Redefining for a better future

PERFORMANCE COMMENTARY

FOR THE YEAR ENDED 31 MARCH 2024

Plant availability declined to **54.56%** (2023: 56.03%), with 15 500MW unavailability and 13.2TWh lost to loadshedding

329 days loadshedding (2023: 280 days), despite diesel usage of **R33.9 billion**

Emissions performance worsened to **0.79kg/MWhSO** (2023: 0.70kg/MWhSO)

Transmission **network reliability** improved significantly

Distribution **network** performance improved

Distribution energy losses escalated, with **13.9TWh** lost due to electricity theft

2 employee and **3** contractor fatalities (2023: 2 employees and 3 contractors)

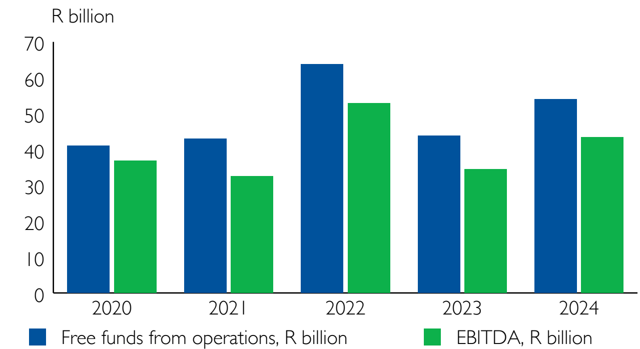
Lost-time injury rate deteriorated to **0.29** (2023: 0.26)

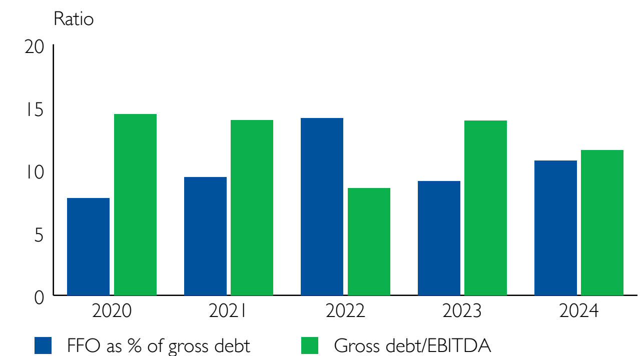
Net loss before tax improved to **R25.5 billion** (2023: R34.6 billion)

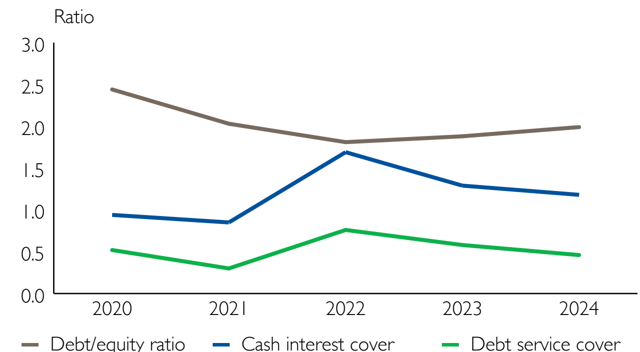
Tariff increase of **18.65%**, tempered by a 3% decline in sales volumes

Arrear municipal debt escalated to **R74.4 billion** (2023: R58.5 billion)

R76 billion in Government debt relief, subsequently converted to equity

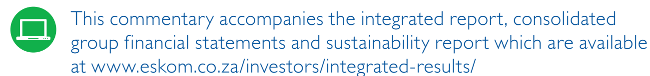






The following commentary provides an overview of our financial and operational performance for the year ended 31 March 2024, as well as progress on other key matters. Developments after the end of the year to 18 December 2024, being the date of approval of the results by the Board, have been discussed where relevant.

During the year under review, generation plant availability has continued to decline, resulting in more frequent loadshedding at higher stages on average than in the previous year, requiring stage 6 loadshedding on 55 days (2023: 34 days). Furthermore, we have continued to experience the adverse effects of generation supply constraints on financial performance, mostly due to the reliance on expensive production from Eskom-owned and independent power producer (IPP) open-cycle gas turbines (OCGTs). This situation will continue until Eskom's plant availability improves to expected levels and South Africa's generation capacity shortages are alleviated. However, the debt relief support provided by Government together with the 18.65% tariff increase for the 2024 financial year have led to an improvement in liquidity, and allowed Eskom to ensure that maintenance and refurbishment programmes are funded with appropriate lead times.


This commentary accompanies the integrated report, consolidated group financial statements and sustainability report which are available at www.eskom.co.za/investors/integrated-results/

FINANCIAL PERFORMANCE

FINANCIAL RESULTS

Eskom suffered an after-tax loss of R55 billion in the 2024 financial year (2023: R26.1 billion loss after tax). This resulted primarily from a once-off adjustment to derecognise a deferred tax asset of R36.6 billion in terms of IFRS Accounting Standards. This was prompted by the transfer of the Transmission Division to the National Transmission Company South Africa SOC Ltd (NTCSA) on 31 March 2024, as part of a common control transaction within the group. Despite the Eskom company expecting to return to a tax paying position within the next five years, it was concluded that it is unlikely that the remaining business will generate sufficient taxable income within the next five years to fully utilise the unused assessed tax losses. However, the derecognition has no impact on Eskom's right to utilise assessed tax losses against future taxable income.

AFS Refer to note 14 in the consolidated financial statements

Excluding this adjustment, the loss before tax reduced by 26% to R25.5 billion (2023: R34.6 billion loss before tax). Eskom also recorded a 26% increase in EBITDA to R43.4 billion (2023: R34.6 billion), with the EBITDA margin improving slightly to 14.67% (2023: 13.32%).

Profitability remained hampered by poor long-term financial sustainability arising from the lack of cost-reflective tariffs, poor operational performance and the continued impact of electricity theft, above-inflationary cost increases in some areas, non-payment by municipalities and metros, as well as high finance costs associated with our significant debt burden. We also acknowledge that we have a responsibility to curtail costs, eliminate inefficiencies and deal with the effects of crime, fraud and corruption.

Revenue grew by 14% to R295.8 billion (2023: R259.5 billion) due to the regulatory standard tariff increase of 18.65% implemented from 1 April 2023. While not yet fully addressing the lack of cost-reflective tariffs, the higher tariff for the year is assisting in migrating the tariff path to more appropriate levels, with a positive impact on financial performance.

However, sales volumes declined by 3% to 183.3TWh (2023: 188.4TWh). Loadshedding and load curtailment led to lower sales volumes because of unserved energy demand, with an estimated 13.2TWh or 7% of sales lost (2023: 13.5TWh). However, the full impact of unserved energy did not manifest in the sales volume reduction due to factors such as load shifting by customers to adapt to the realities of loadshedding. Electricity theft through illegal connections, meter tampering and the use of illegal electricity tokens on prepaid meters further reduced sales volumes, with an estimated 13.9TWh lost (8% of sales) during the year (2023: 13.4TWh).

Other risks to Eskom's sales volumes include lower electricity demand from customers due to challenging economic conditions, together with the impact of increased embedded self-generation, mainly in the form of rooftop solar installations across many sectors. We estimate that more than 6.1GW of behind-the-meter rooftop solar capacity has been installed in South Africa. Furthermore, international customers have had to place less reliance on Eskom supply as they were subject to load curtailment given South Africa's generation constraints.

