

PRESENTATION ON ESKOM RESTRUCTURING

15 September 2022

CONFIDENTIAL

Introduction

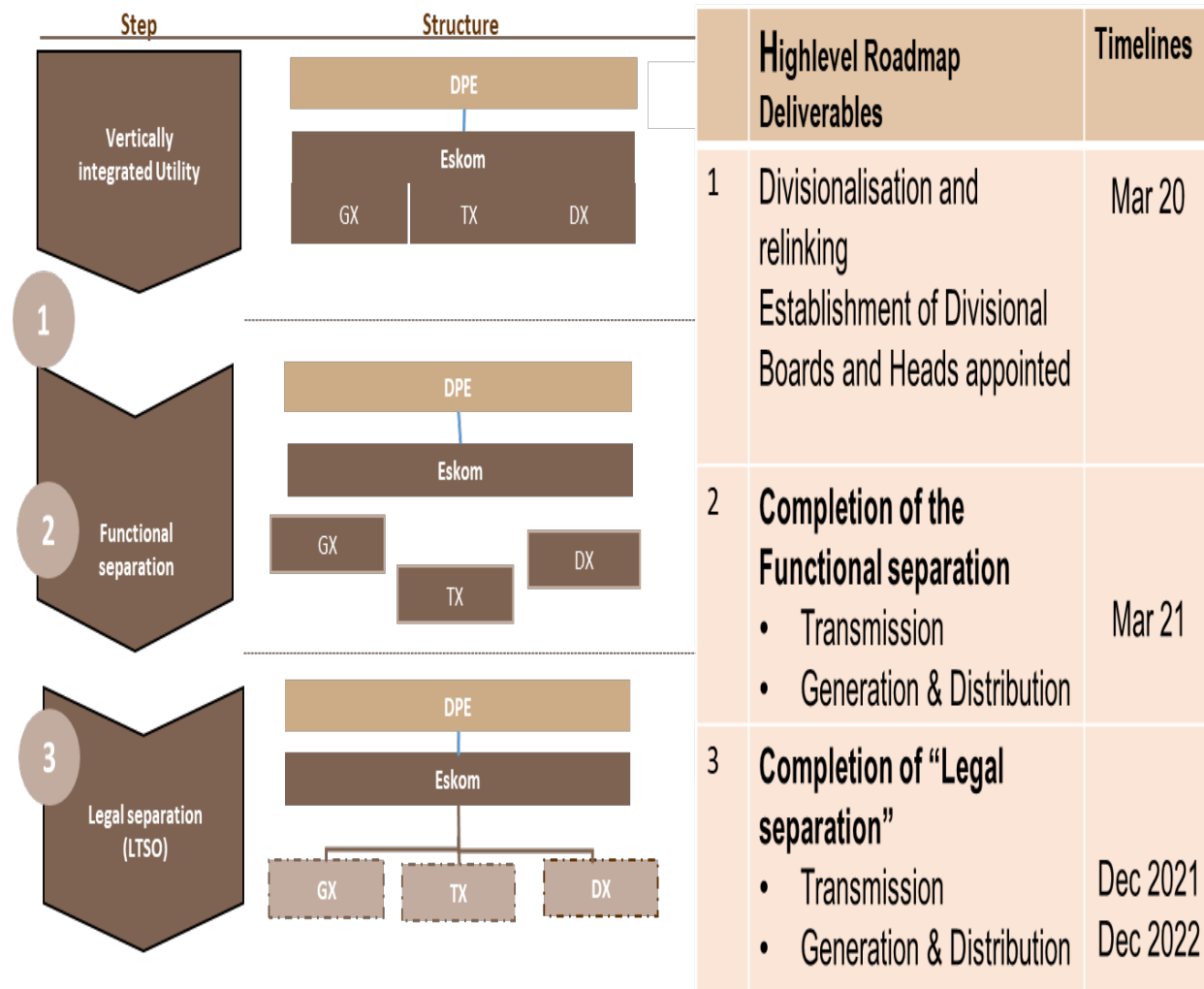
- In the 1998 White Paper on Energy Policy had identified some of the reforms to the electricity supply system including the restructuring of Eskom, to ensure a reliable, competitive, and transparent system.
- The current Eskom business model (vertical integrated utility) is outdated and inappropriate. This model may have been appropriate at its inception and has served the country well for over 90 years
- Globally, a wave of power sector reforms were prompted that included unbundling of vertically integrated electricity utilities into competitive markets (unbundled entities).
- The main drivers of these electricity sector reform included inter alia the need for improved sector performance and increased investment.
- During the 2019 State of the Nation Address (SONA), President Ramaphosa remarked *“to bring credibility to the turnaround and to position South Africa’s power sector for the future, we shall immediately embark on a process of establishing three separate entities – Generation, Transmission and Distribution – under Eskom Holdings”*.
- In line with global trends and Presidential remarks, in October 2019, the Minister of Public Enterprises, Pravin Gordhan released *“the Roadmap for Eskom in a Reformed Electricity Supply Industry”*. *The Eskom Roadmap aims to unbundled Eskom in three separate subsidiaries (i.e., Transmission, Distribution and Generation under Eskom Holdings*.

Introduction Cont

The Eskom Roadmap aims:

- *“Outlines actions to overcome the current crisis at Eskom and set it onto a new path of sustainability that will benefit all South Africans for generations to come;*
- *Defines the key steps in transforming the electricity supply system that are required, including the energy sources proposed by the 2019 Integrated Resource Plan (IRP);*
- *Addresses steps to restore Eskom’s finances, including government support;*
- *Identifies measures to reduce the cost structure of Eskom to enable provision of affordable electricity; and*
- *Details the process through which the restructuring of Eskom will take place, including the process through which a new transmission entity will be established”.*

Eskom Roadmap: Restructuring Process



- ✓ The need to restructure Eskom is driven by an evolving South African energy market and policy landscape.
- ✓ The restructuring will augment Eskom's business model and place Eskom in a path to long term sustainability, addressing the "fit for purpose" question.
- ✓ This will provide better insight into Eskom's operations, provide visibility into delegation by assigning responsibility and accountability to each business and its Executives.
- ✓ Lastly it will allow for fair, equitable and transparent access to the Transmission grid by the private power producers.

The Eskom Roadmap outlines key milestones, timelines and provides a blueprint to the operational turnaround, restructuring and the separation roadmap for Eskom under Eskom Holdings SOC Ltd starting with functional separation as a precursor to full legal separation

Update on Eskom Roadmap/Unbundling

Functional Separation: Creation of a separate business unit along with operational rules to establish Chinese walls between this new business unit and the incumbent operator's other operations.

Function Separation Completed

- Profit and Loss function established, organizational design approved, Power Purchase Agreements (PPAs) and Electricity Supply Agreements (ESAs) drafted.
- Interim board and Managing Director (CEO) appointed of Transmission Company appointed.
- Support systems and functions completed.
- Functional separation of Transmission, Generation and Distribution completed.

Legal separation: making the new business unit into a separate subsidiary.

Legal Separation in Progress

- Transmission Company was corporatized in December 2021.
- Next steps is for Transmission Company to acquire license from NERSA to be able to operate.
- Eskom submitted a Public Finance Management Act (PFMA) for establishment of Distribution Company for Minister Consideration.
- Eskom Distribution Company will be created by December 2022.
- Eskom is currently busy with due diligence which will be followed by PFMA application for Establishment of Generation Company.