Eskom

Group annual results

for the year ended 31 March 2021

31 August 2021

The results presentation is available at **www.eskom.co.za/IR2021**

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Contents

André de Ruyter
Group Chief Executive

Calib Cassim
Chief Financial Officer

Highlights and lowlights

- Financial results challenging, net loss after tax of R18.9 billion
- COVID-19 impacted performance, sales volumes down 6.7%
- Headcount reduced by 4.5%, employee costs contained
- Gross debt burden reduced by R81.9 billion, with Government support of R56 billion contributing towards debt servicing
- Generating plant performance reduced to 64.19% EAF due to higher planned maintenance – a short-term trade-off for longer term sustainability
- Transmission and distribution network performance improved
- Environmental performance remains disappointing, particularly at Kendal
- Business separation gaining momentum, with functional separation completed in June 2021

Progress on Medupi and Kusile

MEDUPI POWER STATION

- Unit 1 achieved commercial operation on 31 July 2021, after being synchronised to the national grid on 27 August 2019
- Signifies completion of construction activities on the 4 764MW project, which commenced in May 2007
- Planned operational life of Medupi Power Station is 50 years, using direct dry-cooling systems due to the water scarcity in Lephalale area
- Fourth largest coal-fired plant and largest dry-cooled power station in the world
- FGD to be retrofitted at a cost of R38.4 billion

KUSILE POWER STATION

- Two Kusile units commissioned, adding 1 598MW capacity to the national grid
    - Unit 2: 29 October 2020
    - Unit 3: 29 March 2021
- FGD included in units being constructed, requiring limestone to operate

MEDUPI UNIT 4 EXPLOSION

- Generator at Medupi Unit 4 exploded on 8 August 2021, with extensive damage to the generator
- Apparently caused by a deviation in operating procedure during a short-term outage
- No injuries were sustained during the incident
- Until completion of the Major Event Investigation, employees placed on precautionary suspension

The impact of COVID-19

- As an essential service, we were allowed to continue operating at full capacity even during level 5 of South Africa's national lockdown, with coal mines permitted to operate to supply stations
- Our priority was the supply of electricity, and maintaining the safety of our people
- Where possible, employees have worked at home since the start of the national lockdown, with some staff returning to work as restrictions were lifted
- Group IT enabled a large amount of the workforce to work remotely during the lockdown
- Measures are in place to protect critical staff and minimise the number of employees on site wherever possible. Plans are in place to protect key operations
- Capital and generation maintenance projects were delayed early on due to restrictions on movement and limiting the number of people on site
- Continued uncertainty around COVID-19 is expected to continue threatening future sales volumes, the cost of production and customers' ability to pay
- Demand is not expected to recover to pre-COVID-19 levels in the short to medium term, due to the long-lasting impact of the economic recession experienced in 2020 – largely stagnant sales volumes of approximately 190TWh per year anticipated for at least the next five years

At 17 August 2021, Eskom had recorded 6 980 positive COVID-19 cases (including 43 reinfections), comprising 5 775 employees and 1 205 contractors, with 6 140 recoveries
Sadly, 128 employees and 17 contractors have succumbed to the disease

Daily peak demand reduced by between 7 500MW to 11 000MW during level 5 of the lockdown

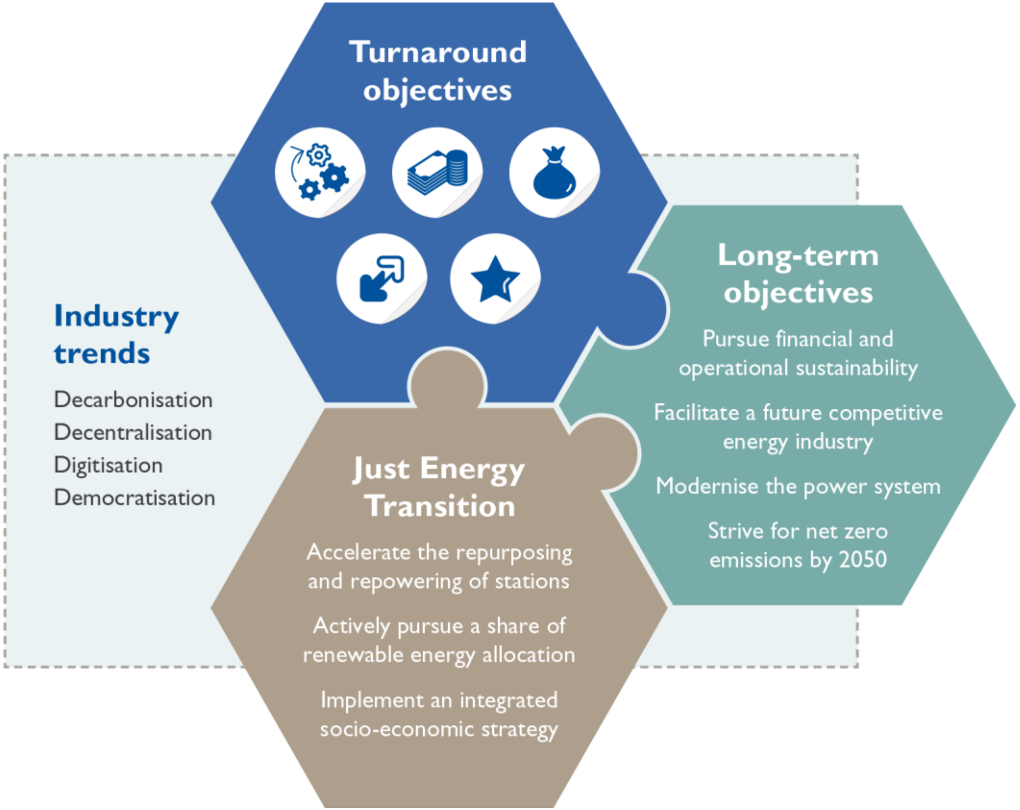
Generation output had to reduce drastically in response

The slowdown of the economy amid the COVID-19 pandemic led to an unprecedented decline in sales

Electricity sales
191 852GWh
down 6.7% YOY, with 78% of the reduction in the first half of the year

Industrial, rail and international sectors most severely affected

Our strategy and turnaround plan



- Operations recovery
- Improve the income statement
- Strengthen the balance sheet
- Business separation
- People and culture

Our Exco team driving the turnaround

André de Ruyter
Group Chief Executive

Calib Cassim
Chief Financial Officer

Jan Oberholzer
Chief Operating Officer

Faith Burn
Chief Information Officer

Nthato Minyuku
Group Executive:
Government and Regulatory Affairs

Nerina Otto
Acting Group Executive:
Legal and Compliance

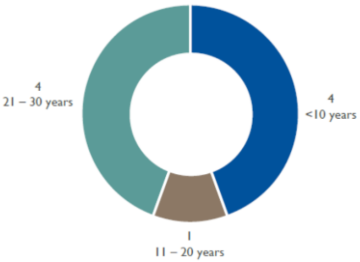
Elsie Pule
Group Executive:
Human Resources

Jainthree Sankar
Acting Chief Procurement Officer

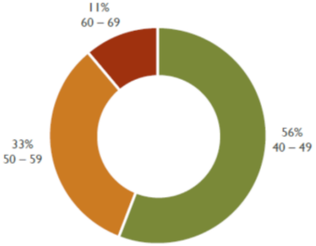
Vuyolwethu Tuku
Group Executive:
Turnaround Management Office

