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The condensed group interim financial statements for the six months ended 30 September 2020 have been prepared under the supervision of the chief financial officer (CFO), C Cassim CA(SA) and were published on 14 December 2020.

The condensed group interim financial statements for the six months ended 30 September 2020 have not been audited, reviewed or reported on by the external auditors of the group. The financial information for the year ended 31 March 2020 is as reflected in the audited financial statements. The financial information for the period ended 30 September 2019, that was previously reviewed by the external auditors, has subsequently been restated.

## BUSINESS PERFORMANCE OVERVIEW

Eskom's results for the six months ended 30 September 2020 demonstrate an incremental improvement in key operational metrics, although significant financial challenges remain, predominantly related to tariffs not being cost-reflective, coupled with an unsustainably high debt burden.

This commentary provides an overview of our operational and financial performance for the period, as well as progress on other key matters. Material events after the end of the period up to the date of approval have been included.

Some noteworthy points for the six months under review include:

- financial results remain challenging, with a net profit after tax of only R83 million
- COVID-19 has had a substantial impact on performance, with sales volumes down 10.3% year-on-year, negating the tariff increase of 8.76%
- despite stagnant revenue, enhanced cost control resulted in an improvement in EBITDA to R28.1 billion
- operating profit was eroded by net finance cost of R15.3 billion due to the unsustainable level of R463.7 billion in gross debt
- government support of R6 billion year-to-date supported liquidity, with R56 billion committed for the 2021 financial year
- operational performance is steadily improving, with plant availability as well as levels of planned and unplanned maintenance showing progress due to the generation recovery plan and reliability maintenance recovery programme delivering results
- regrettably, loadshedding had to be implemented on 19 days from July to September 2020
- transmission network performance has returned to expected levels, with distribution network performance remaining stable
- Kusile unit 2 achieved commercial operation on 29 October 2020
- particulate emissions performance has improved significantly, with water usage levels remaining stable

### Introduction

Eskom's operational challenges have not occurred in isolation – they are largely due to poor liquidity, exacerbated by an unsustainable financial position that arose due to the following:

- adverse revenue decisions from the National Energy Regulator of South Africa (NERSA), failing to result in cost-reflective tariffs
- unsustainable increases in indebtedness to finance our new build programme and the resultant growth in net finance cost which has not been adequately recovered through revenue
- declining sales volumes, coupled with escalating arrear debt from non-paying customers
- above-inflationary increases in operating costs, especially in the coal environment

In the medium term, our unsustainable debt burden, arising from the abovementioned factors, presents the biggest threat to our financial sustainability. At 30 September 2020, the gross book value of outstanding debt securities and borrowings stood at R463.7 billion (September 2019: R454.2 billion). The reduction of R20 billion from the balance of R483.7 billion at 31 March 2020 is due to debt servicing as well as fair value adjustments on foreign debt, driven by the strengthening of the rand since March 2020. After accounting for derivatives and available cash on hand, net debt amounted to R420.6 billion (September 2019: R424.1 billion). Government guaranteed debt accounted for R304 billion, or approximately 66%, of the gross debt balance. It is clear that, in addition to the threat posed by electricity supply shortages, Eskom's level of debt is a systemic risk to the fiscus and the country as a whole.

In order to improve our financial position in the longer term, we require a considerable reduction in the debt profile or a sizable increase in cash flows through cost-reflective tariffs. This would result in operational cash flows that are adequate to service finance cost, and improve cash interest cover and debt service cover ratios to acceptable levels.

As stated on several occasions, we require a rate of return on assets at least equal to Eskom's actual weighted average cost of capital to ensure financial sustainability and remain a going concern. An adequate return will enable sufficient operational cash flows to meet liquidity requirements, service debt commitments and fund a portion of capital expenditure. In order to improve the rate of return and wean ourselves off taxpayer support, we have to migrate to a cost-reflective electricity price.






Cost savings alone are not enough to improve Eskom's financial position, as the gap of about R60 billion to cost-reflectivity is equivalent to our annual coal costs, or almost twice the employee benefit costs per year. Even an immediate increase in tariffs will only improve the financial position in the medium term.

In the absence of an adequate return provided by NERSA's tariff determinations, government's equity support is assisting us to service our debt commitments. Nonetheless, equity support only improves liquidity, but does not reduce the principal debt and therefore, will not ensure Eskom's long-term financial viability.

One of our identified disaster risks materialised in March 2020 when the COVID-19 outbreak was declared a pandemic by the World Health Organisation. As an essential service, we were 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. Our priority was the supply of electricity as an essential service, and maintaining the safety of our people. Non-essential staff have worked at home since the start of the national lockdown, with some staff returning to work as restrictions were lifted. Where they are able to, a large part of our support staff are still working from home.

Despite being allowed to operate, delays were experienced in executing capital and major maintenance projects due to lockdown restrictions on the movement of people. The most noteworthy impact on our business came from the reduction in demand during the earlier levels of the lockdown. Financial results for the period have been significantly affected by the national lockdowns in South Africa and our trading partners, and the resultant downgrade of the sovereign credit rating – these factors have had an adverse effect not only on Eskom's operations and finances but also on the South African economy as a whole.

Our turnaround strategy continues the focus on five key areas, namely operational recovery, improving our income statement, strengthening our balance sheet, accelerating the restructuring of Eskom into three separate entities, and building a high-performance organisation through addressing our corporate culture by energising our Eskom colleagues.

 <b>Operations recovery</b>	 <b>Improve income statement</b>	 <b>Improve balance sheet</b>	 <b>Business separation</b>	 <b>People and culture</b>
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**

**Plant and network performance**

The performance of our generation fleet continues to be disappointing, although plant availability, unplanned maintenance in the form of breakdowns and partial load losses, and planned maintenance have all improved slightly since the previous year end. Subsequent to the end of the period, planned maintenance conducted in terms of our reliability maintenance recovery programme has ramped up significantly, to about 15% of nominal capacity at the date of release of these results.

Despite the reduced demand during the COVID-19 lockdown, loadshedding and/or load curtailment had to be implemented on 19 days during the period (September 2019: no loadshedding during the six-month period). This was due to due to high levels of unplanned breakdowns, combined with the need to conserve and replenish emergency reserves, while maintaining the stability of the power system. Loadshedding is always implemented as a last resort to protect the power system, as we recognise the damage that loadshedding causes to our customers and the greater economy. However, a total collapse of the grid would be far worse.

Open-cycle gas turbines (OCGTs), owned by both Eskom and independent power producers (IPPs), were utilised frequently during the second quarter to support the power system, supplying 787GWh year-to-date (September 2019: 500GWh). Renewable generation continued to support the power system during the period, although wind generation is more intermittent during the winter months than during summer.

Generation plant availability (EAF) decreased to 67.86% for the period (September 2019: 69.91%), well below our aspiration of 73%. Nevertheless, plant availability has improved from the 66.64% at March 2020. The decrease in EAF is largely due to a substantial increase in other load losses outside power stations' control (OCLF) against the previous year, with an increase in planned losses being offset by an improvement in unplanned losses compared to the prior year. Planned maintenance of generation plant (PCLF) improved slightly to 9.96% (September 2019: 8.86%), ramping up to about 15% by December 2020. Unplanned maintenance (UCLF) improved marginally to 18.59% for the period (September 2019: 19.81%), due to a reduction in both full and partial load losses. Peaking and nuclear generation plant continue to perform well.

The reliability maintenance recovery programme has been put in place to provide intensified support to power stations. It is a centre-led programme to ensure integration across the generation fleet, process management compliance, enhanced project controls for transparency, and risk escalation through a core team. Capital expenditure for outages for the remainder of the financial year has been approved by both Exco and the board. The ultimate aim is to improve outage performance to reduce the risk of loadshedding, thereby supporting South Africa's economy.

Koeberg nuclear power station continues to operate well and within the required safety parameters, and at the lowest primary energy cost of our base-load stations. The refuelling outage on unit 2 was delayed due to the national lockdown. The unit was finally shut down for a refuelling and maintenance outage on 11 August 2020. It returned to service on 21 October 2020, loading up to full capacity within a week.

We propose extending the life of Koeberg for an additional 20 years to 2045, in line with the Integrated Resource Plan (IRP) 2019 expectations for continued 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. The extension will include the replacement of Koeberg's six steam generators during the next refuelling outage on each of the units. A significant milestone was achieved recently with the delivery of the first three steam generators to site from September 2020.

The generation recovery plan, which aims to address critical pain points to allow for fast-tracked improvement in generation performance and plant availability, is delivering results. Progress has been made on many of the areas. Outage effectiveness and the timely return to service of units is starting to improve, with post-outage unplanned losses and unit trips showing significant year-on-year improvement.

We have concluded that the rebuild of Duvha unit 3 is no longer deemed economically viable, given that the station is scheduled to be decommissioned in 2034 and there is no formal plan to extend the station's life beyond that. Furthermore, since the IRP ends in 2030, there is no clear direction beyond this. The cancellation of the project was approved by the board's investment and finance committee.

Average partial load losses at 3 608MW remain high (September 2019: 3 674MW). Furthermore, the boiler tube failure rate year-on-year comparison deteriorated to 2.40 tube failures per unit per year by September 2020 (September 2019: 2.06). Boiler tube failure performance continues to worsen over time. The biggest contributor is maintenance delays related to the deferral of planned reliability outages to later in the year, partially due to the national lockdown.

Coal stock levels continue to improve, with average coal stock (excluding Medupi and Kusile) at 58 days at the end of the period (September 2019: 54 days). No power stations were below their minimum stock levels (2019: one), and coal stock at all stations were at or above expected levels. Nevertheless, coal-related losses remain a significant contributor to other load losses, with most of those occurring at Matla and Kriel power stations. We are working with the respective mines on initiatives to improve coal quality, including removing stone contamination from coal supplied.

Compared to the prior year, transmission's system minutes <1 performance has improved significantly to 1.32 minutes for the period (September 2019: 2.92 minutes). However, two major incidents occurred in July 2020, affecting smelter loads in KwaZulu-Natal and industrial loads in North West. Both incidents were due to the failure of ageing assets, which includes substation plant and line hardware.

Distribution network performance has been stable, with network interruption duration (SAIDI) of 38.2 hours (September 2019: 38.2 hours) and network interruption frequency (SAIFI) of 14.8 events (September 2019: 14.8 events). Areas that require improvement are network restoration time, maintenance of focus feeders, increasing levels of refurbishment of ageing assets and consistent capital investment.

In an effort to protect electrical infrastructure against damage due to overloading, we have started implementing load reduction during peak times in certain high-density areas associated with illegal connections. This is based on active monitoring of load on networks.

**New build progress**

Kusile unit 2 achieved commercial operation only on 29 October 2020, as issues in the mill performance, plant failures and the COVID-19 lockdown delayed commercialisation. Kusile unit 3 is on track for commercial operation by March 2021 and Medupi unit 1 by July 2021.

The construction of high-voltage transmission lines was negatively affected by the COVID-19 lockdown restrictions, with only 6.3km installed during the period (September 2019: 45.1km). The delays are expected to put the achievement of the year-end target at risk. Nevertheless, new transformer capacity of 750MVA was commissioned (September 2019: 540MVA).

