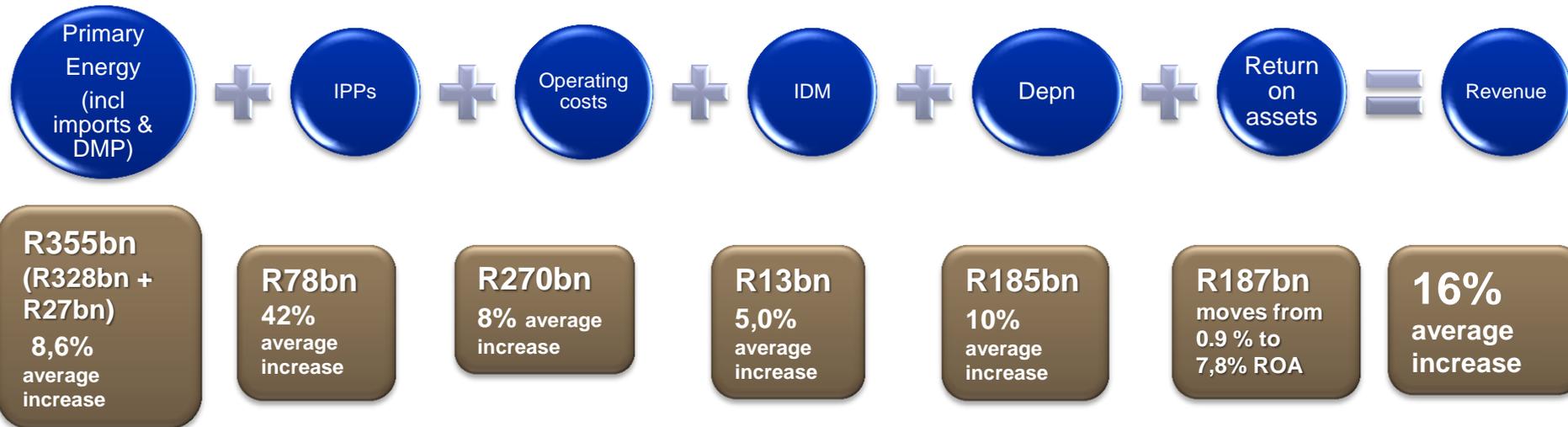


The cost components of MYPD3

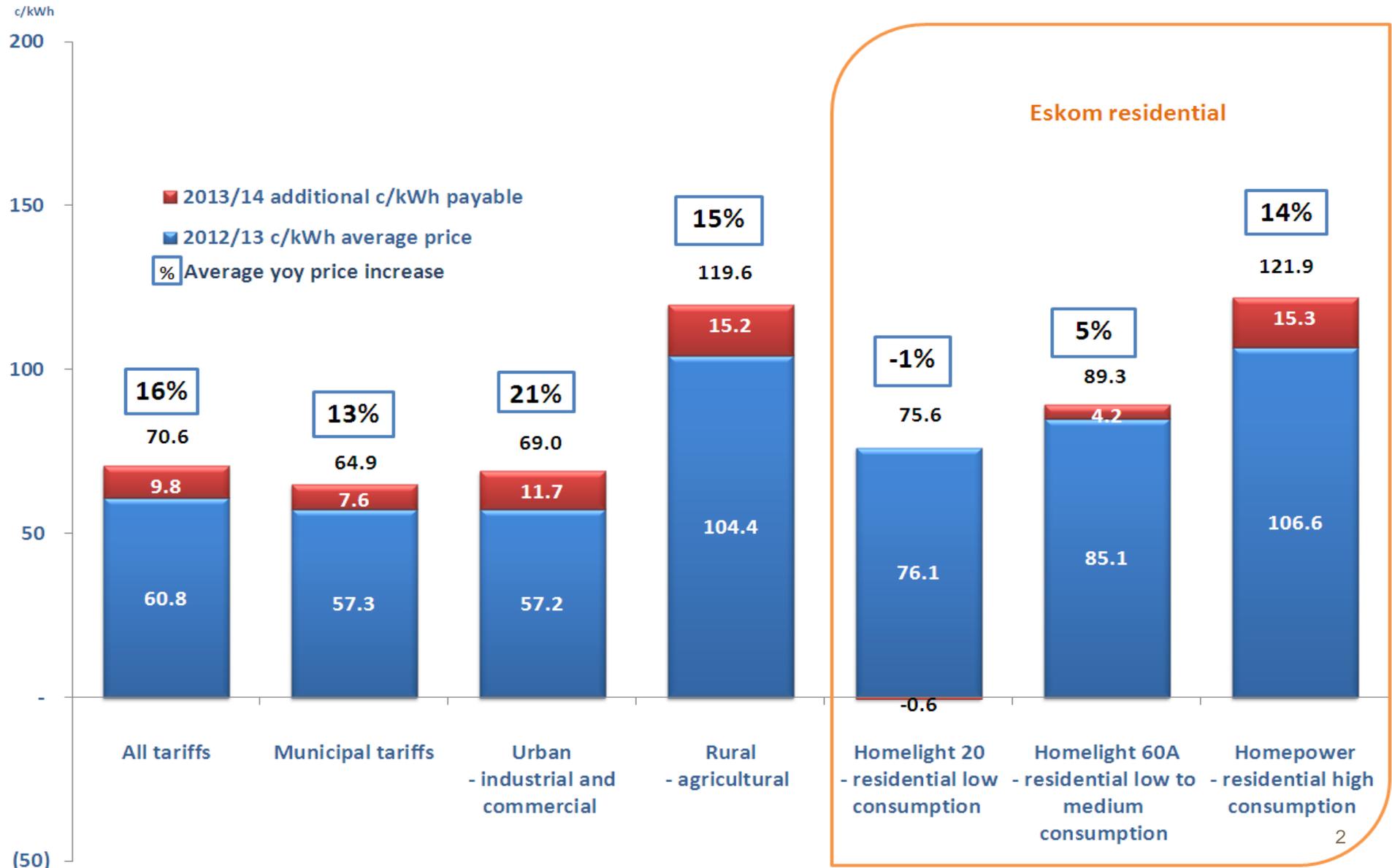
**Eskom applies for revenues to cover its expected costs
 NERSA's rules set out which costs are allowed**



Return on assets = % cost of capital allowed X depreciated replacement asset value

