Eskom group annual results

for the year ended 31 March 2020

30 October 2020

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

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High-level overview

Disappointing financial results
for the year ended 31 March 2020

- Revenue of R200 billion, but sales 1.29% lower than 2019, with growth hampered by capacity shortages and adverse economic conditions
- Cost savings of R16.3 billion achieved against a target of R6.2 billion, but largely absorbed by cost overruns on diesel to minimise loadshedding
- Improvement in EBITDA to R37 billion arising from growth in revenue
- Operating profit (EBIT) of R9.2 billion in a challenging environment
- Unsustainable debt burden leads to net finance cost of R31.3 billion, resulting in a net loss R20.5 billion
- Net cash from operations improved overall, but liquidity remains constrained
- Favourable court judgments received on a number of NERSA revenue review applications
- Government support of R49 billion received in 2020 to support Eskom's status as a going concern, with R56 billion committed for 2021. Funds are reserved for debt servicing
- Secured gross funding of R50.9 billion for 2020, exceeding our target

Some progress made, off a low base

- In November 2018, significant coal stock shortages at a number of stations
- Normalised coal stock up to 50 days by 31 March 2020
- Total coal burn cost for the 2021 financial year projected to increase by only 0.3% year-on-year
- Total of R7.5 billion spent on diesel-generated power to avoid or minimise loadshedding during 2020. Eskom OCGT costs for the 2021 financial year projected to reduce by 30%
- Reliability maintenance programme launched at end of 2020, planned maintenance in October 2020 >14%
- Kusile Unit 2 achieved commercial operation on 29 October 2020
- Medupi design modifications successfully implemented on four units by October 2020
- Divisionalisation as a first step towards restructuring, separate Transmission subsidiary by December 2021
- More assertive approach to debt collection and distribution energy loss prevention is delivering results
    - Municipal payment levels being maintained, despite challenging economic conditions
    - Top 20 defaulting municipalities' payment rate up from 42% at March 2020 to 49% at September 2020
    - Soweto payment improved from 12.5% at March 2019 to 21% at March 2020

COVID-19 will have a substantial impact going forward

- Eskom's Pandemic Disaster Response Plan invoked in February 2020 to contain spread of the virus, maintain the supply of electricity as an essential service, and maintain the safety of people
  - ❖ Decline of 10.3% in sales volumes year-to-date, compared to a decline of 16.5% in the first quarter. Overall, sales volumes for 2021 are expected to be around 7% lower than 2020
  - ❖ Average demand was down 5 680MW during lockdown level 5, by 3 300MW during level 4, by 1 360MW during level 3, by 365MW during level 2, and 491MW in level 1. Demand largely recovered to previous levels
  - ❖ Planned and opportunity maintenance was undertaken during initial lockdown due to lower demand
  - ❖ Loadshedding implemented on 19 days (July to Sept) due to high levels of breakdowns and high demand
  - ❖ Delays in executing capital projects due to lockdown restrictions relating to movement of people
  - ❖ Tragically, 27 employees and three contractors have succumbed to the disease at 28 October 2020
- Revised Eskom's Corporate Plan for the impact of COVID-19 and other changes in the operating environment
- COVID-19 is a significant risk the factor affecting the global and local economy, as well as our business, now and into the foreseeable future

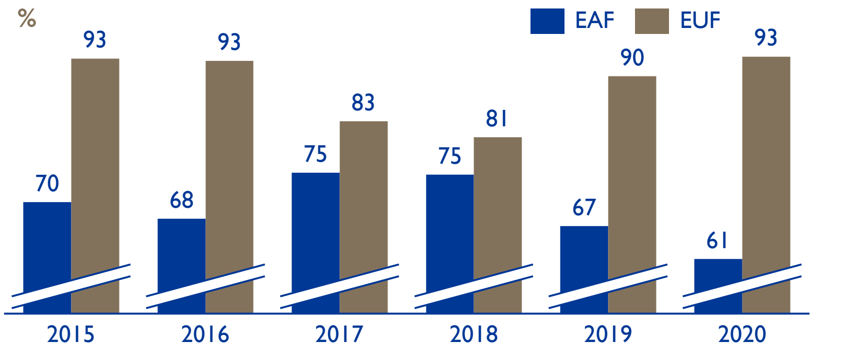
Operational performance and outlook

Some significant challenges in the 2020 financial year

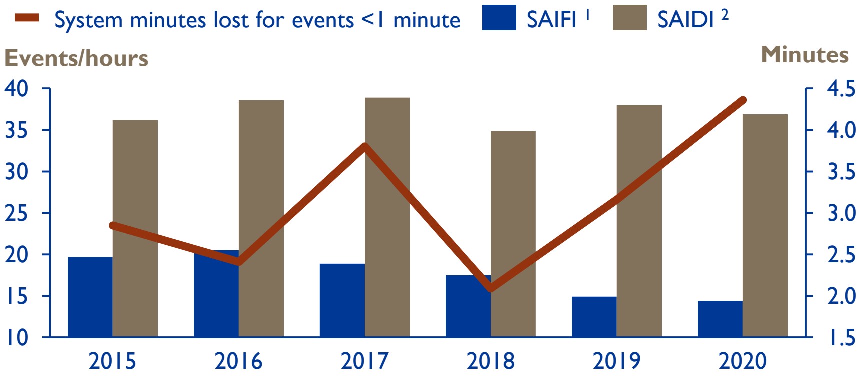
- Generation energy availability factor (EAF) at 66.64%, together with unplanned maintenance at levels exceeding 20%, contributing to 46 days of loadshedding during the 2020 financial year
- Stage 6 loadshedding on 9 December 2019 was a nadir for Eskom and South Africa
- Severe transmission plant failures negatively affected system reliability and system minutes <1 performance
- Environmental performance remained poor, particularly at Kendal Power Station
- Slow progress on implementing supply chain recovery with inefficiencies in the procurement process hampering operations and delivery on maintenance programme
- Municipal arrear debt escalated by 41% to R28 billion
- Community resistance, vandalism of equipment and threats to employees hamper efforts to curb electricity theft and non-payment
- Five critical risks materialised during March 2020, three being disaster risks

