SOVEREIGN
AFRICA RATINGS

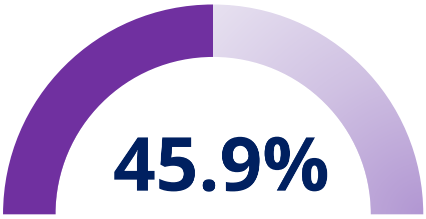
ESKOM

GOVERNMENT-RELATED ENTITY CREDIT RATING

29 July 2026

RATING ACTION

SAR Rating Model Creditworthiness Score



LCR Creditworthiness Score

On 29 July 2026, Sovereign Africa Ratings (SAR) accorded the local and foreign currency issuer credit ratings of Eskom Holdings SOC Ltd ("Eskom" or "the utility") at BB- (Long-Term) / B1 (Short-Term) and B+ (Long-Term) / B2 (Short-Term) respectively, with the Outlook at Negative. The national scale ratings were accorded at zaA- (Long-Term) / zaA2 (Short-Term) with a negative Outlook.

Date	Rating Category	Rating	Outlook
Local Currency Ratings			
29 July 2026	**Long-term**	**BB-**	**Negative**
29 July 2026	**Short-term**	**B1**	**Negative**
Foreign Currency Ratings			
29 July 2026	**Long-term**	**B+**	**Negative**
29 July 2026	**Short-term**	**B2**	**Negative**
National Scale Ratings			
29 July 2026	**Long-term**	**zaA-**	**Negative**
29 July 2026	**Short-term**	**zaA2**	**Negative**

RATING RATIONALE

Eskom's ratings reflect the tension between its **weak standalone credit profile** and its **systemic importance** to South Africa's economy. The utility's excessive debt burden, fragile liquidity, and operational inefficiencies weigh heavily on its creditworthiness. Governance risks, procurement irregularities, and environmental liabilities further constrain the profile. Absent sovereign support, Eskom's standalone metrics would warrant a significantly lower rating.

At the same time, Eskom's monopoly in transmission and dominant role in generation underpin its systemic importance. The utility is indispensable to South Africa's energy security, with its operations directly influencing economic growth, social stability, and fiscal sustainability. Government ownership, explicit guarantees, and fiscal transfers provide decisive support, elevating Eskom's ratings above what standalone metrics would justify.

Under SAR's weighted scoring framework, Eskom's **pre-adjustment composite score is 329/1000**. This is lifted by a **net +130-point Peer Review adjustment** for systemic importance (net of a governance penalty), to **459/1000**. The score is then tested against and capped by South Africa's sovereign local-currency score of **470/1000**, producing a **final score of 459/1000**.

The rating therefore captures a deliberate balance: Eskom's weak financial and operational profile is offset by sovereign backing and systemic relevance, but is ultimately bounded by the sovereign ceiling. This balance is fragile, contingent on continued government support and progress in restructuring initiatives.

RATIONALE FOR THE STABLE OUTLOOK

The Negative Outlook reflects the expectation that Eskom's financial and operational challenges will persist in the near term. Debt levels remain excessive, with refinancing risk acute. Liquidity pressures are severe, with reliance on short-term borrowing and government guarantees. Operational instability, including load-shedding and deferred maintenance, constrains revenue generation and undermines public confidence.

Fiscal constraints at the sovereign level exacerbate risk. South Africa's debt burden exceeds 80% of GDP, with debt service costs consuming more than 20% of revenue. This limits fiscal space for sustained bailouts, raising questions about the sustainability of government support. While sovereign backing remains strong, its durability is contingent on broader fiscal consolidation and structural reforms. Because Eskom's rating is currently capped by the sovereign ceiling, any deterioration in South Africa's own sovereign score would flow through directly to Eskom's rating even absent any change in Eskom's standalone metrics.

The outlook could stabilise if Eskom demonstrates credible progress in restructuring its debt, improving operational efficiency, and advancing the integration of renewable energy. Successful implementation of the Just Energy Transition, combined with governance reforms and tariff rationalisation, would support a more stable profile. Conversely, failure to address debt sustainability and operational inefficiencies could trigger further downward pressure.

Forward-looking factors shaping Eskom's credit trajectory include:

- **Debt Restructuring:** Transfers to the sovereign balance sheet or concessional instruments.
- **Operational Reform:** Improved generation reliability, maintenance execution, procurement efficiency.
- **Renewable Integration:** Expansion of renewable capacity and diversification of the generation mix.
- **Governance Reform:** Strengthened board oversight, reduced political interference, enhanced procurement controls.
- **Fiscal Context:** Sovereign fiscal consolidation and reform momentum remain decisive.

