Eskom

Group annual results

for the year ended 31 March 2022

23 December 2022

The results presentation is available at
www.eskom.co.za/investors/integrated-results/

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Actual results could differ materially from those projected in any forward-looking statements due to risks, uncertainties and other factors. Eskom neither intends to nor assumes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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Key points

Operations recovery

Generation performance

EAF reduced to **62.02%** (2021: 64.19%)

65 days loadshedding (2021: 47 days)

Transmission and distribution network performance improved

One new build unit operational
One new build unit synchronised
Defects correction process continues

Particulate emissions

0.34kg/MWhSO
(2021: 0.38kg/MWhSO)

People and culture

Headcount 40 421

(2021: 42 749)
Mainly due to natural attrition & VSPs

Improve the income statement

Net loss after tax ↑ 51%

R12.3 billion (2021: R25 billion)

Financial results have improved across all key profitability metrics

EBITDA ↑ 61%

R52.4 billion (2021: R32.6 billion)

Due to higher revenue and improved cost control

Sales volumes ↑ 3%

198 281GWh (2021: 191 852GWh)

With many sectors recovering post-COVID

Operating profit ↑ 238%

R20.4 billion (2021: R6 billion)

Unsustainably high finance costs erode Eskom's profitability

Strengthen the balance sheet

Gross debt and borrowings

R396.3 billion ↓ 1%
(2021: R401.8 billion)

Arrear municipal debt

R44.8 billion ↑ 27%
(2021: R35.3 billion)

Capital repaid **R38.9 billion**

Interest paid **R32.5 billion**

Government support received **R31.7 billion** ✓

Looking ahead

Legal separation

Delays in external decisions and key dependencies have pushed out Transmission operationalisation targeted for April 2023
Distribution: April 2024
Generation: 2025 *

March 2023 outlook

Forecast net loss after tax

R20.1 billion
(2022: R12.3 billion loss)

Decline in sales volumes, increased maintenance spend as well as higher spend on OCGTs and fuel oil due to continued low EAF and capacity constraints

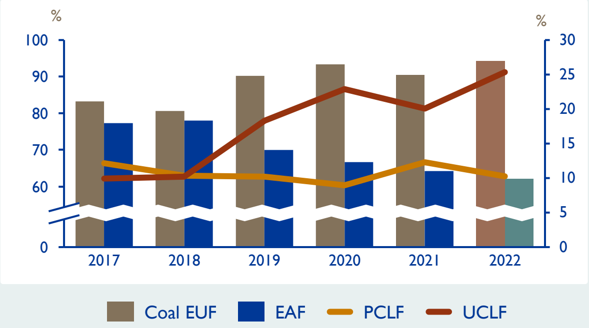
* Dates are subject to various external dependencies and decisions

Generating plant and network performance

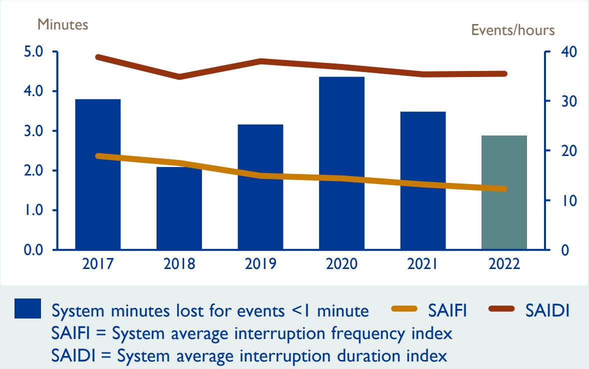
GENERATION PERFORMANCE

- Plant availability declined to 62.02% (2021: 64.19%), with unplanned load losses rising to 25.35% (2021: 20.04%) and planned maintenance at 10.23% (2021: 12.26%)
- Loadshedding curtailed load by 1 605GWh or 0.71% of demand (2021: 1 034GWh). Notwithstanding this, gas turbine usage remained high, at a cost of energy for Eskom and IPP-owned OCGTs of R14.7 billion (2021: R7 billion)
- Generation recovery plan and reliability maintenance recovery programme continue. Unless EUF reduces to acceptable levels, EAF will not improve
- Major incident at Medupi Unit 4 on 8 August 2021 (generator explosion)
- Koeberg Unit 2 refuelling outage completed
- Average coal stock reduced to 42 days (2021: 50 days), and well within Grid Code requirements

Generation performance



Network performance



NETWORK AND NEW BUILD

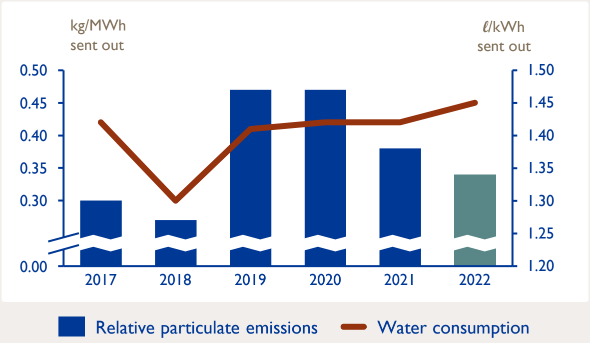
- Transmission system minutes performance improved to 2.88 minutes (2021: 3.48 minutes), with two major incidents (2021: two)
- Distribution network performance remained stable, although energy losses remain too high
- Medupi Unit 1 achieved commercial operation on 31 July 2021, while Kusile Unit 4 was synchronised to the grid on 23 December 2021
- Boiler modifications completed at all six Medupi units and at Kusile Units 1 to 4
- Kusile Unit 5 progress delayed by a year due to a gas air heater fire on 17 September 2022
- Contracts for the first phase of 800MWh of the battery storage project were awarded for the first three packages
- World Bank approved Medupi FGD extension to June 2027. Key priorities are completing the technology selection and resolving funding constraints. The project is moving forward