Exco diversity

Years in service



Age



Race

7
ACI (78%)

2
White (22%)

Gender

5
Female (56%)

4
Male (44%)

The recently launched Eskom Rising campaign is aimed at driving change and the success of our turnaround plan

Financial performance

IMPROVE THE INCOME STATEMENT

- The COVID-19 lockdown, depressed economic conditions and supply constraints hampered growth, with a 6.7% reduction in sales volumes. Winter sales incentives were offered to mitigate this impact
- Total revenue improved to R204.3 billion due to a 8.76% tariff increase
- Favourable High Court judgments received on a number of NERSA review applications
- Cost savings of R14.4 billion achieved against a target of R14.1 billion
- Growth in primary energy costs contained to 3.4%, with a 3.9% decrease in production, offset by higher use of relatively more expensive OCGTs to minimise loadshedding and higher RE-IPP use
- Decline in EBITDA to R32.8 billion due to lower sales volumes and an increase in primary energy and other operating expenditure
- Operating profit (EBIT) of R5.8 billion achieved despite a very challenging environment
- Unsustainable debt burden resulted in net finance costs of R31.5 billion, and a net loss after tax of R18.9 billion for the year

STRENGTHEN THE BALANCE SHEET

- Government support of R56 billion received to support Eskom's status as a going concern, with a further R31.7 billion committed for 2022
- Gross debt and borrowings reduced by R81.9 billion to R401.8 billion due to Government support and strengthening of the Rand
- Gross funding of R18.9 billion secured for 2021, mainly from DFIs and local bond issuances
- Further credit rating downgrades arising from concerns around operational and financial sustainability
- Payment levels for customers in arrears are improving, although they remain below acceptable levels
- Municipal arrear debt grew by R7.3 billion to R35.3 billion. Negotiations for active partnering agreements are under way with 45 municipalities for Eskom to act as agent for the supply of electricity, maintenance services and collection of revenue
- Opportunities for disposal of non-core assets bearing some fruit

Operating performance

OPERATIONS RECOVERY

- Generating plant availability deteriorated to 64.19% (2020: 66.64%), mainly driven by an increase in PCLF to 12.26% (2020: 8.92%)
- Satisfactory progress on the Generation recovery plan
- Improvement in transmission and distribution network performance, although energy losses have increased
- Transmission sustainability improvement plan and Distribution network development plan approved
- Two new build units commissioned at Kusile
- Significant improvement in particulate emissions performance, although Kendal challenges not yet resolved

BUSINESS SEPARATION

- Divisionalisation completed by March 2020
- New structures approved and operating model implemented
- Major milestones achieved by year end, except service level agreements and IT changes
- Business separation gaining momentum, with functional separation completed in June 2021
- New functions set up to support separation and a transitioned energy future
- Separation of the Transmission entity targeted by December 2021, although some dependencies are lagging behind
- Separation of the Generation and Distribution entities targeted by December 2022

PEOPLE AND CULTURE

- Headcount reduced by 2 023 to 42 749 (2020: 44 772), resulting in reduced employee benefit costs
- Support staff relinked to line divisions as part of functional separation
- Granted 74 voluntary separation packages
- Developing an improved performance management framework
- Lost-time injury rate improved significantly to 0.22 (2020: 0.30)
- External stakeholder relations and internal communications performed well despite constraints imposed by COVID-19

Progress on business separation

BUSINESS SEPARATION

- DPE's Roadmap provided timelines for the restructuring of Eskom from a vertically integrated utility to an unbundled state with three wholly owned, separate legal entities
- Functional separation to drive accountability for each division and thereby, improve business performance
- Divisions capacitated to function relatively independently while aligning with and implementing the overall Eskom strategy
- Following completion of functional separation, focus has shifted to legal separation

TRANSMISSION ENTITY

- Timelines are aggressive and considered high risk due to critical external and regulatory decisions and dependencies, and dependent on Government playing an active, supportive role
- Set up of the entity depends on lender approval and licensing by NERSA
- Eskom Conversion Act, 2001 and Electricity Regulation Act, 2006 to be amended
- Approved trading arrangements must be in place by 31 December 2021, which requires wholesale and aligned retail tariff structures

Transmission to be separated by December 2021

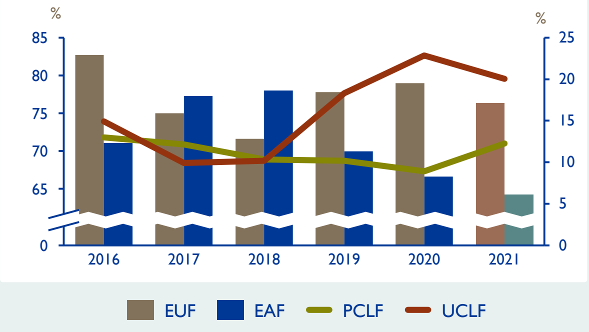
Generation and Distribution to be separated by December 2022

Generating plant and network performance

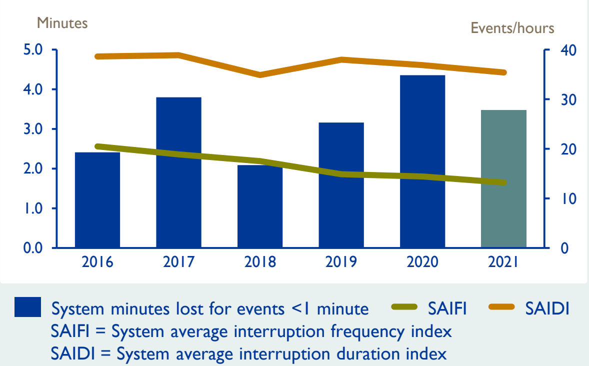
GENERATION AND NEW BUILD

- High unplanned load losses resulted in capacity constraints, leading to loadshedding on 47 days (2020: 46 days)
- Gas turbine usage remained high, at a cost of energy (Eskom and IPP-owned OCGTs) of R7 billion (2020: R7.5 billion)
- Generation recovery programme and reliability maintenance recovery programme showing results
- Investments in wet coal handling paid dividends – stations survived two weeks during Cyclone Eloise without having to loadshed due to wet coal
- Significant progress made correcting major plant defects on Medupi and Kusile units, with Medupi Unit 3 reaching full generation capacity in April 2020
- Operational excellence initiative launched to ensure skills and disciplined execution

Generation performance



Network performance



NETWORK PERFORMANCE

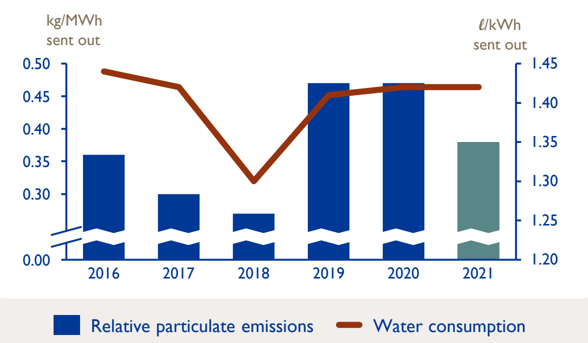
- System reliability improved, with both system minutes <1 and major incident performance meeting target
- Customers are experiencing fewer incidents of interruptions and shorter outage duration
- Load reduction initiative contributed positively to reducing equipment failure related to overloading caused by illegal connection and bypassing of meters
- Negative economic outlook and socio-economic challenges led to higher distribution non-technical losses, particularly due to theft of electricity
- Asset vandalism, equipment theft and overloaded networks has led to increased breakdowns, maintenance costs and increased safety risk