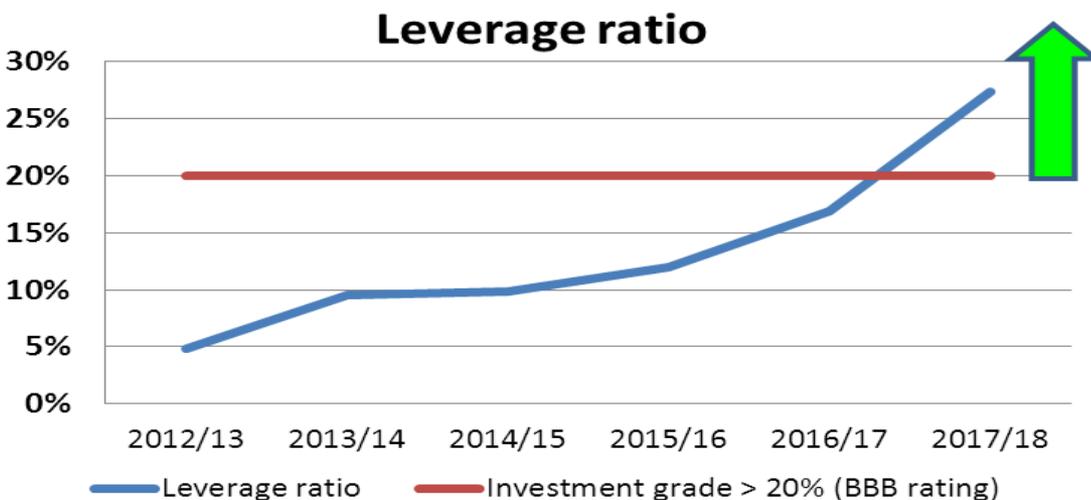
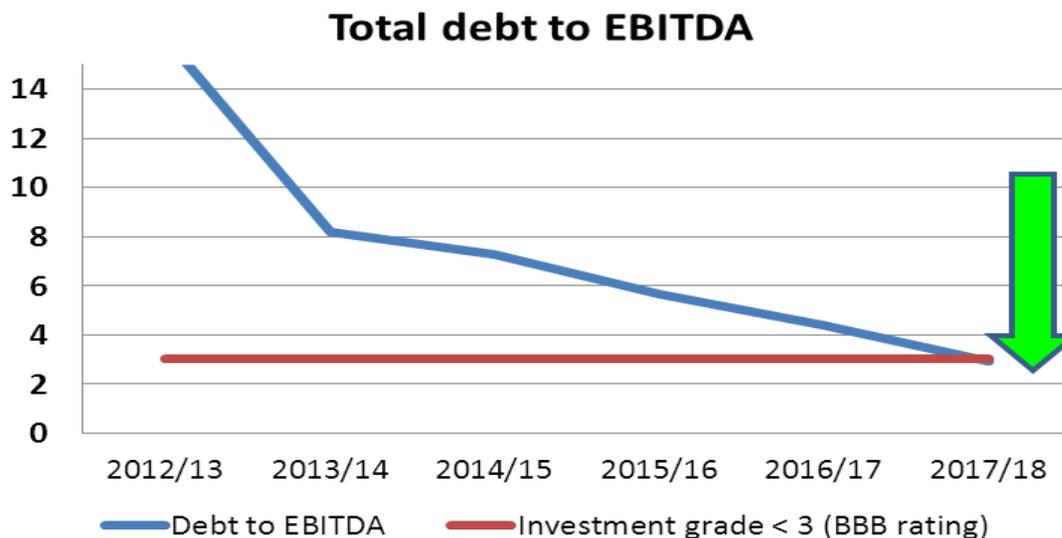
Price levels	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Nominal c/kWh (13% X 5)	61c/kWh	69c/kWh	78c/kWh	88c/kWh	99c/kWh	112c/kWh
Real (2012/13 terms) (13% X5)	61c/kWh	65c/kWh	69c/kWh	74c/kWh	79c/kWh	84c/kWh
Real as indicated by NERSA for MYPD 2 (2010 real terms)	59c/kWh	70c/kWh	82c/kWh	95c/kWh	110c/kWh	128c/kWh
Nominal c/kWh (16% X 5)	61c/kWh	71c/kWh	82c/kWh	95c/kWh	110c/kWh	128c/kWh
Real (2012/13 terms) (16% X5)	61c/kWh	67c/kWh	73c/kWh	80c/kWh	88c/kWh	96c/kWh

Increases per customer category



Financial sustainability once stand-alone investment grade is achieved in 2018

- Both ratios must meet criteria to qualify for stand-alone investment grade
- Eskom currently relies on government support for investment grade rating
- Majority of funding for approved new build secured (almost 80%)
- Investment grade status necessary to secure the balance of funding, and critical for long-term expansion post Kusile



The background of the slide features a series of high-voltage power line towers, also known as pylons, silhouetted against a dramatic sunset sky. The sky transitions from a deep orange near the horizon to a pale blue at the top, with scattered clouds catching the low light. The towers are arranged in a receding line, creating a sense of depth. A large, semi-transparent blue triangle is positioned on the left side of the slide, partially overlapping the towers and the sky. The title text is written in white, bold, sans-serif font within this blue area.

Review of Eskom Holdings Limited's adequate profitability test: Discount rate summary

21 November 2012

Executive summary

Summary presentation

This presentation contains a summary of certain of our findings with regard to conclusions that we reached regarding the KPMG audit review of the adequate profitability testing on Eskom Holdings Limited's ("Eskom") assets as performed by Ernst & Young Advisory Services Limited ("E&Y") for the year ended 31 March 2012.

The procedures KPMG performed were performed as part of our audit for the year ended 31 March 2012 in accordance with the terms of reference set out in our letter of engagement. Eskom subsequently requested KPMG to prepare a summary of our findings and as a result of the request from Eskom, we have prepared this summary presentation ("Summary Presentation") with a specific focus on the discount rate utilised.

Conclusion

Based on our procedures performed during this audit review, the discount rate used by Eskom (8.16%) is reasonable compared to the real pre-tax discount rate calculated by KPMG of 8.31% at 30 March 2012.

We have recalculated this return based on the future cash flows of Eskom (excluding tax outflows) and calculated the pre-tax rate by iteration. We have then adjusted the pre-tax rate by inflation in order to calculate a real discount rate of 8.31%.



Explanation of three step process

■ Step 1

Calculate the WACC using CAPM to arrive at a post-tax nominal rate

■ Step 2

Calculate the pre-tax, nominal rate using iteration

It is important to note that the pre-tax discount rate is not simply the post-tax discount rate grossed up for tax, but can only be calculated using iteration.