Environmental performance, people and society

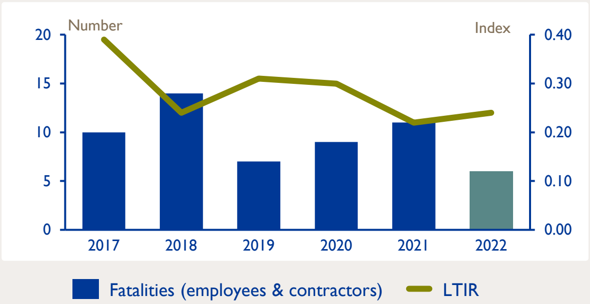
ENVIRONMENTAL PERFORMANCE

- Relative particulate emissions performance improved to 0.34kg/MWh sent out (2021: 0.38kg/MWhSO)
- Poor emissions performance at Duvha, Kendal, Lethabo, Matimba, Matla and Tutuka, mainly due to poor coal quality and poor performing dust handling and SO_3 plant
- Although Kendal emissions performance has improved, challenges continue. Criminal court proceedings postponed to February 2023
- DFFE minister established a participative panel to consider Eskom's MES appeals
- Water consumption at power stations deteriorated slightly to 1.45ℓ/kWhSO (2021: 1.42ℓ/kWhSO)
- A total of 65 environmental legal contravention incidents recorded (2021: 81), with 48 being water-related

Environmental performance



Safety performance



PEOPLE AND SOCIETY

- Sadly, four employee and two contractor fatalities were recorded (2021: three employees and eight contractors)
- Group lost-time injury rate worsened slightly to 0.24 (2021: 0.22)
- Headcount continued to decline to 40 421 (2021: 42 749), primarily due to natural attrition and voluntary separation packages
- Racial and gender equity continued to improve, with racial equity at professional/ middle management level at 81.68% (2021: 80.10%)
- Disability equity stable at 2.94% (2021: 2.93%)
- 97 947 electrification connections completed (2021: 106 669)
- CSI spend improved to R75.1 million (2021: R67.4 million)
- Achieved preferential procurement spend of 75.89% (2021: 64.51%)

Governance improvements

- Fraud, corruption, sabotage and other criminal conduct have taken root within Eskom and, unless we take decisive action to eradicate this type of conduct, it will continue to fester and see the downfall of Eskom with catastrophic impacts to South Africa.
- We will be enforcing our policy of zero tolerance for corruption robustly to eradicate corrupt elements within the organisation and we will take appropriate legal action and apply consequence management as required
- We have embarked on a rigorous campaign to bolster integrity, ethics, compliance and governance programmes at Eskom, with a focus on rooting out fraud, corruption and sabotage. The following initiatives are in progress:
  - Crime risk management: With the support of ENSafrica, we are conducting a full assessment of the crime risk management landscape within Eskom, including combatting bribery and corruption, financial crime, physical assets crime, cybercrime and anti-money laundering. The intent is that once this assessment is concluded, a crime risk management programme will be embedded as part of Eskom's standard operating procedures to manage this critical risk.
  - Single investigative unit: The current model of managing fraud and corruption using multiple investigative functions operating in silos, uncoordinated and with a reactive approach towards addressing fraud and corruption, is not yielding the desired results. Accordingly, the establishment of a single investigative unit to manage all investigative matters related to fraud and corruption is under way

Governance improvements (continued)

- Initiatives (continued)
  - Business integrity function: A revised framework for the management of matters of integrity is being developed. This revised Business Integrity Framework proposes an end-to-end process to manage matters of integrity within Eskom, and would include fraud, corruption, collusion, breaches of the conflict-of-interest policy, and the management of the Whistleblower hotline and internal complaints regarding integrity breaches. It proposes centralised management of employee and supplier discipline for integrity breaches to ensure accountability and uniform treatment
  - Automated procurement systems: Eskom is implementing automated systems in the procurement of goods and services to better manage procurement spend and protect against integrity breaches, including tools such as PriceCheck, the digitilisation of stock control, the use of an augmented procurement model in certain business areas, and the use of e-auctions. Eskom will continue to monitor technology developments and will introduce suitable tools, as needed
  - "Know Your Supplier" campaign: It is critically important for Eskom to understand who we are doing business with. As part of this drive, we will be implementing a "Know Your Supplier" campaign that will entail properly screening all business partners, be it through detailed due diligence exercises, audits or proactive screening of directors. We need to ensure that, as examples, our suppliers are truly value-adding and not simply strawman entities; that neither they nor their affiliated companies or their directors are on official blacklists or sanctions lists; that their own supply chains are legitimate, ethical and reliable; that there are no signs of collusion with other suppliers nor any signals that they may be acting on privileged information; that their work does not involve unethical or illegal behaviour; and that payments to them are made based on verified quantity, quality and price, to a verifiable bank account

External audit findings

Qualified opinion based on:

- PFMA information disclosed in the annual financial statements

Material uncertainty relating to:

- Eskom's ability to continue as a going concern

Emphasis of matters regarding:

- Restatement of corresponding figures
- Events after the reporting period
- Significant new accounting policy on investigations into possible corruption

PRIOR PERIOD RESTATEMENTS

- Correction of valuation curve methodology for hedging instruments; reclassification of net fair value losses from OCI to profit and loss due to hedges no longer meeting the hedge effectiveness criteria in terms of IFRS
- Reclassification of a portion of coal inventory from current to non-current assets based on a review of the quantity and usage of coal at power stations, resulting in decline in current ratio

PFMA INFORMATION

Irregular expenditure movement, R billion	**2022**
2021 closing balance	37.2
Restatements [1]	22.0
Opening balance [1]	59.2
Historical incidents	8.1
New incidents in 2022	0.3
Condoned	(0.5)
Closing balance	**67.1**

- Prior year PFMA qualification issues not adequately addressed
- Loss Control Department established from 1 April 2021; increased identification and quantification of historical irregular expenditure, leading to restatement of PFMA information
- Progress in obtaining condonations of irregular expenditure remains slow. Until condoned, removed or expired, the expenditure on affected contracts remains irregular