Environmental performance

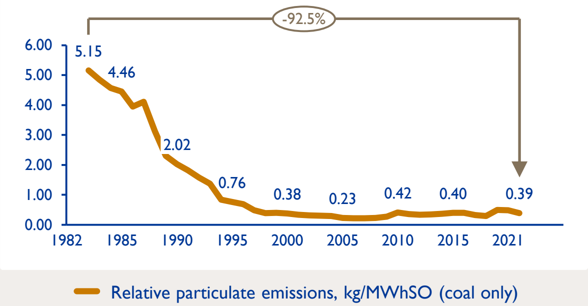
PERFORMANCE

- Relative particulate emission performance improved significantly to 0.38kg/MWh sent out (2020: 0.47kg/MWhSO)
- Besides Kendal Power Station, Kriel, Lethabo, Matla and Tutuka experienced periods of poor performance, due to poor coal quality and poor performing dust handling and SO_3 plant
- Water consumption at power stations deteriorated slightly to 1.42ℓ/kWhSO (2020: 1.41ℓ/kWhSO)
- A total of 80 environmental legal contraventions recorded (2020: 59), 68 were water-related
- Performance on legal contraventions showing improvement since year end
- Ingula Nature Reserve wetlands declared wetlands of international importance by the International Ramsar Convention

Environmental performance



Coal fleet emissions, past 40 years (1982 to 2021)



EMISSION CHALLENGES

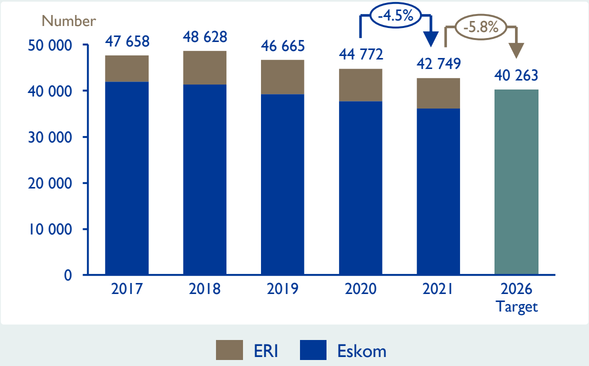
- Stations allowed by DFFE to operate under pre-1 April 2020 emission limits
- Cost of full compliance estimated at R300 billion, with significant implications for capacity, immediately and after 2025
- Emission abatement projects under way to reduce particulate emissions
- Kendal implementing an emission recovery plan across all units, leading to a significant reduction in emissions
- At times, Kendal had to operate outside allowed limits due to generation constraints
- Kendal operating in general compliance with emission limits since December 2020
- Criminal charges laid against Eskom in 2019 regarding Kendal's particulate emissions challenges. The matter was postponed

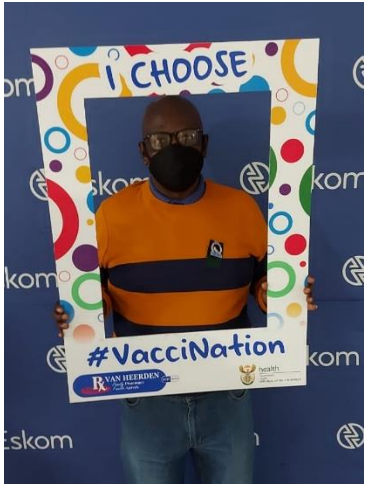
People and safety

- Lost-time injury rate improved to 0.22 (2020: 0.30). LTIR including contractors also improved to 0.25 (2020: 0.34)
- Sadly, two employee and eight contractor fatalities recorded during the year (2020: nine contractors)
- Adequate learner pipeline in place, with overall training spend at 2.58% of gross employee benefit costs, despite lockdown restrictions (2020: 3.67%)
- Racial equity improved substantially at senior management and middle management/professional level, at 73.72% and 80.10% respectively (2020: 71% and 78.04%)
- Gender equity at both levels showed improvement, to 41.99% and 38.95% respectively (2020: 41.73% and 38.24%)
- Disability equity deteriorated to 2.93% (2020: 3.01%)
- Employee benefits costs successfully managed within budget, driven by a reduction in headcount
- Production bonuses of R129 million to qualifying staff
- Reduction of R179 million in overtime costs. Further reduction remains a challenge, given poor plant performance
- Rollout of workplace vaccination programme for employees and contractors at a number of sites commenced

Safety performance

Group headcount





Socio-economic performance

- Customer satisfaction improved, particularly for top customers, although unreliability of supply and slow resolution of interruptions remain a concern
- Preferential procurement spend reduced slightly to 64.51% (2020: 65.97%)
- Preferential procurement spend is negatively affected by spend with RE-IPPs under contracts negotiated by DMRE to the extent of about 12%
- Procurement spend with the majority of supplier categories remains below target
- Electrification programme curtailed as DMRE reduced funding for the year by R1 billion, although connections were still delivered despite the lockdown
- Deploy modular microgrids developed by RT&D to accelerate electrification programme
- Financial challenges, exacerbated by the impact of COVID-19, limited the implementation of CSI programmes

106 669 electrification connections under DMRE's electrification programme

Committed CSI spend of **R67.4 million**, aiding **802 635** beneficiaries

B-BBEE level 8

Awarded 1 299 contracts worth **R102.5 billion**, with local content of **R67.7 billion**

Since inception of the new build programme, awarded contracts worth **R227 billion**, with local content of **R169.5 billion**

Advancing Broad-Based Black Economic Empowerment

PREFERENTIAL PROCUREMENT IN THE PAST FIVE YEARS (2017 TO 2021 FINANCIAL YEARS)

Total measurable spend
R731 billion

B-BBEE compliant suppliers
R498 billion (68% of TMPS)

Black-owned businesses
R251 billion (34% of TMPS)

Black women-owned companies
R87 billion (12% of TMPS)

Black youth-owned suppliers
R16 billion (2% of TMPS)

Small and medium enterprises (QSE & EMEs)
R109 billion (15% of TMPS)

ESKOM CONTRACTORS IN NEW BUILD PROJECTS (2007 TO 2021 FINANCIAL YEARS)

Total contracted value
R227 billion

Local content contracted
R146 billion (64% of contract value)

Local content spend
R170 billion (74% of contract value)

Large black-owned companies
R86 billion

Black women-owned suppliers
R19 billion

Small and medium enterprises (QSE & EMEs)
R18 billion

Local to site companies
R12 billion

Jobs created
~189 000

Skills developed
~11 400

Industrialisation
R1.12 billion

Infrastructure development
~R3 billion

Enterprise development
~R1 billion

Financial results for the year

PROFITABILITY

- COVID-19 hampered revenue, with industrial, rail and international sales most affected
- Growth in total primary energy costs was stable at 3.4% due to lower production, although more expensive production sources were required to minimise loadshedding
- Net finance costs and employee benefit costs remained stable
- Strengthening of the Rand had a significant positive impact on results for the year

