



## The Eskom Debt Relief Bill provides certainty as to Eskom's near-term financial stability

National Treasury will cover all debt servicing, principal and interest, over the next three years, thereby **essentially taking over the entirety of Eskom's debt service over this period**

The support package will free up cash at Eskom to allow it to **undertake immediate and much-needed maintenance and investment programmes required to reduce load-shedding and strengthen the networks**, helping ensure the long-term stability and security of electricity supply in the country

The conditionality around the debt relief should also provide Eskom stakeholders with additional comfort on Eskom's deleveraging given that **Eskom will be prevented from raising further indebtedness without Ministerial approval** over the debt relief period

Over the next three years, Government will provide Eskom with debt relief amounting to R254bn:

**1 Advances over the next 3 years**

Government will provide Eskom with the following advances to be used to address Eskom's debt service obligations (interest and principal):

- R78 billion FY23/24**
- R66 billion FY24/25**
- R40 billion FY25/26**

Funds will be advanced when Eskom's debt falls due, in the form of an **interest-free subordinated loan, to be converted into Eskom shares if certain conditions are met**

**2 Direct take over of ZAR 70bn of Eskom in FY25/26**

In FY25/26, the Government will **take over up to R70 billion of Eskom's debt**, through an arrangement as determined by the Minister of Finance



Notes: (1) Debt stock in nominal value net of swaps, using spot rates as at end-Dec. 2022. (2) Projected R98bn principal repayments based on debt stock as of end-Dec. 2022 and projected disbursements before end March 2023, using forward rates as of end-December 2022. (3) Calculated as the difference between Eskom debt stock as of end of Dec. 2022 and projected ZAR 98bn of principal repayment embedded in the advances. It excludes contemplated borrowing between 1 January 2023 and 31 March 2023. The figures assume no new borrowing over the debt relief period. (4) Exact terms of the takeover to be finalised

Eskom will be required to adhere to various operational conditions, which will be included in Eskom's corporate plan to be overseen by its board.

In addition, the shareholder loans will only be converted to equity, on a quarterly basis, if Eskom is in compliance with the following conditions:

## OPERATIONAL AND INDUSTRIAL PLAN



Eskom's **capital expenditure is restricted to Transmission and Distribution** to allow for **refurbishment, strengthening and expansion** of the network

- For Generation capex relating to minimum emissions standards, flue-gas desulfurization and required outage related maintenance
- No new greenfield generation projects will be allowed during the debt-relief period



**Eskom may not implement remuneration adjustments** that negatively affect its overall financial position and sustainability



**Eskom may not use proceeds from the sale of non-core assets** for capital and operating needs

## FINANCING ACTIVITIES



The debt relief can **only be used to settle debt and interest payments under pre-identified instruments**



**No new borrowing** will be allowed from 1 April 2023 to the end of the debt-relief period, unless written permission is granted by Minister of Finance



**Positive equity balances** in Eskom's derivative contracts (swaps/hedges) **cannot be used to structure new debt** or loan agreements or be used as margin financing

*As a result of the above, Eskom's guarantee framework agreement for the R350 billion facility will reduce in line with National Treasury recommendations*

Funds will be advanced by Government based on when Eskom's debt (principal and interest) falls due:

## Eskom's debt service will be covered by a shareholder loan:

- The advance of funds will take the form of a loan, that is:
  - ✓ **interest-free**
  - ✓ **subordinated to Eskom's existing indebtedness**
  - ✓ **convertible into Eskom shares**
- Loan advances from Government to Eskom must be used by Eskom to repay **pre-identified Eskom debt and interest of all debt**

## Compliance with conditions will allow the conversion of the shareholder loan into equity:

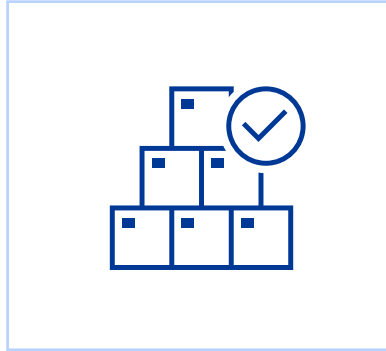
- Subject to compliance with certain conditions, the Minister of Finance will allow Eskom to **convert the loan to Government-owned equity**
- Eskom will commit to **adhering to conditions set by Government for the duration of the debt relief period** (commencing from the earliest of the first advance or 1 April 2023)
- Eskom will **provide a quarterly report confirming compliance with the conditions** to National Treasury

## The debt-to-equity conversion will immediately improve Eskom's balance sheet:

- The **deleveraging of Eskom will be progressively achieved**, as outstanding debt obligations falling due are serviced with **no new financing incurred** but through equity (after the conversion) - and capex will be funded from cash from operations
- A key Government assumption considered in the debt-relief determination is the implementation of **the recent tariff increase approved by the regulator** (18.65% in FY23/24 and 12.74% in FY24/25).

A **failure by Eskom** to achieve and/or adhere to specific conditions will (subject to a cure period of one quarter) cause **the loan amount from that quarter to be repaid to the National Revenue Fund at market rates**. Prior to any such repayment, **Government will meet with Eskom** to determine the cause of and **timing to rectify non-compliance**

Strengthening of the balance sheet and financial position by reducing debt and increasing equity



Cash from operations to be utilised for investing in infrastructure and outages

Improve liquidity, avoid rolling debt or borrowing to settle debt



Will support Eskom's status as a going concern

Allow for long-term planning



Positive feedback from rating agencies, e.g. S & P

Improve Generation outage planning, allowing for ordering of long lead items upfront



Eskom is grateful for the debt relief and will comply with the conditions



Eskom's balance sheet and financial sustainability will improve



An improvement in Eskom will benefit the country



Of concern, the growing overdue municipal debt, exceeding R58 billion