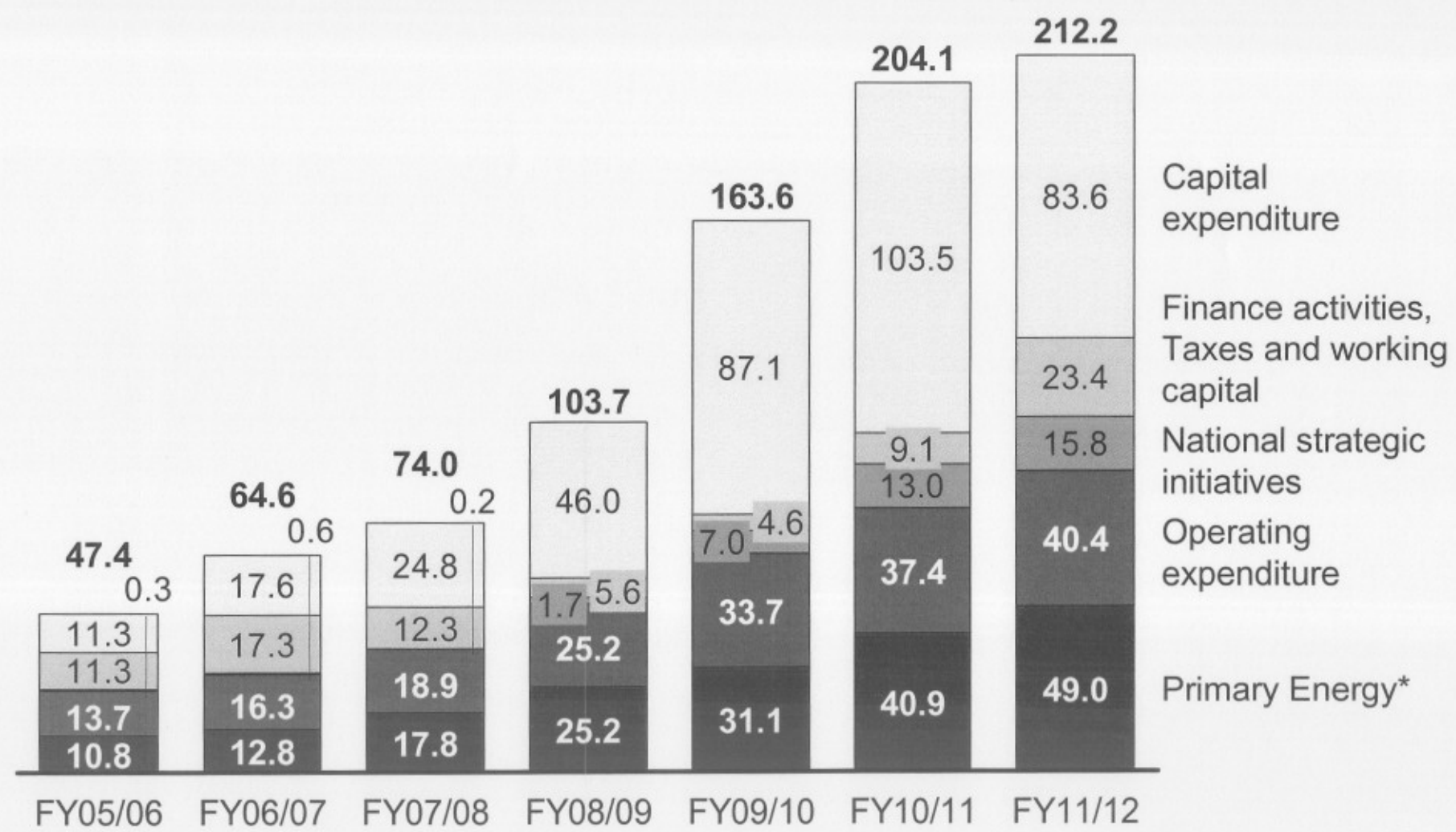


## The funding requirements . . .

# Total cash outflows

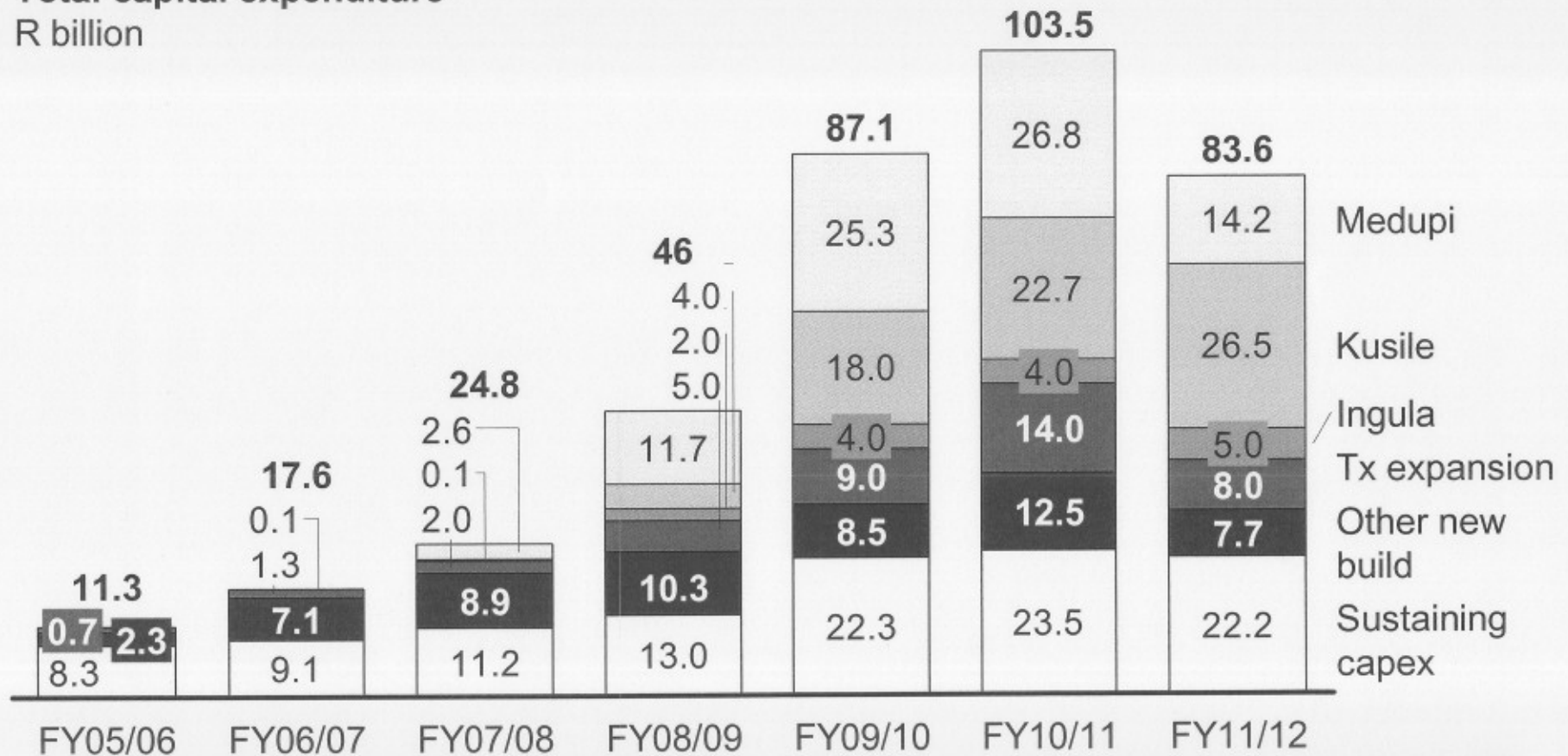
R billion



\* Includes cost of coal burn

