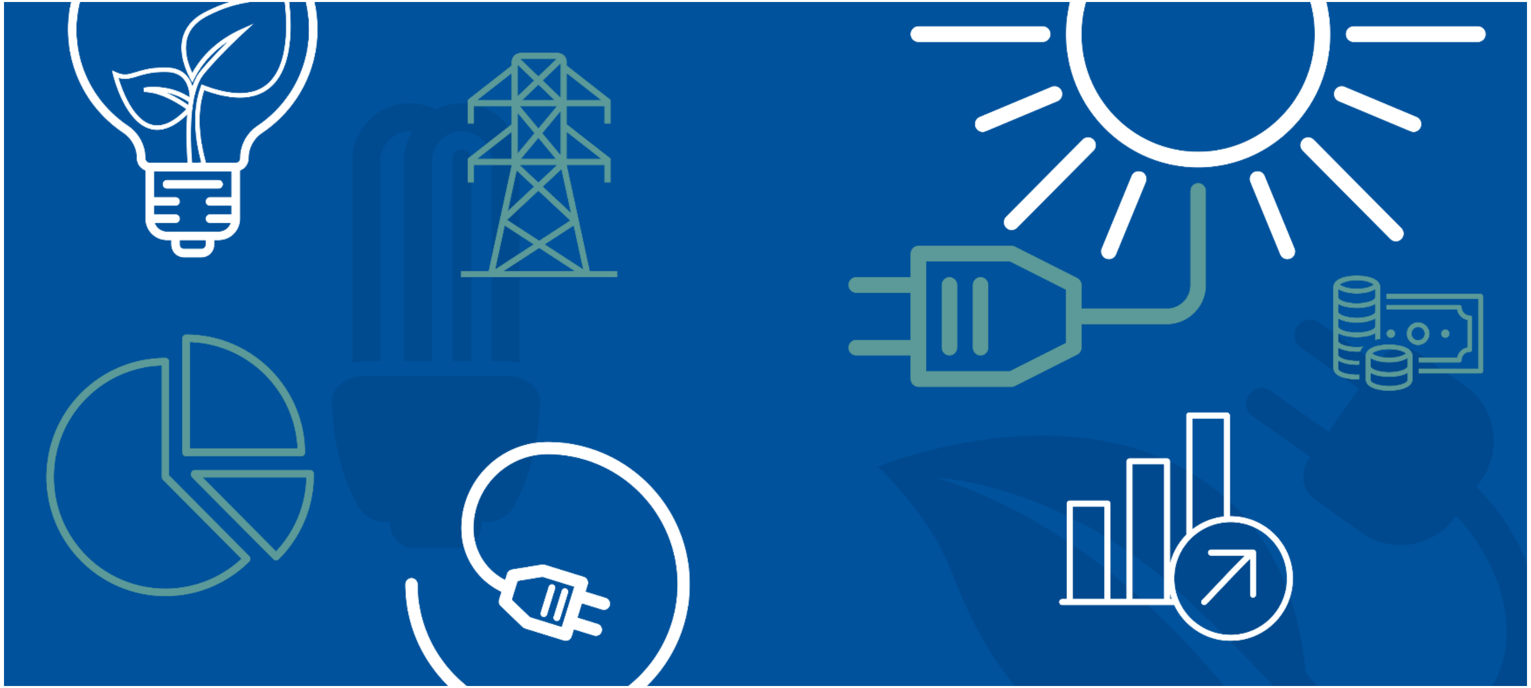
Eskom group interim results

for the six months ended 30 September 2020



14 December 2020

The results presentation is available at **www.eskom.co.za/IR2020/interim**

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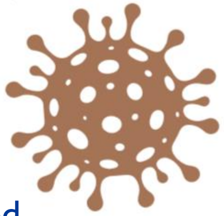
Overview of half-year performance

COVID-19 has had a substantial impact, which will continue



- As an essential service, Eskom was allowed to continue operating at full capacity even during level 5 of the national lockdown, with coal mines being allowed to operate to supply power stations
- Priority was the supply of electricity as an essential service, and maintaining the safety of people
- Non-essential staff have worked at home, with some staff returning to work as restrictions were lifted
- Nevertheless, delays were experienced in executing capital and major maintenance projects due to lockdown restrictions on the movement of people
- The most significant impact came from the reduction in demand during the earlier levels of lockdown
  - ❖ Sales volumes of 93TW year-to-date is 10.3% lower compared to prior period, with industrial sales volumes down 17.6%. Overall, sales volumes for 2021 are expected at 190TWh, almost 8% lower than 2020
  - ❖ Average demand was down 5 680MW during lockdown level 5, by 3 300MW during level 4, by 1 360MW during level 3, by 365MW during level 2, and 959MW in level 1, with many areas not returning to full production
  - ❖ Loadshedding was implemented on 19 days (July to September) due to high levels of breakdowns mainly during periods of particularly cold weather
  - ❖ Tragically, we have lost 34 employees and three contractors to the disease at 9 December 2020

Financial results for the period remain challenging…

- Revenue of R108.7 billion (Sep 2019: R107.5 billion) despite a 8.76% tariff increase, with sales volumes 10.3% lower due to the impact of COVID-19 on economic activity and electricity demand
- Growth in primary energy costs was stable at 4.4% – average purchase cost per ton of coal increased by only 4.6% (Sep 2019: 14.2%), offset by an increase in the use of diesel to minimise loadshedding
- Employee benefit costs contained at R16.7 billion (Sep 2019: R16.4 billion, restated) through headcount reduction (including VSPs at managerial level) and managerial salary increases limited to 2.8% in October 2019
- EBITDA improved to R28.1 billion at an EBITDA margin of 25.82% (Sep 2019: R26.4 billion & 24.58%, restated)
- Operating profit (EBIT) of R14.3 billion (Sep 2019: R13 billion, restated) under challenging conditions
- Net finance cost of R15.3 billion due to the unsustainable debt burden, resulting in a net profit of R83 million
- Government support of R6 billion received year-to-date to cover debt servicing and thereby support liquidity, with R56 billion committed for the 2021 financial year
- Secured gross funding of R19.6 billion to September 2020, mainly from DFIs and local bond issuances

