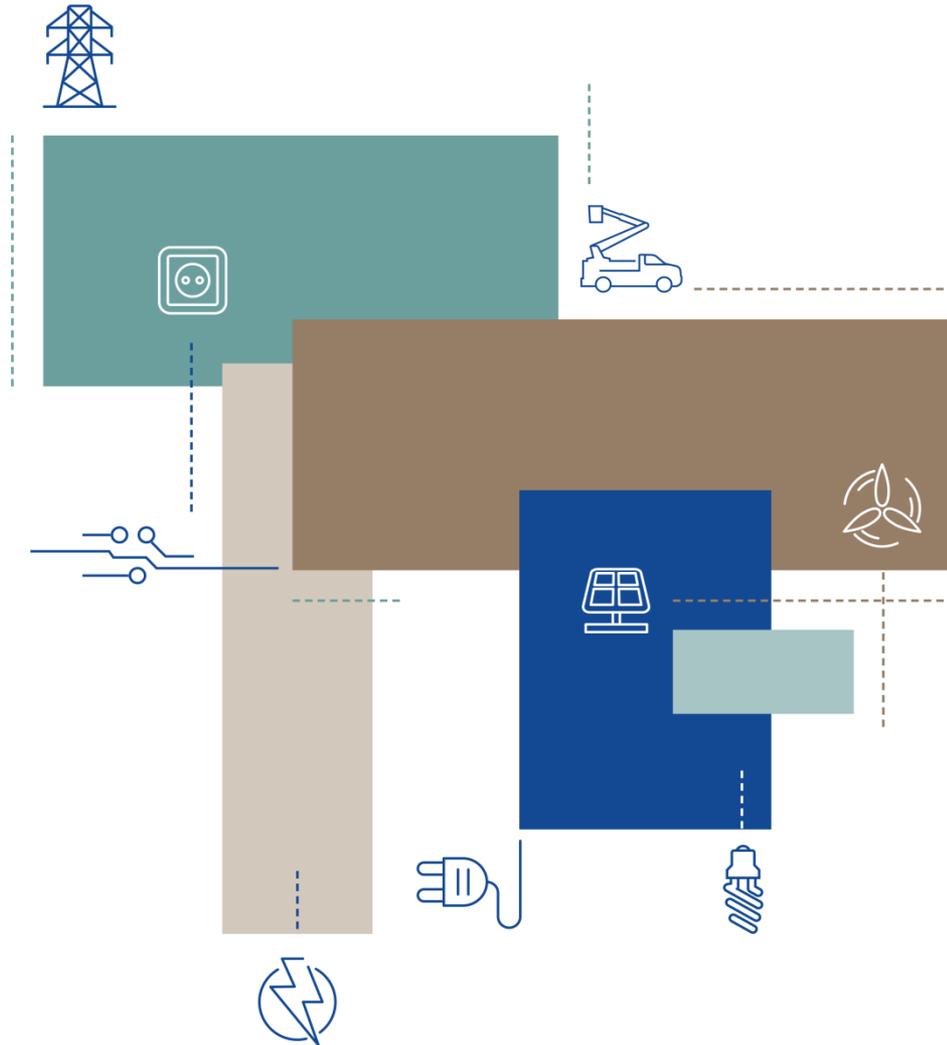


Presentation to combined meeting of:
Portfolio Committee on Energy
Portfolio Committee on Public Enterprises



28 August 2018

Update on governance challenges

Shareholder compact 2018/19

Status of coal fired power stations

- Eskom has experienced difficult years following leadership and governance instability
- A new board and leadership team was appointed to **clean up, stabilise, and set Eskom up for future growth**
- Despite experiencing a difficult year, we have established:
 - **Path to improved liquidity**
 - Continued **improvement in operational performance**
 - **Enhancement of governance and control systems**, however it is a journey
 - Continued **shareholder support**
- A strategic review is being undertaken in partnership with the shareholder to **build the Eskom of the future**

There will be pressure until FY2020, as we transition towards financial and operational sustainability requiring resolute, tough and decisive leadership.

Procurement policies and procedures remain a challenge

Clean-up

①

Reposition as the most trusted state owned utility

- Instill transparent and effective governance
- Initiative to address qualified audit identified more irregular expenses

Stabilise

②

Improve financial health

- 21% increase in EBITDA from R37.5 billion in FY2017 to R45.4 billion in FY2018
- Regulatory Clearing Account (“RCA”) determination of R32.7 billion
- Improved liquidity by raising 72% of the funding requirement for FY2018/19
- Capex, maintenance and opex reduction to achieve financial viability
- Wage negotiations

Efficiency Optimisation

③

Prepare for growth - New initiatives to increase EBITDA

- Target additional demand
- Reduce customer arrear debt
- Manage risk of increasing coal costs
- Optimise staff productivity levels

Position Eskom for the Future

④

Become an innovative and Data driven utility

- Grow new markets and products while retaining and growing existing clients
- Achieve long term sustainability and developmental mandate
- Sustainable business model for Eskom

Significant progress has been made towards becoming a trusted State Owned Company

- ✓ **10 implicated** senior executives **exited**. Finalisation of outstanding disciplinary hearings relating to senior executives being accelerated
- ✓ **11 criminal cases** opened, 5 of which involve **9 senior executives**
- ✓ Total of 1 049 **disciplinary cases** since April 2018 of which **628 have been finalised** resulting in **75 employee exits**
- ✓ **239 whistle blow cases** investigated, **122** have been **concluded**. Disciplinary process is underway in respect of **67 confirmed cases**
- ✓ **Remedial action** has been taken against **25 staff doing business with Eskom**, 7 exited
- ✓ **Lifestyle audits** of senior management, in progress. There is effective **declaration of interest**
- ✓ Investigated all **irregular supplier contracts** (so far 5 no longer doing business with Eskom and the amount spent with these companies in the past 3 years was **R2.3 billion**). **Recovered R1 billion** from McKinsey including interest
- ✓ Cooperating with **8 regulatory bodies conducting major investigations** ¹

Key initiatives to drive growth and efficiency

Grow sales

- Stimulate sales by developing new products and services and optimizing tariffs
- Implement sales growth initiatives for an additional 3.5 TWh which results in R2.9 billion additional revenue over 2 years (9 deals signed)
- Target revenue recovery of R600 million per annum.
- Accelerate customer connections

Reduce arrear debt

- Intensive credit management
- Collect additional R1 billion per annum from municipal debt
- Government support in solving municipality arrear debt
- Installation of pre-paid meters to continue

Manage risk of increasing coal costs

- Prioritisation of capex investments into cost plus mines
- Optimisation of logistics costs, including migration from road to rail
- Collaboration with state owned mining company

Optimise productivity levels

- Holistic review and robust stakeholder discussions to identify optimal productivity improvement solutions

Audit issues being addressed

| | March 2017 | September 2017 (interim review) | March 2018 |
|---------------|---|---|---|
| IFRS |  (1) |  |  |
| Going concern |  |  (2) |  (2) |
| PFMA |  (3) | n/a (4) |  (5) |

-  Modified
-  Emphasis of matter
-  Unmodified

- (1) Prior year re-statement due to non accounting of assets build by customers
- (2) Uncertainty that may cast significant doubt on the group's ability to continue as a going concern (similar to emphasis of matter)
- (3) Incomplete reporting of irregular expenditure
- (4) No reporting requirement
- (5) Incomplete reporting of irregular expenses, fruitless and wasteful expenses and losses due to criminal conduct

No IFRS audit qualification:

- But emphasis of matter related to going concern (liquidity challenges)
- Board confident the turnaround plan and Government support provide Eskom adequate resources as a going concern for the foreseeable future