The availability and reliability of the synchronised units at Medupi and Kusile are steadily improving. This is a result of the continuous interventions taken in correcting major plant defects and improving operational inefficiencies. Six units at Medupi and three units at Kusile contribute energy to the national grid.

Modifications to correct design defects were successfully implemented on Medupi unit 3 during the 75-day outage that ended in April 2020. In May 2020, the unit reached its full generation capacity of 793MW. The optimisation process preceding full performance testing has been completed, as well as the in-house performance test. Unofficial performance verification tests are showing positive results.

Modifications were implemented on Medupi units 6, 4 and 1 during recent outages. The modification on unit 2 is in progress. The rollout of the modifications to the Kusile units in operation will start with unit 1 from mid-2021.

In April 2019, the total cost for fixing the major plant defects at Medupi and Kusile was estimated at R7.2 billion. The estimate remains the same. We have entered into a contractual consultation process with the boiler contractor to determine the liability for the required modifications to correct the defects. Following proof of liability, the liable party will be fully accountable for the costs of plant defect correction. At this stage, the defect costs are being split equally between Eskom and the contractor at both Medupi and Kusile.

**Environmental performance**

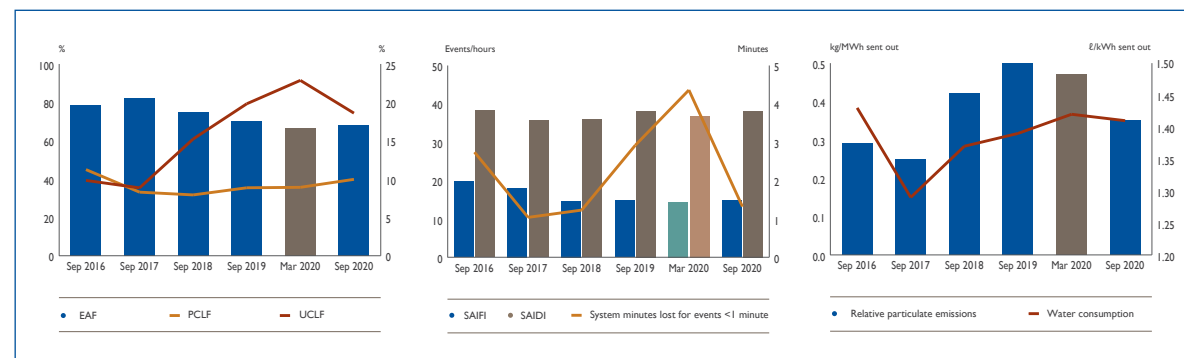
Relative particulate emissions performance of 0.35kg/MWh sent out has improved markedly year-on-year (September 2019: 0.50kg/MWhSO). By September 2020, five units – four at Kendal and one at Lethabo – were operating in non-compliance with average monthly emission limits. This placed 3 153MW at risk of being shut down by the authorities.

During strike action in 2018, significant damage was caused to the electrostatic precipitators at Kendal power station, leading to elevated emissions since then. Kendal initially tried to recover from the situation with short outages to repair the precipitators and dust handling plant, and unit 5 was taken off load for repairs for three months in 2019. However, when it returned to service, emissions remained above the limit.

A criminal case in respect of non-compliance to the Kendal atmospheric emission licence (AEL) was opened in September 2019. Following engagements with authorities, a compliance notice was issued to Kendal in December 2019 in respect of continued AEL non-compliances. Eskom appealed the notice. Minister Barbara Creecy of the Department of Environment, Forestry and Fisheries (DEFF) responded to the effect that Eskom must operate only one of the worst performing units at a time and must provide plans to address the emission levels at the station.

In response to the compliance notice issued by DEFF, unit 5 (640MW) was taken out of service in January 2020 due to its high emissions. The unit began a planned outage in July 2020 for repairs to the electrostatic precipitators to comply with emission limits. It is expected to return to service by April 2021. Unit 6 was taken off load in November 2020, and will be on an extended outage for a full refurbishment of the electrostatic precipitators and dust handling plant.

Kendal units 1 and 2 are operating in compliance. Nevertheless, units 3 and 4 remain a challenge. Both of the units have undergone interim repairs and will be operated at lower loads to keep emission levels down. However, both units require extended outages in the next year to refurbish the electrostatic precipitators.



**Operational performance (continued)**

**Environmental performance (continued)**

In August 2020, DEFF approved our action plan for the return to compliance of Kendal's units. Failure to comply with the action plan is considered non-compliance with the directive and could result in further censure. The station is tracking the delivery of the plan, which is going well, except for delays in respect of the dust handling plant. These are being addressed.

In November 2020, Eskom received a summons to appear in court on charges of non-compliance with the AEL for Kendal. Eskom is cooperating fully with the authorities, and disciplinary action is being instituted where necessary. The execution of the plan to recover emissions performance is being closely tracked.

Minister Creecy granted Eskom approval in July 2020 to operate its stations under pre-1 April 2020 emission limits until decisions on the minimum emission standard (MES) applications have been made. The approval was subject to the provision of all outstanding information by August 2020. All outstanding information for the 2019 MES applications and additional applications for Grootvlei, Acacia and Port Rex power stations were submitted to DEFF as required by the end of August. Applications for postponement or exemption from the MES for Medupi and Matimba were also submitted at the end of August.

Since late April 2020, all eight Camden units (totalling 1 481MW nominal capacity) have been shut down due to an environmental risk resulting from ash dam capacity constraints. This accounted for other load losses of 2.35%. Plans are in place to ensure the completion of the new ash dam by the first quarter of the 2022 financial year, and to redirect a portion of the ashed volume to free up space allow limited operation of units until the new ash dam is complete. The first Camden unit was synchronised on load towards the end of August 2020, with the remaining units returning during October. Unit 3 is on outage. Regrettably, four units have since been taken off load due to ash dam capacity constraints, with three expected to return to service in December 2020, and the last in February 2021.

Power station water usage for the period was stable at 1.41l/kWhSO (September 2019: 1.39l/kWhSO). Generation continues to focus on improving water management practices across the power station fleet, to prevent the occurrence of future legal contravention incidents due to non-compliance with water-use licence conditions. Water management plans are in place and the implementation thereof is closely monitored through the generation environmental compliance steering committee, chaired by the group executive: generation. Regrettably, we incurred 33 environmental legal contravention incidents during the period (September 2019: 23), with 91% being water-related incidents.

**People and safety**

The group headcount continued its anticipated decline to 43 795 at the end of the period (September 2019: 45 625), mainly through natural attrition, supported to some extent by the voluntary separation packages offered to managerial level staff at the end of the previous financial year. As part of the turnaround plan, Exco approved another round of voluntary separation packages at managerial level to a maximum value of around R300 million in November 2020, with successful applicants expected to leave Eskom's employ by 28 February 2021.

Racial equity at senior management level has improved to 72.27% (September 2019: 70.42%), and racial equity at professional and management level has increased to 79.17% (September 2019: 76.70%). Gender equity has remained relatively stable, at 40.90% at senior management level (September 2019: 41.10%) and 38.65% at professional and middle management level (September 2019: 38.12%). Disability equity at group level has declined slightly to 2.97% (September 2019: 3.08%).

The group lost-time injury rate (including occupational diseases) has shown remarkable improvement to 0.24 (September 2019: 0.31). Tragically, we have suffered two employee and eight contractor fatalities during the period (September 2019: four contractors). Every loss of life in Eskom's service is unacceptable. Our heartfelt condolences go to the affected family, friends and colleagues.

Attacks on Eskom employees and contractors or attempts to kidnap them while repairing faults is deplorable. The safety of our people remains our number one priority, and we reserve the right to withdraw our services where the operating environment is deemed unsafe.

To combat the effects of COVID-19, we continue to institute appropriate measures to protect critical staff and minimise the number of employees on site wherever possible. Plans are in place to protect key operations such as Koeberg nuclear power station, national control, telecoms control, Apollo converter station, distribution control rooms, resource management centres and some generation sites.

At 9 December 2020, we had recorded 2 295 positive COVID-19 cases, comprising 1 893 employees and 402 contractors, with 2 224 recoveries, a recovery rate of almost 97%. Sadly, we have lost 34 employees and three contractors to the disease. We extend our sincere condolences to those affected by their loss.

**Societal impact**

During the period, only procurement spend with black youth-owned suppliers achieved the target. Total preferential procurement spend, as well as spend with black-owned and black women-owned suppliers, qualifying small and exempted micro enterprises, and suppliers owned by black people living with disabilities, continued to perform below target, mainly due to expired suppliers' B-BBEE certificates. Furthermore, a significant portion of our procurement spend relates to IPP contracts that are not B-BBEE compliant. These contracts were concluded in terms of the renewable IPP programme by the Department of Mineral Resources and Energy (DMRE), over which we had no control. This continues to have a negative effect on our procurement equity performance.

More positively, we completed 63 909 connections under DMRE's electrification programme (September 2019: 77 455), utilising DMRE funding of R1 billion year-to-date. Regrettably, our corporate social investment spend was severely affected by the national lockdown, with only R22.2 million committed to six projects during the period, assisting 3 320 beneficiaries (September 2019: R63.9 million to 107 581 beneficiaries).

**Financial performance**

Historically, Eskom's financial performance in the first half of the year is better than the second half as the winter period is characterised by higher tariffs and increased sales volumes. Additionally, less maintenance is performed in winter to ensure adequate supply to sustain the increased demand and to offset lower winter production by renewable IPPs. While we did well to achieve a profit in the first six months given the unprecedented circumstances, the seasonal nature of Eskom's revenue and spend means that there still remains considerable cost pressure in the second half of the year, due to summer maintenance requirements and costs associated with ensuring security of supply.

**Financial results**

We recorded a net profit after tax of R83 million while navigating a very challenging operating environment (September 2019: R1.9 billion loss, restated). Revenue grew to R108.7 billion (September 2019: R107.5 billion), an increase of only 1.1%, even though we were awarded an allowed tariff increase of 8.76% for 2021, with sales volumes deteriorating significantly amid COVID-19.

Although Eskom has experienced a trend of declining sales volumes of approximately 1% per annum since 2014, the decline seen during the first six months of this year was unprecedented. Sales fell by 10.3%, to 93.4TWh (September 2019: 104.1TWh), with local and international sales decreasing by 9.7TWh and 1TWh respectively, as lockdown restrictions and depressed economic conditions led to a reduction in the average demand for electricity. Sales worsened across every sector of the economy, with the industrial sector being most severely affected by a year-on-year reduction of 17.6%.

Growth in primary energy costs was stable at 4.4%, increasing to R54.3 billion for the period (September 2019: R52 billion). Primary energy costs are directly related to the volume of electricity generated from Eskom's power stations as well as purchases from IPPs and international imports. Because of the substantial decline in electricity demand during the national lockdown, electricity production reduced by 7.5% from 120.1TWh to 111.1TWh, mostly through lower coal production, which was partially offset by higher utilisation of more expensive Eskom OCGTs, IPPs and imports. As a result, the average cost of production has increased.