…although focus on priority areas is delivering results

Operations recovery	Improve income statement	Improve balance sheet	Business separation	People and culture
Improve reliability, reduce loadshedding, refurbish networks and address design defects	Achieve revenue certainty, cost optimisation and efficiency	Strengthen the balance sheet through liquidity initiatives	Divisionalise and ultimately form three legal wholly owned subsidiaries of Eskom	Ensure that the business is sufficiently enabled and supported to transform

Operational performance and outlook

Operational performance is steadily improving

- Plant availability at 67.86% for the period (Sep 2019: 69.91%), but up from 66.64% at March 2020
- Loadshedding implemented on 19 days during the period, compared to 46 days in the 2020 financial year
- Planned maintenance has increased to 9.96% (Sep 2019: 8.86%) and unplanned maintenance reduced to 18.59% (Sep 2019: 19.81%), both also showing improvement since March 2020
- Current planned maintenance at about 15% with 11 units ≈ two entire power stations under maintenance
- Normalised coal stock up to 58 days (Sep 2019: 54 days), with 65 days expected by 2021 year end
- Total of R2.7 billion spent during the period on Eskom and IPP diesel-generated power during the period, with forecast cost for the full year 30% lower than prior year
- Transmission network performance has returned to expected levels, Distribution performance remains stable
- More assertive approach to distribution energy loss prevention and debt collection is delivering results
- Kusile Unit 2 achieved commercial operation on 29 October 2020, with Unit 3 on track for commercial operation by March 2021 and Medupi Unit 1 by July 2021
- Medupi design modifications successfully implemented on four units to date, with the fifth unit in progress
- Particulate emissions performance has improved significantly, with water usage levels remaining stable

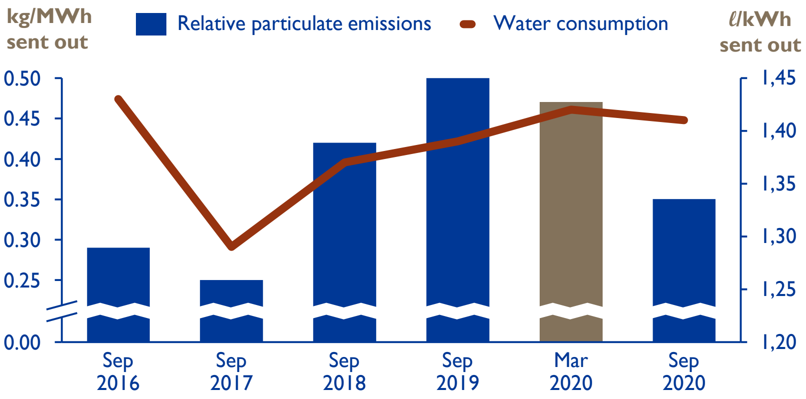
Koeberg overview

- Eskom and South Africa has a proven track record and infrastructure to run nuclear power plants, with Koeberg being in operation since 1984. During this time, Koeberg continued to operate safely
- Both Koeberg units are running at full power, with the second unit recently having safely returned from its 24^{th} refuelling outage
- Koeberg remains an extremely reliable generating option with the lowest primary energy costs
  - ❖ Eskom proposes extending the life of Koeberg for an additional 20 years to 2045, in line with the IRP 2019 expectations for energy security beyond 2024
  - ❖ The extension of Koeberg is economically viable (compared to the cost of new build) and will secure 1 860MW for another 20 years
  - ❖ It includes the replacement of Koeberg's six steam generators. The first three steam generators were delivered to site from September 2020

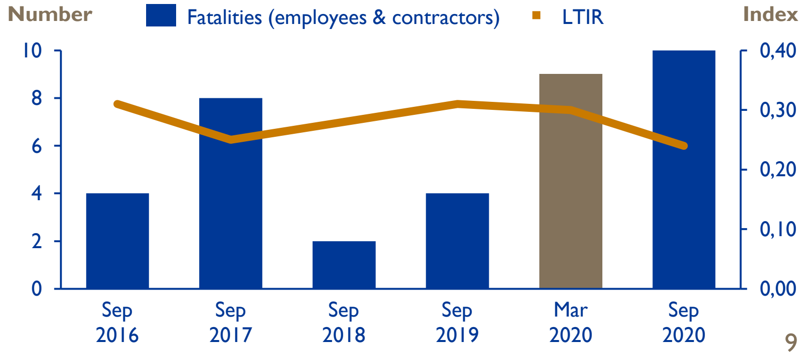
Environmental performance declines, with stable socio-economic and safety performance

- Particulate emission performance has improved to 0.35kg/MWhSO (Sep 2019: 0.50kg/MWhSO), with water consumption stable at 1.41ℓ/kWhSO (Sep 2019: 1.39ℓ/kWhSO)
- Cooperating with authorities on criminal charges at Kendal, with disciplinary action being instituted
- 63 909 new households connected (Sep 2019: 77 679), with lockdown restrictions causing delays
- Lost-time injury rate improved to 0.24 (Sep 2019: 0.31)
- Sadly, two employee and eight contractor fatalities recorded during the period (Sep 2019: four contractors). These fatalities were not due to COVID-19, but related to operations
- Preferential procurement spend improved slightly to 64.62% (Sep 2019: 60.94%)
- Racial equity has improved substantially compared to prior period, while gender equity remained stable. Disability equity deteriorated slightly against the prior period

