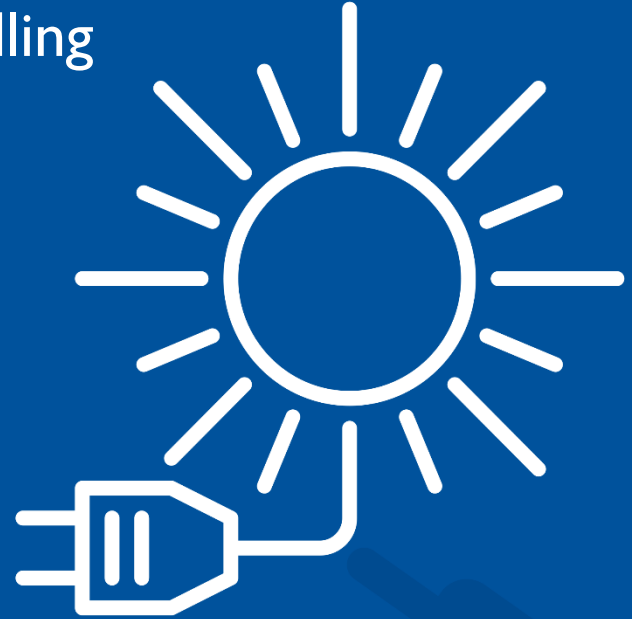


Transmission Unbundling

Global Investor Call

9 June 2022



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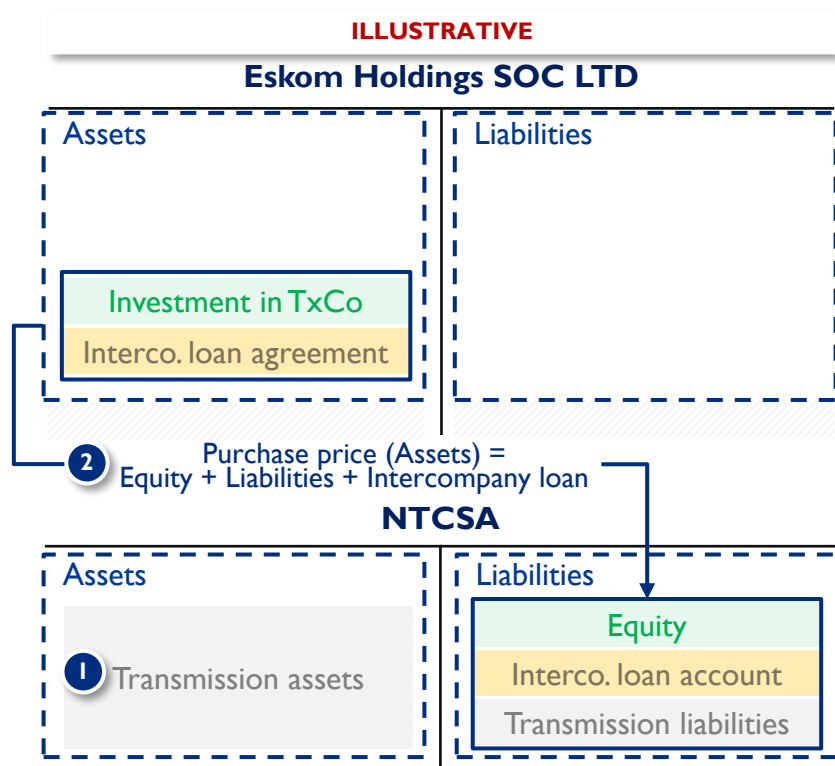
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I. Where do we stand on the legal separation of the Transmission division?

