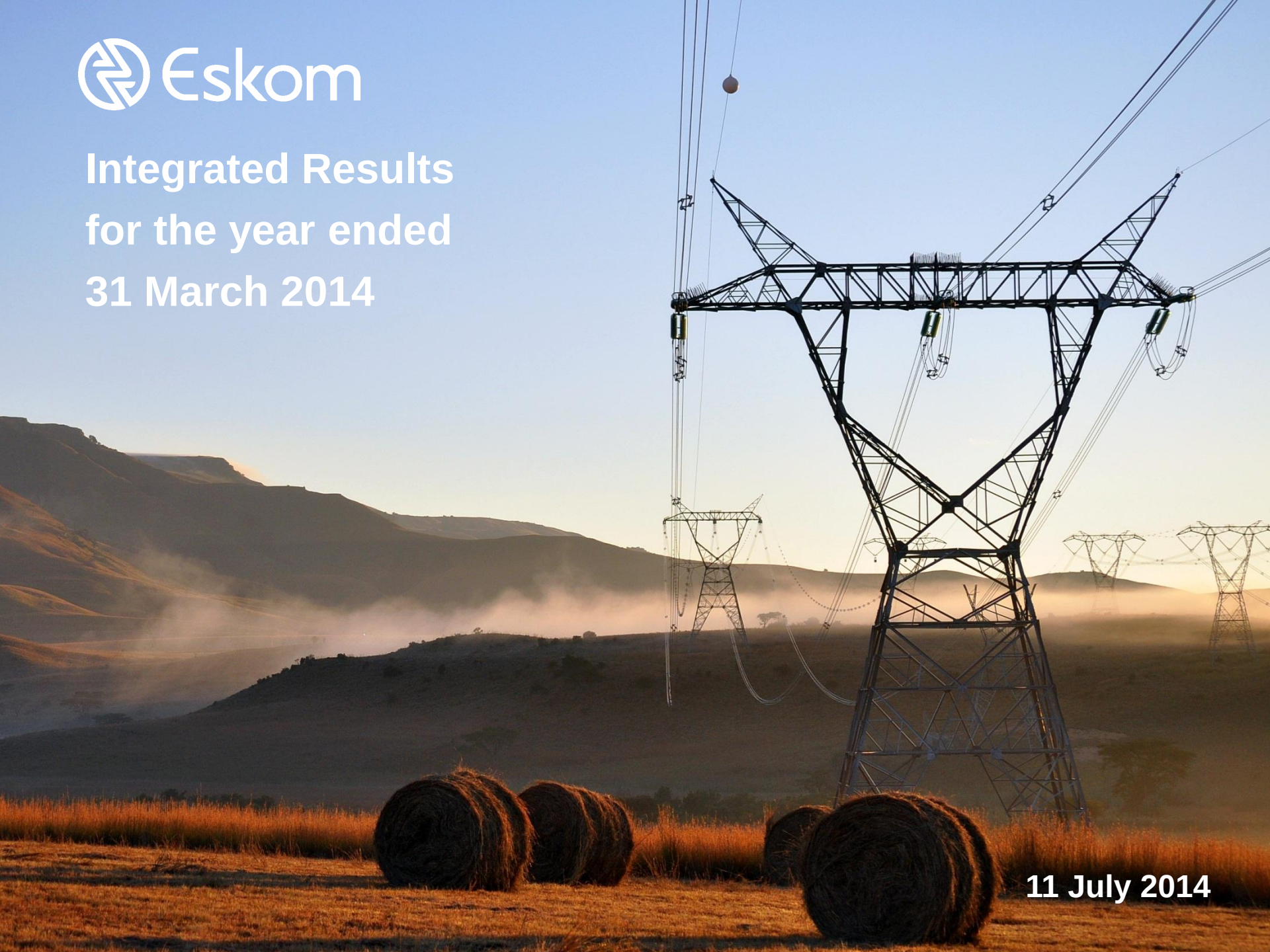

Integrated Results for the year ended 31 March 2014

11 July 2014

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Agenda and presenters

Executive summary	**Collin Matjila**
Performance on strategic objectives	**Collin Matjila**
Ensuring Eskom's financial sustainability	**Tsholofelo Molefe**
Concluding remarks	**Collin Matjila**

Executive summary and performance on strategic objectives

Collin Matjila
Interim chief executive

Context of Eskom's integrated results

	Current status	Mitigating action
Financial health	• Under pressure due to **MYPD3**[1] **low price increase**, a **flat demand** and **increasing operating costs** (OCGTs and cost of maintenance)	• Eskom has initiated the **business productivity programme** (BPP) • Eskom is **working closely with Government** to explore possible levers to close the funding gap
Safety	• Employee safety performance has shown a **positive trend** for 2013/14, however contractor and public fatalities are still a concern to Eskom	• Safety remains the foundation of Eskom's operations. Eskom is conducting investigations into safety incidents, and **lessons learnt will assist in mitigating future incidents**
Capacity expansion	• Eskom's new build projects have **experienced delays** due to quality issues	• **Contract placed with a second contractor** for the engineering and manufacturing of the boiler-protection systems
Keeping the lights on	• Eskom is **managing tight electricity supply to ensure that electricity demand is being met** in such a way that national power system integrity is protected	• Eskom is aware of its responsibility to meet electricity demand but **needs to do so within financial, operational and environmental constraints**

Highlights

- Eskom has produced fair results, **making a profit of R7 billion**, taking into account a R2 billion fair value profit on embedded derivatives[2]
- Eskom employee **LTIR target has been achieved**
- Eskom is **on track to achieve first synchronisation of Medupi Unit 6 by second half of 2014**, with full commercial operation expected six months thereafter

1 Multi-year price determination 3
2 Profit will be used to cover repayments of the substantial borrowing for the capacity expansion programme

Eskom's purpose, values and strategic objectives

Our purpose

To provide sustainable electricity solutions to grow the economy and improve the quality of life of people in South Africa and the region

Accomplish Eskom's purpose

Execute strategic pillars

- Leading and partnering to keep the lights on
- Reducing Eskom's environmental footprint and pursuing low-carbon growth
- Securing future resource requirements
- Implementing coal haulage and the road-to-rail migration plan
- Pursuing private-sector participation

Get foundation right, build capacity

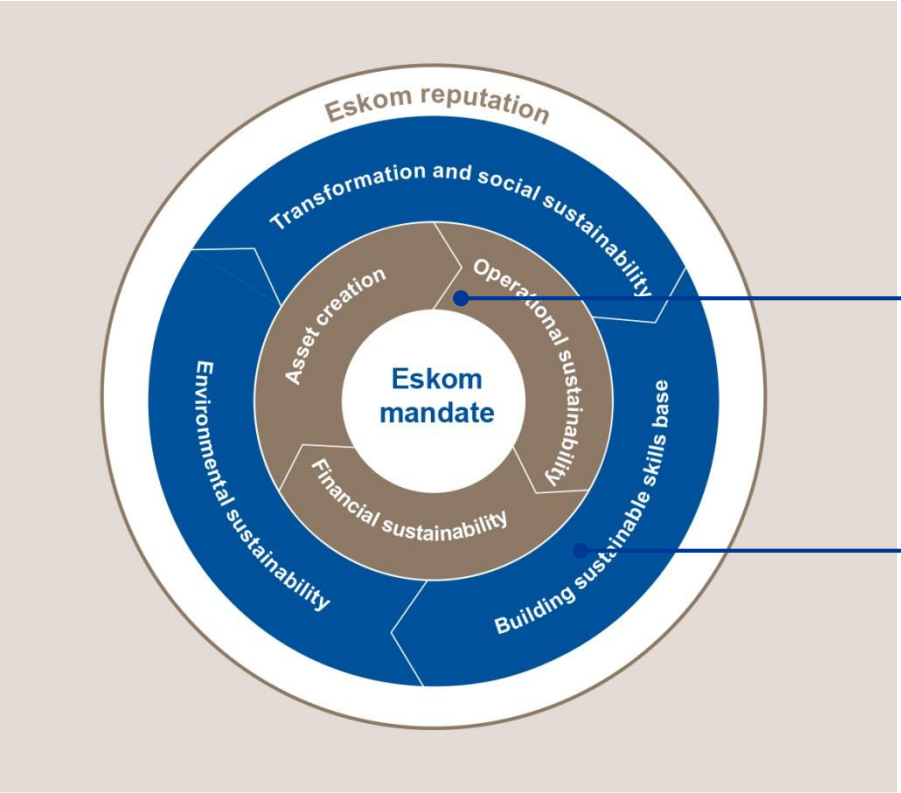
- Transformation (including the business productivity programme)
- Ensuring Eskom's financial sustainability
- Becoming a high-performance organisation

ZIISCE: Zero harm, Integrity, Innovation, Sinobuntu, Customer satisfaction, Excellence

Foundation: Long-term nation-building – Electricity for all – Triple bottom line

Eskom's seven sustainability dimensions

The changing environment requires a response that will ensure sustainability



Eskom's mandate is comprehensive, focused on many dimensions of sustainability

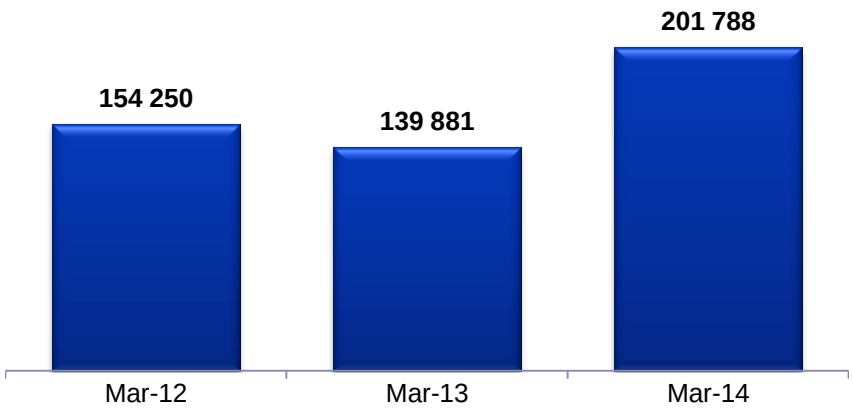
- **Core areas** revolve around the tension of asset creation, operational sustainability, and financial sustainability
- Beyond that**, Eskom also needs to ensure a positive wider impact** on the environment, contribution to strategic transformation and social sustainability objectives as well as the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

Safety will continue to be the foundation for all our operations and is key to Eskom's performance and sustainability

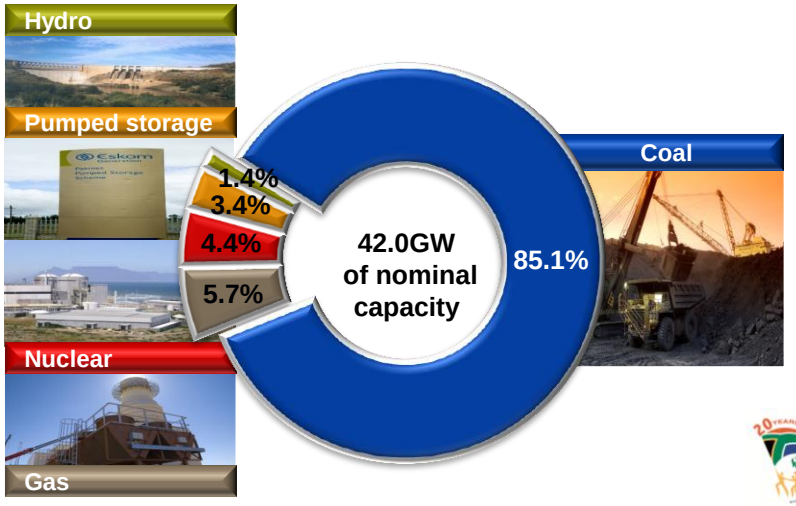
Eskom has the advantages and challenges of all large-scale enterprises

- Strategic 100% state-owned electricity utility, strongly supported by the government
- Supplies approximately 95% of South Africa's electricity
- Performed 201 788 household electrification connections during the year, the highest in a single year since 2002
- As at 31 March 2014:
  - 5.2 million customers (2013: 5.0 million)
  - Net maximum generating capacity of 42.0GW (2013: 41.9GW)
  - 17.4GW of new generation capacity being built, of which 6.1GW already commissioned
  - Approximately 359 337km of cables and power lines
  - 46 919 employees, inclusive of fixed-term contractors, in the group (2013: 47 295)
- Moody's and S&P stand-alone credit ratings: b1 and b- respectively with a negative outlook

Number of electrification connections



Generation capacity – 31 March 2014



Safety

Becoming a high-performance organisation

Employee and contractor fatalities

Fatalities	Year to 31 March 2014	Year to 31 March 2013	Year to 31 March 2012
Employees	**5**	3	13
Contractors	**18**	16	11

Employee LTIR

Employee lost-time incidence rate			
Index (Target: 0.36)	**0.31**	0.40[1]	0.41

Causes of fatalities

Causes of fatalities	Vehicle	Electrical contact	Other
Employees and contractors	7	2	14

Ingula incident

On 31 October 2013, an accident at Ingula power station construction site resulted in the tragic loss of six lives, while a further seven sustained injuries. Although work on the inclined high-pressure shaft was stopped in terms of the Mines Health and Safety Act (1996) pending review by the Mine Health and Safety Inspectorate, work on other parts of the site continues. The statutory processes regarding this accident are in progress

