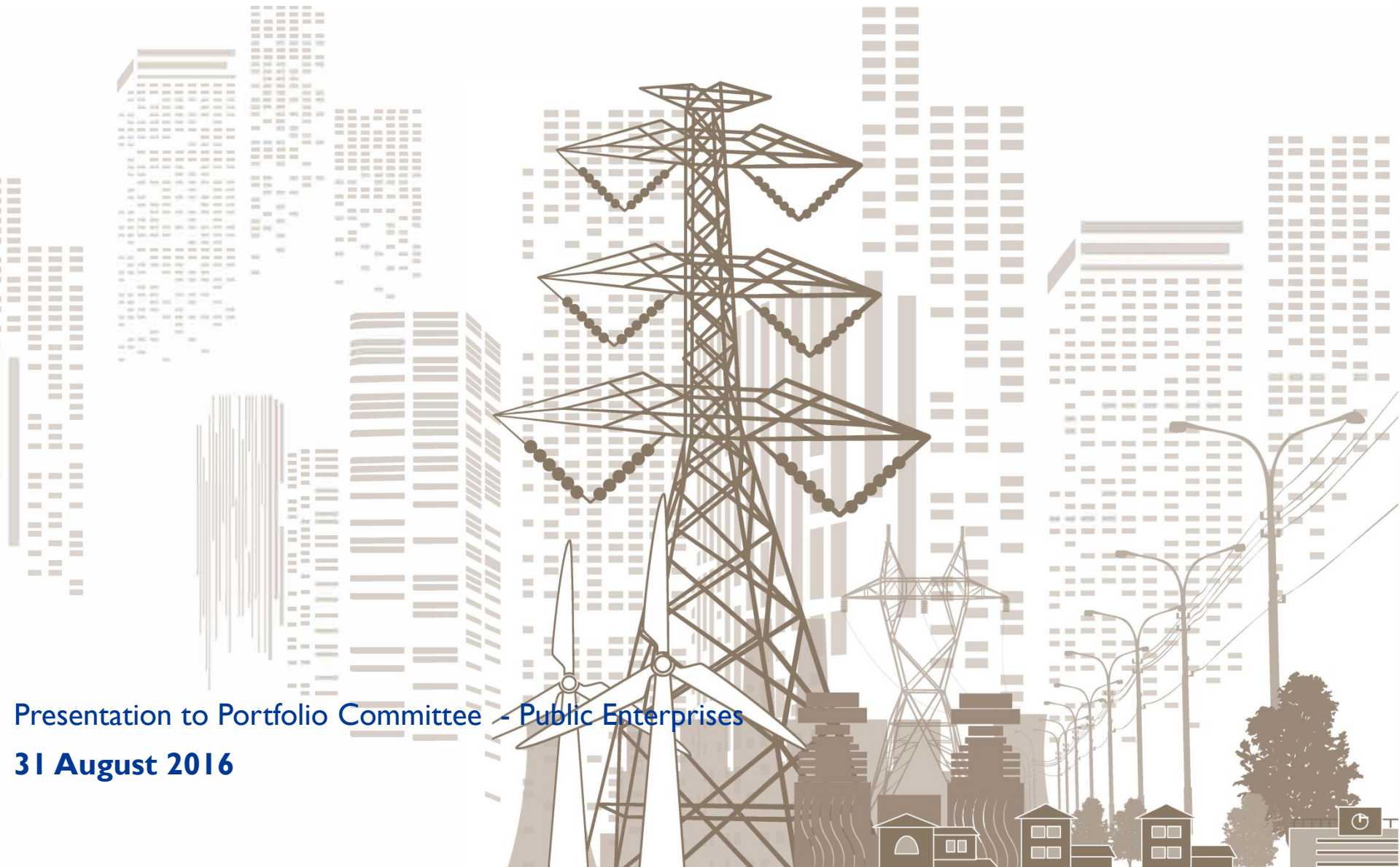


# Integrated results

for the year ended 31 March 2016



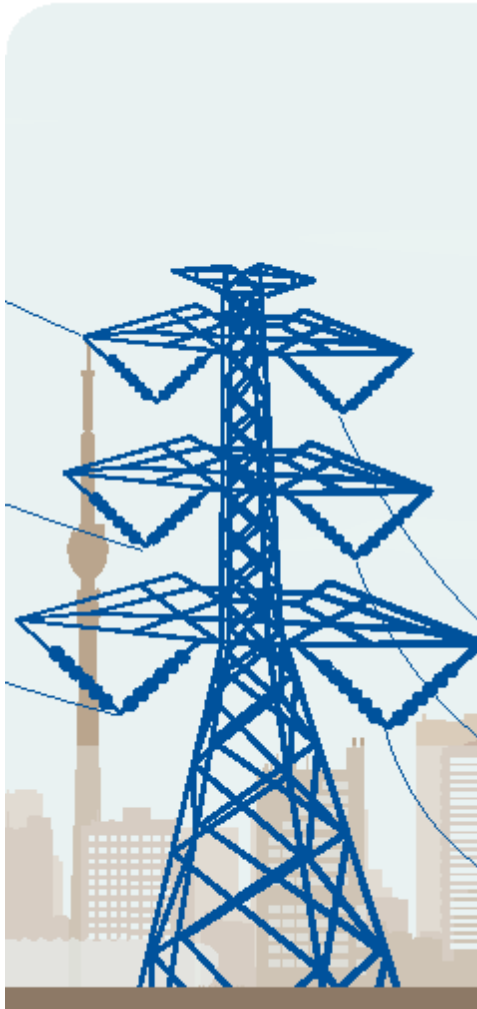
Presentation to Portfolio Committee - Public Enterprises  
**31 August 2016**

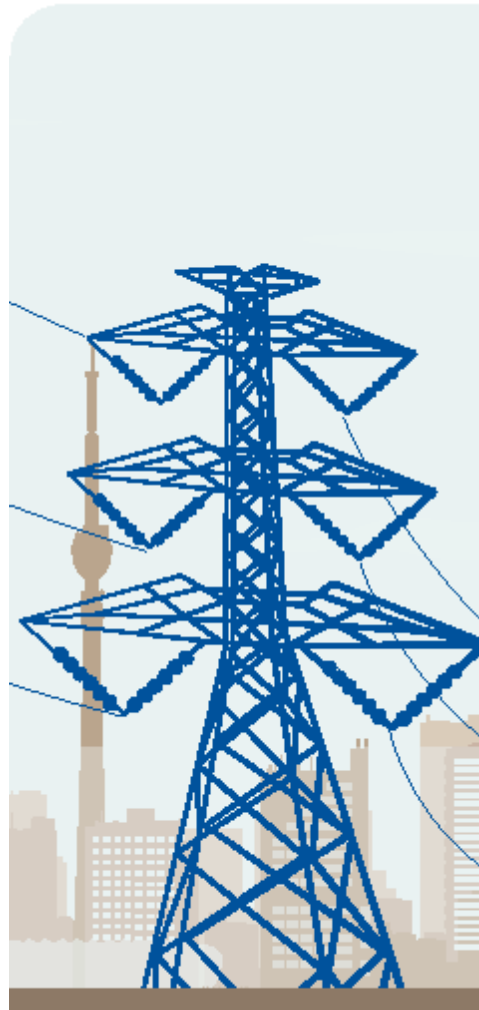


## Overview of the year

## Financial performance

- **EBITDA of R32 billion**, representing an increase of 37.4%
- **Cost savings of R17.5 billion** achieved against a target of R13.4 billion, including reduced OCGT usage
- Received **R23 billion equity** from shareholder
- Cash generated from **operating activities** increased by 36.4% to **R37.2 billion**
- **Liquid assets of R38.7 billion** at 31 March 2016, an increase of 123%
- **57% of funding for 2016/17** has been secured



