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Eskom

# CONDENSED GROUP INTERIM FINANCIAL STATEMENTS

for the six months ended 30 September 2021

TOWARDS A NEW ENERGY FUTURE

# CONTENTS



The condensed group interim financial statements for the six months ended 30 September 2021 have been prepared under the supervision of the Chief Financial Officer (CFO), C Cassim CA(SA) and were published on 15 December 2021.

The condensed group interim financial statements for the six months ended 30 September 2021 and 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 2021 is as reflected in the audited financial statements.

# BUSINESS PERFORMANCE OVERVIEW

The following commentary provides an overview of our financial and operational performance for the six months ended 30 September 2021, as well as progress on other key matters. Developments after the end of the period to the date of approval have been discussed where relevant.

Some noteworthy points for the six months under review include:

- Financial results have improved significantly, with a net profit after tax of R9.2 billion
- Sales volumes are up 8% year-on-year due to the phased easing of COVID-19 lockdown restrictions and return to operations of most sectors of the economy
- Higher revenue and improved cost control resulted in an improvement in EBITDA to R44.8 billion
- Operating profit was eroded by net finance cost of R16.6 billion due to the unsustainable gross debt of R392.1 billion. Net debt reduced by R60.3 billion to R360.3 billion
- NERSA's rejection of the MYPD 5 revenue application poses significant risk to revenue certainty for the electricity industry and Eskom's operations, prompting our urgent High Court review of the decision to facilitate a revenue decision for implementation by 1 April 2022
- Government support of R31.7 billion to support liquidity was received by July 2021
- Generation performance is not reflecting the benefits of the Generation recovery plan and reliability maintenance recovery programme, with levels of unplanned losses remaining high
- Regrettably, loadshedding had to be implemented on 21 days during the period to protect the constrained system
- Major incidents occurred at Medupi Unit 4 and Kendal Unit 1, leading to the loss of 1 360MW to the system
- Transmission and distribution network performance remained stable
- Medupi Unit 1 achieved commercial operation on 31 July 2021, signifying the completion of the construction and commissioning activities of the Medupi project, while modifications to new build units continue
- Particulate emissions performance has improved, although challenges are still encountered at Kendal Power Station
- Regrettably, we have suffered three employee and two contractor fatalities during the period
- Salary increases for bargaining unit staff are the subject of arbitration proceedings
- Eskom's deliverables are on track, but delays in a number of critical external decisions and dependencies are putting the Transmission legal separation by 31 December 2021 at significant risk

## Introduction

Like many South African businesses, we have been navigating a very challenging operating environment, with growth hampered by capacity shortages and depressed economic conditions as a result of the COVID-19 pandemic. This had an adverse impact on Eskom's financial and operational performance, and on the South African economy as a whole.

Thankfully, we have begun to see signs of recovery across the economy, particularly in the industrial and mining sectors, which has led to an improvement in electricity demand and sales volumes. There has been a corresponding improvement in our financial performance compared to the first six months of the previous financial year. However, the increase in demand has exacerbated supply constraints, which limit our ability to meet demand resulting in the need to implement nationwide loadshedding. We continue to monitor and assess the impact of the economic climate on our operations and finances to better manage our response to these challenges. Ultimately, our priority remains supplying electricity as an essential service and maintaining the safety of our people.

More broadly, Eskom's financial challenges persist due to a lack of cost-reflective tariffs, an unsustainable debt burden and no clear solution to the municipal arrear debt challenge. These factors continue to affect financial sustainability and place pressure on our liquidity, further contributing to our operational challenges which require significant capital to resolve.

To improve our financial position, we require a considerable reduction in the debt profile or a sizable increase in cash flows through cost-reflective tariffs, which 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. While we continue to focus on addressing these factors, we remain reliant on Government's equity support to assist us in servicing our debt and interest commitments.

Eskom's overall strategy is informed by our mandate from the Department of Public Enterprises (DPE) to provide a stable electricity supply in a sustainable and efficient manner, to enable economic growth and assist in lowering the cost of doing business in South Africa. The strategy responds to the changing energy landscape as a result of global and national trends which are aimed at decentralised, democratised and decarbonised energy that utilises digitisation to achieve efficiencies. The strategy will be aligned to the strategic direction being pursued by the Generation, Transmission and Distribution Divisions that will operate as separate legal entities as subsidiaries of Eskom Holdings.

To adequately respond to our financial and operational challenges, we require an integrated, robust and sustainable long-term strategy to enable us to meet our mandate, vision and mission. Our strategy embraces the changing environment and positions the imminent energy transition as the pivot to a sustainable future.

We are revising our strategy to focus on four strategic objectives to ensure that we can overcome our challenges, while positioning the entity sustainably in an evolved energy landscape. The four strategic objectives are:

- Pursue financial and operational sustainability
- Facilitate a competitive future energy industry
- Modernise the power system
- Strive for net zero emissions by 2050 with an increase in sustainable jobs

The strategy is underpinned by Eskom's Just Energy Transition (JET) journey which will seek to:

- Accelerate the repurposing and repowering of coal-fired power stations
- Actively pursue a share of the renewable energy generation
- Drive job creation opportunities through supporting local manufacturing and stimulating reindustrialisation

Through clear and concise goals and initiatives, these core strategic objectives will be pursued in the immediate, short, medium and long term through the allocation of resources to ensure that milestones which support organisational goals are achieved. We require support through enabling policy and stakeholder alignment to meet the envisioned end state. Although there are many risks associated with the strategy as a result of a fast-changing open energy landscape, measures are being crafted to ensure their impact on the success of the strategy is mitigated.

## Introduction (continued)

Eskom has committed to an aspirational goal of net zero carbon emissions by 2050, with an increase in sustainable jobs. To develop a more detailed understanding of what this net zero JET pathway could look like, we have conducted energy systems modelling. The modelling takes account of Integrated Resource Plan (IRP) 2019 considerations, up to its timeline of 2030, after which we extrapolate the modelling based on various assumptions. The modelling aims to show the energy mix and emissions profiles over various scenarios, constrained by certain technical and financial aspects. All scenarios indicate a high requirement for solar PV, wind and battery storage, as the least-cost combination of new capacity options.

Eskom remains committed to providing reliable, cost efficient and sustainable electricity to South Africa, and we believe that our integrated long-term corporate strategy will allow us to continue contributing to socio-economic growth through the provision of electricity.

In support of this, we will continue to drive the priorities outlined in the turnaround plan, which are operational recovery, improving our income statement, strengthening our balance sheet, accelerating the restructuring of Eskom into three separate entities, and building a high-performance culture. Our progress across these areas is discussed in more detail throughout this performance overview.

## Financial performance

### Financial results

We recorded a net profit after tax of R9.2 billion for the period (September 2020: R216 million), despite navigating a challenging and uncertain operating environment due to supply constraints and South Africa's ongoing national lockdown, which continue to have an adverse impact on the economy. Revenue grew to R135 billion (September 2020: R108.7 billion), an increase of 24.2%, due to a recovery in demand and sales volumes, combined with tariff increases.

The recovery was largely as a result of the phased easing of lockdown restrictions and the return to operations of many sectors of the economy. Sales grew by 8% to 100.9TWh (September 2020: 93.4TWh), with local and international sales increasing by 7.2TWh and 0.3TWh respectively. An improvement was seen across nearly all sectors, with the industrial and mining sectors most positively affected by the recovery of global commodity markets, leading to better profit margins and higher production by large mines and smelters.

In addition, the fourth multi-year price determination (MYPD 4) coupled with successful court review applications resulted in a tariff increase of 15.06% for customers supplied directly by Eskom from 1 April 2021, and a tariff increase of 17.80% for municipal and metropolitan distributors from 1 July 2021.

Primary energy costs grew by 13.7%, increasing to R61.8 billion for the period (September 2020: R54.3 billion). These costs are directly related to the volume of electricity generated from Eskom's power stations as well as purchases from independent power producers (IPPs) and international imports required to meet electricity demand. Electricity production increased by 6.9% from 111.1TWh to 118.7TWh, mostly through higher coal and nuclear production, as well as the more expensive Eskom open-cycle gas turbine (OCGT) and IPP production.

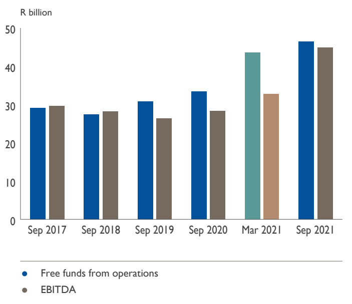
Coal costs are being controlled, in particular from short- and medium-term sources, evidenced by a 0.7% decrease in the average purchase cost per ton of coal compared to March 2021 (September 2020: 4.6% increase compared to March 2020). Unfortunately, Eskom OCGTs were utilised frequently to support the power system, generating 772GWh at a cost of R2.5 billion (September 2020: 496GWh at R1.4 billion).

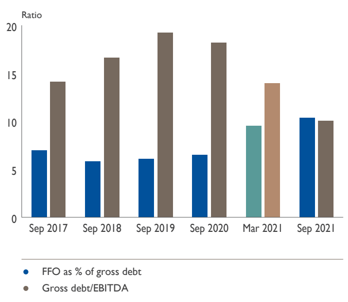
Expenditure on international purchases was stable at R2.5 billion, with imports of 4 061GWh (September 2020: 4 474GWh at R2.5 billion). Expenditure on IPPs increased to R16.3 billion net of capacity charges, with 7 461GWh energy purchased (September 2020: 5 842GWh at R13.7 billion).