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 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 division**

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, operating liabilities and equity:**
 - **Set up of an intercompany loan** between NTCSA and Eskom
 - **Transfer of operating liabilities** pertaining to the transmission business
 - **Equity injection reflected as an asset** “investment into subsidiaries” in Eskom’s balance sheet
- **Both Eskom and NTCSA will have to pass the solvency and liquidity tests¹ 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

NTCSA proforma financial statements

Values as at 31st December 2021

In ZAR bn

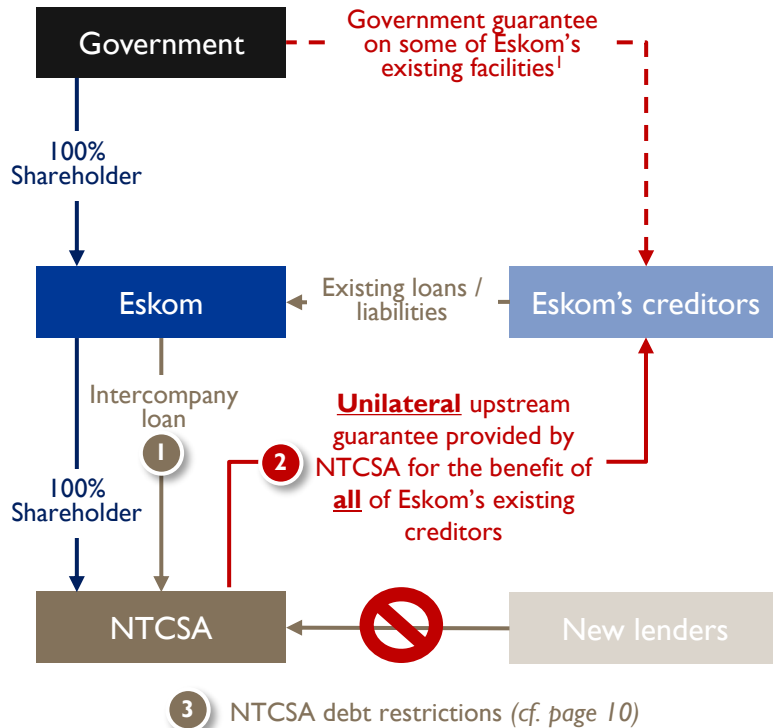
Total assets		80.5
Non-current assets	Property, plant and equipment	69.0
	Finance lease assets	5.9
	Intangible assets	2.5
Current assets	Trade and other receivables	2.3
	Inventories	0.4
	Payments made in advance	0.3
Total liabilities		80.5
Equity		20.8
Non-current liabilities	Intercompany loan account	39.9
	Finance lease liabilities	8.1
Current liabilities	Trade and other payables	8.3
	Employee benefit obligations	1.0
	Payments received in advance	2.6

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** (within Eskom’s Group), **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 Act¹ (“ERA”)** to **comply with the industry reorganization** (inc. allowing NTCSA to trade outside of Eskom’s Group)
- **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**

II. How is the credit neutrality of the Transmission unbundling ensured?

Solutions to the impact of structural subordination



- The transfer of assets pertaining to the transmission business would result in potential **structural subordination of lenders at Eskom's level**:
 - Lenders at the level of Eskom would **no longer have direct recourse to transmission assets**
 - Claims of lenders at the Eskom level would be subordinated behind any claims at NTCSA's level**
- Mitigating the structural subordination impact will be achieved through the combination of:**
 - An intercompany loan from Eskom to NTCSA** (cf. intercompany loan details pages 11-12)
 - An upstream guarantee** whereby NTCSA gives Eskom's existing financial creditors direct access to its assets in the event of non-payment by Eskom
 - Restrictions on NTCSA's ability to incur new financial debt** (cf. NTCSA debt restrictions page 10)

Focus on the upstream guarantee (1/2)

- The **provision by NTCSA of a direct upstream guarantee** to the existing financial creditors of Eskom as at the date of the implementation of the Transmission unbundling will give Eskom's financial creditors a direct claim against NTCSA's assets
- The upstream guarantee has been structured to reflect the following:
 - **Direct claim** – the upstream guarantee provides Eskom's existing financial creditors with a direct claim against NTCSA's assets, subject only to standard solvency restrictions required by South African law. A financial creditor of Eskom will be able to make a claim under the upstream guarantee to the extent they have made an equivalent claim against Eskom in accordance with the terms of their finance agreement
 - **Fair treatment of creditors** – the guarantee will be provided by NTCSA on a unilateral basis to all of Eskom's financial creditors, irrespective of whether or not their debt funds the transmission assets
 - **Government guarantee** – the existing sovereign guarantees will not be impacted or affected by the Transmission unbundling, and will remain in full force and effect