Generating plant and transmission network performance declined, distribution remained stable

Coal plant availability and utilisation



Network performance



1. System average interruption frequency index
2. System average interruption duration index

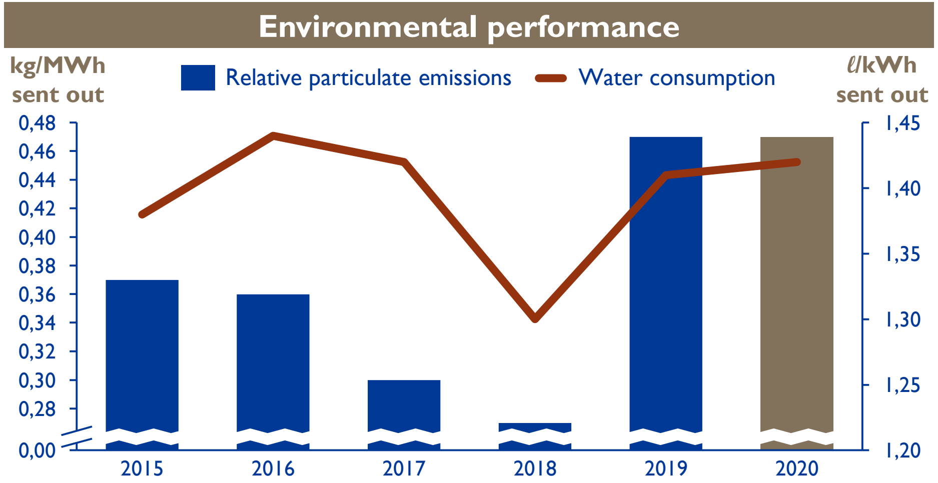
- Generation EAF declined to 66.64% (2019: 69.95%), mainly due to worsening coal plant performance
- Unplanned capability losses of 22.86% (2019: 18.31%), with average partial load losses of 4 651MW
- Coal energy utilisation factor (EUF) increased to 93% (2019: 90%). Median age of plant of 39 years
- Distribution network delivered stable performance, although Transmission performance deteriorated
- Ageing network assets pose a risk
- Medupi Units 3 and 2 achieved commercial operation, adding capacity of 1 588MW
- 250MVA transformer capacity installed, 127.9km of high-voltage transmission lines commissioned

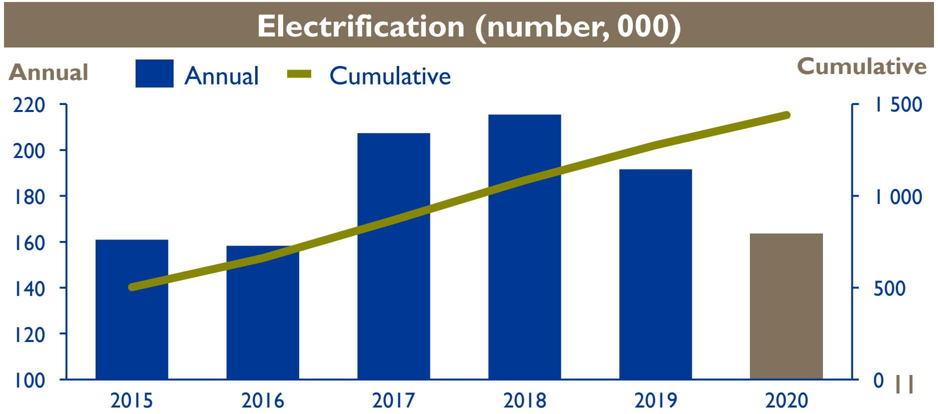
Progress on new build defect correction plan

- From May 2020, design modifications implemented on Medupi Units 3, 6, 1 and 4, with the remainder to be completed by March 2021
- Medupi Unit 3 has achieved five consecutive months of improved performance since implementing design modifications
- Availability and reliability of the synchronised units at Medupi and Kusile are steadily improving
- Units in commercial operation: Medupi Units 6, 5, 4, 3 and 2 (3 970MW), and Kusile Units 1 and 2 (1 600MW)
- Medupi Unit 1 on track for commercial operation by July 2021
- Kusile Unit 3 on track for commercial operation by March 2021
- Currently, six units at Medupi and three at Kusile are contributing energy to the National Grid

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

- Poor particulate emission performance continues, with increased water consumption
- 163 613 new households connected (2019: 191 585)
- Lost-time injury rate of 0.30 (2019: 0.31)
- Sadly, nine contractor fatalities during the year (2019: four, restated)
- Zero employee fatalities (2019: three)
- B-BBEE attributable spend of R102 billion (2019: R85 billion)
- Continued improvement in racial and gender equity. Disability equity did not meet target
- 1 479 395 beneficiaries through CSI programmes





Progress is being made on the turnaround

Operations recovery	Improve income statement	Improve balance sheet	Business separation	People and culture
• Coal stocks replenished • Coal quality a focus • Reliability maintenance ongoing • New build design defects being addressed • Kusile 2 commercial operation achieved	• Successful legal challenges on tariff decisions • Headcount reduced by about 2 000 in 2020 • Coal burn cost projected to increase only 0.3% in 2021 • OCGT spend for 2021 expected to be 30% lower than 2020 • Payment levels for customers in arrears rising	• Equity injections by Government to support debt servicing • Working capital being freed up, more assertive in collecting debt • Eskom compact agreed at Nedlac positive • Green financing being explored • High levels of debt requires structural solution	• Divisionalisation implemented • Divisional boards in place • Planning for functional separation by Mar 2021 • Transmission legal separation by Dec 2021 • Process to dispose of non-core assets (EFC and properties) commenced	• Driving high-performance culture • Consequence management stepped up • Regular staff engagements

