**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NUMBER: 782 [NW901E]**

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**782. Dr M J Figg (DA) to ask the Minister of Finance:**

With reference to the replacement of the Eskom Subordinated Loan Special Appropriation Bill [B77-2008] with the Eskom Subordinated Loan Special Appropriation Bill [B17-2015], what was the total amount of interest lost as a result of Eskom not repaying one cent in terms of the loan agreement stipulated in the 2008 version of the specified Bill? NW901E

**REPLY:**

The loan agreement that was concluded between the Minister of Finance and Eskom, as required in terms of the Eskom Subordinated Loan Special Appropriation Act (2008/09-2010/11 Financial Years), provided for the loan to be repaid over a 30-year period. Consequently, there was no requirement for Eskom to have repaid any portion of the loan as yet.

The loan agreement also provided for a market-related interest rate to be payable, but, taking into account the medium-term impact of Eskom’s capital investment plan on Eskom’s balance sheet as required in the Act, the interest was only payable in those financial years where Eskom’s financial results reflected both a leverage ratio of better than 12.5% and an interest multiple above 2.5 times. Both ratios were to be calculated after considering any interest that would be payable on the loan. These provisions enabled the appropriated funding to strengthen Eskom’s balance sheet in a way that would be similar to, although not exactly the same as, equity.

As a result of Eskom’s weak financial position, at no point since the inception of the loan have both of the ratios been above the set thresholds and hence no interest was payable. Moreover, forward projections indicate that Eskom’s financial position is expected to remain weak for some time and that it was unlikely that the company would be required to pay interest on the loan over that period. Specifically, Eskom’s 2016 Corporate Plan indicates that the company anticipates that some key credit metrics will only reach the targetted levels by around 2026.

Moreover, the weak financial position resulted in Eskom credit rating being downgraded to sub-investment grade; reducing access and increasing the cost of funding resulting in the utility having to rely more heavily on the government guarantees. The conversion to equity of the subordinated loan through the replacement of the Eskom Subordinated Loan Special Appropriation Act (2008/09-2010/11 Financial Years) with the Eskom Special Appropriation Act (2008/09-2010/11 Financial Years), 2008 as well as the allocation of a further R23 billion in equity through the Eskom Special Appropriation Act, 2015 served to improve Eskom’s financial position thereby better enabling the company to stablise electricity supply, undertake required maintenance and complete the build programme.