Financial indicator	**Restated 2021** [2]	**2021**
EBITDA, R million	**32 608**	32 813
Net fair value and foreign exchange (loss)/gain, R million	**(8 932)**	883
Net loss after tax, R million	**(25 016)**	(18 934)
Inventory (non-current), R million	**11 001**	–
Inventory (current), R million	**22 481**	37 527
Current ratio	**0.95**	1.27

1. Refer to note 51 of the annual financial statements for additional PFMA disclosure, including restatements of PFMA information

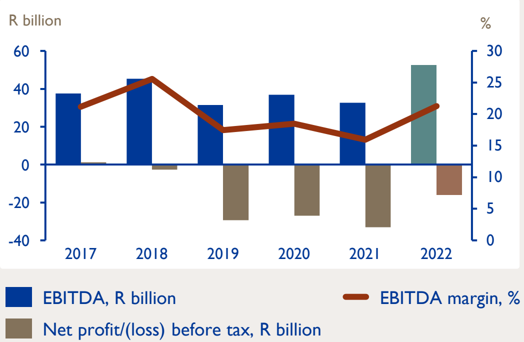
2. Detailed disclosure for the prior period restatements is provided in note 48 of the annual financial statements

Key financial indicators

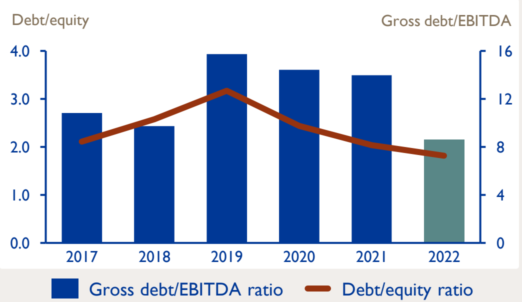
Financial indicator	2022		2021 [1]
Revenue, R million	**246 520**	▲	204 326
EBITDA, R million	**52 374**	▲	32 608
EBITDA margin, %	**21.25**	▲	15.96
Operating profit (EBIT), R million	**20 365**	▲	6 023
Net loss after tax, R million	**(12 330)**	▲	(25 016)
Pre-tax nominal return on assets, %	**3.05**	▲	0.92
Cash interest cover, ratio	**1.68**	▲	0.85
Debt service cover, ratio	**0.76**	▲	0.30
Gross debt/EBITDA, ratio	**8.63**	▲	13.98
Debt/equity (including long-term provisions), ratio	**1.82**	▲	2.04
Gearing, %	**65**	▲	67
Free funds from operations (FFO) as % of gross debt	**13.98**	▲	9.42

▲ Performance improved ▼ Performance declined

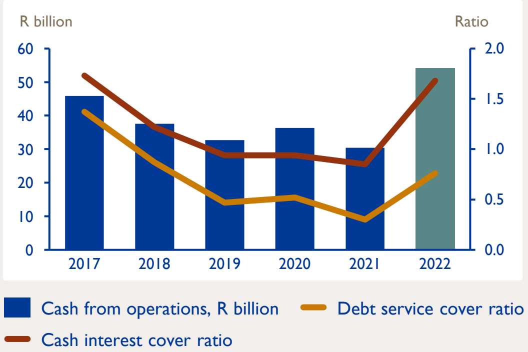
Profitability



Gearing



Solvency



- Financial indicators improved significantly despite navigating a very challenging operating environment
- Increase in tariffs and partial recovery of sales volumes contributed to the positive EBITDA and operating cash flow performance
- Gearing ratios improved due to Government equity support and better EBITDA performance
- Solvency ratios improved due to a recovery in operating cash flows, although cash flows remain inadequate to meet all debt servicing requirements on a standalone basis

1. Restatements are disclosed in note 48 of the annual financial statements

Group income statement for the year ended 31 March 2022

R million	2022	2021 [1]	%
Revenue	**246 520**	204 326	21 ▲
Other income	**1 494**	2 662	
Primary energy	**(132 439)**	(115 492)	15 ▲
Net employee benefit expenses	**(32 985)**	(32 887)	–
Net impairment loss	**(1 436)**	(1 795)	
Other expenses	**(28 780)**	(24 206)	19 ▲
EBITDA (before net fair value loss)	**52 374**	32 608	61 ▲
Depreciation and amortisation expenses	**(32 009)**	(26 585)	20 ▲
Operating profit (EBIT)	**20 365**	6 023	238 ▲
Net fair value and foreign exchange loss	**(3 126)**	(8 049)	61 ▼
Net finance cost	**(33 063)**	(31 142)	6 ▲
Share of profit of equity-accounted investees	**52**	71	
Loss before tax	**(15 772)**	(33 097)	52 ▼
Income tax credit	**3 442**	8 081	
Net loss for the year	**(12 330)**	(25 016)	51 ▼

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

FINANCIAL COMMENTARY

- **Revenue**: 15.06% tariff increase, supported by 3.4% growth in sales volumes
- **Primary energy**: higher fuel prices and fuel oil use, write-off of diesel rebate receivable, coupled with higher production required to meet the recovery in demand
- **Employee benefit cost**: stable as costs were controlled through headcount reduction; offset by lower capitalisation as new build units are commissioned
- **Other expenses**: R1.7 billion increase in repairs and maintenance to address plant performance, compensation event provision and write offs due to Medupi Unit 4 damage
- **Depreciation**: increase due to commissioned new build plant
- **Net finance cost**: less finance costs capitalised; gross finance costs were contained through an overall reduction in debt

R3.6 billion receivable written off as Eskom lost its appeal with SARS to claim diesel rebates disallowed over several years

R1.1 billion written off on **Medupi Unit 4** for damage from the explosion in August 2021. **R2.7 billion provision raised** for a compensation claim event at **Koeberg Power Station**