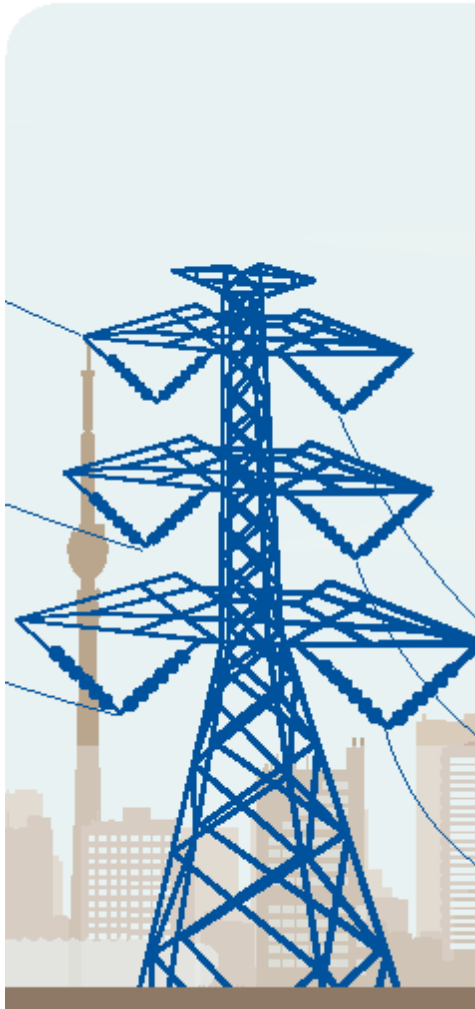


## Operational performance

- **No load shedding** for more than a year, the last time load shedding was implemented was on the 8 August 2015
- **Generation plant performance** improved in the second half of the year, with the EAF of 78% for quarter 1 of 2016/17
- **Medupi Unit 6** in commercial operation on 23 August 2015, adding 720 MW generation capacity to the grid
- **Ingula Units 3 and 4** synchronized to the grid on 3 March and 25 March 2016 as per the SHC and **units 2 and 1** were subsequently synchronized on 21 May and 16 June 2016 respectively. All Ingula units were thus able to **support the grid with generating power** during the winter months.

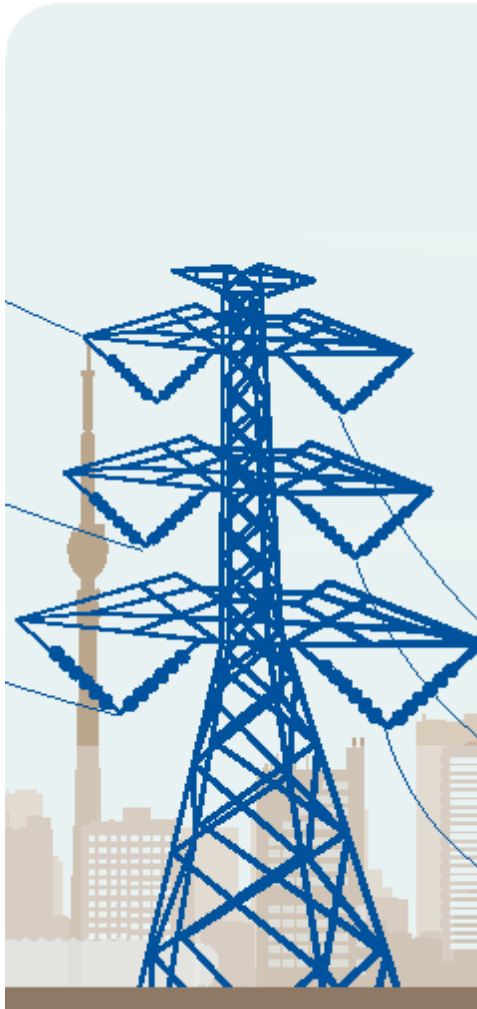
## Operational performance

- **Ingula Unit 4 & 2** in commercial operation on 10 June 2016, and 22<sup>nd</sup> August 2016, adding **666MW** peaking capacity
- Excellent Transmission **network performance**
- **345.8km** of lines installed and **2 435MVA** transformers commissioned for Transmission. To date an additional **12km** and **800 MVA** have been added.



## Socio-economic performance

- **158 016** additional households were electrified
- Procurement from **B-BBEE compliant suppliers** was 82%, exceeding the target of 80%
- Procurement from **black women-owned suppliers** was 19%, exceeding the target of 12%



A vertical illustration on the left side of the slide. It features a tall, brown metal lattice tower for power lines, with three sets of sagging lines extending from it. At the bottom of the tower, there are two white wind turbines with three blades each. The background consists of a grid of small squares, with some squares filled with horizontal lines, suggesting a cityscape or a data grid.

## Financial review

## Financial performance

Revenue **R163bn**  
(10.6%) ↑

EBITDA **R32bn**  
(37.4%) ↑

Net profit **R4.6bn**  
(2014/15: R0.2bn)

BPP savings  
**R17.5bn**  
(target R13.4bn)

## Key financial ratios

Interest cover ratio  
**0.55** ↑  
(2014/15: 0.27)

Debt service cover  
ratio **1.07** ↑  
(2014/15: 0.92)

Debt / equity  
**1.67** ↓  
(2014/15: 2.53)

Gross debt / ↑  
EBITDA ratio **11.4**  
(2014/15: 16.1)