LIQUIDITY AND FUNDING

- Liquidity remains constrained due to debt servicing and working capital requirements, and limited debt raising activities. Credit ratings remain at sub-investment grade level
- Concerted effort to reduce Eskom's debt burden and improve gearing, with the support of Government equity injections
- Lack of cost-reflective tariffs and escalating municipal arrear debt also contribute to liquidity constraints. Court review applications and municipal interventions being pursued
- Capital expenditure restricted to improve liquidity

AUDIT OPINION

- Qualified audit opinion relating to irregular expenditure under the PFMA
- Material uncertainty regarding Eskom's status as going concern

Electricity sales
191 852 GWh
down 6.7% due to national lockdown

Electricity revenue
R202 644 million
up 2.7% due to 8.76% tariff increase

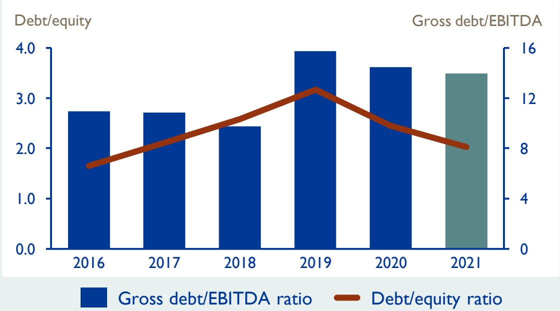
Favourable High Court judgments on NERSA's revenue and RCA decisions, with a **15.06% tariff increase** awarded for the 2022 financial year

Net interest-bearing debt
R393.6 billion
down 3.1% due to debt servicing

Net finance costs
R31.5 billion
up 0.3% due to higher borrowing costs and less interest capitalised

Received
R56 billion
in Government equity support

Gearing



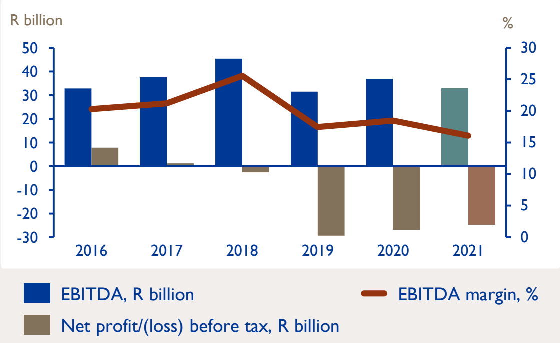
Key financial indicators

Financial indicator	2021		2020 [1]
Revenue, R million	**204 326**	Performance improved	199 468
EBITDA, R million	**32 813**	Performance declined	36 816
EBITDA margin, %	**16.06**	Performance declined	18.46
Operating profit (EBIT), R million	**5 797**	Performance declined	9 037
Net loss after tax, R million	**(18 934)**	Performance improved	(20 769)
Pre-tax nominal return on assets, %	**0.98**	Performance declined	1.56
Cash interest cover, ratio	**0.85**	Performance declined	0.94
Debt service cover, ratio	**0.30**	Performance declined	0.52
Gross debt/EBITDA, ratio	**13.96**	Performance improved	14.46
Debt/equity (including long-term provisions), ratio	**2.03**	Performance improved	2.45
Gearing, %	**67**	Performance improved	71
Free funds from operations (FFO) as % of gross debt	**9.53**	Performance improved	7.72

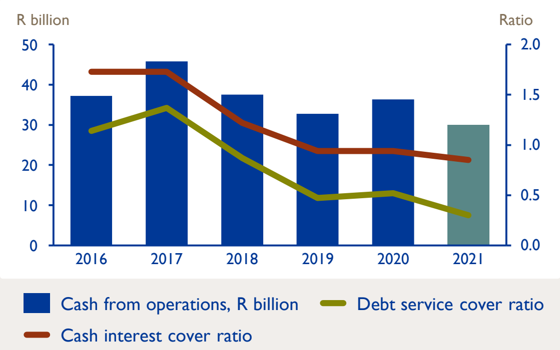
Performance improved   Performance declined

1. Restatements are disclosed in note 49 of the annual financial statements

Profitability



Solvency



KEY TAKEAWAYS

- Some financial indicators improved slightly despite very challenging conditions, yet remain well below acceptable levels
- Improvement in solvency ratios is largely attributable to the Government equity received, which supported our liquidity and helped us to reduce our debt balance during the year
- Cash interest cover and debt service cover ratios declined as operating cash flows remain inadequate to fund even the interest component of our debt servicing requirements

Group income statement for the year ended 31 March 2021

R million	2021	2020 [1]	%
Revenue	**204 326**	199 468	2▲
Other income	**2 662**	1 238	115▲
Primary energy	**(115 903)**	(112 119)	3▲
Net employee benefit expenses	**(32 887)**	(33 158)	1▼
Net impairment (loss)/reversal	**(1 367)**	61	
Other expenses	**(24 018)**	(18 674)	29▲
EBITDA (before net fair value)	**32 813**	36 816	11▼
Depreciation and amortisation expenses	**(27 016)**	(27 779)	3▼
Operating profit (EBIT)	**5 797**	9 037	36▼
Net fair value and foreign exchange gain/(loss) on financial instruments and embedded derivatives	**883**	(4 626)	119▲
Net finance cost	**(31 509)**	(31 407)	
Share of profit of equity-accounted investees	**71**	63	
Loss before tax	**(24 758)**	(26 933)	
Income tax credit	**5 824**	6 164	
Net loss for the year	**(18 934)**	(20 769)	9▼

▲ Income/gain increased ▼ Income/gain declined
▼ Expense/loss declined ▲ Expense/loss increased

FINANCIAL COMMENTARY

- **Revenue**: 8.76% tariff increase for 2021, nearly fully eroded by an unprecedented 6.7% decline in sales volumes
- **Primary energy cost**: contractual price escalations as well as higher OCGT and RE-IPP usage, combined with lower Eskom coal production. Increase in average coal purchase cost per ton limited to 3.2% (2020: 16.3%)
- **Employee benefit cost**: no managerial salary increases and headcount reduction through natural attrition and VSPs, offset by a 7% increase for bargaining unit under the three-year wage settlement agreement
- **Other expenses**: increase in decommissioning provision costs due to a reduction in the long-term discount rate, as well as other once-off items; normalised increase of 1.6%
- **Net fair value gain**: recovery of the Rand to levels last seen before the SA credit rating downgrade in March 2020

R1.56 billion recovered from **ABB South Africa** through a voluntary disclosure of overpayments relating to the **Kusile** project

Long-term decommissioning provision discount rate
3.86% (2020: 4.82%)

Year-end USD exchange rate
R14.75 (2020: R17.82)

1. Restatements are disclosed in note 49 of the annual financial statements

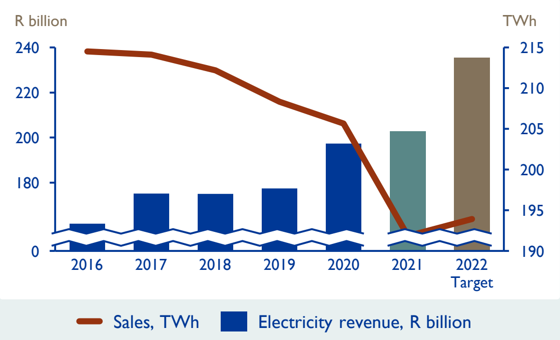
Sales and revenue

Revenue, R million	2021	2020	%
Local	**202 429**	196 868	3 ▲
International	**10 383**	12 229	15 ▼
Gross electricity revenue	**212 812**	209 097	2 ▲
Net revenue not recognised (IFRS 15)	**(6 177)**	(6 107)	1 ▲
Capitalised	**(3 991)**	(5 683)	30 ▼
Net electricity revenue	**202 644**	197 307	3 ▲
Other revenue	**1 682**	2 161	22 ▼
Total revenue	**204 326**	199 468	2 ▲