1. Restatements are disclosed in note 48 of the annual financial statements

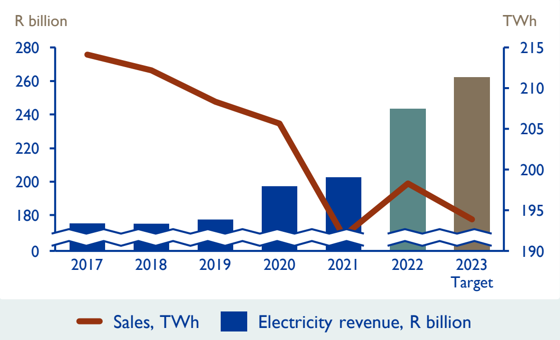
Sales and revenue

Revenue, R million	2022	2021	%
Local	**240 683**	202 429	19▲
International	**11 450**	10 383	10▲
Gross electricity revenue	**252 133**	212 812	18▲
Net revenue not recognised (IFRS 15)	**(7 672)**	(6 177)	24▲
Capitalised	**(1 074)**	(3 991)	73▼
Net electricity revenue	**243 387**	202 644	20▲
Other revenue	**3 133**	1 682	86▲
Total revenue	**246 520**	204 326	21▲

Sales volumes, GWh	2022	2021	%
Local	**184 983**	178 355	4▲
International	**13 298**	13 497	1▼
Total sales	**198 281**	191 852	3▲

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

Sales and revenue



Sales volumes per category, TWh	2022	2021	%
Distributors	83.9	82.4	1.8▲
Residential [1]	10.5	10.9	3.9▼
Commercial	9.9	9.7	1.8▲
Industrial	45.1	40.9	10.4▲
Mining	28.0	27.0	3.8▲
Agriculture	5.4	5.5	1.4▼
Rail	2.1	1.9	10.2▲
International	13.3	13.5	1.5▼
Total	**198.3**	**191.9**	**3.4▲**

1. Prepaid electricity and public lighting are included in the residential category

- Recovery of 6.4TWh (3.4%▲) in sales volumes due to the phased easing of COVID-19 lockdown restrictions and the return to operations of many sectors of the economy
- Improvement in sales seen across nearly all customer categories, with the industrial, rail and mining sectors most positively affected by the recovery of commodity markets
- Due to the long-lasting impact of the economic recession, generation capacity constraints as well as customer self-generation, sales are not expected to recover to pre-COVID-19 levels for the foreseeable future

Primary energy analysis

		COST	PRODUCTION	UNIT COST	
BASE-LOAD	COAL AND OTHER [1]	R80 595 million (2021: R74 496 million)	191 507GWh (2021: 190 040GWh)	R424/MWh (2021: R404/MWh)	5% ▲
BASE-LOAD	NUCLEAR	R1 228 million (2021: R1 040 million)	12 355GWh (2021: 9 903GWh)	R99/MWh (2021: R105/MWh)	5% ▼
DIESEL	ESKOM OCGTs [2]	R10 097 million (2021: R4 125 million)	1 826GWh (2021: 1 457GWh)	R4 708/MWh (2021: R3 951/MWh)	19% ▲
DIESEL	IPP OCGTs [3]	R4 649 million (2021: R2 911 million)	899GWh (2021: 704GWh)	R4 574/MWh (2021: R3 578/MWh)	28% ▲
	RENEWABLE IPPs	R30 554 million (2021: R27 921 million)	15 073GWh (2021: 12 821GWh)	R2 027/MWh (2021: R2 178/MWh)	7% ▼
	IMPORTS	R5 316 million (2021: R4 998 million)	8 500GWh (2021: 8 812GWh)	R625/MWh (2021: R567/MWh)	10% ▲
	TOTAL [4]	R132 439 million (2021: R115 492 million)	230 161GWh (2021: 223 738GWh)	R575/MWh (2021: R516/MWh)	11% ▲

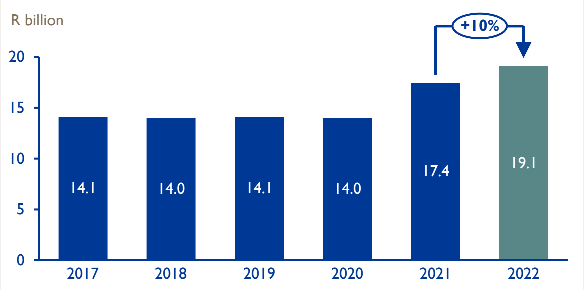
▼ Unit cost declined ▲ Unit cost increased

- Total energy produced increased by 6.4TWh (2.9%▲) to meet higher electricity demand
- Coal plant impacted by frequent breakdowns requiring higher use of diesel and fuel oil for unit start-up procedures
- Average coal purchase price increase limited to 2.1%, which will help control future coal costs
- Improved availability of nuclear plant led to increased production
- Diesel production sources account for 11.1% of total cost but only 1.2% of total GWh produced; reliance on diesel is unsustainable
- Average diesel price, before rebates, of R15.70/ℓ (2021: R12.12/ℓ) for the year
- Total primary energy costs increased (14.7%▲) due to reliance on more expensive OCGT and IPP sources to alleviate supply constraints experienced and avoid or minimise loadshedding during the year

1. Includes Eskom coal-fired, pumped storage, hydro and wind production. The unit cost is calculated by excluding Medupi and Kusile pre-commissioning production of 1 369GWh (2021: 5 735GWh) for units synchronised to the grid, but not yet commissioned
2. OCGT unit cost is calculated on fuel and start-up cost, and excludes storage and demurrage charges. Storage and demurrage of R108 million (2021: R79 million) is included in the total cost shown. The total cost for 2022 also includes R3.6 billion relating to write-off of the diesel rebate receivable. For comparability, the unit cost calculation is shown gross of rebates
3. The IPP OCGT unit cost is calculated on fuel cost (variable cost) only, and excludes maintenance and capacity charges. Maintenance and capacity charges of R535 million (2021: R391 million) are included in the total cost shown
4. Total energy available for distribution amounted to 226 226GWh (2021: 219 423GWh), after accounting for pumping of 6 434GWh (2021: 6 625GWh) as well as wheeling of 2 499GWh (2021: 2 310GWh)