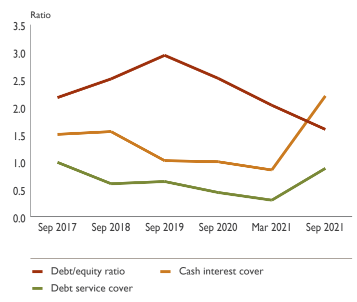
Employee benefit costs increased to R16.8 billion (September 2020: R16.4 billion) as a result of higher contract labour and overtime costs, offset by headcount reduction as well as the decision not to award salary increases to managerial employees in October 2020. Other operating expenditure increased to R12.3 billion (September 2020: R10.4 billion), largely due to an increase of R1.9 billion in repairs and maintenance. Generation has conducted extensive maintenance to address plant performance challenges in line with the Generation recovery plan, and additional unplanned maintenance has been required to address several critical plant components.

During the period, we wrote off R0.9 billion relating to damage from the explosion at Medupi Unit 4, which is discussed in more detail below. The fire at Kendal Unit 1 (also discussed below) resulted in a write-off of R86 million based on the preliminary damage assessment.

Altogether, these factors led to an improvement in EBITDA to R44.8 billion (September 2020: R28.3 billion) along with corresponding growth in the EBITDA margin to 33.20% (September 2020: 26.06%). Mainly due to depreciation of R15.6 billion (September 2020: R13.8 billion) and net finance costs of R16.6 billion (September 2020: R15.4 billion), EBITDA was reduced to a profit before tax of R13 billion (September 2020: R0.3 billion).






### Funding

Our borrowing programme had originally targeted raising R25.5 billion during the 2022 financial year, of which R16.6 billion has already been secured. However, we anticipate raising total funding of R41.9 billion by 31 March 2022 to strengthen our liquidity position, with the increase in borrowings arising from the private placement of USD500 million and syndicated loan of R15 billion that were postponed from the previous financial year. The private placement was issued during July 2021. The first phase of the syndicated loan was executed in October 2021, raising R10 billion. An international bond issuance up to R7 billion is planned for the second half of the financial year, subject to market conditions.

At the end of September 2021, Fitch affirmed their previous ratings of Eskom with a negative outlook. This is in line with Fitch's affirmation of South Africa's long-term credit rating in May 2021. There were no other credit rating actions during the period. Unfortunately, our ratings by all three internationally recognised credit rating agencies remain at sub-investment grade level, thereby affecting market appetite and the cost of borrowing, and increasing our reliance on Government guarantees to meet our funding needs.

At 30 September 2021, the gross book value of outstanding debt securities and borrowings stood at R392.1 billion (September 2020: R463.7 billion). The reduction has largely been driven by debt servicing – which was only possible with support from Government – as well as fair value adjustments on foreign debt due to the strengthening of the Rand. During the period, we repaid capital of R24.4 billion and interest of R16.3 billion (September 2020: R23.7 billion and R19.1 billion respectively).

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 R31 billion and capital payments of R40 billion are required during the current financial year, while total interest payments of R130 billion and capital payments of R154 billion are required over the next five years to March 2026. These repayments can only be met with continued Government support.

By July 2021, Eskom received the full R31.7 billion of Government equity support committed for the current financial year. In the 2021 National Budget Review, Government expressed its commitment to providing a further R21.9 billion in support for the 2023 financial year and R21 billion for 2024, which will assist Eskom in maintaining a positive liquidity position in line with financial planning assumptions.

### Managing liquidity

Liquidity remains one of our greatest challenges, limiting our ability to achieve financial and operational stability. Access to cost-effective funding remains restricted, while inadequate price increases granted by the National Energy Regulator of South Africa (NERSA) and escalating municipal arrear debt further contribute to liquidity constraints.

Liquidity reserves increased from R4 billion at 31 March 2021 to R20.4 billion at 30 September 2021, largely driven by Government support and improved revenue during the period. Despite this, liquidity is expected to remain constrained for the remainder of the financial year. To address our liquidity challenges, our turnaround plan focuses on 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 and the migration towards cost-reflective tariffs. As discussed earlier, sales volumes have improved considerably compared to the prior year, although demand is not expected to recover to pre-COVID-19 levels for the foreseeable future. We have obtained regulatory approval for a long-term negotiated pricing agreement (NPA) with South32, which was implemented from 1 August 2021. A number of short- and long-term NPA applications from customers are under consideration.

Regrettably, there has been no substantial progress on the High Court applications under way to review NERSA's recent revenue and regulatory clearing account (RCA) determinations, although we do expect favourable outcomes as our applications correctly adhere to the principles of the MYPD methodology. NERSA is in the process of finalising the RCA application of R8.4 billion for the 2020 financial year. On 19 November 2021, we submitted our RCA application for the 2021 financial year, with a balance of R10.7 billion.

On 2 June 2021, we submitted our MYPD 5 revenue application to NERSA, for financial years 2023 to 2025. The revenue application was made in accordance with the prevailing MYPD methodology, which remains valid until replaced by an alternate methodology. On 30 September 2021, NERSA rejected the application on the basis of it being submitted on the prevailing MYPD methodology. NERSA originally intended to approve an interim price determination for the 2023 financial year based on a new price methodology, which is yet to be developed. Subsequently, the regulator member responsible for electricity, announced that the revenue determination methodology is still valid. The reasons for the NERSA decision to reject Eskom's revenue application is therefore unclear.

This decision poses a significant risk to revenue certainty across the electricity industry and is impossible to implement, both in terms of legal processes and the timing required. In response, we have initiated urgent High Court proceedings to review NERSA's decision and to require NERSA to urgently process the MYPD 5 application for at least one year, as required by law. The timeframe proposed by our High Court application allows for a decision to be made in time for implementation by 1 April 2022. NERSA has opposed this review application. A court outcome is expected during December 2021.

In August 2020, we submitted proposals to NERSA for the restructuring of tariffs, to address the planned legal separation of Eskom and to more accurately reflect the component costs of electricity. NERSA's decision is expected during the current financial year, for implementation in the 2023 financial year, however, it is likely that the uncertainty around MYPD 5 will also influence this process.

In an effort 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 R20.1 billion in the current financial year, and a cumulative R61.8 billion by 2023. During the first six months of the year, we achieved savings of R7.8 billion against a target of R10 billion. The majority of savings came from primary energy and, to a lesser extent, employee benefit costs and other operating expenditure. By year end, savings of R18.6 billion are expected. Work is under way to identify further opportunities to close the gap. Since the 2020 financial year, we have achieved combined savings of R38.5 billion, exceeding the cumulative target of R30.3 billion to date.

During the period, we incurred capital expenditure of R14.1 billion (September 2020: R10.8 billion). We expect to spend R32.2 billion during the 2022 financial year (March 2021: R24 billion), a substantial increase from the prior financial year as a result of additional funding required for outages including general overhaul and refurbishment projects.

At 30 September 2021, total municipal arrear debt stood at R40.9 billion (September 2020: R32.9 billion), representing 75.5% of total invoiced municipal debt (September 2020: 75.6%). The top 20 defaulting municipalities constitute 81% of total invoiced municipal arrear debt (September 2020: 80%).

## Financial performance (continued)

### Managing liquidity (continued)

Despite our best efforts, limited success has been realised in managing municipal arrear debt, which has escalated to unsustainable levels. We cannot solve our municipal debt challenges on our own – continued support and cooperation from Government is crucial to address the root causes of the problem. We are fully participating in the work of the Eskom Political Task Team (PTT) and its Multidisciplinary Revenue Committee, although progress on these interventions remains relatively slow. We have submitted a number of proposals to the PTT to address municipal arrear debt, but the matter has not yet been resolved. Active partnering, where Eskom renders support to capacitate municipalities to improve collection and maintain municipal infrastructure, will support the recovery plan for these municipalities.

We have engaged with 45 municipalities on active partnering, including all of the top 20 defaulting municipalities. Unfortunately, Maluti-A-Phofung, our largest defaulter, did not agree to the terms of the proposed partnering agreement, and we have since approached the court on this matter.

## Operational performance

### Plant and network performance

Average unplanned unavailability of generation plant during the six-month period was around 11 600MW (September 2020: 9 700MW), higher than the base-case assumption of 11 000MW in the Winter Plan (from April to August 2021) and in line with the base-case of 12 000MW in the Summer Plan (from September 2021 to March 2022). During the period, loadshedding was implemented on 21 days (September 2020: 19 days), comprising five days at stage 1, 14 days at stage 2, one day at stage 3 and one day at stage 4. Under the Summer Plan, one day of stage 1 loadshedding would be required for unplanned unavailability up to 12 000MW, with 40 possible days of stage 2 loadshedding up to 13 000MW and 94 possible days of stage 3 loadshedding at 14 000MW.

Eskom and IPP OCGTs were utilised frequently during the period to support the power system. Eskom and IPP OCGTs generated 1 234GWh year-to-date (September 2020: 787GWh), at a cost of R4.5 billion (September 2020: R2.6 billion). Average unplanned unavailability since 1 October 2021 has been around 13 700MW, necessitating increased use of OCGTs.

Generation plant availability (EAF) of 65.27% was lower than the same period of the previous year (September 2020: 67.86%), and significantly worse than the shareholder target of 74%. The decrease against the previous year is largely due to an increase in unplanned losses (UCLF) to 23.14% (September 2020: 18.64%), offset by a reduction in planned maintenance (PCLF) to 8.88% (September 2020: 9.90%) and other load losses (OCLF).