There is light at the end of the tunnel

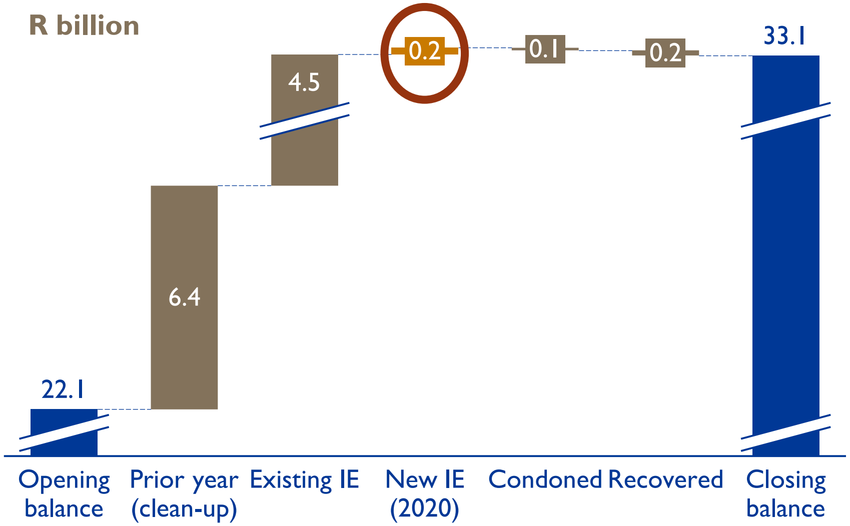
- Generation outlook is improving, due to restructured organisational structure and enhanced maintenance focus, combined with priority being given to environmental issues
- End-of-life power stations (8 to 10GW) being retired, further capacity needed without delay
- Eskom welcomes DMRE procurement of 11 813MW of new electricity generation infrastructure under the IRP 2019, and 2 000MW of emergency procurement
- Substantial capital investment required to fund Transmission expansion and strengthening, as well as investment in cost-plus mines to sustain production
- Distribution revenue collection remains a challenge, but payment levels are improving
- Just Energy Transition Strategy brings equitable introduction of cleaner and greener technology
- Financial position remains challenging, largely as a result of unsustainable debt burden and tariffs that are not cost-reflective

Financial performance and outlook

Driving Eskom's financial turnaround

- In 2019, we announced that we would focus on the following financial issues to drive the turnaround:
  - Revenue optimisation through achieving cost-reflective tariffs and increasing sales volumes
  - Cost curtailment through cash savings on operational and capital costs, to improve liquidity and financial sustainability
  - Debt relief through Government support
- Although we have made progress in the majority of these areas, municipal arrear debt escalated to R28 billion. Soweto payment levels improved from 12.5% to 20.7%
- Audit opinion – 2020 consolidated annual financial statements fairly presented in terms of IFRS, except:
  - Qualified audit opinion relating to irregular expenditure under the PFMA
  - Material uncertainty regarding Eskom's status as going concern
  - Key audit matter on treatment of Eskom Pension and Provident Fund (EPPF)
  - New reportable irregularities raised

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



New irregular expenses	Number	R million
Tender process and DoA	29	118
Other	44	73
Total	**73**	**191**

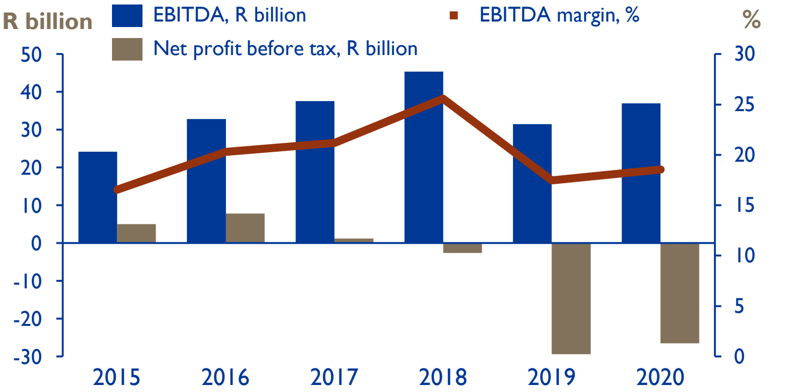
- Reporting directives amended to comply with recent National Treasury instructions
- Slow progress on condonations from National Treasury – until condoned, expenditure on affected contracts will remain irregular
- Loss Control Department to be established to address PFMA violations and oversight of consequence management, including disciplinary actions, condonations and recovery of losses
- Enabling agreements to address irregular expenditure from existing sole source contracts
- Driving a procurement roadmap to improve internal procurement processes as well as contract management

Most financial indicators improved slightly, but remain well below acceptable levels