Coal costs are being controlled, in particular from short- and medium-term sources, with an increase of only 4.6% in the average purchase cost per ton of coal compared to March 2020 (September 2019: 14.2% compared to March 2019). Eskom OCGTs were utilised frequently to support the power system, generating 496GWh at a cost of R1.4 billion (September 2019: 331GWh at R1.1 billion).

Expenditure on international purchases increased to R2.5 billion, with imports of 4 474GWh (September 2019: 3 703GWh at R2 billion) due to improved supply from Hidroeléctrica de Cahora Bassa, as an additional generator was made available and its maintenance plan was put on hold during the Mozambican lockdown. Expenditure on IPPs, including capacity charges, increased to R14.5 billion, with 5 842GWh energy purchased (September 2019: 5 389GWh at R13 billion), resulting in a weighted average IPP cost of 249c/kWh (September 2019: 241c/kWh). We are still locked into long-term contracts from earlier IPP bid windows at higher rates than new IPP generation affords.

We managed to contain employee benefit costs at R16.7 billion (September 2019: R16.4 billion, restated) through headcount reduction and sub-inflation salary increases at managerial levels in October 2019. Other operating expenditure, including maintenance, decreased to R10.4 billion (September 2019: R12.3 billion, restated). The restatement for the prior period largely relates to the write-off of R4 billion of work under construction on potential overpayments to a number of contractors involved in the construction of Kusile power station. During the period, we wrote off R1.3 billion relating to amounts incurred on Duvha unit 3 since the over-pressurisation incident on 31 March 2014, as it is no longer considered economically viable to continue with the rebuild of the unit.

Altogether, these factors led to an improvement in EBITDA to R28.1 billion (September 2019: R26.4 billion, restated) along with corresponding growth in the EBITDA margin to 25.82% (September 2019: 24.58%, restated). However, EBITDA was eroded to a profit before tax of only R0.1 billion (September 2019: R2.5 billion loss, restated), mainly by depreciation of R13.8 billion (September 2019: R13.5 billion, restated) and net finance costs of R15.3 billion (September 2019: R15 billion, restated).

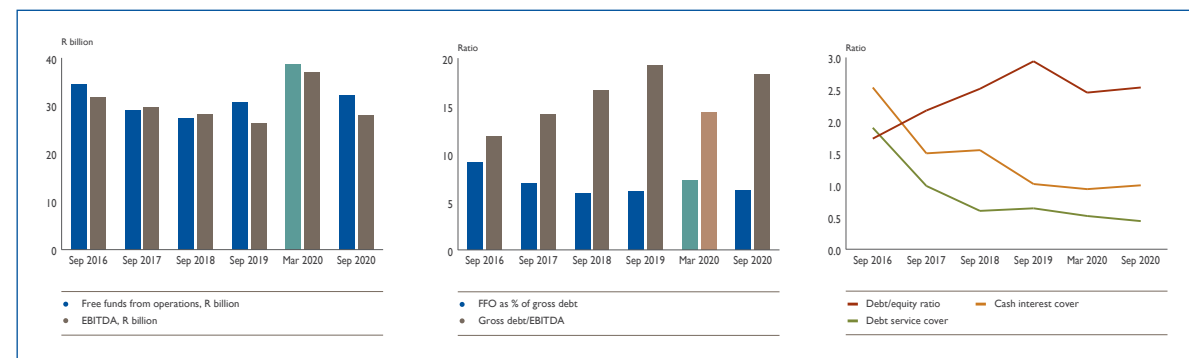
**Funding**

Our borrowing programme had originally targeted raising R30.8 billion during the year, of which R19.6 billion (64%) has already been secured, mainly through signed and committed funding from development finance institutions and local bond issuances. However, we are anticipating raising funding of R40.7 billion by 31 March 2021 to strengthen our liquidity position, subject to available market appetite. Despite this increase, we will remain within our overall borrowing programme target for the next five years to 2025.

The sovereign downgrade by Moody's at the end of March 2020 placed the country at sub-investment grade level by all three internationally recognised credit rating agencies. Shortly thereafter, Moody's downgraded Eskom's guaranteed credit rating on notes that rely on the government's guarantee framework agreement. In April 2020, Fitch followed suit and downgraded the sovereign as well as Eskom's ratings with a negative outlook, subsequently affirming its ratings in September 2020.

At the end of November 2020, both Fitch and Moody's downgraded the sovereign as well as Eskom's ratings for the second time in a year, while maintaining their negative outlook; Standard & Poor's affirmed their previous Eskom ratings with a negative outlook.

Our access to funding in both domestic and foreign markets remains constrained by low investor confidence as a result of poor financial performance, saturated borrowing capacity and the recent rating downgrades. These factors have a direct effect on market appetite and our future cost of borrowing, and may hinder the execution of our borrowing programme. Nevertheless, opportunities exist in some areas. Despite greater economic uncertainty brought about by COVID-19, the impact of interest rate and currency risk on our existing debt has been limited due to comprehensive hedging of these exposures.



**Financial performance (continued)**

**Funding (continued)**

The debt repayment profile of existing debt only, net of swaps and based on forward rates, remains pressured over both the short and long term. Interest payments of R36 billion and capital payments of R58 billion are required during the current year, while total interest payments of R142 billion and capital payments of R197 billion are required over the next five years to 2025. These repayments can only be met with continued government support. By 30 September 2020, Eskom had requested and received R6 billion of the R56 billion government equity support committed for the year, with cash flows being monitored on a daily basis to assist National Treasury in determining the appropriate timing of the support.

**Managing liquidity**

Liquidity remains one of our biggest short-term challenges, threatening our ability to achieve operational stability. As mentioned above, access to cost-effective funding remains restricted, while inadequate price increases granted by NERSA as well as declining sales and escalating municipal arrear debt further contribute to our liquidity constraints. To address this, our turnaround strategy focuses on five key areas, two of which are finance-related – improving our income statement, by achieving revenue certainty, cost optimisation and efficiencies, combined with strengthening our balance sheet.

Revenue certainty is dependent on sales growth opportunities and the migration towards cost-reflective tariffs. As discussed earlier, sales volumes have declined considerably because of COVID-19 and demand is expected to remain subdued for the foreseeable future. The High Court has awarded favourable judgments in three of the four applications submitted by Eskom to review NERSA's recent revenue and regulatory clearing account (RCA) determinations. Only the review application for the RCA for the 2018 financial year is outstanding, as NERSA is in the process of opposing the application. In addition, NERSA has been granted leave to appeal the judgment on the timing of the recovery of the incorrectly appropriated R69 billion in the Supreme Court of Appeal. We have applied for execution of the order while awaiting the appeal process. We are expecting a High Court hearing on the execution order by January 2021.

The amounts in dispute through the review applications total over R110 billion, including the R69 billion equity injection incorrectly deducted from the determination for the fourth multi-year price determination (MYPD 4). This corresponds to a price increase of approximately 55%, if effected once-off in the 2022 financial year. If the amounts were to be recovered over the next four years, the effect on the tariff is estimated at between 12% and 15% per year.

NERSA's reasons for decision on the 2019 RCA were published in October 2020. The decision resulted in a shortfall of R14 billion against an application of R27.3 billion. Once reviewed, the board will make a decision on the way forward. Eskom's RCA application of R8.4 billion for the 2020 financial year has been submitted to NERSA.

To improve liquidity through cost optimisation and efficiencies, we have restricted organisational cash requirements through targeted savings on operating and capital expenditure and working capital. Our target is to reduce Eskom's cost base by R14.1 billion in the current financial year, and a cumulative R55.8 billion over the next three years. During the first six months of the year, we achieved savings of R5.2 billion against a target of R2.8 billion. The majority of savings came from primary energy through optimising coal inventory, which positively affects working capital, as well as a reduction in other operating expenditure.

At 30 September 2020, total municipal arrear debt stood at R32.9 billion (September 2019: R25.1 billion), representing 75.6% of total invoiced municipal debt (September 2019: 70.4%). The top 20 defaulting municipalities – including Maluti-a-Phofung, Emalahleni, Matjhabeng and Emfuleni – constitute 80% of total invoiced municipal arrear debt (September 2019: 79%). There are now 48 municipalities with arrear debt of more than R100 million each (September 2019: 42).

Despite our best efforts, limited success has been achieved in managing municipal arrear debt, which has escalated to unsustainable levels. The situation cannot be solved by Eskom alone – a structural solution is required, along with continued support and cooperation from government and other stakeholders to address the root causes of the problem and resolve these challenges.

Eskom's cash balance declined to R11.8 billion over the last six months (September 2019: R7.8 billion) as cash flows remain severely constrained. Net cash flows from operating activities of R18.9 billion were insufficient to service debt and interest repayments of R23.7 billion and R19.1 billion respectively, requiring government support to alleviate our ongoing liquidity challenges.

In the recent 2020 Medium-Term Budget Policy Statement (MTBPS), government reaffirmed its commitment to stabilising Eskom's balance sheet with financial support of R225.8 billion to the end of the 2026 financial year, a reduction of R4.2 billion from the original R230 billion announced in the 2019 MTBPS. In addition to R49 billion received in the 2020 financial year, a further R56 billion has been committed for the current financial year. The phasing of the support for 2022, 2023 and 2024 of R31.8 billion, R21.9 billion and R21.1 billion has now been confirmed in the 2020 MTBPS. However, the phasing of the remaining support thereafter is still to be confirmed.

**Business separation**

The Department of Public Enterprises (DPE) released the “*Roadmap for the Reform of Eskom in a Changing Energy Supply Industry*” (the Roadmap) in October 2019. The Roadmap sets 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
- 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

We have approached the implementation of the Roadmap in a phased manner to ensure organisational stability during the transition. By and large, our timelines are aligned to those in the Roadmap.

Divisionalisation has been completed, with implementation of the new operating model of the functionally separate entities progressing well for completion by March 2021. The legal separation of the Transmission entity is expected to be completed by December 2021, and the Generation and Distribution entities by December 2022.

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. Therefore, the achievement of legal separation is dependent to a large extent on government playing a proactive and supportive role.

An intergovernmental steering committee comprising DPE, DMRE, National Treasury and Eskom has been established to focus on the financial, legal and energy policy dependencies to aid in the timely legal separation of the three entities.

**Other matters**

**Board and executive changes**

Mr S Dabengwa tendered his resignation as non-executive director on 21 July 2020.

Ms F Burn was appointed as general manager: information technology and Mr R Vaughan as general manager: treasury, both with effect from 15 May 2020. Mr V Tuku was appointed as group executive: transformation management office from 1 July 2020.

From 1 September 2020, Mr B Nxumalo was appointed as group executive: group capital. Mr R Mathebula will act as group executive: generation in his stead. Ms N Minyuku was appointed as group executive: government and regulatory affairs with effect from 15 October 2020. Furthermore, Ms N Gafoor was appointed as general manager: audit and forensic with effect from 16 November 2020, filling a year-long vacancy in this critical position.

**Progress on governance clean-up**

The finalisation of investigations into former executives suspected of misconduct remains a priority. We continue to provide all necessary support to law enforcement authorities to investigate concerns and any violations of the law, and to recover stolen funds using both criminal and civil processes. This applies even where implicated individuals have subsequently left Eskom's employment.