Focus on the upstream guarantee (2/2)

- The upstream guarantee has been structured to reflect the following (*cont'd*):
 - **NTCSA debt restrictions** – the guarantee will be coupled with restrictions (built into NTCSA's MOI) on its ability to incur financial debt (excluding ordinary course of business operating/trade liabilities):
 - (a) Eskom's Board of Directors will approve annually NTCSA's budgeted borrowing plan,
 - (b) all new financial indebtedness will be incurred through Eskom's treasury function and channeled to NTCSA via intercompany loans, and
 - (c) any new intercompany indebtedness in excess of the approved borrowing plan will require the consent of Eskom's Board of Directors
 - **Required approvals** – the guarantee will require authorisation by NTCSA's Board of Directors in accordance with the Public Finance Management Act, 1999

Sizing of Eskom and NTCSA intercompany loan (1/2)

- **The intercompany loan between Eskom and NTCSA has been sized based on Transmission historical funding needs, including:**
 - Funding earmarked to Transmission projects, representing 10 of Eskom's facilities as of end-2021, are 100% allocated to NTCSA
 - Proceeds of 23 of Eskom's facilities were allocated to general capex funding. Approximately 12% of the amount raised through these 23 facilities was utilized for Transmission capex

	# of Eskom's facilities	NTCSA carrying value as of end-2021
Project specific funding	100% of 10 facilities face value ¹	ZAR 17.7bn
General pool of funding	12% of 23 Eskom's facilities face value ²	ZAR 22.9bn
Derivative for risk management		ZAR (0.7)bn
Total intercompany loan		ZAR 39.9bn

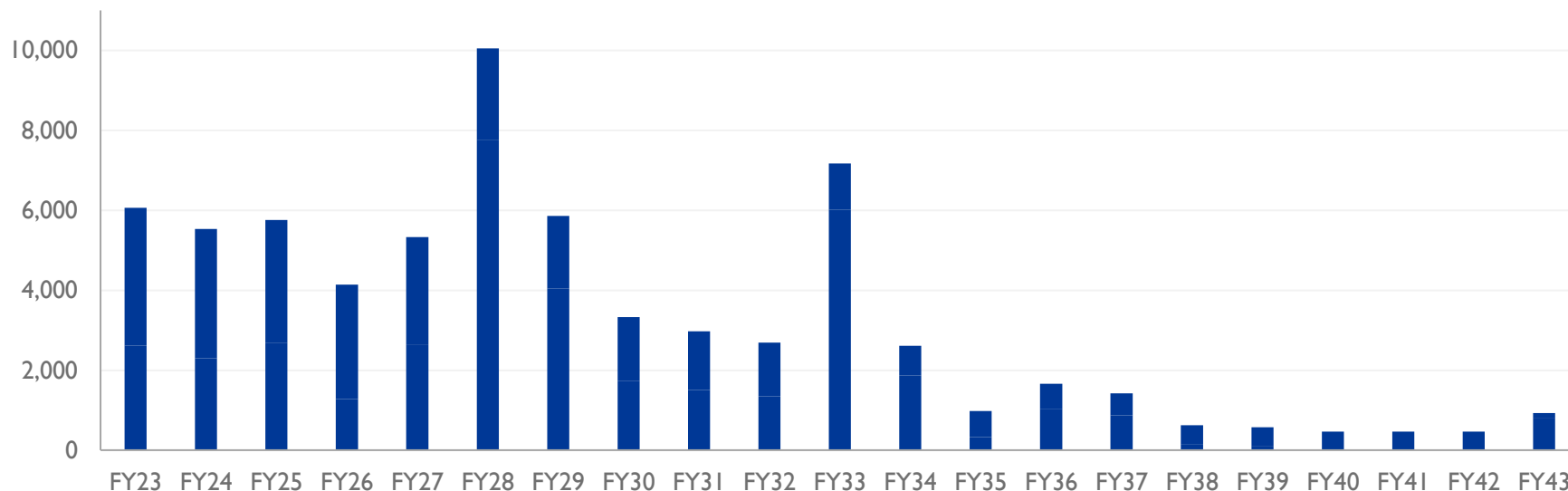
- **The ultimate purpose of the sizing exercise is to ensure that NTCSA (i) will pass the solvency and liquidity tests required under South African law on the date of NTCSA's operationalization and (ii) will remain financially viable in the medium-term**

