Login (https://www.sli.do/)

Event Code: x959 – Login in and set up your profile, if you want to stay anonymous you don’t have to do this step
Test question – Go to the POLLS section and rate the question: How energized are you feeling this afternoon?
While the GCE is speaking please go to the QUESTIONS section and enter your questions and if someone else has asked it just like it.

Given your limited time together, please try keep your questions to ones that relate to the presentation and are for clarity or more detail. If your question is not answered in the session we will revert back at a later date.
Engagement on Eskom’s Strategy
Executive Forum
August 2019
Eskom in its current form is unsustainable

**Debt**
- Debt approaching R450B
- Unable to service from own EBITDA
- Must borrow to service debt

**Revenue**
- Volume declining 1% per year, not coming back
- Tariffs not cost efficient
- Collection rate at 80%, R38B in receivables outstanding

**Costs**
- Opex increased 30% in 5 years, reaching R151B in FY19
- Large increases in employee, coal costs

**Operations**
- EAF below 70% during FY19
- Load shedding, increased costs, lost revenue, lost credibility

**Outdated Business Model**
- Utility death spiral
- Operational and structural inefficiencies
- Lack of transparency
- Change in energy landscape
If we do nothing, Eskom will collapse and bring down South Africa.

Eskom ran out of cash and came close to complete collapse on multiple occasions in 2019.

Company debt represents ~17% of total sovereign debt.

An Eskom collapse would have devastating consequences for South Africa:
- Sharp depreciation of Rand
- Downgrade of credit rating to junk status
- Sell-off of South African bonds
- International bailout

Eskom's importance to South Africa is the only reason why company still exists.
We have developed a turnaround plan centered on 5 focus areas

**RESPONSIBILITY**

**ESKOM**

**GOVERNMENT**

**ESKOM AND GOVERNMENT**

- **Debt Relief**
  - R130B debt relief from government over 3 years
  - Long term debt restructuring

- **Revenue Management**
  - Above-inflation tariff increase
  - Improved collection

- **Business Separation**
  - Separation into 3 businesses
  - Gx, Dx subsidiaries
  - Tx under DPE

- **Cost Initiatives**
  - Cost reduction of R33B/year across entire value chain

- **Operational Stability**
  - Recovered EAF to 78%
  - Improved security of supply

- **Legal Separation**
Eskom Strategy in a nutshell...

**STRATEGY TO A NEW ESKOM**

**Vision:** Drive economic growth by being a financially stable provider of energy solutions across Africa

- **STABILISE**
  - Improved governance
  - Improved profitability - R79.3bn EBITDA
  - Improve electricity reliability - EAF 78%
  - Cost reflective tariff path
  - Retain existing customers
  - Cumulative savings R77bn
  - Debt Relief
  - Improved receivables

- **SEPARATE**
  - Decentralised service functions
  - Separate Tx company
  - Ring-fenced Dx and Gx under Eskom Holdings
  - Lean and efficient Eskom

- **GROW**
  - Lower carbon energy mix
  - Renewables player
  - E-mobility
  - Storage
  - Micro and mini-grids
  - New electricity customers
  - Smart grids expansion

**TURNAROUND PLAN**

- Debt relief
- Revenue Management
- Cost initiatives
- Business separation
- Operational stability

**HIGH PERFORMANCE CULTURE**

**ADVOCACY AND STAKEHOLDER ENGAGEMENT**

**CO-CREATING AN INDUSTRY AND MARKET STRUCTURE**
# Path to Strategy Implementation

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What does success look like?

What do we ultimately want to achieve?

- Improved governance, transparency & accountability
- Economic growth and investor confidence
- Improved profitability
- Increased efficiencies and productivity through competition
- Increased investment

SUSTAINABLE ESKOM
SUSTAINABLE ENERGY SUPPLY CHAIN
Costs and Revenue initiatives...

**Setup for growth**
- Develop pipeline for new products and access to new markets (storage, e-mobility, mini grids etc)
- Africa Strategy, Renewables Energy Strategy and SMART strategy have been developed
- Use RT&D for new product development

Eskom’s ability to implement its growth strategy is dependent on a change in market structure and policy. Strong advocacy will be required to influence this.
# Overview of Business Separation

## Phase 0: Eskom Today
- **What is the legal entity?** Eskom
- **Where does the P&L reside?** Eskom
- **Who employs the FTEs?** Eskom
- **Where does the debt reside?** Eskom
- **How long to implement from today?** N/A

## Phase 1: Functional separation
- **What is the legal entity?** Eskom
- **Where does the P&L reside?** Eskom
- **Who employs the FTEs?** Eskom
- **Where does the debt reside?** Eskom
- **How long to implement from today?** 12-18 months

## Phase 2: Legal separation
- **What is the legal entity?** Holding, Gx, Tx, Dx
- **Where does the P&L reside?** Holding, Gx, Tx, Dx
- **Who employs the FTEs?** Holding, Gx, Tx, Dx
- **Where does the debt reside?** Holding, Gx, Tx, Dx
- **How long to implement from today?** Tx co 24 months

## Phase 3: Transmission as a separate SOC
- **What is the legal entity?** Holding, Gx, Tx, Dx, Transmission Company
- **Where does the P&L reside?** Holding, Gx, Tx, Dx, Transmission Company
- **Who employs the FTEs?** Holding, Gx, Tx, Dx, Transmission Company
- **Where does the debt reside?** Holding, Gx, Tx, Dx, Transmission Company
- **How long to implement from today?** 36 - 60 months

Phase 3 may be required to be executed in parallel with Phase 2.

Legal separation in total 48 months.
Expectations

We are committed to the following

- Clear strategic direction
- Willingness to listen to your ideas
- Full commitment and alignment of the Exco to the strategy
- Clear definition of roles, responsibilities and lines of accountability
- Management and alignment of external stakeholders
- Regular, open and consistent communication

What we expect from you

- Your buy-in
- Your input
- Demonstrate commitment and leadership daily
- Rigorous, disciplined execution of what is within your control
- Tangible results to gain credibility
- Clear and consistent messaging throughout the organisation

REQUIRES URGENCY

REQUIRES TOUGH DECISION-MAKING

WILL BE PAINFUL

TRADE-OFFS NEEDED
What do we do differently from today… ?
Go to POLLS and insert answer to: What are the three things I can do differently to implement the strategy? Use one word answers where possible.