RATING DISCUSSION

Operating Context

Weight: 25% of Total Score | Pillar Score: 457.5 / 1000

Eskom's operating context is characterised by high country risk, elevated industry risk, mixed regulatory compliance, and declining competitive advantage. The entity's credit profile is inseparable from South Africa's sovereign risk, with fiscal fragility and policy uncertainty transmitting directly into Eskom's balance sheet. While Eskom retains systemic importance, its operating environment is structurally weak, constraining its standalone creditworthiness.

Table: Pillar 1 Attribute Scores

Attribute	Weight (of Pillar)	Score (0-1000)	Weighted Contribution
Country Risk	40%	450	180.0
Industry Risk	25%	400	100.0
Regulatory Compliance	15%	450	67.5
Competitive Advantage	20%	550	110.0
Pillar 1 Score	100%		**457.5**

Source: SAR analytical scoring, per GRE Methodology Framework s.2.1.

Country Risk *(Weight: 40% of Pillar 1 | 10% of Total Score | Score: 450/1000)*

Eskom's operating context is inseparable from South Africa's sovereign risk profile. As a wholly state-owned enterprise, Eskom's creditworthiness is directly influenced by the fiscal, political, and macroeconomic environment of the Republic. South Africa's sovereign rating remains constrained by slow economic growth, elevated debt ratios, and structural bottlenecks in energy and logistics. These weaknesses transmit directly into Eskom's balance sheet, as the utility both reflects and amplifies sovereign vulnerabilities.

South Africa's GDP growth has averaged below 1.5% over the past decade, insufficient to absorb rising unemployment or generate fiscal space. For Eskom, this stagnation translates into limited demand growth, constrained tariff affordability, and heightened political sensitivity around electricity pricing. The sovereign's debt burden, projected to exceed 80% of GDP by 2026, also limits fiscal capacity to provide sustained bailouts. Eskom's reliance on government guarantees, covering more than half of its R405 billion debt stock, therefore represents a contingent liability that weighs on the sovereign balance sheet.

Table: South Africa Sovereign Indicators — History & Projections

Metric	FY2024A	FY2025A	FY2026A	FY2027F	FY2028F
Real GDP Growth (%)	0.7	0.9	1.2	1.4	1.6
Net Government Debt / GDP (%)	76.1	78.9	81.4	82.8	83.5
Debt Service Costs / Revenue (%)	18.2	19.6	21.3	22.1	22.6
Current Account Balance (% GDP)	-1.8	-2.1	-2.4	-2.2	-2.0
CPI Inflation (%)	5.1	4.6	4.4	4.5	4.5

Source: SAR Sovereign Rating Model; National Treasury Budget Review; South African Reserve Bank. FY2027F-FY2028F are SAR base-case forecasts.

Currency volatility further compounds risk. While Eskom's debt is predominantly rand-denominated, a portion of its borrowings and procurement contracts are in foreign currency. Depreciation of the rand increases repayment costs and inflates the price of imported inputs such as fuel and equipment. Sovereign credit stress, reflected in widening spreads on South African government bonds, directly influences Eskom's cost of capital and investor confidence. In summary, Eskom's country risk profile is characterised by a sovereign operating in a low-growth, high-debt equilibrium, reinforcing the close nexus between sovereign and GRE ratings.

Industry Risk *(Weight: 25% of Pillar 1 | 6.25% of Total Score | Score: 400/1000)*

The electricity sector in South Africa is both systemically important and structurally fragile. Eskom dominates the industry, historically controlling over 90% of generation capacity and the entirety of transmission infrastructure. However, the sector is undergoing rapid transformation, with Independent Power Producers (IPPs) increasingly contributing to generation through renewable projects. Industry risk is shaped by regulatory oversight (NERSA tariff determinations are politically sensitive), lowered barriers to entry under the REIPPPP programme, a reasonably deep domestic capital market that is increasingly contingent on sovereign guarantees, and demand elasticity that is nominally low but structurally eroding as embedded generation expands.

Table: Generation Mix Trend

Source	FY2026A	FY2027F	FY2028F	FY2029F
Eskom Coal-Fired Generation	80%	76%	72%	68%
Eskom Other (Hydro/Pumped Storage/Nuclear)	9%	9%	9%	9%
Independent Power Producers (Renewables)	9%	12%	15%	18%
Embedded/Private Generation	2%	3%	4%	5%

Source: Eskom Integrated Report; Department of Mineral Resources and Energy IRP updates; SAR estimates for FY2027F-FY2029F.

Overall, the industry risk profile is high. Eskom operates in a sector that is essential to national development but characterised by regulatory uncertainty, political intervention, and rising competition.

