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Annexure 5

a. **If the R250 billion debt could be transferred - will that make Eskom financially viable?**

The Corporate Plan compiled and submitted to the shareholder in March 2019 premised this as one of the base principles. Under this assumption in the plan all financial metrics showed strengthening to a point where, within the 5 year window contemplated in that plan (FY 2021 to FY 2024), they surpassed acceptable metrics or showed a strong trajectory to achieve these. In the longer term there will still need to be ongoing cost control from the Eskom side but, more critically, the issue needing resolution is that of a tariff path that allows Eskom to recover prudent operating costs plus allows it a fair return on assets. This clarity of tariff path is required to ensure Eskom is not only financially sustainable, but also financially independent. If this price correction does not take place, then within a 5 to 8 year window Eskom will highly likely revert to the situation it finds itself in now. This path can be evidenced in the government support that was obtained in FY 2016 and the situation faced in FY 2020 – there has been no debt relief nor tariff correction in the intervening period.

b. **GCE's concluding remarks talks to R70bn obligation – how was the figure determined – and what is it for?**

The GCE was referring to the obligations in respect of the servicing of debt. This is typically made up of the repayment of the value borrowed and the interest associated with this borrowing. For the year ended 31 March 2019, the published annual financial statements show (in the cash flow statement) that Eskom paid back R34.4 billion in borrowings and also paid R35.8 billion in interest to lenders, this totals R70.2 billion. See the highlighted lines in the extract from the FY 2019 AFS below:

STATEMENTS OF CASH FLOWS

for the year ended 31 March 2019

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Cash flows from operating activities					
Cash generated from operations	43	33 257	39 659	32 323	37 857
Net cash used in derivatives held for risk management		(172)	(1 726)	(174)	(1 738)
Finance income received		245	393	245	393
Finance cost paid		(277)	(28)	(276)	(28)
Income taxes paid		(313)	(724)	–	–
Net cash from operating activities		32 740	37 574	32 118	36 484
Cash flows used in investing activities					
Disposals of property, plant and equipment		566	453	566	448
Acquisitions of property, plant and equipment		(34 887)	(49 076)	(34 474)	(48 988)
Acquisitions of intangible assets		(443)	(425)	(343)	(424)
Acquisitions of future fuel supplies		(548)	(1 618)	(548)	(1 618)
Net acquisitions of insurance investments		(1 356)	(1 492)	–	–
Payments made in advance		(9)	(40)	(9)	(40)
Cash used in provisions		(1 707)	(4 788)	(1 707)	(4 788)
Net cash used in derivatives held for risk management		(166)	(91)	(166)	(91)
Net cash from/(used in) loans receivable		25	12	96	(25)
Cash from finance lease receivables		29	19	29	19
Dividends received		43	37	35	27
Dividends received – investment in equity-accounted investees	11	34	26	–	–
Finance income received		1 411	1 486	506	534
Net cash used in investing activities		(36 202)	(55 497)	(36 015)	(54 946)
Cash flows (used in)/from financing activities					
Debt securities and borrowings raised	44	58 914	53 234	59 364	53 761
Payments made in advance	44	(1 179)	(929)	(1 179)	(929)
Debt securities and borrowings repaid	44	(34 455)	(12 548)	(34 332)	(12 591)
Net cash from/(used in) derivatives held for risk management	44	1 219	(1 824)	1 219	(1 824)
Disposals of treasury investments	44	–	6 586	–	6 586
Cash used in finance lease payables	44	(357)	(246)	(357)	(246)
Net cash from financial trading assets	44	10	1 459	10	1 459
Net cash used in financial trading liabilities	44	(29)	(1 241)	(29)	(1 241)
Finance income received		858	1 034	820	1 004
Finance cost paid		(35 845)	(31 909)	(36 035)	(32 051)
Taxes paid		(69)	(69)	(69)	(69)
Net cash (used in)/from financing activities		(10 933)	13 547	(10 588)	13 859
Net decrease in cash and cash equivalents		(14 395)	(4 376)	(14 485)	(4 603)
Cash and cash equivalents at beginning of the year		15 823	20 425	15 379	19 964
Foreign currency translation		50	(25)	–	–
Effect of movements in exchange rates on cash held		620	10	620	10
Assets and liabilities held-for-sale		(67)	(211)	3	8
Cash and cash equivalents at end of the year	21	2 031	15 823	1 517	15 379

Cash flow allocation

Cash flows that form part of the changes in the line items of the statement of financial position are classified into operating, investing and financing activities in a manner that is most appropriate to the group. As a result, the cash flows associated with some line items in the statement of financial position may be split into multiple cash flow activities in the statement of cash flows. These line items are:

Derivatives held for risk management

Derivatives held for risk management are classified as operating, investing or financing activities based on the allocation of the cash flows of the underlying hedged item. Refer to note 16.