■ Step 3

Calculate the pre-tax, real rate using the Fischer formula

WACC – The Weighted Average Cost of Capital i.e.

$$\text{WACC} = K_e * (E/(D + E)) + K_d * (1-T) * (D/(D + E))$$

Where: K_e = cost of equity
 E = market value of equity
 K_d = cost of debt
 D = market value of debt
 T = corporate taxation rate

CAPM – The Capital Asset Pricing Model i.e.

$$K_e = R_f + \beta * (R_m - R_f) + R_s + \alpha$$

Where: R_f = the current return on risk-free assets
 R_m = the expected average return of the market
 $(R_m - R_f)$ = the average risk premium above the risk-free rate that a “market” portfolio of assets is earning
 β = the beta factor, being the measure of the systematic risk of a particular asset relative to the risk of a portfolio of all risky assets
 R_s = small size premium
 α = company specific risk factor (alpha premium)

Fischer formula

$$\text{Real rate} = (\text{WACC} + 1) / (\text{Inflation} + 1) - 1$$

Weighted average cost of capital

Weighted average cost of capital calculation			
			KPMG 30 March 2012
Cost of equity			
Risk free rate (30 March 2012)	R186		8.37%
Beta			0.93
(MR-Rf)			6.00%
CAPM			13.95%
Small stock premium			0.00%
Company specific risk premium			0.00%
Cost of equity			13.95%
Cost of debt			
Pre-tax cost of debt	Rfr		8.37%
Spread	Spread		2.50%
Cost of debt			10.87%
Tax rate			28.00%
After-tax cost of debt			7.82%
Weighted average cost of capital			
Market participant debt to equity	Cost	Weight	Weighted Cost
Equity	13.95%	53.76%	7.50%
Debt	7.82%	46.24%	3.62%
Weighted average cost of capital (after tax, nominal)		100.00%	11.11%
KPMG iteration (pre-tax, real)			8.31%

Explanation of individual WACC components

Rf (Risk free rate)	The risk-free rate is derived by reference to the bond yield on the South African Government R186 bond, which on 30 March 2012 was 8.37% (Source: Bond Exchange of South Africa on 30 March 2012). The Multi-year Price Determination ("MYPD") requires the use of a SA government bond with at least 10 years time to maturity.
Beta	In order to determine the appropriate beta factor for Eskom, consideration has been given to the betas of comparable listed utility companies (market participants). A beta of 0.93 has been used in our cost of equity calculation. Our estimated beta is in line with Eskom's in-house view. In 2009, Eskom performed a detailed beta analysis looking at numerous comparators (including 75 US utility companies) and arrived at a beta range of 0.9 to 1.1.
Market risk premium	The applied market risk premium represents the premium over and above the risk free rate appropriate for investing in an average company listed in South Africa. This premium is based on empirical studies, which compare the return on the All Share Index to the yield on long-term Government bonds. A market premium (Rm-Rf) of 6.0% is regarded as appropriate by KPMG Corporate Finance in the South African investment climate.
Alpha factor (company specific risk premium)	<p>In determining the appropriate Alpha factor we have considered both Eskom's specific risk factors and its positive factors from our understanding of the business and its operating environment. Some of the company specific risk factors that we considered include:</p> <ul style="list-style-type: none"> ■ Ageing infrastructure ■ Long-term sustainability requires a higher tariff structure ■ Funding concerns to support the significant capex rollout requirements <p>Positive factors include:</p> <ul style="list-style-type: none"> ■ Dominant (monopolistic) market position ■ Support from the regulator - NERSA ■ Guaranteed revenue streams ■ Off-take supply agreements with credible, power intense consumers (Anglo, BHP) ■ Favorable rating by credit rating agencies <p>Based on the factors above, we believe that on a net basis, no additional alpha is required.</p>
Pre tax cost of debt	In calculating the cost of debt, we have used the risk free rate as at valuation date plus 250 basis points as the long-term pre-tax cost of debt for Eskom. This was based on Eskom's credit rating (S&P and Moody's Eskom credit rating of BBB+ and Baa2 respectively).
Capital structure	In considering the appropriate capital structure for purposes of determining the WACC, we performed a review of reasonably comparable utility companies (market participants). We have considered a debt:equity structure of 46% debt and 54% equity applicable for Eskom.

Limitations

KPMG Inc (“KPMG”)

Summary presentation

This presentation contains a summary of certain of our findings with regard to conclusions that we reached regarding the KPMG audit review of the adequate profitability testing on Eskom Holdings Limited’s (“Eskom”) assets as performed by Ernst & Young Advisory Services Limited (“E&Y”) for the year ended 31 March 2012. The procedures KPMG performed were performed as part of our audit for the year ended 31 March 2012 in accordance with the terms of reference set out in our letter of engagement. Eskom subsequently requested KPMG to prepare a summary of our findings and as a result of the request from Eskom, we have prepared this summary presentation.

This Summary Presentation has been prepared on the basis of information presented to us on or before 9 May 2012. We have not undertaken to update our report or to revise the information contained therein for events or circumstances arising after that date.

Accuracy of forecasts

Where applicable, we have assumed that forecasts were prepared appropriately and accurately based on the information available to management at the time and within the practical constraints and limitations of such estimates. We have assumed that these forecasts do not reflect any material bias, either positive or negative. The preparation of financial forecasts involves the making of certain assumptions regarding future events, which may not occur.

Further, certain events and financial forecasts, by their nature, are not susceptible to independent substantiation. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable. Accordingly, we express no opinion on whether the management forecasts utilised as an input to the review process are achievable.

Limitations on scope

We have relied upon the sources of information referred to in our internal memo dated 9 May 2012 and the representations provided in undertaking the valuation and discount rate review. Except where specifically stated, we have not sought to establish the reliability of those sources. We have however reviewed the information and have sought explanations for key trends and salient features identified by us. We have also satisfied ourselves, as far as possible, that the information presented is consistent with other information obtained by us in the course of the work undertaken to prepare this Summary Presentation.

Limitations on scope (continued)

We draw your attention to the fact that the review was performed solely for audit purposes. The review procedures were not designed, conducted or prepared in contemplation of any other purpose. As a result items of importance for other purposes may well not have been specifically addressed for the purposes of KPMG’s review.

Valuations and discount rates are a function of the assumptions incorporated within the valuation methodology. In particular, the valuation or discount rate assumes that the historical performance as indicated by management is sustainable or, as a minimum, understood by a potential investor who has a similar outlook of the projected level of cash flow.