1. Number revised from 0.39 to 0.40 due to the late reporting of incidents

Improve operations – Generation

Becoming a high-performance organisation

Highlights

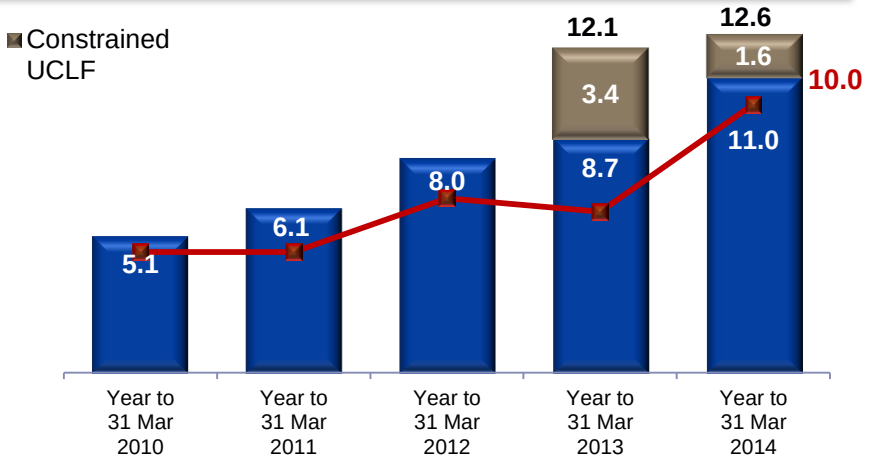
- Koeberg unit 2 ended a record run of 484 days when it was shut down for scheduled refuelling on 24 March 2014, marking a continuous run from one refuelling to another

Challenges

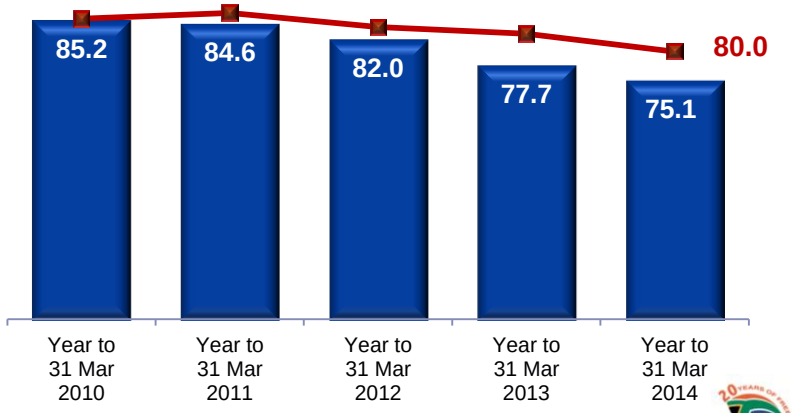
- The increasing UCLF percentage is an indication of the deteriorating plant health and the high plant utilisation
- Balancing the need for adequate maintenance with the constrained system, asset creation, environmental requirements and available financial resources – not performing sufficient maintenance reduces plant reliability and increases the risk of load shedding over the longer term
- Duvha Unit 3 was taken out of service on 30 March 2014 due to an over-pressurisation incident. The incident is still under investigation

1. UCLF measures the lost energy due to unplanned production interruptions resulting from equipment failures and other plant conditions
2. EAF measures plant availability, plus energy losses not under the control of plant management

Unplanned capability loss factor (UCLF[1]) %



Energy availability factor (EAF[2]) %



Improve operations – Transmission

Becoming a high-performance organisation

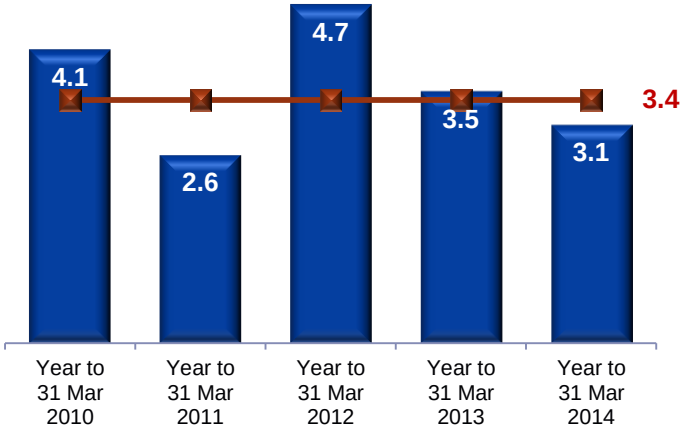
Highlights

- Good system technical performance achieved with zero major incidents, system minutes <1 performance at 3.05 compared to a target of 3.40, and a line fault performance of 1.73 compared to a target of 2.45 faults per 100km

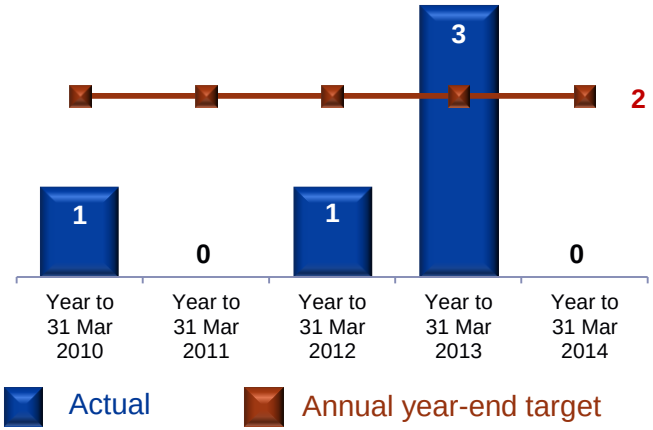
Challenges

- Performance vulnerabilities remain with ageing assets and unfirm networks
- Performance of Hydro Cahora Bassa[3] scheme energy imports remains a risk due to challenges regarding the reliability of high-voltage direct-current transmission lines

System minutes[1] lost < 1 system minute



Number of major incidents[2]



1. System minutes is a measure of the extent of interruptions to customers. One system minute is equivalent to the loss of the entire system for one minute at annual peak
2. Major Incident is an interruption with a severity ≥ 1 system minute
3. Hidroelectrica de Cahora Bassa S.A.

Improve operations – Distribution

Becoming a high-performance organisation

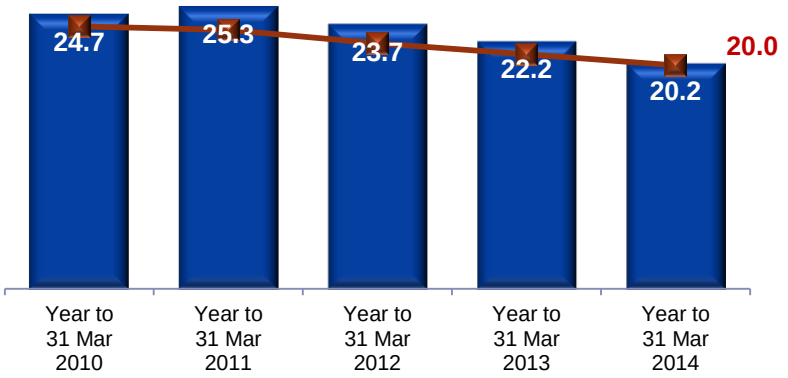
Highlights

- Significant improvement in the SAIFI and SAIDI interruption performance due to:
  - Additional customer network centres
  - Maximisation of live-line work for planned maintenance
  - Increased network visibility

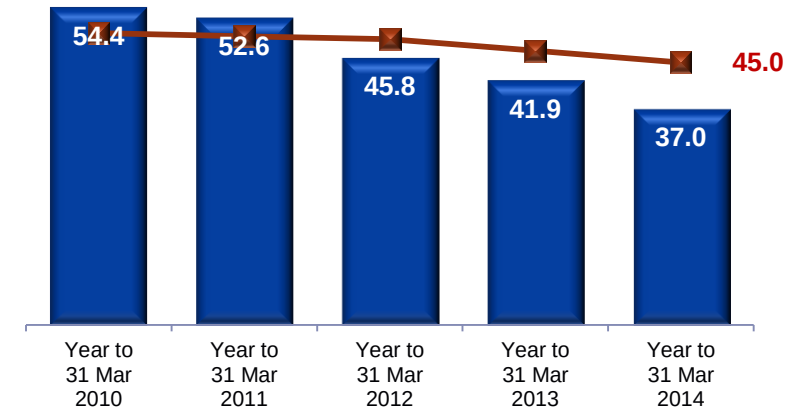
Challenges

- Managing the risk of increased exposure of employees and contractors to crime-related assault incidents
- Addressing the backlog in maintenance, refurbishment and reliability with particular focus on preventative maintenance for reticulation (low-voltage) networks
- Reducing the backlog in customer connections, by addressing material and contractor resource shortages

SAIFI (number/annum)[1]



SAIDI (hours/annum)[2]



1. SAIFI: System average interruption frequency index
2. SAIDI: System average interruption duration index

Being customer-centric

Becoming a high-performance organisation

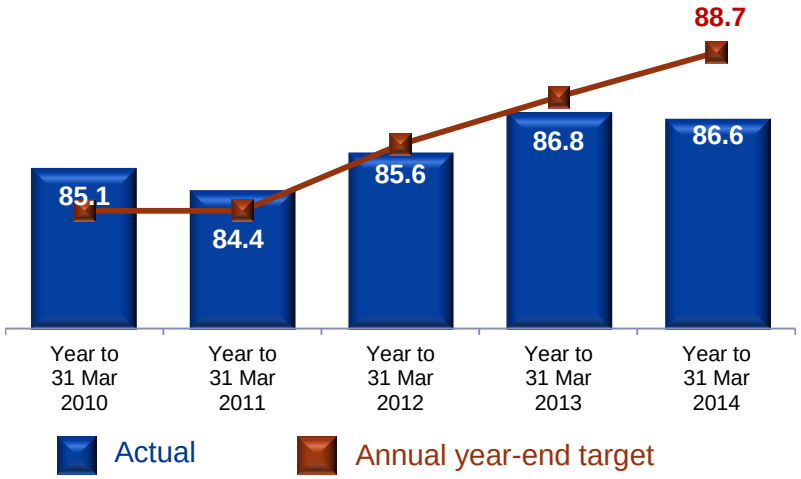
Highlights

- Customers responded admirably when Eskom declared four power system emergencies and reduced demand by 600MW in November 2013, 340MW in February 2014 and 1 160MW in March 2014

Challenges

- Debt collection, especially from municipalities, is a challenge with arrear debt increasing significantly. Eskom is working closely with the shareholder, the Cooperative Governance and Traditional Affairs (CoGTA) department and National Treasury at provincial and national level to address the systemic causes of municipal arrear debt
- Energy losses due to theft of equipment, illegal connections, meter tampering and illegal vending of pre-paid electricity remains a concern

Weighted customer service index[1]



Energy losses[2]	Year to 31 March 2014	Year to 31 March 2013	Year to 31 March 2012
Distribution	**7.13**	7.12	6.32
Transmission[3]	**2.34**	2.80	3.08
Total Eskom	**8.88**	9.08	8.65

1. Eskom uses a composite index to measure the service delivered to its residential, small and medium customers
2. Non-technical losses are estimated to be between 1.78% and 2.85% for the year to 31 March 2014
3. Transmission losses are all technical losses

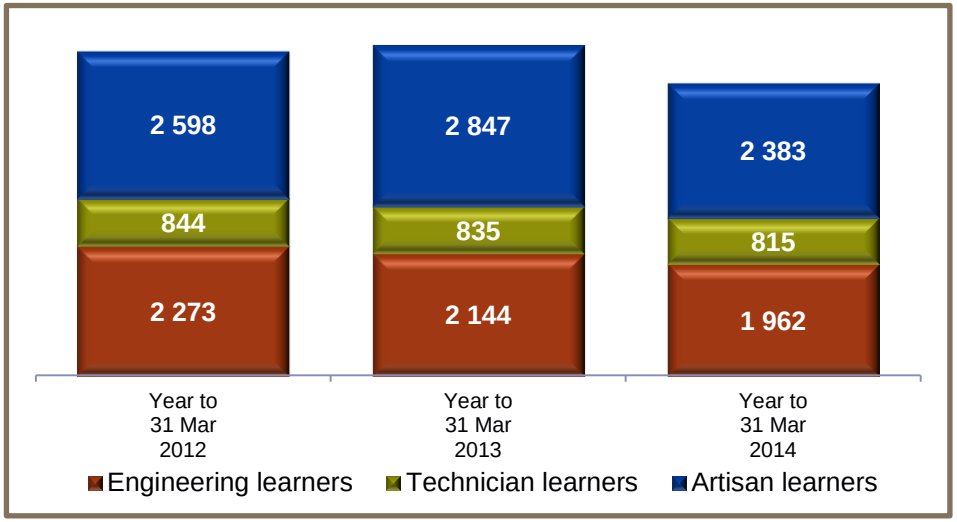
Build strong skills

Becoming a high-performance organisation

Skills

Eskom aims to grow human capital by retaining core, critical and scarce resources, and by effectively developing skills and talent

Eskom's engineering, technician and artisan learners



Youth programme

There are 4 325 learners in the youth programme as at 31 March 2014

Training

7.87% of gross employee benefit costs spent on training in the year to 31 March 2014

Keeping the lights on

Leading and partnering to keep the lights on

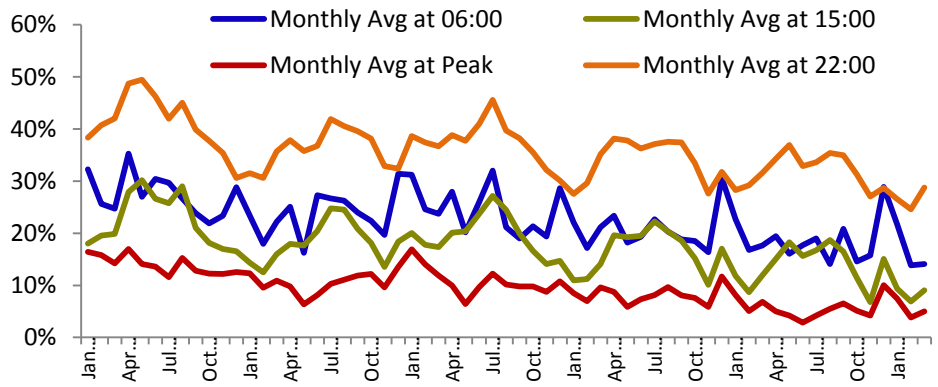
Highlights

- More planned maintenance was done during the past winter than the same period in the three preceding years, in line with the Generation sustainability strategy