Auditors did include a Public Finance Management Act ("PFMA") qualification which we welcome as it establishes a baseline:

- Contracts reviewed going back to 2012
- Value of improper contract awards now quantified (but does not imply financial loss)
- Additional irregular expenditure may be uncovered and reported in future financial statements

The Audit Recovery Programme has achieved many milestones to address the FY2017 PFMA Note items

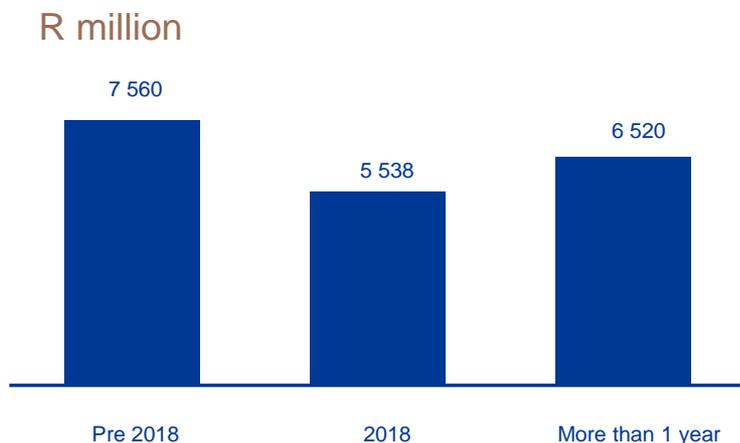
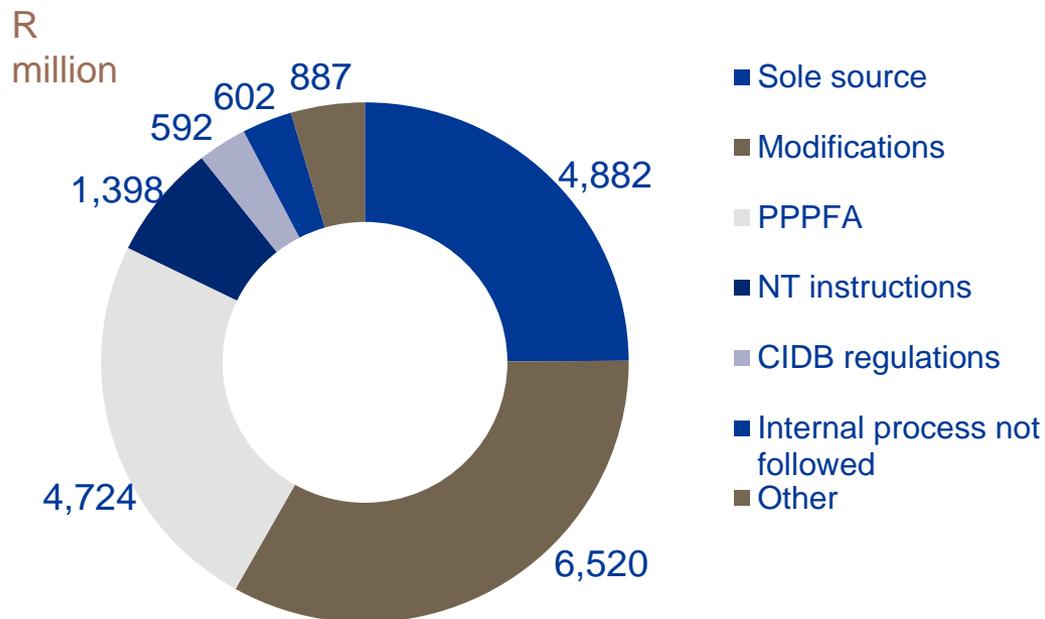
- Addressing and condoning (where possible) all instances that were identified in PFMA note
- Ensuring legislative compliance of all contracts placed
- Establishing monitoring and compliance controls and reporting systems
- Building relationships with key stakeholders for future dealings and assistance

This was dealt with in the following manner

- Verification of all the findings
- Corrective measure to ensure findings are closed
- Internal assurance throughout the process
- External assurance prior to the year-end audit
- Continuous monitoring by management of the improvement plans

- **PFMA Note:** All the findings in the procurement areas, have been investigated, in internal processes or submitted to relevant authorities for approval. Submissions with NT in approval process for SHEQ, monetary thresholds, sole source, tender process (focus was FY16, FY17)
- **Contract reviews:** On contracts placed, 205 (100%) over 1bn and 6118 (91%) under 1bn reviewed for procurement compliance, with compliance over 90%
- **Reporting and monitoring**
 - PFMA report has been updated with the extended population of irregular expenditure with enhancements made to the PFMA reporting process
 - The PSCM procedure was amended for closer alignment to legislation and NT instructions, and is rolled out
 - SAP Opentext developed for SCRM and went live for contracts >1bn
 - Probity checks have been intensified 1308 employees and 443 tender committee members across 40 different tender committees
- **Relationships:** Several engagements took place with NT for condonation, and to date have only received approval for monetary thresholds.

Significant increase in the reported irregular expenses in 2018 to R19.6 billion



- Internal processes enhanced to improve reporting and governance
- PPPFA includes tax clearance certificated (R3.2bn)
- Recovered R1 billion from McKinsey (not included)
- Identified all modifications that requires National Treasury approval
- **60%** relates to administrative non-compliance
- **R10 billion** of condonations awaiting approval

Irregular expenditure does not necessarily mean that it was fruitless and wasteful

The key breaches have been analysed - measures are being taken to prevent recurrence

| Breach | Cause of breach | Consequence management approach |
|-------------------------------|--|---|
| Monetary thresholds | Misinterpretation of the procedure | <ul style="list-style-type: none"> Consolidated condonation to correct previous two years Individual condonations for FY2018 Revision of procedure and awareness and training |
| Emergencies | Not meet criteria set out for emergency transactions | <ul style="list-style-type: none"> Revision of procedure included change in definition/criteria for declaration of emergency procurement. Approval level changed to GE level. SAP flag has been implemented on SAP. Individual consequence management as part of the condonation process. |
| Sole/single source | Isolated incidents where classification of sole/ single source was incorrect | <ul style="list-style-type: none"> Instruction Note 6 issued to clarify process Approval level for Sole Source changed to GE level Individual consequence management as part of the condonation process |
| Tax clearance | Misalignment on requirement on foreign tax clearance requirements | <ul style="list-style-type: none"> Consolidated condonation to correct previous two years Individual approach for FY2018 Guideline shared to clarify requirements for tax clearance certificates |
| CIDB | Certain tenders not advertised on CIDB website | <ul style="list-style-type: none"> Individual consequence management as part of the condonation process Guideline shared with process to follow for advertising on CIDB website – however no longer a required |
| Tender process not adhered to | Tender process not adhered to in certain transactions | <ul style="list-style-type: none"> Individual consequence management |

Training & Awareness

- Work stoppages, paired with discussions on the audit findings
- Awareness training provided to all buyers across all sites
- Circulation of the relevant policies, legislation, and guidelines to assist with awareness
- Communications on reinforcement of the Procurement Procedure 32-1034
- Matters discussed at the Procurement General Managers Forum to address audit findings

Systems & processes

- Inclusion of document management and compliance as part of the employees' performance contracts
- Development and circulation of work instructions to provide guidance on prevention of audit findings
- Implementation of additional systemic measures by requesting changes to SAP
- Development and implementation of a checklist system for purchasing documents, which has to be signed off by a senior manager

Disciplinary Enquiries

- There are 72 cases which arose from condonations prepared relating to breaches in the commercial process. Of these, 31 cases relate to a bulk condonation for failure to advertise on the necessary portals.
- Documents for 37 cases have been developed, and these disciplinary enquiries are ready to proceed.