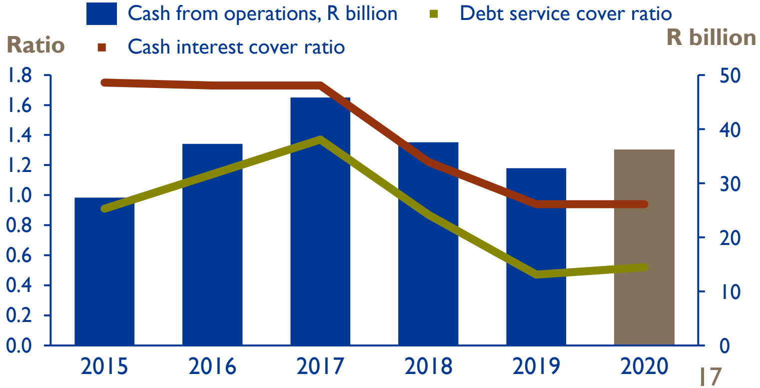
Ratio	March 2020		Restated [1] March 2019
Revenue, R million	**199 468**	↑	179 892
EBITDA, R million	**36 998**	↑	31 417
Operating profit (EBIT), R million	**9 219**	↑	1 679
Net loss after tax, R million	**(20 502)**	↓	(20 930)
EBITDA margin, %	**18.55**	↑	17.46
Cash interest cover, ratio	**0.94**	→	0.94
Debt service cover, ratio	**0.52**	↑	0.47
Gross debt/EBITDA, ratio	**14.39**	↓	15.73
Debt/equity (including long-term provisions), ratio	**2.45**	↓	3.18
Gearing, %	**71**	↓	76
Free funds from operations (FFO) as a % of gross debt	**7.26**	↑	5.88

1. Restatements are disclosed in note 50 of the annual financial statements

Profitability



Cash from operations



Operating profit achieved, but eroded by excessive debt servicing costs

Income statement R million	March 2020	Restated [1] March 2019	YoY % change
Revenue	**199 468**	179 892	11
Other income	**1 238**	2 150	
Primary energy	**(112 119)**	(99 488)	(13)
Net employee benefit expenses	**(32 976)**	(33 183)	
Net impairment reversal	**61**	260	
Other expenses	**(18 674)**	(18 214)	3
EBITDA (before net fair value loss)	**36 998**	31 417	18
Depreciation and amortisation expenses	**(27 779)**	(29 738)	7
Operating profit (EBIT)	**9 219**	1 679	>400
Net fair value loss on financial instruments and embedded derivatives	**(4 592)**	(3 409)	(35)
Net finance cost	**(31 252)**	(27 732)	(13)
Share of profit of equity-accounted investees	**63**	35	
Loss before tax	**(26 562)**	(29 427)	10
Income tax credit	**6 060**	8 497	(29)
Net loss for the year	**(20 502)**	(20 930)	2

1. Restatements are disclosed in note 50 of the annual financial statements

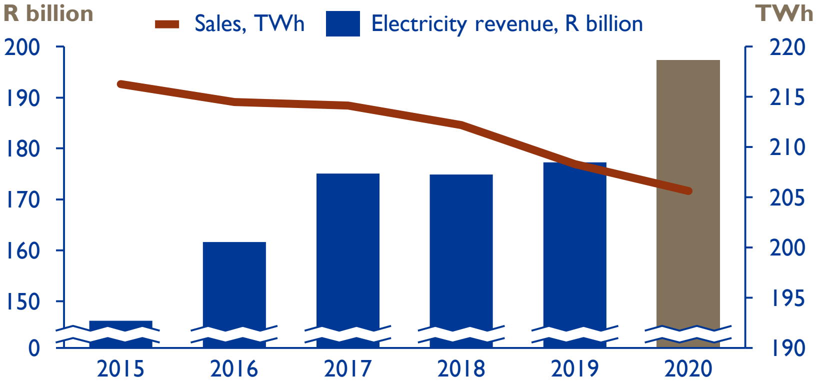
- Revenue: 13.87% tariff increase, offset by capitalisation of pre-commissioning revenue and declining sales due to economic downturn
- Primary energy cost: higher coal cost coupled with higher OCGT utilisation and IPP production
- Employee benefit cost: headcount reduction through attrition, offset by three-year wage settlement agreement
- Depreciation: units at Hendrina and Komati placed in cold reserve in 2019
- Finance costs: higher indebtedness, coupled with more expensive borrowing costs

Electricity revenue increased by 12%
(before IFRS adjustments)

	March 2020	March 2019	YoY % change
Revenue, R million			
Local	196 868	178 906	10
International	12 229	8 241	48
Gross electricity revenue	**209 097**	**187 147**	**12**
Net revenue not recognised (IFRS 15)	(6 107)	(6 442)	5
Total electricity revenue	**202 990**	180 705	12
Other revenue	2 161	2 580	(16)
Capitalised	(5 683)	(3 393)	(68)
Total revenue	**199 468**	179 892	11
Sales, GWh			
Local	**190 446**	195 858	(2.8)
International	**15 189**	12 461	21.9
Total sales	**205 635**	208 319	(1.3)

- Reduction in sales across all domestic sectors, while international sales grew. Industrial sector most affected by the economic downturn and depressed commodity prices
- Average price increase of 13.2%, from 90.01c/kWh to 101.86c/kWh
- IFRS 15 applies the cash basis for defaulting customers, negatively impacting revenue