Investment in infrastructure

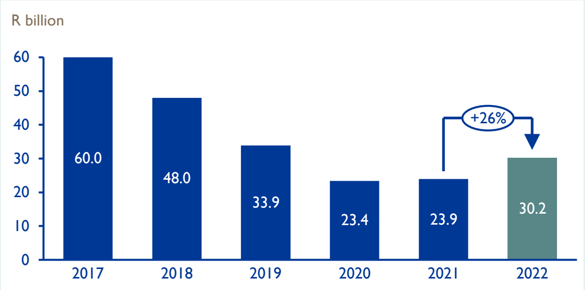
Repairs and maintenance expenditure



Repairs and maintenance per division, R million	2022	2021 [1]	%
Generation	14 694	13 403	9.6 ▲
Transmission	770	661	16.5 ▲
Distribution	3 637	3 378	7.7 ▲
Total	**19 101**	**17 442**	**9.5 ▲**

- Net repairs and maintenance comprised planned maintenance of R15.1 billion and unplanned maintenance of R4 billion (2021: R14.2 billion and R3.2 billion, respectively)

Eskom funded capital expenditure



- Capital maintenance spend, relating to outage and refurbishment projects, increased to R11.1 billion (2021: R10.5 billion)
- Total capital expenditure has shown a declining trend since 2017 due to ramping down of projects as new build units are commissioned
- Liquidity constraints and procurement challenges have resulted in delays in the release of capital funds and procurement of long-lead items, leading to the deferral of projects, thereby exacerbating operational challenges
- Capital savings and enhanced management of the capital portfolio are being implemented to deliver improved capital efficiency

1. Restatements are disclosed in note 48 of the annual financial statements

Group statement of financial position at 31 March 2022

R million	2022	2021[1]	%
Property, plant and equipment and intangible assets	**668 694**	665 350	1 ▲
Working capital – current inventory and receivables [2]	**49 036**	46 694	5 ▲
Liquid assets – cash and cash equivalents and investments	**33 203**	18 442	80 ▲
Derivatives held for risk management	**8 509**	12 543	32 ▼
Other assets [3]	**42 143**	34 229	23 ▲
Total assets	**801 585**	777 258	3 ▲
Equity [4]	**235 314**	215 304	9 ▲
Debt securities and borrowings	**396 294**	401 826	1 ▼
Working capital – current payables	**54 534**	49 049	11 ▲
Derivatives held for risk management	**9 978**	8 274	21 ▲
Other liabilities [5]	**105 465**	102 805	3 ▲
Total equity and liabilities	**801 585**	777 258	3 ▲

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

FINANCIAL COMMENTARY

- **Net working capital**: declined due to increase in current compensation event provisions, offset by growth in municipal and metro debtor receivables. Initiatives to improve inventory management under way
- **Liquidity**: improved largely due to Government support and EBITDA performance, although cash remains constrained due to debt servicing and working capital requirements
- **Derivatives**: derivatives used in hedging activities declined due to fair value movements
- **Equity**: share capital of R31.7 billion issued relating to Government support, reduced by the loss
- **Debt**: foreign-denominated borrowings declined due to the strengthening of the Rand; repayments exceeded debt raised for the year

Current ratio **0.90** ▼ (2021: 0.95)	Debt/equity ratio **1.82** ▼ (2021: 2.04)
USD/ZAR exchange rate **R14.59** ▼ (2021: R14.75)	EUR/ZAR exchange rate **R16.19** ▼ (2021: R17.32)

1. Restatements are disclosed in note 48 of the annual financial statements
2. A portion of coal inventory was reclassified from current assets to non-current assets based on operational needs
3. Mainly comprises future fuel supplies, deferred tax and non-current inventory and receivables
4. Includes Government support of R31.7 billion received for the year (2021: R56 billion)
5. Mainly comprises non-current provisions, employee benefit obligations, contract liabilities and lease liabilities

Net debt and net finance cost overview

R million	2022	2021 [1]	%
Debt securities and borrowings	**396 294**	401 826	1 ▼
Lease liabilities	**8 603**	8 969	4 ▼
Net market making liabilities	**2**	2	
Cash and cash equivalents [2]	**(15 885)**	(4 041)	293 ▲
Payments made in advance [2]	**(778)**	(1 137)	32 ▼
Net derivatives held for risk management [2]	**903**	(4 868)	119 ▼
Net debt	**389 139**	400 751	3 ▼

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

R million	2022	2021 [1]	%
Gross finance cost	**43 611**	45 258	4 ▼
Finance income	**(2 364)**	(2 400)	2 ▼
Borrowing costs capitalised to assets	**(8 184)**	(11 716)	30 ▼
Net finance cost	**33 063**	31 142	6 ▲

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

- Efforts to reduce Eskom's debt burden were aided by Government support, leading to an overall reduction in gross debt of R5.5 billion (1%▼)
- Foreign-denominated borrowings (approximately 40% of portfolio) positively impacted by the strengthening of the Rand; derivatives held for risk management similarly impacted by exchange rate movements to offset volatility
- Net finance costs remain the second largest cost after primary energy and increased (6%▲) mainly due to lower capitalisation as well as higher average cost of borrowing, despite slightly lower debt balance

Debt securities and borrowings, R billion	2022
Opening balance	401.8
Debt raised (net of commercial paper)	33.0
Debt repaid	(38.9)
Exchange rate movements	(3.6)
Other (accruals, interest and discounting)	4.0
Closing balance	**396.3**

Average cost of debt
10.02% ▲ (2021: 9.66%)

Average investment return
3.92% ▲ (2021: 3.87%)