Sales volumes, GWh	2021	2020	%
Local	**178 355**	190 446	6 ▼
International	**13 497**	15 189	11 ▼
Total sales	**191 852**	205 635	7 ▼

▲ Revenue/sales increased ▲ Non-recognition/capitalisation increased
▼ Revenue/sales declined ▼ Non-recognition/capitalisation declined

Sales and revenue



Sales volumes per category, TWh	2021	2020	%
Distributors	82.4	86.0	4.1 ▼
Residential	10.9	11.3	3.0 ▼
Commercial	9.7	10.5	7.5 ▼
Industrial	40.9	45.6	10.4 ▼
Mining	27.0	28.7	6.0 ▼
Agriculture	5.5	5.8	5.4 ▼
Rail	1.9	2.6	25.7 ▼
International	13.5	15.2	11.1 ▼
Total	**191.9**	**205.6**	**6.7** ▼

- Unprecedented 13.8TWh decline in sales due to the COVID-19 lockdown. Despite this, electricity revenue grew from a 8.76% tariff increase
- Reduction in sales across all customer categories due to economic downturn and depressed commodity prices
- Decline of 16.5% in sales volumes in Q1, recovered by year end due to the phased easing of the lockdown and recovery of commodity markets in the latter half of the year
- Customers in many sectors temporarily halted or curtailed operations, entered into business rescue or closed down
- Demand has increased in 2022, although sales are not expected to recover to pre-COVID-19 levels in the medium term

Primary energy expense

Category	2021 Cost, R million	2021 Sent out, GWh	2021 Unit cost, R/MWh	2020 Cost, R million	2020 Sent out, GWh	2020 Unit cost, R/MWh	R/MWh % change
Coal and other [1]	**74 908**	**184 305**	**406**	73 664	191 637	384	6 ▲
Nuclear	**1 040**	**9 903**	**105**	1 330	13 252	100	5 ▲
OCGTs [2]	**4 125**	**1 457**	**2 778**	4 350	1 328	3 231	14 ▼
Eskom generation [3]	**80 073**	**195 665**	**409**	79 343	206 217	385	6 ▲
Renewable IPPs	**27 921**	**12 821**	**2 178**	24 810	11 247	2 206	1 ▼
IPP OCGTs [4]	**2 911**	**704**	**3 579**	3 250	711	4 049	12 ▼
Total IPPs [3]	**30 832**	**13 526**	**2 280**	28 060	11 958	2 347	3 ▼
Imports [3]	**4 998**	**8 812**	**567**	4 716	8 568	550	3 ▲
Primary energy	**115 903**	**218 003**	**532**	112 119	226 742	494	8 ▲

▼ Production cost declined ▲ Production cost increased

- Energy produced reduced by 8.7TWh to meet lower demand
- Despite lower production, total primary energy costs increased by 3.4% due to use of more expensive sources to alleviate supply constraints experienced during periods of the year
- Growth in own generation costs was contained due to a decline in coal and nuclear production
- The increase in coal, nuclear and import unit costs (▲) were largely due to inflationary and contractual increases
- The decline in OCGT unit costs (▼) were as a result of favourable diesel price movements during the year

1. Excluding Medupi and Kusile pre-commissioning production of 5 735GWh (2020: 8 751GWh) for units synchronised to the grid, but not yet commissioned
2. OCGT unit cost is calculated on fuel and start-up cost, and excludes storage and demurrage charges. Storage and demurrage of R79 million (2020: R59 million) is included in the total cost shown
3. Note that the unit cost of IPPs and international purchases is based on the full cost of operation, whereas the unit cost of Eskom-owned generation is based only on the primary energy cost. Given that IPP and international purchases are treated as a variable cost in Eskom's accounts, this treatment is considered appropriate
4. The IPP OCGT unit cost is calculated on fuel cost (variable cost) only, and excludes maintenance and capacity charges. Maintenance of R391 million (2020: R371 million) is included in the total cost shown

Group statement of financial position at 31 March 2021

R million	2021	2020 [1]	%
Property, plant and equipment and intangible assets	**666 225**	657 189	1 ▲
Working capital – inventory and current receivables	**64 072**	57 563	11 ▲
Liquid assets – cash and cash equivalents and investments	**18 442**	34 971	47 ▼
Derivatives held for risk management	**11 379**	57 636	80 ▼
Other assets [2]	**21 530**	15 864	36 ▲
Total assets	**781 648**	823 223	5 ▼
Equity [3]	**215 836**	186 068	16 ▲
Debt securities and borrowings	**401 826**	483 682	17 ▼
Working capital – current payables	**52 288**	54 904	5 ▼
Derivatives held for risk management	**8 370**	2 941	185 ▲
Other liabilities [4]	**103 328**	95 628	8 ▲
Total equity and liabilities	**781 648**	823 223	5 ▼

▲ Asset increased ▼ Asset declined
▼ Liability declined ▲ Liability increased

FINANCIAL COMMENTARY

- **Liquidity**: constrained due to debt servicing and working capital requirements, and limited debt raising activities. The 2020 balance includes payments of R5.3 billion which were delayed due to technical IT issues
- **Working capital**: increase in coal stock, maintenance spares and consumables due to the Generation recovery programme, as well as growth in municipal and metro debt and diesel rebates
- **Derivatives**: derivatives used in hedging activities declined due to the strengthening of the Rand
- **Equity**: share capital of R56 billion issued in exchange for Government support, reduced by the loss
- **Debt**: R65.6 billion repaid, offset by R15.8 billion debt raised. Foreign-denominated borrowings declined due to the strengthening of the Rand

The largest movement is the **reduction of R81.9 billion** in debt securities and borrowings

1. Restatements are disclosed in note 49 of the annual financial statements
2. Mainly comprises future fuel and non-current receivables
3. Includes Government support of R56 billion received for the year (2020: R49 billion)
4. Mainly comprises non-current provisions, employee benefit obligations, contract liabilities and lease liabilities

Net interest-bearing debt and net finance cost overview

R million	2021	2020	%
Debt securities and borrowings	**401 826**	483 682	17 ▼
Net market making liabilities	**2**	62	
Cash and cash equivalents [1]	**(4 041)**	(22 990)	82 ▼
Net derivatives held for risk management [1]	**(3 009)**	(54 695)	94 ▼
Net interest-bearing debt	**394 778**	406 059	3 ▼

▼ Asset declined ▼ Liability declined

R million	2021	2020 [2]	%
Gross finance cost	**45 625**	48 601	6 ▼
Finance income	**(2 400)**	(2 610)	8 ▼
Borrowing costs capitalised to assets	**(11 716)**	(14 584)	20 ▼
Net finance cost	**31 509**	31 407	0.3 ▲

▲ Income/capitalisation increased ▼ Income/capitalisation declined
▼ Expense declined ▲ Expense increased