Sizing of Eskom and NTCSA intercompany loan (2/2)

PRELIMINARY – Based on Eskom's current assumptions

- The total debt service schedule matches Eskom transmission-related underlying facilities total debt service, ending June 2042

Amortization schedule (total debt service in ZARm)¹



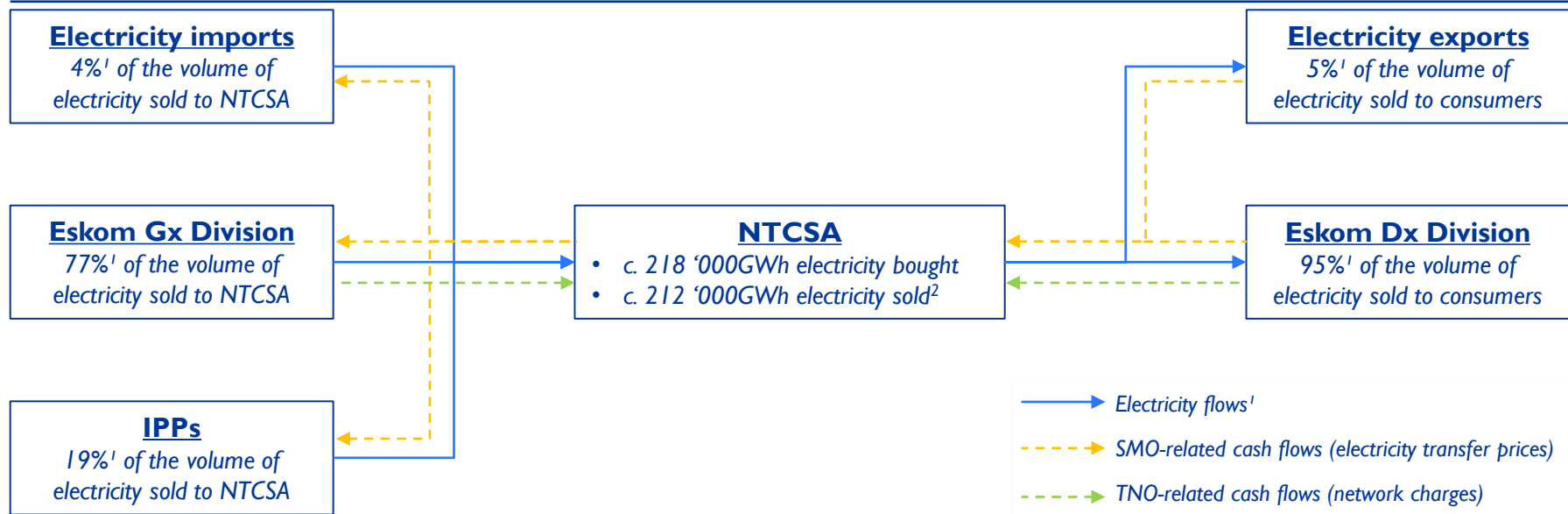
Note: (1) The debt service schedule can be revised from time to time to reflect Eskom's actual cost of funding on transmission-related loans (e.g., variations in exchange and/or interest rates)

