services, Distribution and Transmission divisions and operational performance in the Generation and Primary Energy divisions consistent with historical levels, and incremental capacity additions through the Group Capital division at investment levels and rates of return consistent with prior experience, as well as achievements of planned productivity improvements throughout the business activities.

Actual results could differ materially from those projected in any forward-looking statements due to risks, uncertainties and other factors. Eskom neither intends to nor assumes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

In preparation of this document certain publicly available data was used. While the sources used are generally regarded as reliable the content has not been verified. Eskom does not accept any responsibility for using any such information.



The reviewed condensed group interim financial statements and this presentation are available at **www.eskom.co.za/IR2018/interim**