At 30 September 2020, 278 cases related to fraud, corruption and irregularities were active, with 123 being investigated by our assurance and forensic department (A&F) and the remainder being prepared for outsourcing. Based on findings from concluded investigations, A&F has recommended 82 cases for criminal prosecution. Of these, 61 cases have been registered with the South African Police Service (SAPS), with the remainder in the process of being registered. A&F maintains a record of all matters that have been referred to law enforcement agencies, including the Hawks, the Special Investigative Unit (SIU) and the Commercial Crimes Unit. Over the last 15 months, 15 cases have been referred to these agencies.

Furthermore, disciplinary action was recommended against 50 employees during the first six months of the financial year. Findings from concluded investigations indicate that the key contributor to wrongdoing is unethical behaviour by employees, resulting in payment for goods not delivered or services not rendered, as well as failure to declare and manage conflicts of interest. Furthermore, general procurement irregularities include irregular issuing of purchase orders, incorrect or inflated billing for resources and non-adherence to procurement processes.

Investigations and reporting of these and other matters will continue, with the appropriate disciplinary processes being instituted, and internal control measures in the affected and related areas being reviewed and enhanced. An anti-fraud communication and awareness plan has been developed, with implementation in progress.

In August 2020, Eskom and the SIU issued summons to recover approximately R3.8 billion relating to a prepayment to Tegeta Exploration and Resources (Pty) Ltd from former board members Mr B Ngubane, Ms C Mabude and Mr M Pamensky, as well as former executives Mr B Molefe, Mr A Singh, Mr M Koko and Ms S Daniels. Other defendants include former minister of Mineral Resources, Mosebenzi Zwane, brothers Ajay, Atul and Rajesh (Tony) Gupta, and businessman Salim Essa.

As reported previously, two former senior employees, Mr F Hlakudi and Mr A Masango, were arrested on corruption-related charges in December 2019. Prosecution is still in progress.

**Looking ahead**

Our top priority remains to address Eskom's operational and financial challenges and return to a growth trajectory. Given the challenging environment we are all facing, this will require extraordinary efforts from every Eskom employee, and continued support from government and all South Africans.

The implementation of our reliability maintenance recovery programme is bearing fruit and positively affecting plant performance. However, as we have said before, even though the risk of loadshedding may have reduced, it has not been eliminated. The slump in demand seen since October 2020 has allowed some space for maintenance to address short-term risks. This has resulted in an improvement in unplanned unavailability to an average of 9 377MW during October and November, compared to 10 584MW for the same period last year. The combination of reduced demand, the ability to respond to emerging plant defects quickly and not running the generators at capacity all the time has led to improved system performance, with virtually no OCGTs being needed to support the system since 26 October 2020.

The unreliability of the ageing fleet, with an uncertainty of up to 4 000MW at any given time, will remain until the reliability maintenance recovery programme is able to address the maintenance shortfall. This leaves the system vulnerable and unpredictable. Nevertheless, there is reason to be optimistic, although it is likely that sporadic loadshedding may be required over the remaining summer months, as high ambient temperatures tend to cause higher plant unavailability. As the benefits of the reliability maintenance recovery programme are realised beyond September 2021, it is anticipated that the probability of loadshedding will reduce, although the risk won't diminish entirely until substantial new generation capacity is added to the grid.

As mentioned, financial performance is expected to deteriorate in the second half of the financial year, with increased summer maintenance and expenditure required to ensure security of supply, coupled with reduced demand and lower summer tariffs. Although green shoots have begun to emerge in the economy with the phased easing of lockdown restrictions, the recession and continued uncertainty around COVID-19 is still expected to threaten future sales volumes, the cost of production and customers' ability to pay. By the end of the 2021 financial year, we expect to record an after-tax loss of approximately R22 billion, due to the continued negative impact of the lower than requested tariff, together with the impact of lower sales volumes due to COVID-19.

Due to the return to operation of many sectors of the economy, the projected impact on sales in the second half of the year is less severe in relative terms than that experienced in the first half. Expected sales of 190TWh for the 2021 financial year is 15.7TWh, or 7.7%, lower than the 205.6TWh recorded in the 2020 financial year. We expect largely stagnant sales of approximately 190TWh per year for at least the next few years. It is unlikely for demand to recover to pre-COVID-19 levels during this timeframe due to the long-lasting effect of the economic recession.

We are exploring negotiated pricing agreements (NPA) and other avenues to optimise electricity sales to energy-intensive customers and stimulate local sales for the benefit of the economy. We welcome the amended short-term NPA framework and the interim long-term NPA framework, published by DMRE in September 2020, to facilitate the approval of customised incentive pricing by NERSA.

**Looking ahead (continued)**

With the decline in electricity demand, we anticipate electricity production for the full year to be 14.4TWh, or 6.1%, lower than the prior year. Despite these lower volumes, primary energy costs are expected to increase by about 4.5% year-on-year, due to normal inflationary increases as well as increased usage of IPPs and OCGTs. Expenditure on coal and nuclear is, however, expected to decline. To offset further usage of expensive IPP OCGTs, we have issued a request for proposal for additional capacity from the market through the short-term power purchase programme. We reiterate our call to government to accelerate procurement of new generation capacity beyond the 11 813MW outlined in the recently gazetted ministerial determination, as adequate capacity is critical to powering the rebuilding of an economy that has been devastated by the COVID-19 pandemic.

Initiatives to address arrear debt and improve customer payment levels are continuing, to enhance revenue recovery and ultimately, our liquidity. We are working with the Eskom political task team to improve collection of municipal accounts and stem the growth in arrear debt. Interruption of supply due to non-payment remains the last resort. Regrettably, socio-economic conditions, which have been worsened by the pandemic, are expected to lead to an increase in non-technical losses through a higher degree of electricity and equipment theft compared to the prior year.

Another means of improving our liquidity is through driving sustainable cost curtailment and efficiencies. As mentioned, we are targeting cumulative savings of R55.8 billion over the next three years through a number of initiatives. Work is under way to identify further opportunities, with increased focus on driving savings in procurement, working capital and capital expenditure efficiency. Our efforts in workforce optimisation continue, supporting the ability to reduce employee costs and headcount, including limiting external recruitment and most recently, implementing a second round of voluntary separation packages at managerial level.

Eskom's financial health has deteriorated over recent years because of lower demand, above-inflationary cost increases, especially in coal and employee benefit costs, and an electricity price that is not cost-reflective. In addition, we are executing a capital expansion programme to provide much-needed generation capacity and extend our transmission network. These factors, together with the escalation in arrear debt, have had an adverse impact on our balance sheet and liquidity position and have resulted in an increased reliance on debt.

Reducing our reliance on debt and containing debt service costs remains most critical in the near term. Gross interest costs have become the second largest cost item after coal, higher than both employee benefit costs and capital expenditure, and have a direct and negative impact on profitability and liquidity, and threatening our ability to continue as a going concern. Our strategy is to manage debt downwards as best we can, however, the reality is that in the absence of cost-reflective tariffs this remains a slow and arduous process. Even with an immediate increase to a cost-reflective price, the financial position would not improve immediately.

Government support has been crucial in assisting us to service our debt commitments. However, this support comes at a cost that the country simply cannot afford in the prevailing economic climate. Furthermore, it will not lead to an immediate reduction in our debt nor will it improve our income statement. It only serves to stabilise the balance sheet, improve liquidity in the short to medium term, and assist us in meeting our debt service obligations. Nonetheless, the assistance is mostly used to settle interest, with little remaining to reduce the principal.

Consequently, government support will not provide the sustainable solution required to support Eskom's long-term financial viability. As stated before, to achieve independent financial sustainability, remain a going concern and meet our debt service requirements on a standalone basis, we require a rate of return on assets at least equal to our actual weighted average cost of capital. Other essential ingredients for financial sustainability include resolving the municipal arrear debt challenge, reducing our interest burden and delivering on the cost savings we have targeted.

It is widely accepted that 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 sustainability of the electricity supply industry. Furthermore, those connected to the grid must pay for the services they receive using a fair and reasonable price, both to avoid cross-subsidisation and to send appropriate market signals.

This must be achieved through a structural solution based on an appropriate tariff path, with a mutually beneficial outcome for Eskom and the economy of South Africa. The taxpayer cannot continue to subsidise the electricity consumer, as this is unsustainable and inefficient. The continued viability of Eskom and the electricity sector is crucial to support South Africa's economic recovery, to make a vital contribution to job creation and socio-economic development, as well as to create a stable, equitable and cohesive South Africa.

**Basis of preparation**

The unaudited condensed group interim financial statements from page 10 to page 26 for the six months ended 30 September 2020 have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS), the presentation and disclosure requirements of International Accounting Standards (IAS) 34 *Interim financial reporting* and in the manner required by the Companies Act.

**Going concern**

The board made an assessment of the ability of the group to continue as a going concern in the foreseeable future. The considerations, challenges and risks assessed by the board are detailed in note 2.1.

The board considered the risks relating to the group's going-concern status and is satisfied that the risks will be satisfactorily addressed with the mitigation strategies in place. The board continues to manage these strategies as a priority as it is important that they materialise as envisaged. Tough and painful decisions will have to be made by Eskom, the shareholder and NERSA for the strategy to succeed. The board therefore concluded that it is satisfied that the group has access to adequate resources and facilities, with shareholder support, to be able to continue its operations for the foreseeable future as a going concern.