Audit recovery turnaround will continue the work from Phase 1 for completeness, compliance and change (1/2)

Area

Description

HISTORICAL ISSUES



Closing out historical audit findings through condoning deviations by the relevant delegated authorities

- Addressing **historical issues** in particular the PFMA Note for FY2017 and FY2018 to ensure they have been investigated, in internal processes or submitted to relevant authorities for approval
- Extending where necessary the clean up to date of effective legislation
- Tracking the **matters under investigation**
- **Integrating with efforts** relating to other audit initiatives, such as sustainability audit and year end audit finding closeout

CONTRACTS REVIEW



Reviews of all open contracts, panel contracts, sole source and emergencies for procurement compliance

- Review of all new contracts for procurement compliance. All contracts will now be kept on a central database to ensure easy access.
- Review of the **contracts in execution** for compliance, with a focus on top 205 contracts (contracts over R1bn)
- Provide and implement a plan to address the **panel contracts** to address audit findings
- Review population of **emergency and sole source** events for compliance

Audit recovery turnaround will continue the work from Phase 1 for completeness, compliance and change (2/2)

Area

Description

GOVERNANCE CONTROLS



Enhancing monitoring and compliance controls including reporting systems

- Enhancing the **PFMA reporting processes**, guidelines, training and controls for irregular, criminal conduct, F&W and total PFMA expenditure report for completeness
- Drive **systems enhancements**
- Plan for **interim audit** to include PFMA compliance
- Tracking the roll-out of updated **procurement procedure**
- Implementation of **communication and change management** to ensure sustainability of recovery initiatives
- Monitor the plans on **consequence management**

BUILDING RELATIONSHIPS



Strengthening relationships with key stakeholders for common understanding

- **Qualification turnaround meetings**, chaired by the Acting CFO
- Regular **progress reports**
- Regular **engagement with NT** for condonations that required their approval
- **Alignment with other SOC**s for issues to share lessons
- Addressing internal stakeholder relationships through **change management**, awareness and training

Eskom stabilisation progress

- Since appointment in January 2018, the current Board of Directors acted in the best interest of Eskom by **ensuring that matters** are addressed **timeously** to inform the **turnaround strategy** and **immediately stabilise the business**;
- The **successful turnaround** has been **evidenced** by the **significant improvement** in generation performance, new build delivery and financial stability. However, **contract management remains a concern**;
Procurement remains a challenge .
- Given the **lessons learnt**, **transparency** and **sharing of key information** is **actively circulated** with a wider range of stakeholders.
- Procurement remains a challenge

Update on governance challenges

Shareholder Compact 2018/19

Status of coal fired power stations

Achieving 74% of shareholder compact (SHC), failed to transition Eskom to stability

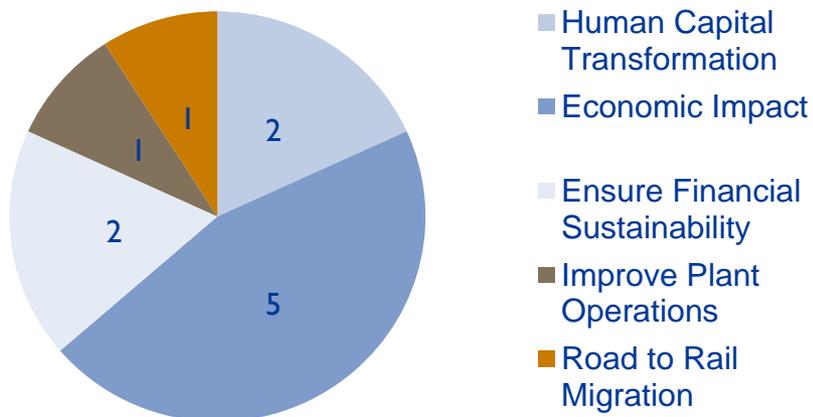
Overall performance shows that 32 KPIs (74%) out of a total of 43 met target
 74% a 5% increase in performance relative to 69% achievement in previous year

| | FY 2018 | FY 2017 | FY 2016 |
|--------------------------|---------|---------|---------|
| Total no. of SHC targets | 43 | 45 | 40 |
| Achieved | 32 | 31 | 25 |
| Not achieved | 11 | 14 | 15 |
| Overall % achievement | 74% | 69% | 62.5% |

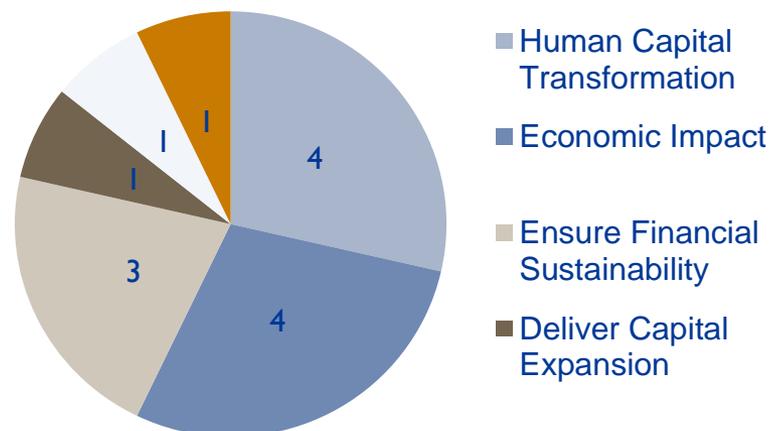
The main contributor to the underperformance are the Economic Impact KPIs

More rigorous monitoring of these KPIs was instituted during the 2017/18 and will be continuing during 2018/19

FY 2018 SHC KPIs Not Achieved



FY 2017 SHC KPI Not Achieved



Eskom's shareholder compact for FY2019 has 45 KPI's and is subject to change once the strategy review is complete



| Key performance indicator | Unit | YE actual - 2017/18 | YE target - 2018/19 |
|---|---------|---------------------|---------------------|
| Lost Time Injury Rate (Employee) (LTIR) | Rate | 0.23 | 0.34 |
| Planned Capability Loss Factor (PCLF) | % | 10.35 | 9.00 |
| Energy Availability Factor (EAF) | % | 78.00 | 80.00 |
| System Minutes <1 | Minutes | 2.09 | 3.53 |
| Distribution total energy losses | % | 7.73 | 7.45 |
| System Average Interruption Duration Index (SAIDI) | Hours | 38.80 | 38.00 |
| System Average Interruption Frequency Index (SAIFI) | Number | 18.70 | 19.80 |
| Training Spend as % of Gross Manpower Costs | % | 5.21 | 5.00 |
| Artisans | Number | n/a | 92 |
| Engineers (Bursars/EIT) | Number | n/a | 80 |
| Technicians | Number | n/a | 185 |
| Sector specific | Number | n/a | 143 |
| Disability equity (in total workforce) | % | 3.13 | 2.50 |
| Racial equity in senior management | % | 67.97 | 71.95 |
| Racial equity professionally qualified and middle management | % | 75.35 | 78.37 |
| Gender equity in senior management | % | 38.25 | 38.72 |
| Gender equity professionally qualified and middle management | % | 38.06 | 37.83 |
| Generation capacity installed and commissioned (Commercial Operation) | MW | 2,387 | 800 |
| Transmission lines installed | Km | 722.3 | 596 |
| Transmission transformers capacity installed and commissioned | MVA | 2,510 | 1,040 |
| Relative particulate emissions (kg/MWh sent out) | kg/MWh | 0.27 | 0.33 |
| Specific water usage – litres per kWh sent out | l/kWh | 1.30 | 1.36 |
| Migration of coal delivery volume from Road to Rail | Mt | 11.60 | 12.90 |