III. What will NTCSA's business model be post-Transmission unbundling?

Overview of NTCSA's business model

ILLUSTRATIVE

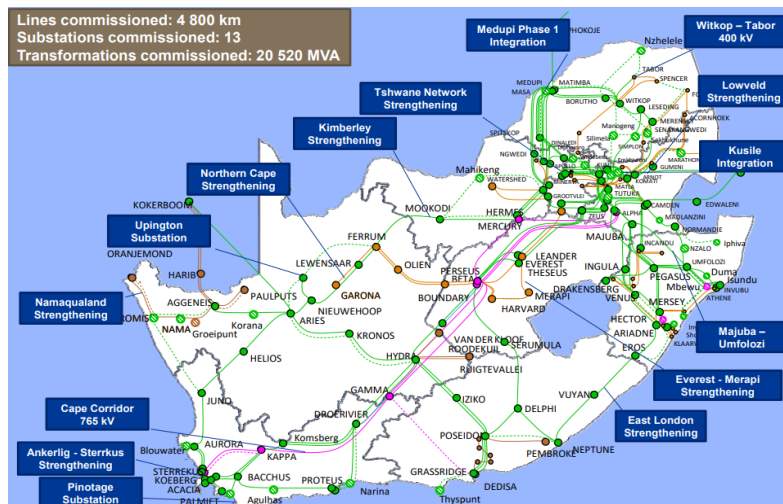
Post-Transmission unbundling, NTCSA will carry out two key electricity market functions:
(i) the Transmission Network Operator (TNO) and (ii) the System Market Operator (SMO)



Post-unbundling of Transmission, (i) NTCSA's revenue will include electricity sale to Eskom's Distribution division, exports and network charges paid by Eskom's Generation and Distribution divisions, while (ii) primary energy costs will include electricity purchase from Eskom's Generation, IPPs and imports

Overview of the tangible assets to be transferred to NTCSA

Transmission expansion projects completed over the last 10 years



Key figures as at FY2021

3,816 km	Length of 754 and 533kV Transmission power lines
19,760 km	Length of 400kV Transmission power lines
9,582	Length of 275, 220 and 132kV Transmission power lines
154,500 MVA	Total transformer capacity
449	Number of transformers
2.3%	Transmission energy losses
3.5 min	Total system minutes loss for events <1
2	Major incidents

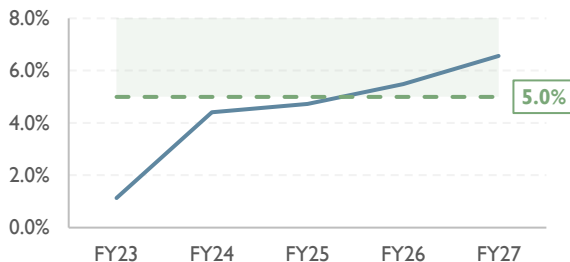
PPE Categories	Book value (ZARbn)	% of tangible assets
Transmitting plant (inc. critical spares)	47.3	68.6
Assets under construction	18.9	27.4
Vehicles, aircraft and equipment	1.6	2.3
Land and buildings	1.2	1.7
Total PPE	69.0	100.0%

NTCSA's key financial performance indicators

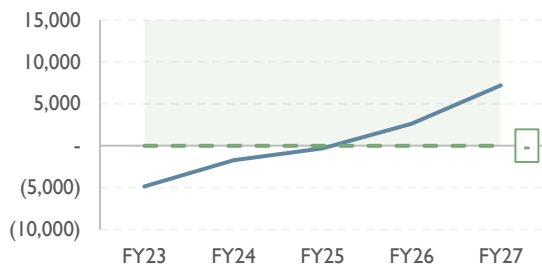
PRELIMINARY – Based on Eskom's current assumptions

Profitability ratios

- EBITDA Margin¹ (%)

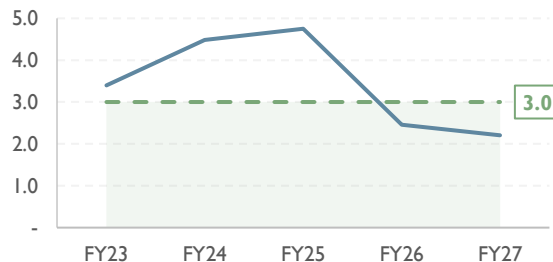


- Net profit for the year (ZARm)

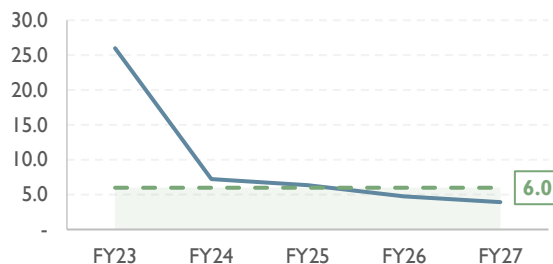


Leverage ratios

- Net debt-to-equity ratio (x)