Environmental performance

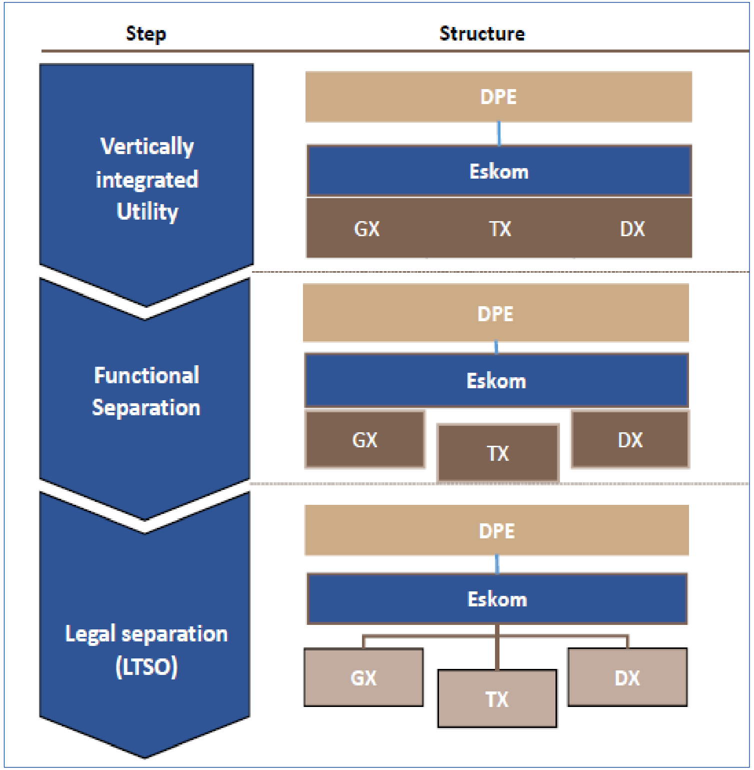


Safety performance



Business separation overview

- DPE's "*Roadmap for the Reform of Eskom in a Changing Energy Supply Industry*" has set timelines for the restructuring of Eskom from a vertically integrated utility to an unbundled state with three wholly owned separate legal entities in the form of Transmission, Generation and Distribution as follows:
  - Divisionalisation by March 2020, and functional separation by March 2021
  - Legal separation of the Transmission entity by December 2021
  - Legal separation of the Generation and Distribution entities by December 2022
- Divisionalisation was completed by March 2020 as a first step towards business separation, with functional separation to be completed by March 2021
- Separate Transmission subsidiary is still targeted by December 2021, with Generation and Distribution by December 2022



Several divisionalisation milestones have been achieved

Launch the three separated divisions ✓

- Divisional boards and MDs in place
- About 9 400 staff relinked to divisions
- System-driven income statements, balance sheet and cash flow statements in place
- Cost centres and profit centres allocated
- High-level business models designed

Design the operating model ✓

- Design "functional leader" model
- Roles and accountabilities finalised
- Divisional organisational structures approved

Set out the trading model ✓

- Transfer pricing implemented
- Allocation of costs, assets and products
- Internal power purchase and electricity supply agreements in place
- Internal trading processes and governance structures in place

What will be done between now and March 2021 – to achieve functional separation

- Divisional business models finalised
- Governance structures in place
- Core processes and interfaces defined

- Engagements with organised labour
- Communication and change management
- Implement final organisational structures

- Conclude on transfer pricing principles
- Allocation of costs, assets and products
- Finalise internal power purchase and electricity supply agreements

Separation of the Transmission entity

- The establishment of the Transmission entity is regarded as a key step in delivering on the mandate of the DPE Roadmap
- All key milestones for functional business separation have been achieved, except for the organisational structure. At its November 2020 meeting, the Transmission divisional board discussed and referred the structure to the next meeting for final adoption
- PFMA application for the establishment of the Transmission entity was submitted to DPE and National Treasury in November 2020. We received Government’s response in December
- Principles for Distribution-Transmission asset demarcation were defined and agreed upon. Sign-off of the asset demarcation principles and the identified assets for transfer is in progress
- The process of legal separation has many internal and external dependencies. These areas include licence transfers and applications, policy and regulatory reforms, as well as legal and financial dependencies
- The operationalisation of the Transmission entity will culminate in the transfer of assets, secondment of staff and transfer of contracts

Financial performance and outlook

Continuing to drive Eskom's financial turnaround

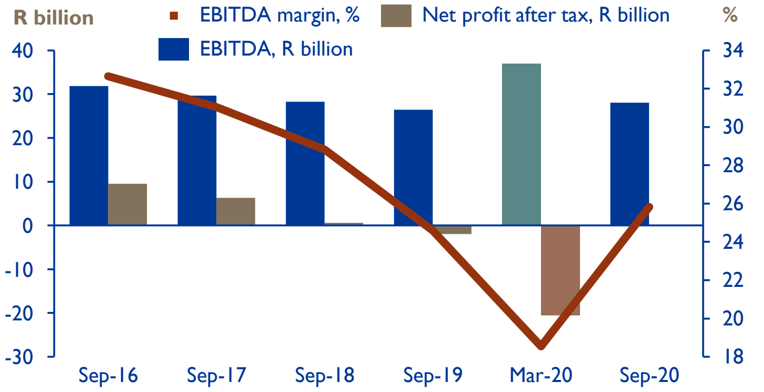
- We continue to drive the turnaround strategy to improve the income statement and optimise the balance sheet:
  - ❖ Pursuing revenue certainty from sales growth opportunities and migration towards cost-reflective tariffs
  - ❖ Delivering sustainable cost optimisation and efficiencies in operational and capital costs
  - ❖ Reducing our reliance on debt and containing debt service costs with the assistance of Government
  - ❖ Pursuing all available avenues to recover amounts due to Eskom
- COVID-19 has hindered progress in some of these areas through an unprecedented decline in sales due to national lockdowns and the global economic recession
- Since March, both the Sovereign and Eskom's credit ratings have been downgraded twice by Moody's and Fitch
- Municipal arrear debt continues to grow, now standing at R32.9 billion. Non-technical losses, such as electricity and equipment theft, are more pervasive amidst the recession, further threatening liquidity through lower revenue
- RCA applications and court interventions are under way to address the tariff. We await determinations on timing of recovery from favourable court judgments and the outcome of NERSA's appeal on the R69 billion for MYPD 4
- It should be noted that financial performance in the first half of the year is historically better than the second half, as the winter period is subject to higher tariffs and sales, together with lower primary energy and maintenance