| Key performance indicator | Unit | YE actual - 2017/18 | YE target - 2018/19 |
|---|------------------|---------------------|---------------------|
| Value add per employee | Rm | 1.56 | 1.90 |
| Cash Interest Cover | Ratio | 1.18 | 1.60 |
| Debt :Equity including long-term provisions | Ratio | 2.70 | 2.80 |
| Free Funds From Operations as Percentage of Gross Debt | % | 8.80 | 11.00 |
| Free Funds From Operations as Percentage of Capex | % | 76.68 | 75.00 |
| EBITDA Margin | % | 24.81 | 24.00 |
| Average Debtors Days (Including Soweto) | Days (12MMA) | 71.11 | 78.95 |
| Arrear debt as % of electricity revenue | % | 2.73 | 1.70 |
| Coal Purchase Rand/ton % increase | % | 3.8 | 9.0 |
| Local Content Contracted (New Build Programs) | % | 85.59 | 70 |
| Local Content Contracted (Eskom wide) | % | 87.16 | 70 |
| Percentage of B-BBEE attributable spend against TMPS | % | 74.24 | 85 |
| Percentage of BYO attributable spend against TMPS | % | 2.58 | 2 |
| Percentage of BO attributable spend against TMPS | % | 40.93 | 40 |
| Percentage of BWO attributable spend against TMPS | % | 15.08 | 12 |
| Percentage of BPwD attributable spend against TMPS | % | 0.11 | 1 |
| Percentage of QSE attributable spend against TMPS | % | 7.80 | 10 |
| Percentage of EME attributable spend against TMPS | % | 9.32 | 10 |
| BBBEE Score Level | Number | 8 | 4 |
| Technology transfer: Acquisition of intellectual property | R'm | 26.11 | 25 |
| Technology transfer: Skills development | Number of people | 63 | 30 |
| CSI committed spend | R'm | 192 | 175.9 |

Eskom is currently renegotiating the targets in terms of clause 9.1 - "The Shareholders Compact may be reviewed if there are any material changes in relation to the tariff awarded that are not in line with the assumed tariff used in the Corporate Plan in the 2018/19 financial year."

Update on governance challenges

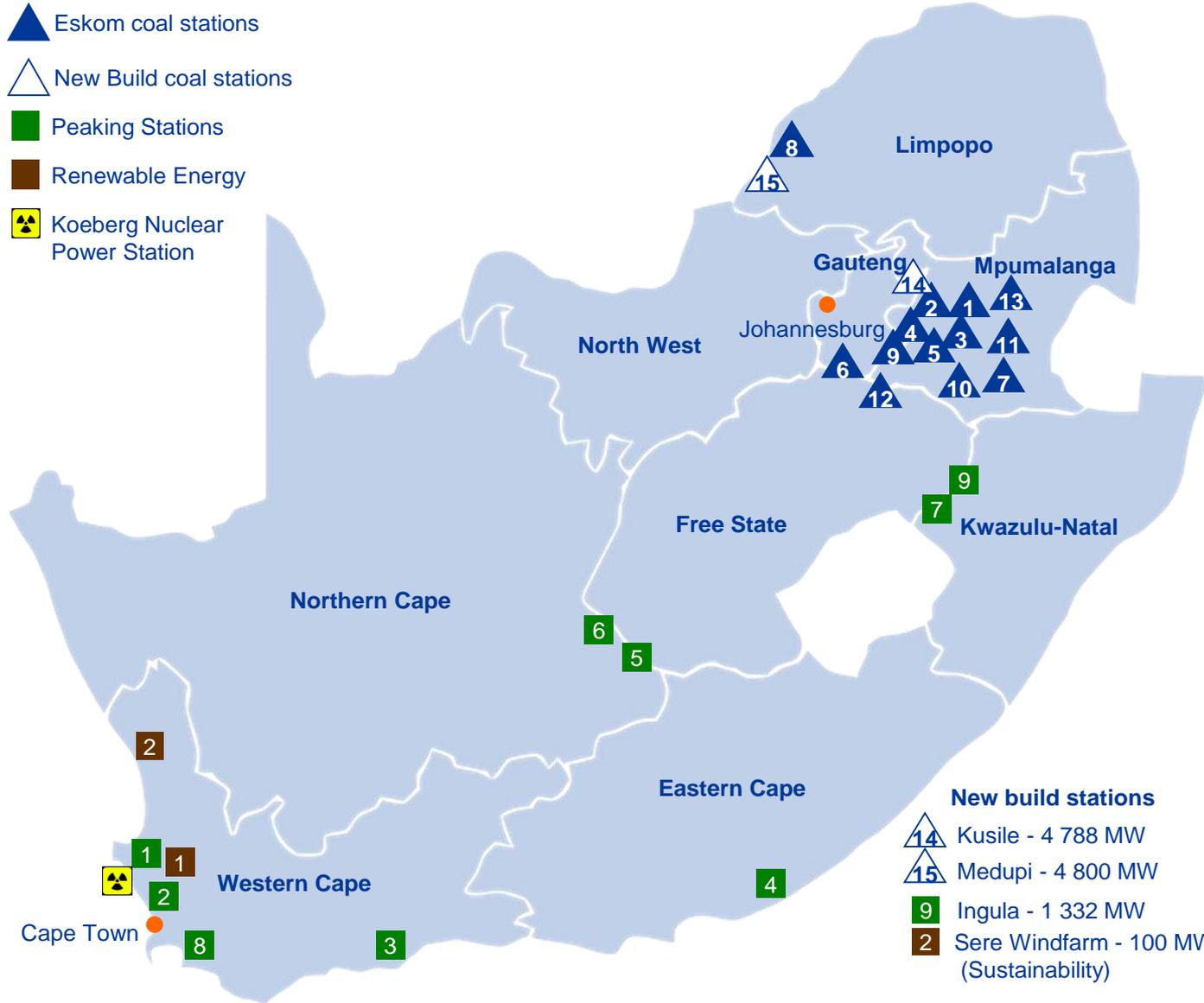
Shareholder compact 2018/19

Status of coal fired power stations

Eskom currently operates 25 stations throughout South Africa (installed capacity on completion shown)



- Eskom coal stations
- New Build coal stations
- Peaking Stations
- Renewable Energy
- Koeberg Nuclear Power Station



Nuclear Power Station

Koeberg – 1 940 MW

Renewable energy

1 Klipheuwel Windfarm – 3MW (decommissioned)

Peak demand stations

- 1 Ankerlig - 1 338 MW
- 2 Acacia - 171 MW
- 3 Gourikwa - 746 MW
- 4 Port Rex -171 MW
- 5 Gariep - 360 MW
- 6 Vanderkloof - 240 MW
- 7 Drakensburg - 1 000 MW
- 8 Palmiet - 400 MW