**Approval**

The board is of the opinion, based on the information available to date, that the condensed group interim financial statements fairly present the financial position of the group at 30 September 2020 and the results of the operations and cash flow information for the six months then ended. The condensed group interim financial statements have been approved by the board and signed on its behalf on 11 December 2020 by:



**MW Makgoba**  
Chairman



**AM de Ruyter**  
Group chief executive



**C Cassim**  
Chief financial officer

## CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

at 30 September 2020

	Unaudited 30 September 2020 Rm	Audited 31 March 2020 Rm	Unaudited <sup>1</sup> 30 September 2019 Rm
<b>Assets</b>			
<b>Non-current</b>	<b>688 918</b>	<b>697 893</b>	<b>687 314</b>
Property, plant and equipment and intangible assets	659 959	657 189	654 457
Future fuel supplies	5 361	4 295	4 922
Payments made in advance	1 546	1 614	1 610
Derivatives held for risk management and embedded derivatives	21 270	33 918	25 508
Trade, finance lease, loan and other receivables	334	365	390
Other assets	448	512	427
<b>Current</b>	<b>106 867</b>	<b>116 404</b>	<b>81 203</b>
Inventories	39 100	33 573	32 716
Taxation	112	140	203
Investments and financial trading assets	13 155	12 133	11 358
Payments made in advance	1 668	1 398	1 700
Derivatives held for risk management and embedded derivatives	15 586	23 718	2 596
Trade, finance lease, loan and other receivables	25 472	22 452	24 816
Cash and cash equivalents	11 774	22 990	7 814
<b>Assets held-for-sale</b>	<b>8 460</b>	<b>8 642</b>	<b>8 811</b>
<b>Total assets</b>	<b>804 245</b>	<b>822 939</b>	<b>777 328</b>
<b>Equity</b>			
Capital and reserves	186 870	185 863	162 419
<b>Liabilities</b>			
<b>Non-current</b>	<b>481 976</b>	<b>502 684</b>	<b>517 881</b>
Debt securities and borrowings	385 285	408 151	410 290
Derivatives held for risk management and embedded derivatives	2 277	1 807	5 247
Deferred tax	976	3 678	6 728
Employee benefit obligations	14 098	13 530	16 038
Provisions	44 402	41 300	45 309
Trade and other payables and lease liabilities	9 410	9 286	10 441
Payments received in advance, contract liabilities and deferred income	25 528	24 932	23 828
<b>Current</b>	<b>134 038</b>	<b>132 919</b>	<b>95 552</b>
Debt securities and borrowings	78 418	75 531	43 917
Derivatives held for risk management and embedded derivatives	4 070	2 270	2 784
Employee benefit obligations	4 518	3 293	4 022
Provisions	4 835	5 991	5 732
Trade and other payables and lease liabilities	37 316	40 650	33 967
Payments received in advance, contract liabilities and deferred income	4 631	4 970	4 949
Taxation	230	–	–
Financial trading liabilities	20	214	181
<b>Liabilities held-for-sale</b>	<b>1 361</b>	<b>1 473</b>	<b>1 476</b>
<b>Total liabilities</b>	<b>617 375</b>	<b>637 076</b>	<b>614 909</b>
<b>Total equity and liabilities</b>	<b>804 245</b>	<b>822 939</b>	<b>777 328</b>

## CONDENSED GROUP INCOME STATEMENT

for the six months ended 30 September 2020

	Note	Unaudited six months ended 30 September 2020 Rm	Unaudited <sup>1</sup> six months ended 30 September 2019 Rm	Audited year ended 31 March 2020 Rm
Revenue	10	108 723	107 502	199 468
Other income		637	677	1 238
Primary energy	11	(54 318)	(52 018)	(112 119)
Employee benefit expense	12	(16 676)	(16 448)	(32 976)
Impairment of assets		102	(954)	61
Other expenses		(10 393)	(12 331)	(18 674)
Profit before depreciation and amortisation expense and net fair value and foreign exchange loss on financial instruments (EBITDA)		28 075	26 428	36 998
Depreciation and amortisation expense		(13 821)	(13 475)	(27 779)
Net fair value and foreign exchange loss on financial instruments		1 145	(480)	(4 592)
Profit before net finance cost		15 399	12 473	4 627
Net finance cost		(15 332)	(15 025)	(31 252)
Finance income		1 091	1 258	2 610
Finance cost	13	(16 423)	(16 283)	(33 862)
Share of profit of equity-accounted investees, net of tax		47	40	63
<b>Profit/(loss) before tax</b>		<b>114</b>	<b>(2 512)</b>	<b>(26 562)</b>
Income tax	14	(31)	582	6 060
<b>Profit/(loss) for the period<sup>2</sup></b>		<b>83</b>	<b>(1 930)</b>	<b>(20 502)</b>

## CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 September 2020

	Unaudited six months ended 30 September 2020 Rm	Unaudited <sup>1</sup> six months ended 30 September 2019 Rm	Audited year ended 31 March 2020 Rm
<b>Profit/(loss) for the period<sup>2</sup></b>	<b>83</b>	<b>(1 930)</b>	<b>(20 502)</b>
<b>Other comprehensive (loss)/income</b>	<b>(5 076)</b>	<b>871</b>	<b>7 387</b>
Items that may be reclassified subsequently to profit or loss	(5 218)	639	4 836
Cash flow hedges	(7 330)	855	6 747
Foreign currency translation differences	60	24	(22)
Income tax thereon	2 052	(240)	(1 889)
Items that may not be reclassified subsequently to profit or loss	142	232	2 551
Re-measurement of post-employment medical benefits	195	323	3 546
Income tax thereon	(53)	(91)	(995)
<b>Total comprehensive loss for the period<sup>2</sup></b>	<b>(4 993)</b>	<b>(1 059)</b>	<b>(13 115)</b>

1. Restated. Refer to note 17.

2. A nominal amount is attributable to the non-controlling interest in the group. The remainder is attributable to the owner of the group.

## CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2020

	Share capital	Cash flow hedge reserve	Unrealised fair value reserve	Foreign currency translation reserve	Accumulated profit	Total equity
	Rm	Rm	Rm	Rm	Rm	Rm
Balance at 31 March 2019	83 000	1 967	(13 641)	19	78 633	149 978
Restated loss for the period <sup>1</sup>	–	–	–	–	(1 930)	(1 930)
Restated other comprehensive income, net of tax <sup>1</sup>	–	615	–	24	232	871
Share capital issued	13 500	–	–	–	–	13 500
Transfer between reserves	–	–	(713)	–	713	–
Balance at 30 September 2019	96 500	2 582	(14 354)	43	77 648	162 419
Loss for the period	–	–	–	–	(18 572)	(18 572)
Other comprehensive income, net of tax	–	4 243	–	(46)	2 319	6 516
Share capital issued	35 500	–	–	–	–	35 500
Transfer between reserves	–	–	(3 258)	–	3 258	–
Balance at 31 March 2020	132 000	6 825	(17 612)	(3)	64 653	185 863
Profit for the period	–	–	–	–	83	83
Other comprehensive income, net of tax	–	(5 278)	–	60	142	(5 076)
Share capital issued	6 000	–	–	–	–	6 000
Transfer between reserves	–	–	(3 262)	–	3 262	–
Balance at 30 September 2020	138 000	1 547	(20 874)	57	68 140	186 870

## CONDENSED GROUP STATEMENT OF CASH FLOWS

for the six months ended 30 September 2020

	Unaudited six months ended 30 September 2020	Unaudited <sup>1</sup> six months ended 30 September 2019	Audited year ended 31 March 2020
	Rm	Rm	Rm
<b>Cash flows from operating activities</b>			
Profit/(loss) before tax	114	(2 512)	(26 562)
Adjustment for non-cash items	31 232	33 256	65 364
Changes in working capital	(13 237)	(11 150)	(2 464)
Cash generated from operations	18 109	19 594	36 338
Net cash from/(used in) derivatives held for risk management	1 100	179	(81)
Finance income received	143	152	377
Finance cost paid	(26)	(20)	(60)
Income taxes paid	(395)	(230)	(367)
<b>Net cash from operating activities</b>	<b>18 931</b>	<b>19 675</b>	<b>36 207</b>
<b>Cash flows used in investing activities</b>			
Disposals of property, plant and equipment and intangible assets	56	439	508
Acquisitions of property, plant and equipment and intangible assets	(10 267)	(10 727)	(24 269)
Acquisitions of future fuel supplies	(1 166)	(747)	(1 261)
Disposals of insurance investments	6 788	4 775	9 188
Acquisitions of insurance investments	(7 758)	(6 481)	(11 930)
Payments made in advance	(7)	(6)	(2)
Cash used in provisions	(401)	(376)	(846)
Net cash used in derivatives held for risk management	(582)	(301)	(120)
Finance income received	727	814	1 550
Other cash from investing activities	99	111	171
<b>Net cash used in investing activities</b>	<b>(12 511)</b>	<b>(12 499)</b>	<b>(27 011)</b>
<b>Cash flows (used in)/from financing activities</b>			
Debt securities and borrowings raised	13 056	15 934	32 036
Payments made in advance	(188)	(197)	(642)
Debt securities and borrowings repaid	(23 712)	(11 450)	(31 511)
Share capital issued	6 000	13 500	49 000
Net cash from derivatives held for risk management	6 408	447	1 843
Cash used in lease liabilities	(188)	(185)	(423)
Net cash used in financial trading instruments	(43)	(58)	(24)
Finance income received	230	265	597
Finance cost paid	(19 142)	(19 567)	(39 111)
Taxes paid	(40)	(29)	(84)
<b>Net cash (used in)/from financing activities</b>	<b>(17 619)</b>	<b>(1 340)</b>	<b>11 681</b>
Net (decrease)/increase in cash and cash equivalents	(11 199)	5 836	20 877
Cash and cash equivalents at beginning of the period	22 990	2 031	2 031
Foreign currency translation	60	24	(22)
Effect of movements in exchange rates on cash held	(139)	86	136
Assets and liabilities held-for-sale	62	(163)	(32)
<b>Cash and cash equivalents at end of the period</b>	<b>11 774</b>	<b>7 814</b>	<b>22 990</b>

1. Restated. Refer to note 17.



# NOTES TO THE CONDENSED GROUP INTERIM FINANCIAL STATEMENTS

for the six months ended 30 September 2020

## 1. Structure and activities

Eskom Holdings SOC Ltd (Eskom), a state-owned company and holding company of the group, is incorporated and domiciled in the Republic of South Africa. Eskom is a vertically integrated operation that generates, transmits and distributes electricity to local industrial, mining, commercial, agricultural, redistributors (metropolitan and other municipalities) and residential customers, and to international customers in southern Africa. Eskom also purchases electricity from IPPs and international suppliers in southern Africa. These represent the significant activities of the group. The business focus of the subsidiaries is primarily to support the electricity business.

## 2. Basis of preparation

The condensed group interim financial statements of Eskom as at and for the six months ended 30 September 2020 comprise the company, its subsidiaries, joint ventures, associates and structured entities (together, the group). The condensed group interim financial statements do not include all of the information required for full financial statements and should be read in conjunction with the Eskom Holdings SOC Ltd 31 March 2020 group annual financial statements. The annual financial statements of the group as at and for the year ended 31 March 2020 are available for inspection at the company's registered office and on the Eskom website at [www.eskom.co.za](http://www.eskom.co.za).

The condensed group interim financial statements are prepared in accordance with the recognition and measurement requirements of IFRS, the presentation and disclosure requirements of IAS 34 *Interim financial reporting*, and in the manner required by the Companies Act.