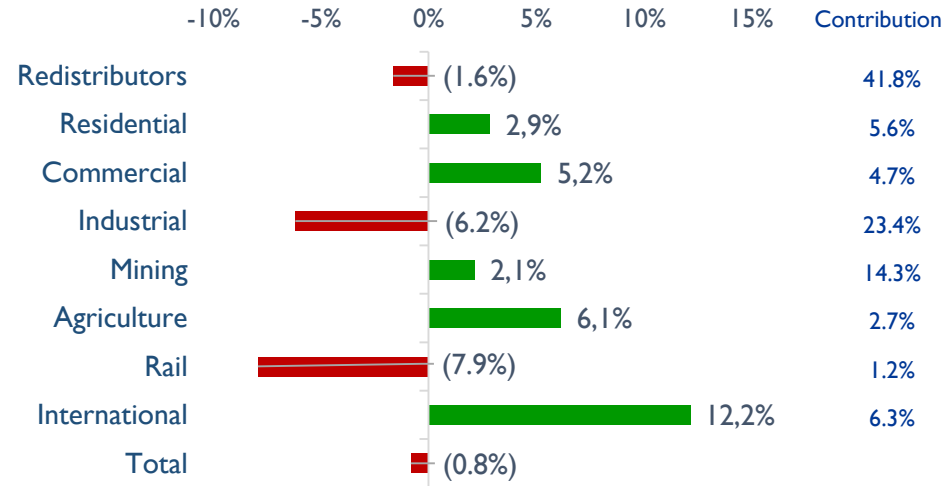
- **Increased EBITDA** due to:
  - Increased revenue
  - Cost containment
- **Improved liquidity** position, as a result of:
  - Equity injection of R23 billion
  - Cash generated from operating activities of R37.2 billion (2014/15: R27.3 billion)



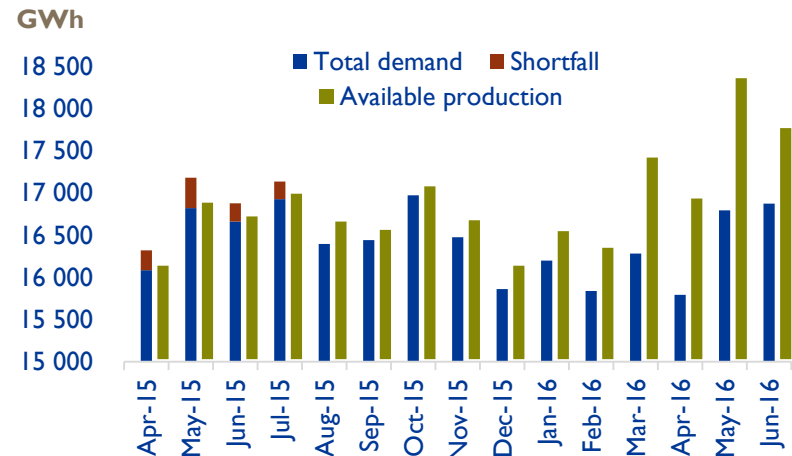
# Overall electricity sales volumes

- **International sales volume** growth of 12.2% due Eskom having surplus capacity
- Increase in **commercial** (5.2%), **agriculture** (6.1%), **mining** (2.1%) and **residential** (2.9%) sales volumes
- Decline in **municipalities** (1.6%), **rail** (7.9%) and **industrial** (6.2%) sales volumes
- Overall electricity sales volumes **declined by 0.8%**

## Electricity volumes % growth/(decline) & contribution

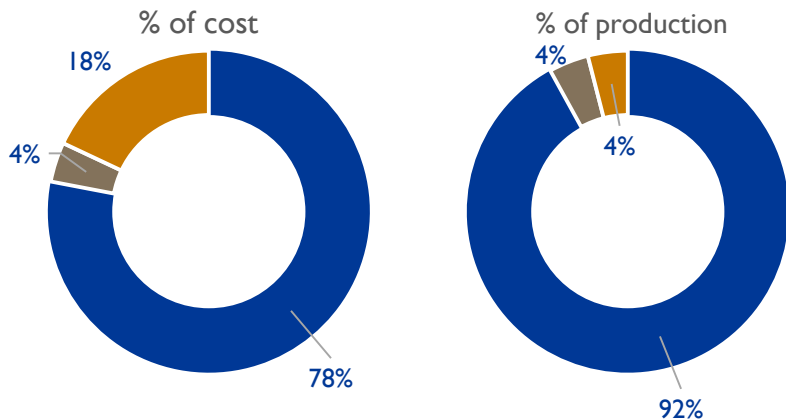


## Coal production vs demand

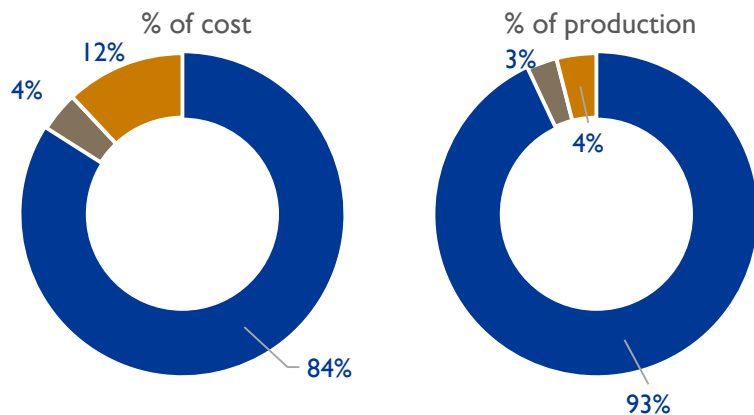


# Primary energy costs analysed – 2% YoY increase only

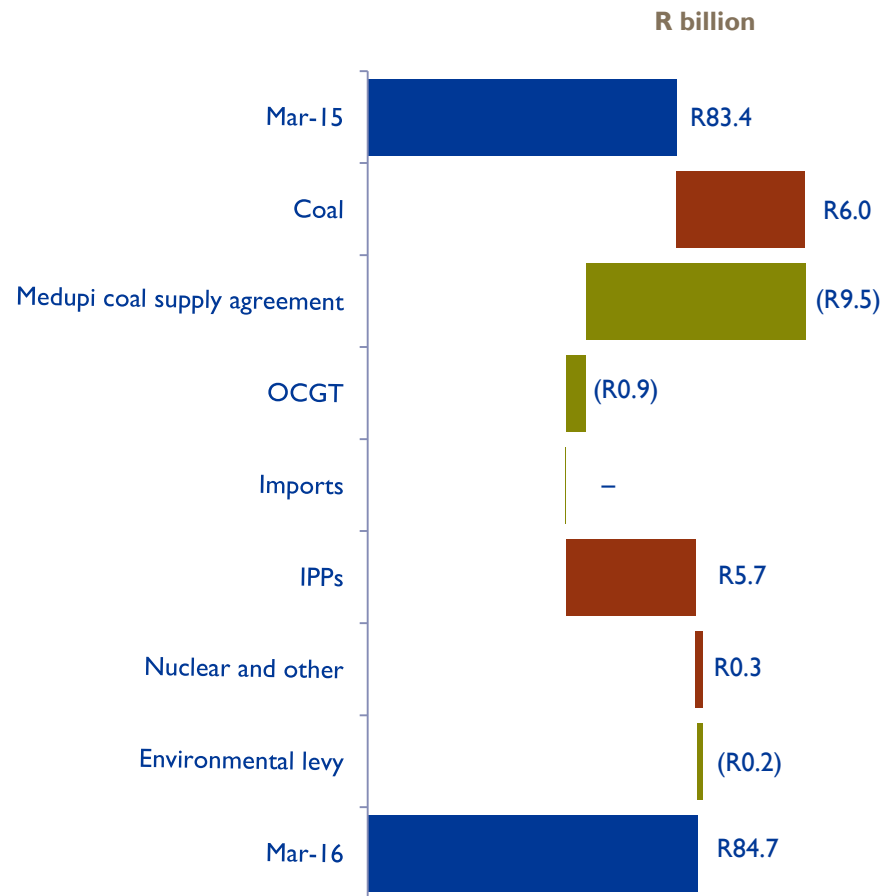
## 2015/16 Primary energy cost analysis



## 2014/15 Primary energy cost analysis



## Year-on-year analysis



■ Eskom generation      ■ International purchases  
 ■ Independent power producers