Regulatory Compliance *(Weight: 15% of Pillar 1 | 3.75% of Total Score | Score: 450/1000)*

Eskom is subject to extensive regulatory oversight, both as a utility and as a GRE, spanning financial reporting, environmental standards, procurement regulations, and governance codes. On the positive side, Eskom maintains regular engagement with NERSA, Treasury, and the Department of Public Enterprises, and its financial statements are audited annually with government guarantees disclosed transparently. However, compliance lapses have been frequent: procurement irregularities, corruption scandals, and weak internal controls have undermined credibility, and the Zondo Commission of Inquiry highlighted systemic governance failures within Eskom, including irregular contracts and political interference. Environmental compliance is a further area of weakness, with several plants failing to meet minimum emission requirements and litigation from environmental groups exposing Eskom to reputational and financial risk. In summary, Eskom's regulatory compliance record is mixed: formal structures exist, but execution has been weak, and repeated lapses have eroded investor confidence - consistent with a neutral-to-slightly-positive score under SAR's framework, where compliance obligations exist and are broadly met but with material exceptions.

Competitive Advantage *(Weight: 20% of Pillar 1 | 5% of Total Score | Score: 550/1000)*

Despite its weaknesses, Eskom retains significant competitive advantages. Its monopoly over transmission infrastructure ensures systemic relevance, and its generation fleet, though ageing, remains the backbone of South Africa's electricity supply. Economies of scale in procurement, operations, and financing provide structural advantages relative to smaller competitors. However, these advantages are eroding: IPPs are rapidly expanding renewable capacity, offering cleaner and often cheaper electricity, municipalities and large corporates are increasingly investing in embedded generation, and Eskom's inability to maintain reliable supply, evidenced by persistent load-shedding, has weakened its brand and public trust. Eskom's competitive advantage therefore lies in its systemic importance rather than operational excellence.

Business Performance

Weight: 35% of Total Score | Pillar Score: 222.0 / 1000

Eskom’s business performance is weak, constrained by ESG risks, fragile profitability, inadequate liquidity, and excessive leverage. While the utility retains systemic importance, its standalone credit profile is unsustainable. Sovereign support remains the decisive rating factor, underscoring the close nexus between Eskom’s creditworthiness and South Africa’s fiscal health.

Table: Pillar 2 Attribute & Factor Scores

Attribute / Factor	Weight (of Pillar)	Score (0-1000)	Weighted Contribution
Environmental, Social & Governance	20%	300	60.0
Financial Standing - Revenue Generation & Profitability (Factor 1)	32%	250	80.0
Financial Standing - Cash Flow & Liquidity (Factor 2)	28%	150	42.0
Financial Standing - Resources & Capital Structure (Factor 3)	20%	200	40.0
Pillar 2 Score	100%		**222.0**

Source: SAR analytical scoring, per GRE Methodology Framework s.2.2. Financial Standing sub-weights (Factors 1-3) sum to the 80% Financial Standing share of Pillar 2; ESG carries the remaining 20%.

Environmental, Social & Governance (ESG) Factors *(Weight: 20% of Pillar 2 | 7% of Total Score | Score: 300/1000)*

Eskom's ESG profile is a critical determinant of its business performance pillar. The utility's environmental footprint is among the largest in Africa, with coal-fired generation accounting for more than 80% of its output, resulting in significant greenhouse gas emissions, particulate matter pollution, and water consumption. Compliance with South Africa's Minimum Emission Standards has been inconsistent, with several plants failing to meet required thresholds, and litigation from environmental groups has intensified scrutiny.

Table: Generation Mix (FY2026)

Generation Source	Share of Output
Coal-Fired	80%
Nuclear (Koeberg)	5%
Hydro / Pumped Storage	4%
Independent Power Producers / Renewables	9%
Diesel (Peaking, OCGT)	2%

Source: Eskom Integrated Report, FY2026.

Social considerations are equally pressing: electricity affordability remains a politically sensitive issue, with tariff increases often contested by civil society and labour unions, and labour relations have been volatile, with strikes and wage disputes periodically disrupting operations. Governance remains the weakest dimension of Eskom's ESG profile - procurement irregularities, corruption scandals, and political interference (as highlighted by the Zondo Commission) have undermined credibility, and leadership turnover has been high. While reforms have been initiated, including strengthened board oversight and enhanced procurement controls, execution has been uneven. Overall, Eskom's ESG profile is characterised by severe environmental risk, significant social obligations, and weak governance, materially constraining the score for this attribute.

Financial Standing *(Weight: 80% of Pillar 2, split across three factors below)*

Eskom's financial standing is fragile, reflecting weak profitability, strained liquidity, and a highly leveraged capital structure. The utility's revenue base is large, exceeding R255 billion annually, but cost pressures and debt service obligations erode margins. Tariff increases approved by NERSA have supported revenue growth, yet affordability constraints limit Eskom's ability to fully recover costs, and operational inefficiencies - including high maintenance expenses and reliance on diesel generation during shortages - further weaken profitability.