The true value or discount rate negotiated between parties on a willing buyer willing seller basis may differ from this value or discount rate as it is dependent upon considerations, including but not limited to, relative positions of strength, emotive issues, differing views of trading projections, growth potential, different assessments of risk, human resource issues, warranty conditions, etc., all of which can only be determined through a process of negotiation.

Confidentiality

This Summary Presentation is provided to Eskom Limited. It may not (except for your own internal purposes) be copied, referred to or disclosed to any third party, wholly or partially, without our prior written consent and then only on terms acceptable to us. You may disclose this Summary Presentation to your bankers and legal and other professional advisors for seeking advice about the Summary Presentation. However, you must inform them that:

- They may not (except for their own internal purposes) disclose the Summary Presentation to any third party without our prior written consent and then only on terms acceptable to us; and
- We accept no liability to your bankers or legal or other professional advisors in connection with the services (refer to our letter of engagement for definition); and
- We do not have a duty of care or any legal obligation to your bankers and legal and other professional advisors in connection with the services.

Definition of Overnight and Levelised Cost

- The most widely used method to compare capital costs of different power stations is the “overnight cost” method and is evaluated in terms of the United States dollar cost per kilowatt (USD/kW) for installed capacity.
- The overnight cost methodology commonly includes the engineering, procurement and construction (EPC) portion – commonly referred to as the capital cost
- LCOE can be defined as the ratio of the present value of the sum of all the costs incurred over the lifespan of the power plant to the total power generated over the life span of the power plant.
- The major costs incurred during the lifespan of the power plant are capital cost, fixed operation and maintenance (O&M) cost, variable O&M cost and fuel cost.
- If a plant receives any subsidies or incentives, the values will be deducted from the cost.

LCOE Calculator

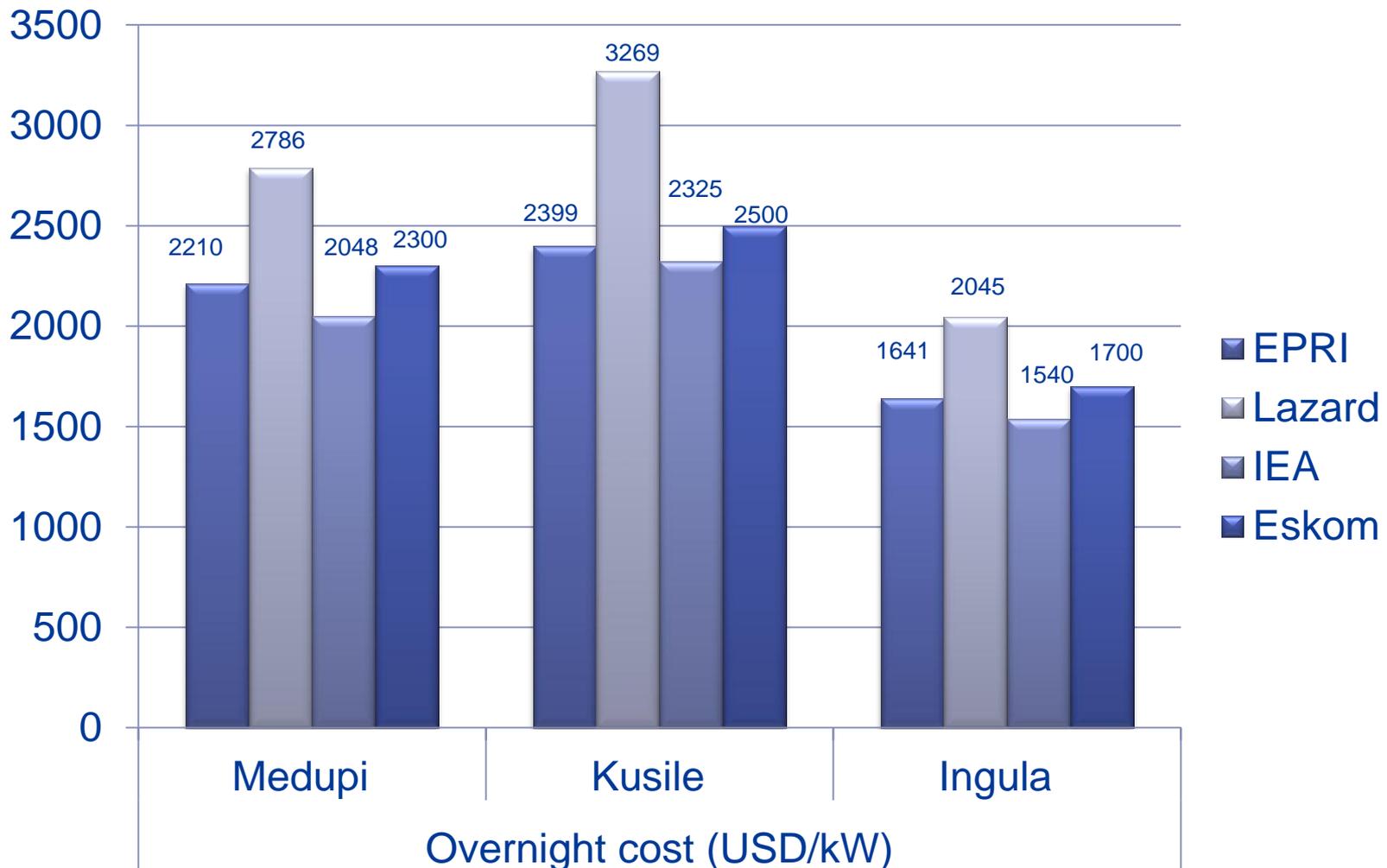
$$\text{LCOE} = ((\text{CC} + \sum_{n=1}^t (\text{FOM} + \text{VOM} + \text{FC})) / (1 + \text{DR})^n) / ((c * \text{CF} * 8760) / (1 + \text{DR})^n)$$

Where, CC is capital cost
FOM is fixed operational and maintenance cost
VOM is variable operational and maintenance cost
FC is fuel cost
DR is discount rate in percentage
C is capacity of the plant
CF is capacity factor of the plant
t is lifespan of the plant
n is the annuity rate