- Reliance on debt remains unsustainable, with gross finance costs the second largest cost after primary energy
- Efforts to reduce Eskom's debt burden were possible through Government support, leading to an overall reduction of R81.9 billion in gross debt
- Foreign-denominated borrowings (approximately 40% of portfolio) impacted by the strengthening of the Rand
- Derivatives held for risk management were similarly impacted by exchange rate movements

Debt securities and borrowings, R billion	2021
Opening balance	483.7
Debt raised (net of commercial paper)	15.8
Debt repaid	(65.6)
Exchange rate movement	(35.4)
Accruals, discounting, interest and other	3.3
Closing balance	**401.8**

Average cost of debt
9.66% ▲ (2020: 9.58%)

Average investment return
3.87% ▼ (2020: 6.81%)

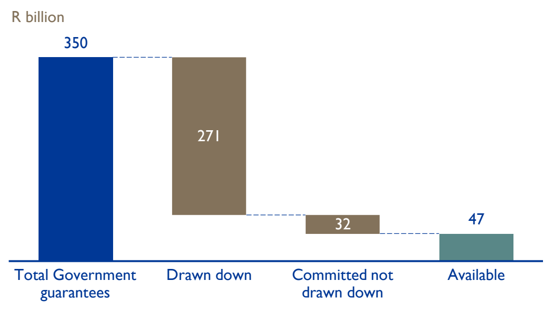
1. In this table, assets are reflected as negative amounts
2. Restatements are disclosed in note 49 of the annual financial statements

Funding plan progress

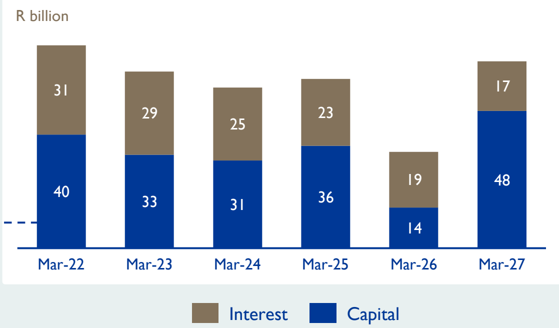
R billion	2021 Funding plan	2021 Secured at year end	2022 [1] Funding plan	2022 [1] Committed 31 July 2021
DFIs	11.8	9.3	8.5	8.2
ECAs	0.7	0.1	0.5	0.5
Domestic bonds and notes >1 year	5.4	5.4	–	–
Domestic bonds and notes ≤1 year	3.1	3.1	0.6	0.6
Derivative loans	1.0	1.0	–	–
International bond	–	–	10.0	–
Private placement [2]	7.0	–	7.0	7.0
Syndicated loan [2]	10.0	–	15.0	–
Total funding [3]	**39.0**	**18.9**	**41.6**	**16.2**
% secured		**48%**		**39%**

Debt servicing costs of **R71 billion for 2022**, reducing to an average of around R60 billion per year to 2025. Capital repayments in 2026 and 2027 based on maturities

Guarantee utilisation at 31 July 2021



Debt maturity profile at 31 July 2021 [4]

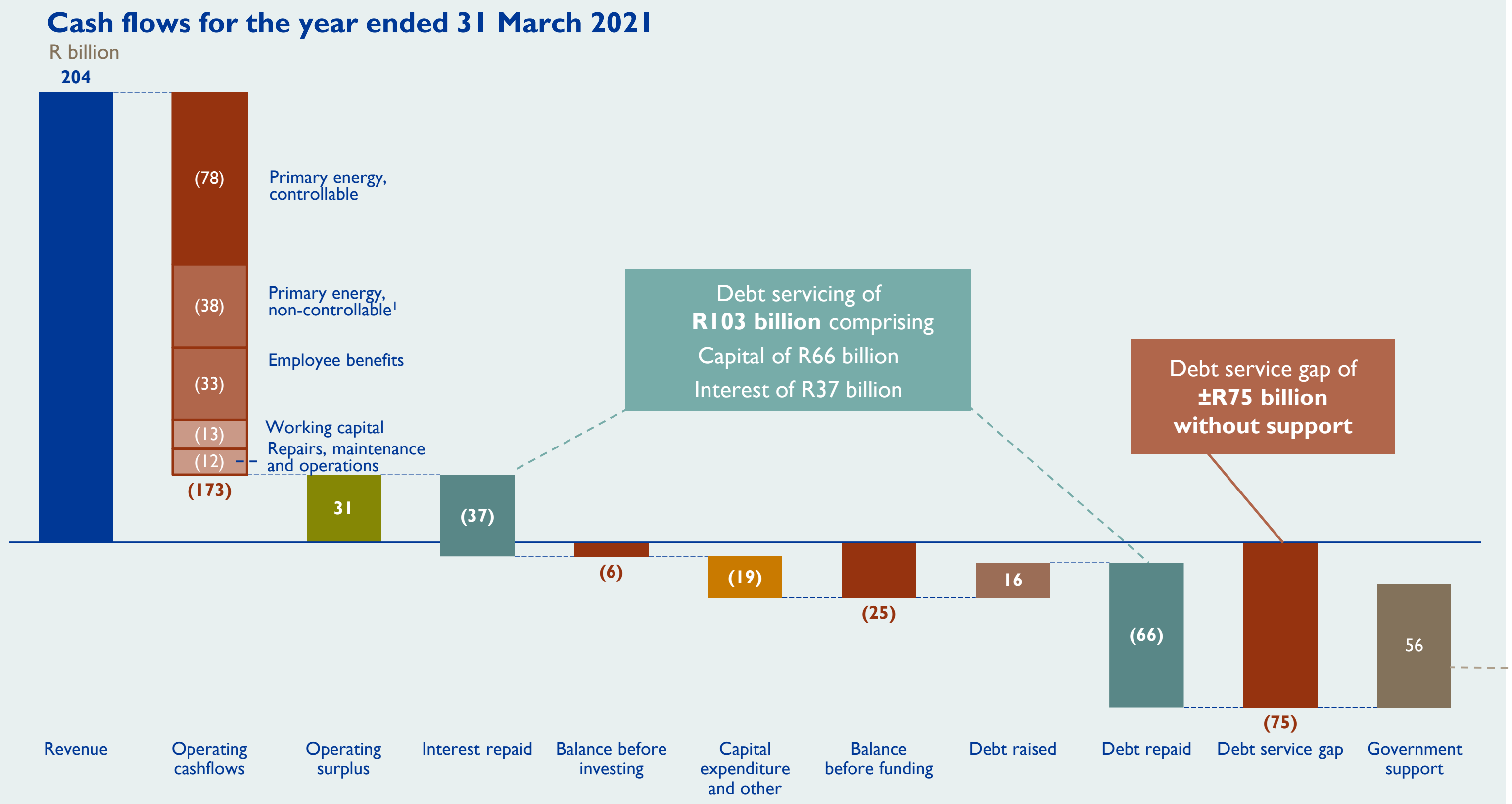


1. Funding sources targeted for 2022 are subject to change depending on requirements
2. Delays in Government guarantees meant that certain planned funding had to be postponed to the 2022 financial year
3. The table above includes gross commercial paper, whereas the debt raised figure in the statement of cash flows is net of commercial paper

