



MEDIA STATEMENT: GOVERNMENT EXTENDS GUARANTEES TO ESKOM TOTALLING R350 BILLION

Government continues to recognise Eskom's critical role in the economy and the need to maintain energy security. For this reason it is imperative that Eskom complete its planned build programme, while sustaining a solid investment grade credit rating.

Government has approved the increase in Eskom guarantees to R350 billion. The R350 billion includes the R175.97 billion worth of guarantees announced in February 2009. The guarantees are also in addition to the R60 billion subordinated loan from Government which was approved in July 2008.

As per the existing guarantees, Government's rights will be subordinated to those of other lenders and commercial creditors. This commitment by government has broader positive implications in that it results in an overall credit enhancement, which benefits un-guaranteed lenders.

If required, government would have the option to either repay the debt in its entirety or step into the shoes of Eskom and continue to make payments on Eskom's behalf.

An annual limit, determined by Eskom's cash flow requirements, will be set on the debt that Eskom can issue each year under the guarantees.

The guarantee will enable Eskom to continue the capacity expansion programme it has committed to over the next seven years, including the Medupi, Kusile and Ingula power stations as well as the associated transmission infrastructure. The guarantees will deepen financing options available to Eskom and reduce its cost of funding.

The issuance of the guarantees are a result of Eskom's changed funding needs emanating from the lower than anticipated tariff increases that were approved by NERSA. The support that Government provides to Eskom has enabled the smoothing of electricity tariff increases. However, it must be recognised that

ultimately tariffs need to increase to fully reflect costs. The assistance provided to Eskom is only one of the measures that Government is taking to ensure long term energy security. The planned increased generation capacity from the Medupi and Kusile coal-fired station will be supplemented by Independent Power Producers (IPPs) with a particular emphasis on renewable energy generation in order to change the country's energy mix.

With the inclusion of the extended guarantee to Eskom, Government's fiscal sustainability measured as net debt, provisions and contingent liabilities as a percentage of GDP is estimated to rise from 48.6% in 2010/11 to a peak of 55.0% in 2012/13, after which it declines.

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