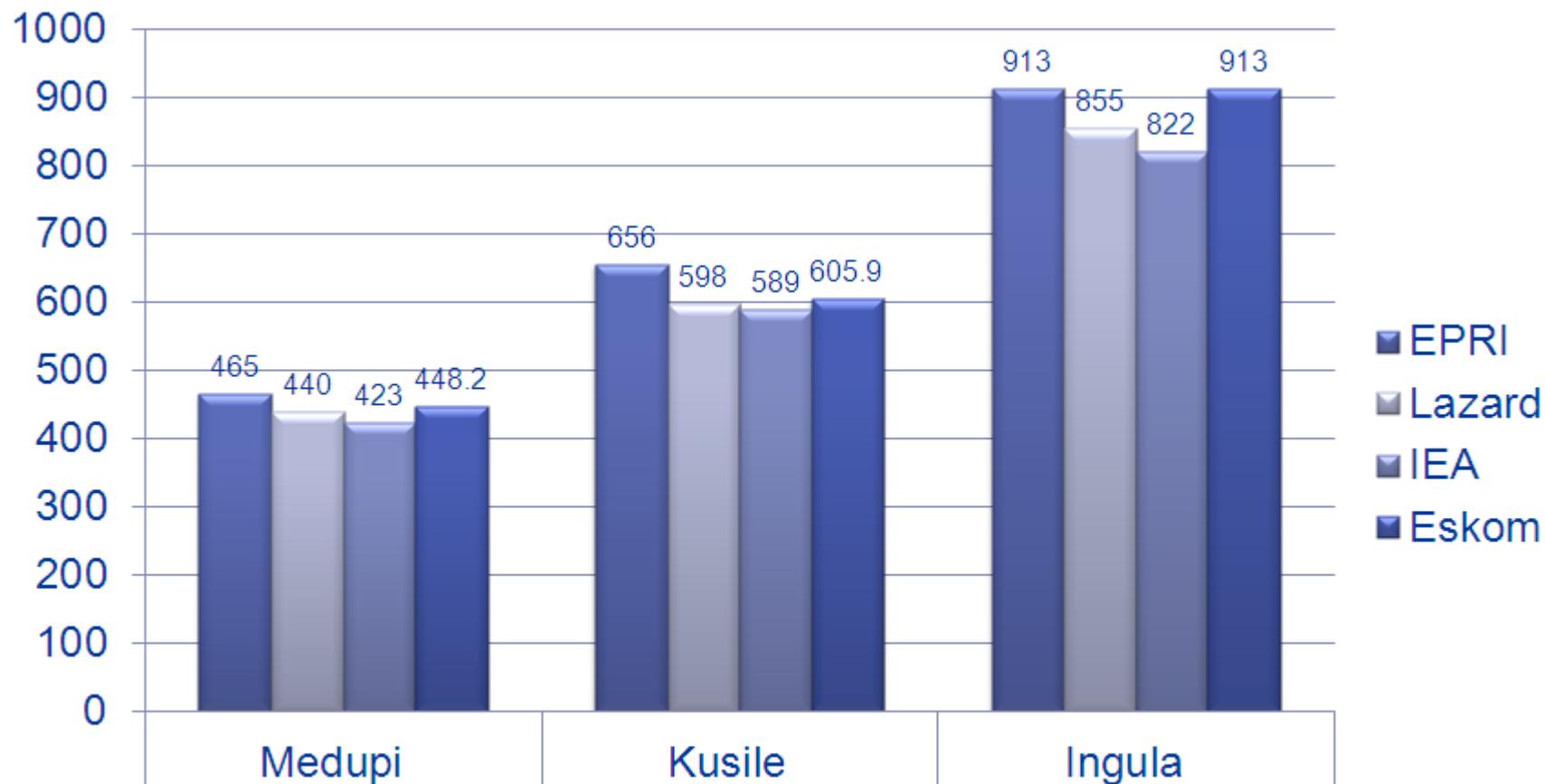
For Eskom, the LCOE methodology is preferred as it calculates the present value cost in United States dollars per megawatt-hour (USD/MWh) of energy production. Financial factors such as interest rates, inflation, discount rate and taxation are taken into account and include the capital cost, as well as fuel and all fixed and variable operating and maintenance costs.

Comparison of Overnight costs between EPRI, Lazard, IEA and Eskom for the New Build Programme

While Medupi and Kusile are similar super-critical coal-fired power stations, the difference in their costs is due to Medupi costs not including flue-gas desulphurisation. The capital expenditure phasing is also different, resulting in Kusile attracting higher escalation and financing charges



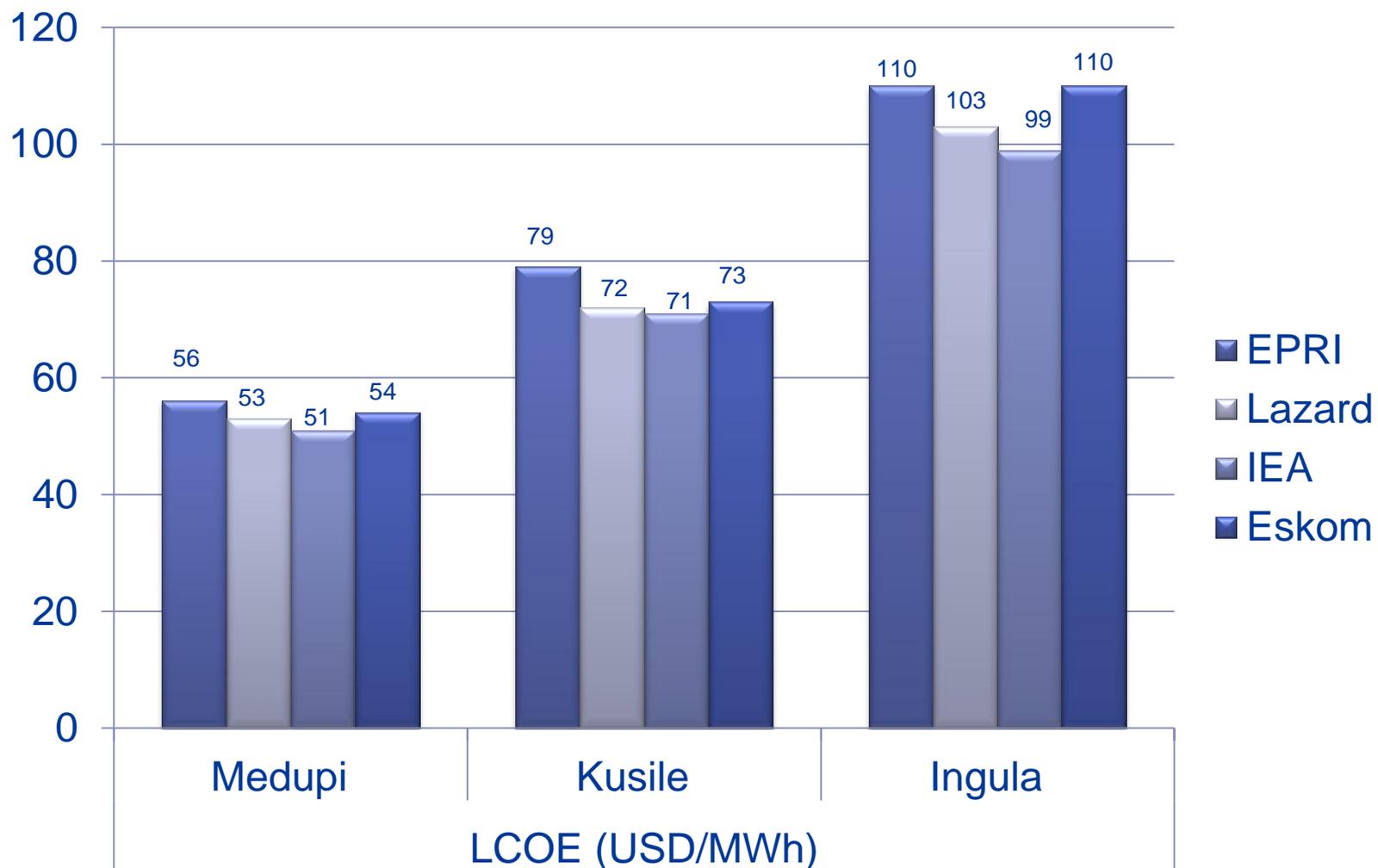
Comparison of LCOE between EPRI, Lazard, IEA and Eskom for the New Build Programme – in ZAR