R million	31 March 2016	31 March 2015 <sup>1</sup>	YoY % change
PPE and intangible assets	521 174	458 881	14
Working capital	43 615	35 488	23
Liquid assets	38 680	17 359	123
Other assets	57 216	46 217	12
<b>Total assets</b>	<b>660 685</b>	<b>557 945</b>	<b>17</b>
Equity	180 563	117 164	48
Debt securities and borrowings	322 658	297 434	8
Working capital	52 360	44 063	19
Other liabilities	105 104	99 284	6
<b>Total equity and liabilities</b>	<b>660 685</b>	<b>557 945</b>	<b>17</b>

- **Equity improved** with R23 billion equity by shareholder and conversion of R60 billion subordinated loan
- **Liquid assets increased** by 123% to R38.7 billion

1. Figures for 2014/15 were restated.

- **Payment agreements** have been signed with 60 municipalities, including 19 of the top 20
- **Arrear debt** by municipalities, including interest, increased from R5 billion to R6 billion
- Average **Soweto collection level** improved from 16% to 18%
- 17 527 **post-paid meters** were **converted** to pre-paid meters in Soweto
- 5 992 **smart meters** were installed in Midrand and Sandton, and will be converted to prepaid meters

<b>Electricity debtors age analysis, R million</b>	<b>Total</b>	<b>Within due date</b>	<b>&lt; 60 days overdue</b>	<b>&gt; 60 days overdue</b>
Large power users, excluding municipalities	<b>6 913</b>	6 250	246	417
Large power users, municipalities (including interest)	<b>11 325</b>	5 320	932	5 073
Small power users	<b>2 576</b>	1 465	178	933
Soweto (excluding interest)	<b>4 746</b>	189	179	4 378
Other customers	<b>1 534</b>	846	680	8
<b>Total at 31 March 2016</b>	<b>27 094</b>	14 070	2 215	10 809
% of total	<b>100%</b>	52%	8%	40%
			<b>2016</b>	<b>2015</b>
Average debtors days (all categories)			<b>30.35</b>	32.29

# 57% of funding for 2016/17 secured

R billion	2015/16	2016/17
Domestic bond private placement	10.0	10.0
Signed DFIs	10.9	19.8
Signed ECAs	4.7	7.1
Swap restructuring	6.2	1.8
Government equity	23.0	–
MIGA loan	7.6	–
<b>Sub-total funding secured</b>	<b>62.4</b>	<b>38.7</b>
Structured products	–	3.2
New DFIs	–	13.6
Domestic bonds	8.2	7.0
Commercial paper	6.3	6.0
<b>Total funding</b>	<b>76.9</b>	<b>68.5</b>



ccc+



b3

FitchRatings

B-

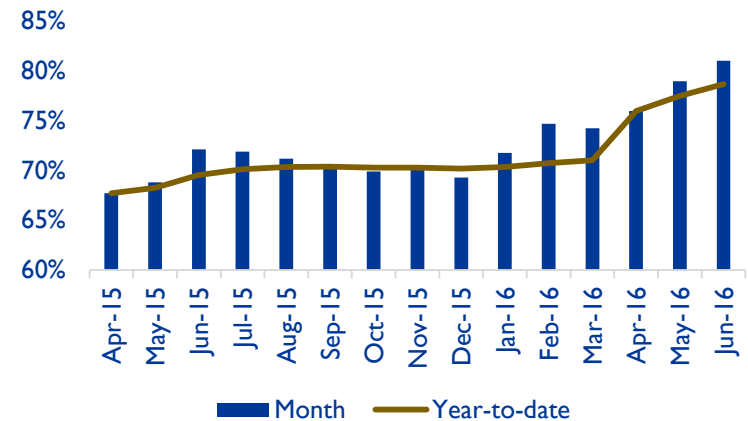


## Operating performance

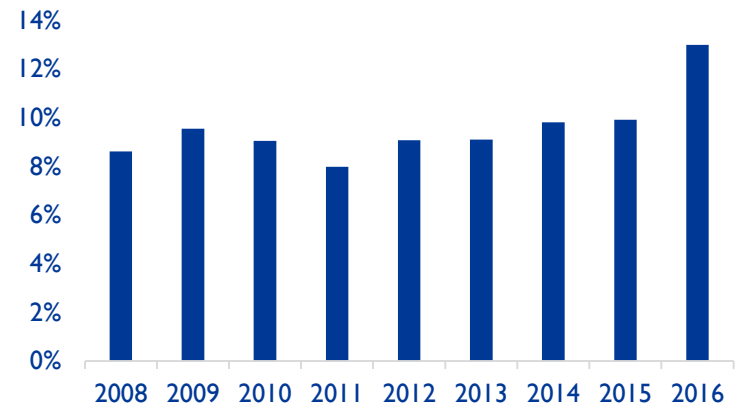
# Improved Generation operating performance

- Currently **EAF** for 2016/17 is **79.1%** as of the end of **July 2016 year to date**, compared to 71% for 2015/16 financial year
- **Unplanned breakdowns\*** reduced from 16.4% in 2014/15 to 15.9% in 2015/16, to 10.4% in 2016/17 July 2016 year to date
- **Planned maintenance** increasing from 9.9% in 2014/15 to 13.0% in 2015/16, to 10.6% in 2016/17 July 2016 year to date
- Reduced reliance on OCGTs, resulting in a decrease from **R 9.5 billion** in 2014/15 to **R 8.7 billion** in 2015/16, to **R 0.09 billion** in 2016/17 July 2016 year to date. Eskom is striving for no further use of diesel to meet demand for the remainder of the year

Monthly plant availability (EAF)