Progress on the Generation recovery plan continues. Owing to liquidity challenges, funds for reliability maintenance have been constrained, leading to delays in the procurement of spares and the appointment of key contractors. To date, reliability maintenance has been completed on seven units, with another five units in progress. Kendal Unit 5 (640MW) returned to service in June 2021 from repairs to the electrostatic precipitators to comply with emissions limits. Unit 6 has also returned to service.

Full load losses remained high, mainly due to high boiler tube failure rates and outage slips. For the period under review, 50% of outages met their due date (September 2020: 54.55%), significantly below the target of 80%. Unplanned failures immediately following outages (post-outage UCLF) improved slightly to 19.66% (September 2020: 21.45%), contributing 0.89% to overall UCLF year-to-date.

Average partial load losses of 4 612MW for the period have increased significantly (September 2020: 3 613MW), and are worse than the target of 3 112MW. Partial load losses contributed approximately 44% to total UCLF for the period under review. Ash dam constraints at Camden – comprising unit shutdowns as well as the reduced capacity of units once they return to service – accounted for 39% of total OCLF during the period.

Medupi Unit 4 was on a nine-day planned maintenance outage when the generator exploded on 8 August 2021. This resulted in extensive damage to the Unit 4 generator, as well as disturbance to Unit 5, resulting in the unit tripping. Unit 5 was returned to service on 12 August 2021. The incident occurred during the activity to displace hydrogen with carbon dioxide and air, for the purposes of finding an external leak. Fortunately, no injuries were sustained during the incident. The investigation into the incident and assessment of the extent of the damage is still in progress, although we have concluded that the incident was caused by human error.

The duration of repairs will depend on the extent of the damage and the long-lead components to be replaced, although it is expected that the repair duration could take 18 to 24 months. The forced shutdown period will be utilised to execute opportunity maintenance and the implementation of new build modifications which are ready for execution. The incident resulted in a loss of 720MW (approximately 1.60% of total official capacity) of generation supply to the grid for an extended period, coupled with catastrophic damage to the generator, adjacent equipment and structures during the explosion. For the year-to-date, the incident has accounted for 0.40% UCLF.

Additionally, Kendal Unit 1 (640MW) tripped on 11 September 2021 due to a failure of the generator transformer. Upon initial investigation, it was determined that the generator transformer had caught fire due to an internal fault. The fire damaged the cables to the main cooling water system on the west side of the power station. Units 3 and 2 experienced loss of vacuum and were shut down under controlled conditions. The units were returned safely on 13 and 14 September 2021 respectively. The root cause of the generator transformer failure is under investigation. Repairs on the unit is in progress, and the unit is expected to return in December 2021.

Koeberg Unit 1 tripped from the grid on 30 August 2021 due to a reactor scram (an emergency shutdown of a nuclear reactor) as a direct result of one of the three primary pump motors tripping on overcurrent due to a faulty relay. Prior to that, it had been online for 75 days, after returning to service in June 2021 from its last refuelling and maintenance outage. Troubleshooting and repairs were completed promptly and safely, and the unit was returned to service on 3 September 2021. Subsequently Unit 1 tripped from the grid on 24 October 2021 when the reactor scrammed while bringing a steam feedwater pump, which had been out of service for a statutory overspeed test, back to service. The unit returned to service on 27 October 2021, and was restricted to 70% power until the cause of the incident was fully resolved on 2 November 2021. Other than these incidents, both units at Koeberg continued to operate safely during the period.

The long-term operation (LTO) activities to enable Koeberg to operate for another 20 years beyond 2024 continue. In addition, the replacement steam generators on both units will be installed during their respective outages in 2022. The three steam generators on site are being prepared for installation in the forthcoming outage on Unit 2 early in 2022. The remaining three steam generators are still being manufactured, with two nearing completion.

Average coal stock levels (excluding Medupi) stood at 47 days at the end of the period (September 2020: 57 days). No station ended the quarter with stock below its individual minimum stockholding level (September 2020: no stations). Coal-related load losses contributed 0.73% OCLF during the quarter, mainly at Matla and Kriel. Eskom continues to work with mines on initiatives to improve coal quality.

At Majuba Power Station, rail operations to deliver coal did not resume as planned on 1 September 2021. However, the first coal train of 72 wagons since the fire in December 2019 was successfully offloaded at the coal tippler early in October 2021.

Transmission performance of 2.01 system minutes lost has deteriorated (September 2020: 1.32 minutes), primarily due to one large incident resulting from the loss of a substation transformer in Gauteng during June 2021, leading to a loss of 0.86 system minutes. Other aspects of transmission network performance have generally shown an improvement since the prior year. Distribution network performance remains stable, and continues to perform much better than target.

Eskom and City Power, the electricity company owned by the City of Johannesburg, have signed a memorandum of understanding aimed at concluding a transaction in which Eskom would eventually sell or transfer the distribution of electricity to City Power, in those parts of Johannesburg currently supplied by Eskom, mainly Sandton and Soweto. City Power holds the distribution licence to the rest of the City of Johannesburg. Should an agreement be reached, the parties will seek the requisite regulatory approvals and give affected customers an opportunity to contribute to a settlement in a public participation process. Among the regulators from whom approvals are required are NERSA, National Treasury and the Department of Mineral Resources and Energy (DMRE). No transaction has been concluded yet.

### New build performance

Medupi Unit 1 achieved commercial operation on 31 July 2021, adding installed capacity of 794MW to Eskom's base and signifying completion of construction and commissioning activities on the 4 764MW Medupi project. Transformer capacity of 1 065MVA has been installed (September 2020: 750MVA), while 44.1km of transmission lines were installed during the period (September 2020: 6.3km), strengthening the transmission network.

At Medupi, boiler plant modifications have been implemented on all six units, except for the long-lead milling modifications and the duct erosion modifications on Unit 6. All available units are however capable of reaching full load. The basic design of further improvements to the low-load and transient operations have been completed. Detail design will commence after the completion of the contractual negotiations for the implementation. Rollout of the low-load and transient solution will commence during available planned outages after June 2023. Regrettably, the incident at Medupi Unit 4 has hampered overall progress.

Boiler plant modifications on Kusile Unit 1 have been completed, and the unit was returned to service in September 2021. The outage on Kusile Unit 2 commenced in November 2021 while the outage on Unit 3 is scheduled to commence during the second half of the financial year, depending on outage availability. Modifications on Kusile Units 4, 5 and 6 are being rolled out during construction.

Eskom has incurred R224.8 million to the end of October 2021 on correcting the boiler plant defects at Medupi and Kusile.

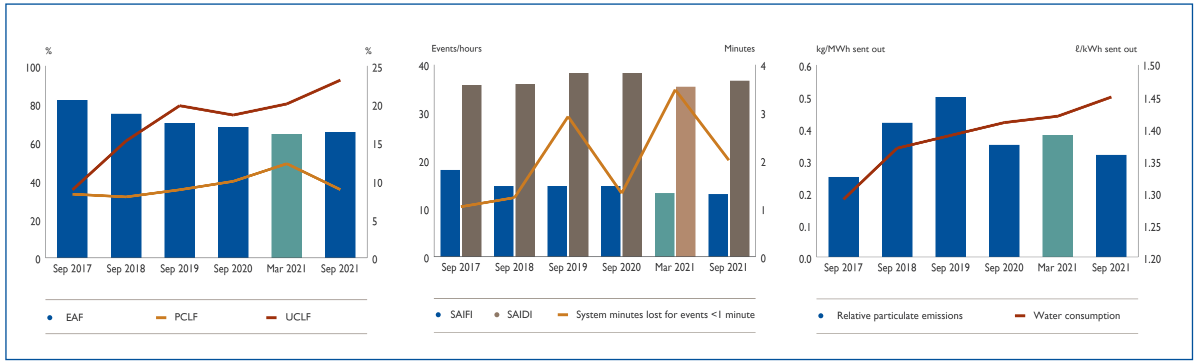
Good progress has been made on Kusile Unit 4, with key milestones achieved towards first synchronisation by January 2022 and commercial operation by June 2022.

### Environmental performance

Relative particulate emission performance has improved to 0.32kg/MWh sent out (September 2020: 0.35kg/MWh sent out) due to an improvement in performance at Kendal Power Station. Nevertheless, poor performance at Matla, Lethabo, Tutuka, Kendal, Hendrina and Grootvlei continues. By the end of September 2021, seven units were operating in non-compliance with average monthly emission limits, which placed 4 101MW at risk of being shut down by the authorities (September 2020: five units accounting for 3 153MW). Poor performing units are placed on outage to undertake repairs, and load losses are taken by non-performing units.

Eskom appeared in the Witbank Magistrates Court on 20 August 2021 in respect of the Kendal criminal matter. The pre-trial hearing was postponed to 14 January 2022 to allow Eskom time to prepare representations in response to additional charges brought by the National Prosecuting Authority relating to the incorrect or misleading reporting of incidents. At Kendal, the problems experienced and capacity constraints have also resulted in several non-compliances to particulate matter emission limits on Units 3, 4 and 5 during the period, and the station incurred two legal contravention incidents.

Water performance deteriorated to 1.45ℓ/kWh sent out (September 2020: 1.41ℓ/kWh sent out). Poor water performance across the generation fleet is due to poor water management practices, namely leaks and overflows of tanks from units, lower or lack of water recovery from dams due to poor water quality, ashing with cooling water to control cooling water chemistry, leading to pollution control dam overflows.