Regrettably, the non-payment of municipal, metro and residential accounts continued to negatively affect profitability. Where there is a low likelihood of recovery, revenue from such customers is not recognised and is only accounted for once the cash is received, in accordance with IFRS Accounting Standards. Revenue not recognised, net of amounts received on a cash basis, amounted to R8.9 billion for the year (2023: R8.2 billion).

Primary energy costs increased by 11% to R173.7 billion (2023: R156.8 billion) despite a 4TWh decrease in production. Supply constraints from Eskom's base-load capacity, IPPs and lower imports continued to have an adverse impact on financial performance due to reliance on expensive Eskom and IPP-owned OCGTs to avoid or minimise loadshedding and meet customer demand. A combined R33.9 billion was spent to produce 5.1TWh (or 2% of production) from Eskom and IPP-owned OCGTs during the year (2023: R29.6 billion to produce 4.1TWh). OCGT production, while critical for alleviating supply constraints and reducing the impact of loadshedding, is significantly more expensive than other generation sources.

SARS has previously disallowed Eskom's claims of refunds for fuel levies and road accident fund levies on diesel used to generate electricity at the Ankerlig and Gourikwa power stations. The dispute was resolved in October 2024, with an amount of R9.2 billion being payable by SARS to Eskom. The amount will be recognised as a reduction of primary energy costs during the 2025 financial year as it was assessed as a non-adjusting event at year end.

Employee benefit costs increased by 9% to R35.1 billion for the year (2023: R32.3 billion). The increase is partially driven by a 3% growth in headcount, which remains within budgeted levels, together with a 7% remuneration adjustment for all employees up to senior management level. Overtime costs remain an area of focus, increasing by 20% to R3 billion due to high levels of unplanned maintenance (2023: R2.5 billion), mainly in Generation. We managed to contain employee benefit costs below expectations, by developing and sourcing critical skills internally. Overall, the replacement rate for critical skills was higher than the attrition experienced, with ongoing recruitment initiatives to fill critical vacancies across the business. Decisions around remuneration and benefits consider our financial challenges and sustainability, in compliance with the conditions attached to the Eskom Debt Relief Act, 2023 as amended.

Other operating expenditure increased by 14% to R41.4 billion (2023: R36.4 billion). Of this, repairs and maintenance expenditure increased by 30% to R28.7 billion (2023: R22.1 billion), as Generation conducted planned maintenance in line with the Generation Recovery Plan, together with extensive unplanned maintenance to address several critical plant performance challenges. Excluding repairs and maintenance, other operating expenditure decreased by 11% to R12.7 billion (2023: R14.3 billion).

Net finance costs increased by 4% to R38.4 billion for the year (2023: R37 billion). Eskom's average cost of debt increased to 10.90% (2023: 10.48%), while the average investment return increased to 8.27% (2023: 6.08%). The increase in the cost of borrowing is linked to global inflation, as well as interest and exchange rate pressure. This was partially offset by growth in finance income due to a higher average return on treasury and insurance investments, linked to the increase in interest rates.

DELEVERAGING ESKOM'S BALANCE SHEET

Debt servicing outflows, including both interest and capital, amounted to R89.8 billion for the year (2023: R72.2 billion). Under the Eskom Debt Relief Act, Eskom received debt relief support of R76 billion from Government in the 2024 financial year, to assist in meeting these obligations, with the remainder settled from available funds. The debt relief support has been beneficial to liquidity, with cash and cash equivalents amounting to R23.6 billion at 31 March 2024 (2023: R7.5 billion). Total debt relief of R64 billion is due to be received during the 2025 financial year.

Although initially treated as an interest-bearing subordinated shareholder loan, all amounts received to date under the debt relief have been approved for conversion to equity, based on Eskom's compliance with the strategic conditions attached thereto. The conditions of the Eskom Debt Relief Act place strict restrictions on Eskom's capital expenditure on new generation capacity. It further specifies that no new borrowings will be allowed from 1 April 2023 until the end of the three-year debt relief period until March 2026, unless approved by the Minister of Finance. Eskom may, however, continue to draw down on existing facilities.

Drawdowns from development finance institutions (DFIs) amounted to R7.5 billion during the year (2023: R6.5 billion). We also concluded private placement funding of R16 billion with the support of the Minister of Finance on 31 March 2023, which is reflected as funding raised during the year under review, as the funds were only received in early April 2023. The funding supported liquidity during the first quarter of the financial year, while awaiting receipt of the first tranche of the debt relief.

Debt securities and borrowings decreased to R412.2 billion (2023: R423.9 billion) on the back of Government's debt relief and the restriction on Eskom's borrowing activities. The balance would have reduced further if not for the weakening of the Rand, which had a negative impact on the carrying value of foreign-denominated borrowings. A further R32 billion in debt relief support was recognised as a subordinated shareholder loan at year end and converted to equity in July 2024.

Although the availability period of the R350 billion Guarantee Framework Agreement expired on 31 March 2023, the expiry of the availability period does not impact the existing guarantees in issue, which will remain in place until the related debt is settled, with the majority due within the next 20 years.

The debt servicing profile remains high over both the short and long term. Debt repayments and interest payments of around R210 billion and R120 billion respectively are due over the next five years to 31 March 2029. The remaining R104 billion in direct debt relief from Government will greatly assist us in meeting these obligations until March 2026, together with Government's planned takeover of up to R70 billion in debt servicing (principal and interest) at that time. Details of the debt takeover are being considered by National Treasury and have not yet been confirmed. Based on financial modelling, our debt securities and borrowings are expected to reduce by around 40% over the next five years, to a more sustainable level of approximately R250 billion, although this assumes a tariff path that moves towards cost reflectivity, including a fair return.

After the three-year debt relief period, we have sizeable redemption obligations which will have to be serviced using cash from operations and/or potential new borrowings, depending on the trajectory of allowed revenue through the next multi-year price determination (MYPD 6) by the National Energy Regulator of South Africa (NERSA). To eliminate the need for further Government support, our financial sustainability is vitally dependent on obtaining appropriate allowable revenue decisions from NERSA towards a more cost-reflective tariff path that includes a fair return on assets, arresting the escalating municipal arrear debt, and supported by a continued focus on cost efficiencies.

Credit rating agencies have acknowledged Government's continued support to Eskom. Moody's upgraded Eskom's credit ratings with a stable outlook in September 2023; there have been no changes since then. In May 2024, Fitch affirmed Eskom's credit ratings with a stable outlook, based on the continued debt relief support. In November 2024, S&P Global affirmed our credit ratings and revised the outlook from stable to positive. The ratings agencies' outlook reflects their view that our creditworthiness will continue to benefit from Government's support, leading to a strengthening of our liquidity position as the balance sheet is deleveraged.

THE NEED FOR COST-REFLECTIVE TARIFFS

Historically, NERSA's revenue decisions have not allowed Eskom a return commensurate with the necessary levels of debt and associated financing costs. Past revenue decisions also have not adequately catered for risks associated with bad debts from customers and losses due to electricity theft. The lack of cost-reflective tariffs over the past two decades has been a key contributor to our financial sustainability and operational challenges. In part, the unsustainable level of debt accumulated over the past two decades is a symptom of insufficient operating cash flows to fund our debt servicing obligations, largely due to an inadequate tariff path. However, we have made significant strides in challenging NERSA's decisions over recent years, on the basis that NERSA has not implemented the MYPD methodology consistently.