# Capital Expenditure 2006 to 2012

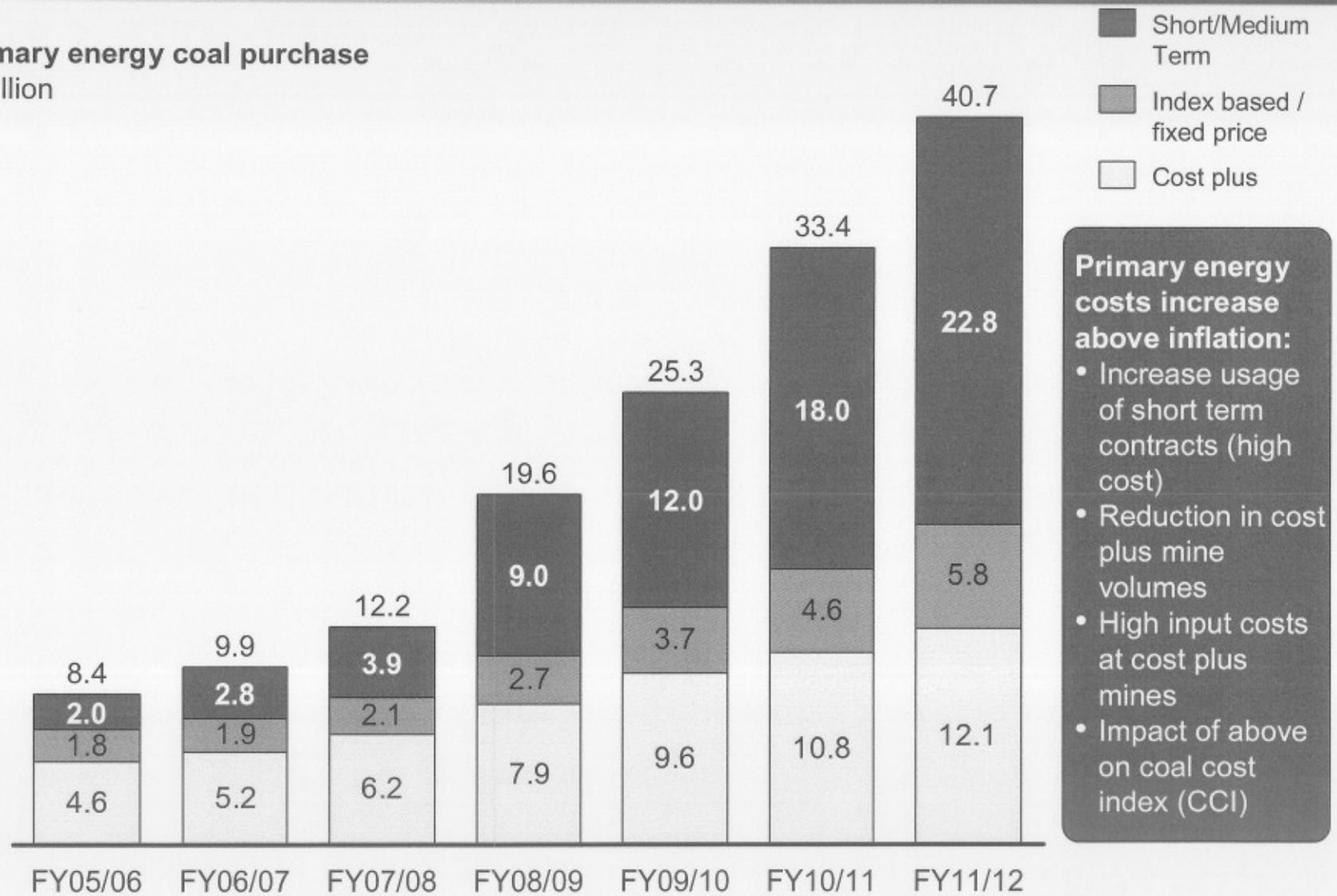
Total capital expenditure  
R billion



- Capital investment increased significantly in recent years. Accelerated investment in infrastructure is required to meet the growing demand for electricity
- Consensus on a funding model is required to enable infrastructure creation