The condensed group interim financial statements are prepared on the historical-cost basis except for the following items which are measured at fair value:

- derivatives held for risk management
- embedded derivatives
- certain investments and financial trading assets and liabilities

### 2.1 Going concern

The board made an assessment of the ability of the group to continue as a going concern in the foreseeable future. The board:

- recognised that Eskom continues to face various challenges that resulted from mismanagement and corruption. Significant progress has been made in cleaning up irregularities and improving processes, but it is taking time to identify all issues and take appropriate corrective action and consequence management
- noted that there is a need to secure funding of R40.7 billion in 2021 (48% of the funding for 2021 had been secured by September 2020)
- considered the impact of the current economic climate and the sovereign's credit ratings on Eskom's ability to raise funds, including that the rating agencies have expressed a more cautious outlook on Eskom
- reviewed the performance of the group for the period ended 30 September 2020 including the net profit after tax of R83 million and the net current liabilities of R27 171 million
- noted the further deterioration of some of the group's financial indicators
- considered the impact of the cash flow forecast for the 24 months ending 30 September 2022 and the projected net loss pre-tax for 2021, estimated at R30 430 million and the projected net loss pre-tax for 2022, estimated at R12 255 million per the latest projections. The cash flow forecast has been revised and updated with the latest expectations, including the expected impact of the COVID-19 pandemic on the operations of the group
- considered that Eskom is in a debt reliant liquidity situation that resulted from low tariffs, stagnant and contracting sales volumes, increased costs and the capital programme to increase and replace generating and transmitting capacity
- considered the impact of reduced generation performance and the continuous increase in overdue electricity receivables (including the impact of non-recoverability of long outstanding electricity receivables)
- considered the possible impact if key risks materialise and acknowledged that the group is dependent on the positive outcome of court proceedings lodged against NERSA and the liquidation of the RCA balances

The challenges that the group is facing are being addressed by the following mitigation strategies and actions:

- continuous engagement is taking place with the shareholder and National Treasury to ensure that the challenges that impact the group's going-concern status are addressed satisfactorily within a reasonable timeframe
- government continues to support Eskom to operate as a going concern given the strategic role that Eskom plays in pursuit of government objectives, with support of R56 billion in the 2021 financial year and R31.8 billion in 2022. The board is managing the conditions relating to the support that was allocated through the Special Appropriation Act in November 2019
- the special paper on Eskom released by the DPE on 20 October 2019 provides a degree of clarity on the role that Eskom will play in the unfolding future of South Africa's electricity supply industry
- the board continues with the process of separating the business into the main line divisions (functional unbundling of Eskom) in accordance with the special paper. Plans are being developed to determine the process, timing and implications of Eskom's legal unbundling including legislative changes, legal structure and ownership as well as addressing Eskom's debt challenge including the impact of loan covenants

- progress on the court proceedings lodged by Eskom against NERSA include:
  - revenue decision for 2020 to 2022 (MYPD 4): The court ruled that the MYPD 4 determination is reviewed and set aside and that Eskom recover the R69 billion in a phased manner over a three-year period from 2022. NERSA has acknowledged that their treatment of the equity support was incorrect. NERSA has been granted leave (on 6 October 2020) to appeal the phasing of the recovery. Eskom is requesting that, under an execution order, the current court judgement be implemented for the 2022 financial year (R23 billion) until the appeal process is completed. The revenue outlook is premised on the inclusion of the first R23 billion being liquidated in 2022
  - revenue decision for 2019: The court determined that the revenue decision was procedurally unfair, irrational, unreasonable and unlawful. Eskom submitted a supplementary application to NERSA to recover the costs had a lawful decision been made. NERSA has decided to undertake a public consultation process and it is envisaged that a final outcome will be determined by NERSA by 26 February 2021
  - RCA decision for 2015 to 2017 (MYPD 3): The judgement sets aside the RCA and accepts that Eskom put forward a case for relief in areas where NERSA did not implement its methodology and past precedent. NERSA is required to urgently reconsider its RCA balance decision. NERSA has undertaken a public consultation process and it is envisaged that a final outcome will be determined by NERSA by 26 February 2021
  - RCA decision for 2018: Eskom submitted its founding affidavit on the review to NERSA on 9 April 2020 and NERSA has filed its answering affidavit. The legal process continues
- the group's cost structures and capital programme are continuously being reviewed to extract cost savings and improve cash flows
- the group's generation capacity is being managed as a key focus area to ensure appropriate steps are being taken to manage the performance challenges
- there is continued focus on implementing relevant strategies in an effort to recover overdue trade receivables through the inter-ministerial task team which has now also been elevated to the presidential technical task team
- the group will not embark on any further generation expansion activities in the foreseeable future after the completion of the Kusile power station project
- funding options, with the support of National Treasury, are being pursued to implement the group's borrowing programme
- there is continued focus to address the shortcomings relating to the completeness of the irregular as well as fruitless and wasteful expenditure reporting process in terms of the Public Finance Management Act (resulted in the qualified audit opinion in recent years) and the clean-up of the related challenges in the commercial environment

The board considered the risks relating to the group's going-concern status and is satisfied that the risks will be satisfactorily addressed with the mitigation strategies in place. The board continues to manage these strategies as a priority as it is important that they materialise as envisaged. Tough and painful decisions will have to be made by Eskom, the shareholder and NERSA for the strategy to succeed. The board therefore concluded that it is satisfied that the group has access to adequate resources and facilities, with shareholder support, to be able to continue its operations for the foreseeable future as a going concern.

## 3. Significant changes in accounting policies

The accounting policies are consistent with those applied to the financial statements as at and for the year ended 31 March 2020.

## 4. Critical accounting estimates and judgements

The significant estimates and judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were substantially the same as those applied to the financial statements as at and for the year ended 31 March 2020.

## NOTES TO THE CONDENSED GROUP INTERIM FINANCIAL STATEMENTS (continued)

for the six months ended 30 September 2020

### 5. Segment information

	Generation	Transmission	Distribution	All other segments	Reallocation and inter-segment transactions	Group
	Rm	Rm	Rm	Rm	Rm	Rm
<b>30 September 2020</b>						
External revenue	–	5 075	103 648	793	(793)	108 723
Inter-segment revenue/recoveries	73 426	16 170	(89 442)	5 547	(5 701)	–
Total revenue	73 426	21 245	14 206	6 340	(6 494)	108 723
(Loss)/profit before tax	(1 611)	(1 248)	837	2 735	(599)	114
Income tax	–	–	–	(185)	154	(31)
(Loss)/profit for the period	(1 611)	(1 248)	837	2 550	(445)	83
Segment assets	536 422	77 278	114 752	99 628	(23 835)	804 245
Segment liabilities	72 759	17 260	46 731	505 426	(24 801)	617 375
<b>30 September 2019</b>						
External revenue	–	6 103	101 399	873	(873)	107 502
Inter-segment revenue/recoveries	75 020	12 400	(87 280)	5 511	(5 651)	–
Total revenue	75 020	18 503	14 119	6 384	(6 524)	107 502
(Loss)/profit before tax	(3 619)	(1 394)	1 269	739	493	(2 512)
Income tax	–	–	–	720	(138)	582
(Loss)/profit for the period	(3 619)	(1 394)	1 269	1 459	355	(1 930)
Segment assets	523 381	78 685	112 686	84 914	(22 338)	777 328
Segment liabilities	72 989	16 803	46 765	501 480	(23 128)	614 909
<b>31 March 2020</b>						
External revenue	–	11 783	187 685	1 534	(1 534)	199 468
Inter-segment revenue/recoveries	135 342	28 442	(163 544)	11 190	(11 430)	–
Total revenue	135 342	40 225	24 141	12 724	(12 964)	199 468
(Loss)/profit before tax	(23 318)	(5 244)	(519)	1 284	1 235	(26 562)
Income tax	–	–	–	6 420	(360)	6 060
(Loss)/profit for the period	(23 318)	(5 244)	(519)	7 704	875	(20 502)
Segment assets	526 527	77 491	111 899	128 751	(21 729)	822 939
Segment liabilities	69 897	16 764	45 009	528 498	(23 092)	637 076

As a consequence of the group's evolving structure, the balances and activities of the previously reported group capital division have been split into components pertaining to the generation, transmission and all other segments. The 30 September 2019 and 31 March 2020 segment figures have been restated in line with the revised reportable segment structure.

### 6. Issuances, repurchases and repayments of debt securities and borrowings and share capital

#### 6.1 Debt securities and borrowings

The nature of the group's issuances, repurchases and repayments of debt securities and borrowings are consistent with those reported previously. The debt raised and repaid by the group is disclosed in the statement of cash flows.

#### 6.2 Share capital

	Unaudited six months ended 30 September 2020 Shares	Audited year ended 31 March 2020 Shares	Unaudited six months ended 30 September 2019 Shares
Authorised ordinary shares	300 000 000 000	300 000 000 000	100 000 000 000
Issued ordinary shares			
Balance at beginning of the year	132 000 000 001	83 000 000 001	83 000 000 001
Share capital issued	6 000 000 000	49 000 000 000	13 500 000 000
Balance at end of the year	138 000 000 001	132 000 000 001	96 500 000 001

### 7. Dividend paid

No dividend was paid to the shareholder during the six months ended 30 September 2020 nor in the comparative periods presented.

### 8. Significant events and transactions

The following significant movements occurred in the six months ended 30 September 2020:

#### 8.1 Foreign exchange impact on derivatives held for risk management and debt securities and borrowings

The impact of the strengthening of the Rand against major currencies decreased debt securities and borrowings by R9.9 billion and the net asset position in derivatives held for risk management by R16.4 billion.

#### 8.2 Inventories

Inventories increased in line with the strategy to increase stock levels to comply with the grid codes and there was lower coal burn during the initial COVID-19 lockdown period. The maintenance spares also increased due to lower planned maintenance as a result of resource and capacity constraints during the initial COVID-19 lockdown.

#### 8.3 Share capital issued

Refer to note 6.2 for details about share capital issued in the period.

### 9. Seasonality of interim results

The results of the group are impacted by the following seasonal fluctuations:

- revenue from electricity sales and consequently electricity receivables are normally higher during the first six months of the financial year (winter months) as compared to the summer months arising from higher sales volume, tariff energy charges and peak demand. This impact has been partially offset by the impact of COVID-19 in the six months ended 30 September 2020
- primary energy costs associated with renewable IPP purchases are lower in the winter months (first six months of the financial year) due to a lower proportion of power being produced from renewable sources during this time
- less routine maintenance work (and consequently lower costs) is undertaken during the winter months which coincides with the first six months of the financial year

	Unaudited six months ended 30 September 2020 Rm	Unaudited six months ended 30 September 2019 Rm	Audited year ended 31 March 2020 Rm
<b>10. Revenue</b>			
Redistributors	46 791	44 703	79 918
Invoiced to customers	51 223	48 594	85 656
Amounts not meeting revenue recognition criteria	(6 862)	(5 793)	(9 821)
Recognised on a cash received basis	2 430	1 902	4 083
Residential	3 395	3 152	5 993
Invoiced to customers	3 602	3 406	6 362
Amounts not meeting revenue recognition criteria	(224)	(254)	(369)
Recognised on a cash received basis	17	–	–
Industrial	18 214	20 294	37 946
Mining	16 352	16 911	29 968
Commercial	7 619	7 687	14 067
Agricultural	5 131	4 858	9 839
International	5 163	6 151	12 229
Other customers	1 693	2 001	3 541
Post-paid electricity sales	104 358	105 757	193 501
Prepaid electricity sales	5 089	4 817	9 489
Total electricity sales	109 447	110 574	202 990
Other	649	1 134	2 161
Gross revenue	110 096	111 708	205 151
Capitalised to property, plant and equipment	(1 373)	(4 206)	(5 683)
	108 723	107 502	199 468

## NOTES TO THE CONDENSED GROUP INTERIM FINANCIAL STATEMENTS (continued)

for the six months ended 30 September 2020

	Unaudited six months ended 30 September 2020 Rm	Unaudited six months ended 30 September 2019 Rm	Audited year ended 31 March 2020 Rm
<b>11. Primary energy</b>			
Own generation costs	34 439	33 985	71 730
Environmental levy	3 640	3 873	7 613
International electricity purchases	2 524	1 993	4 716
Independent power producers	13 715	12 167	28 060
	<b>54 318</b>	<b>52 018</b>	<b>112 119</b>
<b>12. Employee benefit expense</b>			
Gross employee benefit expense	17 719	17 721	35 618
Capitalised to property, plant and equipment	(1 043)	(1 273)	(2 642)
	<b>16 676</b>	<b>16 448</b>	<b>32 976</b>
<b>13. Finance cost</b>			
Gross finance cost	23 159	24 451	48 446
Capitalised to property, plant and equipment	(6 736)	(8 168)	(14 584)
	<b>16 423</b>	<b>16 283</b>	<b>33 862</b>
<b>14. Income tax</b>			
Income tax for the interim period is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year which is applied to the pre-tax income of the interim period.			