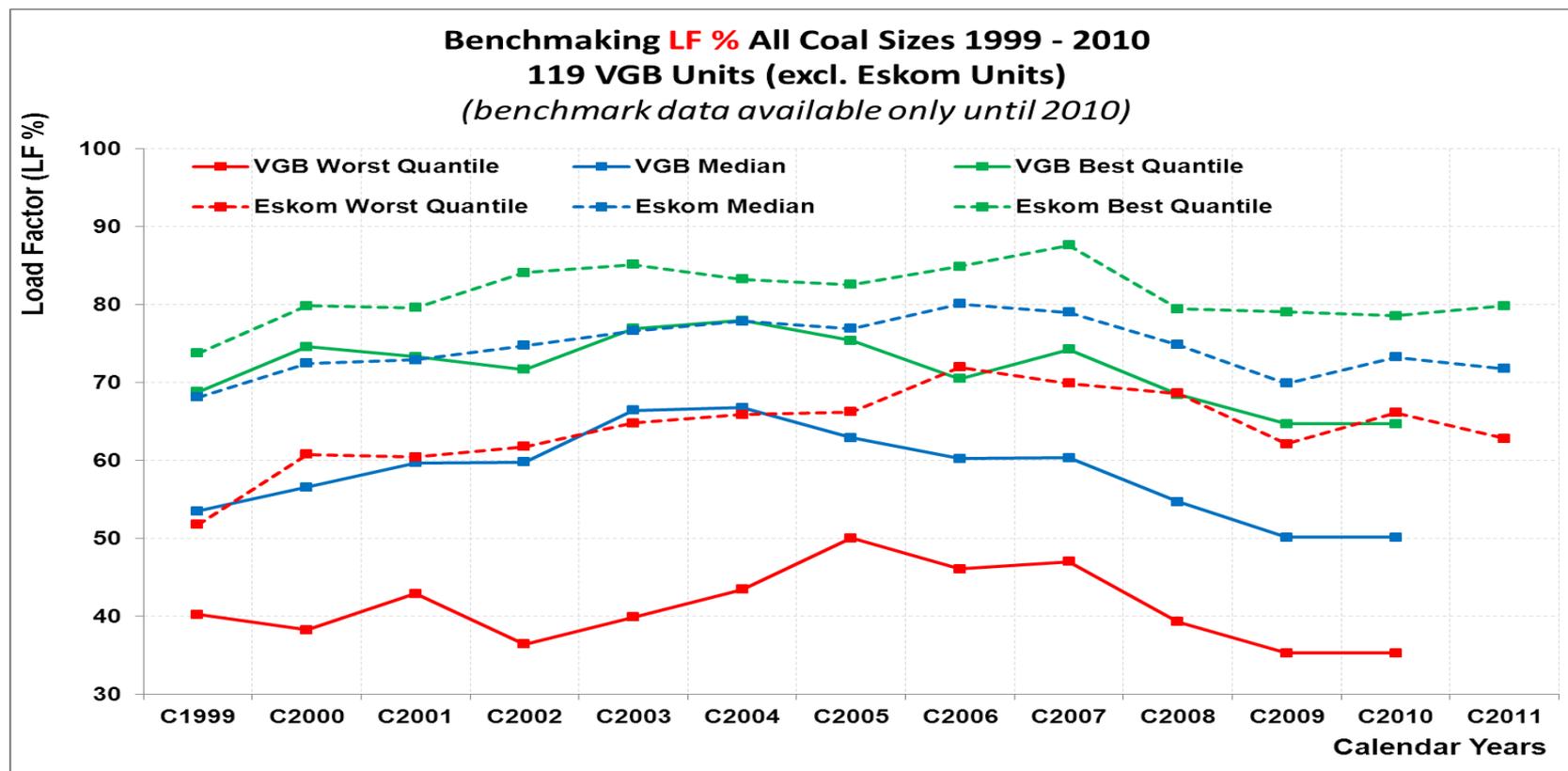
LCOE in South African Rand (ZAR) per MWh for comparison purposes at an exchange rate of R8.3 to US\$

Comparison of LCOE between EPRI, Lazard, IEA and Eskom for the New Build Programme - in US \$

The comparison of overnight and LCOE costs with international benchmarks shows that Eskom's plants are well within or below the international benchmark.