Planned maintenance, %

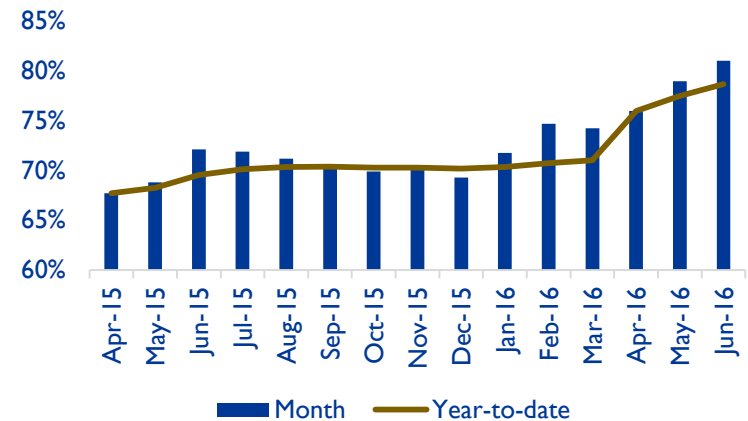


\* – including breakdowns and other losses

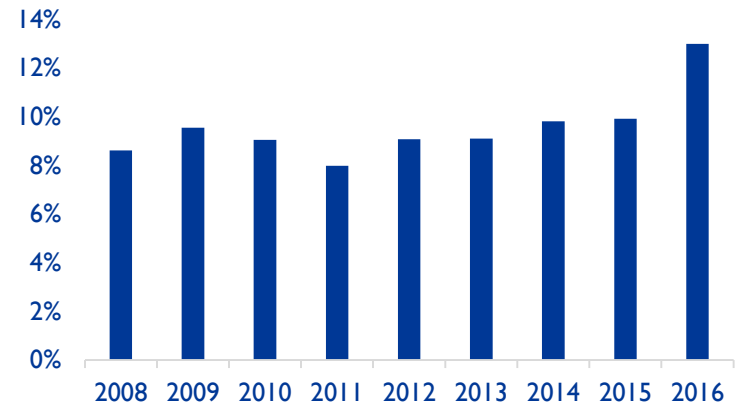
# Improved Generation operating performance (continues)

- A total of 13.6Mt **coal transported by rail**, which is 1Mt more than 2014/15
- As a result of the above, **no load shedding** since 8 August 2016
- Since inception, a total of 3 392MW of **IPPs connected** to the grid, with 2 145MW of renewables

### Monthly plant availability (EAF)



### Planned maintenance, %



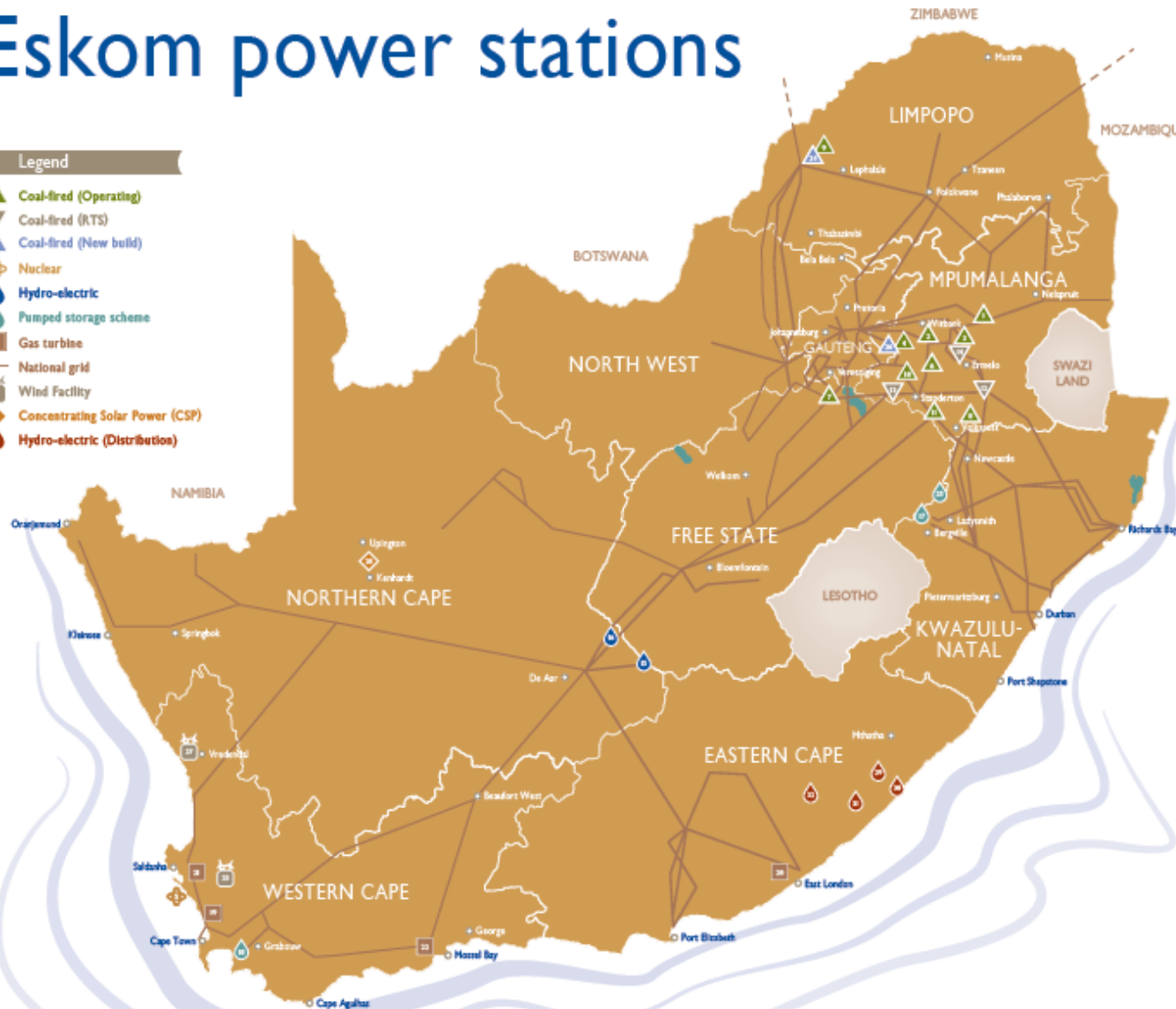
\* – including breakdowns and other losses



## Eskom power stations

### Legend

- Coal-fired (Operating)
- Coal-fired (RTS)
- Coal-fired (New build)
- Nuclear
- Hydro-electric
- Pumped storage scheme
- Gas turbine
- National grid
- Wind Facility
- Concentrating Solar Power (CSP)
- Hydro-electric (Distribution)



### Base load stations

- |                     |                    |
|---------------------|--------------------|
| 1 Arnot 2 352 MW    | 7 Lehafoe 3 700 MW |
| 2 Dusha 3 600 MW    | 8 Majuba 4 110 MW  |
| 3 Hendrina 2 000 MW | 9 Matimba 3 990 MW |
| 4 Karedal 4 116 MW  | 10 Matla 3 600 MW  |
| 6 Kriel 3 000 MW    | 11 Tunda 3 454 MW  |
| 5 Konberg 1 940 MW  |                    |

### Return-to-service stations

- |                       |
|-----------------------|
| 12 Camden 1 510 MW    |
| 13 Groenvald 1 200 MW |
| 14 Konstal 940 MW     |

The return-to-service (RTS) stations were established in 1990 and are in the process of being recommissioned due to the growing demand for electricity. The return-to-service project for Caledon power station ended on 31 March 2003 with the entire station fully commercial.

