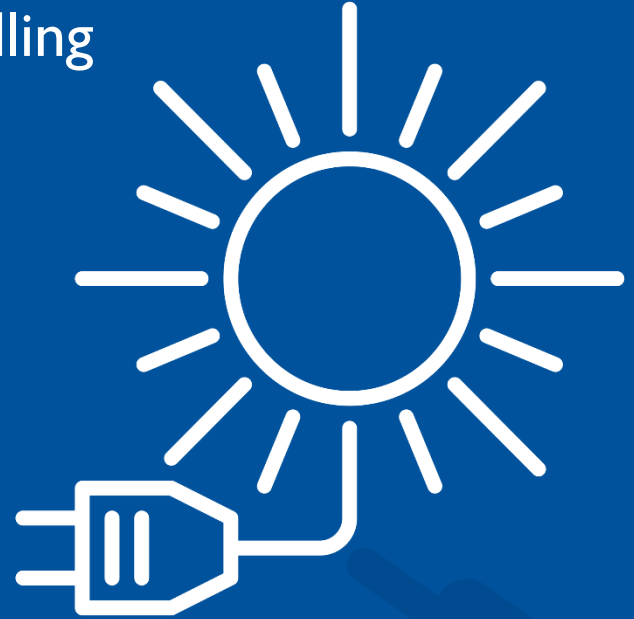


Transmission Unbundling  
Creditor Update  
18 February 2022



## Disclaimer

*This presentation has been prepared by Eskom Holdings SOC Ltd (“Eskom”) and its advisers in connection with the unbundling of the Transmission division.*

*This presentation is for the exclusive use of the persons to whom it is provided and is for the sole purpose of providing those persons with information relating to the unbundling of the Transmission division.*

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# Overview of Eskom's Turnaround Plan



- Pursue financial and operational sustainability
- Facilitate a future competitive energy industry
- Modernise the power system
- Strive for net zero emissions by 2050

Source: Eskom Turnaround Plan

## Turnaround Objectives

- **Operations recovery**  
Improve the current operations to ensure a reliable supply of electricity
- **Business separation** *Focus of this section*  
Unbundle Eskom to emphasise transparency, agility and operational excellence
- **Improve the income statement**  
Reduce costs and optimise revenue to support Eskom's financial recovery
- **Strengthen the balance sheet**  
Return Eskom to financial sustainability through addressing the current unsustainable debt level
- **People and culture**  
Support performance through motivational leadership, mentoring and coaching

## What is the rationale for Eskom's unbundling?

“ Eskom's operating business model is outdated and based on the era of excess electricity supply and captive customers. (...)

“Unbundling” into separate subsidiaries under Eskom Holdings will allow management focus, improve efficiency, create greater transparency around performance, provide greater protection against corruption and rent-seeking, and will give capital providers more visibility of the component parts, resulting in more investment comfort.

*Roadmap for Eskom in a reformed electricity supply industry (the “Roadmap”), DPE, October 2019*