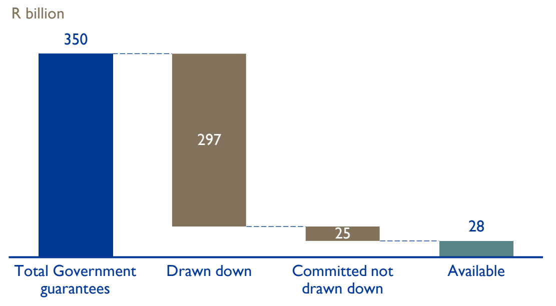
1. Restatements are disclosed in note 48 of the annual financial statements
2. In this table, assets are reflected as negative amounts. Only payments made in advance to secure debt raised and hedging for debt securities and borrowings are shown

Funding plan progress

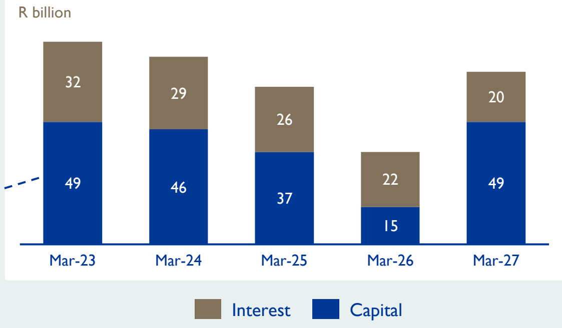
R billion	2022 Funding plan [1]	2022 Secured at year end	2023 Funding plan [1]	2023 Secured to date
DFIs	7.9	6.3	6.4	6.2
ECAs	0.7	0.4	–	–
Domestic bonds and notes	8.5	7.1	18.0	18.0
Commercial paper	0.5	0.6	–	–
Private placements	7.0	7.0	8.8	–
Syndicated loans	10.3	14.4	23.8	15.0
International bonds	7.0	–	–	–
Derivative loans	1.0	–	1.5	1.5
Total funding [2]	**42.9**	**35.8**	**58.5**	**40.7**
% secured		**83%**		**70%**

Debt servicing costs of **R81 billion for 2023**, reducing to an average of around **R60 billion per year thereafter**, before accounting for the National Treasury debt relief solution to be announced in February 2023

Guarantee utilisation at 30 Nov 2022



Debt maturity profile at 30 Nov 2022 [3]



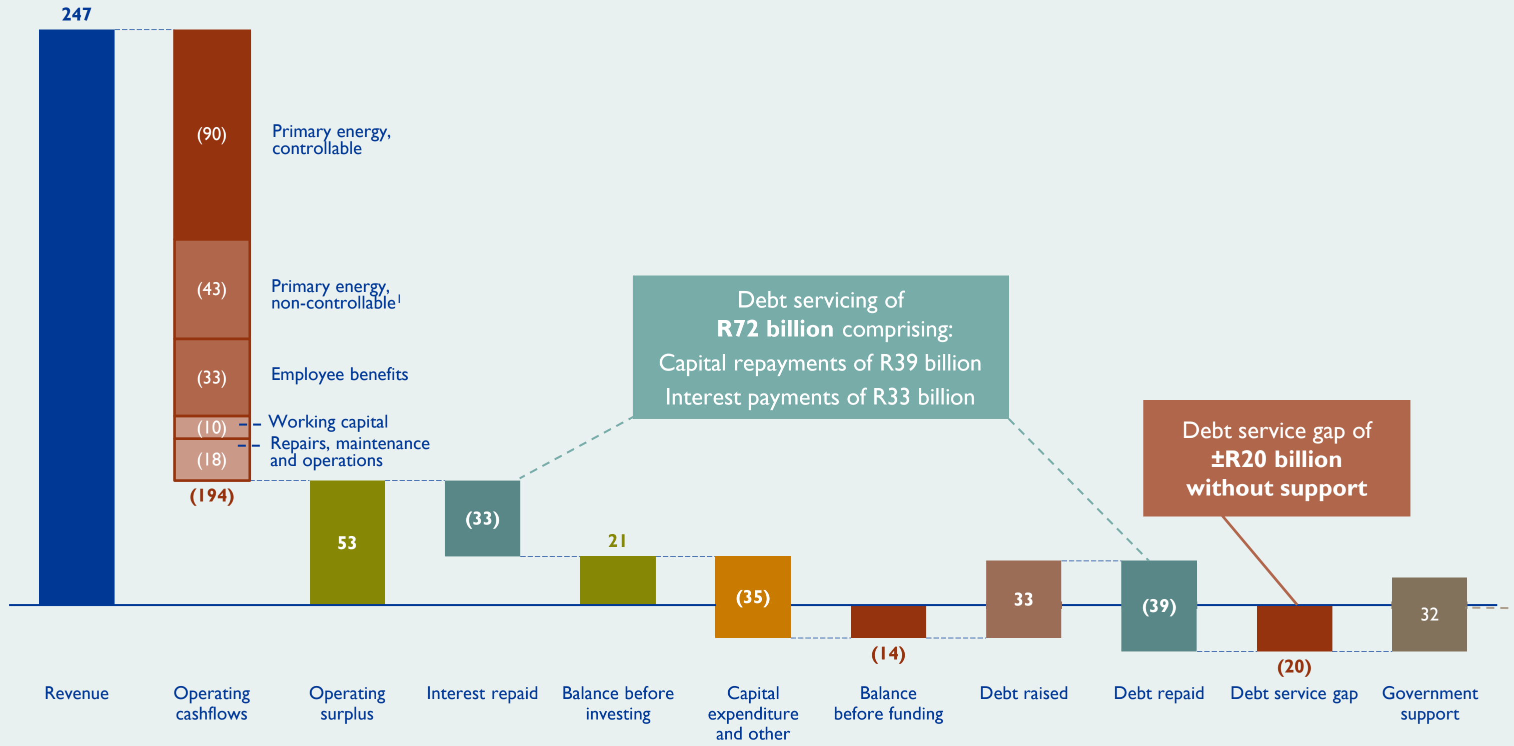
1. Targeted funding sources are subject to change depending on requirements
2. The table above includes gross commercial paper and committed funding, whereas the debt raised figure in the statement of cash flows is net of commercial paper and accounts for amounts drawn down