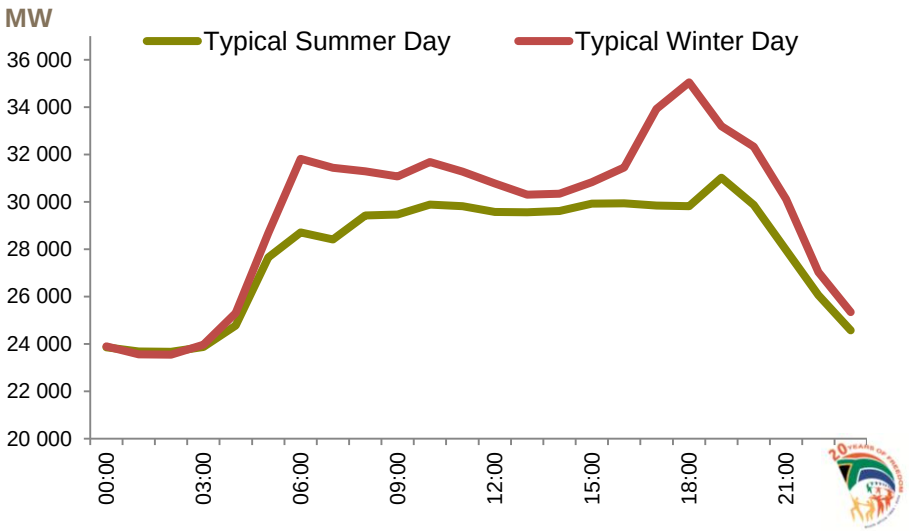
Challenges

- Adequate reserves available throughout the day to meet demand, but minimal reserves available at peak periods
- In order to keep the lights on, Eskom has had to run its generating plant at significantly higher load factors
- Four power system emergencies were declared during the year
- Increased costs due to the significant reliance placed on the open-cycle gas turbine (OCGT) fleet in the current year:
  - R10.6 billion spent to produce 3 621GWh (2013: R5.0 billion; 1 905GWh)
  - OCGT load factor of 17.16% (2013: 9.31%) against a budgeted load factor of 6.08%, based on the MYPD response budget

Average monthly % operating reserves



Summer and winter load profiles

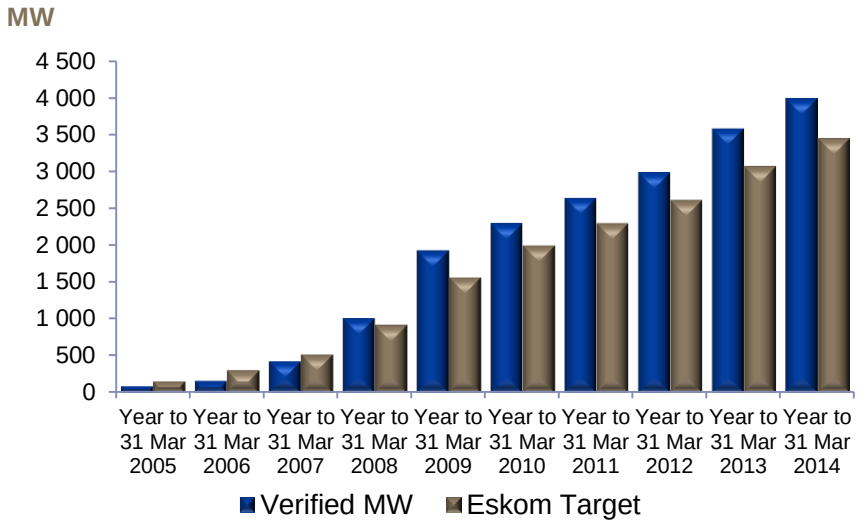


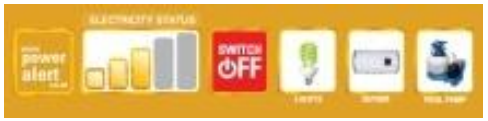
Integrated Demand Management

Leading and partnering to keep the lights on

- Achieved total evening peak demand savings of 410MW (2013: 595MW)
- The average weekday evening peak impact of the power alert and power bulletin for all colours (green, orange and red) is 224MW, while the average impact for the red flightings in the evening peak on the worst constrained day is 294MW
- Eskom continues to improve the internal energy-efficiency of its facilities. Annualised energy savings of 19GWh were achieved from new IDM projects for the year ended 31 March 2014, exceeding the target of 15GWh
- Going forward, it will be a challenge to utilise IDM as a key lever in managing demand, due to the reduction in funding allocated in the MYPD 3 determination

Cumulative verified demand savings





Deliver capacity expansion

Leading and partnering to keep the lights on

Highlights

- Return-to-service programme of 23 units (3 741MW) has been completed at a cost of R26 billion
- Despite outage constraints, refurbishment projects have progressed well
- Established the Medupi leadership initiative to address the demobilisation of workers

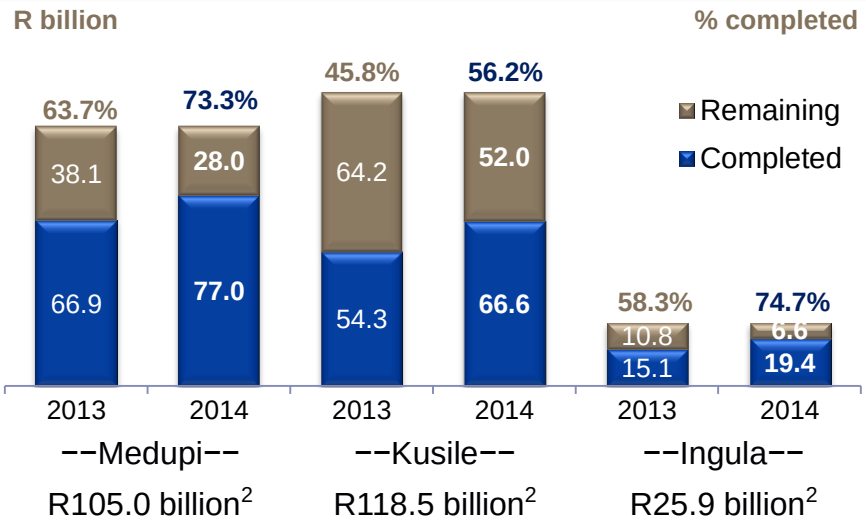
Challenges

- Contract placed with a second contractor for the engineering and manufacturing of boiler-protection systems, to mitigate against the continued failure of control and instrumentation factory acceptance tests at Medupi
- Acquisition of servitudes over state-owned and tribal land, causing delays to transmission projects

Synchronisation dates of first units

- Medupi in the second half of 2014 (794MW)
- Ingula in the second half of 2015[1] (333MW)
- Kusile in the second half of 2015 (800MW)

Progress on capacity expansion programme



1. Synchronisation date delayed after the accident at Ingula on 31 October 2013
2. Approved budget (excluding capitalised borrowing costs)

Deliver capacity expansion – progress on Medupi

Leading and partnering to keep the lights on

Key milestones achieved at Medupi in the first quarter of 2014/15

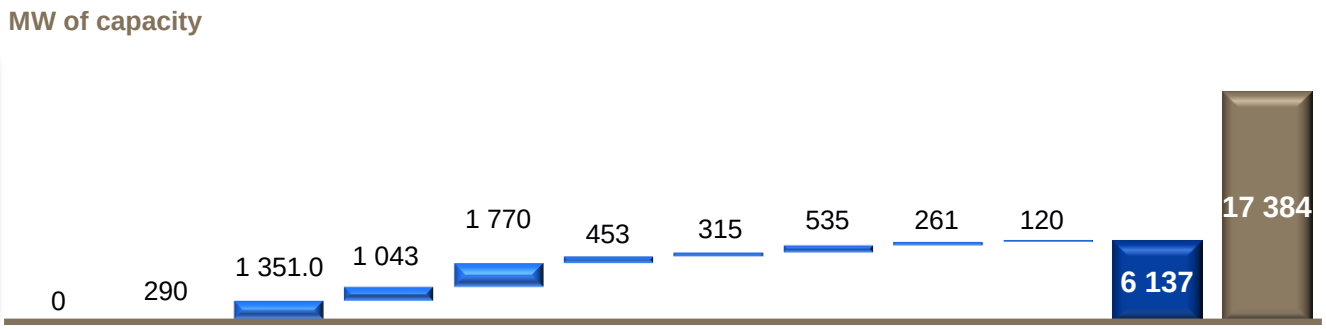
- Welding challenges which resulted in extensive delays to Unit 6 have been effectively resolved
- Hydrostatic pressure tests on the reheater and superheater circuits of the Unit 6 boiler were successfully conducted in April and May 2014
- The boiler is now mechanically complete and ready to continue with acid cleaning
- Factory acceptance tests have been successfully completed on both the control and instrumentation of the balance of plant and the boiler-protection system in April and May 2014
- This released a significant part of the plant to progress with critical commissioning activities
- Achieving these critical milestones ensures that Eskom remains on track for the targeted first synchronisation of Unit 6 by the second half of 2014 as previously reported

Deliver capacity expansion (continued)

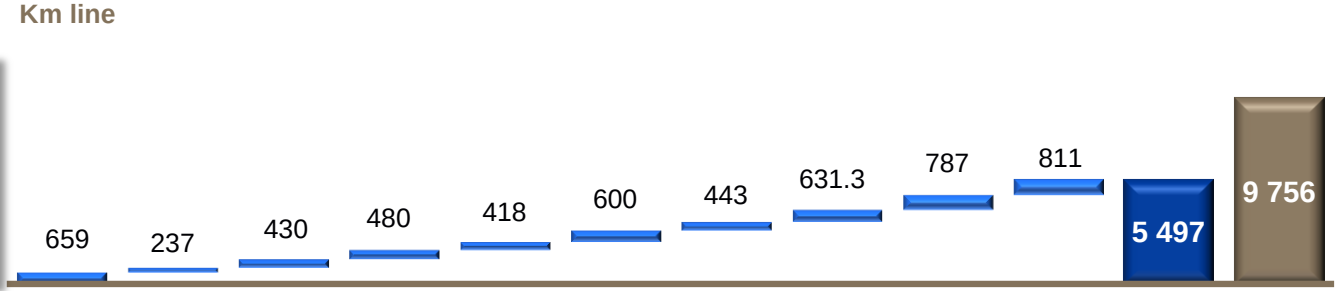
Leading and partnering to keep the lights on

To date, the construction work that has been completed has added ~ 6 137MW of capacity, ~ 5 497km of transmission network and ~ 27 565 of MVAs

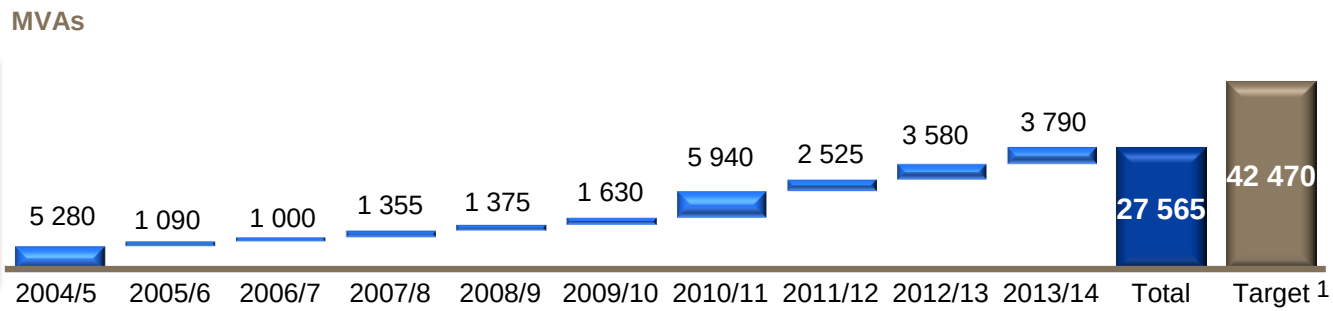
Megawatts



Transmission



Substations



1. Refers to the target of the total capacity expansion programme

Environmental performance

Reducing Eskom's environmental footprint and pursuing low-carbon growth

Environmental performance

Key performance indicator	Year to 31 March 2014	Year to 31 March 2013	Year to 31 March 2012
Relative particulate emissions, kg/MWh sent out	**0.35**	0.35	0.31
Specific water consumption, L/kWh sent out	**1.35**	1.42	1.34
Environmental legal contraventions per the operational health dashboard, number	**2**	2[1]	5

Renewable energy: Sere wind farm

The installation of 10 of a total of 46 wind turbines was completed at 31 March 2014[2], and a further 22 tower foundations laid. This 100MW renewable project is expected to be completed and commissioned in the 2014/15 financial year. This will assist in reducing Eskom's carbon footprint

1. Increased from previously reported figure (1) due to an additional legal contravention that was identified during the year for activities associated with the underground coal gasification (UCG) project, in October 2012
2. To date, the installation of a total of 27 of the 46 wind turbines has been completed. The transmission substation has been completed and the power evacuation line is being commissioned