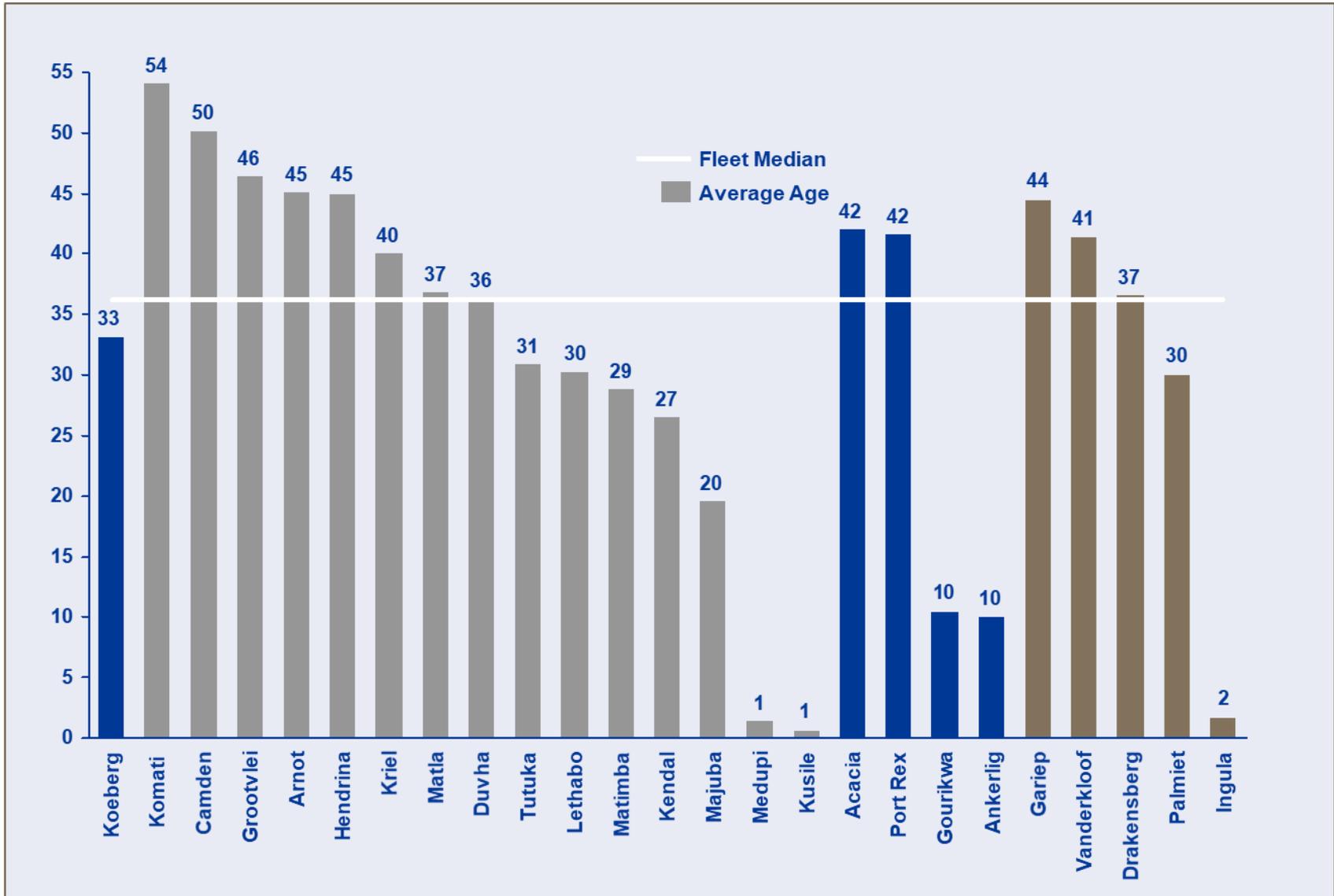
Base load stations

- 1 Arnot – 2 352 MW
- 2 Duvha – 3 600 MW
- 3 Hendrina – 2 000 MW
- 4 Kendal – 4 116 MW
- 5 Kriel – 3 000 MW
- 6 Lethabo – 3 708 MW
- 7 Majuba – 4 110 MW
- 8 Matimba – 3 990 MW
- 9 Matla – 3 600 MW
- 10 Tutuka – 3 654 MW
- 11 Camden – 1 510 MW
- 12 Grootvlei – 1 200 MW
- 13 Komati – 940 MW

New build stations

- 14 Kusile - 4 788 MW
- 15 Medupi - 4 800 MW
- 9 Ingula - 1 332 MW
- 2 Sere Windfarm - 100 MW (Sustainability)

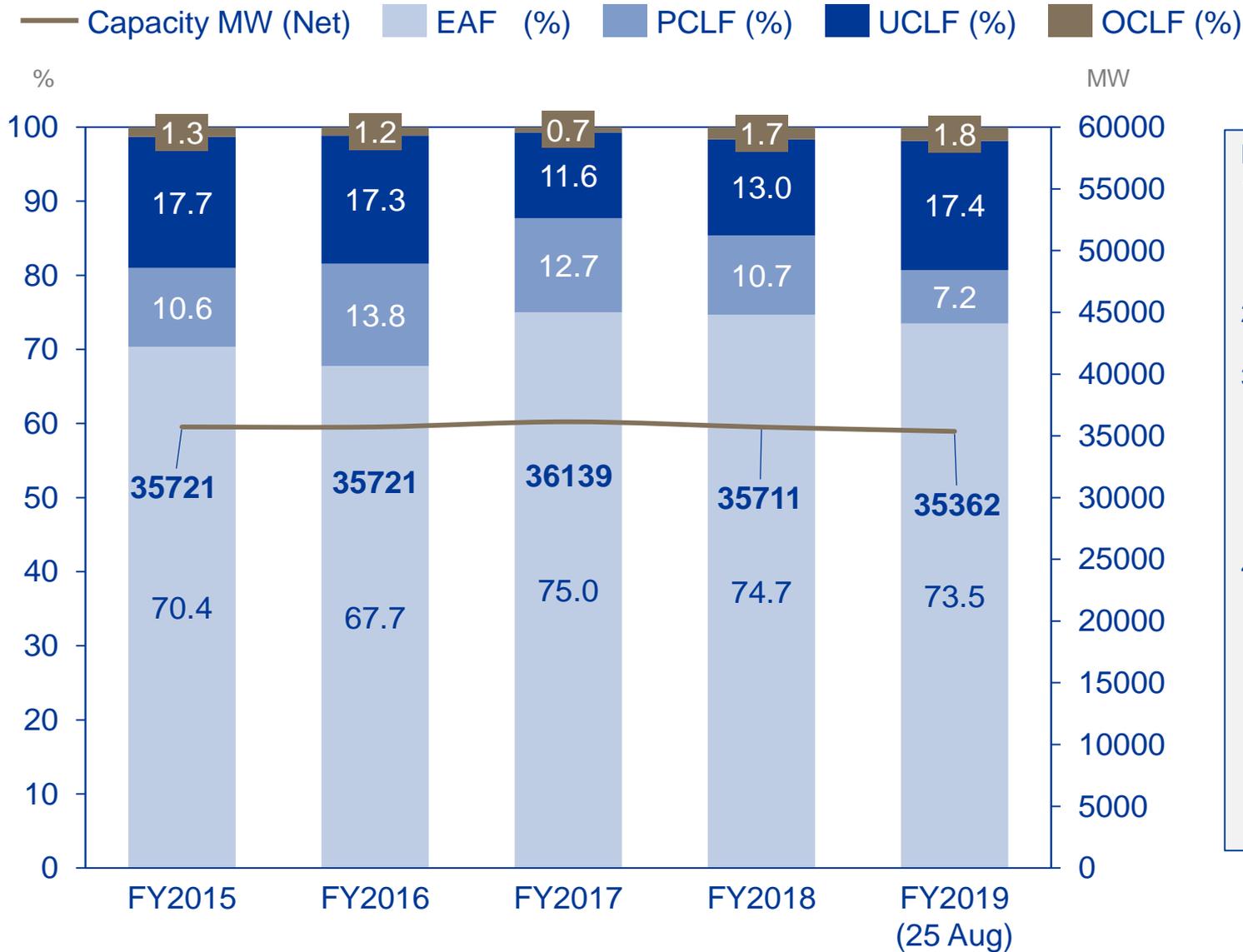
Half of Eskom's coal power stations are more than 36 years old