## 15. Accounting classification and fair value

### 15.1 Accounting classification

	Fair value through profit or loss Rm	30 September 2020 (unaudited) Amortised cost Rm	Other assets and liabilities Rm	Total Rm
<b>Financial assets</b>				
Investments and financial trading assets	1 568	11 587	–	13 155
Negotiable certificates of deposit	–	11 587	–	11 587
Listed shares	1 568	–	–	1 568
Derivatives held for risk management and embedded derivatives	683	–	36 173	36 856
Foreign exchange contracts	407	–	288	695
Cross-currency swaps	127	–	35 885	36 012
Credit default swaps	9	–	–	9
Inflation-linked swaps	140	–	–	140
Trade, finance lease, loan and other receivables	–	24 050	354	24 404
Loans receivable	–	42	–	42
Finance lease receivables	–	–	354	354
Trade and other receivables	–	24 008	–	24 008
Cash and cash equivalents	–	11 774	–	11 774
Bank balances	–	5 267	–	5 267
Fixed deposits	–	6 507	–	6 507
	<b>2 251</b>	<b>47 411</b>	<b>36 527</b>	<b>86 189</b>
<b>Financial liabilities</b>				
Debt securities and borrowings	–	463 703	–	463 703
Eskom bonds	–	159 696	–	159 696
Eurorand zero coupon bonds	–	5 273	–	5 273
Foreign bonds	–	93 069	–	93 069
Development financing institutions	–	154 850	–	154 850
Export credit facilities	–	29 350	–	29 350
Floating rate notes	–	4 032	–	4 032
Other loans	–	17 433	–	17 433
Derivatives held for risk management and embedded derivatives	2 376	–	3 971	6 347
Foreign exchange contracts	1 894	–	9	1 903
Cross-currency swaps	9	–	3 090	3 099
Credit default swaps	473	–	–	473
Embedded derivatives	–	–	872	872
Trade and other payables and lease liabilities	–	34 663	9 162	43 825
Lease liabilities	–	–	9 162	9 162
Trade and other payables	–	34 663	–	34 663
Financial trading liabilities				
Repurchase agreements	20	–	–	20
	<b>2 396</b>	<b>498 366</b>	<b>13 133</b>	<b>513 895</b>

## NOTES TO THE CONDENSED GROUP INTERIM FINANCIAL STATEMENTS (continued)

for the six months ended 30 September 2020

### 15. Accounting classification and fair value (continued)

#### 15.1 Accounting classification (continued)

	31 March 2020 (audited)			Total Rm
	Fair value through profit or loss Rm	Amortised cost Rm	Other assets and liabilities Rm	
<b>Financial assets</b>				
Investments and financial trading assets	1 299	10 834	–	12 133
Negotiable certificates of deposit	–	10 682	–	10 682
Repurchase agreements	–	152	–	152
Listed shares	1 299	–	–	1 299
Derivatives held for risk management and embedded derivatives	8 851	–	48 785	57 636
Foreign exchange contracts	8 508	–	847	9 355
Cross-currency swaps	241	–	47 938	48 179
Commodity forwards	2	–	–	2
Credit default swaps	9	–	–	9
Inflation-linked swaps	91	–	–	91
Trade, finance lease, loan and other receivables	–	21 643	372	22 015
Loans receivable	–	54	–	54
Finance lease receivables	–	–	372	372
Trade and other receivables	–	21 589	–	21 589
Cash and cash equivalents	–	22 990	–	22 990
Bank balances	–	9 897	–	9 897
Unsettled deals	–	25	–	25
Fixed deposits	–	13 068	–	13 068
	10 150	55 467	49 157	114 774
<b>Financial liabilities</b>				
Debt securities and borrowings	–	483 682	–	483 682
Eskom bonds	–	157 037	–	157 037
Commercial paper	–	5 444	–	5 444
Eurorand zero coupon bonds	–	4 964	–	4 964
Foreign bonds	–	98 563	–	98 563
Development financing institutions	–	154 489	–	154 489
Export credit facilities	–	32 746	–	32 746
Floating rate notes	–	4 046	–	4 046
Other loans	–	26 393	–	26 393
Derivatives held for risk management and embedded derivatives	868	–	3 209	4 077
Foreign exchange contracts	58	–	29	87
Cross-currency swaps	4	–	2 044	2 048
Commodity forwards	6	–	–	6
Credit default swaps	710	–	–	710
Inflation-linked swaps	90	–	–	90
Embedded derivatives	–	–	1 136	1 136
Trade, finance lease and other payables	–	38 700	9 350	48 050
Finance lease payables	–	–	9 350	9 350
Trade and other payables	–	38 700	–	38 700
Financial trading liabilities				
Repurchase agreements	214	–	–	214
	1 082	522 382	12 559	536 023

	30 September 2019 (unaudited)			Total Rm
	Fair value through profit or loss Rm	Amortised cost Rm	Other assets and liabilities Rm	
<b>Financial assets</b>				
Investments and financial trading assets	1 700	9 658	–	11 358
Negotiable certificates of deposit	–	9 599	–	9 599
Repurchase agreements	–	59	–	59
Listed shares	1 597	–	–	1 597
Government bonds	103	–	–	103
Derivatives held for risk management and embedded derivatives	1 521	–	26 583	28 104
Foreign exchange contracts	1 406	–	39	1 445
Cross-currency swaps	30	–	26 544	26 574
Commodity forwards	2	–	–	2
Credit default swaps	9	–	–	9
Inflation-linked swaps	74	–	–	74
Trade, finance lease, loan and other receivables	–	24 251	391	24 642
Loans receivable	–	56	–	56
Finance lease receivables	–	–	391	391
Trade and other receivables	–	24 195	–	24 195
Cash and cash equivalents	–	7 814	–	7 814
Bank balances	–	5 389	–	5 389
Fixed deposits	–	2 425	–	2 425
	3 221	41 723	26 974	71 918
<b>Financial liabilities</b>				
Debt securities and borrowings	–	454 207	–	454 207
Eskom bonds	–	154 777	–	154 777
Commercial paper	–	931	–	931
Eurorand zero coupon bonds	–	4 673	–	4 673
Foreign bonds	–	83 783	–	83 783
Development financing institutions	–	147 967	–	147 967
Export credit facilities	–	30 090	–	30 090
Floating rate notes	–	4 046	–	4 046
Other loans	–	27 940	–	27 940
Derivatives held for risk management and embedded derivatives	804	–	7 227	8 031
Foreign exchange contracts	262	–	94	356
Cross-currency swaps	210	–	4 875	5 085
Commodity forwards	4	–	–	4
Credit default swaps	296	–	–	296
Inflation-linked swaps	32	–	–	32
Embedded derivatives	–	–	2 258	2 258
Trade, finance lease and other payables	–	31 640	9 416	41 056
Finance lease payables	–	–	9 416	9 416
Trade and other payables	–	31 640	–	31 640
Financial trading liabilities	181	–	–	181
Short-sold government bonds	56	–	–	56
Repurchase agreements	27	–	–	27
Unsettled deals	98	–	–	98
	985	485 847	16 643	503 475

## NOTES TO THE CONDENSED GROUP INTERIM FINANCIAL STATEMENTS (continued)

for the six months ended 30 September 2020

### 15. Accounting classification and fair value (continued)

#### 15.2 Fair value

##### Valuation processes and principal markets

The group has a control framework in place for the measurement of fair values. It includes a valuation team that ultimately reports to the CFO and has overall responsibility for all significant fair value measurements.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. Where third-party information, such as broker quotes or pricing services, is used to measure fair value, this information is assessed as to whether it provides adequate support for the accounting treatment applied including the level of the fair value hierarchy assigned to it.

The group is involved in various principal markets because of the unique funding activities undertaken where the fair value is determined by each participant in the different principal markets. The principal markets include capital and money markets, development financing institutions and export credit agencies.

##### Valuation techniques and levels

Financial instrument	Valuation technique
<b>Level 1: Quoted prices (unadjusted) in active markets</b>	
Investments and financial trading assets (listed shares and government bonds) and financial trading liabilities (short-sold government bonds)	Quoted bid price in active markets. A market is regarded as active when it is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis
<b>Level 2: Observable inputs other than quoted prices included within level 1</b>	
Financial trading liabilities (repurchase agreements)	A discounted cash flow technique is used which uses expected cash flows and a market-related discount rate
Derivatives held for risk management	Valuation determined with reference to broker quotes as well as use of discounted cash flow and option pricing models. Broker quotes are tested for reasonableness by discounting expected future cash flows using a market interest rate for a similar instrument at the measurement date  Valuations of cross-currency swaps include the credit risk of Eskom (known as debit value adjustment) and counterparties (known as credit value adjustment) where appropriate. A stochastic modelling approach is followed where the expected future exposure to credit risk for Eskom and its counterparties (considering default probabilities and recovery rates derived from market data) is modelled
<b>Level 3: Unobservable inputs</b>	
Embedded derivative liabilities	Fair valued using unobservable inputs

There were no changes in the valuation techniques applied nor transfers between level 1, 2 or 3 of the fair value hierarchy during the six months ended 30 September 2020 nor in the comparative periods presented.

##### Fair value hierarchy

The fair value hierarchy of financial instruments that are measured at fair value in the statement of financial position is as follows:

	30 September 2020 (unaudited)			31 March 2020 (audited)			30 September 2019 (unaudited)		
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
<b>Financial assets</b>									
Investments and financial trading assets	1 568	–	–	1 299	–	–	1 700	–	–
Listed shares	1 568	–	–	1 299	–	–	1 597	–	–
Government bonds	–	–	–	–	–	–	103	–	–
Derivatives held for risk management and embedded derivatives	–	36 856	–	–	57 636	–	–	28 104	–
Foreign exchange contracts	–	695	–	–	9 355	–	–	1 445	–
Cross-currency swaps	–	36 012	–	–	48 179	–	–	26 574	–
Commodity forwards	–	–	–	–	2	–	–	2	–
Credit default swaps	–	9	–	–	9	–	–	9	–
Inflation-linked swaps	–	140	–	–	91	–	–	74	–
<b>Financial liabilities</b>									
Derivatives held for risk management and embedded derivatives	–	5 475	872	–	2 941	1 136	–	5 773	2 258
Foreign exchange contracts	–	1 903	–	–	87	–	–	356	–
Cross-currency swaps	–	3 099	–	–	2 048	–	–	5 085	–
Commodity forwards	–	–	–	–	6	–	–	4	–
Credit default swaps	–	473	–	–	710	–	–	296	–
Inflation-linked swaps	–	–	–	–	90	–	–	32	–
Embedded derivatives	–	–	872	–	–	1 136	–	–	2 258
Financial trading liabilities	–	20	–	–	214	–	56	125	–
Short-sold government bonds	–	–	–	–	–	–	56	–	–
Repurchase agreements	–	20	–	–	214	–	–	125	–

##### Fair value level 3 disclosures (embedded derivatives)

Eskom entered into a number of agreements to supply electricity to electricity-intensive businesses where the revenue from these contracts is linked to commodity prices and foreign currency rates or foreign producer price indices that give rise to embedded derivatives.