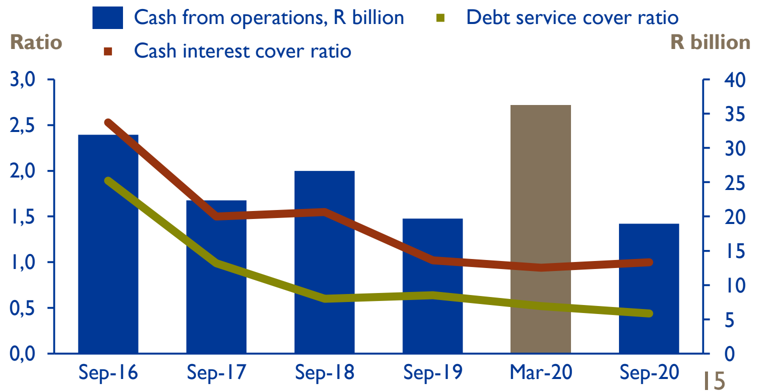
Most indicators improved slightly despite very challenging conditions, yet remain well below acceptable levels

Ratio	Unaudited Sept 2020		Restated [1] Sept 2019
Revenue, R million	**108 723**	●	107 502
EBITDA, R million	**28 075**	●	26 428
Operating profit (EBIT), R million	**14 254**	●	12 953
Net profit/(loss) after tax, R million	**83**	●	(1 930)
EBITDA margin, %	**25.82**	●	24.58
Cash interest cover, ratio	**1.00**	■	1.02
Debt service cover, ratio	**0.44**	■	0.64
Gross debt/EBITDA, ratio	**18.34**	●	19.22
Debt/equity (including long-term provisions), ratio	**2.53**	●	2.94
Gearing, %	**72**	●	75
Free funds from operations (FFO) as % of gross debt	**6.25**	●	6.07

● Performance improved ■ Performance declined

1. Restatements are disclosed in note 17 of the interim financial statements





COVID-19 was detrimental to revenue and earnings, but small profit achieved through improved cost control

Income statement R million	Unaudited Sept 2020	Restated [1] Sept 2019	YoY % change
Revenue	**108 723**	107 502	1
Other income	**637**	677	
Primary energy	**(54 318)**	(52 018)	(4)
Net employee benefit expenses	**(16 676)**	(16 448)	(1)
Net impairment reversal/(loss)	**102**	(954)	
Other expenses	**(10 393)**	(12 331)	16
EBITDA (before net fair value loss)	**28 075**	26 428	6
Depreciation and amortisation expenses	**(13 821)**	(13 475)	(3)
Operating profit (EBIT)	**14 254**	12 953	10
Net fair value gain/(loss) on financial instruments and embedded derivatives	**1 145**	(480)	
Net finance cost	**(15 332)**	(15 025)	(2)
Share of profit of equity-accounted investees	**47**	40	
Profit/(loss) before tax	**114**	(2 512)	
Income tax (expense)/credit	**(31)**	582	
Net profit/(loss) for the period	**83**	(1 930)	

- **Revenue:** 8.76% tariff increase, nearly fully eroded by unprecedented decline in electricity demand from COVID-19
- **Primary energy cost:** Eskom production declined substantially to meet lower demand, however, higher OCGT utilisation, IPP production and imports. Increase in average coal purchase cost per ton limited to only 4.6% since March 2020 (Sep 2019: 14.2%)
- **Employee benefit cost:** headcount reduction through attrition and limits on managerial increases, offset by three-year wage settlement agreement
- **Other expenses:** well contained through cost curtailment efforts; restatement of R4 billion in 2019 relating to Kusile
- **Finance costs:** higher indebtedness, coupled with lower capitalisation of interest

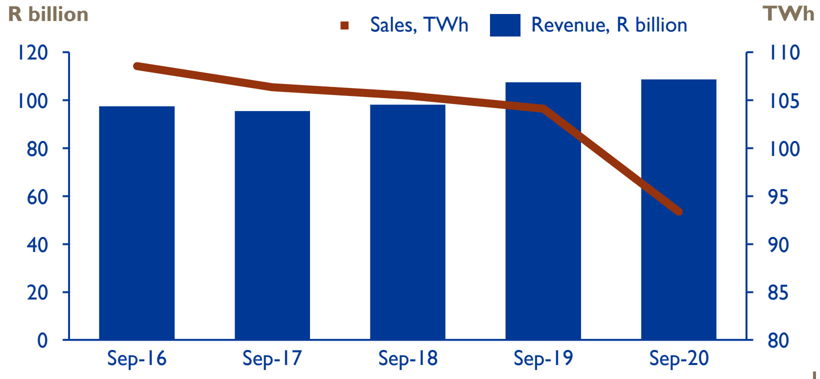
1. Restatements are disclosed in note 17 of the interim financial statements

Unprecedented decline in sales of 10.7TWh year-on-year, electricity revenue stagnant despite 8.76% tariff increase

	Sept 2020	Sept 2019	YoY % change
Revenue, R million			
Local	108 923	108 568	–
International	5 163	6 151	(16)
Gross electricity revenue	**114 086**	**114 719**	**(1)**
Net revenue not recognised (IFRS 15)	(4 639)	(4 145)	(12)
Total electricity revenue	**109 447**	110 574	(1)
Other revenue	649	1 134	(43)
Capitalised	(1 373)	(4 206)	67
Total revenue	**108 723**	107 502	1
Sales, GWh			
Local	**86 903**	96 640	(10.1)
International	**6 485**	7 476	(13.3)
Total sales	**93 388**	104 116	(10.3)

- Reduction in sales across all customer categories, with the industrial sector most affected by a 17.6% decline due to the economic downturn and depressed commodity prices
- IFRS 15 applies the cash basis for defaulting customers, negatively impacting revenue due to greater socio-economic challenges brought about by COVID-19
- Less capitalisation of revenue from units in pre-commissioning phase due to lower production

Sales and revenue



Energy produced reduced by 9TWh to meet lower demand, overall cost increased through more expensive sources

