PRESS STATEMENT

THE COST OF RECOVERING THE POWER SYSTEM AND ACCELERATING THE CAPACITY EXPANSION PROGRAMME DOMINATES ESKOM'S RESULTS

Johannesburg, Thursday, 27 August 2009: The year under review has been primarily about keeping the lights burning and recovering the power system. For the first part of the year, Eskom undertook extra-ordinary measures to recover the power system following the events of 24 January 2008.

"The extraordinary measures have come at a cost to Eskom's bottom line. This, however, has resulted in an improvement in the health of the country's power system and an increased resilience on the part of Eskom", says Eskom's Chief Executive Mr Jacob Maroga.

The operating loss for the year for the Eskom group, before the impact of embedded derivatives and net finance costs, is R3 195 million (2008: profit of R3 215 million). The impact of the embedded derivatives on the balance sheet and sensitivity to the assumptions has been significant. At 31 March 2009, the net embedded derivative asset amounted to R1 266 million (2008: R7 696 million) and the embedded derivatives liability amounted to R8 260 million (2008: R5 084 million). The net impact, in the income statement, of the changes in the fair value of the embedded derivatives for the group is R9 514 million (2008: R1680 million). The fair value loss is mainly due to the sharp decrease in the aluminium price as at March 2009 compared to 31 March 2008, the annual electricity price increase used to value the derivatives and the lower South African interest rate curve as at 31 March 2009 compared to 31 March 2008.

The sales of electricity decreased by 4,2% (2008: increase of 2,9%). Eskom saw a 2% drop in demand from the start of 2008 until September 2008. This was mainly in response to the call made to industrial and residential users to reduce their energy consumption. Later, and as a result of the international economic and financial developments, the steel

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industry followed by the ferro-alloys sector started reducing production mainly due to a reduction in the global demand.

At the start of the year, coal stock levels were well below the required minimum of 20 days. The target coal stock levels were increased to an average of 42 days. While Eskom purchased 132, 66 M tons *(2008: 119, 63 M tons)*, the total coal burn for the year under review was 121,16 M tons *(2008: 125,30 M tons)* . Given that the long-term contracted coal suppliers could not respond to the short-term increase in our coal requirements, additional coal was purchased mainly through more expensive short-term coal contracts which included coal transportation costs.

The amount spent on primary energy costs (mainly the cost of coal) increased from R18 314 million in 2008 to R25 351 million in 2009.

During the year, Eskom grew its employee complement not only to execute the expansion of generation and network capacity but also to operate and maintain both existing and new plant. Eskom recruited 4 261 employees, whilst the net increase in employees was 2 453. In the skills climate that prevailed during 2008/09, Eskom was forced to review its remuneration strategy in order to attract and retain managerial and professional staff. Employee costs increased from R11 353 million in 2008 to R15 166 million in 2009.

Maintenance costs increased from R4 526 million in 2008 to R5 891 million in 2009. Eskom has also made significant progress in aligning the maintenance and refurbishment practices to fully reflect the current operational environment where the power system is vulnerable due to inadequate spare capacity.

"There has been an improvement in technical performance since January 2008. As intended at the time of the introduction of the recovery programme, plant performance was stabilised by winter 2008 and the required level of plant availability and reliability has been achieved. Most of the pressing needs relating to maintenance and refurbishment were met during the year. There has been no load shedding since May 2008. Eskom's focus now moves to achieving sustainable performance levels within an environment of severe financial constraints," says Maroga.

The year under review has also been dominated by the accelerated implementation of Eskom's build programme. "Additional power stations, major power lines and substations are being built to meet the rising electricity demand in South Africa," says Maroga. For the year under review, a total of R30 460 million (2008: R12 783 million) of capital expenditure was reported. Since the inception of the programme in 2005, capital expenditure has amounted to a total of R54 304 million.

As at 30 April 2009, 4 454 MW were commissioned since the programme began in 2005. A further 6 184 MW will come on stream within the next five years. All 8 units at Camden Power Station are now fully operational. Two units at Grootvlei Power Station and one unit of Komati Power Station have been successfully synchronised to the national electricity grid. Five more open-cycle gas turbine units at Ankerlig Power Station and two more at Gourikwa Power Station were commissioned during the past year. Some 1 962 km of high voltage transmission lines have been built in the past four years, as well as numerous new transmission substations and transmission networks. The construction of the 765kV line to Cape Town is progressing well, with 430 km already strung. The Apollo substation refurbishment was completed in May 2008, increasing the availability and maintainability of the Cahora Bassa/Apollo interconnection.

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Eskom's annual financial results for the year to 31 March 2009 may be viewed on the Eskom website at www.eskom.co.za.

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