### Peak demand stations

- |                              |                         |
|------------------------------|-------------------------|
| <b>Hydro-electric</b>        | 15 Gariep 360 MW        |
|                              | 16 Vanderkloof 340 MW   |
| <b>Pumped storage scheme</b> | 17 Drakensburg 1 000 MW |
|                              | 18 Palmas 400 MW        |
| <b>Gas turbine</b>           | 19 Acacia 171 MW        |
|                              | 20 Fort Rex 171 MW      |
|                              | 21 Ankerkop 1 338 MW    |
|                              | 22 Gourikwa 746 MW      |

The peaking stations consume electricity within a few minutes of starting, making them ideally suited to supply power during peak periods. They also assist in regulating the system voltage and frequency to ensure stability of the national transmission network.

### Renewable energy

- |                      |                                 |
|----------------------|---------------------------------|
| <b>Wind Facility</b> | 23 Kibheusel Wind Facility 3 MW |
|----------------------|---------------------------------|

### New build

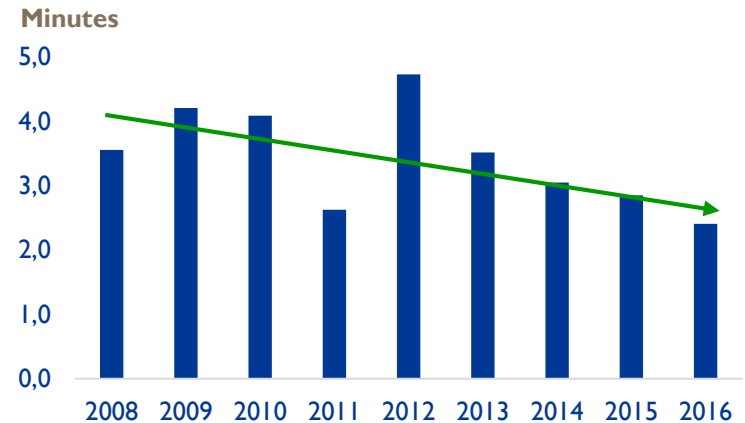
- |                              |   |
|------------------------------|---|
| <b>Coal</b>                  | 24 Medupi 4 780 MW                        |
|                              | 26 Kusile 4 800 MW                        |
| <b>Pumped storage scheme</b> | 25 Irigula 1 332 MW                       |
| <b>Wind Facility</b>         | 27 Sere Wind Facility 100 MW              |
| <b>Solar</b>                 | 28 Concentrating Solar Power (CSP) 100 MW |

### Distribution

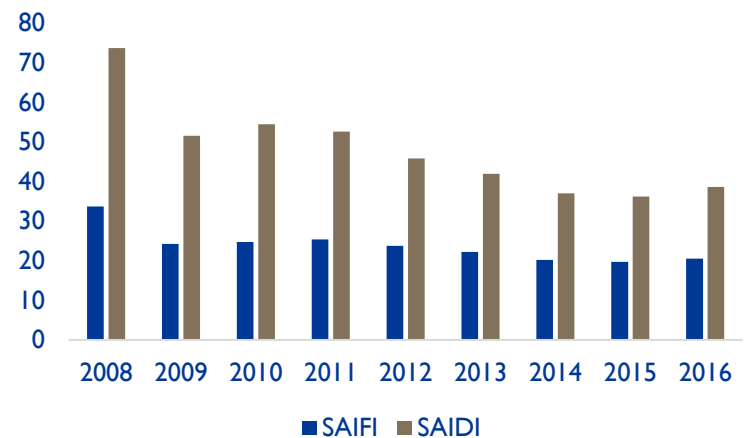
- |                       |                         |
|-----------------------|-------------------------|
| <b>Hydro-electric</b> | 29 First Falls 6 MW     |
|                       | 30 Second Falls 11 MW   |
|                       | 31 Colley Wobbles 42 MW |
|                       | 32 Neora 2 MW           |
- These hydro-electric power stations fall within the Distribution Division in the Eastern Cape operating unit and are used to stabilise the distribution network in that area.

- **Transmission** achieved a best ever reported **performance** for system minutes lost <1 of 2.41 (2014/15: 2.85)
- Only 1 **major incident** occurred
- **Distribution network performance** (SAIFI and SAIDI) within acceptable limits
- **Demand savings** of 215MW achieved
- One **environmental contravention** occurred