Payments made in advance

Payments made in advance that relate to the raising of debt securities and borrowings are classified as financing activities. Payments related to the acquisition of property, plant and equipment and intangible assets are allocated to investing activities. All other payments made in advance are deemed operational in nature and are therefore included within operating activities. Refer to note 18.

Provisions

Cash flows related to provisions for environmental restoration and mine-related closure, pollution control and rehabilitation, where the cost of property, plant and equipment as well as future fuel supplies includes environmental rehabilitation costs, are classified as investing activities. All other provisions are operational in nature and are classified as operating activities. Refer to note 29.

Finance income and costs

Finance income and costs are allocated in line with the allocation of the related balances on which the income or cost arose.

c. **How much is Eskom's balance sheet currently?**

Refer to the extract of the balance sheet from the AFS as published for the financial year ended 31 March 2019 below.

Eskom's physical assets (on a historic net book value basis) amounted to R651.6 billion at 31 March 2019 (the end of the 2019 financial year). At the end of the period:

- Total assets amounted to R758.0 billion
- Total equity amounted to R153.1 billion
- Total liabilities amounted to R604.9 billion
- Total debt securities and borrowings , non-current to R387.2 billion plus current to R53.4 billion which equals the total gross debt Eskom carries of R440,6 billion
- Total current assets to R63.9 billion
- Total current liabilities to R108.1 billion

STATEMENTS OF FINANCIAL POSITION

at 31 March 2019

	Note	Group 2019 Rm	Group 2018 Rm	Company 2019 Rm	Company 2018 Rm
Assets		685 153	658 067	685 578	658 440
Non-current					
Property, plant and equipment	8	651 637	630 648	652 233	631 159
Intangible assets	9	3 925	3 945	3 706	3 803
Future fuel supplies	10	6 471	7 157	6 471	7 157
Investment in equity-accounted investees	11	373	372	95	95
Investment in subsidiaries	12	–	–	384	384
Deferred tax	13	17	23	–	–
Loans receivable	15	40	63	–	–
Derivatives held for risk management	16	20 582	13 705	20 582	13 785
Finance lease receivables	17	374	408	374	408
Payments made in advance	18	1 734	1 746	1 733	1 729
		63 994	72 123	60 709	70 531
Current					
Inventories	20	26 482	24 348	26 251	24 122
Taxation		102	149	–	–
Loans receivable	15	26	18	6 071	6 201
Derivatives held for risk management	16	2 080	1 873	2 080	1 875
Finance lease receivables	17	31	29	31	29
Payments made in advance	18	1 541	1 418	1 460	1 328
Trade and other receivables	19	21 976	20 125	23 137	21 429
Insurance investments	14	9 563	8 872	–	–
Financial trading assets	14	162	168	162	168
Cash and cash equivalents	21	2 031	15 823	1 587	15 379
Assets held-for-sale	22	8 871	8 926	–	40
Total assets		758 018	739 116	746 287	729 011
Equity					
Capital and reserves		153 094	170 336	138 492	158 075
Liabilities		495 194	474 353	494 267	473 788
Non-current					
Debt securities and borrowings	25	387 208	348 112	387 161	348 060
Embedded derivatives	26	1 365	3 434	1 365	3 434
Derivatives held for risk management	16	5 643	16 570	5 643	16 570
Deferred tax	13	8 350	15 846	7 804	15 665
Employee benefit obligations	28	13 546	13 725	13 242	13 404
Provisions	29	45 588	44 370	45 558	44 359
Finance lease payables	30	9 130	9 533	9 130	9 533
Trade and other payables	31	1 031	1 201	1 031	1 201
Payments received in advance	27	2 038	1 766	2 038	1 766
Contract liabilities and deferred income	27	21 295	19 796	21 295	19 796
		108 051	92 745	113 528	97 148
Current					
Debt securities and borrowings	25	53 402	40 572	57 886	44 525
Embedded derivatives	26	2 069	1 857	2 069	1 857
Derivatives held for risk management	16	1 397	4 896	1 397	4 896
Employee benefit obligations	28	3 244	3 244	2 976	2 992
Provisions	29	5 662	5 309	5 556	5 194
Finance lease payables	30	332	286	332	286
Trade and other payables	31	36 849	32 116	38 208	32 944
Payments received in advance	27	3 359	3 003	3 367	2 996
Contract liabilities and deferred income	27	1 499	1 209	1 499	1 209
Taxation		–	4	–	–
Financial trading liabilities	14	238	249	238	249
Liabilities held-for-sale	22	1 679	1 682	–	–
Total liabilities		604 924	568 780	607 795	570 936
Total equity and liabilities		758 018	739 116	746 287	729 011

d. **Too much money wasted on contracts, but where is the money needed most?**

Eskom critically needs surplus cash from operations so that it is able to use this to service debt obligations and to finance capital expenses related to the acquisition of production equipment and plant refurbishment. In this way it can apply appropriate business practice and restrict itself to borrowing money in an optimal manner for capacity expansion which generates more future earnings through either additional sales volumes from existing generating technology or by allowing for a diversification of generating technology in its production fleet.