## Operational performance (continued)

### Environmental performance (continued)

In July 2021, the World Bank approved the extension of the Medupi flue gas desulphurisation (FGD) implementation deadline from June 2025 to June 2027. The revised schedule indicates a target date for commercial operation of the first unit's FGD by mid-2026 and the final unit during the second half of 2027. The team is engaging on the water supply from Thabazimbi to Medupi to finalise the water supply tie-in, and details have been obtained of land available for consideration of FGD waste disposal. The development of contract and procurement strategies have commenced. The key priorities are to complete the technology selection and resolve funding constraints before proceeding with any solution and commencing environmental approval activities.

### People and safety

The group headcount continued to decline to 42 325 at the end of the period (September 2020: 43 795), mainly through natural attrition, supported to some extent by the voluntary separation packages (VSPs) offered to managerial level staff during the previous financial year. A total of 74 employees left Eskom by February 2021, at a cost of R112 million. This was in addition to 185 exits as part of the first round of VSPs during the 2020 financial year, at a cost of R286 million.

Racial equity at senior management level improved to 75.98% (September 2020: 72.27%), while racial equity at professional and management level increased to 80.87% (September 2020: 79.17%). Gender equity also improved, to 43.24% at senior management level (September 2020: 40.90%) and 39.46% at professional and middle management level (September 2020: 38.65%). Disability equity at group level has declined to 2.91% (September 2020: 2.97%).

The group lost-time injury rate (including occupational diseases) remained stable at 0.25 (September 2020: 0.24). Tragically, we have suffered three employee and two contractor fatalities during the period (September 2020: two employees and seven contractors). We maintain that every loss of life in Eskom's service is preventable and unacceptable. We extend our heartfelt condolences to the affected family, friends and colleagues.

At 30 November 2021, we had recorded 7 957 positive COVID-19 cases, comprising 6 543 employees and 1 414 contractors, with 7 754 recoveries, a recovery rate of more than 97%. Sadly, we have lost 154 employees and 22 contractors to the disease. We extend our sincere condolences to those affected by their loss.

After salary negotiations with NUM, NUMSA and Solidarity through the Central Bargaining Forum deadlocked earlier in the year, the matter was referred for arbitration. The matter is scheduled for arbitration during December 2021. We have implemented our final offer of a 1.5% basic increase and changes to the conditions of service with effect from 1 July 2021.

### Societal impact

During the period, only procurement spend with black-owned and black youth-owned suppliers achieved targeted levels. Total preferential procurement spend, as well as spend with 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 supplier B-BBEE certificates and procurement spend related to IPP contracts that are not B-BBEE compliant. These contracts were concluded in terms of the renewable IPP programme by DMRE. This continues to have a negative effect on our procurement equity performance. Follow-up on non-compliant suppliers is performed on a monthly basis, which is expected to improve the status going forward.

We completed 38 256 connections under DMRE's electrification programme (September 2020: 63 909). Our corporate social investment spend continued to be disrupted by the national lockdown, with only R27.4 million committed to 54 projects during the period, assisting 5 790 beneficiaries (September 2020: R22.2 million to 3 320 beneficiaries).

## Readiness for legal separation

From Eskom's perspective, we are on track to meet the targets set out in terms of DPE's *Roadmap for Eskom in a Reformed Electricity Supply Industry* for legal separation of the Transmission business by 31 December 2021. Functional separation of the Generation, Transmission and Distribution Divisions was completed in June 2021. We have established the legal entity – the National Transmission Company of South Africa – as a wholly owned subsidiary of Eskom, and have appointed interim directors, until such time as permanent directors are appointed. Measures are in place to start trading electricity between Eskom's Generation, Transmission and Distribution Divisions.

However, a number of matters outside of Eskom's control remain outstanding, thereby putting the timelines for full separation at risk. The first relates to the granting by NERSA of a transmission licence to the new entity. The second is the amendment of the Electricity Regulation Act, 2006. The amendment bill has been drafted by DMRE and submitted to Cabinet, but still has to go through a parliamentary review process, which could take as long as 12 to 18 months. We are exploring legal workarounds to move forward with *de facto* legal separation given these external constraints and dependencies, such as the wholly owned subsidiary acting as agent for Eskom in the interim.

Clarity and direction on the future industry structure and associated policy is needed to engage lenders, whose approval is required to proceed. We continue to expend our best efforts on delivering those items over which we have control, but achievement of the timelines is highly dependent on timely delivery of legislative and regulatory milestones.

## Other matters

### Board and executive changes

Ms Nelisiwe Magubane resigned as an independent non-executive director and chairperson of the Investment and Finance Committee on 15 August 2021. Board vacancies have become a constraint on the ability of directors to attend committee meetings. A number of requests have been put to the shareholder to fill board vacancies as a matter of urgency.

Ms Mel Govender was appointed as Group Executive: Legal and Compliance from 1 October 2021.

### Progress on governance clean-up

External investigations into major cases of suspected fraud and corruption involving former employees, directors and suppliers continue. We are providing the necessary support to law enforcement authorities to investigate any concerns and violations of the law. Where possible, we are seeking recovery of financial losses using criminal and civil processes, although criminal convictions and recoveries are dependent on successful prosecution by law enforcement agencies and the justice system.

As previously reported, civil action is under way to recover approximately R3.8 billion from former directors and executives. In light of several notices and interlocutory applications filed by the defendants, the matter has been placed under judicial case management.

At 30 September 2021, 226 forensic cases were being investigated. 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.

We have reviewed our employee flagging practices to ensure that employees who were dismissed following a disciplinary procedure, resigned pending the finalisation of a disciplinary process, or resigned pending the completion of an investigation, will not be allowed to be employed by Eskom or a contractor on Eskom sites for a period of 10 years. Processes to withhold pension benefits and the recovery of losses or damages from these employees have also been improved.

To improve commercial governance processes and contract management, implementation of our procurement roadmap is under way. Feedback on these initiatives is provided to National Treasury and DPE on a regular basis.

Our PFMA and loss control function became fully operational from 1 April 2021. This function is responsible for conducting assessments and determinations of all occurrences of irregular as well as fruitless and wasteful expenditure, including oversight of consequence management, such as disciplinary action, condonations and recovery of losses. We have embarked on an initiative with DPE and National Treasury to ring-fence historical irregular expenditure to minimise the impact on our annual financial statements, demonstrating a commitment to resolving the outstanding irregular expenditure balance going forward.

We have submitted condonations to the value of R18.5 billion to National Treasury for approval, of which around R9.3 billion has been condoned. An amount of R6.6 billion was not condoned, and R2.6 billion is awaiting approval. Where applicable, we have commenced with a process in terms of the applicable framework to remove irregular expenditure once approved by the Board.

## Outlook

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 sales volumes. In addition, less maintenance is performed in winter to ensure adequate supply to sustain the increased demand and to offset lower winter production by renewable IPPs. The seasonality of Eskom's performance means that there is considerable cost pressure in the second half of the financial year, driven largely by summer maintenance requirements and costs associated with ensuring security of supply.

While the phased easing of COVID-19 lockdown restrictions has led to an improvement in financial performance during the first six months of the year, ongoing risks for Eskom's sales and revenue include supply constraints, loadshedding and load curtailment, as well as a constrained economy. By the end of the year, we expect to record an after-tax loss of approximately R9.1 billion, as the lack of cost-reflective tariffs and high debt service costs continue to contribute to Eskom's loss-making position.

Sales of 197.1TWh are expected by year end, which is 5.3TWh or 2.8% higher than the previous financial year. As mentioned, we are exploring NPAs as well as other avenues to optimise electricity sales to energy-intensive customers and stimulate local sales for the benefit of the economy. We await the outcome of numerous High Court review applications relating to NERSA's recent decisions, as these will have a substantial impact on tariffs and our revenue in coming years.

We anticipate electricity production to be 4.8TWh or 2.1% higher than the prior year. However, primary energy costs are expected to increase by about 14.1% year-on-year, due to increased production from OCGTs and IPPs as well as normal inflationary increases. The average coal purchase price per ton is expected to increase by 5.2% year-on-year.

The Short-Term Power Purchase Programme (STPPP) and the Risk Mitigation Independent Power Producer Procurement Programme (RMIPPPP), which were intended to provide additional capacity and offset usage of expensive OCGTs, have unfortunately been delayed while awaiting regulatory and Government approval. In October 2021, the Board approved the termination of the STPPP as a result of the delays. We reiterate our call to Government and all stakeholders to accelerate procurement of new generation capacity, as adequate capacity is critical to powering the rebuilding of an economy which has been devastated by the COVID-19 pandemic.

We will continue to deliver on our municipal debt management strategy and pursue active partnering agreements to stem the growth in arrear debt and improve customer payment levels, with the objective of enhancing revenue recovery and ultimately, liquidity. We are working with Government and the PTT to identify sustainable solutions for the recovery of municipal and Soweto arrear debt.

Reducing our reliance on debt and containing debt service costs remains most critical in the near term. Gross finance costs are 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, 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 this remains a slow and challenging process in the absence of cost-reflective tariffs and a structural solution to our overburdened balance sheet.

Government support has been crucial in assisting us to service our debt commitments and remain a going concern. However, it only serves to assist us in meeting our debt service obligations and thereby stabilise the balance sheet, and to improve liquidity in the short to medium term. It will not provide the sustainable solution required to support Eskom's long-term financial viability. We recognise that this support comes at a cost that the country simply cannot afford.