### System minutes lost for events < 1 minute

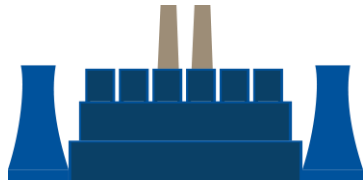


### SAIFI / SAIDI performance

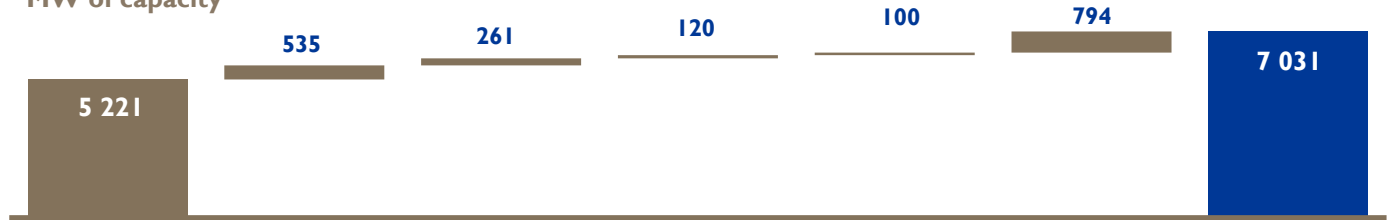


# We remain focused on bringing new capacity online

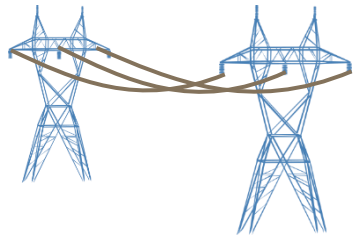
## Megawatts



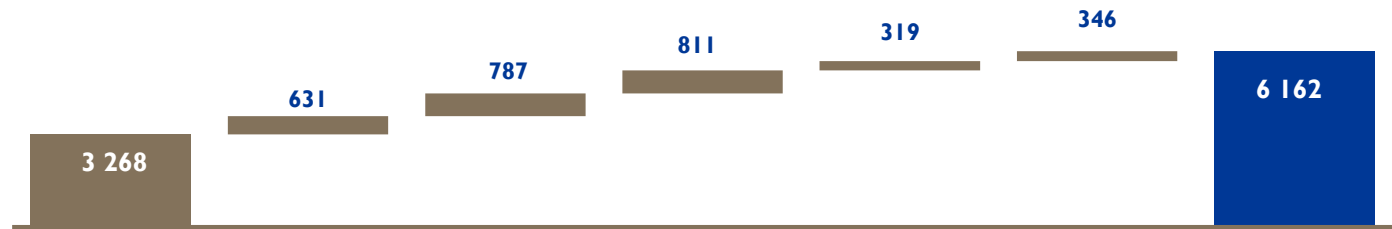
### MW of capacity



## Transmission



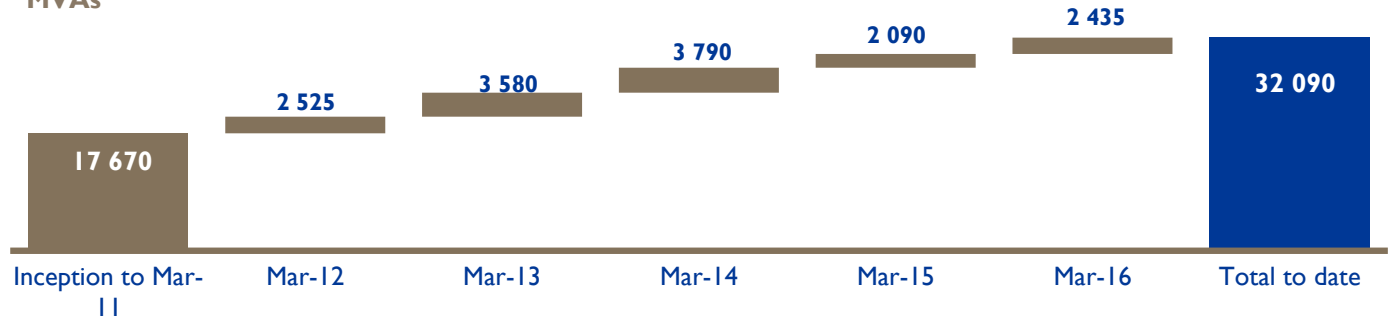
### km lines



## Substations



### MVAs



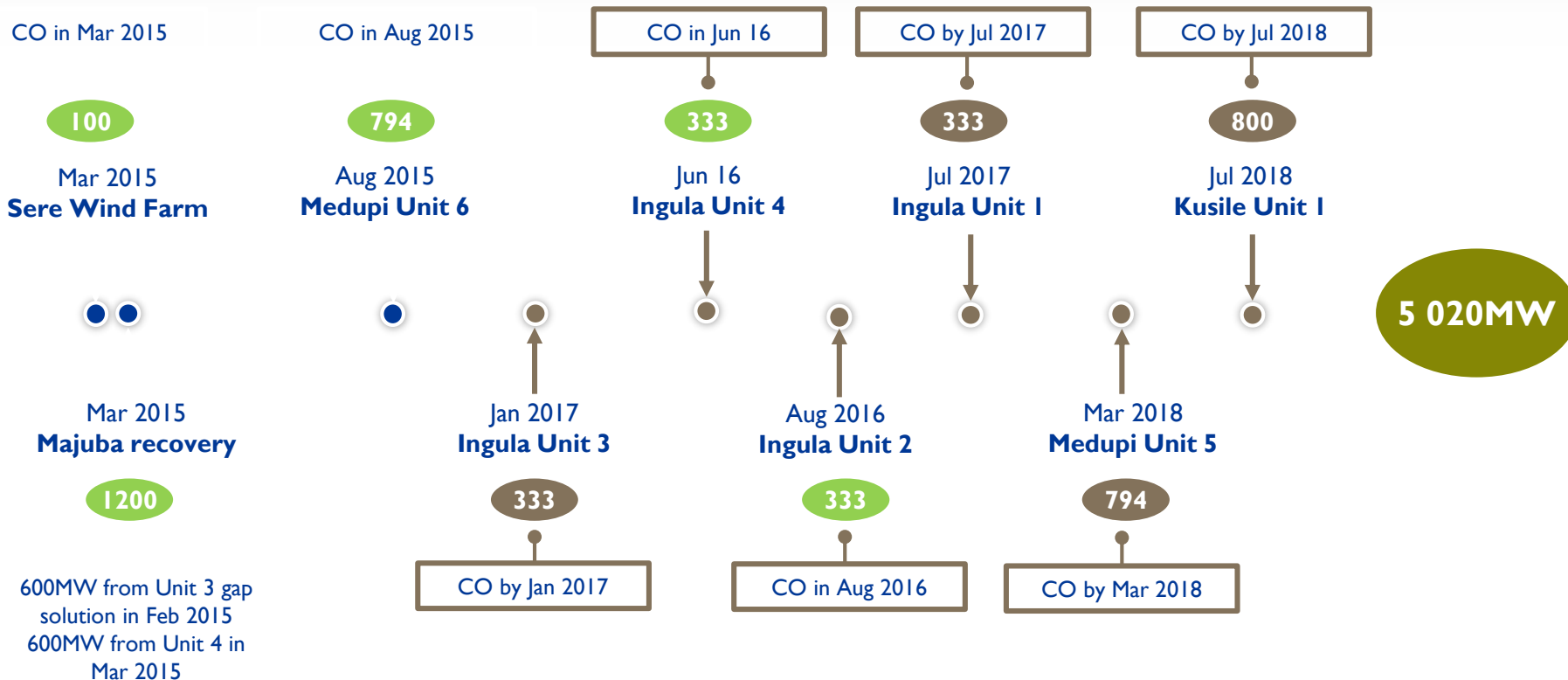
- **Medupi Unit 6** in commercial operation on 23 August 2015, adding 720 MW to South Africa's electricity grid. The unit achieved **EAF of 97.8%** for June 2016
- **Medupi Unit 5** is on track for commercial operation in the first half of 2018
- **Ingula Unit 4 and 2** in commercial operation on 10 June 2016 and 22<sup>nd</sup> August 2016 respectively adding 666 MW to peaking capacity. Repairs to the damaged unit 3 are progressing. The remaining units expected to be in **commercial operation during 2017**.
- All the **Ingula units synchronised** to the national grid ahead of schedule, on 3 March (Unit 3), 25 March (Unit 4), 21 May (Unit 2) and 16 June 2016 (Unit 1)

- **Kusile** Power Station continues to achieve set milestones on the path for **Unit 1** commercial operation in the second half of 2018
- **Conversion** of the Gourikwa and Ankerlig **OCGTs** nozzles to dual fuel expected to be completed in 2017
- **Transmission lines** (346km) installed and **substation capacity** (2 435MVA) commissioned to support network strengthening, new Generation capacity and IPPs

# We remain focused on bringing new capacity online

P80 dates

CO = commercial operation



## Environment and safety

- **LTIR** improved from 0.36 in 2014/15 to 0.29 in 2015/16
- Employee and contractor **fatalities** increased: 4 employees (2014/15: 3) and 13 contractors (2014/15: 7)
- **Relative particulate emissions** improved slightly to 0.36kg/MWh sent out (2014/15: 0.37)
- **Specific water consumption** increased to 1.44ℓ/kWh (2014/15: 1.38)