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

Overview of cash flow movements

Cash flows for the year ended 31 March 2022

R billion



KEY TAKEAWAYS

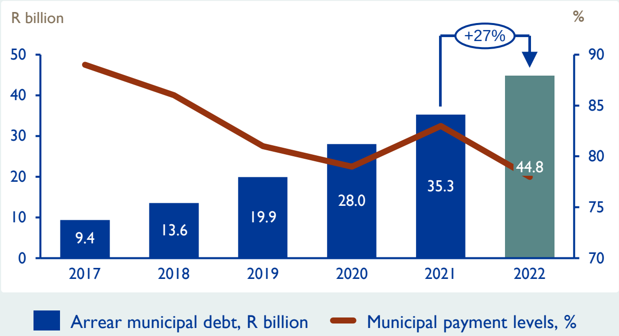
- Net cash increase of R11.8 billion
- Cash from operations remained insufficient to meet debt servicing and some capital investment requirements
- Eskom's capital and tariff structure must be resolved to ensure long-term financial sustainability

Government support of **R32 billion** was received to alleviate some of the cash flow pressure

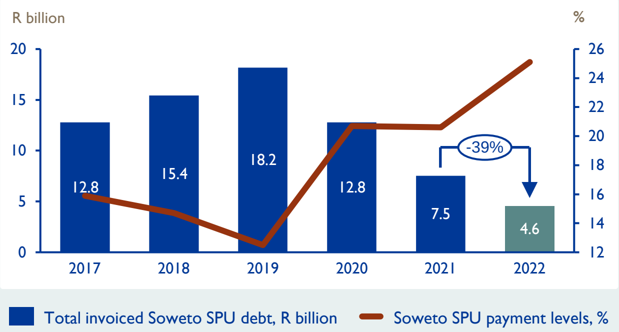
1. Non-controllable primary energy includes renewable IPP costs and environmental levies
2. Debt raised for the year is reported net of commercial paper in the statement of cash flows

Arrear debt management

Invoiced arrear municipal debt



Soweto small power user (SPU) debt



- Arrear municipal debt (including interest) escalated by a further R9.5 billion (27%▲)
- Payment level of 78% by municipalities, excluding metros (2021: 83%). Payment level of 46% for top 20 defaulting municipalities (2021: 53%)
- Regrettably, very little progress being made by Political Task Team in dealing with the top 20 defaulting municipalities
- Eskom's legal right to payment for services rendered to municipalities affirmed by Supreme Court of Appeal; a positive step towards arrear debt collection efforts
- Invoiced Soweto SPU debt (including interest) decreased to R4.6 billion, due to write-off of prescribed debt and *in duplum* interest
- Exploratory engagements under way with the City of Johannesburg and the City of Cape Town for the transfer of customers in certain areas
- Other than municipal and residential arrear debt, only two large customers owe amounts in excess of R100 million – Transnet (R437 million) and EDM (R579 million, of which R350 million is in dispute)

Our municipal debt management strategy focuses on

CURRENT ACCOUNT MANAGEMENT

Stop defaulting and enforce payment of current amounts

FUTURE DEBT MANAGEMENT

Reduce and/or eliminate overdue debt

ARREAR DEBT MANAGEMENT

Prevent future defaulting through pre-emptive action

Project office established to drive the active partnering model; **two active partnering agreements in place**

Payment agreements at 31 March 2022

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

This includes **nine of the top 20** defaulting municipalities, with **only one fully honoured**

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

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

Segment information

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

R million	Generation	Transmission	Distribution	Other	Eskom group
INCOME STATEMENT					
Total revenue	157 536	54 646	34 391	(53)	246 520
Primary energy	(91 920)	(40 509)	(10)	–	(132 439)
Employee benefit expense	(10 921)	(2 422)	(11 323)	(8 319)	(32 985)
Other expenses	(28 037)	(2 533)	(9 506)	11 296	(28 780)
Profit before depreciation and amortisation expense and fair value adjustments (EBITDA)	**26 143**	**9 365**	**13 516**	**3 350**	**52 374**
Depreciation and amortisation expense	(24 067)	(3 125)	(4 391)	(426)	(32 009)
(Loss)/profit before net finance cost	**(2 284)**	**5 730**	**10 723**	**3 070**	**17 239**
Net finance cost	(26 291)	(4 143)	(2 438)	(191)	(33 063)
(Loss)/profit before tax	**(28 575)**	**1 587**	**8 285**	**2 931**	**(15 772)**
BALANCE SHEET					
Total assets	544 427	79 450	120 496	57 212	801 585
Total liabilities [1]	85 499	19 408	50 038	411 326	566 271
Additions to property, plant and equipment and intangible assets	20 944	2 890	4 531	163	28 528

1. Segment information is prepared in accordance with IFRS 8. Debt securities and borrowings held by the Treasury Department of Eskom Holdings SOC Ltd are reported in "Other" and have not been allocated to Generation, Transmission and Distribution

Financial outlook for the 2023 financial year

Financial indicator	Actual March 2022		Projection March 2023
Revenue, R million	**246 520**	▲	262 991
EBITDA, R million	**52 374**	▼	42 625
EBITDA margin, %	**21.25**	▼	16.21
Operating profit (EBIT), R million	**20 365**	▼	11 345
Net loss after tax, R million	**(12 330)**	▼	(20 105)
Cash interest cover, ratio	**1.68**	▼	1.17
Debt service cover, ratio	**0.76**	▼	0.48
Gross debt/EBITDA, ratio	**8.63**	▼	11.69
Debt/equity (including long-term provisions), ratio	**1.82**	▼	1.93
Free funds from operations (FFO) as % of gross debt	**13.98**	▼	9.52