The migration to cost-reflective tariffs is a crucial step, not just for our financial sustainability, but to foster a competitive future electricity supply industry, by encouraging investment and enabling market players to operate and maintain their assets in a reliable state. An inadequate tariff path will continue to constrain our financial position, leading to insufficient investment to sustain and expand our infrastructure, thereby perpetuating past operational challenges. It may also necessitate further reliance on Government support beyond March 2026.

In August 2024, we submitted the MYPD 6 revenue application to NERSA, which translates to proposed standard tariff increases for the 2026 to 2028 financial years of 36.15%, 11.81% and 9.10% respectively. The application includes a gradual increase in Eskom's return on assets to 4%, 5% and 6% respectively (in contrast to 1.58% received for the 2025 financial year under MYPD 5), to minimise the market impact and enable a migration towards cost reflectivity over time. However, these remain far below Eskom's cost of capital of almost 11%, which NERSA has acknowledged. NERSA published the application for stakeholder comment in September 2024, with the public consultation process taking place during November and December 2024, before NERSA issues its revenue determination.

Furthermore, we have prepared a revised retail tariff plan to restructure tariffs and better address the cost reflectivity of the generation, transmission and distribution of electricity supply, together with the fixed and variable components thereof, for possible implementation from the 2026 financial year. The revised retail tariff plan was submitted to NERSA in September 2024, after consultation with SALGA and National Treasury. NERSA published the retail tariff plan for stakeholder comment in November 2024, with a decision expected in January 2025. NERSA will need to make its decision timeously, to allow for implementation of any tariff changes from 1 April 2025.

In April 2023, we submitted a regulatory clearing account (RCA) application for the 2022 financial year to NERSA. The RCA application amounted to R23.9 billion in favour of Eskom, driven primarily by variances on sales volumes, primary energy and operating costs. In July 2024, NERSA awarded an RCA balance of R8.1 billion in Eskom's favour. We await the reasons for decision as well as NERSA's decision on the timing and recovery of the RCA balance. The amount is not included in the MYPD 6 application.

Regrettably, there have been no further developments relating to the RCA decisions for the 2015 to 2018 financial years (MYPD 3), the revenue and RCA decisions for 2019 or the RCA decision for 2020 (MYPD 4). The legal processes are still underway for these review applications, which collectively relate to the recovery of an estimated R50 billion. We are in discussion with NERSA to agree on a way forward. Should legal processes continue, we expect favourable outcomes as our applications adhere to the principles of the MYPD methodology. However, these legal processes take time and, given the way that the regulatory process works, any amounts awarded in our favour can only be recovered through future revenue and RCA decisions by NERSA. This means that we carry the shortfall between incurring the costs and the receipt of revenue in the future, which has a negative impact on liquidity.

ADDRESSING REVENUE COLLECTION CHALLENGES

Non-payment of municipal debt is a systemic challenge to the electricity industry as a whole. Municipal arrear debt has escalated over the past decade, with little impact from our past interventions to stem the tide, given that many of those have been challenged in the courts.

Government's municipal debt relief programme aims to support our existing municipal debt strategy and assist in addressing the arrear debt challenge. The programme will see Eskom, in consultation with National Treasury, write off the arrear debt balance of eligible municipalities outstanding at 31 March 2023 over three years, subject to compliance by participating municipalities with the programme's conditions. The programme was expected to improve payment levels and the settlement of current accounts by these municipalities, which will lead to an improvement in our operational cash flows over time.

Despite strong uptake on the municipal debt relief programme, with 71 participating municipalities, at year end only 23 municipalities were complying with the most basic condition to fully settle their current accounts on time. Unfortunately, compliant municipalities also represented relatively small accounts, accounting for only 12% of the R58.5 billion arrear debt balance at 31 March 2023 that is earmarked for write-off. Performance has worsened considerably after year end, with only 10 municipalities honouring their current accounts by November 2024, representing only 2% of the arrear debt balance.

Due to the low level of compliance, arrear municipal debt has continued to escalate to unsustainable levels. At 31 March 2024, arrear municipal debt stood at R74.4 billion (2023: R58.5 billion), an increase of 27% during the year. The top 20 defaulting municipalities accounted for 75% of the arrear debt, with 29% owed by Free State municipalities. Of concern since year end is the growth in arrear debt in Gauteng; the top three Gauteng metros (Tshwane, Johannesburg and Ekurhuleni) now account for almost 15% of total arrear debt. We are engaging with these metros and pursuing our legal rights through the courts, given that they are not participants in the municipal debt relief programme.

The Board remains concerned about the overall lack of compliance with the programme as the conditions prohibit Eskom from pursuing action against non-compliant participating municipalities. Only once a municipality is removed from the programme, will we be allowed to resume our credit control and debt management policies, as well as any legal proceedings. We have requested National Treasury to engage with the non-compliant municipalities to implement remedial action, and they have informed affected municipalities that their participation in the programme will be terminated should they fail to rectify the breach. Although National Treasury continues to engage with non-compliant municipalities, no municipalities have yet been removed from the programme.

We have engaged with more than 45 municipalities on our active partnering programme, including all of the top 20 defaulting municipalities. The uptake has been extremely poor, with only five agreements in place. Most active partnering agreements relate to the provision of technical services, including the maintenance of infrastructure, with limited impact on revenue collection. We have also signed distribution agency agreements with two of our largest defaulting municipalities, where Eskom assumes control of the distribution of electricity and billing in the municipality's licensed area of supply.

More stringent measures are needed, as defaulting municipalities are undermining Government's efforts to address the energy crisis. Failure to resolve the municipal debt challenge may require further reliance on financial support from Government beyond March 2026 and will jeopardise the legal separation of Distribution, by threatening the financial viability of the separate Distribution company and, thereby, putting lender consent at risk.

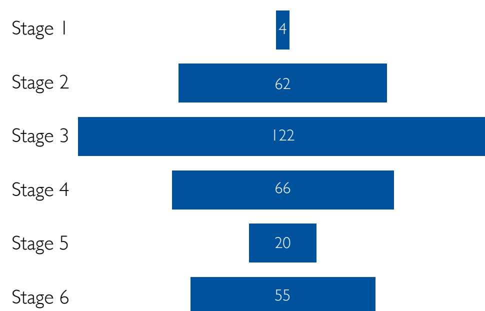
A workstream has been established under the National Energy Crisis Committee, with the aim of resolving distribution challenges contributing to the energy crisis. A key focus of the workstream is to develop a sustainable distribution industry by addressing legacy challenges, including the culture of non-payment, through influencing solutions for municipalities and Eskom within the changing electricity landscape.

OPERATIONAL PERFORMANCE

PLANT AND NETWORK PERFORMANCE

We experienced a shortfall in supply of about 12.1TWh for the year, emanating from poor Eskom generation plant performance due to high levels of unplanned losses; delays in renewable and other IPP programmes that have not yet delivered capacity as expected; and lower-than-budgeted power imports. Due to the inadequate supply capacity being available, we were forced to implement loadshedding on 329 days during the year (2023: 280 days) at higher average levels than the previous year, with energy not supplied during loadshedding estimated at 13.2TWh (2023: 13.5TWh). Put another way, we implemented loadshedding for a total of 6 367 hours, which translates to an effective 265.3 days of continuous loadshedding during the year (2023: 5 557 hours equivalent to 231.6 days).

Loadshedding during the financial year, days



The last time we implemented loadshedding was on 26 March 2024. Since then, the system has performed much better in general, with no loadshedding being required since then.