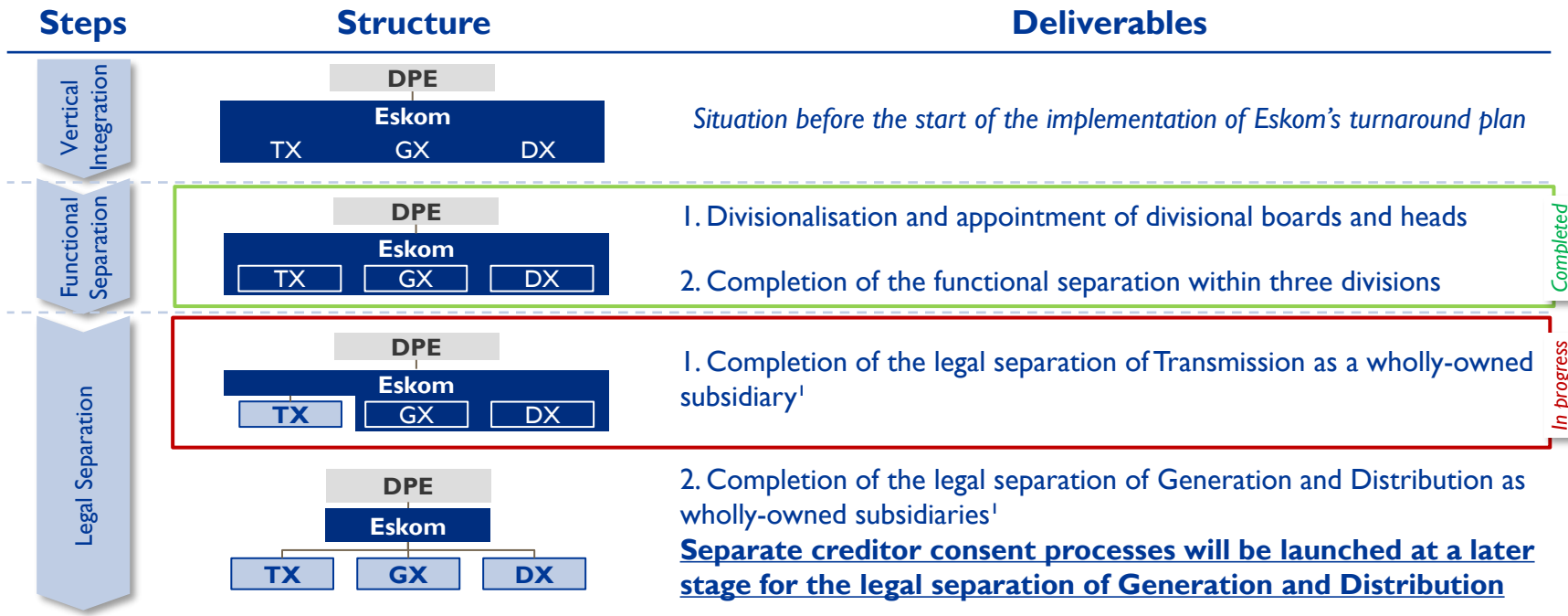
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### Why start with the legal separation of the Transmission division?

- In line with the Government's Roadmap, National Transmission Company South Africa SOC Limited (“NTCSA”) will be a **keystone to the Eskom Group and the electricity market reform**, playing the **roles of system operator and market operator**
- NTCSA is **well prepared for legal separation**, thanks to:
  - A **stable operational performance** of the Transmission division within Eskom, and
  - A **targeted business risk profile** associated with transmission activities supporting its legal separation

# The Unbundling Journey

- In accordance with the Government Roadmap, the first step in Eskom's unbundling is the functional and legal separation of its Transmission division



Completed

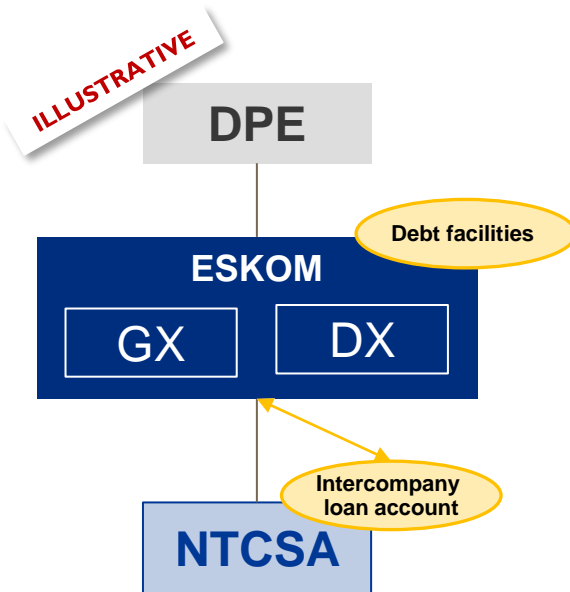
In progress

Source: the Roadmap, DPE, October 2019

Note: (1) Subject to regulatory approval and relevant legal and commercial consents

# Structure of the Eskom Group post-unbundling of Transmission

Post-unbundling, Transmission will be transferred to NTCSA which will be 100% owned by Eskom



← → On-lending agreements signed between Eskom and NTCSA

- **The Transmission unbundling will not involve transferring Eskom's existing financial indebtedness**
  - All existing debt facilities will remain at Eskom's level, will continue to be serviced by Eskom and will appear on Eskom's balance sheet. All existing debt facilities benefiting from a guarantee from National Treasury will continue to benefit from the same guarantee following Transmission's unbundling
  - As NTCSA is 100% owned by Eskom, Transmission's unbundling will not adversely affect Eskom's existing debt or financial performance
  - This first phase of Eskom's turnaround plan will not address Eskom's balance sheet or long-term financial stability, which remains under discussion between Eskom and its shareholder and will be addressed at a later stage of the turnaround plan
- **This creditor consent process only focuses on the unbundling of Transmission**