Factor 1: Revenue Generation & Profitability *(Weight: 40% of Financial Standing (32% of Pillar 2) | 11.2% of Total Score | Score: 250/1000)*

Revenue generation is supported by Eskom's monopoly position in transmission and dominant role in generation. Tariff increases approved by NERSA have bolstered revenue, but profitability remains constrained by high operating costs, inefficiencies, and debt service obligations. Qualitatively, Eskom's revenue base is vulnerable to demand stagnation and rising competition from IPPs and embedded generation; industrial demand has been suppressed by weak economic growth, while households increasingly adopt rooftop solar. Quantitatively, margins remain weak: EBITDA margins are below industry averages, reflecting high maintenance costs, reliance on diesel generation, and inefficiencies in coal procurement, with gross and net profit margins volatile and frequent losses recorded in recent years.

Table 1: Revenue & Profitability — History & Base-Case Projections

Metric	FY2024A	FY2025A	FY2026A	FY2027F	FY2028F	FY2029F
Total Revenue (R bn)	230	242	255	275	295	315
Operating Costs (R bn)	202	211	220	233	245	257
EBITDA (R bn)	28	31	35	42	50	58
EBITDA Margin (%)	12.2	12.8	13.7	15.3	16.9	18.4
Net Profit / (Loss) (R bn)	(13.8)	(9.7)	(7.7)	(2.8)	3.0	9.5
Net Margin (%)	(6.0)	(4.0)	(3.0)	(1.0)	1.0	3.0
Tariff Increase Approved (%)	18.7	12.7	12.0	9.0	7.0	6.0

Source: Eskom Annual Financial Statements (FY2024-FY2026); NERSA Tariff Determinations. FY2027F-FY2029F are SAR base-case forecasts assuming continued (moderating) tariff increases and gradual operational efficiency gains; see accompanying rating model workbook.

To achieve a materially higher score for this factor, Eskom would need to demonstrate stable revenue flows through the business cycle, with well-contained and cash-based costs supporting margins at a level higher than the industry average, and a diversified, recurring revenue base - none of which is yet evident, hence the below-average score of 250/1000.

Factor 2: Cash Flow & Liquidity *(Weight: 35% of Financial Standing (28% of Pillar 2) | 9.8% of Total Score | Score: 150/1000)*

Cash flow generation is inadequate relative to obligations. Operating cash flows are volatile, reflecting revenue instability and high-cost pressures, and liquidity reserves are insufficient, with cash coverage ratios below 1.0x, indicating that Eskom cannot meet debt service requirements from operating cash flows alone. Reliance on government guarantees and short-term borrowing is acute, with Eskom frequently rolling over short-term facilities to meet obligations, exposing it to refinancing risk. Investment and financing cash flows are volatile, reflecting large capital expenditure requirements and debt repayments, and deferred maintenance has created a backlog of investment needs that further strains liquidity.

Table 2: Liquidity Position — History & Base-Case Projections

Metric	FY2024A	FY2025A	FY2026A	FY2027F	FY2028F	FY2029F
Cash & Cash Equivalents (R bn)	12	13	15	18	22	26
Short-Term Facilities (R bn)	38	39	40	38	35	32
DSCR (Debt Service Coverage, x)	0.65	0.72	0.80	0.95	1.15	1.35
Interest Coverage Ratio (x)	1.00	1.10	1.20	1.40	1.70	2.00
Net Debt / EBITDA (x)	9.60	9.00	8.50	7.62	6.42	5.16

Source: South African Reserve Bank; Eskom; SAR analytical model (accompanying workbook, 'Supporting Data - Eskom' sheet).

A positive score for this factor requires a DSCR of at least 1.5x and an ICR of at least 2.0x, per SAR's methodology thresholds. Eskom's FY2026 DSCR of 0.80x and ICR of 1.20x are materially below these thresholds, and even under SAR's base case, DSCR is not projected to clear 1.5x within the FY2027F-FY2029F forecast horizon shown above - underpinning the low 150/1000 score for this factor and the reliance on sovereign support discussed under Government Support.

Factor 3: Resources & Capital Structure *(Weight: 25% of Financial Standing (20% of Pillar 2) | 7% of Total Score | Score: 200/1000)*

Eskom's asset base is large, with extensive generation, transmission, and distribution infrastructure. However, much of the fleet is ageing, with frequent breakdowns and deferred maintenance undermining reliability, and capital expenditure has been debt-funded, contributing to excessive leverage. The capital structure is weak, with debt-to-equity ratios materially above industry norms, senior unsecured debt dominating, and limited equity buffers; government guarantees provide a cushion, but contingent liabilities weigh on the sovereign balance sheet. Qualitative factors - cross-default clauses, contingent liabilities from subsidiaries, and procurement risks - further weaken the capital structure, and the weighted average cost of capital (WACC) is elevated, reflecting investor scepticism about Eskom's standalone credit profile.

Credit Profile

Weight: 40% of Total Score | Pillar Score: 342.5 / 1000

Eskom’s credit profile is characterised by an excessive debt burden, inadequate debt service capacity, and decisive government support. The utility’s standalone metrics are unsustainable, with weak coverage ratios and acute refinancing risk. Sovereign backing remains the critical factor sustaining creditworthiness, underscoring the close nexus between Eskom’s ratings and South Africa’s fiscal health.