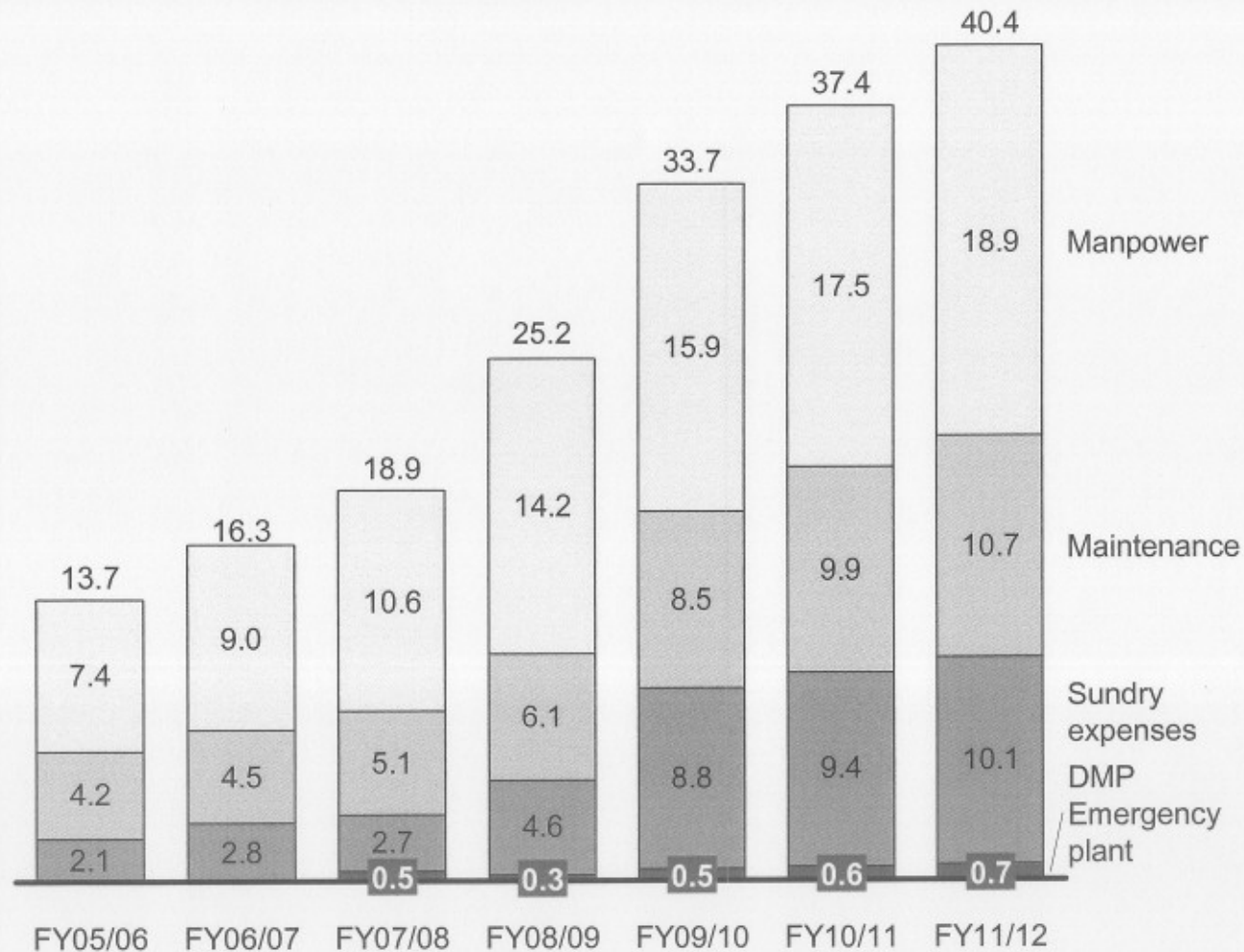
# Primary energy – Coal purchases

Primary energy coal purchase  
R billion



# Breakdown of Operating expenditure

R billion

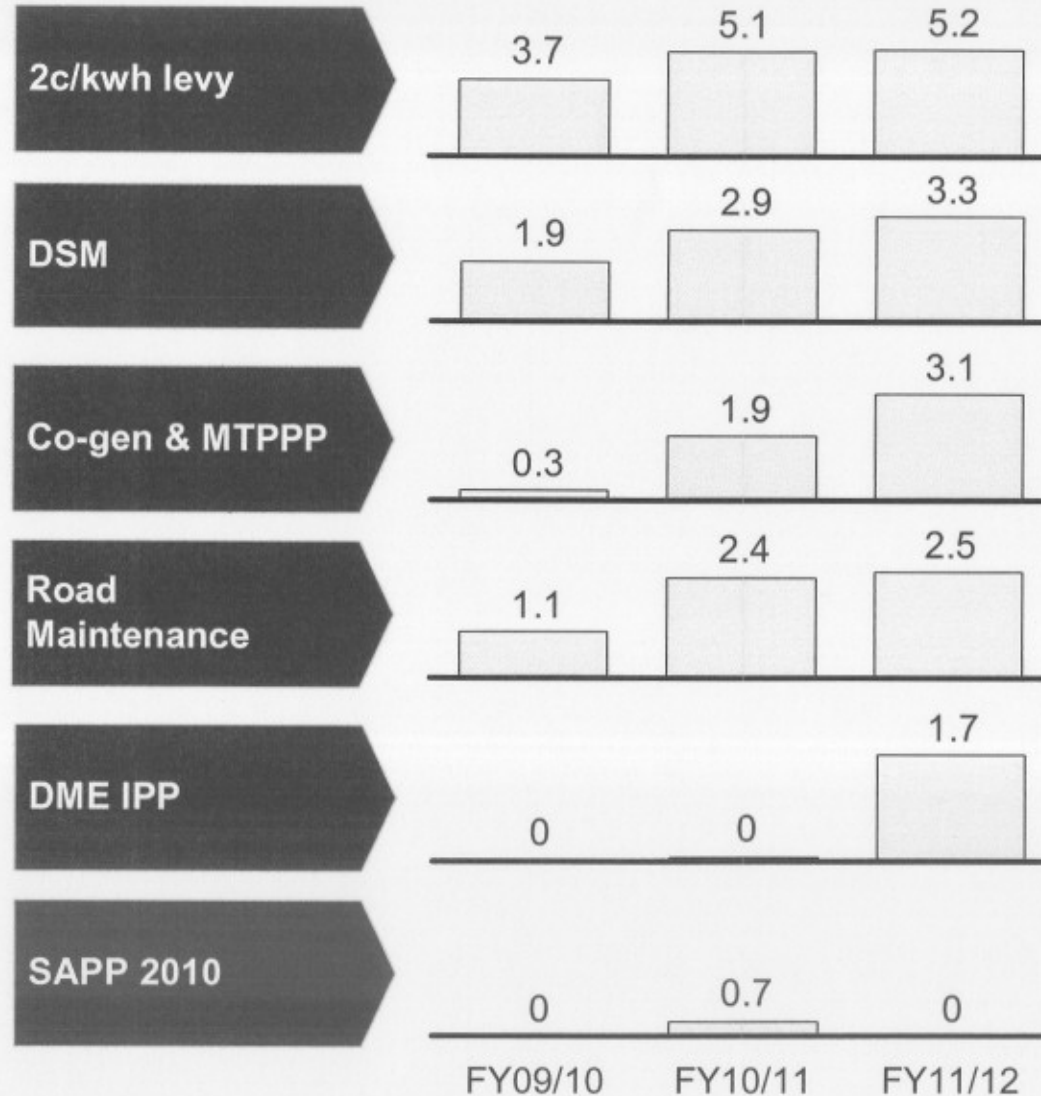


## Operating costs increase above inflation:

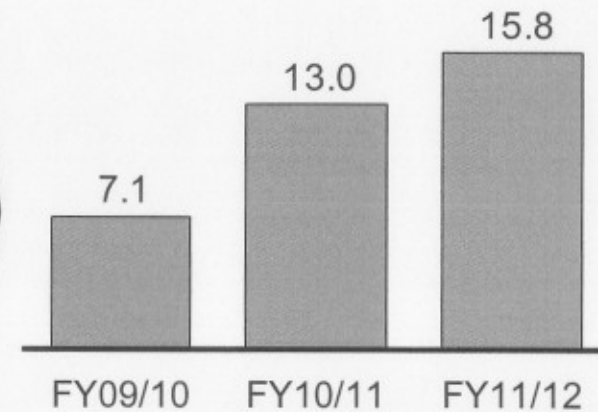
- Manpower
  - Increased numbers to cater for new activities and filling vacancies
  - Salary adjustment above inflation to ensure skills retention.
- Maintenance
  - Increased maintenance activities to maintain plant performance in constrained system, cater for RTS, OCGTs and address backlog
- Sundry costs
  - Increase in sundry expenses as a result of new RTS cost, increase in bad debts

# Included in Eskom's operating costs are several "National Strategic Initiatives"

R billion



Total strategic initiatives per annum



- These type of expenses are necessitated by legislation, national imperatives, demand management and safety & reliability
- Costs are not always under Eskom's direct control

## Summary of cost increases

### Capex

- Capital investment increased significantly in recent years. Accelerated investment in infrastructure is required to meet the growing demand for electricity
- Consensus on a funding model is required to enable infrastructure creation

### Primary energy

- Increase usage of short term coal supply contracts (high cost)
- Reduction in cost plus and fixed price mine volumes
- High input costs at cost plus mines
- Impact of above on coal cost index

### Operating costs

- Manpower
  - Increased numbers to cater for new activities and filling vacancies
  - Salary adjustment above inflation to ensure skills retention.
- Maintenance
  - Increased maintenance activities to maintain plant performance in constrained system, cater for new capacity projects and address backlog

### Strategic initiatives

- These type of expenses are necessitated by legislation, national imperatives, demand management and safety & reliability
- Costs are not always under Eskom's direct control

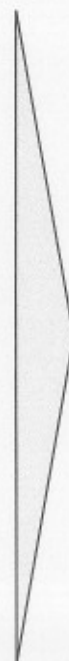
## **The funding model for the build programme**