## Equipment theft

- **Crime decreased** by 28% in value compared to the prior year
- **High-value crime** was targeted and success was achieved with 229 arrests

## Socio-economic

- Committed **corporate social investment** spent of R103.6 million (2014/15: R115.5 million) for the year, exceeding budget with 5.1%, benefitting **302 736 beneficiaries** (2014/15: 323 882)
- Procurement from **B-BBEE compliant suppliers** as a percentage of procurement was 81.7%, exceeding the target of 80%
- Procurement from **black women-owned (BWO)** suppliers as a percentage of procurement was 19.3%, exceeding the target of 12%
- Total of **158 016 households** (2014/15: 159 853) were **electrified** during the year, with almost 90% of all households electrified



## Human resource performance

- **Staff complement** increased to 47 978 (2014/15: 46 490) mainly due to employment of 1 370 learner artisans to strengthen pipeline
- 2.73% of employees are people with **disabilities**
- **Racial equity in senior management** of 61.1% and in **professional and middle management** of 71.7%
- **Gender equity in senior management** of 28.1% and in **professional and middle management** of 35.1%
- The **Eskom Women Advancement Programme** will accelerate the development of female employees in the professional and middle management levels, to create a pipeline for senior management vacancies

# PFMA



**PFMA** - Eskom remains committed The Company is committed to complying with the provisions of the PFMA and handling alleged governance breaches in a firm and expeditious manner.



Category of reportable items	2016			2015		
	%#	R million	Number of incidents	%#	R million	Number of incidents
<b>Fruitless and wasteful expenditure - SHEQ matter *</b>	<b>0.547%</b>	<b>886</b>	<b>1</b>	<b>0.000%</b>	<b>0</b>	<b>0</b>
<b>Fruitless and wasteful expenditure - below materiality threshold</b>	<b>0.057%</b>	<b>93</b>	<b>655</b>	<b>0.033%</b>	<b>51</b>	<b>606</b>
<b>Losses through criminal conduct **</b>	<b>0.073%</b>	<b>118</b>	<b>5 175</b>	<b>0.091%</b>	<b>142</b>	<b>5 703</b>
Irregular expenditure carried forward (opening balance) ***	0.258%	418	2	0.000%	0	0
Irregular expenditure incurred in current year	0.065%	106	7	0.456%	712	15
<u>Less: Irregular expenditure condoned</u>	-0.090%	-146	3	-0.003%	-4	1
Remaining irregular expenditure	0.233%	378	6	0.454%	708	14
<u>Less: Irregular expenditure not recoverable (not condoned)</u>	-0.019%	-30	1	-0.186%	-290	12
<b>Irregular expenditure awaiting condonation (per AFS)</b>	<b>0.215%</b>	<b>348</b>	<b>5</b>	<b>0.268%</b>	<b>418</b>	<b>2</b>
<u>Less: Irregular expenditure cleared subsequent to financial year-end ****</u>	-0.198%	-320	2	0.000%	0	0
<b>Irregular expenditure being resolved</b>	<b>0.017%</b>	<b>28</b>	<b>3</b>	<b>0.268%</b>	<b>418</b>	<b>2</b>

- \* Losses due to improper management of a contracting panel providing SHEQ services
- \*\*\*\* Resolved since 31 March 2016: R 310 million incurred on B2B was derecognised by the Board in April 2016. The item still reflects because the derecognition was done after financial year-end. The same applies for an amount of R 10 million (use of labour broker - internal processes not followed) which was condoned in April 2016.
- Reportable items expressed as a % of total expenditure of R 161.9 billion (2015: R 156,0 billion), which is net operating expenditure less personnel costs plus capital expenditure.
- An amount of R8 million (2015: R11 million) worth of stolen material was recovered, from the losses through criminal conduct category. Number of finalised disciplinary cases/arrests for criminal conduct: 48/229 (2015: 38/297).
- The Hawks recently secured a conviction of fraud against a former director of an Eskom subsidiary who facilitated the award of a tender to his own company. He was arrested in 2013. Eskom, through litigation, was successful in cancelling the contract, and on 20 June 2016 he was convicted for Fraud. Sentencing proceedings are scheduled for 11 August 2016. This matter was disclosed in the Eskom annual report in 2011.

# Eskom is committed to preventing and reducing irregular expenditure

Here are the various initiatives in place to achieve sustainable results

✓ Completed /in implementation

Initiatives	Status
More vigorous pursuit of appropriate actions against transgressors	●
Updating the PFMA procedure	●
Inclusion of PFMA training in new employee induction programme	✓
Presentation to Operating Division Exco members	●
Automation of PFMA reporting processes	●
Development and implementation of supplier integrity pacts	✓
Knowledge sharing with other Public Entities	●
<b>Developing and implementing contract lifecycle management system</b>	
Migration of all contracts into a single repository	●
Integration, user access, linking to purchase order, reporting, and tender automation to be considered	●
Implementing data quality improvement project for vendor, material and service master data clean ups	●
Development and implementation of PFMA online training (e-learning)	●
Training on standard operational procedures at Operating divisions by the functionally responsible units	●
Forensics and procurement training on procurement related violations	✓
Fraud resistance assessments and compliance checks	✓
Forensics data analysis	●
<b>Reviews by Assurance &amp; Forensics:</b>	
Adequacy of implementation of delegation of authority on the SAP system	●
Extent of unauthorized expenditure, the level of condonations and related disciplinary actions	✓
Adequacy of the disclosure of conflicts and interests process	✓
Adequacy of contract management processes	✓

The program aims to achieve two main objectives:

- To evaluate the existing governance and compliance function within Eskom's SCM environment;
- To introduce remedial measures that should be applied within the short to medium term in order to:
  - Strengthen Eskom's existing Supply Chain Management (SCM) governance framework;
  - Ensure that Eskom's internal procurement rules and procedures are aligned with the regulatory framework and best practice methodologies;
  - Increase the level of awareness of governance and compliance requirements among SCM staff and
  - Increase a culture of compliance among SCM staff.

Key initiatives that will include:

- Embedding National Treasury's Instruction Notes
- Establishment of system for handling of complaints
- The Policy for Infrastructure Procurement and Delivery Management
- Review of internal SCM framework
- Review of Empowerment and SD&L processes
- Analysis of audit findings.
- Sample review of transactions
- Review of Tender Committees
- Creation of SCM toolkit and helpdesk
- Continue Training and development
- Quality Assurance.
- Compliance-Awareness Campaign
- SCM Governance "state of health" report

# Conclusion



- Eskom is on a **firm financial and operational footing**:
  - Improved financial performance with healthy liquidity position
  - Generation performance has been stabilised, with continued improvement expected
  - No load shedding is anticipated
  - New build programme on target to meet delivery dates

**Eskom is well placed to deliver on our journey towards excess capacity**