Table: Pillar 3 Attribute Scores

Attribute	Weight (of Pillar)	Score (0-1000)	Weighted Contribution
Debt Burden	35%	150	52.5
Debt Service	35%	100	35.0
Government Support	30%	850	255.0
Pillar 3 Score	100%		**342.5**

Source: SAR analytical scoring, per GRE Methodology Framework s.2.3.

Debt Burden *(Weight: 35% of Pillar 3 | 14% of Total Score | Score: 150/1000)*

Eskom's debt burden is one of the most defining features of its credit profile. As of FY2026, the utility's total debt stock exceeds R405 billion, making it one of the largest corporate debt portfolios in Africa. This debt accumulation reflects years of underinvestment in maintenance, reliance on debt-funded capital expenditure, and structural inefficiencies in operations. The composition of Eskom's debt is heavily skewed toward government-guaranteed instruments, which provide investor confidence but simultaneously elevate contingent liabilities on the sovereign balance sheet; non-guaranteed debt instruments trade at significantly wider spreads, reflecting investor scepticism about Eskom's standalone creditworthiness.

Table 3: Debt Composition — History & Base-Case Projections

Category	FY2026A (R bn)	FY2026A (%)	FY2029F (R bn)	FY2029F (%)
Total Debt	405	100	365	100
Government-Guaranteed	220	54	190	52
Non-Guaranteed	185	46	175	48
Domestic Debt	360	89	N/A	N/A
Foreign Currency Debt	45	11	N/A	N/A

Source: South African Reserve Bank; Eskom. FY2029F reflects SAR's base-case debt-reduction path, contingent on restructuring progress; see accompanying rating model workbook.

Leverage ratios are materially above industry norms: debt-to-equity ratios exceed 3.0x, while debt-to-assets ratios highlight the disproportionate reliance on borrowings relative to the utility's resource base. This leverage profile constrains strategic flexibility, as creditors' consent is often required for significant investments or restructuring initiatives, and refinancing risk is acute, with large bullet repayments scheduled in the 2026-2028 horizon. Absent sovereign guarantees, Eskom's access to capital markets would be severely constrained - the debt burden therefore represents not only a financial constraint but also a structural vulnerability, underpinning the low 150/1000 score for this attribute.

Debt Service *(Weight: 35% of Pillar 3 | 14% of Total Score | Score: 100/1000)*

Debt service capacity is weak, reflecting inadequate cash generation relative to obligations. Eskom's debt service coverage ratio (DSCR) remains consistently below 1.0x, indicating that operating cash flows are insufficient to meet debt service requirements without external support - a level SAR's methodology treats as a negative score outcome (a positive score requires a DSCR of at least 1.5x). Interest coverage ratios are similarly inadequate relative to the 2.0x threshold required for a positive score, and net debt-to-EBITDA ratios remain elevated at approximately 8.5x, highlighting the mismatch between income generation and debt obligations.

Table: Debt Service Coverage — History & Base-Case Projections

Metric	SAR Positive-Score Threshold	FY2026A	FY2027F	FY2028F	FY2029F
DSCR (x)	>= 1.5x	0.80	0.95	1.15	1.35
Interest Coverage Ratio (x)	>= 2.0x	1.20	1.40	1.70	2.00
Net Debt / EBITDA (x)	Low / declining	8.50	7.62	6.42	5.16

Source: SAR GRE Methodology Framework s.2.3, Attribute 2 (coverage thresholds); South African Reserve Bank; Eskom; SAR base-case forecasts.

Covenant compliance is another area of concern: Eskom's debt agreements often include covenants related to liquidity, leverage, and coverage ratios, and breaches have been frequent, necessitating waivers or renegotiations - undermining investor confidence and elevating refinancing risk. Even under SAR's base case, DSCR and ICR are not projected to clear their respective 1.5x/2.0x positive-score thresholds until FY2029F, underscoring the multi-year horizon over which this attribute's score is expected to remain below average.

Government Support *(Weight: 30% of Pillar 3 | 12% of Total Score | Score: 850/1000)*

Government support is the cornerstone of Eskom's credit profile. The utility is wholly owned by the South African government, underscoring its strategic importance to national energy security and economic stability; ownership provides a strong empirical indicator of support, with fiscal transfers and guarantees consistently extended to sustain operations. Explicit guarantees cover more than half of Eskom's debt stock, providing investor confidence and enabling continued access to capital markets - these guarantees elevate contingent liabilities on the sovereign balance sheet but remain critical to Eskom's survival, and the government has also provided direct fiscal transfers to support liquidity and fund capital expenditure.