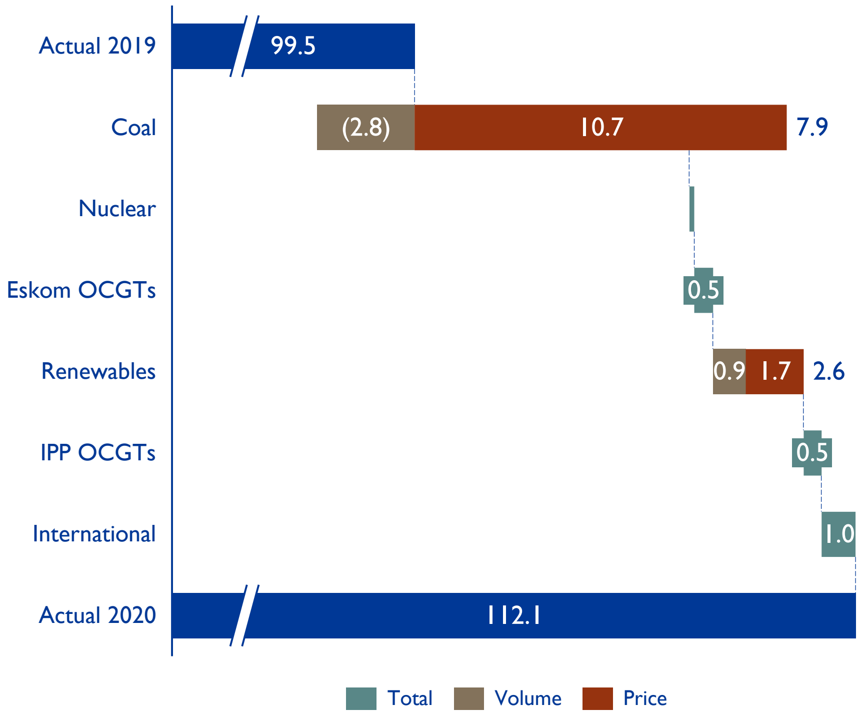
Sales and revenue



Primary energy cost increased by 13%

- Eskom production volume reduced to 214 968GWh while IPP production volume increased to 11 958GWh (2019: 218 939GWh Eskom, 11 344GWh IPPs)
- Total Eskom and IPP OCGT cost of R7.5 billion, an increase of R1 billion
- Eskom production cost increased by R8.5 billion, or 14%
- Increase of 16.3% in the average coal purchase cost per ton, mainly due to short-term contracts concluded to rebuild stockpiles
- Renewable IPP cost increased by R2.6 billion and IPP OCGTs by R0.5 billion

Primary energy cost increase, R billion



Balance sheet strengthened through Government support

Financial position, R million	March 2020	Restated [1] March 2019	YoY % change
Property, plant and equipment and intangible assets	**657 189**	654 365	<1
Working capital – inventory and current receivables	**57 563**	49 041	17
Liquid assets – cash and cash equivalents and investments	**34 971**	11 594	202
Derivatives held for risk management	**57 636**	22 662	154
Other assets [2]	**15 580**	18 042	(14)
Total assets	**822 939**	755 704	9
Equity [3]	**185 863**	149 978	24
Debt securities and borrowings	**483 682**	440 610	10
Working capital – current payables	**54 904**	50 945	8
Derivatives held for risk management	**2 941**	7 040	(58)
Other liabilities [4]	**95 549**	107 131	(11)
Total equity and liabilities	**822 939**	755 704	9

1. Restatements are disclosed in note 50 of the annual financial statements
2. Mainly comprises assets held for sale and future fuel
3. Includes Government support of R49 billion received during the 2020 financial year
4. Mainly comprises non-current provisions, employee benefit obligations, contract liabilities and lease liabilities

Reliance on debt is unsustainable – gross finance costs are the second largest cost after primary energy

Eskom

Group debt overview, R million	March 2020	Restated [1] March 2019	YoY % change
Debt securities and borrowings	**483 682**	440 610	10
Net market making liabilities	**62**	76	
Cash and cash equivalents [2]	**(22 990)**	(2 031)	>1 000
Net derivatives held for risk management [2]	**(54 695)**	(15 622)	>250
Net interest-bearing debt	**406 059**	423 034	(4)

Group finance cost overview, R million			
Finance cost	**42 305**	39 507	7
Finance income	**(2 610)**	(2 722)	4
Borrowings capitalised to assets	**(14 584)**	(15 378)	5
Other finance costs, including unwinding	**6 141**	6 325	(3)
Net finance cost	**31 252**	27 732	13

1. Restatements are disclosed in note 50 of the annual financial statements
2. In the table above, assets are reflected as negative amounts

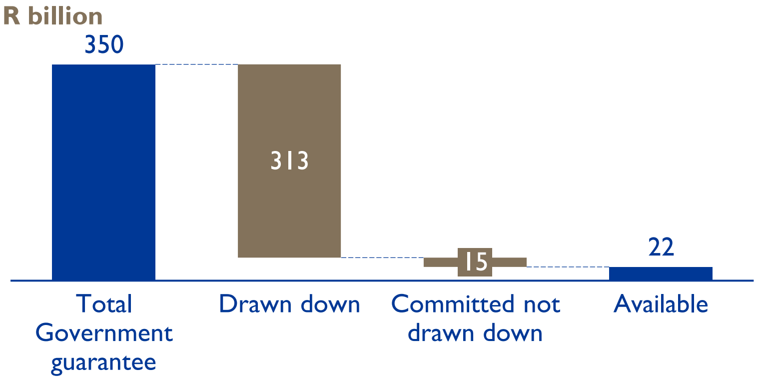
- Growth in debt securities and borrowings largely attributable to weakening of the Rand in March 2020, with corresponding growth in derivative assets due to comprehensive hedging of market exposures
- Debt raising of R32 billion, offset by debt repayments of R31.5 billion (excluding commercial paper)
- Average cost of debt increased to 9.58% (2019: 9.33%)
- Approximately 72% of debt at fixed interest rates