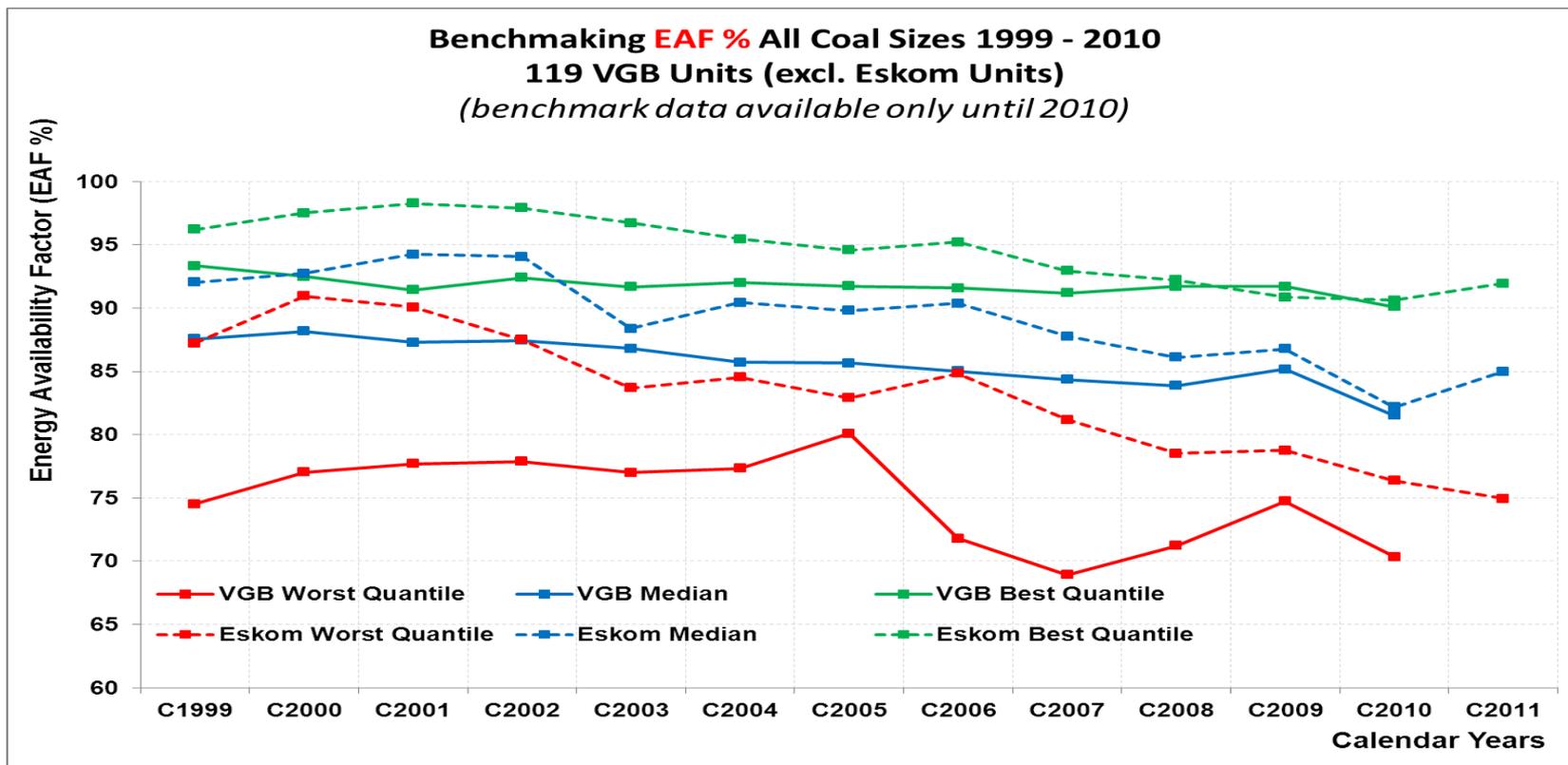


Eskom units load factors in comparison to VGB member performance



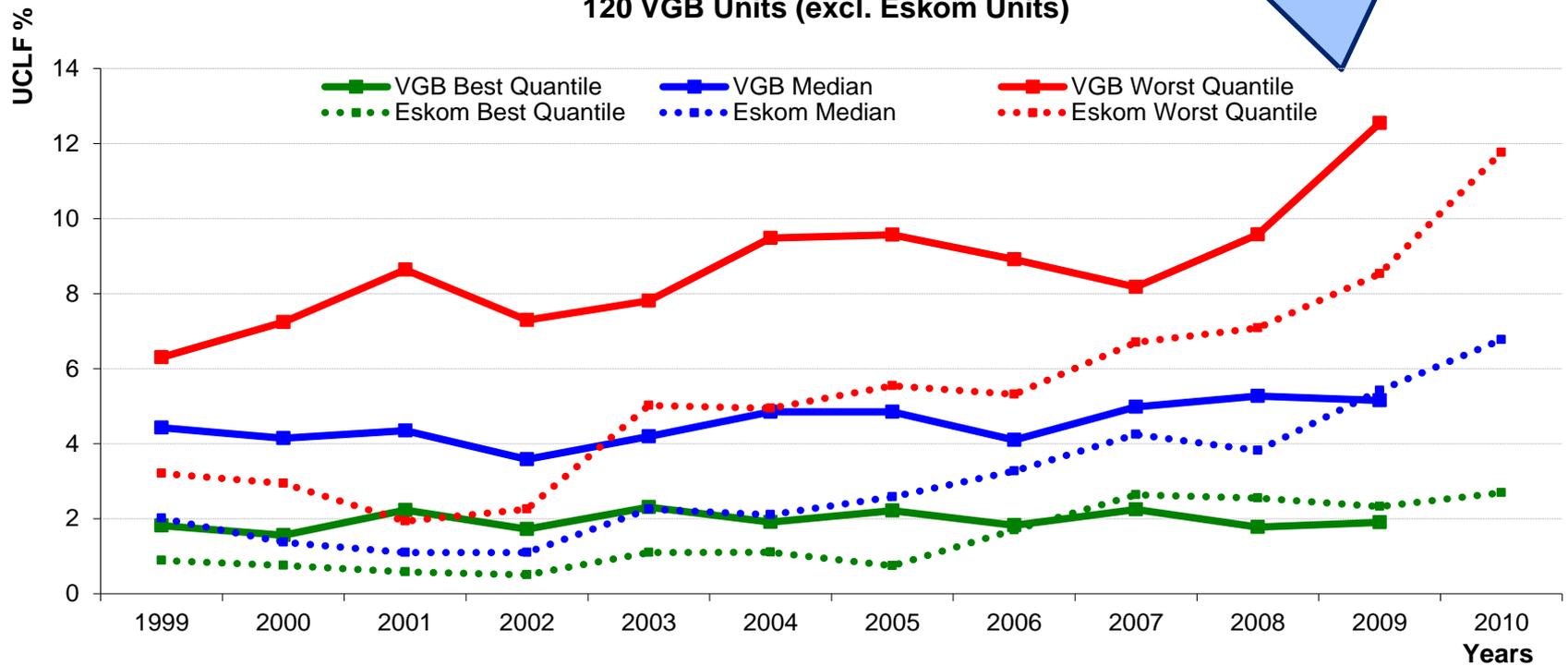
Eskom's units continue to operate at higher load factors than VGB's coal-fired units.