	Sept 2020			Sept 2019			
	Cost, R million	Sent out, GWh	Unit cost, R/MWh	Cost, R million	Sent out, GWh	Unit cost, R/MWh	R/MWh YoY % change
Coal and other [1]	**36 227**	94 047	385	36 026	98 037	367	(5)
Nuclear	**461**	4 374	105	732	7 564	97	(9)
OCGTs [2]	**1 391**	496	2 811	1 100	331	3 327	15
Eskom generation [3]	**38 079**	98 917	385	37 858	105 932	357	(8)
Renewable IPPs	**12 456**	5 551	2 244	11 241	5 220	2 153	(4)
IPP OCGTs [4]	**1 259**	291	3 648	926	169	4 389	17
Total IPPs [3]	**13 715**	5 842	2 314	12 167	5 389	2 223	(4)
Imports [3]	**2 524**	4 474	564	1 993	3 703	538	(5)
Primary energy	**54 318**	109 233	497	52 018	115 024	452	(10)

Performance improved Performance declined

1. Excluding Medupi and Kusile pre-commissioning production of 1 845GWh (Sept 2019: 5 099GWh)
2. OCGT cost comprises fuel, start-up cost and storage and demurrage charges
3. Note that the unit cost of IPPs and international purchases is based on the full cost of operation, whereas the unit cost of Eskom-owned generation is based only on the primary energy cost. Given that IPP and international purchases are treated as a variable cost in Eskom's accounts, this treatment is considered appropriate
4. The IPP OCGT unit cost is calculated on fuel cost (variable cost) only, and excludes maintenance and capacity charges. Maintenance is included in the total cost shown

Balance sheet stabilised through Government support

Financial position, R million	Unaudited Sept 2020	Audited March 2020	Restated [1] Sept 2019	YoY % change
Property, plant and equipment and intangible assets [2]	**659 959**	657 189	654 457	1
Working capital – inventory and current receivables	**66 352**	57 563	59 435	12
Liquid assets – cash and cash equivalents and investments	**24 929**	34 971	19 010	31
Derivatives held for risk management	**36 856**	57 636	28 104	31
Other assets [3]	**16 149**	15 580	16 322	(1)
Total assets	**804 245**	822 939	777 328	3
Equity [4]	**186 870**	185 863	162 419	15
Debt securities and borrowings	**463 703**	483 682	454 207	2
Working capital – current payables	**51 530**	54 904	48 670	6
Derivatives held for risk management	**5 475**	2 941	5 773	(5)
Other liabilities [5]	**96 667**	95 549	106 259	(9)
Total equity and liabilities	**804 245**	822 939	777 328	3

1. Restatements are disclosed in note 17 of the interim financial statements
2. Includes Eskom group funded capital expenditure of R10.8 billion (Sep 2019: R10.4 billion; Sep 2018: R16.2 billion), which has been contained in recent years to improve liquidity
3. Mainly comprises assets held for sale and future fuel
4. Includes Government support of R6 billion received out of R56 billon committed for the year (Sep 2019: R13.5 billion received; Mar 2020: R49 billion received)
5. Mainly comprises non-current provisions, employee benefit obligations, contract liabilities and lease liabilities

Reliance on debt remains unsustainable, with gross finance costs the second largest cost after primary energy

Group debt overview, R million	Unaudited Sept 2020	Restated [1] Sept 2019	YoY % change
Debt securities and borrowings	**463 703**	454 207	2
Net market making liabilities	**20**	19	5
Cash and cash equivalents [2]	**(11 774)**	(7 814)	51
Net derivatives held for risk management [2]	**(31 381)**	(22 331)	41
Net interest-bearing debt	**420 568**	424 081	(1)

Group finance cost overview, R million			
Gross finance cost	**23 159**	24 451	5
Finance income	**(1 091)**	(1 258)	(13)
Borrowings capitalised to assets	**(6 736)**	(8 168)	(18)
Net finance cost	**15 332**	15 025	2

- Debt of R13 billion raised during the period, offset by debt repayments of R24 billion (excluding commercial paper)
- Growth in debt securities and borrowings is largely attributable to foreign denominated borrowings and movement in the exchange rate
- Average cost of debt increased to 9.89% (Sep 2019: 9.58%)
- Despite COVID-19's greater economic uncertainty, the impact of interest rate and currency risk on our existing debt has been limited due to comprehensive hedging of market exposures

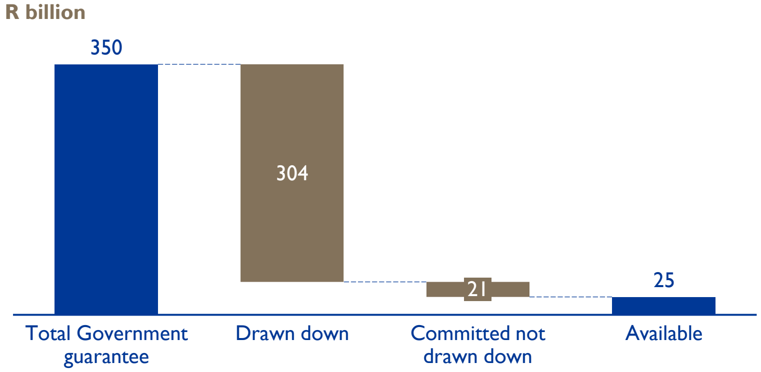
1. Restatements are disclosed in note 17 of the interim financial statements
2. In the table above, assets are reflected as negative amounts

Secured 64% of planned and 48% of anticipated funding for the year, by 30 September 2020