Secured 64% of funding for the 2021 financial year by 30 September 2020

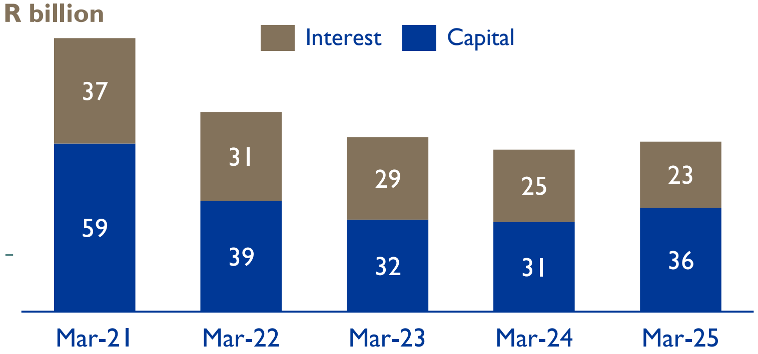
R billion	Actual funding 2020	Funding plan 2021	Committed and signed 2021
DFIs	15.5	12.4	11.7
ECAs	0.3	0.6	0.6
International bonds	–	–	–
Domestic bonds and notes >1 year	11.0	5.1	5.1
Domestic bonds and notes ≤1 year	7.9	2.9	1.2
Structured products	–	8.2	–
Bank funding	1.2	1.5	1.0
Funding	**35.9**	**30.8**	**19.6**
Rollover of structured products	15.0	–	–
Total funding [1]	**50.9**	**30.8**	**19.6**
% secured			**64%**

Debt servicing costs (after hedging) of R96 billion in 2021, reducing to R70 billion in 2022, and averaging around R60 billion per year to 2025

Guarantee utilisation allocation at 31 March 2020



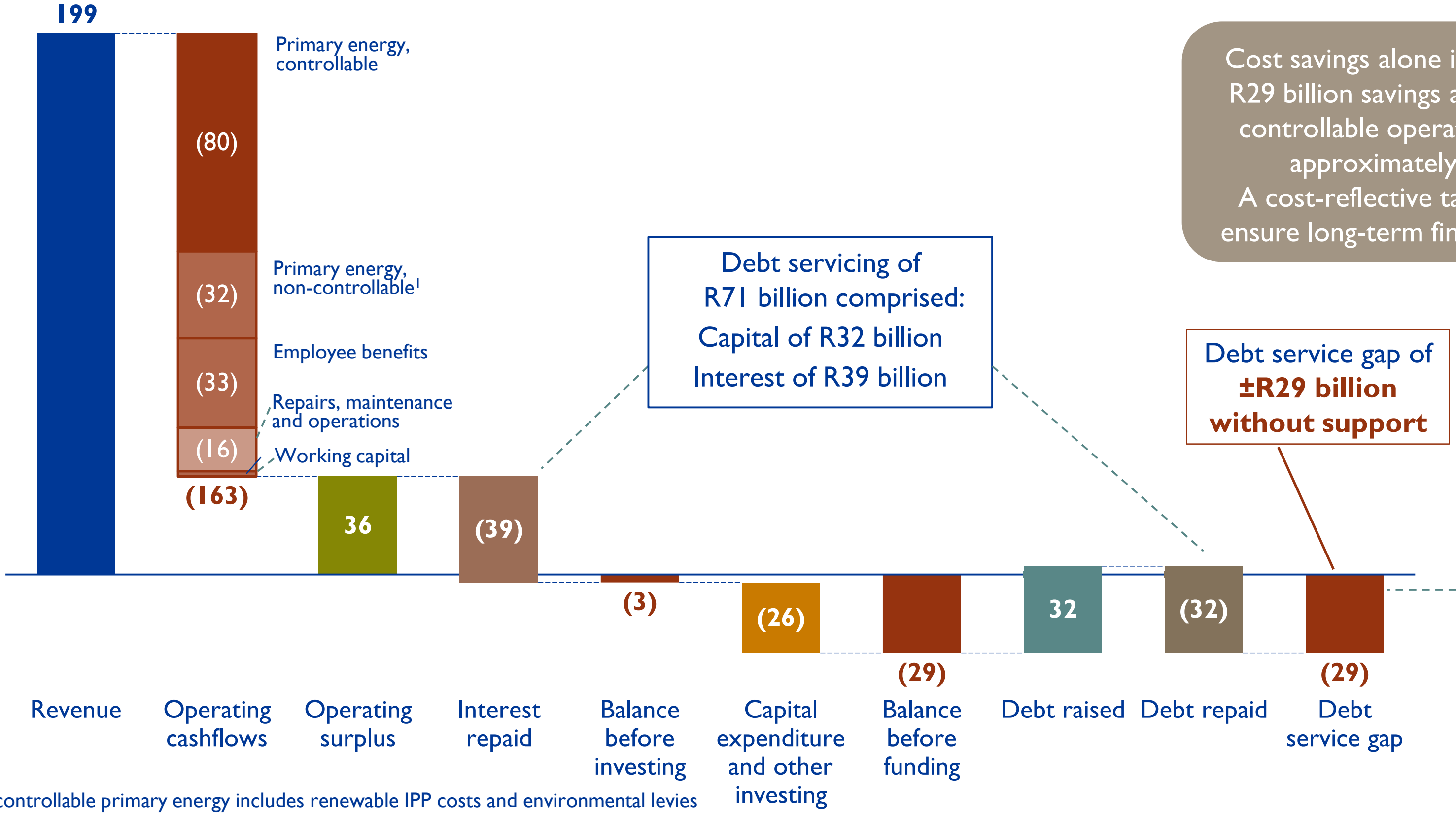
Debt maturity profile at 31 March 2020



1. Gross of commercial paper 2. Funding sources targeted for 2021 are subject to change depending on requirements

Without Government support, cash from operations would have been insufficient to meet debt servicing