Over the winter period (from May to August 2023), average generation unplanned unavailability was 16 513MW, significantly higher than the Winter Outlook's base-case assumption of 15 000MW. Over the summer period (from September 2023 to March 2024), average unplanned unavailability was 14 910MW, higher than the Summer Outlook's base-case assumption of 14 500MW.

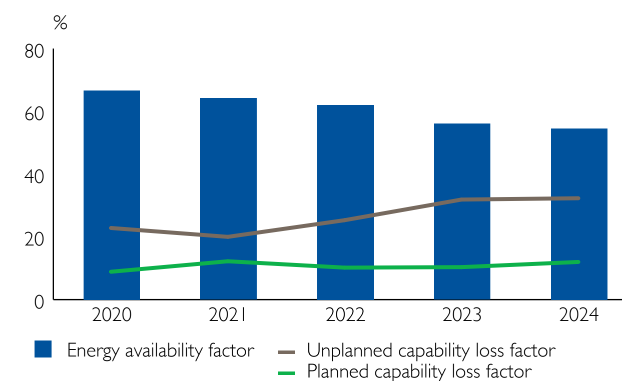
Over 4 000MW of Eskom's capacity (which equates to four stages of loadshedding) was offline for an extended period, adding to the constrained system and resulting in elevated levels of loadshedding being required to balance supply and demand of the grid. This was due to incidents such as the flue gas duct failure in October 2022 taking Kusile Units 1, 2 and 3 out of service; the generator explosion at Medupi Unit 4 in August 2021 making the unit unavailable; the planned life extension outages on both Koeberg units; and the Kusile Unit 5 air heater fire in September 2022 delaying synchronisation and commissioning of the unit by about a year. However, the system performance improved during the second half of the year, assisted by the return to service of three units at Kusile by November 2023 using temporary stacks and the synchronisation to the grid of Kusile Unit 5 by 31 December 2023. This contributed to easing grid constraints and had a positive impact on reducing levels of loadshedding.

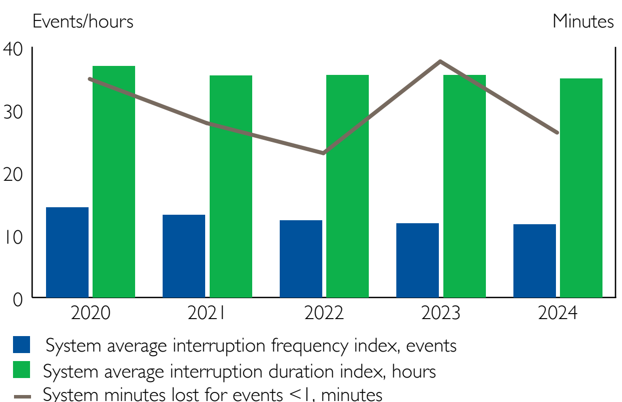
We made extensive use of both Eskom and IPP OCGTs to meet demand during periods of poor base-load generation availability. A total of 5.1TWh was supplied by Eskom and IPP OCGTs during the year (2023: 4.1TWh) at a cost of R33.9 billion (2023: R29.6 billion), at load factors of around 17%. OCGTs were utilised to the extent possible within our financial constraints, given the much higher cost of loadshedding to the country.

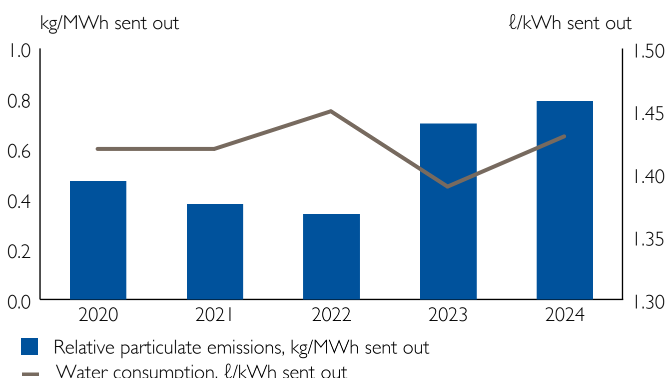
Generation plant availability (EAF) of 54.56% remained lower than the previous year (2023: 56.03%) and significantly worse than the shareholder compact target of 65%. The decrease in EAF compared to the previous year is largely due to an increase in unplanned breakdowns and losses (UCLF) to 32.34% (2023: 31.92%), offset by a slight decrease in other load losses outside management's control (OCLF) to 1.06% (2023: 1.66%). Despite the high levels of unplanned losses, planned maintenance (PCLF) increased to 12.04% (2023: 10.39%), due to an increased focus on the Generation Recovery Plan to improve the performance of the fleet over the longer term. Due to the success of addressing the new build design defects, the five Medupi units in operation recorded an EAF of about 75% for the year.

Coal-fired stations recorded an average energy utilisation factor (EUF) of 96.51% for the year (2023: 95.59%), with EUF over 90% at all 14 coal-fired stations. Compared to expected average EUF performance of around 75% over the long term and considering the age of Eskom's fleet, the actual EUF remains substantially above the international norm. The high EUF can be alleviated by adding additional dispatchable capacity and improving generation plant reliability.

Average partial load losses of 6 615MW were higher than the previous year (2023: 6 057W), thereby contributing to the poor system performance. Outages that slipped against plan deteriorated, contributing 3.45% to overall UCLF (2023: 3.18%). Although improving slightly, post-outage UCLF at 31.61% continued to perform worse than expectations (2023: 35.75%). Nevertheless, unit trip performance improved significantly since the prior year, with 593 trips during the year (2023: 736). Generation has established the Trip Reduction Forum to identify and address trends and significant concerns at business units with high numbers of trips, and plant running outside reliable operating limits is identified to prevent avoidable trips.

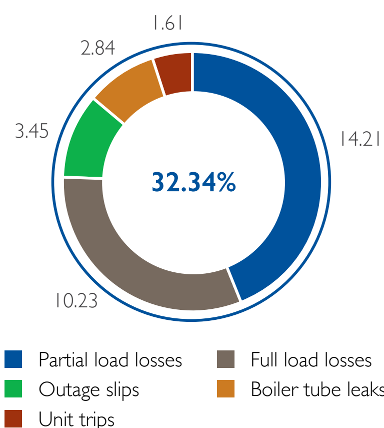






The boiler tube failure rate (failures per unit per year) deteriorated to 2.37 (2023: 2.17), using a 12-month moving average, with boiler tube failures contributing 2.97% to UCLF (2023: 2.56%). The boiler tube failure rate has shown an upward trend over the past five years, largely attributed to the maintenance backlog due to the deferral of outages and deferred midlife-refurbishments due to constrained capital funding in recent years. Over the past year, outage deferrals are estimated to have contributed 0.55 to the overall boiler tube failure rate.

Contribution to UCLF, %



In recent years, outage performance and recovery plans have been hampered by the late release of funds caused by Eskom's constrained liquidity position and the consequent need to borrow on the capital markets. This had a ripple effect on outage readiness for activities such as the ordering of spares and other long-lead materials, issuing of task orders and finalising the integrated schedule. The situation has improved during the year due to the certainty created by Government's debt relief, with cash from operations being available for allocation to outage funding.

At 31 March 2024, all stations were at or above expected stock levels (2023: six stations below minimum levels). Normalised coal stock of 45 days (excluding coal stock at Medupi) improved significantly due to the programme to recover coal stock levels (2023: 29 days).