## NTCSA Merger Agreement

- **On 17 December 2021, the legally binding merger agreement, pursuant to which Eskom will transfer its Transmission division to its wholly-owned subsidiary **NTCSA** was executed, with the transfer subject to certain suspensive conditions:**
  - obtaining the relevant creditor consents;
  - obtaining the relevant counterparty approvals under other material foreign law (commercial) contracts;
  - obtaining the relevant licenses to operate NTCSA; and
  - signing an intercompany loan agreement
- **Only upon the fulfilment of the suspensive conditions will NTCSA be operationalised as a separate wholly-owned subsidiary**
  - Pursuant to the merger agreement, **all transmission assets, contracts and employees will be transferred from Eskom to NTCSA**
- **In the interim period, until the fulfilment of the suspensive conditions, the transmission business will continue to be operated by Eskom as a separate discrete division**

## Towards NTCSA full operationalization

### What remains to be done for NTCSA to be fully operationalised?

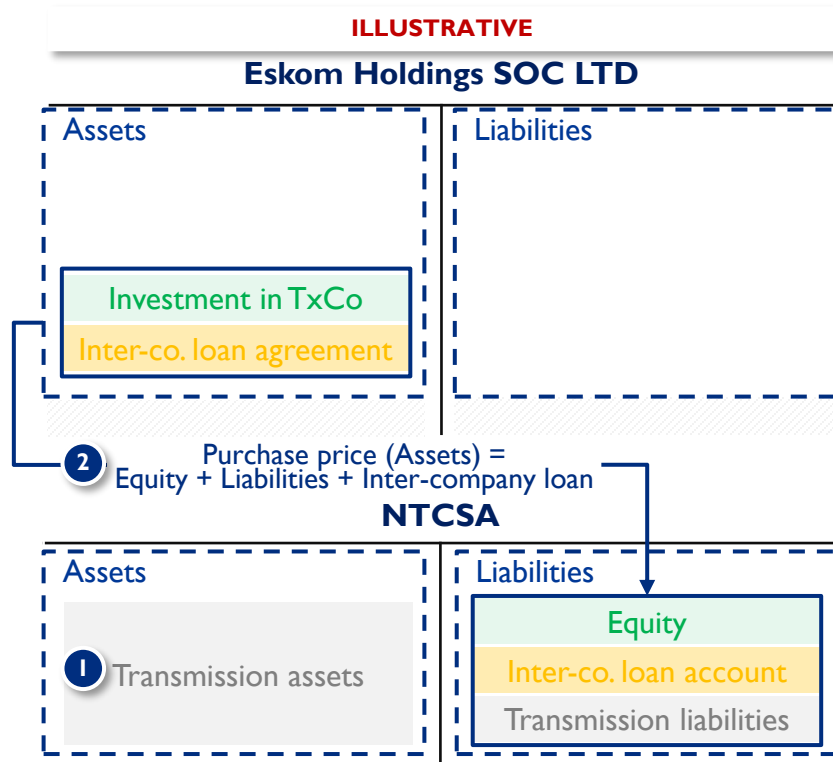
➤ Finalize the intercompany loan agreement for submission to DPE and signature by Eskom and NTCSA	<b>In progress</b> – <i>Drafting of the loan agreement</i>
➤ Obtain the relevant creditor consents	<b>In progress</b> – <i>Ongoing discussions with creditors from whom consent is required</i>
➤ Obtain the relevant counterparty approvals under other material foreign law contracts	<b>In progress</b> – <i>Relevant approvals for commercial agreements still to be undertaken</i>
➤ Obtain the relevant licenses to operate NTCSA	<b>In progress</b> – <i>NTCSA submitted a new license application to NERSA on 24 Dec. 2021</i>
➤ Human resources migration	<b>In progress</b> – <i>Ongoing consultations with labor organizations<sup>1</sup></i>
➤ Development and approval of guiding principles for NTCSA governance through the MOI and schedule of delegated authority	<b>In progress</b> – <i>NTCSA Board to be appointed within the coming 2-3 months</i>