Cash flows for the year ended 31 March 2020, R billion



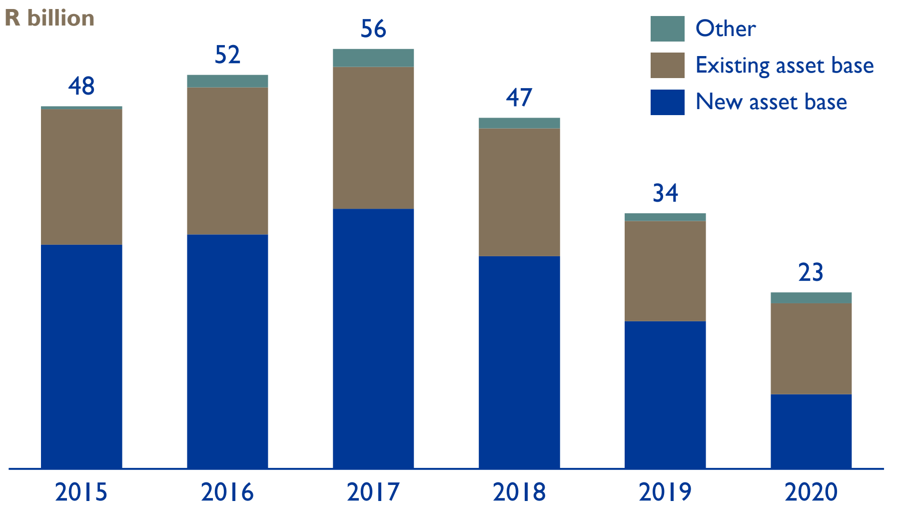
Cost savings alone is not the answer – R29 billion savings amounts to 22% of controllable operational outflows of approximately R131 billion.
A cost-reflective tariff is required to ensure long-term financial sustainability

Cash balance improved by ±R20 billion due to Government support of R49 billion

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

Capital expenditure contained to manage liquidity

Total Eskom funded capital expenditure

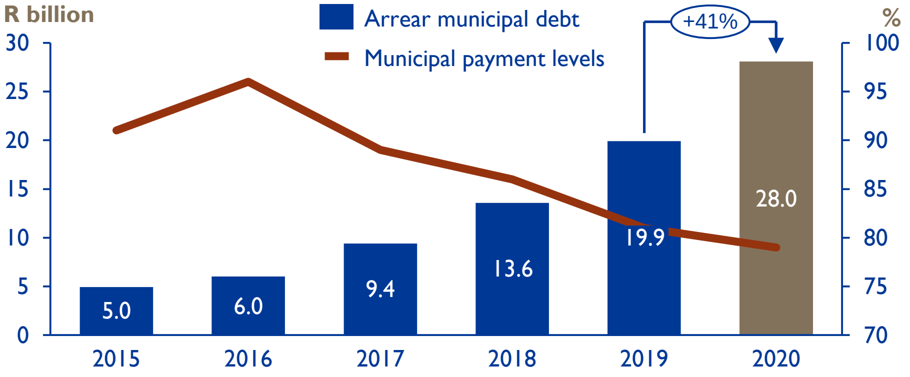


R billion	2020	2019
Medupi	2.9	4.9
Kusile	2.5	8.6
Total	**5.4**	**13.5**

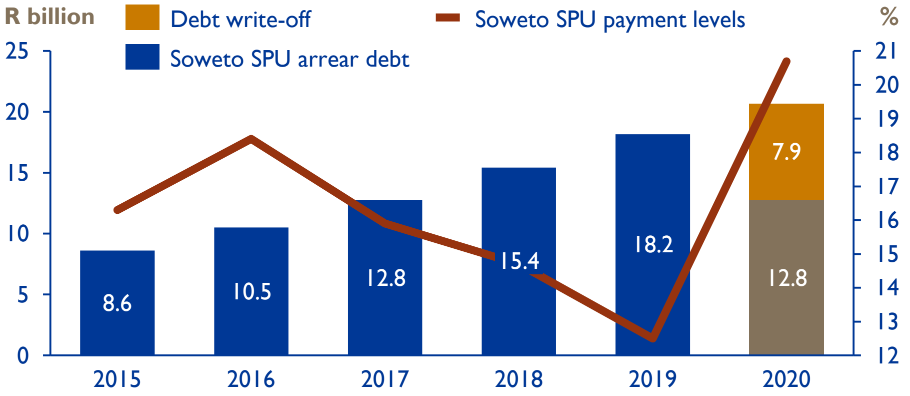
- Total Eskom group funded capital of R23 billion (2019: R34 billion), with R10 billion used to expand the asset base and R12 billion spent on existing assets
- Restricted organisational capital expenditure requirements to improve liquidity
- Continued deferral of capital maintenance, refurbishment and replacement of infrastructure may lead to operational challenges
- Medupi: R118.4 billion spent, cost to completion of R145 billion (excludes FGD)
- Kusile: R137.4 billion spent, cost to completion of R161.4 billion (includes FGD)

Arrear municipal debt continues to escalate, leading to additional liquidity pressure

Invoiced municipal arrear debt



Soweto small power user (SPU) debt



- Invoiced municipal arrear debt (including interest) escalated by R8.1 billion, to R28 billion
- Payment level of 79% by municipalities (excluding metros) on amounts billed, declining from 96% in 2016
- Payment level of 42% for top 20 defaulting municipalities
- Commenced a municipal debt management strategy to reduce and/or eliminate overdue debt, stop defaulting where it occurs, and prevent future defaulting by paying customers, including attachment of municipal assets
- Collaborating with the Eskom Political Task Team to address ongoing municipal debt challenges
- Invoiced Soweto SPU arrear debt (including interest) decreased to R12.8 billion (2019: R18.2 billion), after writing off *in duplum* debt components of R7.9 billion
- Debt recovered from ZESCO of Zambia and ZETDC of Zimbabwe; EDM of Mozambique remains in arrears