Strategic importance further underpins support: Eskom is central to South Africa's energy security, with its transmission monopoly and dominant generation role ensuring systemic relevance, and load-shedding has highlighted the risks of operational instability, reinforcing the government's commitment to sustaining Eskom. Policy initiatives, including the Just Energy Transition and debt restructuring plans, reflect the government's recognition of Eskom's systemic importance. However, fiscal constraints limit the scope for sustained bailouts - South Africa's sovereign debt burden exceeds 80% of GDP, with debt service costs consuming more than 20% of revenue, constraining fiscal space and elevating the risk of reduced support in the medium term. In conclusion, government support is decisive in sustaining Eskom's credit profile: ownership, guarantees, and strategic importance underpin the high 850/1000 score for this attribute, but fiscal fragility constrains the scope for sustained intervention and is captured separately via the sovereign ceiling test in the Scoring Summary below.

SCORING SUMMARY & WEIGHTED COMPOSITE

This section sets out, in full, the numeric build-up from the three weighted pillars through Pillar 4's qualitative overlay and the sovereign ceiling test, to the final score and rating. The build-up mirrors - and is reproducible in - the accompanying SAR GRE Rating Model workbook (Eskom Holdings SOC Ltd), which recalculates automatically if any attribute score, weight, or adjustment is changed.

Step 1: Weighted Pillar Composite

Pillar	Weight (of Total)	Pillar Score (0-1000)	Weighted Contribution
Pillar 1: Operating Context	25%	457.5	114.4
Pillar 2: Business Performance	35%	222.0	77.7
Pillar 3: Credit Profile	40%	342.5	137.0
Composite Score, Pre-Adjustment	100%		329.1

Step 2: Pillar 4 — Peer Review & Adjustments

Adjustment	Points	Rationale
Systemic Importance Uplift	+160	Transmission monopoly and indispensable role in national energy security exceed what standalone metrics capture.
Governance Penalty	-30	Persistent procurement irregularities, Zondo Commission findings, and leadership instability.
Other Qualitative Adjustment	0	Reserved for committee discretion; see Comparative Positioning discussion below.
Net Pillar 4 Adjustment	+130	

Step 3: Sovereign Ceiling Test

Per Methodology Section 2.4, the local sovereign is generally the most secure credit within its own market, making the sovereign's own score the highest achievable score for a domestically-concentrated GRE. Eskom's operations are almost entirely domestic, so no exceptional-shielding exception applies.

Item	Score (0-1000)
Adjusted Score (Composite + Pillar 4 Adjustment)	459.1
South Africa Sovereign Score (Local Currency)	588.0
Sovereign Ceiling Binding?	No — capped at sovereign score
FINAL SCORE	**459.1**

Step 4: Score-to-Rating Conversion (Appendix 1)

A final score of 470.0/1000 falls within Tier 5 (Points Allocation 400-499; SAR Numeric Rating 46.7-48.3%), which converts to a Long-Term rating of BB and a Short-Term rating of B1 per SAR's Appendix 1 conversion table (reproduced at the end of this report).

FINAL SCORE: 459.1 / 1000 → LONG-TERM: BB- | SHORT-TERM: B1

PEER REVIEW & ADJUSTMENTS - COMPARATIVE POSITIONING

Peer review and adjustments highlight Eskom's systemic importance but also expose its relative weakness compared to African and global GREs. Sovereign support and monopoly status warrant the upward adjustment quantified above, while governance risks and excessive leverage justify the downward penalty. The resulting rating reflects a balance between Eskom's indispensable role in South Africa's energy sector and its fragile standalone credit profile.

Comparative Positioning within Africa

Eskom's credit profile must be contextualised against other government-related entities (GREs) across Africa. Within the continent, Eskom is unique in scale, systemic importance, and debt exposure - few GREs carry a debt burden of comparable magnitude, and none have the same level of strategic influence over national economic stability.

Relative to Kenya Power and Lighting Company (KPLC), Eskom demonstrates significantly higher leverage and weaker operational efficiency; KPLC's debt stock is smaller, and while it faces liquidity challenges, its exposure is less systemic. Compared to Egypt Electricity Holding Company (EEHC), Eskom's financial profile is weaker - EEHC benefits from sovereign subsidies and a more diversified generation mix, including substantial renewable capacity, while Eskom's reliance on coal and deferred maintenance undermines competitiveness. Against Nigeria's Transmission Company of Nigeria (TCN), Eskom demonstrates greater systemic importance but weaker operational resilience, given TCN's role is limited to transmission with generation diversified among multiple entities.

Global Benchmarking

Globally, Eskom compares unfavourably to utilities in emerging markets. Brazil's Eletrobras underwent significant restructuring, reducing leverage and improving governance, progress Eskom has yet to replicate. India's NTPC Limited demonstrates stronger profitability and operational efficiency, benefiting from diversified generation including renewables and a more predictable regulatory environment. China's State Grid Corporation, while incomparable in scale, illustrates the potential benefits of sovereign backing combined with operational efficiency - Eskom shares systemic importance but lacks the operational resilience and financial discipline observed in State Grid. Relative to these global peers, Eskom's weaknesses are pronounced: high leverage, weak profitability, and governance risks place it at the lower end of the GRE spectrum.