As stated before, to achieve independent financial sustainability, remain a going concern and meet our debt service requirements on a standalone basis, the price of electricity in South Africa must migrate towards a cost-reflective tariff.

We have to emphasise that the power system is unreliable and unpredictable due to insufficient maintenance of generation plant over many years. Maintenance outages take around 24 months to plan, and take from three to six months to execute. The response to the pandemic prevented us from doing as much maintenance as we would have liked, while prevailing liquidity challenges continue to constrain funds available for maintenance. To date, we have released funding of R8.3 billion for outages during the 2022 financial year, and R8.2 billion for those in 2023, against a requirement of R10.7 billion next year.

# BUSINESS PERFORMANCE OVERVIEW (continued)

## Outlook (continued)

Maintenance execution is further hampered by a procurement process laid out by National Treasury that unwittingly acts as a constraint, as we are unable to capitalise on opportunities to expedite the acquisition of critical spares, and does not allow us to utilise contractors and procure spares which are approved by the original equipment manufacturers (OEMs), without going to the open market. We are engaging with DPE and National Treasury to resolve these challenges. The lack of tariff certainty also hampers effective advance planning of outages and related expenditure, further necessitating the need for a stable multi-year tariff determination.

South Africa needs an extra 4 000MW to 6 000MW of generation capacity to eliminate the risk of loadshedding in the near term. On an ongoing basis, volatility of around 4 000MW exists in the power system due to unplanned unavailable generation capacity. This leads to the need to run expensive Eskom and IPP-owned open-cycle gas turbines (OCGTs) to either avoid or minimise loadshedding; this plant was not designed to run as base-load. During summer, we conduct higher levels of maintenance, as overall demand is lower.

The latest forecast indicates that we will spend around R16.1 billion on our own and IPP-owned OCGTs to the end of the financial year. During October and November, OCGTs have been running at load factors even higher than the 7.3% recorded during the first six months of the financial year, in an effort to reduce the level of loadshedding. The situation is expected to continue until such time as plant reliability improves, generation capacity increases and the shortage is alleviated.

As indicated before, Eskom simply is not in a financial position to carry the burden for much longer. Although the additional capacity of 1 995MW to be added by 11 bidders under the RMIPPPP will assist in alleviating the pressure, the capacity is not expected to come online for some time to come, and will not solve the problem in the near term.

We further welcome the announcement of the preferred bidders for 1 600MW wind and 1 000MW solar PV capacity under bid window 5 which was recently announced by DMRE's IPP Office, but similarly, this will not have a significant impact on the system in the immediate future. Even though Eskom is designated as the single buyer of electricity, we cannot in terms of regulations procure significant quantities of electricity in our own right, unless it is driven by the IPP Office. As such, we may require additional Government support if we have to continue to run expensive diesel plant to ensure security of supply to the country.

Given all of this, the risk of loadshedding will remain until the capacity shortfall of 4 000MW to 6 000MW has been addressed. The additional capacity would enable Eskom to cope with increasing demand which cannot always be met with the capacity of 25 000MW to 27 000MW which is available much of the time, and provide headroom to carry out the necessary maintenance and mid-life refurbishment of our generation plant, as well as outages to improve emissions performance.

Improving our financial and operational sustainability will ultimately support our long-term strategy, which positions Eskom as an enabler of South Africa's Just Energy Transition. JET is our pathway to transition towards a cleaner and greener energy future, with the goal of achieving net zero carbon emissions by 2050, while simultaneously creating new job opportunities for those displaced by the replacement of coal by cleaner technologies.

The reduction in South Africa's emissions is expected to come from the gradual closure as well as repowering or repurposing of Eskom's existing coal-fired power stations as they reach their end of life, while simultaneously building new, lower carbon facilities. The closure and repowering or repurposing of coal-fired power stations will be undertaken in a phased approach over the next 10 to 15 years, based on plant life, the cost to operate, as well as operational and environmental performance. In total, we expect new generation capacity, as well as the additional transmission and distribution infrastructure required to support this, to require an investment in excess of R350 billion.

During the 2021 United Nations Climate Change Conference (COP26), South Africa secured R131 billion in concessional funding from the governments of four developed countries, as a positive first step towards enabling the just transition and South Africa's decarbonisation. The decarbonisation of the electricity sector underpinned the country's plan, and accordingly, the lion's share is expected to fund new Eskom generation, transmission and distribution projects. Funds will also be made available to support studies and investment into electric vehicles and the hydrogen economy.

Eskom is a crucial enabler of South Africa's just transition towards an economically inclusive and lower carbon future, to ensure the competitiveness and growth of the economy. Consequently, the continued viability of Eskom and the future of the electricity sector is vital to support South Africa's economic recovery.

Lack of management continuity in the past contributed to instability in the organisation. We believe it is critically important to have continuity of management to steady the ship and resolve the current challenges. Although priorities are not being realised as quickly as desired, we will steadfastly continue along the path we have set out.

We are doing our utmost to meet our commitments to the country and meet the expectations of its 60 million people in a positive and constructive way given the constraints we face, but we cannot compromise on reliability maintenance. We cannot continue to sacrifice the health of our plant for short-term capacity gains. The consequences for plant availability in the long term would be dire. We are committed to acting decisively to improve the performance of our plant, and thereby alleviate the constrained power system. Eskom and its employees are fully dedicated to serving its customers and the country.



# APPROVAL OF THE CONDENSED GROUP INTERIM FINANCIAL STATEMENTS

## Basis of preparation

The unaudited condensed group interim financial statements from page 10 to page 23 for the six months ended 30 September 2021 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 2021 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 30 November 2021 by:

| | | |
|---|---|---|
| **MW Makgoba**<br>Interim Chairman | **AM de Ruyter**<br>Group Chief Executive | **C Cassim**<br>Chief Financial Officer |

# CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

at 30 September 2021

| | Unaudited 30 September 2021 Rm | Audited 31 March 2021 Rm | Unaudited[1] 30 September 2020 Rm |
|---|---|---|---|
| **Assets** | | | |
| Non-current | 699 646 | 697 723 | 689 148 |
| Property, plant and equipment and intangible assets | 667 554 | 666 225 | 659 959 |
| Future fuel supplies | 4 816 | 4 414 | 5 361 |
| Investment in equity-accounted investees | 402 | 420 | 396 |
| Deferred tax | 3 691 | 6 459 | 52 |
| Derivatives held for risk management | 12 644 | 9 968 | 21 270 |
| Payments made in advance | 1 787 | 1 928 | 1 776 |
| Trade, finance lease, loan and other receivables | 8 752 | 8 309 | 334 |
| Current | 112 072 | 83 925 | 106 867 |
| Inventories | 39 295 | 37 527 | 39 100 |
| Derivatives held for risk management | 2 049 | 1 411 | 15 586 |
| Payments made in advance | 1 355 | 1 667 | 1 668 |
| Trade, finance lease, loan and other receivables | 32 745 | 24 758 | 25 472 |
| Investments and financial trading assets | 15 985 | 14 401 | 13 155 |
| Taxation | 232 | 120 | 112 |
| Cash and cash equivalents | 20 411 | 4 041 | 11 774 |
| Assets held-for-sale | – | – | 8 460 |
| Total assets | 811 718 | 781 648 | 804 475 |
| **Equity** | | | |
| Capital and reserves | 258 603 | 215 836 | 187 036 |
| **Liabilities** | | | |
| Non-current | 473 077 | 462 457 | 482 040 |
| Debt securities and borrowings | 366 098 | 356 852 | 385 285 |
| Derivatives held for risk management and embedded derivatives | 2 292 | 3 770 | 2 277 |
| Deferred tax | 2 058 | 347 | 1 040 |
| Employee benefit obligations | 15 976 | 15 414 | 14 098 |
| Provisions | 51 091 | 50 150 | 44 402 |
| Trade and other payables and lease liabilities | 8 910 | 9 114 | 9 410 |
| Payments received in advance, contract liabilities and deferred income | 26 652 | 26 810 | 25 528 |
| Current | 80 038 | 103 355 | 134 038 |
| Debt securities and borrowings | 26 011 | 44 974 | 78 418 |
| Derivatives held for risk management and embedded derivatives | 1 018 | 6 091 | 4 070 |
| Employee benefit obligations | 4 294 | 3 732 | 4 518 |
| Provisions | 5 758 | 6 395 | 4 835 |
| Trade and other payables and lease liabilities | 37 543 | 37 636 | 37 316 |
| Payments received in advance, contract liabilities and deferred income | 5 412 | 4 525 | 4 631 |
| Taxation | – | – | 230 |
| Financial trading liabilities | 2 | 2 | 20 |
| Liabilities held-for-sale | – | – | 1 361 |
| Total liabilities | 553 115 | 565 812 | 617 439 |
| Total equity and liabilities | 811 718 | 781 648 | 804 475 |