National emission standards

Reducing Eskom's environmental footprint and pursuing low-carbon growth

- Eskom believes in a **balanced approach** to ensure environmental sustainability whilst supporting economic growth and access to affordable electricity
- **New atmospheric standards** come into effect in 2015. Eskom has received new atmospheric emission licenses for most of its power stations, except Kriel, where Eskom's request to increase the emissions limit and allow a grace period for when emissions exceed the limit of the new license, has been denied
- Eskom has embarked on an **extensive retrofit programme** to reduce emissions at the highest emitting power stations, but the execution of this programme will require long outages and a significant amount of capital (currently R72 billion in nominal terms)
- Despite the retrofit programme and Eskom's best efforts, there **remains a risk** that Eskom may not be able to fully comply with the new national emission standards, which come into effect in 2015 and 2020, for several reasons:
  - Certain of the required technologies requires additional water which is not yet available
  - Implementation of the required technologies requires plant outages of 120 to 150 days per unit; there is insufficient spare capacity to enable the required outages to be taken without impacting on the ability to meet national electricity demand
- Given the above, Eskom expects to achieve 57% compliance with the national emission standards by 2026
- Eskom submitted an application in February 2014 for a **five-year postponement** from compliance to the standards for cases where compliance within the legislated timeframe is not possible. A response from the authorities is expected within six to nine months

Coal and water resources

Securing future resource requirements

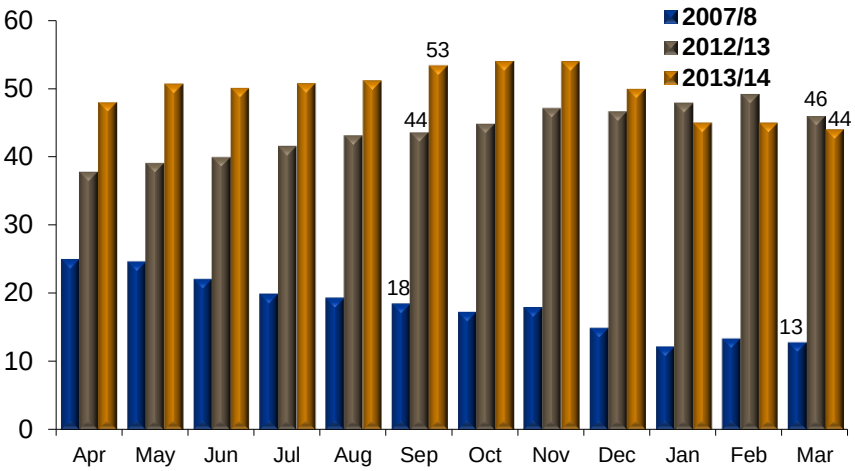
Highlights

- Coal stock days at 31 March 2014 remains above target of 42 days, but has decreased to 44 days from the previous year (2013: 46 days)
- Komati water scheme augmentation project was declared operational on 5 June 2013
- Mokolo Crocodile water augmentation project delivered water to Medupi for construction activities and commissioning of the first units

Challenges

- Despite the overall coal quality being on target, coal-related load losses were experienced at Arnot, Matla and Tutuka power stations
- Production performance of some cost-plus mines continues to be a challenge
- Eskom mixes coarse coal with finer coal to prevent wet coal from coagulating on conveyors
- Although four medium-term contracts were signed for coal supply to Kusile power station during the commissioning phase, the conclusion of long-term coal and limestone supply agreements remains a focus area

Coal stock days



Coal road-to-rail migration

Implementing coal haulage and the road-to-rail migration plan

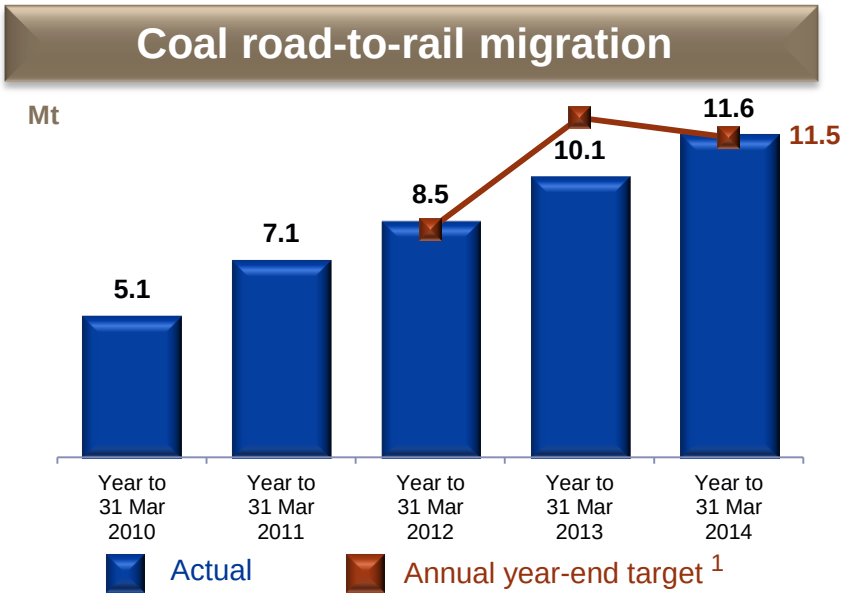
Eskom has been progressively migrating coal transport from road to rail over the past four years. Rail transport is safer, more environmentally friendly, less damaging to roads and more cost-effective than road transport by truck

Highlights

- Increase of 15% against previous year of coal transported by rail

Challenges

- Both Eskom and Transnet experienced operational challenges regarding the rail transport of coal
- In June 2013, rail deliveries were affected by a series of derailments on the Transnet Freight Rail Natcor rail line



1. No target prior to 2012

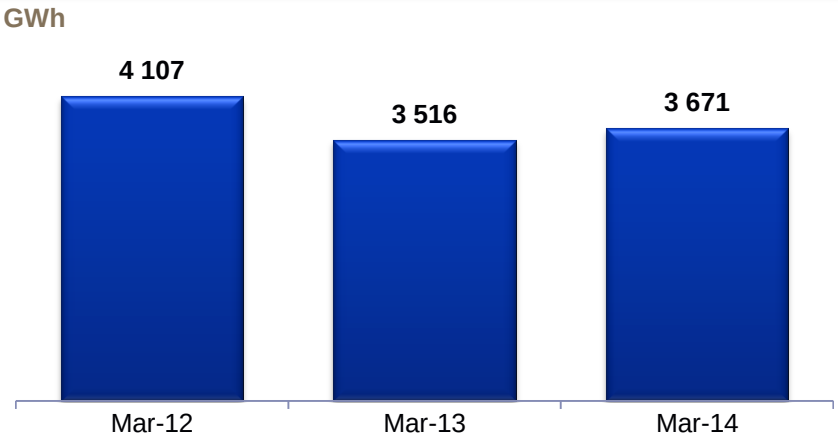
Independent power producers (IPPs)

Pursuing private-sector participation

Highlights

- Total energy procured from short-term IPPs for the year is 3 671GWh at a cost of R3 266 million (average cost of 88c/kWh)
- The first project under the renewable energy independent power producers (RE-IPP) programme was commissioned on 15 November 2013, adding 7MW
- Eskom has successfully facilitated the connection of 21 RE-IPP projects (1 076MW) to the grid, of which 467.3MW is currently available to the system
- DoE approved an additional 1 457MW pursuant to the third bid submission, but no contracts have yet been signed
- Contracts were signed for 1 005MW under the DoE Peaker programme

Energy purchased from IPPs



Maximise socio-economic contribution

Transformation

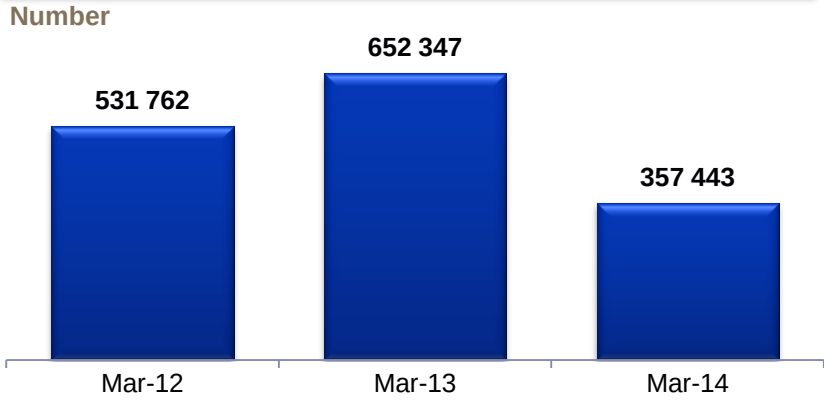
Electrification

A total of 201 788 homes were electrified during the year to 31 March 2014 (2013: 139 881)
Since inception of the electrification programme in 1991, more than 4.5 million homes have been electrified

Corporate social investment

Committed R132.9 million to corporate social initiatives during the year to March 2014 (2013: R194.3 million)

Number of project beneficiaries[1]



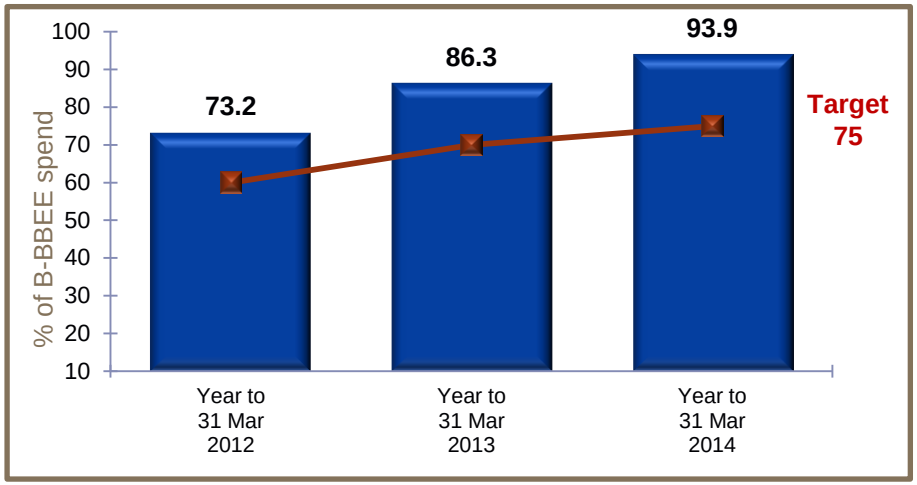
1. Number of project beneficiaries impacted by Eskom's corporate social initiatives at year end

Procurement equity and localisation

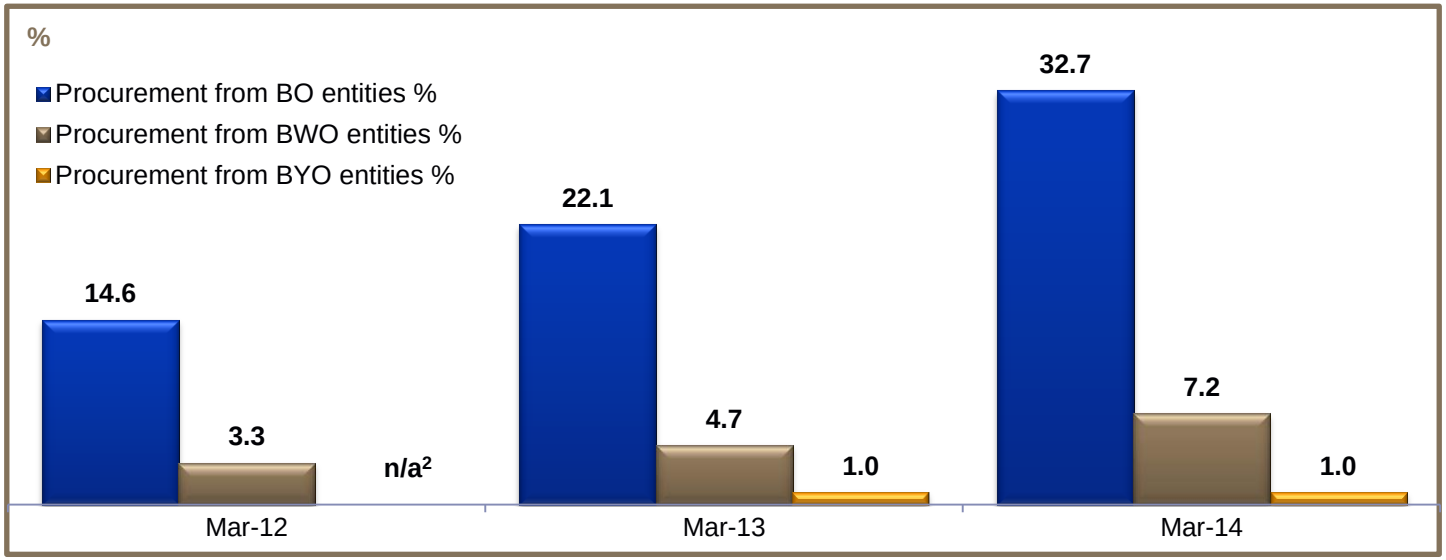
Transformation

Procurement[1] from B-BBEE compliant entities

Total measured procurement spend for the year was R133.5 billion of which R125.4 billion or 93.9% was attributable to B-BBEE, exceeding the target of 75%



Procurement from black-owned (BO), black women-owned (BWO) and black youth-owned (BYO)[2] entities