Strengths & Weaknesses

Strengths	Weaknesses
• Monopoly in transmission infrastructure and strategic importance to national energy security • Explicit sovereign guarantees covering more than half of the debt stock • Large revenue base supported by tariff increases	• Excessive leverage and weak debt service capacity • Fragile liquidity, reliant on short-term borrowing • Operational inefficiencies and ageing infrastructure • Severe governance risks and procurement irregularities • Environmental liabilities from coal dependence

RATING SENSITIVITIES

Factors That Could Lead to a Rating Upgrade

- Debt Restructuring: successful restructuring of Eskom's ~R405bn debt stock, reducing leverage and refinancing risk.
- Operational Reform: improved generation reliability, reduced load-shedding, and enhanced maintenance execution.
- Liquidity Strengthening: sustained improvement in DSCR above 1.5x and interest coverage above 2.0x (the FY2029F base case above approaches, but has not yet cleared, these thresholds).
- Renewable Integration: expansion of renewable capacity, reducing environmental liabilities and diversifying generation.
- Governance Reform: strengthened board oversight, reduced political interference, and improved procurement transparency.
- Sovereign Fiscal Consolidation: improved sovereign fiscal trajectory, raising the sovereign ceiling that currently caps Eskom's rating.

Factors That Could Lead to a Rating Downgrade

- Debt Escalation: further increase in debt stock beyond R450bn without credible restructuring (see Downside Scenario, Supporting Data).
- Liquidity Deterioration: DSCR falling below 0.7x and persistent reliance on short-term borrowing.
- Operational Instability: intensified load-shedding, deferred maintenance, and declining generation reliability.
- Governance Failures: continued procurement irregularities, corruption scandals, or leadership instability.
- Reduced Sovereign Support: diminished fiscal capacity or political will to sustain guarantees and transfers, or a downgrade of the sovereign ceiling itself.
- Environmental Liabilities: escalating litigation or regulatory penalties related to emissions and compliance failures.

Rating Methodology

The principal methodology used in this rating: GRE Methodology Framework (Sovereign Africa Ratings, August 2025), applied together with SAR's Sovereign Rating Methodology.

Information and Data

SAR confirms that data and information adequacy was sufficient to conduct this credit rating.

Data and information from reputable sources were used during the credit rating process.

The quality of the data and information has been validated via cross-referencing against various data sources for consistency.

Issuer Participation

The rated entity did not participate in the rating process.

SAR confirms that the credit rating has been disclosed to the rated entity.

This is a private credit rating.

Rating Definitions

SAR Rating Definitions

Rating History

Initial Rating Date	**29 July 2026**	**Current Rating Date**	**29 July 2026**

Glossary of Terms

Term	Definition
The African Continental Free Trade Area (AfCFTA)	The African Continental Free Trade Area (AfCFTA) is a landmark trade agreement among African countries aimed at promoting intra-African trade and economic integration. It was established to create a single market for goods and services on the continent, removing trade barriers and fostering economic cooperation among African nations.
Credit Rating Action	Any of the following is a credit rating action: 1. The process through which a credit rating is given to a rated entity or obligation, including credit ratings given during a subsequent rating process. 2. When relevant conditions are thought to have been satisfied in the anticipated rating process, a provisional note is removed from a credit rating. 3. A change to a credit rating (i.e., upgrade or downgrade). 4. Placing a credit rating under review, reconfiguring an active review, or removing a credit rating from review (i.e., credit rating confirmation). The assignment of, or modification of, an outlook linked to a rated entity or several credit ratings. 5. A credit rating affirmation. 6. A credit rating withdrawal.
Current Account Balance	Exports of goods and services minus imports of the same, plus net factor income, plus official and private net transfers.
Employee(s)	An employee is any full-time or part-time employee of SAR or any of its subsidiaries and associated companies.
Foreign Direct Investment (FDI)	Direct investment is conducted by non-residents.
Gross Domestic Product (GDP)	The total market value of goods and services produced by resident factors of production.
GDP per capita	GDP is divided by population.
GHG	Greenhouse Gas. Greenhouse gases are gases in the atmosphere that absorb and emit radiation within the thermal infrared range, causing the greenhouse effect.
Gini Coefficient	The Gini coefficient is a statistical measure used to assess income or wealth inequality within a population. It ranges from 0 to 1, where 0 represents perfect equality (everyone has the same income) and 1 represents perfect inequality (one person has all the income). A higher Gini coefficient indicates greater inequality.
Issuer	An issuer is any entity that issues debt, a credit commitment, debt-like obligations, or securities. Examples of such entities include special-purpose vehicles, companies, governments, and local governments.
Lead Rating Analyst (Lead Analyst)	Lead Rating Analyst is a term used to describe an analyst who is primarily responsible for providing details about a credit rating and/or for communicating with the issuer(s) regarding a specific credit rating or regarding the credit rating of a financial instrument issued by that issuer, as well as, when appropriate, for creating recommendations for the rating committee in relation to that credit rating.
Manager(s)	Manager(s) are employees who oversee personnel.
MVA	Manufacturing Value Added.
Net general government debt	General government debt minus general government liquid financial assets.
Net external liabilities	Total public and private sector liabilities to non-residents minus total external assets.
NERSA	National Energy Regulator of South Africa, responsible for tariff approvals.
Outlook	An outlook is an opinion regarding the likely path an issuer's rating could take over the medium term.
PM Score	PM (Particulate Matter) scores related to air quality.
PPP	Public-private partnerships.