*1. Restated. Refer to note 17.*



# CONDENSED GROUP INCOME STATEMENT

for the six months ended 30 September 2021

| | Note | Unaudited six months ended 30 September 2021 Rm | Unaudited[1] six months ended 30 September 2020 Rm | Audited year ended 31 March 2021 Rm |
|---|---|---|---|---|
| Revenue | 10 | 134 982 | 108 723 | 204 326 |
| Other income | | 849 | 637 | 2 662 |
| Primary energy | 11 | (61 766) | (54 318) | (115 903) |
| Employee benefit expense | 12 | (16 762) | (16 415) | (32 887) |
| Impairment and writedown of assets | | (214) | 102 | (1 367) |
| Other expenses | | (12 253) | (10 393) | (24 018) |
| Profit before depreciation and amortisation expense and net fair value and foreign exchange gain (EBITDA) | | 44 836 | 28 336 | 32 813 |
| Depreciation and amortisation expense | | (15 583) | (13 821) | (27 016) |
| Net fair value and foreign exchange gain | | 373 | 1 091 | 883 |
| Profit before net finance cost | | 29 626 | 15 606 | 6 680 |
| Net finance cost | | (16 621) | (15 354) | (31 509) |
| Finance income | | 1 050 | 1 091 | 2 400 |
| Finance cost | 13 | (17 671) | (16 445) | (33 909) |
| Share of profit of equity-accounted investees, net of tax | | 36 | 47 | 71 |
| Profit/(loss) before tax | | 13 041 | 299 | (24 758) |
| Income tax | 14 | (3 800) | (83) | 5 824 |
| Profit/(loss) for the period[2] | | 9 241 | 216 | (18 934) |

# CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 September 2021

| | Unaudited six months ended 30 September 2021 Rm | Unaudited[1] six months ended 30 September 2020 Rm | Audited year ended 31 March 2021 Rm |
|---|---|---|---|
| Profit/(loss) for the period[2] | 9 241 | 216 | (18 934) |
| Other comprehensive income/(loss) | 1 833 | (5 248) | (7 298) |
| Items that may be reclassified subsequently to profit or loss | 1 273 | (5 218) | (6 658) |
| Cash flow hedges | 1 729 | (7 330) | (9 264) |
| Foreign currency translation differences on foreign operations | 28 | 60 | 12 |
| Income tax thereon | (484) | 2 052 | 2 594 |
| Items that may not be reclassified subsequently to profit or loss | 560 | (30) | (640) |
| Re-measurement of benefits | 778 | (44) | (890) |
| Income tax thereon | (218) | 14 | 250 |
| Total comprehensive income/(loss) for the period[2] | 11 074 | (5 032) | (26 232) |

*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 2021

| | Share capital Rm | Cash flow hedge reserve Rm | Unrealised fair value reserve Rm | Foreign currency translation reserve Rm | Accumulated profit Rm | Total equity Rm |
|---|---|---|---|---|---|---|
| Balance at 31 March 2020 | 132 000 | 6 825 | (17 612) | (3) | 64 858 | 186 068 |
| Restated profit for the period[1] | – | – | – | – | 216 | 216 |
| Restated other comprehensive income, net of tax[1] | – | (5 278) | – | 60 | (30) | (5 248) |
| 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 | 68 306 | 187 036 |
| Loss for the period | – | – | – | – | (19 150) | (19 150) |
| Other comprehensive income, net of tax | – | (1 392) | – | (48) | (610) | (2 050) |
| Share capital issued | 50 000 | – | – | – | – | 50 000 |
| Transfer between reserves | – | – | 8 888 | – | (8 888) | – |
| Balance at 31 March 2021 | 188 000 | 155 | (11 986) | 9 | 39 658 | 215 836 |
| Profit for the period | – | – | – | – | 9 241 | 9 241 |
| Other comprehensive income, net of tax | – | 1 245 | – | 28 | 560 | 1 833 |
| Share capital issued | 31 693 | – | – | – | – | 31 693 |
| Transfer between reserves | – | – | 4 459 | – | (4 459) | – |
| Balance at 30 September 2021 | 219 693 | 1 400 | (7 527) | 37 | 45 000 | 258 603 |

# CONDENSED GROUP STATEMENT OF CASH FLOWS

for the six months ended 30 September 2021

| | Unaudited six months ended 30 September 2021 Rm | Unaudited[1] six months ended 30 September 2020 Rm | Audited year ended 31 March 2021 Rm |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) before tax | 13 041 | 299 | (24 758) |
| Adjustment for non-cash items | 33 700 | 32 254 | 67 808 |
| Depreciation | 15 583 | 13 821 | 27 016 |
| Finance cost | 17 671 | 16 445 | 33 909 |
| Other | 446 | 1 988 | 6 883 |
| Changes in working capital | (10 964) | (14 444) | (12 980) |
| Cash generated from operations | 35 777 | 18 109 | 30 070 |
| Net cash (used in)/from derivatives held for risk management | (366) | 1 100 | 1 399 |
| Finance income received | 229 | 143 | 278 |
| Finance cost paid | (7) | (26) | (42) |
| Income taxes paid | (135) | (395) | (1 047) |
| | 35 498 | 18 931 | 30 658 |
| **Cash flows used in investing activities** | | | |
| Disposals of property, plant and equipment and intangible assets | 147 | 56 | 208 |
| Acquisitions of property, plant and equipment and intangible assets | (13 977) | (10 267) | (22 706) |
| Acquisitions of future fuel supplies | (813) | (1 166) | (1 559) |
| Disposals of insurance investments | 10 108 | 6 788 | 12 966 |
| Acquisitions of insurance investments | (11 680) | (7 758) | (14 955) |
| Payments made in advance | – | (7) | (139) |
| Cash used in provisions | (475) | (401) | (885) |
| Net cash used in derivatives held for risk management | (110) | (582) | (1 049) |
| Finance income received | 584 | 727 | 1 400 |
| Other cash from investing activities | 209 | 99 | 394 |
| | (16 007) | (12 511) | (26 325) |
| **Cash flows used in financing activities** | | | |
| Debt securities and borrowings raised | 10 519 | 13 056 | 15 756 |
| Payments made in advance | (244) | (188) | (329) |
| Debt securities and borrowings repaid | (24 425) | (23 712) | (65 586) |
| Share capital issued | 31 693 | 6 000 | 56 000 |
| Net cash (used in)/from derivatives held for risk management | (4 200) | 6 408 | 7 859 |
| Cash used in lease liabilities | (268) | (188) | (497) |
| Net cash used in financial trading instruments | – | (43) | (61) |
| Finance income received | 230 | 230 | 791 |
| Finance cost paid | (16 342) | (19 142) | (37 070) |
| Taxes paid | (31) | (40) | (78) |
| | (3 068) | (17 619) | (23 215) |
| Net increase/(decrease) in cash and cash equivalents | 16 423 | (11 199) | (18 882) |
| Cash and cash equivalents at beginning of the period | 4 041 | 22 990 | 22 990 |
| Foreign currency translation | 28 | 60 | 12 |
| Effect of movements in exchange rates on cash held | (81) | (139) | (159) |
| Assets and liabilities held-for-sale | – | 62 | 80 |
| **Cash and cash equivalents at end of the period** | 20 411 | 11 774 | 4 041 |

*1. Restated. Refer to note 17.*

## 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 2021 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 2021 group annual financial statements. The annual financial statements of the group as at and for the year ended 31 March 2021 are available for inspection at the company's registered office and on the Eskom website at 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:

- noted that there is a need to secure funding of R42 billion in 2022 (40% of the funding for 2022 had been secured by September 2021)
- 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 a cautious outlook on Eskom
- reviewed the performance of the group for the period ended 30 September 2021, including the net profit after tax of R9 241 million and the net current assets of R32 034 million
- considered that Eskom is in a debt reliant liquidity situation that resulted from low tariffs, stagnant and contracting sales volumes, above inflation cost increases and the capital programme to increase and replace generating and transmitting capacity
- noted the deterioration of some of the group's financial indicators
- considered the impact of the cash flow forecast for the 18 months ending 31 March 2023 and the projected net loss before tax for 2022, estimated at R12 713 million per the latest projections
- considered the impact of generation plant 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 undecided 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 R31.7 billion received in 2022 and R21.9 billion approved for 2023 as confirmed in the medium-term budget policy statement released in November 2022. The board is managing and regularly reporting on the conditions relating to the support
- progress has been made to prepare the business for legal unbundling. The implications and requirements of the implementation including legislative and regulatory changes, legal structure and ownership, ultimate industry structure as well as addressing Eskom's financial viability including the debt challenge are being address and followed up with government
- court proceedings were lodged against NERSA regarding tariff and RCA decisions
- 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 political task team and other initiatives
- the group is aware of the impact of large capital projects on its statement of financial position and will only engage on such projects with full disclosure and with the support of the shareholder
- 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 expenditure reporting process in terms of the PFMA (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. The board therefore concluded that it is satisfied that the group has access to adequate resources and facilities 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 2021.