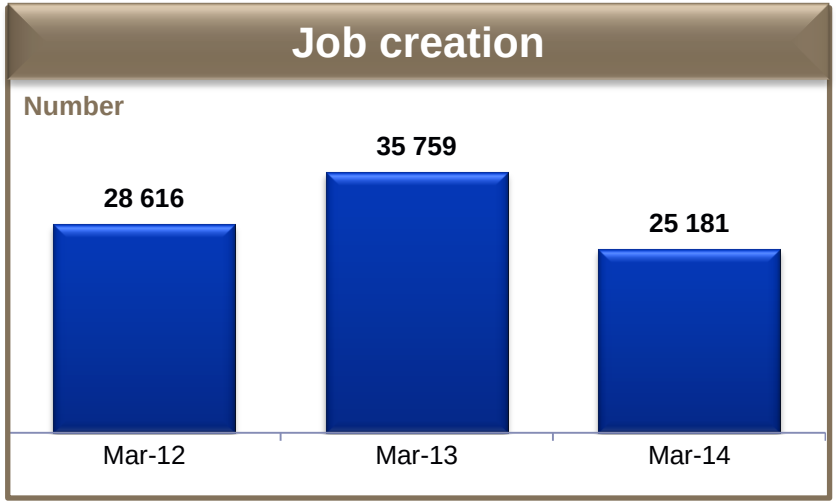


1. Reflects the Eskom company's broad-based black economic empowerment (B-BBEE) expenditure
2. Measurement of the procurement from BYO entities only started in 2013

Procurement equity and localisation (continued)

Transformation

Local sourcing	54.6% local content in the new build contracts placed for the financial year (2013: 80.2%)
Job creation	As at 31 March 2014, the capacity expansion programme employs 25 181 people on new build project sites, down from 35 759 at the previous year end, due to the demobilisation of staff as work packages are completed
Local skills development	Since the inception of the capital expansion programme in 2005, a total of 8 930 (2013: 6 851) contractor employees have been trained in various trades



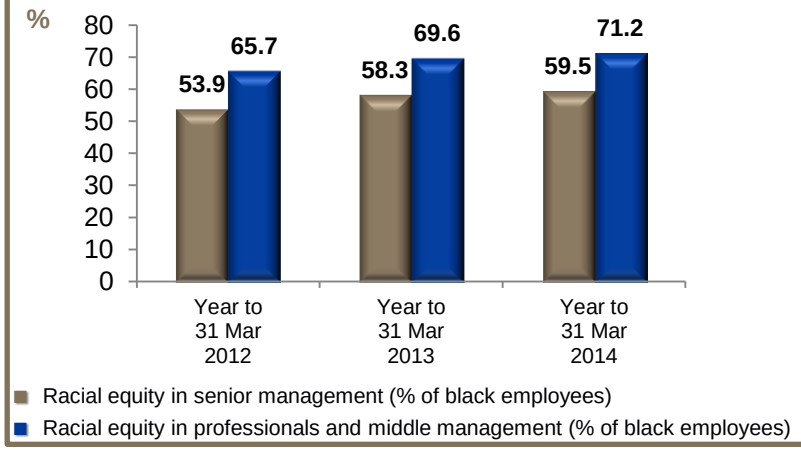
Employment equity

Transformation

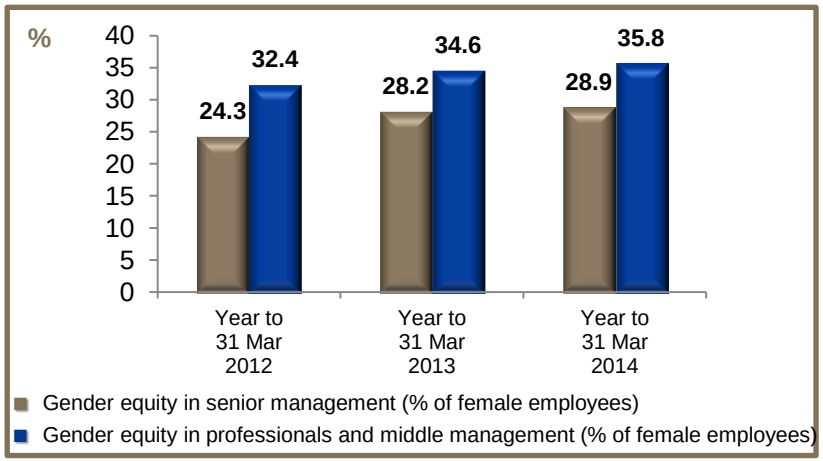
Disability

The Eskom group currently employs 1 305 (2013: 1 137) employees with recognised disabilities. Although the disability percentage of 2.77% is below the 3% target, it is above the government target of 2%

Racial equity[1]



Gender equity[1]



1. Reflects Eskom company numbers

Ensuring Eskom's financial sustainability

Tsholofelo Molefe
Finance director

Income statement for the year ended 31 March 2014

Ensuring Eskom's financial sustainability

- Group revenue of R139.5 billion (2013: R128.8 billion), an increase of 8.3%
- Revenue growth has been offset by escalating primary energy and operating costs
- Effective tax rate of 23.3% (2013: 26.5%)
- Embedded derivative gain is mainly due to changes in the USD:ZAR exchange rate and changes in interest rates
- Finance costs of R13.3 billion were capitalised during the year to 31 March 2014 (2013: R3.7 billion)
- Assets are accounted for at historic cost. If assets were valued at depreciated replacement cost, the loss after tax would be R12.5 billion
- No dividend was recommended

Rm	Audited year to 31 March 2014	Reviewed half-year to 30 Sep 2013	Audited year to 31 March 2013[1]	Audited year to 31 March 2012
Revenue	**139 506**	77 815	128 775	114 847
Other income	**962**	197	1 126	712
Primary energy	**(69 812)**	(31 266)	(60 748)	(46 314)
Operating expenses (including depreciation & amortisation)	**(58 293)**	(28 702)	(57 602)	(44 872)
Net fair value loss on financial instruments	**(620)**	(998)	(1 655)	(2 388)
Operating profit before embedded derivatives	**11 743**	17 046	9 896	21 985
Embedded derivative gain / (loss)	**2 149**	1 868	(5 942)	334
Operating profit	**13 892**	18 914	3 954	22 319
Net finance (cost) / income[2]	**(4 772)**	(1 853)	3 003	(3 956)
Share of profit of equity - accounted investees	**43**	26	35	41
Profit before tax	**9 163**	17 087	6 992	18 404
Income tax	**(2 137)**	(4 846)	(1 856)	(5 156)
Discontinued operations	**63**	-	47	-
Net profit for the period	**7 089**	12 241	5 183	13 248

1. Restated due to reclassification of Eskom Energie Manantali s.a as a discontinued operation
2. There was no remeasurement of the government loan during the year to 31 March 2014, as there was no change in the electricity tariff price path. In 2012/13 the effect of the remeasurement of the government loan was a R17.3 billion finance income for the year 31 March 2013

Revaluation of assets – proforma if aligned to regulatory asset base

Rm	Historical cost: For the year to 31 March 2014	After revaluation: For the year to 31 March 2014	Historical cost: For the year to 31 March 2013	After revaluation: For the year to 31 March 2013
Income statement (current year impact)				
Historical profit/(loss) for the year	**7 089**	**7 089**	5 183	5 183
Adjustments: Depreciation and amortisation expense	**-**	**(13 887)**	-	(15 534)
Net impairment loss and other operating expenses	**-**	**(40)**	-	(105)
Net finance cost	**-**	**(13 290)**	-	(3 678)
Income tax	**-**	**7 621**	-	5 409
Profit/(loss) for the year	**7 089**	**(12 507)**	5 183	(8 725)
Equity (cumulative impact)				
Historical closing equity balance	**119 784**	**119 784**	109 139	109 139
Adjustments: Additional cumulative comprehensive loss	**-**	**(82 746)**	-	(63 150)
Revaluation of property, plant and equipment	**-**	**279 761**	-	252 781
Deferred tax on revaluation	**-**	**(78 333)**	-	(70 779)
Adjusted closing equity balance	**119 784**	**238 466**	109 139	227 991
Statement of financial position (cumulative impact)				
Property, plant and equipment	**401 373**	**566 209**	341 429	506 502
Ratios				
Electricity operating costs, cents per kWh (company)	**59.67**	**66.06**	54.15	61.37
Interest cover, ratio (group)	**0.77**	**0.00**	0.22	0.65
Debt:equity, ratio (group)	**2.06**	**1.03**	1.84	0.88

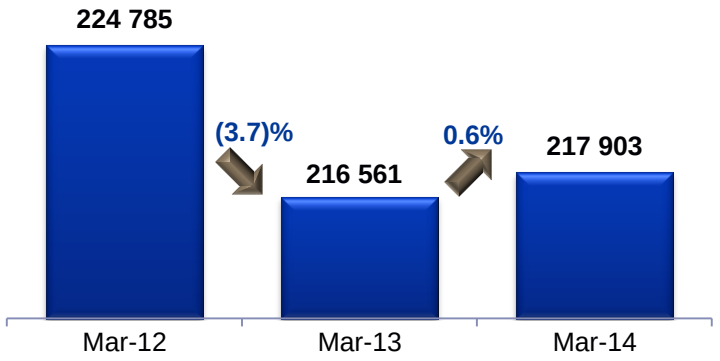
Sales and revenue

Ensuring Eskom's financial sustainability

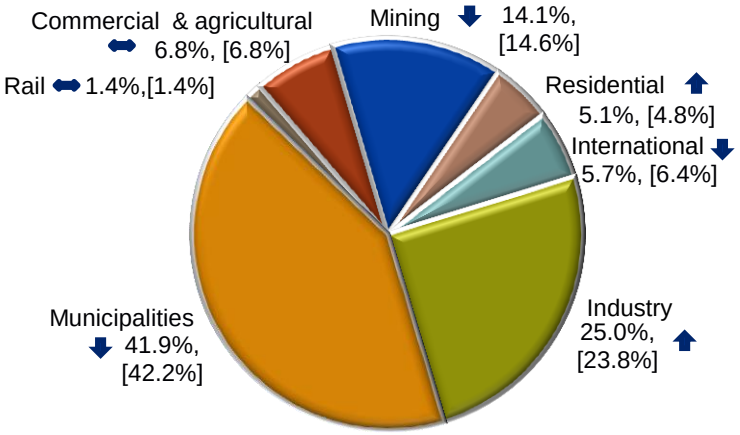
- Sales were 9 490 GWh lower than forecast in the NERSA tariff application
- Local sales of 205 525GWh (2013: 202 770GWh)
- International sales of 12 378GWh (2013: 13 791GWh)

Electricity sales

GWh

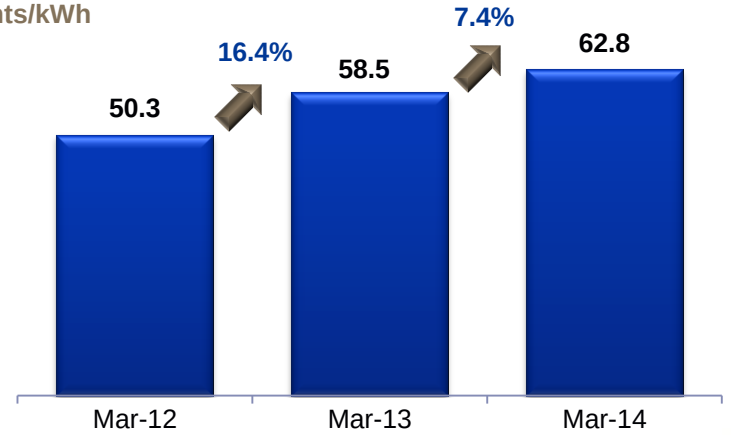


Electricity sales by customer type[1]



Electricity revenue

Cents/kWh

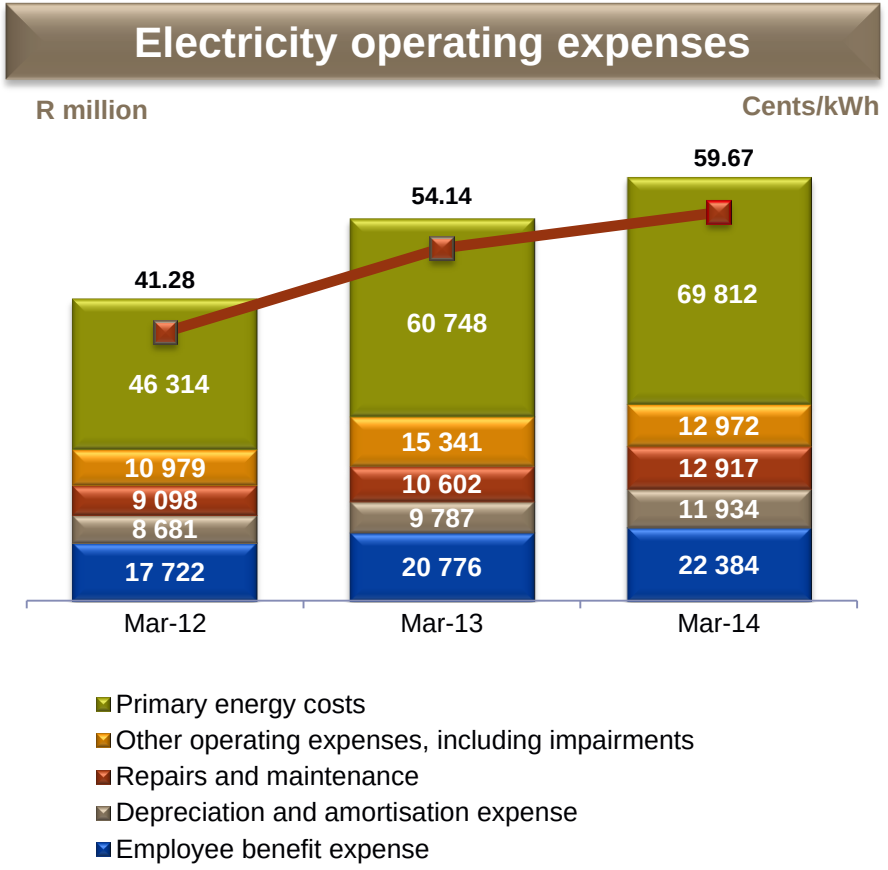


1. Percentages reflected for the sales achieved in the year to 31 March 2014
Numbers in brackets are those for the year to 31 March 2013