Plant performance in Quarter 1 FY2019

| Highlights | Description |
|---|---|
| <p>Plant performance</p> | <ul style="list-style-type: none"> • Plant Availability (EAF) was 75.4% as at Q1 FY2019 compared to 83.4% in FY2018 for the same period. • UCLF was at 14.9% for Q1 FY2019, compared to 7.7% in FY2018 for the same period. |
| <p>Maintenance</p> | <ul style="list-style-type: none"> • Planned maintenance was 8.4% as at Q1 FY2019 compared to a Q1 target of 7.0%. This is slightly higher than 8.2% for the same period in FY2018. |
| <p>Open Cycle Gas Turbine (OCGT) usage</p> | <ul style="list-style-type: none"> • Eskom OCGT load factor (LF) is at 1.4% for Q1 FY2019 compared to a target of 1%. • OCGT spend for Q1 FY2019 was R201m. |
| <p>Environment</p> | <ul style="list-style-type: none"> • Relative particulate emissions (kg/MWh sent out) was 0.30 for Q1 FY2019 against a target of 0.33. • Specific water consumption (l/kWh sent out) was 1.36 for Q1 FY2019 against a target of 1.36 <p style="text-align: right;">* Numerical data unaudited</p> |

Coal Station Performance and Net Installed Capacity over the past 5 years



Note:

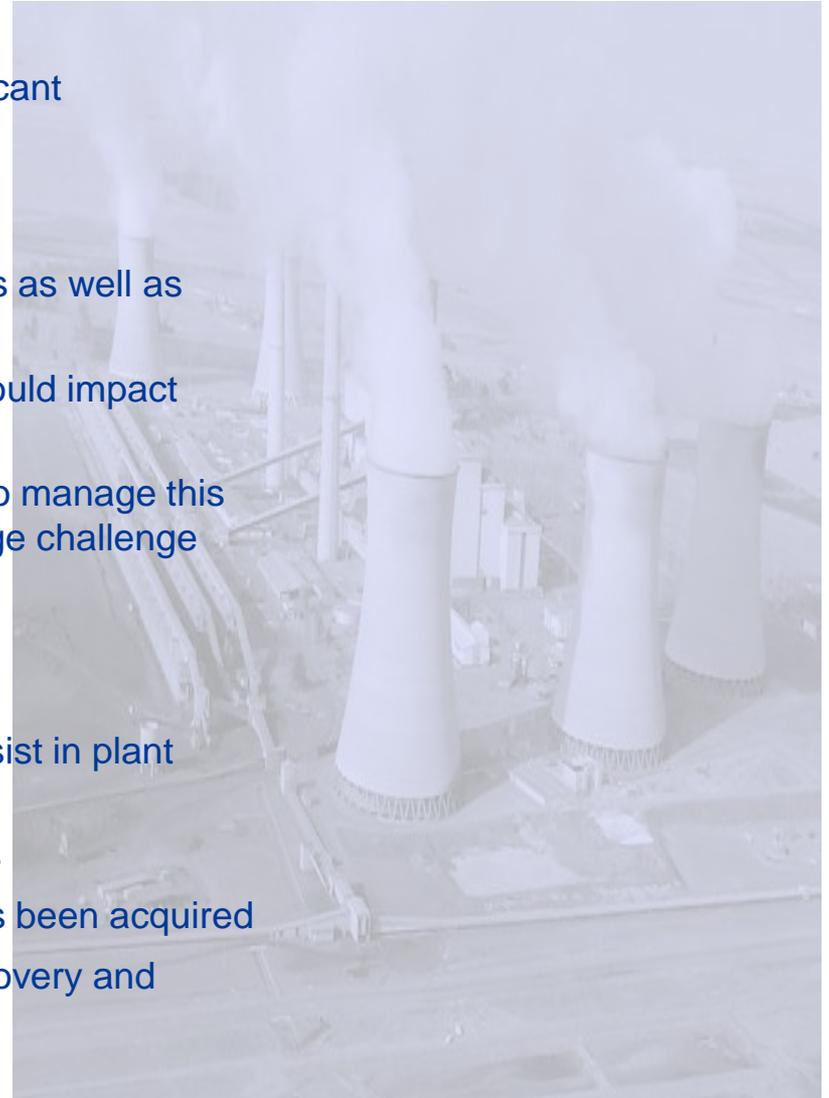
1. Net Installed Capacity includes all official coal fired units.
2. Performance is official values.
3. 2 Medupi units included and Duvha U3 excluded from FY2017. Hendrina U3 removed from June 2017.
4. Grootvlei 4, 5, 6, Komati 1, 6 and Hendrina 1 have been removed from the installed capacity as from April 2018, for performance reporting purposes.

Eskom currently has operational capacity but not surplus capacity however this is expected to change as new build units come online

- Eskom generally has **adequate capacity available** to meet demand for **most hours of the day**
- The system is **constrained during peak hours**, especially the evening peak, there is often not enough **available capacity to meet demand without the use of OCGTs**
- However, the **production plan limits OCGT usage to 1% load factor** and Eskom endeavours to reduce OCGT usage even further
- As more **new build units (Medupi and Kusile) come online** and generation plant availability improves, the situation will improve
- **Three Medupi units and one Kusile unit** are already commercial, and **another unit at each station is already supplying energy to the grid** and will become commercial during 2018
- The latest projections show **one additional unit from each station in commercial operation per year from 2019**, resulting in the last Medupi unit becoming commercial in 2020 and the last Kusile unit in 2022



- Coal fleet performance is below aspiration
- EAF target of 80% will be very difficult to meet. Significant improvement required to achieve 78%.
- Challenges:
 - Loss of experienced skills to international utilities as well as suspended staff
 - Especially loss of Koeberg skills to Abu Dhabi could impact outage quality in particular
 - Very low coal stock pile levels at 9 stations – to manage this coal during the rainy season is going to be a huge challenge
 - Much higher OCGT usage
- Actions:
 - Deployment of technology staff to stations to assist in plant recovery and improvement
 - Working with service providers on best practices
 - Additional funding for essential maintenance has been acquired
 - Focussed teams on full and partial load loss recovery and improvement
 - Contract experienced and skilled resource(s)