## 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 2021.

## 5. Segment information

| | Generation Rm | Transmission Rm | Distribution Rm | All other segments Rm | Reallocation and inter-segment transactions Rm | Group Rm |
|---|---|---|---|---|---|---|
| **30 September 2021** | | | | | | |
| External revenue | – | 5 976 | 129 006 | 529 | (529) | 134 982 |
| Inter-segment revenue/recoveries | 93 356 | 19 163 | (112 492) | 6 820 | (6 847) | – |
| Total revenue | 93 356 | 25 139 | 16 514 | 7 349 | (7 376) | 134 982 |
| Profit/(loss) before tax | 7 231 | 614 | 4 436 | (52) | 812 | 13 041 |
| Income tax | – | – | – | (3 390) | (410) | (3 800) |
| Profit/(loss) for the period | 7 231 | 614 | 4 436 | (3 442) | 402 | 9 241 |
| Segment assets | 546 539 | 80 054 | 122 786 | 87 079 | (24 740) | 811 718 |
| Segment liabilities | 81 615 | 19 155 | 48 938 | 430 211 | (26 804) | 553 115 |
| **30 September 2020** | | | | | | |
| External revenue | – | 5 075 | 103 648 | 793 | (793) | 108 723 |
| Inter-segment revenue/recoveries | 73 401 | 16 178 | (89 425) | 5 547 | (5 701) | – |
| Total revenue | 73 401 | 21 253 | 14 223 | 6 340 | (6 494) | 108 723 |
| Profit/(loss) before tax | (1 690) | (1 240) | 854 | 2 974 | (599) | 299 |
| Income tax | – | – | – | (237) | 154 | (83) |
| Profit/(loss) for the period | (1 690) | (1 240) | 854 | 2 737 | (445) | 216 |
| Segment assets | 537 727 | 78 431 | 116 667 | 95 485 | (23 835) | 804 475 |
| Segment liabilities | 74 911 | 17 260 | 46 731 | 503 338 | (24 801) | 617 439 |
| **31 March 2021** | | | | | | |
| External revenue | – | 10 065 | 194 261 | 1 467 | (1 467) | 204 326 |
| Inter-segment revenue/recoveries | 136 566 | 32 910 | (169 286) | 12 585 | (12 775) | – |
| Total revenue | 136 566 | 42 975 | 24 975 | 14 052 | (14 242) | 204 326 |
| Profit/(loss) before tax | (20 215) | (4 774) | (2 497) | 4 302 | (1 574) | (24 758) |
| Income tax | – | – | – | 5 686 | 138 | 5 824 |
| Profit/(loss) for the period | (20 215) | (4 774) | (2 497) | 9 988 | (1 436) | (18 934) |
| Segment assets | 542 661 | 78 969 | 115 931 | 66 618 | (22 531) | 781 648 |
| Segment liabilities | 82 494 | 19 116 | 47 458 | 440 284 | (23 540) | 565 812 |

## 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 2021 Shares | Audited year ended 31 March 2021 Shares | Unaudited six months ended 30 September 2020 Shares |
|---|---|---|---|
| Authorised ordinary shares | 300 000 000 000 | 300 000 000 000 | 300 000 000 000 |
| Issued ordinary shares | | | |
| Balance at beginning of the period | 188 000 000 001 | 132 000 000 001 | 132 000 000 001 |
| Share capital issued | 31 693 000 000 | 56 000 000 000 | 6 000 000 000 |
| Balance at end of the period | 219 693 000 001 | 188 000 000 001 | 138 000 000 001 |

## 7. Dividend paid

No dividend was paid to the shareholder during the six months ended 30 September 2021 nor in the comparative periods presented.

## 8. Significant events and transactions

The following significant movements occurred in the six months ended 30 September 2021:

### 8.1 Movements in debt securities and borrowings and derivatives held for risk management

The debt securities and borrowings balance decreased as a result of significant net debt repayments and a weaker Rand against major currencies. The derivatives held for risk management net asset position, which hedges foreign debt and borrowings, increased as a result of the weaker Rand against major currencies as well as the realisation of gains and losses on certain forward exchange contracts.

### 8.2 Share capital issued

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

### 8.3 Embedded derivative liabilities

Eskom entered into a number of agreements to supply electricity to electricity-intensive businesses where the revenue from these contracts was linked to commodity prices and foreign currency rates or foreign producer price indices that gave rise to embedded derivatives. These contracts have since come to an end and embedded derivatives no longer need to be separated based on the new contractual terms with these customers.

## 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. There was also an increase in sales volume in the six months ended 30 September 2021 compared to the same period from last year attributable to the impact of reduced COVID-19 restrictions on the South African economy.
- 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 2021 Rm | Unaudited six months ended 30 September 2020 Rm | Audited year ended 31 March 2021 Rm |
|---|---|---|---|
| **10. Revenue** | | | |
| Redistributors | 55 155 | 46 791 | 84 436 |
| Invoiced to customers | 60 398 | 51 223 | 90 228 |
| Amounts not meeting revenue recognition criteria | (8 039) | (6 862) | (11 727) |
| Recognised on a cash received basis | 2 796 | 2 430 | 5 935 |
| Residential | 3 808 | 3 395 | 6 366 |
| Invoiced to customers | 4 045 | 3 602 | 6 751 |
| Amounts not meeting revenue recognition criteria | (237) | (207) | (385) |
| Industrial | 26 041 | 18 214 | 37 026 |
| Mining | 20 571 | 16 352 | 30 708 |
| Commercial | 9 120 | 7 619 | 14 304 |
| Agricultural | 5 925 | 5 131 | 10 262 |
| International | 6 219 | 5 163 | 10 383 |
| Other customers | 1 999 | 1 693 | 3 209 |
| Post-paid electricity sales | 128 838 | 104 358 | 196 694 |
| Prepaid electricity sales | 5 649 | 5 089 | 9 941 |
| Total electricity sales | 134 487 | 109 447 | 206 635 |
| Other | 899 | 649 | 1 682 |
| Gross revenue | 135 386 | 110 096 | 208 317 |
| Capitalised to property, plant and equipment | (404) | (1 373) | (3 991) |
| | 134 982 | 108 723 | 204 326 |
| **11. Primary energy** | | | |
| Own generation costs | 43 009 | 38 079 | 80 073 |
| Generation costs | 39 082 | 34 439 | 72 882 |
| Environmental levy | 3 927 | 3 640 | 7 191 |
| International electricity purchases | 2 450 | 2 524 | 4 998 |
| Independent power producers | 16 307 | 13 715 | 30 832 |
| | 61 766 | 54 318 | 115 903 |
| **12. Employee benefit expense** | | | |
| Gross employee benefit expense | 17 803 | 17 458 | 35 089 |
| Capitalised to property, plant and equipment | (1 041) | (1 043) | (2 202) |
| | 16 762 | 16 415 | 32 887 |
| **13. Finance cost** | | | |
| Gross finance cost | 21 777 | 23 181 | 45 625 |
| Capitalised to property, plant and equipment | (4 106) | (6 736) | (11 716) |
| | 17 671 | 16 445 | 33 909 |

## 14. Income tax

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. The announcement by the Minister of Finance of a reduced corporate income tax rate of 27% is not yet regarded by the group as having been substantively enacted by 30 September 2021.

## 15. Accounting classification and fair value

### 15.1 Accounting classification

| | 30 September 2021 (unaudited) | | | |
|---|---|---|---|---|
| | Fair value through profit or loss Rm | Amortised cost Rm | Other assets and liabilities Rm | Total Rm |
| **Financial assets** | | | | |
| Investments and financial trading assets | 1 935 | 14 050 | – | 15 985 |
| Negotiable certificates of deposit | – | 14 050 | – | 14 050 |
| Listed shares | 1 935 | – | – | 1 935 |
| Derivatives held for risk management | 1 752 | – | 12 941 | 14 693 |
| Foreign exchange contracts | 1 530 | – | 7 | 1 537 |
| Cross-currency swaps | – | – | 12 934 | 12 934 |
| Commodity forwards | 12 | – | – | 12 |
| Credit default swaps | 5 | – | – | 5 |
| Inflation-linked swaps | 205 | – | – | 205 |
| Trade, finance lease, loan and other receivables | – | 38 751 | 310 | 39 061 |
| Loans receivable | – | 8 235 | – | 8 235 |
| Finance lease receivables | – | – | 310 | 310 |
| Trade and other receivables | – | 30 516 | – | 30 516 |
| Cash and cash equivalents | – | 20 411 | – | 20 411 |
| Bank balances | – | 5 889 | – | 5 889 |
| Fixed deposits | – | 14 522 | – | 14 522 |
| | 3 687 | 73 212 | 13 251 | 90 150 |
| **Financial liabilities** | | | | |
| Debt securities and borrowings | – | 392 109 | – | 392 109 |
| Eskom bonds | – | 159 809 | – | 159 809 |
| Commercial paper | – | 1 146 | – | 1 146 |
| Eurorand zero coupon bonds | – | 5 949 | – | 5 949 |
| Foreign bonds | – | 64 007 | – | 64 007 |
| Development financing institutions | – | 130 623 | – | 130 623 |
| Export credit facilities | – | 20 971 | – | 20 971 |
| Other loans | – | 9 604 | – | 9 604 |
| Derivatives held for risk management and embedded derivatives | 401 | – | 2 909 | 3 310 |
| Foreign exchange contracts | 186 | – | 194 | 380 |
| Cross-currency swaps | 109 | – | 2 715 | 2 824 |
| Commodity forwards | 2 | – | – | 2 |
| Credit default swaps | 104 | – | – | 104 |
| Trade and other payables and lease liabilities | – | 33 814 | 8 717 | 42 531 |
| Lease liabilities | – | – | 8 717 | 8 717 |
| Trade and other payables | – | 33 814 | – | 33 814 |
| Financial trading liabilities | | | | |
| Repurchase agreements | 2 | – | – | 2 |
| | 403 | 425 923 | 11 626 | 437 952 |