4. Based on existing debt only, using forward rates and net of swaps

Overview of cash flow movements

Cash flows for the year ended 31 March 2021



KEY TAKEAWAYS

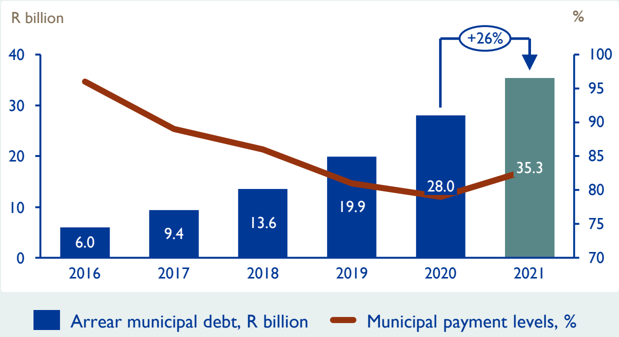
- Cash from operations remains insufficient to meet debt servicing and some capital investment requirements
- Cost savings alone is not the answer, as R75 billion in savings amounts to 43% of operational outflows
- Eskom's capital and tariff structure have to be resolved to ensure long-term financial sustainability

Government support of **R56 billion** was received to alleviate some of the cash flow pressure

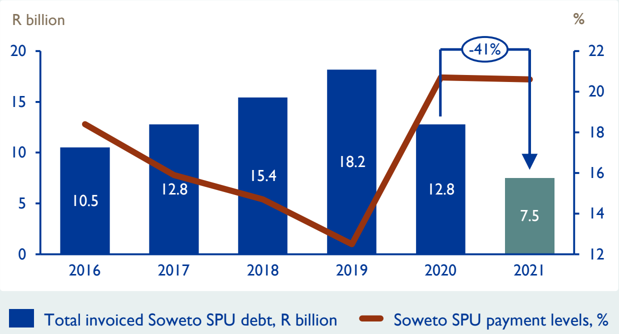
1. Non-controllable primary energy includes renewable IPP costs and environmental levies
2. Debt raised for the year is reported net of commercial paper in the statement of cash flows

Arrear debt management

Invoiced municipal arrear debt



Soweto small power user (SPU) debt



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

- Invoiced municipal arrear debt (including interest) grew by R7.3 billion, adding liquidity pressure
- Payment level of 83% by municipalities, excluding metros (2020: 79%). Payment level of 53% for top 20 defaulting municipalities (2020: 49%)
- Progress achieved from our municipal debt management strategy, as well as ring-fencing of arrear accounts, leading to lower interest charges
- The Political Task Team and Multi-disciplinary Revenue Committee are focusing their efforts on the top 20 defaulting municipalities
- Active partnering agreements are being pursued; discussions under way with 45 municipalities
- Invoiced Soweto SPU debt (including interest) decreased to R7.5 billion, due to write-off of prescribed debt and "*in duplum*" interest. Of this, only R536 million is deemed collectable and reflected as receivables in the financial statements
- In negotiation with the City of Johannesburg for the proposed transfer of customers to City Power
- Other than municipal and residential arrear debt, only two large customers, with combined debt of R0.7 billion, owe amounts in excess of R100 million

Our municipal debt management strategy focuses on

CURRENT ACCOUNT MANAGEMENT

Stop defaulting and enforce payment of current amounts

FUTURE DEBT MANAGEMENT

Reduce and/or eliminate overdue debt

ARREAR DEBT MANAGEMENT

Prevent future defaulting through pre-emptive action

Payment agreements at 31 March 2021

43 active payment agreements in place, with **only 10 fully honoured**

This includes **12 of the top 20** defaulting municipalities, with **only two fully honoured**

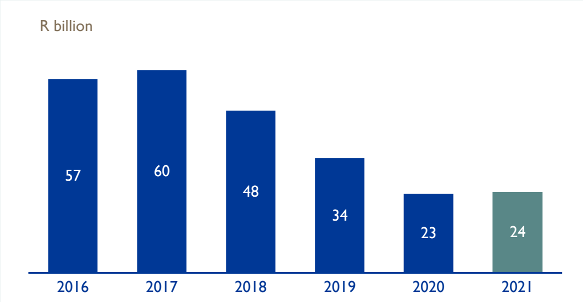
Non-adherence to payment agreements continues to contribute to the increase in arrear municipal debt

On 28 April 2021, we entered into our **first active partnering agreement** with Msunduzi Local Municipality in KwaZulu-Natal

Capital expenditure

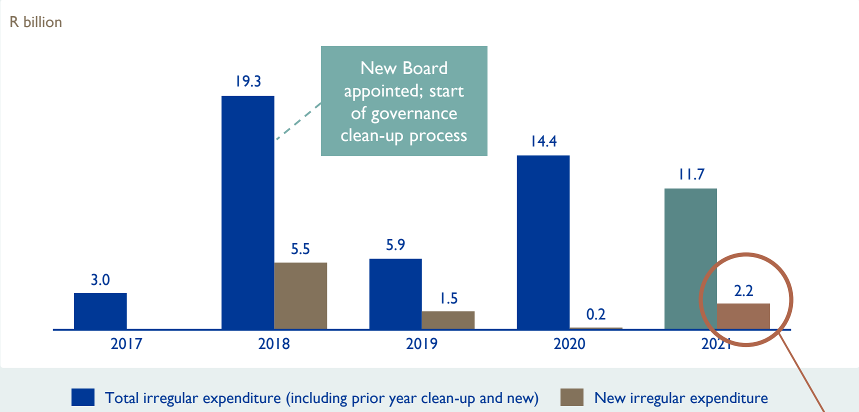
- Total Eskom group funded capital of R24 billion (2020: R23.4 billion), with R9.3 billion used to expand the asset base through Group Capital projects
- Capital expenditure restricted to improve liquidity and also lower due to deferral of outages, resource constraints and a slowdown in activities as a result of the national lockdown
- Capital savings were targeted through Eskom's cost saving initiatives to offset the financial impact of lower sales volumes during the national lockdown
- Continued deferral of capital maintenance outages, refurbishment and replacement of infrastructure may lead to operational challenges
- Current total estimated cost to correct defects of all Medupi and Kusile units, based on the best available information, ranges between R5.6 billion and R7.2 billion, excluding amount to be recovered from contractors
- Medupi: R120.6 billion spent, cost to completion of R145 billion (excluding FGD). Remaining spend relates to balance of plant, including civil and mechanical work. Cost of Medupi FGD estimated at R38.4 billion
- Kusile *(pictured right)*: R141.1 billion spent, cost to completion of R161.4 billion (includes FGD)

Total Eskom funded capital expenditure



Processes to manage irregular and fruitless and wasteful expenditure

Movement in irregular expenditure since 2017



Irregular expenditure breakdown, R billion	2021
Opening balance	36.3
Prior year clean-up and existing IE (pre-2021)	9.5
New IE (2021)	2.2
Recovered	(1.2)
Condoned	(9.5)
Closing balance	**37.2**

New irregular expenditure	No. of incidents	R million
Not an emergency	Monthly	1 251
Non-compliance with tender process	25	380
Not in accordance with NT instructions	1	260
Other	23	267
Total	**> 50**	**2 158**

- A centralised Loss Control Department has been established to address PFMA violations and oversight of consequence management, including disciplinary actions, condonations and recovery of losses
- Implemented revised PFMA reporting procedures to ensure that all assessments and investigations into occurrences of irregular expenditure and fruitless and wasteful expenditure are performed by this function from 1 April 2021
- Progress in obtaining condonations of irregular expenditure has been slow for a number of years. Until condoned, expenditure on affected contracts remains irregular. Towards the end of the year, we received notice of condonation of 296 transactions valued at R9.5 billion
- We are working with DPE and National Treasury to ring-fence historical irregular expenditure to prioritise the close-out of these items and minimise the continued impact on our annual financial statements
- A procurement roadmap is in place to enhance internal procurement processes and contract management