Coal-related load losses contributed 0.75% OCLF during the year (2023: 0.73%), with almost all losses being recorded at Matla Power Station. Due to the initiatives implemented, there has been significant improvement in the coal quality supplied to Matla from both conveyor-fed coal from the dedicated colliery and other coal delivered by road. Furthermore, initiatives such as verification sampling have resulted in improved coal quality from short- and medium-term suppliers across the system, which account for around 35% of coal supplied. We continue to work with mines on initiatives to improve coal quality.

Koeberg Nuclear Power Station continues to operate within the required safety parameters, at the lowest marginal primary energy cost of our base-load stations.

Koeberg Unit 1 was shut down on 10 December 2022 for outage 126, a planned long-duration outage which included the replacement of the three steam generators. The outage was significantly delayed due to resourcing challenges and unexpected technical challenges experienced as part of the steam generator replacement project. The unit was synchronised to the grid in November 2023 and underwent commissioning testing at various power levels with the unit connected to the grid. Since December 2023, the unit operated at full load until being shut down on 11 September 2024 due to an isolation valve failure. The unit was safely returned to service on 20 September 2024.

Koeberg Unit 2 has been in outage since 11 December 2023 to undergo a similar long refuelling and maintenance outage to replace its three steam generators. The steam generators have successfully been placed into their final position and the primary welds completed, although some delays were experienced on the secondary welds. Due to the impact of the delays, the unit is expected to return to service in early January 2025.

On 15 July 2024, the National Nuclear Regulator (NNR) granted Eskom a long-term operating licence to continue operating Koeberg Unit 1 for another 20 years. The unit is now licensed to continue operating until July 2044 with scheduled maintenance and upgrades being performed in line with the licence requirements. These activities will be tracked as part of business-as-usual activities over the unit's extended operating life. The next Unit 1 refuelling outage is scheduled to commence in January 2025, after Unit 2 returns to service.

The NNR has deferred the decision for Unit 2's long-term operation, but will announce a decision prior to 9 November 2025, which is the date the current licence expires. Once the current outage is complete, Unit 2 will be returned to service while awaiting the NNR decision.

Transmission system minutes lost performed significantly better at 3.29 minutes (2023: 4.71), with one major incident being recorded during the year (2023: one). Furthermore, Transmission line fault performance continued to be impacted by bird-caused and veld fire-induced faults. Bird guards are being installed in priority areas and have resulted in improvements in targeted areas.

Distribution network performance related to the frequency and duration of customer interruptions improved year-on-year and continued to perform significantly better than target. However, distribution energy losses, largely due to illegal connections, meter tampering as well as illegal vending, continue to have a significant financial and operational impact and remain well outside target at 9.92% (2023: 9.74%).

ENVIRONMENTAL PERFORMANCE

Relative particulate emission performance of 0.79kg/MWh sent out continued to deteriorate since the previous year (2023: 0.70kg/MWh sent out), with focused maintenance of the generating plant not yet yielding results. By March 2024, 16 units across the entire generation fleet were operating in non-compliance with average monthly emission limits, placing 9 045MW at risk of being shut down by the authorities.

To address the poor performance, Generation continues its drive to entrench a culture of achieving environmental compliance, with a renewed focus on the importance of compliance for sustainable asset management while stations are implementing emission recovery actions. Load losses are taken by non-performing units and where possible, poor performing units are placed on outage to undertake repairs.

Good progress is being made on the permanent repair solution to the west stack at Kusile, planned for completion by the end of January 2025. Despite a further change in scope being required, completion of the main stack remediation is still expected by March 2025.

In May 2024, the then Minister of Forestry, Fisheries and the Environment (DFFE) announced her decision on our appeals on the Minimum Emissions Standards (MES), after consultation with the National Environmental Consultative and Advisory Forum she had established. The decision was generally favourable to the continued operation of our coal-fired power stations.

In relation to the power stations that are to close by 2030 – Hendrina, Grootvlei, Arnot, Camden and Kriel – our request for suspension of the MES limits has been granted; this affects around 10 000MW installed capacity. This allows these stations to continue to operate at emission levels achievable using the already installed emission reduction technologies. We have been directed to submit decommissioning plans within 12 months of the decision. Work to develop these plans is underway.

For power stations operating beyond 2030, namely Matla, Duvha, Tutuka, Kendal, Lethabo, Majuba, Matimba and Medupi (affecting around 30 000MW installed capacity), we were directed to submit an application in terms of section 59 of the National Environmental Management: Air Quality Act, 2004 for an exemption in respect of each of these facilities from the provisions of the Act within 60 days of the issuance of the decision. We requested until 31 March 2025 to submit the exemption application for these stations, and DFFE granted an extension until 10 December 2024. We have assessed several alternatives and published draft exemption reports for public comment. Public participation meetings were conducted in November 2024 and the exemption application was submitted in December 2024.

The Kendal air quality criminal matter was heard in November 2024 and the State presented its case. The matter has been postponed to January 2025.

The air quality offset programme in KwaZamokuhle near Hendrina concluded in October 2024, with 3 300 out of a planned 3 500 interventions having been completed. At Ezamokuhle near Majuba, the project concluded in September 2024, with 2 086 out of a planned 2 100 houses having been completed. In the Sharpeville area, all six waste clean-ups have been completed. Planning and contracting for further phases of the programme is underway.

Water usage has deteriorated slightly to 1.43ℓ/kWh sent out (2023: 1.39ℓ/kWh sent out). Water performance across the fleet continues to be negatively affected by lower load factors and poor water management practices, as well as the inability to conduct maintenance required to address the issues causing poor water performance. A total of 30 water-related legal contravention incidents have been registered during the year due to non-compliance with the National Water Act, 1998 (2023: 58). Focused monitoring of the effective implementation of water management action plans, both at power station level and by the Generation Environmental Compliance Steering Committee, have not yet led to a significant improvement compared to the previous financial year, despite some improvement being recorded.

The Medupi flue gas desulphurisation (FGD) project is in the development phase. The request for proposal for the project was issued to the market in September 2024. The design, fabrication and construction will follow after contract award, which is expected early in the 2026 financial year. The World Bank is regularly informed and updated on the status and progress and will be provided with a more accurate programme after contract award to the chosen Engineering, Procurement and Construction supplier.

NEW BUILD PERFORMANCE

After extensive delays caused by the gas air heater fire at Kusile Unit 5 in September 2022, first synchronisation to the grid was successfully achieved on 31 December 2023. Since then, the unit contributed energy to the grid, particularly over evening peaks, until it went into commercial operation on 30 June 2024, adding 799MW of installed capacity to the grid.

On Kusile Unit 6, key commissioning activities are underway, impacted by delays in receiving outstanding boiler and turbine materials at site. The unit is expected to synchronise to the grid by February 2025, with commercial operation following around six months later.

Since inception, the completed interventions to correct some of the major plant defects have resulted in a steady improvement in the availability and reliability of the units at Medupi and Kusile, with some units running at or near full load. The effective correction of the major plant defects will ultimately ensure that the plant achieves contractual levels of performance. The first phase of the partial correction of the major plant defects at Medupi and Kusile is forecast to be completed by December 2024. Additional plant defect corrections are forecast for completion after 2027, depending on the extent of technical solutions and unit outage availability under the Eskom outage plan.