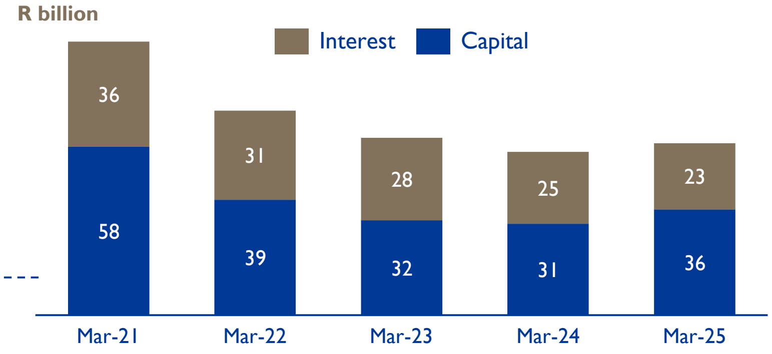
R billion	Funding plan 2021 [1]	Committed and signed 2021
DFIs	12.4	11.7
ECAs	0.6	0.6
International bonds	–	–
Domestic bonds and notes >1 year	5.1	5.1
Domestic bonds and notes ≤1 year	2.9	1.2
Structured products	8.2	–
Bank funding	1.5	1.0
Funding	**30.8**	**19.6**
Additional anticipated funding	9.9	–
Total anticipated funding [2]	**40.7**	**19.6**
% secured		**48%**

Debt servicing costs of R94 billion for 2021, reducing to R70 billion in 2022, and averaging around R60 billion per year to 2025

Guarantee utilisation allocation at 30 September 2020



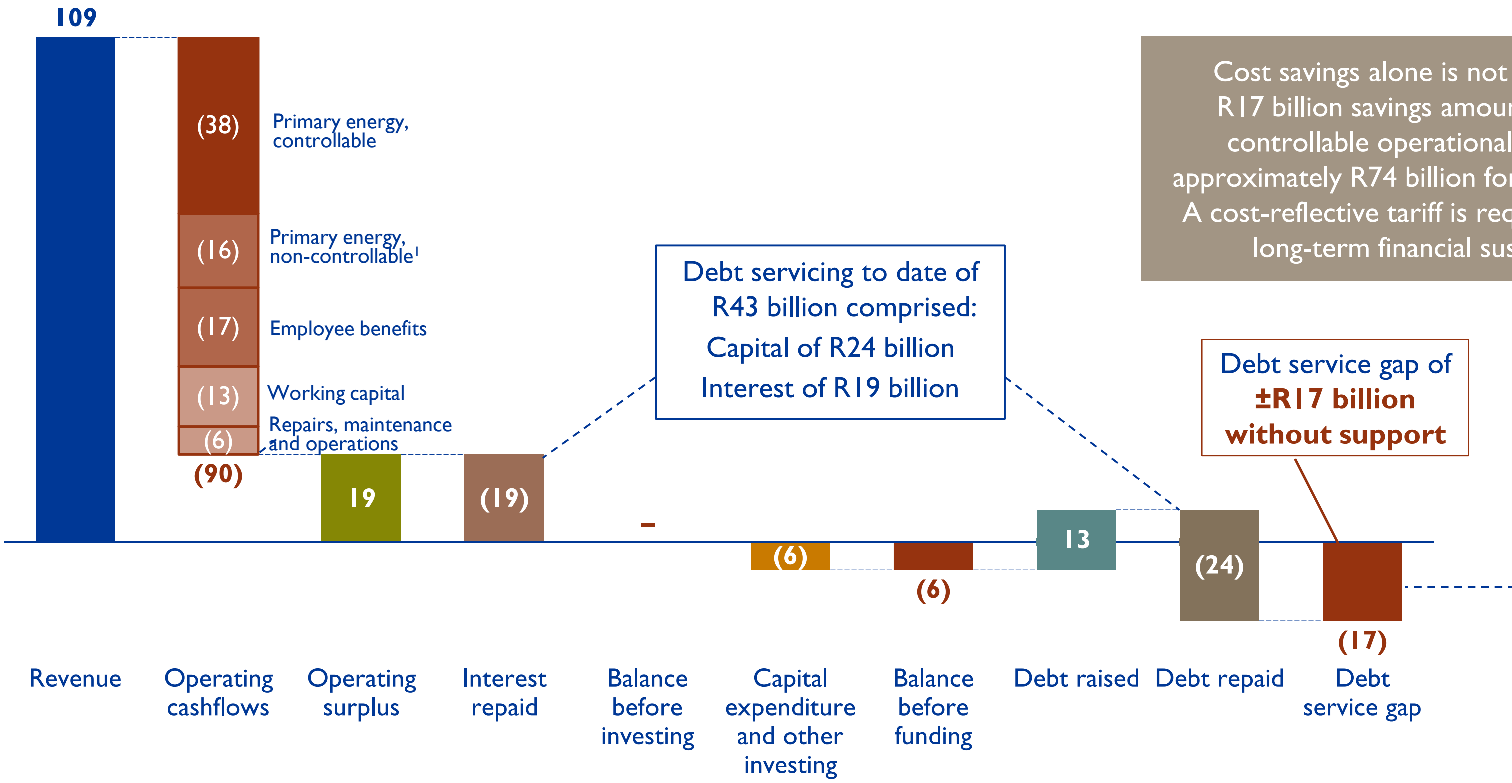
Debt maturity profile at 30 September 2020 [3]



1. Funding sources targeted for 2021 are subject to change depending on requirements 2. Gross of commercial paper 3. Based on existing debt only, using forward rates and net of swaps

Without Government support, cash from operations remains insufficient to meet debt servicing

Cash flows for the six months ended 30 September 2020, R billion



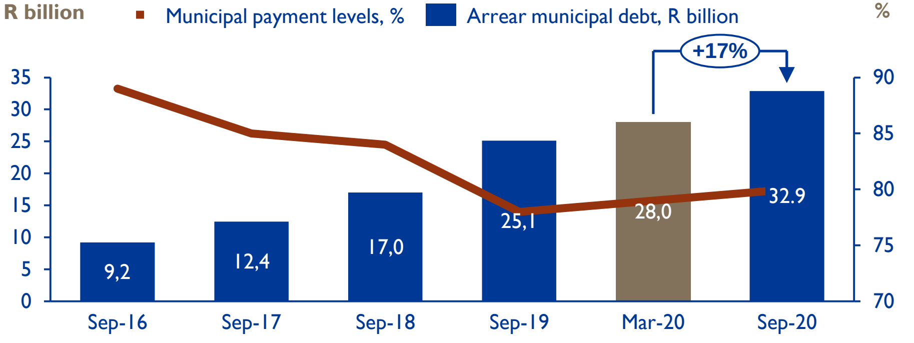
Cost savings alone is not the answer – R17 billion savings amounts to 23% of controllable operational outflows of approximately R74 billion for the six months. A cost-reflective tariff is required to ensure long-term financial sustainability