## Review of the funding model is required to address the shortfall required to fund capital programme

### Regulatory return allows for...

- Recovery of prudently incurred:
  - Primary energy
  - Operating Expenditure
- A recovery of the existing assets:
  - Depreciation
- A return on the existing assets:
  - Return on Revalued assets



### New plant funded from...

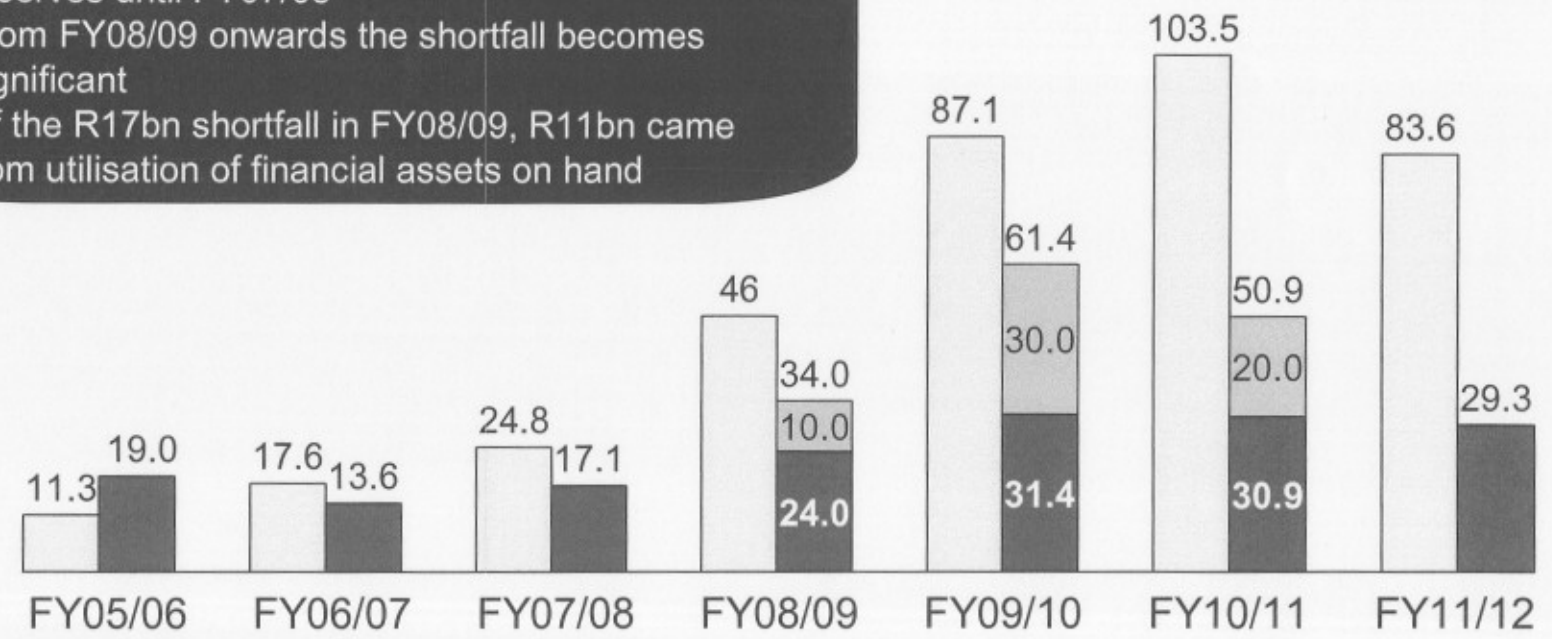
- Retained earnings
- New equity
- Borrowings

# A significant shortfall on funding the capital programme exists

R billion

Capex  
 Gvt loan  
 Debt

- Capex was largely funded through debt and reserves until FY07/08
- From FY08/09 onwards the shortfall becomes significant
- Of the R17bn shortfall in FY08/09, R11bn came from utilisation of financial assets on hand



**Shortfall**

• Rbn	-	4.0	7.7	17.0	25.7	52.6	54.3
• % shortfall	-	23%	31%	33%	30%	51%	65%

## Key conclusions

- We believe there is emerging consensus that the new build programme should continue
- The best way to achieve success is to allow space for funding models to be developed
- Not to make major decisions that pre-empt the outcome of the funding model
- We believe we will be successful in working with all stakeholders to resolve the funding model
- The application based on NERSA determination of 2008 of 20-25% (real) is supported by the bottom-up analysis.
- The interim tariff in line with the emerging consensus