NTCSA was set up to house the transmission business. Going forward, it is responsible for increasing grid capacity and ensuring grid stability, to support the grid connection of much-needed new renewable generation capacity. The Transmission Development Plan 2024, which sets out the capital investment plan to give effect to the grid connection of additional generation capacity, was published at the end of October 2024. Under the TDP, the focus remains on accelerating project development and execution. The TDP Implementation Steerco has been established to closely oversee the delivery of the TDP and to monitor the performance and status of projects in execution, with good progress made on enabling delivery against the TDP.

We installed 74.4km of transmission lines during the year (2023: 326.1km). The target of 166km was not achieved due to tender pricing challenges which required the issuance of an international tender, thereby delaying progress. Transformer capacity of 23MVA was installed and commissioned (2023: nil). Although the targeted capacity of 160MVA was successfully cold commissioned, protection scheme challenges delayed final commissioning beyond the year end.

As part of phase 1 of the battery energy storage systems project, construction of the Hex site was completed in June 2023 and the site was officially opened in November 2023. The site is operational. Pongola and Elandskop sites achieved commercial operation on 15 October 2024. Construction activities continue at Skaapvlei, Graafwater and Paleisheuwel sites, with construction completion forecast towards the end of the 2025 financial year. We expect the contract for Melkhout and Rietfontein sites to be awarded by the end of December 2024. Phase 2 of the project is on hold given Government's debt relief conditions and the lack of funds from our own reserves.

PEOPLE AND SAFETY

The lost-time injury rate (including occupational diseases) deteriorated to 0.29 (2023: 0.26), with the upward trend due to operational pressures and an associated increase in overtime. Initiatives have been developed at both Eskom and divisional level to address this concerning trend. Sadly, Eskom recorded two employee and three contractor fatalities during the year (2023: two employee and three contractor fatalities). The loss of any life in Eskom's service is unacceptable and must be prevented. We offer our sincere condolences to the affected families, friends and colleagues.

Group headcount increased to 40 625 employees at the end of the year (2023: 39 601). The increase is primarily due to the appointment of core and critical skills in Generation and Eskom Rotek Industries, as well as learners appointed under Government's Youth Employment Services programme.

Racial equity improved significantly at senior management level to 78.89% (2023: 76.92%) and at professional and management level to 85.11% (2023: 83.59%). Gender equity at senior management level improved slightly to 42.52% (2023: 42.01%) and also improved to 42.03% at professional and middle management level (2023: 40.92%). Disability equity at group level has remained stable at 2.96% (2023: 2.96%), exceeding the national target of 2%. However, persons living with disabilities are mostly represented in the lower levels of the organisation.

In accordance with the collective agreement concluded during the year, bargaining unit employees received a 7% salary adjustment as well as a once-off payment of R10 000 in July 2023. Managerial employees also received an average 7% adjustment in remuneration costs from October 2023, of which a 4% cost-of-living adjustment was guaranteed for all managerial employees and the remaining 3% was discretionary, to retain high performers and correct income differentials.

SOCIETAL IMPACT

During the year, only spend with black youth-owned suppliers achieved targeted levels. Regrettably, all other preferential procurement spend indicators performed below target, mainly due to expired supplier B-BBEE certificates and procurement spend under IPP contracts that are not B-BBEE compliant. These contracts were negotiated by the then Department of Mineral Resources and Energy. Eskom continues to engage with Government on ways to mitigate the negative effect of these contracts on procurement equity performance.

We completed 114 800 connections under Government's electrification programme (2023: 102 590). We further committed corporate social investment spend of R93.1 million during the year, assisting 272 217 beneficiaries (2023: R63 million to 438 094 beneficiaries).

READINESS FOR LEGAL SEPARATION

Eskom is implementing the legal separation as set out in the *Roadmap for Eskom in a Reformed Electricity Supply Industry* issued in October 2019 by the then Department of Public Enterprises. We are separating the business and forming separate wholly owned subsidiaries to house the transmission, distribution and generation businesses. Several dependencies and risks have delayed the progress against the initial timelines. These are being attended to and are at varying stages of completion.

The operationalisation of NTCSA was delayed due to several key policy and regulatory dependencies. All three licences required by NTCSA to trade have been granted by NERSA. The buyer role assignment, cost recovery letter and amendment of IPP generation licences were approved by NERSA by March 2024. The relevant power supply and power purchase agreements with Distribution and Generation were concluded. All lender consents were received, and 119 contracts with IPPs were transferred to NTCSA. Consequently, the suspensive conditions to effect the merger and subscription agreements were met by 31 March 2024, resulting in the disposal of the relevant transmission and other related assets to NTCSA. Transmission employees were transferred to NTCSA under the same employment contract and with the same conditions of employment as they had with Eskom.

NTCSA commenced trade from 1 July 2024, with the official launch taking place in October 2024. This milestone marks NTCSA's establishment as a duly constituted and distinct wholly owned subsidiary of Eskom. It is a key milestone in the execution of Eskom's turnaround plan, and a significant step in delivering against Government's Roadmap to transform

the electricity supply industry. NTCSA plays a pivotal role in the country's evolving energy landscape and in dismantling the vertically integrated business model. It will significantly contribute to addressing the energy trilemma by enabling a secure, affordable and sustainable electricity energy industry. The unbundling of NTCSA is enabling Eskom's purpose of powering South Africa's growth sustainably.

In support of the transformation of the electricity supply industry, the Electricity Regulation Amendment Act, 2024 was gazetted in August 2024, with an effective date of 1 January 2025. It lays the legislative foundation for the development of electricity market rules as well as the establishment of an independent state-owned Transmission System Operator within five years from the Act being promulgated. The Transmission System Operator will provide a platform for generators, consumers, traders and retailers to trade with one another, as is the case in other countries around the world. While the exact form of the Transmission System Operator is being finalised, NTCSA will fulfil this role in the interim; it will purchase power from Eskom's Generation Division, IPPs and cross-border suppliers. NTCSA must now apply for the relevant licences to carry out that function. Work is underway to clarify the role and associated implications set out by the Electricity Regulation Amendment Act beyond the transition period of up to five years.

This development facilitates the future transformation of the electricity supply industry by enabling more players in the generation sector by connecting them to the grid and allowing consumers to choose from which energy supplier they want to buy power. The commencement of trade by NTCSA further paves the way for the creation of an independent market that will enable more participation, competition and efficiency in the electricity supply industry in the medium to long term.

The lessons learnt from the Transmission separation are being incorporated into the remainder of the separation process. The focus of the separation process is to execute the Distribution legal separation followed by the establishment of a new holding company (NewCo), leaving the Generation business in the current Eskom company, to ultimately achieve the formation of three separate subsidiaries under a new Eskom holding company.

The Distribution divisional board had previously supported corporatisation (signalled by signing of the merger agreement) of the National Electricity Distribution Company South Africa SOC Ltd (NEDCSA) by July 2024, readiness for operationalisation in April 2026 and commencement of trade in July 2026, subject to various dependencies. However, corporatisation and, consequently, the licence application and lender engagement have been delayed pending the publication of Eskom's annual financial statements for the year ended 31 March 2024. The NEDCSA licence application will be submitted to NERSA and the lender engagement process will commence after signature of the merger agreement.

A full review of the Distribution legal separation programme is being conducted to incorporate these developments and other specific considerations which may have an impact on the timelines. The duration of the lender consent phase (initially estimated at about 18 months) will be extended, given the expectation that the lender engagement for Distribution will be more complex than the Transmission process.