| | 31 March 2021 (audited) | | | |
|---|---|---|---|---|
| | Fair value through profit or loss Rm | Amortised cost Rm | Other assets and liabilities Rm | Total Rm |
| **Financial assets** | | | | |
| Investments and financial trading assets | 1 934 | 12 467 | – | 14 401 |
| Negotiable certificates of deposit | – | 12 467 | – | 12 467 |
| Listed shares | 1 934 | – | – | 1 934 |
| Derivatives held for risk management | 179 | – | 11 200 | 11 379 |
| Foreign exchange contracts | 24 | – | 8 | 32 |
| Cross-currency swaps | – | – | 11 192 | 11 192 |
| Credit default swaps | 5 | – | – | 5 |
| Inflation-linked swaps | 150 | – | – | 150 |
| Trade, finance lease, loan and other receivables | – | 31 055 | 327 | 31 382 |
| Loans receivable | – | 8 327 | – | 8 327 |
| Finance lease receivables | – | – | 327 | 327 |
| Trade and other receivables | – | 22 728 | – | 22 728 |
| Cash and cash equivalents | | | | |
| Bank balances | – | 4 041 | – | 4 041 |
| | 2 113 | 47 563 | 11 527 | 61 203 |
| **Financial liabilities** | | | | |
| Debt securities and borrowings | – | 401 826 | – | 401 826 |
| Eskom bonds | – | 161 171 | – | 161 171 |
| Commercial paper | – | 1 251 | – | 1 251 |
| Eurorand zero coupon bonds | – | 5 600 | – | 5 600 |
| Foreign bonds | – | 55 553 | – | 55 553 |
| Development financing institutions | – | 143 174 | – | 143 174 |
| Export credit facilities | – | 23 343 | – | 23 343 |
| Floating rate notes | – | 2 027 | – | 2 027 |
| Other loans | – | 9 707 | – | 9 707 |
| Derivatives held for risk management and embedded derivatives | 4 148 | – | 5 713 | 9 861 |
| Foreign exchange contracts | 3 827 | – | 398 | 4 225 |
| Cross-currency swaps | 219 | – | 3 824 | 4 043 |
| Credit default swaps | 102 | – | – | 102 |
| Embedded derivatives | – | – | 1 491 | 1 491 |
| Trade and other payables and lease liabilities | – | 35 924 | 8 969 | 44 893 |
| Lease liabilities | – | – | 8 969 | 8 969 |
| Trade and other payables | – | 35 924 | – | 35 924 |
| Financial trading liabilities | | | | |
| Repurchase agreements | 2 | – | – | 2 |
| | 4 150 | 437 750 | 14 682 | 456 582 |

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

### 15.1 Accounting classification (continued)

| | 30 September 2020 (unaudited) Fair value through profit or loss Rm | Amortised cost Rm | Other assets and liabilities Rm | Total Rm |
|---|---|---|---|---|
| **Financial assets** | | | | |
| 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 | 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 |
| | 2 251 | 47 411 | 36 527 | 86 189 |
| **Financial liabilities** | | | | |
| 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 |
| | 2 396 | 498 366 | 13 133 | 513 895 |

### 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 |
|---|---|
| **Level 1: Quoted prices (unadjusted) in active markets** | |
| 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. |
| **Level 2: Observable inputs other than quoted prices included within level 1** | |
| 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.<br><br>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. |
| **Level 3: Unobservable inputs** | |
| 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 2021 nor in the comparative periods presented.

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

### 15.2 Fair value (continued)

**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 2021 (unaudited) | | | 31 March 2021 (audited) | | | 30 September 2020 (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 |
| **Financial assets** | | | | | | | | | |
| Investments and financial trading assets | | | | | | | | | |
| Listed shares | 1 935 | – | – | 1 934 | – | – | 1 568 | – | – |
| Derivatives held for risk management | – | 14 693 | – | – | 11 379 | – | – | 36 856 | – |
| Foreign exchange contracts | – | 1 537 | – | – | 32 | – | – | 695 | – |
| Cross-currency swaps | – | 12 934 | – | – | 11 192 | – | – | 36 012 | – |
| Commodity forwards | – | 12 | – | – | – | – | – | – | – |
| Credit default swaps | – | 5 | – | – | 5 | – | – | 9 | – |
| Inflation-linked swaps | – | 205 | – | – | 150 | – | – | 140 | – |
| **Financial liabilities** | | | | | | | | | |
| Derivatives held for risk management and embedded derivatives | – | 3 310 | – | – | 8 370 | 1 491 | – | 5 475 | 872 |
| Foreign exchange contracts | – | 380 | – | – | 4 225 | – | – | 1 903 | – |
| Cross-currency swaps | – | 2 824 | – | – | 4 043 | – | – | 3 099 | – |
| Commodity forwards | – | 2 | – | – | – | – | – | – | – |
| Credit default swaps | – | 104 | – | – | 102 | – | – | 473 | – |
| Embedded derivatives | – | – | – | – | – | 1 491 | – | – | 872 |
| Financial trading liabilities | | | | | | | | | |
| Repurchase agreements | – | 2 | – | – | 2 | – | – | 20 | – |

### 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 2020 | (1 320) | (21) | (1 341) |
| Amortised to profit or loss | 97 | 1 | 98 |
| Loss at 30 September 2020 | (1 223) | (20) | (1 243) |
| Day-one loss recognised | (107) | – | (107) |
| Amortised to profit or loss | 97 | 2 | 99 |
| Loss at 31 March 2021 | (1 233) | (18) | (1 251) |
| Day-one loss recognised | (197) | – | (197) |
| Amortised to profit or loss | 88 | 1 | 89 |
| Loss at 30 September 2021 | (1 342) | (17) | (1 359) |

## 16. Material events subsequent to 30 September 2021

There have been no significant events subsequent to 30 September 2021.

## 17. Restatement of comparatives

The impact of the restatements on the financial statements for the period ended 30 September 2021 relating to the restatements disclosed in the annual financial statements at 31 March 2021 is disclosed below. The restatements relate to:

- change of classification of Eskom pension fund from a defined contribution to a defined benefit fund
- change in measurement of contributions toward environmental rehabilitation trust funds from cost to fair value

| | Previously reported Rm | Adjustments Rm | Restated Rm |
|---|---|---|---|
| **Group statement of financial position at 30 September 2020** | | | |
| **Assets** | | | |
| Non-current | | | |
| Payments made in advance | 1 546 | 230 | 1 776 |
| **Equity** | | | |
| Capital and reserves | 186 870 | 166 | 187 036 |
| **Liabilities** | | | |
| Non-current | | | |
| Deferred tax | 976 | 64 | 1 040 |
| **Group income statement for the period ended 30 September 2020** | | | |
| Employee benefit expense | (16 676) | 261 | (16 415) |
| Net fair value and foreign exchange gain | 1 145 | (54) | 1 091 |
| Finance cost | (16 423) | (22) | (16 445) |
| Profit before tax | 114 | 185 | 299 |
| Income tax | (31) | (52) | (83) |
| Profit for the period | 83 | 133 | 216 |
| **Group statement of comprehensive income for the period ended 30 September 2020** | | | |
| Profit for the period | 83 | 133 | 216 |
| Items that may be reclassified subsequently to profit or loss | (5 218) | – | (5 218) |
| Items that may not be reclassified subsequently to profit or loss | 142 | (172) | (30) |
| Re-measurement benefits | 195 | (239) | (44) |
| Income tax thereon | (53) | 67 | 14 |
| Total comprehensive loss for the period | (4 993) | (39) | (5 032) |
| **Group statement of cash flows for the period ended 30 September 2020** | | | |
| Cash flows from operating activities | | | |
| Profit before tax | 114 | 185 | 299 |
| Adjustment for non-cash items | 31 232 | 1 022 | 32 254 |
| Changes in working capital | (13 237) | (1 207) | (14 444) |
| Cash generated from operations | 18 109 | – | 18 109 |

## 18. Exchange rates

| | Unaudited 30 September 2021 | Audited 31 March 2021 | Unaudited 30 September 2020 |
|---|---|---|---|
| Euro | 17.48 | 17.32 | 19.67 |
| United States dollar | 15.10 | 14.75 | 16.82 |
| Pound sterling | 20.35 | 20.34 | 21.62 |
| Japanese yen | 0.14 | 0.13 | 0.16 |

## 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 2021.

# CONTACT DETAILS

| Telephone numbers | | Websites and email addresses | |
|---|---|---|---|
| Eskom head office | +27 11 800 8111 | Eskom website | www.eskom.co.za<br>Contact@eskom.co.za |
| Eskom Media Desk | +27 11 800 3343<br>+27 11 800 3378<br>+27 11 800 6103 | Eskom Media Desk | MediaDesk@eskom.co.za |
| Investor Relations | +27 11 800 2775 | Investor Relations | InvestorRelations@eskom.co.za |
| Eskom whistle-blowing hotline | 0800 112 722 | Forensic investigations | Investigate@eskom.co.za |
| DPE whistle-blowing hotline | 0800 111 628 | DPE whistle-blowing website | www.thehotlineapp.co.za<br>DPE@thehotline.co.za |
| Eskom Development Foundation | +27 11 800 8111 | Eskom Development Foundation | www.eskom.co.za/csi<br>CSI@eskom.co.za |
| National call centre | 08600 ESKOM or<br>08600 37566 | Promotion of Access to Information Act requests | PAIA@eskom.co.za |
| Customer SMS line | 35328 | Customer Service | CustomerServices@eskom.co.za |
| Facebook | EskomSouthAfrica | YouTube | EskomOfficialSite |
| Twitter | Eskom_SA | MyEskom Customer app | Download on the App Store / GET IT ON Google Play |

| Physical address | Postal address |
|---|---|
| Eskom Megawatt Park<br>2 Maxwell Drive<br>Sunninghill<br>Sandton<br>2157 | PO Box 1091<br>Johannesburg<br>2000 |
| **Group Company Secretary** | **Company registration number** |
| Office of the Company Secretary<br>PO Box 1091<br>Johannesburg<br>2000 | Eskom Holdings SOC Ltd<br>2002/015527/30 |

HKLM EXCHANGE | Hlapa MEDIA RESOURCES
JOINT VENTURE (0007)