Government support of R6 billion was received to date, to alleviate some of the cash flow pressure

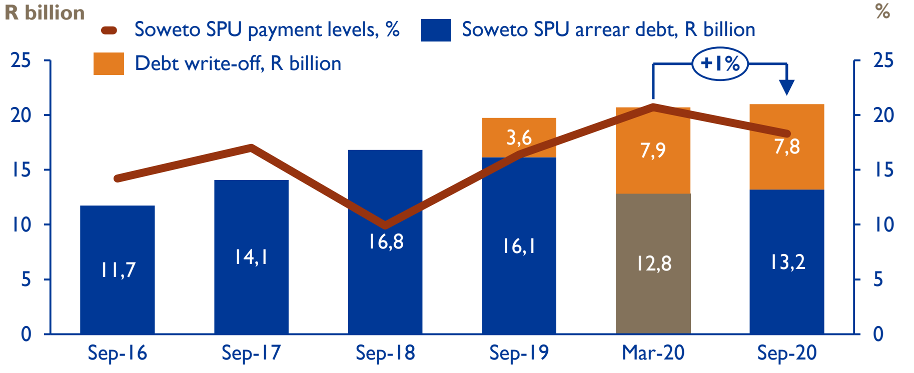
1. Non-controllable primary energy includes renewable IPP costs and environmental levies

Arrear municipal debt continues to escalate, adding to liquidity pressure

Invoiced municipal arrear debt



Soweto small power user (SPU) debt

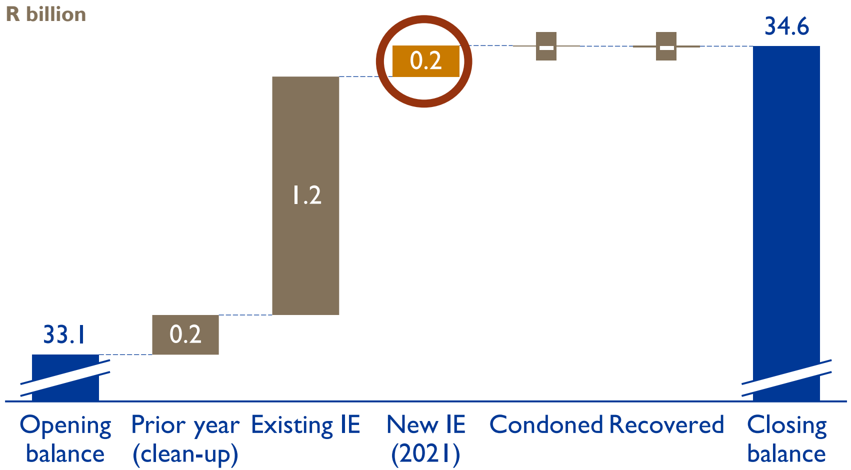


1. Soweto debt prior to 2019 includes *in duplum* components that were not written off at the time

- Invoiced municipal arrear debt (including interest) grew by R4.9 billion since March 2020, to R32.9 billion
- Payment level of 80% by municipalities (excluding metros), with slight improvement year-on-year (Sep 2019: 79%)
- Payment level of 49% for top 20 defaulting municipalities, with some progress achieved from our municipal debt management strategy, as well as ring-fencing of arrear accounts, leading to lower interest charges
- We continue to collaborate with the Eskom Political Task Team and Multi-disciplinary Revenue Committee to address municipal debt challenges. A structural solution is required, along with continued oversight by Government
- Invoiced Soweto SPU arrear debt (including interest) decreased to R13.2 billion (Sep 2019: R16.1 billion), due to write-off of *in duplum* components
- Only two large customers, with combined debt of R0.7 billion, owe amounts in excess of R100 million

Process to manage irregular, fruitless and wasteful expenses improved, more initiatives under way

Movement in irregular expenditure at 30 September 2020



New irregular expenditure	Number	R million
Tender process and DoA	6	156
Other	1	–
Total	**7**	**156**

- Slow progress on condonation of irregular expenditure. Until condoned, expenditure on affected contracts will remain irregular
- National Treasury has established a standing committee with DPE to expedite the condonation of historical items, which account for most of the reported irregular expenditure
- The new Loss Control Department will address PFMA violations and oversight of consequence management, including disciplinary actions, condonations and recovery of losses
- A procurement roadmap is being implemented to enhance internal procurement processes as well as contract management to address audit findings and support operations

Performance in the second half historically erodes profit achieved during the first half due to seasonality

Financial outlook	Actual Sept 2020		Projection March 2021		Actual March 2020
Revenue, R million	108 723		**201 574**	●	199 468
EBITDA, R million	28 075	↘	**27 709**	■	36 998
Operating profit/(loss) (EBIT), R million	14 254	↘	**(648)**	■	9 219
Net profit/(loss) after tax, R million	83	↘	**(22 055)**	■	(20 502)
EBITDA margin, %	25.82	↘	**13.75**	■	18.55
Cash interest cover, ratio	1.00	↘	**0.52**	■	0.94
Debt service cover, ratio	0.44	↘	**0.18**	■	0.52
Gross debt/EBITDA, ratio	18.34	↗	**18.18**	■	14.39
Debt/equity (including long-term provisions), ratio	2.53	↗	**2.18**	●	2.45
Free funds from operations (FFO) as % of gross debt	6.25	↗	**6.51**	■	7.26

Without Government support, cash from operations remains insufficient to service debt. However, some solvency ratios are expected to improve by year end mainly due to the Government support