##### Valuation techniques

Valuation techniques are used to determine the fair value as there is no active market for embedded derivatives. The fair value is determined by fair valuing the whole agreement and deducting from it the fair value of the host agreement. The valuation methods include the use of swaps (where the electricity tariff is swapped for a commodity in a foreign currency) and options (where the electricity tariff or other revenue is based on an embedded derivative floor or cap on foreign consumer or producer price indices or interest rates and a closed form analytic solution is used to produce various cap and floor strike prices).

A forward electricity price curve is used to value the host agreement and the derivative agreement is valued by using market forecasts of future commodity prices, foreign currency and exchange rates, interest rate differentials, forecast sales volumes and production price, and liquidity. The forward curves used are based on Eskom's financial years.

The forecast cash flow is determined and then discounted at the relevant interest rate curve. The net present value of the cash flows is then converted at the rand/foreign currency spot rate to the reporting currency. The fair value of the embedded derivative is adjusted, where applicable, to take into account the inherent uncertainty relating to the future cash flows of embedded derivatives such as liquidity, model risk and other economic factors. The important assumptions are obtained either with reference to the contractual provisions of the relevant agreements or from independent market sources where appropriate. The only significant unobservable input is the United States producer price index (PPI).

# NOTES TO THE CONDENSED GROUP INTERIM FINANCIAL STATEMENTS (continued)

for the six months ended 30 September 2020

## 15. Accounting classification and fair value (continued)

### 15.2 Fair value (continued)

#### Fair value level 3 disclosures (embedded derivatives) (continued)

##### Valuation assumptions

Forecast sales volumes are based on the most likely future sales volumes based on past trends and taking into account future production plans in consultation with industry specific experts and key customer executives.

The following valuation assumptions were used for the valuation of embedded derivatives and are regarded as the best estimates by the board:

Input	Unit	Period ended 30 September 2020 (unaudited)					
		2020	2021	2022	2023	2024	2025
Aluminium	USD per ton	1 750	1 801	n/a <sup>1</sup>	n/a <sup>1</sup>	n/a <sup>1</sup>	n/a <sup>1</sup>
Volatility	Year-on-year (ratio)	0.17	0.17	0.17	0.17	0.17	0.17
Rand interest rate	Continuous actual/365 days (%)	3.52	3.40	3.54	3.76	4.26	4.79
Dollar interest rate	Annual actual/365 days (%)	0.20	0.22	0.27	0.23	0.26	0.31
South African PPI	Year-on-year (%)	8.96	5.99	6.51	6.57	5.78	7.08
United States PPI	Year-on-year (%)	(2.26)	1.86	1.55	1.78	1.78	1.14
Rand/USD	Rand per USD	16.82	17.09	17.66	18.37	19.34	20.57
Electricity price increase	Year-on-year (%)	5.23	13.87	n/a <sup>1</sup>	n/a <sup>1</sup>	n/a <sup>1</sup>	n/a <sup>1</sup>

Input	Unit	Period ended 31 March 2020 (audited)					
		2020	2021	2022	2023	2024	2025
Aluminium	USD per ton	1 499	1 595	n/a <sup>1</sup>	n/a <sup>1</sup>	n/a <sup>1</sup>	n/a <sup>1</sup>
Volatility	Year-on-year (ratio)	0.17	0.17	0.17	0.17	0.17	0.17
Rand interest rate	Continuous actual/365 days (%)	6.40	6.09	5.20	5.63	6.01	6.80
Dollar interest rate	Annual actual/365 days (%)	0.33	0.92	0.48	0.46	0.48	0.51
South African PPI	Year-on-year (%)	3.00	5.26	6.15	6.37	4.41	7.31
United States PPI	Year-on-year (%)	(1.97)	(0.14)	1.66	2.05	1.85	1.44
Rand/USD	Rand per USD	17.82	18.76	19.58	20.81	22.24	24.41
Electricity price increase	Year-on-year (%)	5.23	13.87	n/a <sup>1</sup>	n/a <sup>1</sup>	n/a <sup>1</sup>	n/a <sup>1</sup>

Input	Unit	Period ended 30 September 2019 (unaudited)					
		2019	2020	2021	2022	2023	2024
Aluminium	USD per ton	1 717	1 748	1 836	n/a <sup>1</sup>	n/a <sup>1</sup>	n/a <sup>1</sup>
Volatility	Year-on-year (ratio)	0.18	0.18	0.18	0.18	0.18	0.18
Rand interest rate	Continuous actual/365 days (%)	6.59	7.15	6.97	6.61	6.74	6.88
Dollar interest rate	Annual actual/365 days (%)	2.13	2.11	1.92	1.60	1.54	1.52
South African PPI	Year-on-year (%)	9.77	6.54	6.09	6.67	7.03	5.51
United States PPI	Year-on-year (%)	(1.63)	1.78	1.84	1.80	2.29	1.46
Rand/USD	Rand per USD	15.16	15.54	16.35	17.18	18.17	19.29
Electricity price increase	Year-on-year (%)	5.23	13.87	8.76	n/a <sup>1</sup>	n/a <sup>1</sup>	n/a <sup>1</sup>

#### Sensitivity analysis

The effect on profit/loss before tax of an increase or decrease in the assumptions is:

Input	Unit	Change in assumption	Unaudited 30 September 2020		Audited 31 March 2020		Unaudited 30 September 2019	
			increase	decrease	increase	decrease	increase	decrease
			Rm	Rm	Rm	Rm	Rm	Rm
Aluminium	USD per ton	1%	9	(9)	8	(8)	19	(19)
Rand interest rate	Continuous actual/365 days (%)	100 basis points	84	(97)	123	(141)	123	(141)
Dollar interest rate	Continuous actual/365 days (%)	100 basis points	(77)	72	(101)	97	(101)	97
United States PPI	Index	1%	72	(78)	53	(51)	90	(97)
Rand/USD	Rand per USD	1%	28	(22)	19	(17)	41	(35)

1. The embedded derivative that is linked to commodity and/or foreign currency rates expires on 31 January 2021. Inputs beyond this date are therefore not relevant.

#### Movement in balances

	Embedded derivative liability Rm
Balance at 31 March 2019	3 434
Net fair value gain	(1 176)
Balance at 30 September 2019	2 258
Net fair value gain	(1 122)
Balance at 31 March 2020	1 136
Net fair value gain	(264)
Balance at 30 September 2020	872

### 15.3 Day-one gain/loss

The group recognises a day-one gain/loss on the initial recognition of cross-currency and inflation-linked swaps held as hedging instruments where applicable.

	Cross-currency swaps Rm	Inflation-linked swaps Rm	Total Rm
Loss at 31 March 2019	(1 146)	(25)	(1 171)
Day-one loss recognised	(90)	–	(90)
Amortised to profit or loss	89	2	91
Loss at 30 September 2019	(1 147)	(23)	(1 170)
Day-one loss recognised	(268)	–	(268)
Amortised to profit or loss	95	2	97
Loss at 31 March 2020	(1 320)	(21)	(1 341)
Amortised to profit or loss	97	1	98
Loss at 30 September 2020	(1 223)	(20)	(1 243)

### 16. Material events subsequent to 30 September 2020

There have been no significant events subsequent to 30 September 2020.

### 17. Restatement of comparatives

The impact of the restatements on the financial statements for the period ended 30 September 2020 relating to the restatements disclosed in the annual financial statements at 31 March 2020 is disclosed on the following page. The restatement relate to:

- post-retirement medical aid
- impairment of the VAT portion of trade receivables
- capitalisation of costs incurred in the construction of plant

In addition, disposals and writeoffs of property, plant and equipment have been restated by R3 997 million at 30 September 2019 in line with the annual financial statements at 31 March 2020 relating to expenditure at the Kusile power station that was previously capitalised to plant and work under construction.

## NOTES TO THE CONDENSED GROUP INTERIM FINANCIAL STATEMENTS (continued)

for the six months ended 30 September 2020

### 17. Restatement of comparatives (continued)

	Previously reported Rm	Adjustments Rm	Restated Rm
<b>Group statement of financial position at 30 September 2019</b>			
<b>Assets</b>			
<b>Non-current</b>			
Property, plant and equipment and intangible assets	659 734	(5 277)	654 457
<b>Current</b>			
Trade, finance lease, loan and other receivables	26 106	(1 290)	24 816
<b>Equity</b>			
Capital and reserves	168 747	(6 328)	162 419
<b>Liabilities</b>			
<b>Non-current</b>			
Deferred tax	9 025	(2 297)	6 728
Employee benefit obligations	13 980	2 058	16 038
<b>Group income statement for the period ended 30 September 2019</b>			
Employee benefit expense	(16 454)	6	(16 448)
Impairment of assets	(781)	(173)	(954)
Other expenses	(8 334)	(3 997)	(12 331)
Depreciation and amortisation expense	(13 503)	28	(13 475)
Finance cost	(16 062)	(221)	(16 283)
Profit/(loss) before tax	1 845	(4 357)	(2 512)
Income tax	(520)	1 102	582
Profit/(loss) for the period	1 325	(3 255)	(1 930)
<b>Group statement of comprehensive income for the period ended 30 September 2019</b>			
Profit/(loss) for the period	1 325	(3 255)	(1 930)
Items that may be reclassified subsequently to profit or loss	639	–	639
Items that may not be reclassified subsequently to profit or loss	189	43	232
Re-measurement of post-employment medical benefits	263	60	323
Income tax thereon	(74)	(17)	(91)
Total comprehensive income/(loss) for the period	2 153	(3 212)	(1 059)
<b>Group statement of cash flows for the period ended 30 September 2019</b>			
Cash flows from operating activities			
Profit/(loss) before tax	1 845	(4 357)	(2 512)
Adjustment for non-cash items	28 899	4 357	33 256
Net cash from operating activities	19 675	–	19 675





### 18. Exchange rates

	Unaudited 30 September 2020	Unaudited 31 March 2020	Audited 30 September 2019
Euro	19.67	19.55	16.53
United States dollar (USD)	16.82	17.82	15.16
Pound sterling	21.62	22.17	18.67
Swiss franc	18.21	18.49	15.21
Japanese yen	0.16	0.16	0.14

### 19. Reportable irregularities

There have been no significant changes to reportable irregularities as disclosed in the annual financial statements for the year ended 31 March 2020.

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