▲ Positive trend expected ▼ Negative trend expected

- Financial performance expected to deteriorate due to decline in EAF to 56.16% (2022: 62.02%), lack of generation capacity, high use of OCGTs and global fuel price pressures
- Anticipated spend of R10.4 billion on OCGTs and R8.9 billion on fuel oil contributing significantly to the expected loss, together with increased repairs and maintenance and IPP spend
- Tariff increase of 9.61% awarded for 2023, although sales volumes of 190.1TWh expected (2022: 198.3TWh) (4%▼)
- Biggest financial challenges remain lack of cost-reflective tariffs, excessive use of OCGTs due to poor operational performance, arrear municipal debt and Eskom's debt
- Government debt relief solution expected to address one-third to two-thirds of Eskom's debt; details and conditions to be announced in Feb 2023 Budget Speech

We welcome the June 2022 Supreme Court of Appeal decision on the timing of the recovery of the R59 billion incorrectly deducted by NERSA in MYPD 4, as well as the October 2022 High Court decision to set aside NERSA's decision on the valuation of the RAB for 2023. Eskom is awaiting NERSA's decision on 2024 and 2025 of the MYPD 5 application

Government support of R87.9 billion committed until 2026, with R21.9 billion allocated to 2023

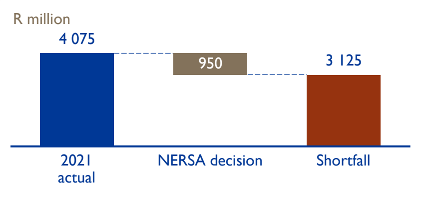
OUTLOOK

Financial performance compromised as NERSA's tariff decisions don't allow for adequate recovery of OCGT costs and arrear debt growth

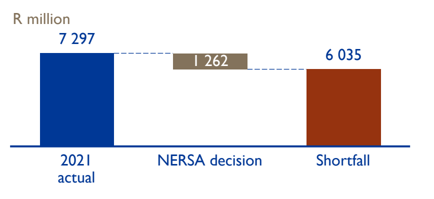
Eskom

Actual March 2021

OCGT expenditure



Arrear debt impairment [1]

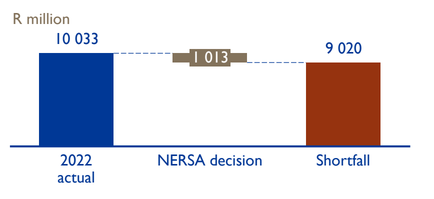


Total shortfall **R9.2 billion**

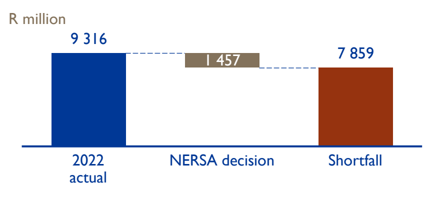
EBITDA **R32.6 billion** | Loss before tax **R33.1 billion**

Actual March 2022

OCGT expenditure



Arrear debt impairment [1]

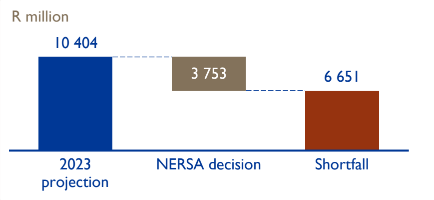


Total shortfall **R16.9 billion**

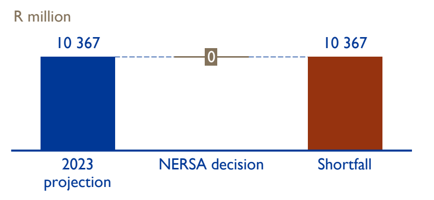
EBITDA **R52.4 billion** | Loss before tax **R15.8 billion**

Projection March 2023

OCGT expenditure



Arrear debt impairment [1]



Total shortfall **R17 billion**

EBITDA **R42.6 billion** | Loss before tax **R27.4 billion**

- Inadequate decisions by NERSA result in Eskom starting the financial year with a deficit; projected shortfall of R17 billion for 2023 on OCGTs and arrear debt alone, which continues to place pressure on profitability as well as liquidity
- Although Eskom can recover some of the cost of OCGTs through the RCA, Eskom must carry the shortfall for several years; the cost is never fully recovered
- NERSA's decision of 9.61% for 2023 includes no allowance for arrear debt and only allows partial recovery of projected OCGT spend. Should operational challenges persist, the gap will widen even further

Eskom MYPD 5 application for 2024 and 2025 includes R16.9 billion and R17.7 billion for OCGTs. NERSA's 12 January 2023 decision is critical to improve our financial performance

Government must address Eskom's arrear debt challenges, which is escalating in the region of R10 billion per year

1. Arrear debt impairment comprises net revenue not recognised and finance income not recognised

Restoring Eskom to serve South Africa

- New Board appointed from 1 October 2022 to reposition Eskom in the evolving energy landscape, deal with immediate loadshedding issues, procurement challenges, the elimination of corruption and, most importantly, deliver on Eskom's mandate of ensuring reliable electricity supply in the medium to long term
- Continued focus on Generation recovery plan and reliability maintenance recovery to improve plant performance, as well as initiatives under the National Energy Crisis Committee, including efforts to secure additional generation capacity
- Implementation plan in place to address findings from Zondo Commission, with key focus on civil recoveries; consequence management related to suppliers, former employees and former directors; in-depth risk assessment and review of policies and procedures to eradicate fraud and corruption
- Require a reduction in debt and an improvement in EBITDA margin to be able to achieve independent financial sustainability; financial results will be positively affected by an improvement in operational performance
- Loadshedding is unavoidable until capacity of 4 000MW to 6 000MW is added to the grid
- Migration towards a cost-reflective tariff is necessary to recover our cost of capital. This, combined with cost efficiencies, improving repayment of municipal debt and reducing Eskom's debt levels, will restore financial sustainability

The results presentation is available at
www.eskom.co.za/investors/integrated-results/