Electricity operating expenses[1]

Ensuring Eskom's financial sustainability

- The electricity operating cost per kWh sold is 59.67c/kWh[2] compared to the target of 52.67c/kWh
- The 13.2% variance on the cost per kWh is mainly attributed to the OCGT spend in the current year of R10.6 billion (originally budgeted at R3.6 billion), along with the increase in maintenance costs in line with the generation sustainability strategy
- The employee benefit cost includes direct and indirect expenditure for the 42 923 Eskom employees (group: 46 919)
- Included in other operating expenses is the impairment on arrear debt of 1.10% of revenue (2012/13: 0.82%)



1. Reflects only company expenses
2. Cents/kWh figures are calculated based on total electricity sales numbers for year

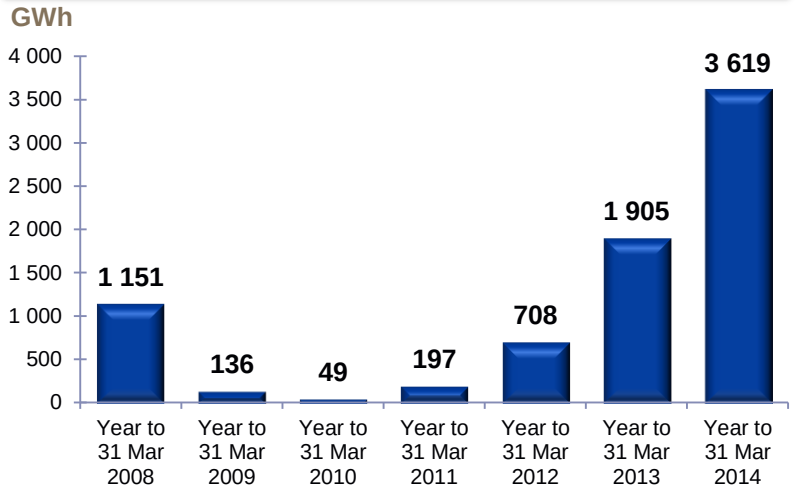
Analysis of primary energy costs

Ensuring Eskom's financial sustainability

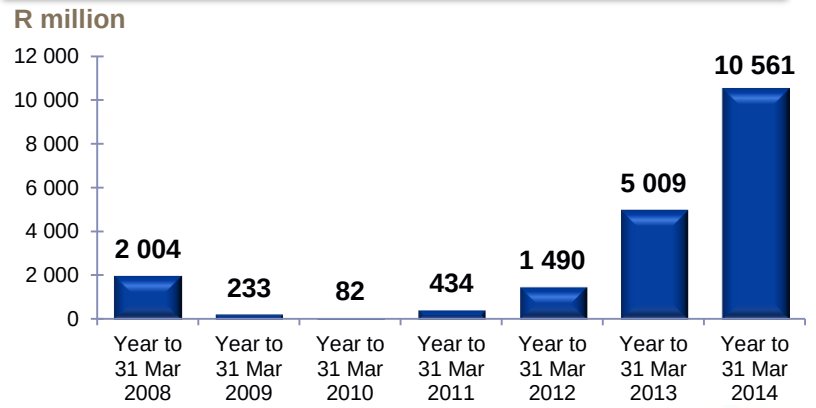
- Primary energy costs have increased significantly
- Given the tight reserve margin, more expensive OCGT stations were operated far above previous load factors to ensure continuity of supply

Rm	Year to 31 March 2014	Year to 31 March 2013	Year to 31 March 2012
Own generation costs, excluding OCGT costs[1]	43 625	39 371	30 997
Open-cycle gas turbine (OCGT) costs	10 561	5 009	1 490
Environmental levy	8 530	7 971	6 208
International electricity purchases	3 311	2 070	1 858
Independent power producers	3 266	2 956	3 250
Other[2]	519	3 371	2 510
Total cost of electricity generation	**69 812**	**60 748**	**46 314**

OCGT annual production



OCGT annual costs

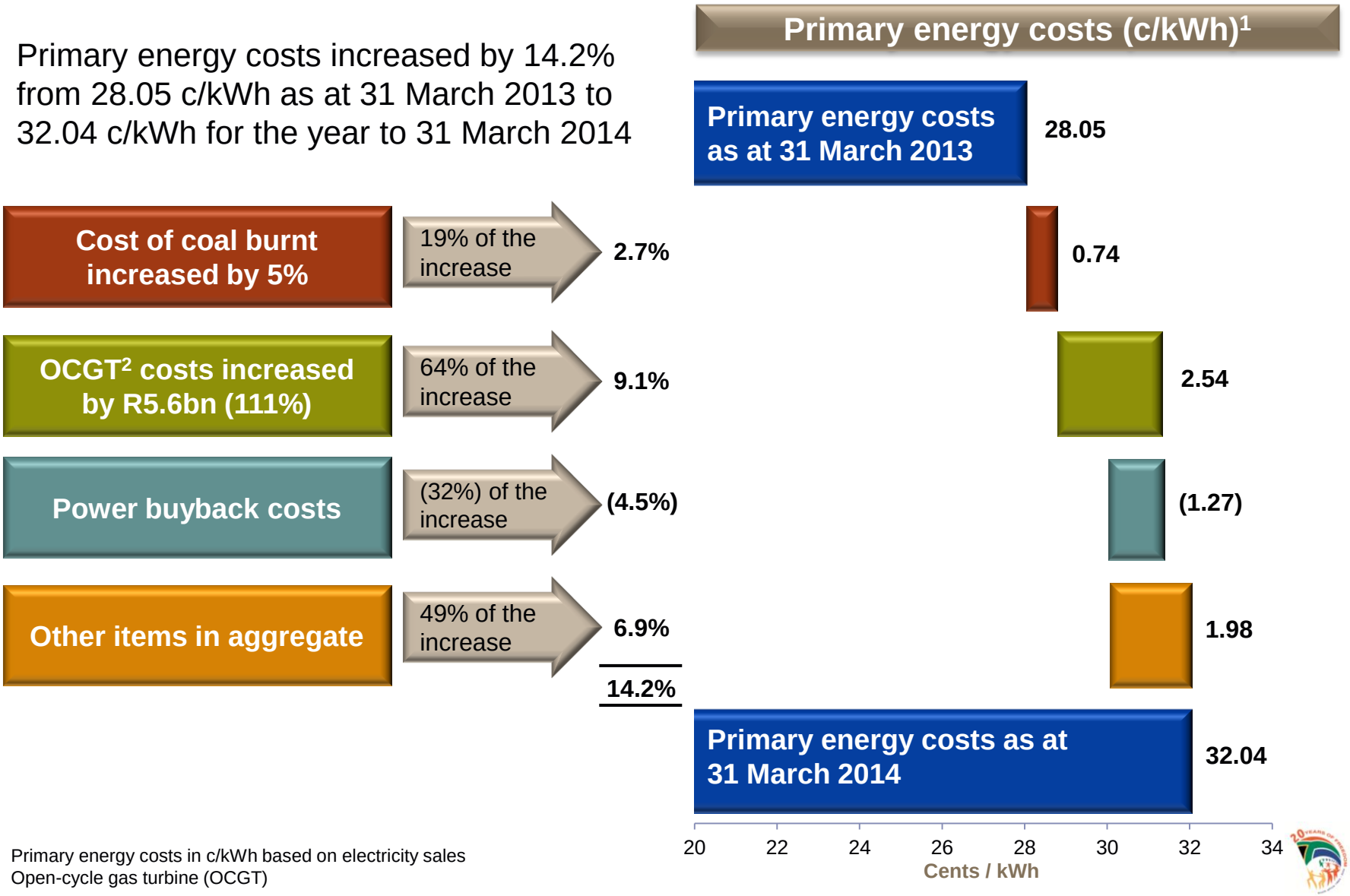


1. Includes the cost of coal, uranium, water and liquid fuels that are used in the generation of electricity
2. Includes demand market participation, co-generation and power buybacks

Analysis of primary energy costs (continued)

Ensuring Eskom's financial sustainability

- Primary energy costs increased by 14.2% from 28.05 c/kWh as at 31 March 2013 to 32.04 c/kWh for the year to 31 March 2014



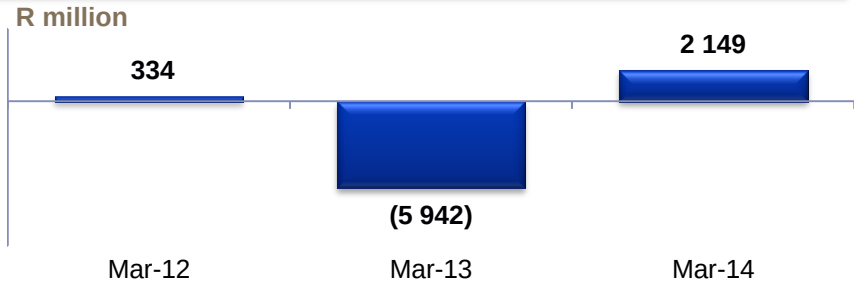
1. Primary energy costs in c/kWh based on electricity sales
2. Open-cycle gas turbine (OCGT)

Hedging policy

Ensuring Eskom's financial sustainability

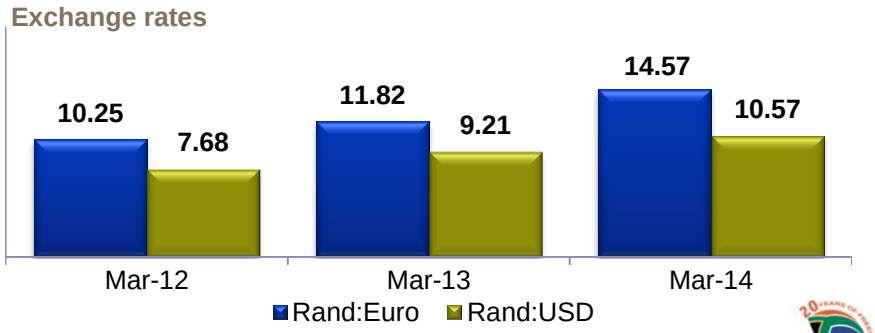
- Embedded derivatives
  - Loss in 2012/13 was mainly due to the decision at 31 March 2013 to account for the full term of the underlying negotiated pricing agreement contracts
  - Profit in the current year is mainly as a result of the changes in the USD/ZAR exchange rate and interest rates
  - Eskom submitted an application to NERSA to review the last remaining negotiated pricing agreement
- Foreign currency and commodity hedging
  - Foreign currency and commodity exposures are hedged
  - Use forward exchange contracts with short maturities and roll-over at maturity as well as cross-currency swaps
  - 78% of total debt at 31 March 2014 has a fixed interest rate component
  - R110.2 billion exposure to foreign currency

Gain/(loss) on embedded derivatives



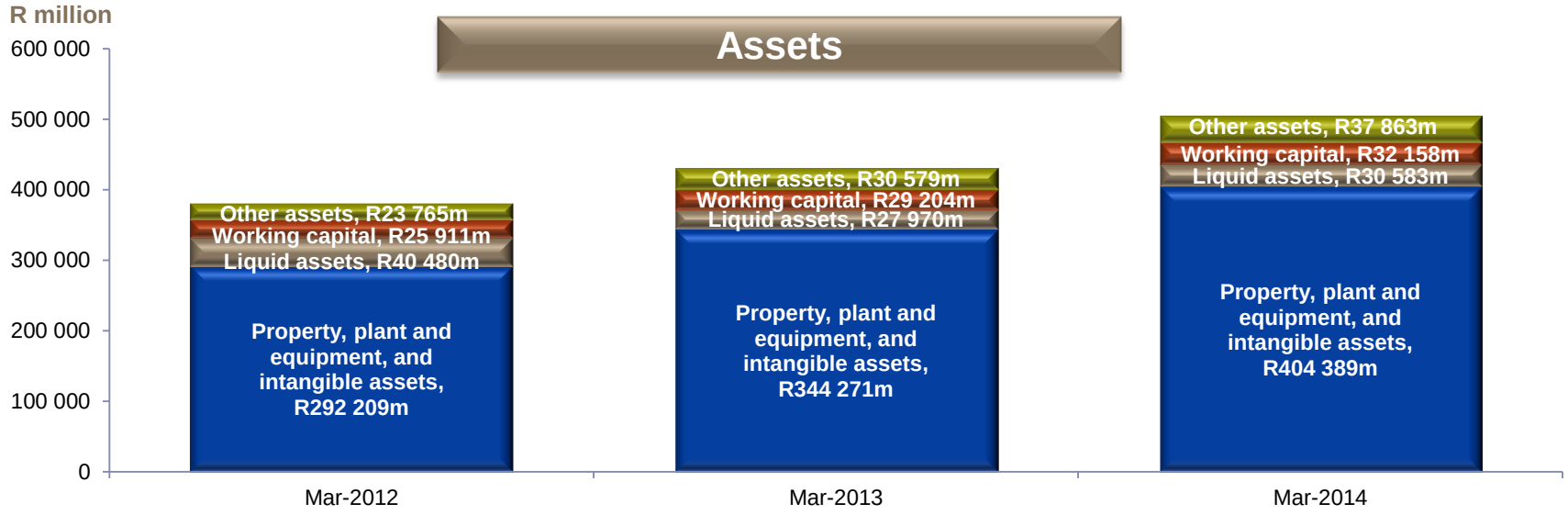
Net fair value loss on financial instruments