Prohibited Recommendation	Any proposals or recommendations made either formally or informally regarding the design of financial instruments on which a CRA is envisioned to issue a credit rating may be made by an employee to a rated entity or its agent to improve the rated entity's rating. This includes suggestions about the rated entity's corporate or legal structure, assets, liabilities, or activities.
Rated Entity(ies)	A rated entity is any entity rated by a credit rating agency (CRA).
Review	A review is an indication that a rating may change in the not-too-distant future.
SAR	Sovereign Africa Ratings (Pty) Ltd is authorised to conduct business as a credit rating agency as per the Credit Ratings Services Act of 2012 of the Republic of South Africa.
Special Drawing Rights (SDR)	The SDR is an international reserve asset that was created by the International Monetary Fund in 1969 to supplement its member countries' official reserves.
Security	Security refers to any type of financial instrument, including stocks, bonds, debentures, notes, options, equity securities, convertible securities, warrants, derivative securities (derivatives), and warrants.
Total Debt Service (TDS)	Total Debt Service (TDS, current US$) refers to the total amount of money paid by a country to cover the principal and interest payments on its external debt. External debt includes loans and financial obligations owed to foreign creditors, such as other governments, international organisations, or private entities, by the country in question.

APPENDIX 1: CONVERTING SCORES INTO RATINGS

The SAR methodology generates a score calibrated on a scale from 0 to 1000, in line with the corresponding credit ratings from D to AAA. A rating of AAA is assigned for scores of 800 points and above, whilst the lowest rating of D is assigned to scores below 200 points. Scores from 500 and above are investment grade; scores of 499 and below are speculative grade.

SAR Tier Grade	Points Allocation	SAR Numeric (%)	Long Term	Short Term
1 - Exceptional (Prime): >= 80%	Tier 1: 800+	>= 80	AAA	A1+
2 - Very Good (High Grade): 70%-<80%	Tier 2: 700-799	76.7 - 79.9	AA+	A1
		73.4 - 76.6	AA	A1
		70 - 73.3	AA-	A1
3 - Above Average: 60%-<70%	Tier 3: 600-699	66.7 - 69.9	A+	A2
		63.4 - 66.6	A	A2
		60 - 63.3	A-	A2
4 - Average: 50%-<60%	Tier 4: 500-599	56.7 - 59.9	BBB+	A3
		53.4 - 56.6	BBB	A3
		50 - 53.3	BBB-	A3
5 - Below Average (Non-Investment Grade): 40%-<50%	Tier 5: 400-499	48.4 - 49.9	BB+	B1
		46.7 - 48.3	BB	B1
		45.1 - 46.6	BB-	B1
		43.4 - 45.0	B+	B2
		41.8 - 43.3	B	B2
		40 - 41.7	B-	B2
6 - Poor (Substantial Risks): 30%-<40%	Tier 6: 300-399	36.7 - 39.9	CCC+	C
		33.4 - 36.6	CCC	C
		30 - 33.3	CCC-	C
7 - Very Poor (Extremely Speculative): 20%-<30%	Tier 7: 200-299	26.7 - 29.9	CC+	C
		23.4 - 26.6	CC	C
		20 - 23.3	CC-	C
8 - Default: < 20%	Tier 8: 0-199	0 - 19.9	D	D

Source: SAR GRE Methodology Framework

Chairperson: **Bekithemba Ndimande | Rating Analyst**
Lead Analyst: **Zwelibanzi Maziya | Chief Ratings Officer**
Back-up Analyst: **Ted Maselesele (CA)SA | Rating Analyst**
Contact: **info@saratings.com**
+27 10 203 9921
54 Queens Rd, Bryanston, Sandton, 2191,
Johannesburg, South Africa
www.saratings.com

No part of this credit rating was influenced by any other Sovereign Africa Ratings business activities. The rating committee determined this credit rating based solely on its independent assessment of the credit risks and merits of the issuer or issue being rated in accordance with Sovereign Africa Ratings' published methodologies.

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