e. **Staff-layoffs – does Eskom have plans to lay off employees to improve the balance sheet?**

Eskom has no plans to lay off employees other than the voluntary separations announced earlier in February 2020. R400 million has been set aside to fund these VSP's - based on average service years and average remuneration, it is expected that between 350 and 450 non-core employees will leave Eskom service under this offer.

f. **Load shedding has bad impact on the country's economy. What is the impact**

Eskom recognises that load shedding has a significant impact on the economy and the public. During the 2019 financial year there were certain load shedding and curtailment incidents with the total load reduction determined to be a maximum of 812.2 GWh. These incidents contributed a total of 418.5 hours of load shedding or curtailment during the year as depicted in the table below.

Load shedding and curtailment impact in FY 2019

Month	Load shedding hours	Load Curtailment Hours	Total Load Shedding and/or Curtailment Hours	Load reduction GWh
Apr-18	-	-	-	-
May-18	-	-	-	-
Jun-18	14.2	10.0	14.4	21.9
Jul-18	3.0	-	3.0	3.3
Aug-18	-	-	-	-
Sep-18	-	-	-	-
Oct-18	-	-	-	-
Nov-18	27.8	23.8	27.8	34.9
Dec-18	98.7	43.0	98.7	156.4
Jan-19	-	-	-	-
Feb-19	63.9	62.8	64.8	174.5
Mar-19	209.4	209.9	209.9	421.2
Total FY 2019	**416.8**	**349.4**	**418.5**	**812.2**

Demand (MW) per hour is taken as the estimated energy consumption for that hour and all hours shed were aggregated to determine the total energy (MWh) that was shed for that specific month. This gives an estimated maximum energy consumption impact for that specific month. It should be noted that the risk in using these estimates is that it can be too high or too low as the demand to be shed was a request to the customers and they could have shed more or less during those hours. These figures are not measured and no feedback from the customers was obtained to ascertain the amount that was actually shed during the various hours. Upon instruction from the System Operator to stop load shedding, some load does not return immediately and this impact has been considered in this estimation.

The amount of energy reduced by mandatory load reduction is estimation and has been indicated as such. This load reduction is a combination of load shedding and / or curtailment, neither of which can be measured. It is also important to note that the behaviour of customers during and around times of load reduction is not normal. Hence the estimated energy reduction is based on how the expected demand compares against the actual demand supplied.

Known variances such as demand behaviour on the day, the time of day, the day in the week and the season of each reduction event is also compensated for. Verification is done on the order of magnitude of each event, using the expected reduction for the relevant stage and duration of load shedding and/or curtailment. Hence the final estimation, although having a margin of error, will give a good indication of the behaviour and magnitude of each reduction event. These estimated values are aggregated monthly, as shown in the table above.

Load shedding was applied on **30 days during the 2019 financial** year as detailed in the table below. During this period the use of the Interruptible Load Scheme (ILS) assisted in mitigating the need for further load shedding.

Summary of days of Load shedding during 2019 financial year

Period	No of Days
Apr-18	0
May-18	0
Jun-18	3
Jul-18	1
Aug-18	0
Sep-18	0
Oct-18	0
Nov-18	3
Dec-18	8
Jan-19	0
Feb-19	5
Mar-19	10
Total	**30**

Cost of Unserved Energy (COUE)

COUE is the value (in Rands/kWh) that is placed on a unit of energy not supplied due to an **unplanned outage** of short duration. This is a key input used to inform key infrastructure and related investment decisions. **It is not an estimate of the cost of load shedding.** The method assumes outages as irregular and of low likelihood and short duration; and therefore **little or no mitigation is possible or feasible.**

Load shedding is planned and customers are forewarned, which changes their behaviour and thus the total economic impact. Unfortunately, many users incorrectly use this to estimate the costs of load shedding and doing so would be incorrect.

Cost of Load shedding and its impact on the Economy

Eskom has not undertaken any current studies on the cost of load shedding and its impact on the economy. Hence, the impact on the economy has not been quantified. Given the current developments, there has been a request for such a study to be undertaken by an independent economic expert to ensure it is transparent, verifiable and repeatable. This will be undertaken in due course.

In other instances it has been established that the cost of planned load shedding is a fraction of the COUE – which is for unplanned outage. Thus it has been established when entities know that they can plan around schedules of load shedding – the economic impact will be significantly lower than the COUE.