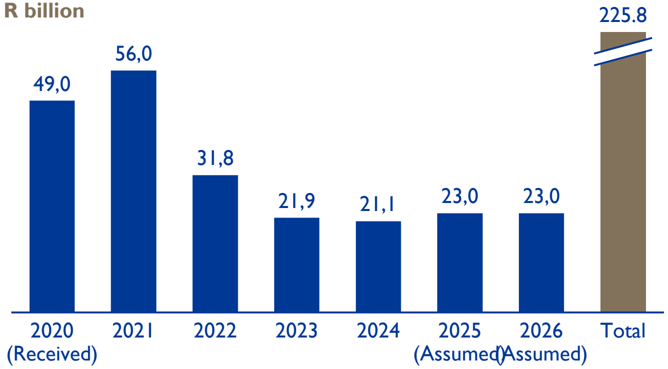
- A loss after tax is anticipated for the full year which will be worse than 2020 due to COVID-19. We project to perform better than budget due to green shoots from our turnaround strategy
- Savings of R14.1 billion targeted for the year, with R5.2 billion already achieved
- Demand is unlikely to recover to pre-COVID-19 levels due to the economic recession. Sales are expected to be 15.7TWh lower than prior year and likely to stagnate at 190TWh for the next few years
- We are working with Government to explore avenues to stimulate sales for the benefit of the economy

● Performance improved ■ Performance declined
↗ Positive trend forecast ↘ Negative trend forecast

A structural solution is required to ensure financial sustainability

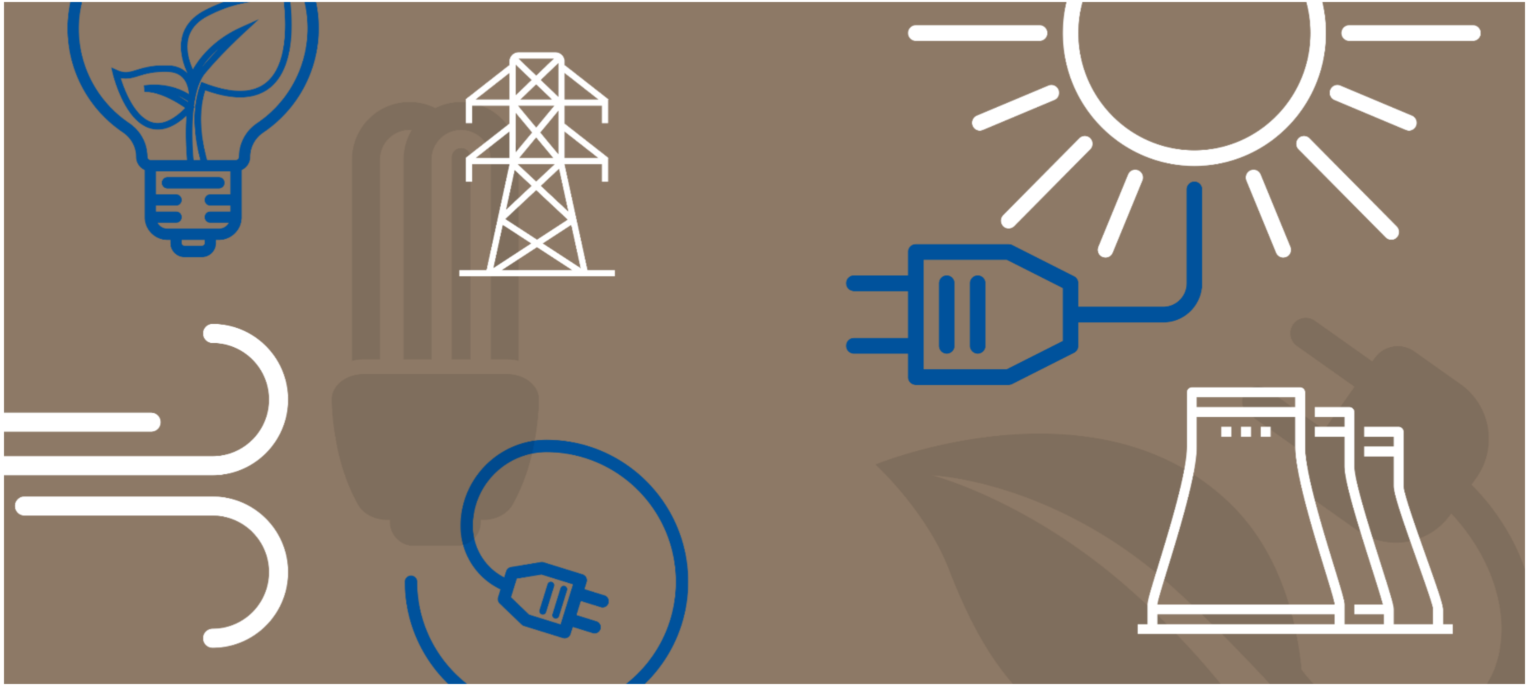
- In the 2020 Medium-Term Budget Policy Statement, Government reaffirmed its commitment to stabilising Eskom's balance sheet, with financial support of R225.8 billion up to the 2026 financial year, at a cost that the country simply cannot afford
- Government support does not lead to an improvement in our income statement nor an immediate reduction in debt. It is mostly used to settle interest obligations with little remaining to settle the debt principal
- Using current tariffs, the separated Generation, Transmission and Distribution entities will be in a similar loss-making position

Government financial support



R million	Generation Projection March 2021	Transmission Projection March 2021	Distribution Projection March 2021
External revenue	–	9 188	196 012
Net transfer pricing adjustment	133 174	37 870	(174 434)
Allocated revenue	133 174	47 058	21 578
EBITDA	19 474	5 649	(1 008)
Operating (loss)/profit (EBIT)	(1 007)	2 582	(5 003)
Net loss before tax	**(24 652)**	**(2 861)**	**(6 833)**

The price of electricity in South Africa must migrate towards a cost-reflective tariff that covers prudent and efficient costs to ensure the long-term viability of the electricity supply industry and restore Eskom's independent financial sustainability



The results presentation is available at **www.eskom.co.za/IR2020/interim**