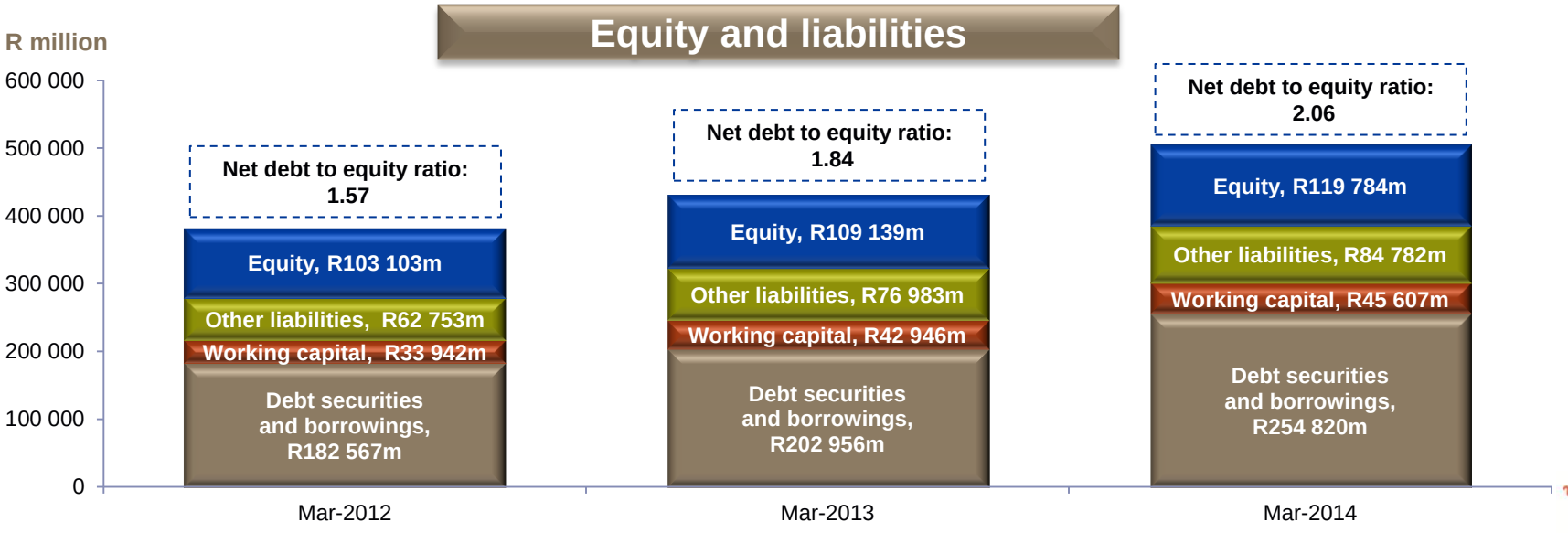
Rand versus Euro and USD exchange rates



Group audited financial position – property, plant and equipment growth through debt raised

Ensuring Eskom's financial sustainability

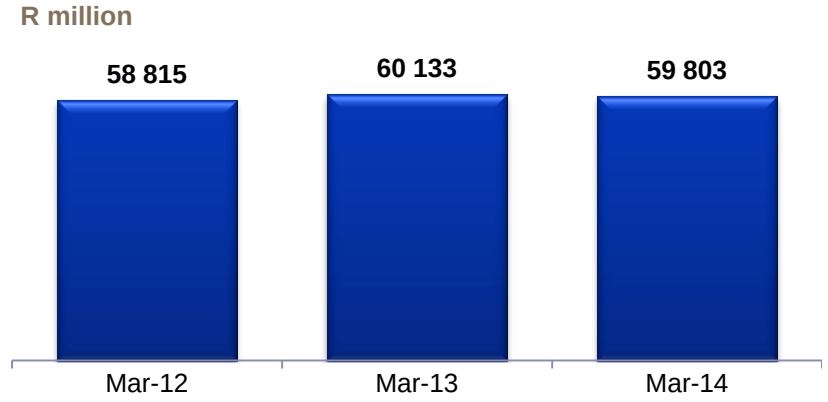




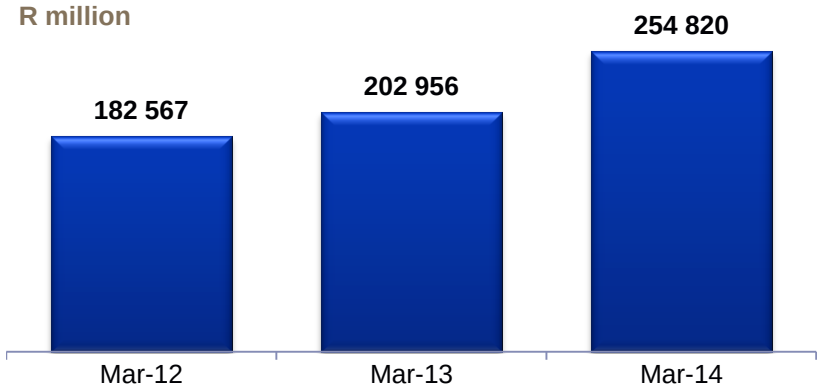
Balance sheet

Ensuring Eskom's financial sustainability

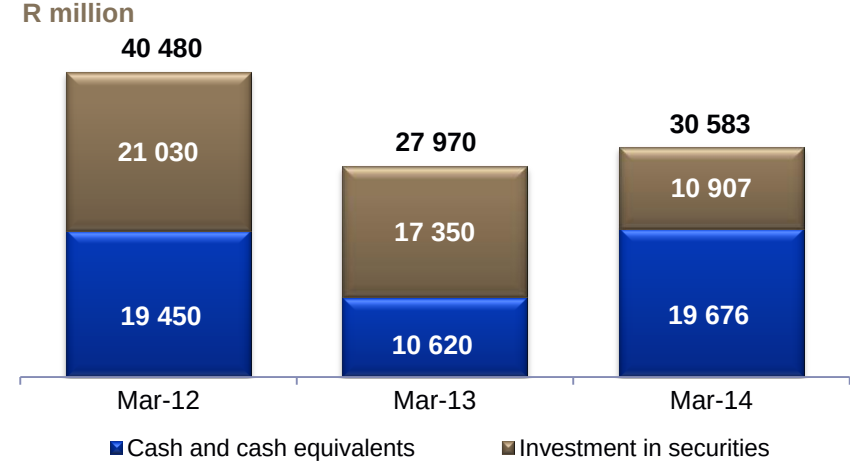
Capital expenditure[1]



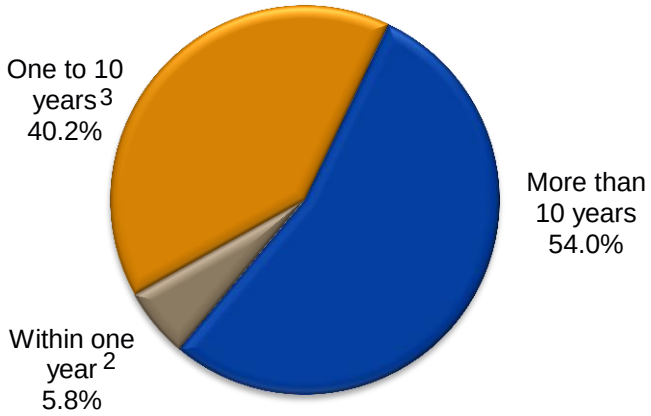
Debt securities and borrowings



Liquid assets at period end



Debt and borrowings maturity profile[2]



1. Excluding capitalised borrowing costs
2. Represents the repayment of nominal capital and interest in the strategic and trading portfolio. Data as at 31 March 2014
3. Reflects the 10 financial years starting 1 April 2014 and ending on 31 March 2024

Funding plan from 1 April 2010 to 31 March 2017

Ensuring Eskom's financial sustainability

This plan was based on the assumption of a 16% MYPD 3 increase and will need to be extended

Source of funds	Funding sourced R billion	Currently secured R billion	Draw-downs to date R billion	Supported by government R billion
Bonds	90.0	65.4	65.4	42.6
Commercial paper[1]	70.0	70.0	40.0	0.0
Export Credit Agencies	32.9	32.9	21.7	0.0
World Bank	27.8	27.8	12.0	27.8
African Development Bank	20.9	20.9	16.2	20.9
Development Bank of Southern Africa	15.0	15.0	9.0	0.0
Shareholder loan	20.0	20.0	20.0	20.0
Other / new sources	23.4	19.6	4.5	5.0
Totals	**300.0**	**271.6**	**188.7**	**116.2**
Percentages		90.5%[2]	69.5%[3]	42.8%[3]

1. Commercial paper is issued for up to one year and then redeemed and re-issued for the same net amount. The commercial paper is thus by definition not fully secured for the full period, however, Eskom's long-term observations and past trends support a high level of confidence that Eskom will be able to roll over the redemptions each year. For this reason, the gross value of the commercial paper is shown under the "secured" column in the borrowing programme table above
2. As a percentage of the R300 billion funding sourced
3. As a percentage of the currently secured total

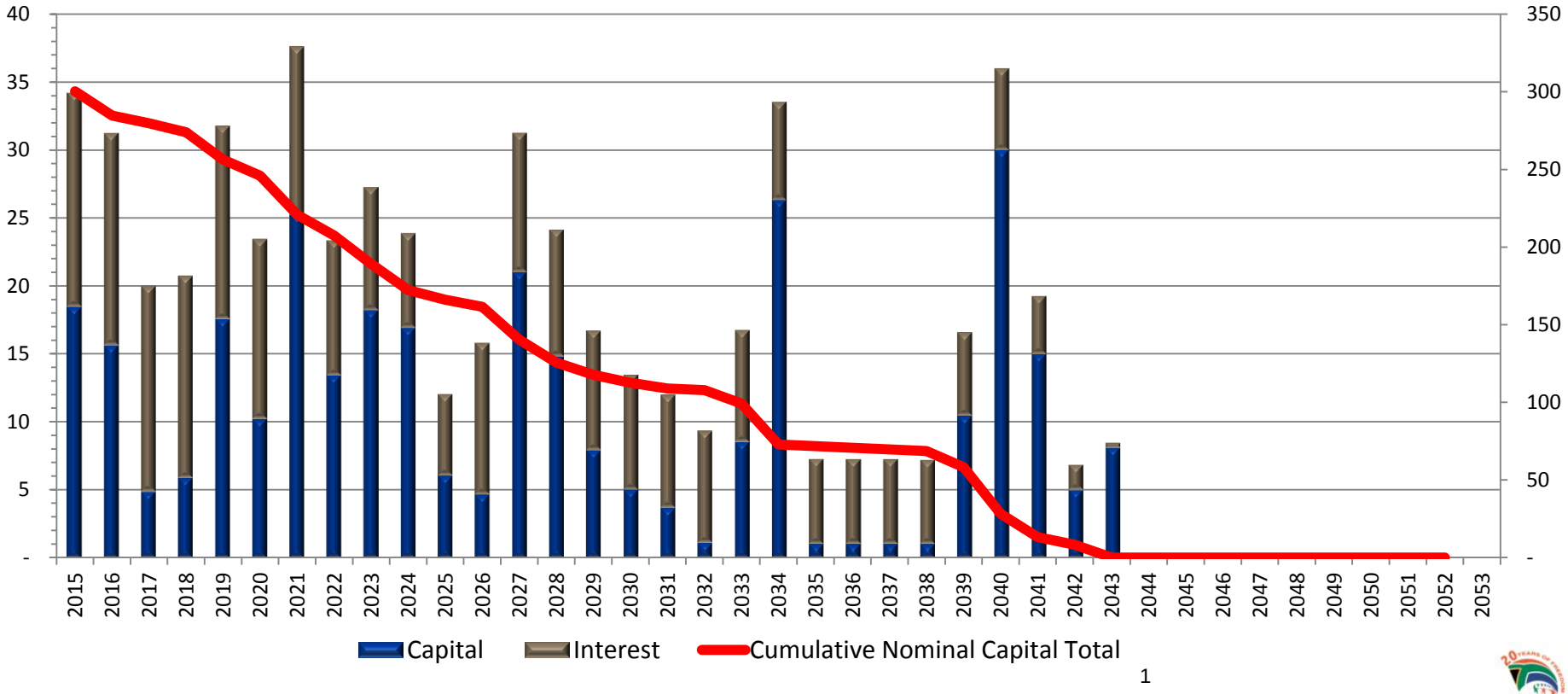
Debt maturity profile

Ensuring Eskom's financial sustainability

- Eskom has to be responsible in managing its debt profile
- The R255 billion of borrowings at 31 March 2014 will be repaid by 2052

Strategic and trading portfolio nominal and interest cashflows as at 31 March 2014

R billion



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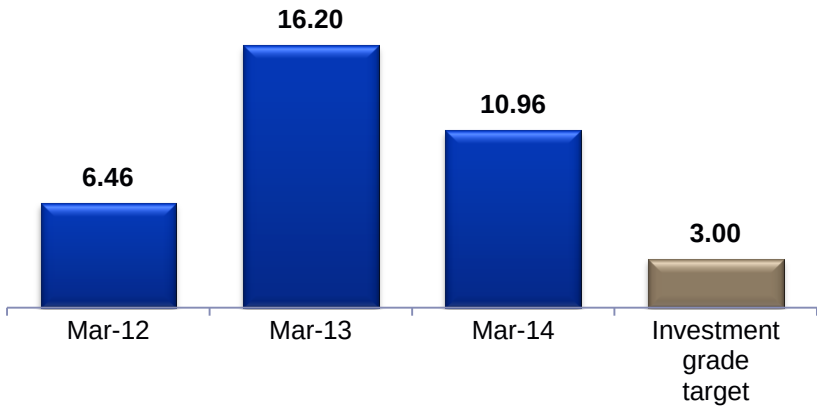
1. Annual cash flows from 2044 to 2052 are below R50 million