1. Prior year Soweto SPU debt includes *in duplum* debt components that were not written off at the time

Some progress achieved in correcting the lack of cost-reflective revenue determinations

MYPD 3 RCA (2015, 2016 and 2017)	• Favourable court judgment received in June 2020 • NERSA public consultation process, with final determination expected by 26 February 2021
MYPD 3 RCA (2018)	• Eskom founding affidavit submitted in April 2020, NERSA has served its notice to oppose
2019 revenue decision	• Favourable court judgment received in March 2020 • Eskom submitted a supplementary tariff application of R5.4 billion • NERSA public consultation process, with final determination expected by 26 February 2021
MYPD 4 revenue decision (2020 to 2022)	• Favourable court judgment received in July 2020 • Court reviewed and set aside NERSA's determination – Eskom to recover R69 billion in a phased manner over a three-year period, from the 2022 financial year • NERSA granted leave to appeal the judgment in the Supreme Court of Appeal • Eskom has applied for execution of the order while awaiting the appeal process
2019 RCA	• NERSA decision of R13.3 billion in response to an application of R27.3 billion • Reasons for decision published in October 2020 • NERSA decision on timing of recovery expected by 26 November 2020

Eskom will submit an RCA application of about R10 billion for the 2020 financial year

Financial results for 2021 expected to be worse, before long-term improvements materialise

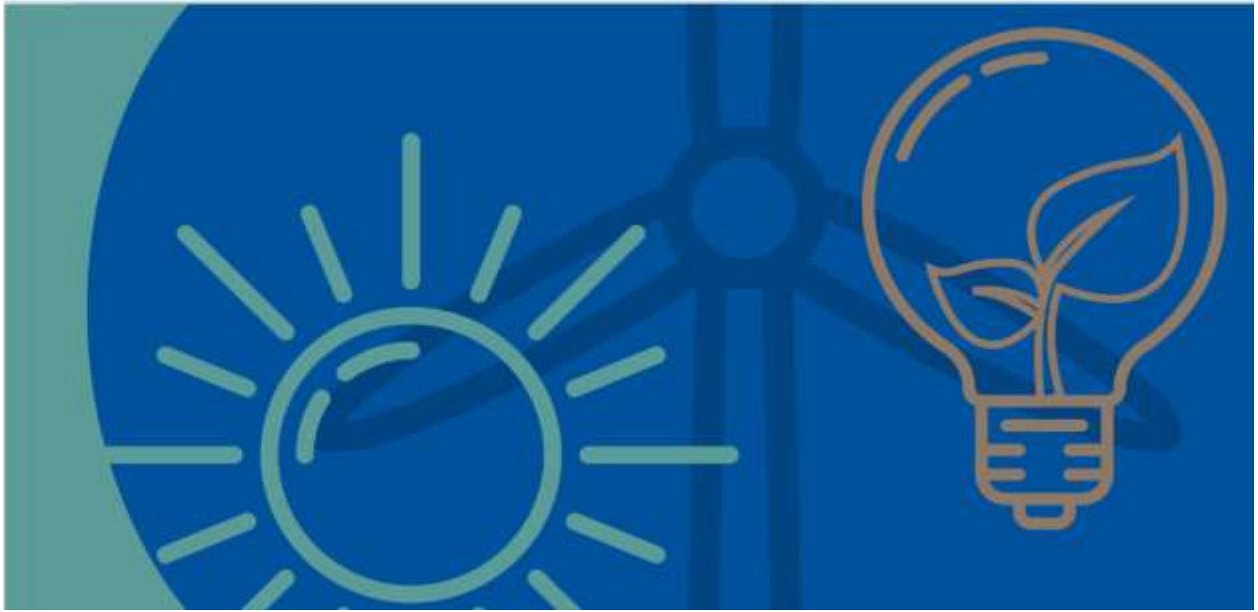
Eskom

Financial outlook	Actual March 2020		Budget March 2021		Budget March 2023
Revenue, R million	**199 468**	↑	201 536	↑	268 708
EBITDA, R million	**36 998**	↓	23 522	↑	73 380
Operating profit (EBIT), R million	**9 219**	↓	(5 322)	↑	40 933
Net (loss)/profit after tax, R million	**(20 502)**	↑	(26 205)	↑	2 514
EBITDA margin, %	**18.55**	↓	11.67	↑	27.31
Cash interest cover, ratio	**0.94**	↓	0.31	↑	2.54
Debt service cover, ratio	**0.52**	↓	0.11	↑	1.11

Government support of R56 billion required to meet debt servicing requirements for 2021

- Results for 2021 expected to be worse than 2020, primarily due to the anticipated impact of COVID-19 on operations, particularly on sales
- Cash from operations remain insufficient to service debt without Government support
- Government support of R56 billion committed for 2021 to manage liquidity
- Most ratios maintain negative trend into 2021, however, return to profitability from 2023
- Corporate Plan assumes a cost-reflective tariff path

Conclusion



In conclusion

- On average, Eskom requires Government support of about R1 billion per week in 2021. We regret the burden that this places on the fiscus, particularly in the current economic climate
- Financial modelling shows that with a significantly reduced debt balance of R200 billion, a cash balance of R30 billion and an EBITDA margin of at least 35%, Eskom would be in a position to achieve independent financial sustainability
- An improvement in operational performance will positively affect financial results
- Cumulative cost savings of R62 billion targeted by 2023 alone is not sufficient to improve Eskom's financial position
- Government equity support is improving liquidity by assisting with debt servicing, but will not resolve Eskom's financial viability and is an unsustainable solution
- The migration towards a cost-reflective tariff is necessary to cover our cost of capital and, combined with cost efficiencies and reducing debt levels, will restore financial sustainability

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