Monthly OCGT Generation Usage / Cost

| Still subject to metering verification processes | | | | | | | | |
|--|---------------------------|---------------------------|-------------------------|---------------------------|-------------------------|---------------------------|--------------------------|---------------------------|
| | | Assumed R2,900 per MWh | | Assumed R2,900 per MWh | | Assumed R2,900 per MWh | | Assumed R2,900 per MWh |
| Month | Eskom OCGT Usage (MWh) | Eskom OCGT Cost (Rm) | Eskom GT Usage (MWh) | Eskom GT Cost (Rm) | IPP OCGT Usage (MWh) | IPP OCGT Cost (Rm) | Total Gas Usage (MWh) | Total Gas Cost (Rm) |
| Sep 2017 | 1,701 | R 4.93 | 0 | R 0.00 | 4,286 | R 12.43 | 5,987 | R 17.36 |
| Oct 2017 | 456 | R 1.32 | 26 | R 0.08 | 5,639 | R 16.35 | 6,121 | R 17.75 |
| Nov 2017 | 2,501 | R 7.25 | 32 | R 0.09 | 17,547 | R 50.89 | 20,080 | R 58.23 |
| Dec 2017 | 18,157 | R 52.66 | 1 | R 0.00 | 25,573 | R 74.16 | 43,731 | R 126.82 |
| Jan 2018 | 17 | R 0.05 | 0 | R 0.00 | 4,436 | R 12.86 | 4,453 | R 12.91 |
| Feb 2018 | 14,865 | R 43.11 | 19 | R 0.06 | 2,578 | R 7.48 | 17,462 | R 50.64 |
| Mar 2018 | 68,385 | R 198.32 | 0 | R 0.00 | 4,512 | R 13.09 | 72,897 | R 211.40 |
| Apr 2018 | 1,229 | R 3.56 | 0 | R 0.00 | 14,344 | R 41.60 | 15,573 | R 45.16 |
| May 2018 | 8,438 | R 24.47 | 0 | R 0.00 | 30,376 | R 88.09 | 38,814 | R 112.56 |
| Jun 2018 | 60,471 | R 175.37 | 1,345 | R 3.90 | 58,417 | R 169.41 | 120,233 | R 348.68 |
| Jul 2018 | 6,186 | R 17.94 | 14 | R 0.04 | 26,350 | R 76.41 | 32,550 | R 94.39 |
| Aug 2018 | 14,338 | R 41.58 | 228 | R 0.66 | 48,804 | R 141.53 | 63,370 | R 183.77 |
| Total | 196,744 | R 570.56 | 1,665 | R 4.83 | 242,863 | R 704.30 | 441,272 | R 1,279.69 |

Impact of Industrial Action

- The **unprecedented** industrial action in June and July/August resulted in:
 - Stay aways and intimidation which led to reduced production
 - Assistance from Senior managers, professional staff and staff that did not go on strike, to keep units running
 - Use of helicopters to transport critical staff in and out of site at Power Stations
 - The low stock levels exacerbated
 - High emissions at Kendal, Duvha ,Matla, due to high ash levels on dust handling plants .
 - Serious incidents of sabotage at Majuba, Tutuka, Hendrina, Grootvlei, Duvha, Komati & Matla Power Stations
 - Duvha: Vandilisation of ash water return pumps resulting in the inability to ash resulting in a risk to production and environmental contravention if dams overflow.
 - Tutuka: Unit 3 tampering on hydrogen vent causing overheating of generator. Very good work by employees who identified the issue as this could have caused very serious damage to the generator, however this unit did trip later and requires and extended outage for repairs.
- Recovery plans for the last strike : 30 day period until the 2nd September.
 - Prioritisation of the units impacted by emissions issues
 - Demin water restrictions for returning the units to service
 - Accumulative plant defects and planned maintenance not dealt with during strike action – must now be resolved
 - Recovery of coal stock levels - we lost almost 2 system stock days due to both strikes
 - Recovery on low fuel oil levels

9 power stations are below prescribed minimum stock days

Coal fleet stock levels as at 5 August 2018

| Power station | | Prescribed Minimum Stock Level |
|---------------------|---|--------------------------------|
| Arnot | ● | 26 |
| Camden | ● | 20 |
| Duvha | ● | 22 |
| Grootvlei | ● | 20 |
| Hendrina | ● | 20 |
| Kendal | ● | 25 |
| Komati | ● | 7 |
| Kriel | ● | 32 |
| Kusile | ● | 25 |
| Lethabo | ● | 24 |
| Majuba | ● | 40 |
| Matla | ● | 27 |
| Matimba | ● | 20 |
| Medupi | ● | 20 |
| Tutuka | ● | 32 |
| Total System | ● | 26 |

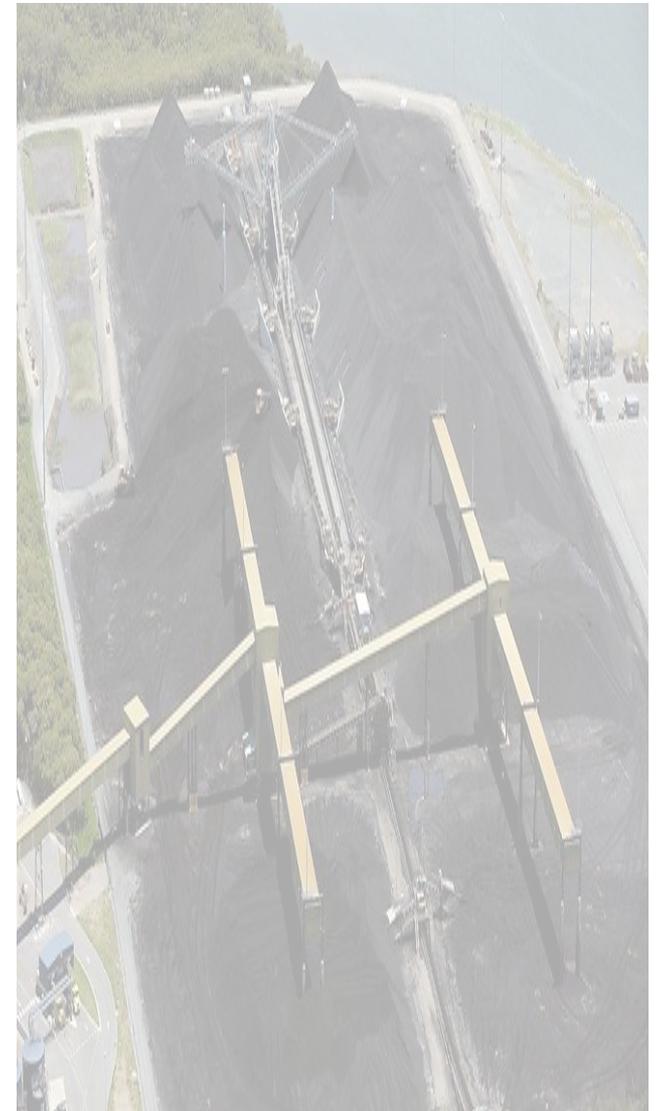
- Below Minimum level
- Above minimum level



2 system stock days lost due to industrial action

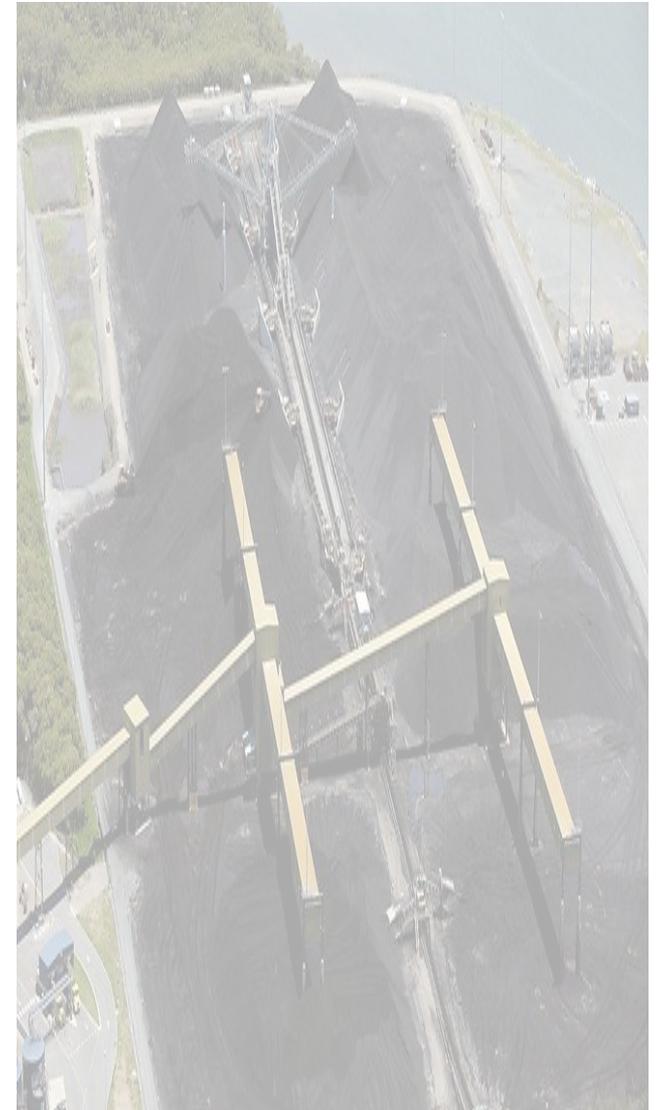
Plans in place to address coal stock levels for stations below minimum stock days