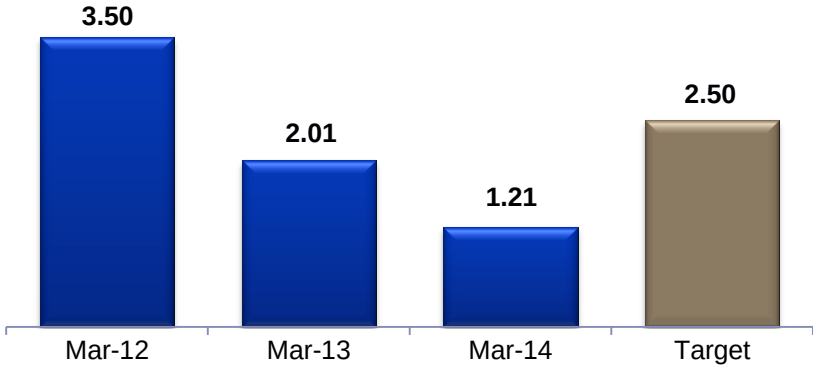
Debt maturity and leverage

Ensuring Eskom's financial sustainability

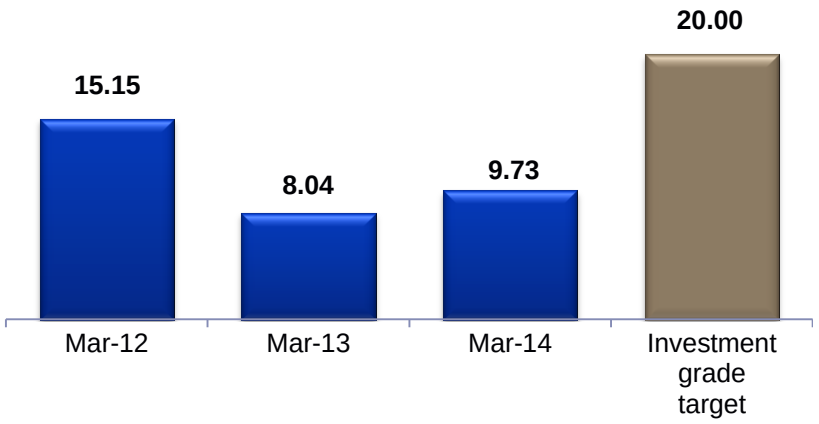
Gross debt / EBITDA[1] ratio



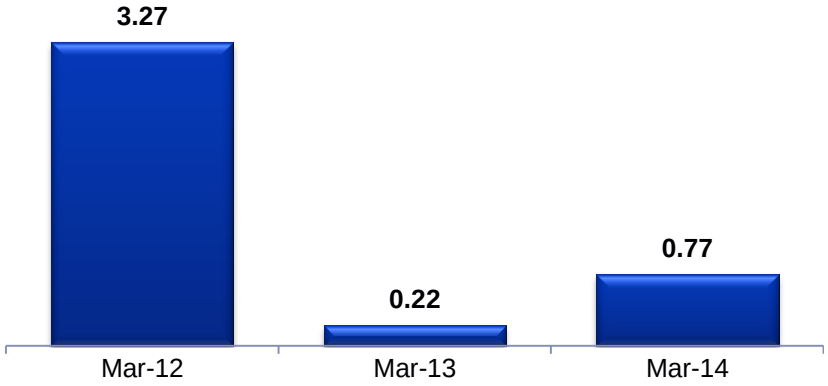
Debt service cover ratio



FFO as a % of gross debt



Interest cover ratio[2]



1. Earnings before interest, taxation, depreciation and amoritisation
2. In 2012/13 the effect of the remeasurement of the government loan (income of R17.3 billion) impacted the interest cover ratio

Eskom credit ratings as at 31 March 2014

Ensuring Eskom's financial sustainability

As a significant portion of Eskom's debt is guaranteed by government, its headline credit rating has been uplifted, but remains closely linked to that of the sovereign

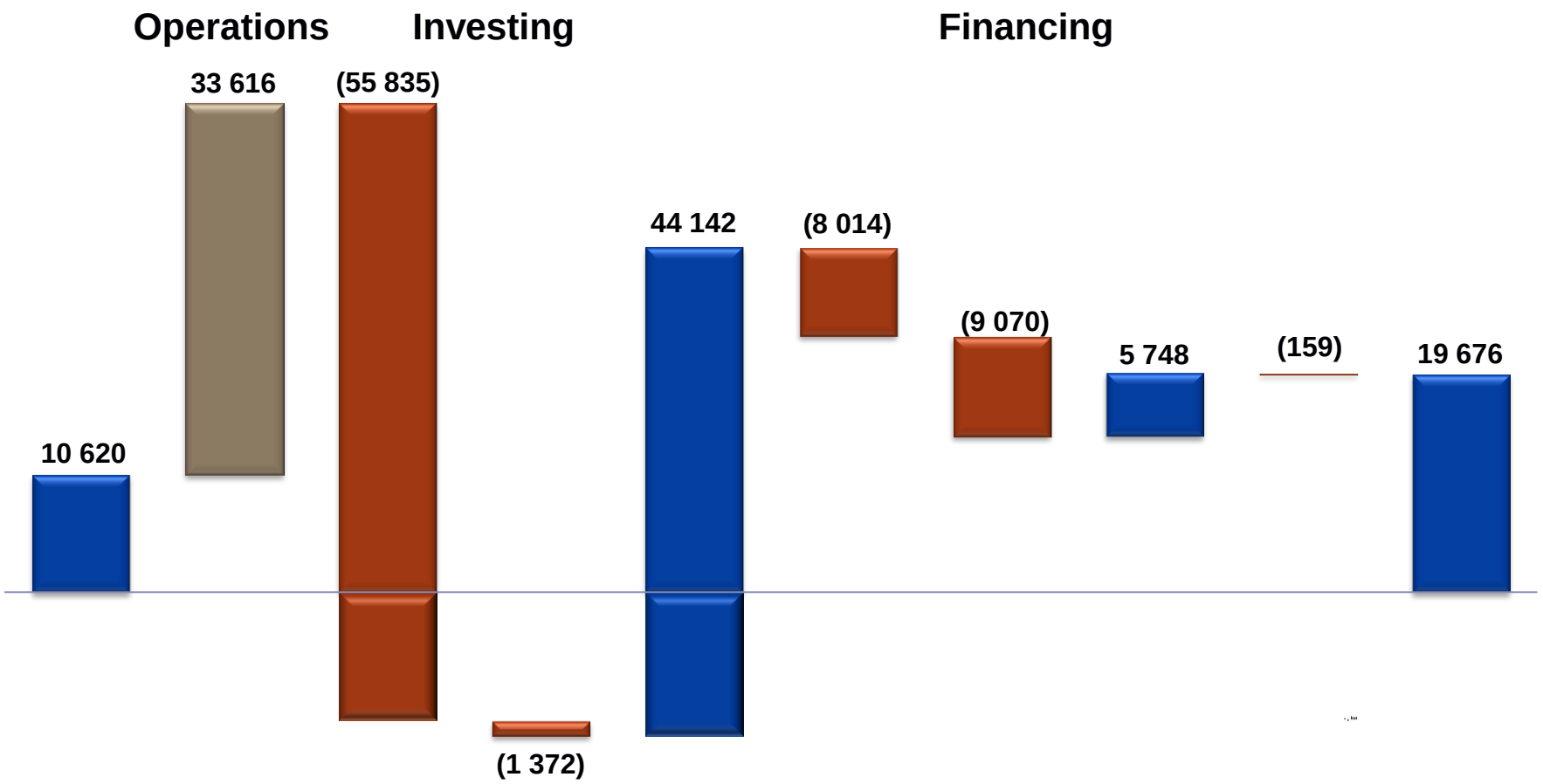
Rating	Standard & Poor's	Moody's	Fitch
RSA government			
Foreign currency	BBB[1]	Baa1	BBB
Local currency	A-[1]	Baa1	BBB+
Outlook	Negative	Negative	Stable[2]
Eskom Holdings SOC Limited			
Foreign currency	BBB[4]	Baa3	-
Local currency	BBB[4]	Baa3	BBB+
Standalone	b-	b1	B
Outlook	Negative[4]	Negative	Stable[3]
Action date	14 Oct 2013	19 Jul 2013	11 Jan 2013
Affirmation date	14 Oct 2013	19 Jul 2013	12 Dec 2013

1. On 13 June 2014, Standard & Poor's downgraded the sovereign foreign currency and local currency ratings (from BBB to BBB- and from A- to BBB+ respectively). This is expected to result in an adjustment to the Eskom headline and standalone credit ratings
2. On 12 June 2014, Fitch revised the sovereign outlook to "negative", which is expected to result in an adjustment to the Eskom headline and standalone credit ratings
3. On 18 June 2014, Fitch affirmed Eskom's BBB+ rating, but revised the outlook to "negative"
4. On 20 June 2014, Standard & Poor's downgraded the foreign and local currency ratings from BBB to BBB-, and also put Eskom on CreditWatch

Summary of cash flows

Ensuring Eskom's financial sustainability

R million

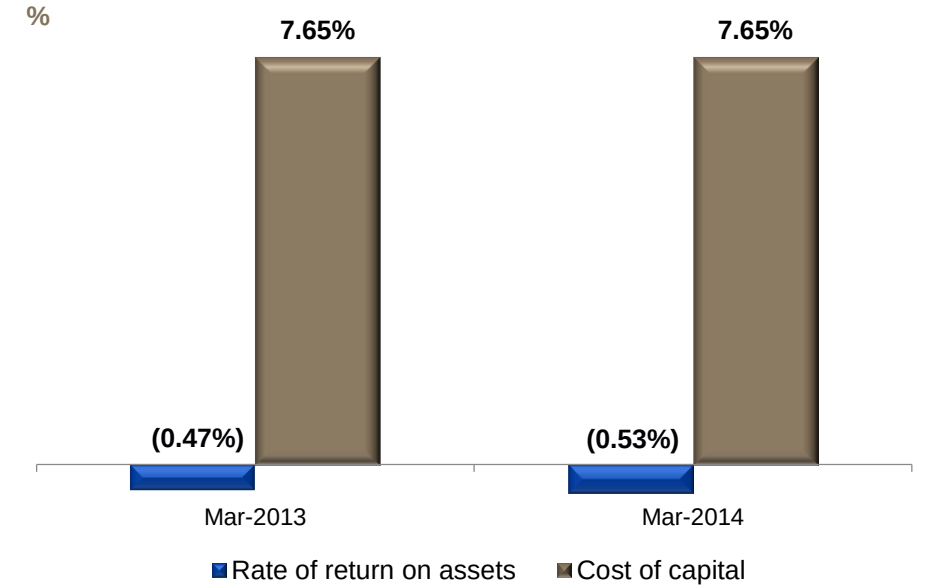


Appropriate return on assets

Ensuring Eskom's financial sustainability

- Eskom requires a rate of return on assets that will enable it to maintain and replace the current asset base
- An appropriate rate of return on assets is a key building block towards cost-reflective tariffs
- Ideally, the rate of return on assets should at least equal the cost of capital
- The pre-tax real rate of return on assets was negative 0.53% compared to the pre-tax real cost of capital of 7.65%
- Continuing with inadequate returns will result in a further erosion of Eskom's financial position
- It is therefore imperative that the price of electricity migrates to cost-reflectivity

Rate of return on assets[1] vs cost of capital (pre-tax real rates)



1. Rate of return on assets calculated on closing balance of assets (revalued using the depreciated replacement cost method) and liabilities, excluding financial assets and liabilities

Financial sustainability

Ensuring Eskom's financial sustainability

- Critical for Eskom is **ensuring a balance** between security of supply, asset creation, financial sustainability and environmental compliance and to responsibly manage the trade-offs that are required
- **Revenue shortfall** of R225 billion created by the MYPD 3 determination has serious consequences for Eskom's business and future sustainability
- Key to success is to ensure an **appropriate return on assets** in the long term and to obtain **adequate funding** to address liquidity in the short term
- Eskom's response to the **liquidity challenges** and **long-term financial sustainability** includes:
  - Investigating alternative sources of funding, including possible equity or quasi-equity instruments
  - Exploring additional borrowing options, although the ability to borrow sufficient funds at affordable levels is constrained by credit ratings. Given the recent sovereign ratings downgrade, Eskom is at risk of a further downgrade
  - Reprioritisation of capital expenditure within the R251 billion budget. However, this could negatively affect operational sustainability and impact security of supply
  - Applied to NERSA for a regulatory clearing account (RCA) adjustment, to claw back prudently incurred expenditure and lost revenue due to lower demand than forecast in the MYPD 2 application
  - Business productivity programme launched to reduce cost, increase productivity and enhance efficiencies
- Financial sustainability cannot be achieved through efficiencies and savings alone – **cost-reflective tariffs** remain a key imperative

Concluding remarks

Collin Matjila
Interim chief executive

Concluding remarks

Eskom strategic objectives

Safety will continue to be the **foundation** for all Eskom's operations and is key to Eskom's performance, with focus on the following **key principles:**

- The **capacity expansion strategy** which addresses priorities within the limits of available capital
- The **Generation sustainability strategy** which focuses on the plant, people and processes
- Pursuing cost-reflective tariffs, the RCA and alternative funding options
- Continued focus on **skills building, transformation and environmental sustainability**
- Adapt the **Eskom business model**

Eskom Emergency Task Team (EETT)

The **objective** is to develop levers and solutions to **deliver on:**

- **Financial sustainability** by achieving business productivity targets and driving internal efficiencies
- **Operational sustainability** by ensuring improved generating plant performance and implementing supply-side measures
- **Asset creation** by ensuring the on time completion of the capacity expansion programme

It is critical for Eskom to **ensure a balance** between security of supply, asset creation, financial sustainability and environmental compliance and to responsibly manage the trade-offs that are required


VOITH

Thank you


49
I DONT WANT
TO BE ON
ALL BY MYSELF
REMEMBER YOUR POWER