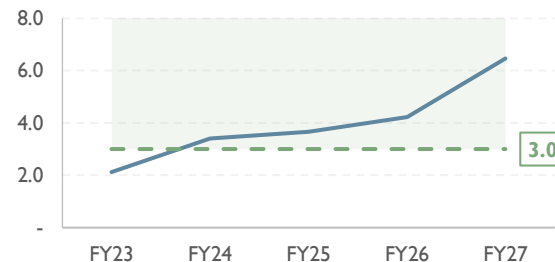


- Net debt-to-EBITDA ratio (x)

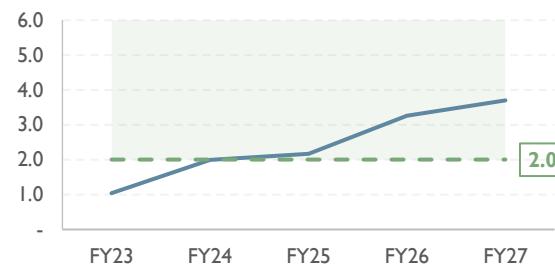


Liquidity ratios²

- Interest coverage ratio (x)



- Debt service coverage ratio (x)



Baseline

Indicative internal reference point³

Notes: (1) Reflects the combination of TNO and SMO associated revenues and costs; (2) Reflects debt service under intercompany loan accounts; (3) These reference points are not indicative of future targets approved by NTCSA's and Eskom's Board

IV. What remains to be done for NTCSA to be operationalised?

Towards NTCSA full operationalization

What remains to be done for NTCSA to be fully operationalised?		TARGET DATE
➤ Finalise the intercompany loan agreement for submission to DPE and signature by Eskom and NTCSA	Completed – The term sheet of the intercompany loan is finalised. The contractual agreement is in preparation for approval by the Eskom and NTCSA Boards	Q1 2022
➤ Obtain the relevant counterparty approvals under other material foreign law contracts	Completed – Consents for foreign contracts (in SA law) and PPA (concluded by DMRE) are not required. HCB consent has been obtained	Q1 2022
➤ Obtain the relevant creditor consents ¹	In progress – Ongoing discussions with creditors from whom consent is required	Q2-Q3 2022
➤ Obtain the relevant licenses to operate NTCSA	In progress – NTCSA submitted a new license application to NERSA on 24 Dec. 2021	Q3 2022
➤ Human resources engagement	In progress – Migration to be done in terms of Section 197 of the Labour Relations Act ² pursuant to the operationalization	Q3 2022
➤ Development and approval of guiding principles for NTCSA governance through the MOI and schedule of delegated authority	In progress – Directors will be appointed once approved by the Government	Q2 2022

Merger agreement suspensive conditions

Notes: (1) 16 debt facilities (7 bilateral lenders and 2 syndicated facilities) representing approx. ZAR72.7bn outstanding debt as of end-2021; (2) The transfer of employees from Eskom to NTCSA will be regulated pursuant to section 197 of the Labour Relations Act

Engagement with financial creditors

- As Eskom has previously noted, it is currently seeking consent to the Transmission unbundling from its financial creditors to the extent the relevant credit documents indicate that consent is required:
 - Consent is formally being sought from certain of Eskom's lenders (principally DFI/ECA/commercial lenders) in certain identified facilities
 - Eskom is not required to seek consent from certain other financial creditors, including holders of Eskom's bonds, derivative counterparties and certain other lenders. In order to run an efficient process, these creditors are not being asked to provide consent to the Transmission unbundling
- Eskom has issued formal consent request letters to those creditors that are required to consent to the transaction, and is seeking to obtain all relevant consents (and satisfy this suspensive condition under the Merger Agreement) during Q2-Q3 2022
- Eskom will continue updating all of its financial creditors on the progress of the Transmission unbundling, and it and its financial (Lazard) and legal advisors (White & Case LLP and ENSafrica) remain at your disposal should you have any questions