- The total system **average coal stock level** is **28.2 days** excluding Medupi and Kusile.
- **9 of the 15** coal-fired power stations are **below the Eskom prescribed minimum level**. **Six (6)** of which are below the NERSA Grid Code requirements.
- **NERSA** was informed of the coal supply challenges and remedial action plan **as per regulatory requirement**.
- **Measures** are in place to address the **current coal shortages**, at some stations, which emanated in 2016. The **recovery plan** includes securing additional coal supplies and **an aggressive re-allocation** of existing coal sources
- Meetings between **COO and mining Executives** of eight underperforming suppliers were held on the 13th & 14th Aug to address the **underperformance of current contracts**. Suppliers are in the process of submitting **rectification plans**
- **.13 new contracts** have been concluded since January 2018 and concluding **13 contracts is imminent**. **10 of the imminent contracts** were approved by the **Board on the 20th August**. These **26 coal sources** will increase coal stock levels of all the affected power stations in the short term.



Plans in place to address coal stock levels for stations below minimum stock days

- The **rainy season** hampers the delivery of coal to the Power Stations, which will **worsen the current low coal stock situation**. To mitigate the impact of the rainy season, Eskom Technology Department is busy with extensive **rain readiness assessments** at the power stations and the Primary Energy Technical department is doing rain readiness assessments **at the mines**
- More tenders are currently being evaluated to **procure coal for the next five years and for Kusile life** of power station supply
- For long term, Eskom has also taken a decision to **reinvest in the cost plus** mines
- PED is in the process of reviewing its **long term coal strategy** aligned to Eskom's Strategy Review. A key component of the strategy is to ensure security of coal supply while managing **coal cost escalation** through:
 - Ensuring **timeous funding** and **approval for the extension** of the cost plus contracts to match useful life of the power stations
 - Securing long term coal resources which provides a predictable price path for coal supply



Eskom's **existing fleet of coal fired power stations is aging**, and is **performing at a lower level than in the past**, in terms of:

- Reliability
 - Production cost
 - Environmental impact
- The **completion and commissioning** of the Medupi and Kusile power stations is **expected to reverse the trend**, particularly as the older stations are closed down in years to come.
- Further investments** in new power stations will **depend on the outcome of the latest IRP** (to be released in the second half of 2018)
- The rainy season and low coal stock levels **exacerbate the risk** of security of supply from November. **Measures** are in place to **improve the situation but this is moving at a slow pace due to underperforming suppliers and our strict governance process not to place contracts that will result in compliance issues**
- Eskom **met the demand** during the **first significant cold front** of the year (3rd week of May)
- Load shedding** occurred 3 days - on the **14,15 and 16 June** and one day on the **31 July** due to Industrial action.

Update on governance challenges

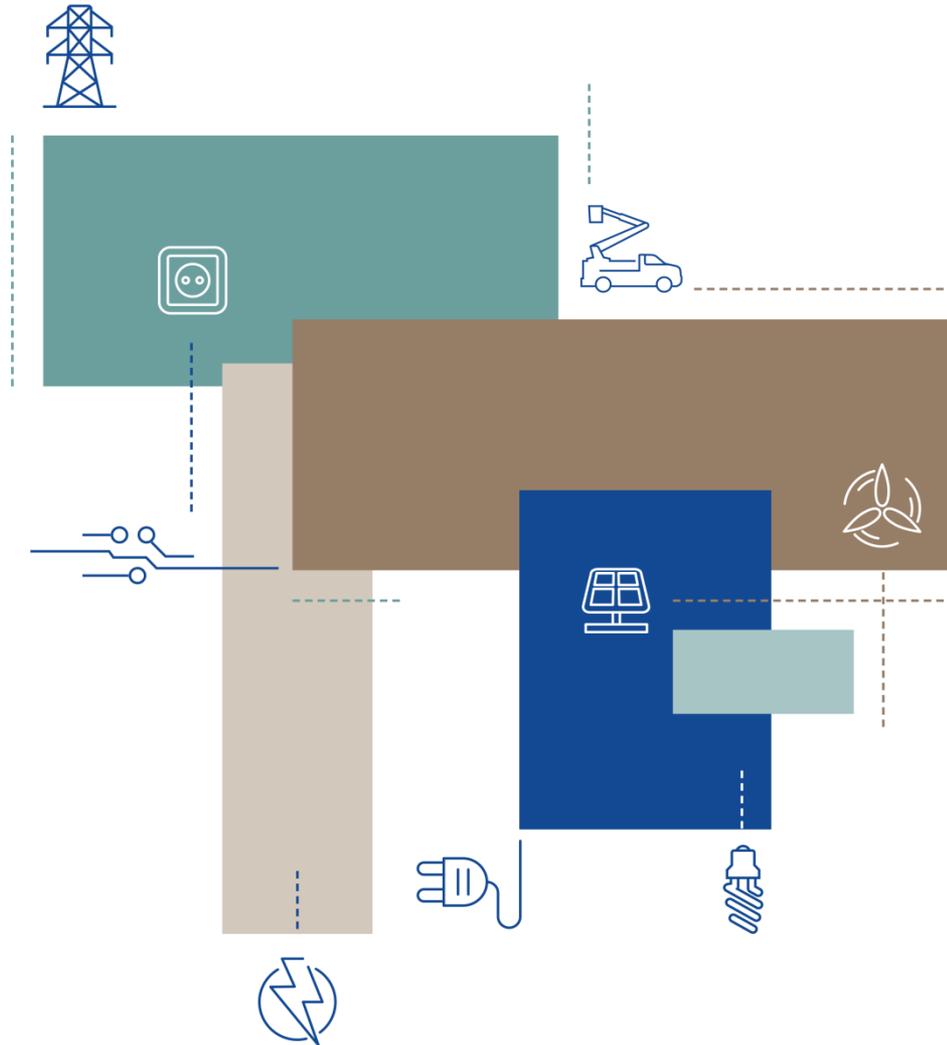
Shareholder Compact 2018/19

Status of coal fired power stations

In conclusion

- Strong ongoing shareholder support
- Strong Board and management team in place
- Funding access and liquidity has improved
- Governance issues are being addressed but there is still a journey to travel
- Plant availability and performance remain a focus
- Current coal situation remains a concern
- Outstanding municipal arrear debt remains a concern
- Reviewing the business model to respond to global energy industry changes
- Growing the business into new markets and products
- Improving trust and restoring labour, investor and stakeholder confidence
- Reviewing the Independent Power Producer and coal strategy
- Strengthening Eskom's financial position and balance sheet – noting that the financial turnaround will take a few years given the current challenges

Presentation to combined meeting of:
Portfolio Committee on Energy
Portfolio Committee on Public Enterprises



28 August 2018