In this regard, Eskom's Board remains concerned about the escalating municipal and metro arrear debt, particularly given court judgments adverse to Eskom and the low levels of compliance with the municipal debt relief programme. Unless these challenges are resolved, they will jeopardise the Distribution legal separation, as the arrear debt impacts the assessment of the financial sustainability of NEDCSA.

Given the approved corporate structure, the legal separation of Generation is dependent upon the establishment and operationalisation of NewCo. The process and timing of the establishment of NewCo is dependent on legislation and Government policy, with the solution likely to require legislative intervention with lengthy timelines to promulgate new or amended legislation, posing a risk to the NewCo operationalisation timeline. We will engage with the shareholder to solicit further guidance on the best suited legislative pathway for NewCo incorporation.

The current focus for the Generation business is finalising the remaining power purchase agreements, ringfencing all aspects of Generation, and developing a future-fit Generation operating model and structure that incorporates its clean energy portfolio.

OTHER MATTERS

BOARD AND EXECUTIVE CHANGES

On 30 October 2023, Mr Mpho Makwana resigned as Chairman of the Board and Dr Mteto Nyati was appointed as Chairman in his stead. Furthermore, Dr Rod Crompton resigned on 27 February 2024 as an independent non-executive director.

Following an extensive recruitment process, Cabinet approved the appointment of Mr Dan Marokane as Group Chief Executive (GCE) in December 2023. Mr Marokane officially joined Eskom on 1 March 2024. At the same time, Mr Calib Cassim, previously acting as GCE after the departure of Mr André de Ruyter in the prior year, returned to the position of Group Chief Financial Officer (GCFO) under a permanent employment agreement. Mr Martin Buys, previously acting as GCFO, returned to the position of General Manager: Financial and Management Reporting and is no longer an executive director.

At year end, the Board comprised 13 directors, including 11 independent non-executive directors and two executive directors. Subsequent to year end, the Board has requested the shareholder to appoint two independent non-executive directors to ensure a fully constituted Board of 15 directors. The Board has also recommended that the shareholder appoints a lead independent director to strengthen governance and oversight.

At Executive Committee (Exco) level, Mr Bheki Nxumalo was appointed as Group Executive: Generation with effect from 1 April 2023. Mr Jan Oberholzer retired from Eskom on 30 April 2023 and the position of Group Chief Operating Officer (GCOO) was subsequently removed from the organisational structure. The executives for Generation, Transmission and Distribution – Messrs Bheki Nxumalo, Segomoco Scheppers and Mondo Bala – who previously reported to the GCOO were appointed as members of Exco from 1 June 2023.

Ms Nthato Minyuku resigned as Group Executive: Government and Regulatory Affairs on 30 April 2023. Ms Mel Govender resigned as Group Executive: Legal and Compliance on 30 June 2023. Mr Jerome Mthembu was appointed as Head of Legal and Compliance on 1 May 2024.

The departure of Ms Elsie Pule, Group Executive: Human Resources, was announced in June 2024, with her last day on 31 July 2024. To ensure leadership stability and business continuity, Mr Monde Bala was appointed to act in the position with effect from 24 June 2024, in addition to his role as Group Executive: Distribution, while the recruitment process is underway. The fixed-term contract of Mr Vuyolwethu Tuku, Group Executive: Transformation Management Office, came to an end on 30 June 2024.

In May 2024, the Group Chief Executive announced a new Exco structure to further address the current business challenges and future-proof the organisation to enable growth and long-term sustainability.

The new Exco structure includes a combination of existing and new roles to enable responsive decision-making required to deliver on Eskom's strategic initiatives and navigate the rapidly changing environment in which it operates, including focusing on the expansion of Eskom's renewable energy portfolio in line with our ambition to increase our clean technology portfolio to support the Just Energy Transition strategy. The structure also includes a focus on the execution of legal separation activities and the necessary adaptations for the future generation, transmission and distribution subsidiaries.

The following executives were appointed from 1 November 2024:

- Ms Portia Mngomezulu as Group Executive: Corporate Services
- Ms Nontokozo Hadebe as Group Executive: Strategy and Sustainability
- Mr Roman Crookes as Group Executive: Group Capital
- Mr Len de Villiers as Chief Technology and Information Officer (on a three-year contract)

Mr Alfred Seema was appointed as Group Executive: Strategic Delivery from 1 December 2024.

Mr Jerome Mthembu, Ms Natasha Sithole and Ms Jainthree Sankar, all of whom now report to the Group Executive: Corporate Services, and Ms Faith Burn, who now reports to the Chief Technology and Information Officer, are no longer members of Exco.

DEALING WITH CRIME, FRAUD AND CORRUPTION

The Board remains committed to enhancing systems, controls, policies, processes and reporting structures to address governance and compliance challenges and support the fight against crime, fraud and corruption. These challenges have garnered extensive media coverage over recent years and have been the subject of external inquiries and investigations. Over time, they have eroded Eskom's reputation and relationships with key stakeholders and negatively affected operational and financial sustainability. The Board acknowledges that addressing these matters will be a lengthy process, but that it is necessary for the success of Eskom's turnaround.

An assessment of Eskom's crime risk management landscape was concluded by an independent service provider. The assessment focused on identifying risks related to bribery and corruption, financial crime, physical asset crime, cyber-crime and money laundering. We have begun addressing the findings and recommendations. The Office of the Group Chief Financial Officer is overseeing the consolidation and coordination of this and other similar initiatives to avoid duplication of efforts and promote more effective implementation.

We have also appointed a service provider to assist with data analytics to identify transactions that must be prioritised for investigation and, furthermore, to build this capability within Eskom.

We have consolidated the forensics, security and investigative functions into a single investigative unit, to be established as the Group Investigations and Security (GIS) function, which will have the additional mandate of implementing recommendations from investigations to ensure consequence management is effected. Ms Tembela Kulu was appointed as General Manager: Investigations and Security from 1 October 2024 and reports directly to the Group Chief Executive. A dedicated project management office will address findings from internal and external investigations as well as data analytics more timeously.

OUTLOOK

During the first six months of the 2025 financial year, performance at our coal-fired power stations has shown tremendous improvement, leading to the easing of generation supply constraints, with no loadshedding during the period. As a result, Eskom experienced growth in sales and revenue, coupled with a reduction in primary energy costs, which had a hugely beneficial impact on financial performance. This, together with the debt relief support by Government and the 12.74% tariff increase for the 2025 financial year, has led to a significant improvement in liquidity.

Since year end, we've established a programme to enhance operational efficiency and reduce costs, which aims to see Eskom return to profitability in the short to medium term. Much of the additional savings being targeted will be through primary energy optimisation, procurement efficiencies, digital transformation and capital productivity, together with revenue growth opportunities.

Based on the latest estimate, a profit before tax of over R10 billion (unaudited) is projected for the 2025 financial year (March 2024: loss before tax of R25.5 billion), together with a projected improvement in Eskom's cash position. This is mainly due to an improvement in Eskom's operating cash flows linked to the tariff increase which came into effect on 1 April 2024, higher local and internal sales, improved plant performance and lower-than-expected spend on OCGTs, IPPs and energy imports, together with the diesel rebate from SARS.