Segment information

- Segment information for the three operating divisions is presented below. The "Other" column includes information for corporate and support functions, as well as subsidiary information and intergroup eliminations
- Note that only selected line items are presented

R million	Generation	Transmission	Distribution	Other	Eskom group
INCOME STATEMENT					
Total revenue	136 566	42 975	24 975	(190)	204 326
Primary energy	(80 073)	(35 818)	(12)	–	(115 903)
Employee benefit expense	(10 942)	(2 347)	(11 583)	(8 015)	(32 887)
Other expenses	(24 016)	(1 824)	(9 566)	11 388	(24 018)
Profit/(loss) before depreciation and amortisation expense and fair value adjustments (EBITDA)	**22 371**	**3 123**	**4 644**	**2 675**	**32 813**
Depreciation and amortisation expense	(19 342)	(3 063)	(3 977)	(634)	(27 016)
Profit before net finance cost	**3 135**	**432**	**272**	**2 841**	**6 680**
Net finance cost	(23 350)	(5 206)	(2 769)	(184)	(31 509)
(Loss)/profit before tax	**(20 215)**	**(4 774)**	**(2 497)**	**2 728**	**(24 758)**
BALANCE SHEET					
Total assets	542 661	78 969	115 931	44 087	781 648
Total liabilities	82 494	19 116	47 458	416 744	565 812
Additions to property, plant and equipment and intangible assets	16 722	3 160	6 249	(3 292)	22 839

Financial outlook for 2022 financial year

Financial indicator	Actual March 2021		Budget March 2022
Revenue, R million	**204 326**	Performance improved	235 879
EBITDA, R million	**32 813**	Performance improved	45 113
EBITDA margin, %	**16.06**	Performance improved	19.13
Operating profit (EBIT), R million	**5 797**	Performance improved	13 978
Net loss after tax, R million	**(18 934)**	Performance improved	(15 155)
Cash interest cover, ratio	**0.85**	Performance improved	1.79
Debt service cover, ratio	**0.30**	Performance improved	0.74
Gross debt/EBITDA, ratio	**13.96**	Performance improved	11.30
Debt/equity (including long-term provisions), ratio	**2.03**	Performance declined	2.09
Free funds from operations (FFO) as % of gross debt	**9.53**	Performance improved	9.57

Performance improved Performance declined

Without Government support, cash from operations remains insufficient to service debt. Gearing and solvency is expected to improve due to continued Government support, while profitability is expected to improve from growth in the tariff as well as cost containment measures

- Financial performance is expected to improve as a result of our turnaround plan
- Despite a tariff increase of 15.06% for the 2022 financial year, a loss after tax is anticipated due to the lack of cost-reflective tariffs, structural challenges and the continued impact of COVID-19. Our Corporate Plan assumes a return to profitability from 2026
- Demand is unlikely to recover to pre-COVID-19 levels for the next five years due to the economic recession
- We are working with Government to explore avenues to stimulate sales and implement long-term negotiated pricing agreements for the benefit of the economy
- We are awaiting NERSA's decisions on the MYPD 5 application and proposals for the restructuring of tariffs, to be implemented from 1 April 2022

Government support of **R31.7 billion** received for the 2022 financial year, and a further R21.9 billion and R21 billion committed for 2023 and 2024

Positive financial outlook

- Require a reduction in debt and an improvement in EBITDA margin to be in a position to achieve independent financial sustainability
- Financial results will be positively affected by an improvement in operational performance
- Cost savings alone not sufficient to improve Eskom's financial position
- Government equity support has improved liquidity and key debt metrics by assisting with debt servicing, but will not resolve Eskom's long-term financial viability
- Leveraging relationship with Government for recovery of municipal and Soweto arrear debt
- Migration towards a cost-reflective tariff is necessary to recover our cost of capital and, combined with cost efficiencies and reducing debt levels, will restore financial sustainability
- Electricity Regulation Act amended to allow generation of up to 100MW without a licence. Customer-funded capacity and IPPs will address immediate supply/demand gap
- Repurposing and repowering ageing power stations will serve to reduce electricity supply gap
- Continued focus on Generation recovery plan and reliability maintenance recovery to improve plant performance
- Since completing Medupi, focus shifts to first synchronisation of Kusile Unit 4 (June 2022) and recovery of Medupi Unit 4
- JET required to attract funding to shift to cleaner power generation, while managing the impact on jobs and livelihoods

The results presentation is available at **www.eskom.co.za/IR2021**

Court applications under way to pursue cost-reflective tariffs

MYPD 3 RCA (2015, 2016 and 2017) **Eskom application**: R66.7 billion **NERSA decision**: R32.7 billion	• Favourable court judgment received in June 2020 • In January 2021, NERSA awarded an additional amount of R4.7 billion in respect of the RCA. We reviewed the decision in May 2021. NERSA has not opposed this review
MYPD 3 RCA (2018) **Eskom application**: R21.6 billion **NERSA decision**: R3.9 billion	• Eskom founding affidavit submitted in April 2020 • NERSA served its opposing affidavit on 19 October 2020. A court date is awaited
2019 REVENUE DECISION **Eskom application**: R220 billion, or effective increase of 19.9% **NERSA decision**: R190.4 billion, or effective increase of 5.23%	• Favourable court judgment received in March 2020 • Eskom submitted a supplementary tariff application of R5.4 billion in July 2020 • In January 2021, NERSA awarded an amount of R1.3 billion against the supplementary tariff application. We are taking this decision on review, in conjunction with the 2019 RCA decision
2019 RCA **Eskom application**: R27.3 billion **NERSA decision**: R13.3 billion	• Reasons for decision published in October 2020 • In January 2021, based on detailed analysis of the reasons for decision, Eskom resolved to take the 2019 RCA decision as well as the decision on the supplementary application for the 2019 financial year on review • The founding affidavit was lodged in April 2021. NERSA has communicated its decision to oppose the review application, however, their opposing affidavit is awaited
MYPD 4 REVENUE DECISION (2020, 2021 and 2022) **Eskom application**: effective annual increases of 15% **NERSA decision**: standard tariff increases of 9.41%, 8.10% and 5.22% The decision resulted in a shortfall of R102 billion over MYPD 4	• Favourable court judgment received in July 2020 • Court reviewed and set aside NERSA's determination – Eskom to recover R69 billion in a phased manner • NERSA was granted leave to appeal the judgment in the Supreme Court of Appeal. NERSA lodged its appeal with the Supreme Court of Appeal in June 2021; a court date is awaited • In February 2021, pending finalisation of the appeal, a judgment was received from the High Court, allowing Eskom to recover R10 billion of allowable revenue in the 2022 financial year
2020 RCA	• RCA application of R8.4 billion submitted to NERSA in December 2020. A decision is expected during the 2022 financial year

In June 2021, Eskom submitted the MYPD 5 application for financial years 2023 to 2025 in accordance with MYPD methodology. In addition, Eskom is awaiting NERSA's decision on restructuring of tariffs, to be implemented from 1 April 2022