EAF performance of Eskom coal stations in comparison to VGB member performance



- The UCLF is steadily increasing in an environment of PCLF deferrals and increasing demand
- The median for the Eskom UCLF for coal stations has deteriorated such that it has closed the gap to the VGB median

Benchmarking UCLF All Coal Sizes 1999 - 2009
120 VGB Units (excl. Eskom Units)



NERSA-commissioned study into Generation Cost Drivers within the Eskom Price Review Process, conducted by CORE Consulting (USA), stated the following:

“Eskom Generation has managed to become a world leader in power plant operations. Its non-fuel O&M cost per kWh and plant availability factors place Eskom in the upper ten percent of large integrated electric utilities worldwide”

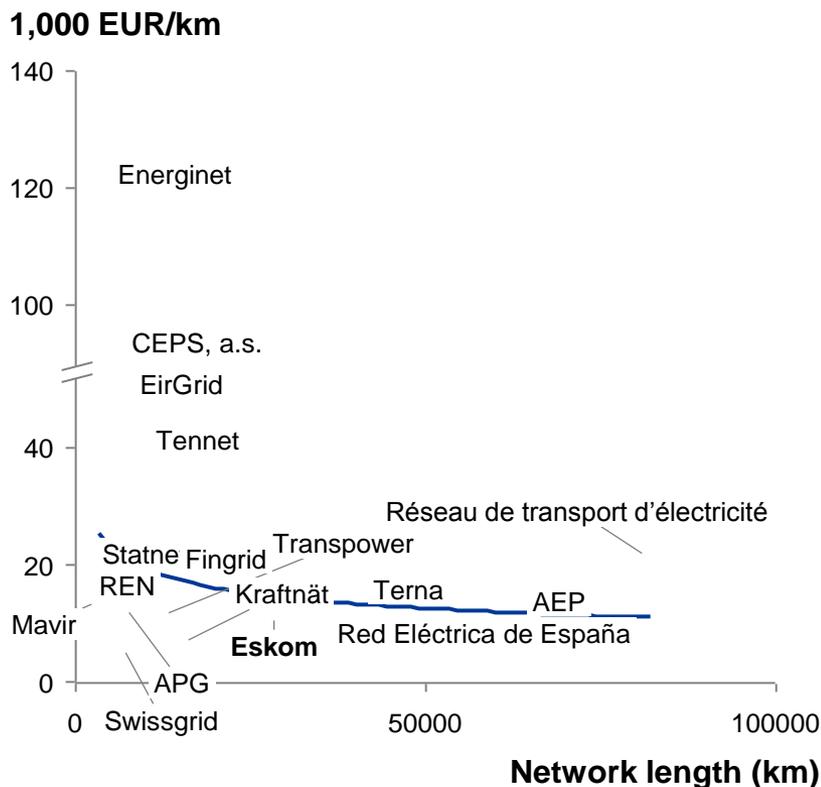
- Source CORE International: *Development of Independent NERSA Views on Generation Cost Drivers within the Eskom Price Review Process Volume I: Final Report (Main Report)*, 2008, p. 9

		Average Mean	Top Performance
SAIDI	Polish Utilities	10.6	3.4 - 4.9
	South American Utilities	15.3	10
	North American Utilities	6.3	0.9 - 1.8
	Europe	1.3	
	Average	8.4	5.2
SAIFI	Polish Utilities	5.7	1.9 - 3.2
	South American Utilities	5.2	7.8
	North American Utilities	3.1	0.6 - 1.0
	Europe		
	Average	4.7	3.7

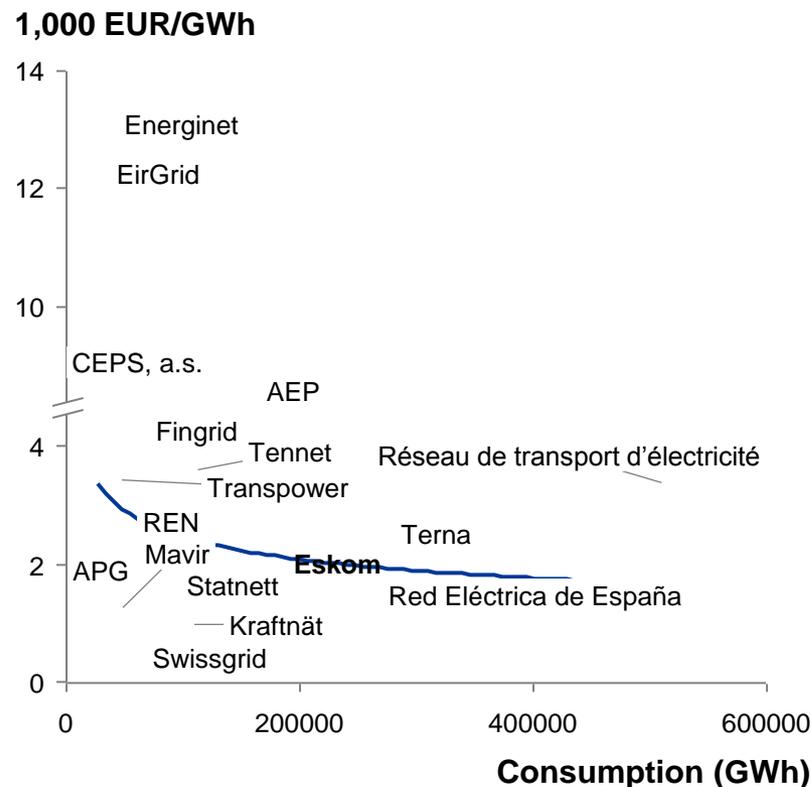
Tx operating cost: Eskom with low costs in comparison to other utilities



Average total cost per network length¹



Average total cost per consumption¹



One can expect similar results in terms of current information, as costs for all companies would have increased. In terms of the normalisers we have increased km of network, consumption though has not increased substantially.

Legend
— Power trend line

1. All numbers for 2009, except for Mavir (2008), EirGrid (2009/2010), and Eskom (2009/2010)

Source: TSO annual reports; TSO corporate website; BCG analysis

Source: Eskom Transmission, information also provided to and used by BCG