Outlook for the 2025 financial year

Sales volumes **2–3% higher**	Tariff increase **12.74%**	Operating expenditure **20–30% higher**
OCGT spend **60–80% lower**	Primary energy costs **10–20% lower**	Debt servicing requirements **5–15% lower**

EBITDA
R85 billion–R95 billion (2024: R43.4 billion)

Debt service cover ratio
0.90–1.10 (2024: 0.46)

Gross debt/EBITDA ratio
5.00–6.00 (2024: 11.58)

Arrear municipal debt balance
R95 billion–R110 billion (2024: R74.4 billion)

While liquidity has improved on the back of the debt relief and better operational performance during the first half of the 2025 financial year, and will improve even further with the recovery of the amount due from SARS, several challenges remain. We continue to experience financial sustainability challenges arising from a below-cost-reflective tariff path; above-inflationary cost increases in some areas and the cost of crime, fraud and corruption; continued high debt service costs; escalating arrear municipal and metro debt; combined with high levels of electricity theft.

Eskom's turnaround plan focuses on addressing these key areas through the Government debt relief, the municipal debt relief programme, as well as a migration to cost-reflective tariffs and driving cost efficiencies. However, to achieve financial sustainability without further reliance on Government support, we need to find lasting solutions to the tariff challenges, while catering for measures to address affordability for vulnerable sectors, and non-payment by customers. Furthermore, operational sustainability is required to support appropriate sales volumes and limit the use of expensive OCGTs. Investment in repairs and maintenance and capital expenditure to sustain and expand our infrastructure is also needed to facilitate the operational recovery and ensure the continued performance of our plant.

Successful execution of the Generation Recovery Plan, combined with interventions under the President's Energy Action Plan overseen by the National Energy Crisis Committee, have led to a significant improvement in the reliability, efficiency and availability of the coal-fired generation fleet, benefitting the country as a whole. The focus on ancillary plant performance, improved risk management, spares availability, quality of outage execution and skills has greatly assisted with the recovery in performance. The continued hard work and dedication of Eskom's employees are moving the utility towards operational sustainability. It is through their concerted efforts that we have delivered more than 250 days of steady electricity supply.

Fix the current business
Pursuing financial and operational sustainability

Recover EAF to 70% by March 2025

Reduce municipal arrear debt and re-base costs

Improve controls to address crime, fraud and corruption

Improve leadership stability and skills development, and entrench a high-performance ethical culture

Prepare for competition
Facilitate a competitive future energy industry

Obtain NERSA approval for unbundled tariffs

NTCSA trading by July 2024; operationalisation of NEDCSA by April 2026 and Generation thereafter

Accelerate clean energy project development

Fine-tune Generation and Distribution business models

Modernise the power system
Leverage technology

Accelerate TDP execution, including alternative funding models

Develop the distribution network, including smart meters and microgrids

Use data analytics to create value and enhance decision-making

Increase flexibility of power system infrastructure

Transition responsibly
Striving for net zero emissions by 2050

Accelerate repowering and repurposing initiatives at Komati, Grootvlei, Hendrina, Camden, Arnot and Kriel

Collaborate with Government on optimised MES compliance

Participate in distributed energy resources and drive eMobility (electrical vehicles and charging infrastructure)

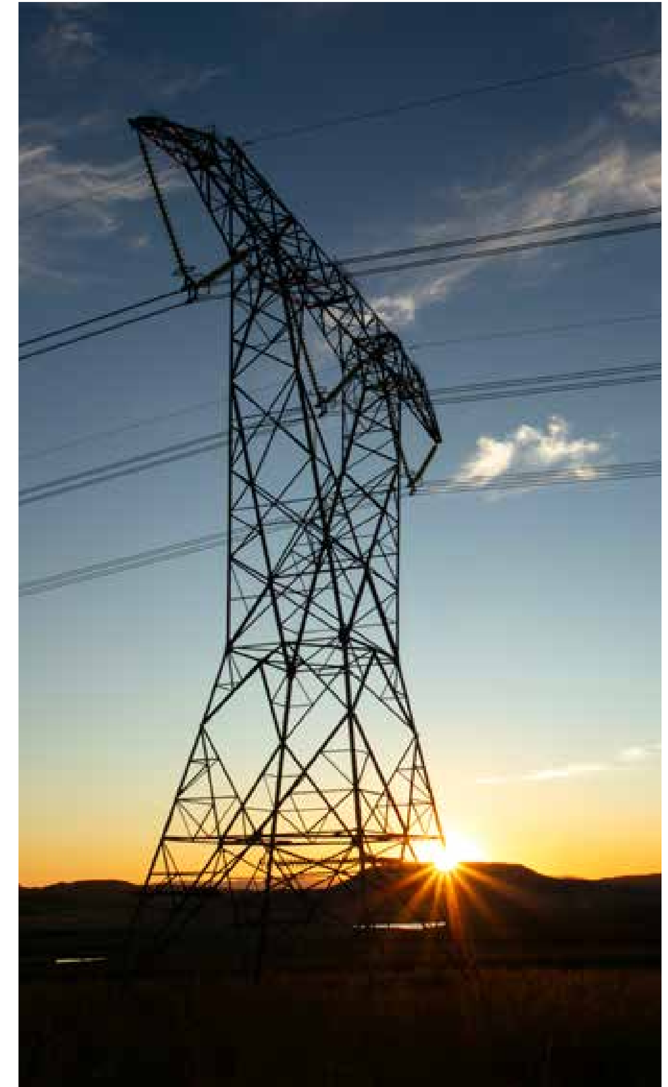
The imminent synchronisation to the grid of Kusile Unit 6 will further assist the grid, even though the unit will not be operating at full power until commercial operation in mid-2025. Medupi Unit 4, which has been in extended inoperability since a generator explosion in August 2021, is also expected to return to service by March 2025 using a second-hand stator.

Our collective focus remains on further reducing unplanned unavailability. We aim to reach an EAF level of 70% during the month of March 2025 and an average EAF for the year of around 62%, by improving the availability of the generation fleet through effective implementation of the Generation Recovery Plan, which includes carrying out extensive planned maintenance. This will be delivered through an intensified focus on recovering performance at eight priority stations, while sustaining performance at stations that already deliver reliable performance. Initiatives continue to recover and increase available capacity to meet demand, with sustained improvements achieved at most of the eight priority stations.

Government's debt relief support is paving the way towards improving financial sustainability and liquidity in the short to medium term. We are focused on ensuring compliance with the conditions to ensure that the support, which initially comes in the form of a subordinated loan subject to market interest rates, is converted to equity, to realise the full benefit thereof.

Despite the many challenges, Eskom must be placed on a more sustainable footing through our turnaround plan, for which we require the support of all our stakeholders. Ultimately, this requires resolving Eskom's highly leveraged balance sheet, below cost-reflective tariff structures and the municipal arrear debt challenge; delivering on our operational recovery to improve the performance of our generation plant and alleviate the constrained power system; and bringing much-needed structural reforms to the electricity industry.

Remember, if it is to be, it is up to us!



FORWARD-LOOKING STATEMENTS

Certain statements in this commentary regarding Eskom's business operations may constitute forward-looking statements. These include all statements other than statements of historical fact, including those regarding the financial position, business strategy, management plans and objectives for future operations.

Forward-looking statements constitute current expectations based on reasonable assumptions, data or methods that may be imprecise and/or incorrect and that may be incapable of being realised. As such, they are not intended to be a guarantee of future results. Actual results could differ materially from those projected in any forward-looking statements due to various events, risks, uncertainties and other factors. Eskom neither intends nor assumes any obligation to update or revise any forward-looking statements contained in this commentary, whether as a result of new information, future events or otherwise.