Merger agreement suspensive conditions

Note: (1) The transfer of employees from Eskom to NTCSA will be regulated pursuant to section 197 of the Labour Relation Act



# Funding plan of NTCSA's acquisition of Transmission



- 1 **Transfer of assets** pertaining to the transmission business
  - 2 **Purchase price will be funded with a mix of debt, liabilities and equity:**
    - **Set up of an inter-company loan** between NTCSA and Eskom
    - **Transfer of operating liabilities** pertaining to the transmission business
    - **Equity injection within NTCSA, reflected as an asset** “investment into subsidiaries” in Eskom’s balance sheet
- **Both Eskom and NTCSA will have to pass the solvency and liquidity tests<sup>1</sup> on the date of NTCSA’s operationalization**

Note: (1) In accordance with the provisions of sections 113 and 116 of the Companies Act, No 71 of 2008, as amended. The solvency test requires, at one point in time, the assets of the company to exceed its liabilities (all fairly valued). The liquidity test requires the company to be liquid for 12 months and able to meet its liabilities as they arise

## Update on the licensing process with NERSA

- **Licensing process:**
  - Eskom is currently licensed to generate, transmit and distribute electricity
  - **NTCSA applied** to the National Energy Regulator of South Africa (“NERSA”) **for transmission, trading, import and export of electricity licenses on 24 December 2021**
  - Upon NERSA granting the relevant licenses to NTCSA, **Eskom’s transmission license will then be withdrawn**
  - **The government is in the process of revising the Electricity Regulation Act<sup>1</sup> (“ERA”) to comply with the industry reorganization**
- **Transmission tariffs determination:**
  - **New pricing principles will be developed and incorporated into the multiyear price determination by August 2022**
  - NERSA will determine **NTCSA’s revenue separately from Eskom** (Generation and Distribution)
  - The resulting **specific transmission tariff** should be sufficient to **enable NTCSA to run its operations in a manner that is cost efficient**

Note: (1) The ERA governs legislation for all electricity matters, while the Electricity Pricing Policy provides a guideline for pricing related matters. The ERA and the National Energy Regulator Act provide for an independent regulator responsible for electricity, gas and petroleum pipelines. NERSA acts within the mandate of the ERA

## Focus on NTCSA operations

- **During the interim period Transmission will remain a division of Eskom**
- **Upon completion of the suspensive conditions, NTCSA will be operationalised and will:**
  - Be responsible for payment of all NTCSA creditors and employee salaries
  - Recover money from customers
  - Settle the inter-company loan obligations as agreed
  - Operate bank accounts for day-to-day operations
  - Liaise with Eskom Treasury (located within Eskom) regarding liquidity requirements, short and long-term
- **NTCSA’s Memorandum of Incorporation (“MOI”) will address any governance related issues between Eskom and NTCSA, including the framework for funding approvals at an Eskom group level:** NTCSA will not, until completion of Eskom’s full turnaround plan, be able to incur new debt facilities on its own balance sheet
- **The composition of NTCSA Board will be appropriately structured to recognise Eskom’s control whilst ensuring Transmission’s independence**

## Engagement with creditors

- As announced during the presentation delivered to all financial creditors on 15 December 2021, **Eskom is engaging with creditors where the credit documents indicate that consent is required in order to transfer Transmission to NTCSA** pursuant to the merger agreement signed on 17 December 2021
  - This principally comprises DFI/ECA/commercial lenders in certain identified facilities
  - **Eskom does not consider consent to be required for the Transmission unbundling from certain of its financial creditors (including holders of Eskom's bonds, derivative counterparties and certain lenders).** Accordingly, in order to run an efficient process, creditors whose consent is not required for the immediate step of the Transmission unbundling are not being asked to provide consent at this stage
  - The unbundling of Transmission is the **first step in a long journey** and Eskom recognizes that the **support (and specific consents) of creditors will be required at a later stage** as the unbundling process continues **in accordance with the Roadmap**
- Eskom will **continue updating all creditors** on the progress of the unbundling of Transmission, the consent exercise, and the unbundling more generally, including through further **global investor calls**
- **Eskom and its financial (Lazard) and legal advisors (White & Case LLP and ENSafrica) remain at your disposal** to provide any further clarification on this consent exercise