Eskom Presentation to SCOPA

Date: 23 November 2021

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Eskom

Group annual results

for the year ended 31 March 2021

23 November 2021

The results presentation is available at **www.eskom.co.za/IR2021**

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Contents

Eskom

André de Ruyter
Group Chief Executive

Calib Cassim
Chief Financial Officer

IR BUSINESS NETWORK

INTEGRATED REPORTING COMMITTEE OF SOUTH AFRICA
MEMBER 2021/22

SUSTAINABLE DEVELOPMENT GOALS

Highlights and lowlights

- Financial results challenging, net loss after tax of R18.9 billion
- COVID-19 impacted performance, sales volumes down 6.7%
- Headcount reduced by 4.5%, employee costs contained
- Gross debt burden reduced by R81.9 billion, with Government support of R56 billion contributing towards debt servicing
- Generating plant performance reduced to 64.19% EAF due to higher planned maintenance – a short-term trade-off for longer term sustainability
- Transmission and distribution network performance improved
- Environmental performance remains disappointing, particularly at Kendal
- Business separation gaining momentum, with functional separation completed in June 2021

Progress on Medupi and Kusile

MEDUPI POWER STATION

- Unit 1 achieved commercial operation on 31 July 2021, after being synchronised to the national grid on 27 August 2019
- Signifies completion of construction activities on the 4 764MW project, which commenced in May 2007
- Planned operational life of Medupi Power Station is 50 years, using direct dry-cooling systems due to the water scarcity in Lephalale area
- Fourth largest coal-fired plant and largest dry-cooled power station in the world
- FGD to be retrofitted at a cost of R38.4 billion

KUSILE POWER STATION

- Two Kusile units commissioned, adding 1 598MW capacity to the national grid
  - Unit 2: 29 October 2020
  - Unit 3: 29 March 2021
- FGD included in units being constructed, requiring limestone to operate

MEDUPI UNIT 4 EXPLOSION

- Generator at Medupi Unit 4 exploded on 8 August 2021, with extensive damage to the generator
- Apparently caused by a deviation in operating procedure during a short-term outage
- No injuries were sustained during the incident
- Until completion of the Major Event Investigation, employees placed on precautionary suspension

The impact of COVID-19

- As an essential service, we were allowed to continue operating at full capacity even during level 5 of South Africa's national lockdown, with coal mines permitted to operate to supply stations
- Our priority was the supply of electricity, and maintaining the safety of our people
- Where possible, employees have worked at home since the start of the national lockdown, with some staff returning to work as restrictions were lifted
- Group IT enabled a large amount of the workforce to work remotely during the lockdown
- Measures are in place to protect critical staff and minimise the number of employees on site wherever possible. Plans are in place to protect key operations
- Capital and generation maintenance projects were delayed early on due to restrictions on movement and limiting the number of people on site
- Continued uncertainty around COVID-19 is expected to continue threatening future sales volumes, the cost of production and customers' ability to pay
- Demand is not expected to recover to pre-COVID-19 levels in the short to medium term, due to the long(lasting impact of the economic recession experienced in 2020 – largely stagnant sales volumes of approximately 190TWh per year anticipated for at least the next five years

At 17 August 2021, Eskom had recorded 6 980 positive COVID-19 cases (including 43 reinfections), comprising 5 775 employees and 1 205 contractors, with 6 140 recoveries
Sadly, 128 employees and 17 contractors have succumbed to the disease

Daily peak demand reduced by between 7 500MW to 11 000MW during level 5 of the lockdown

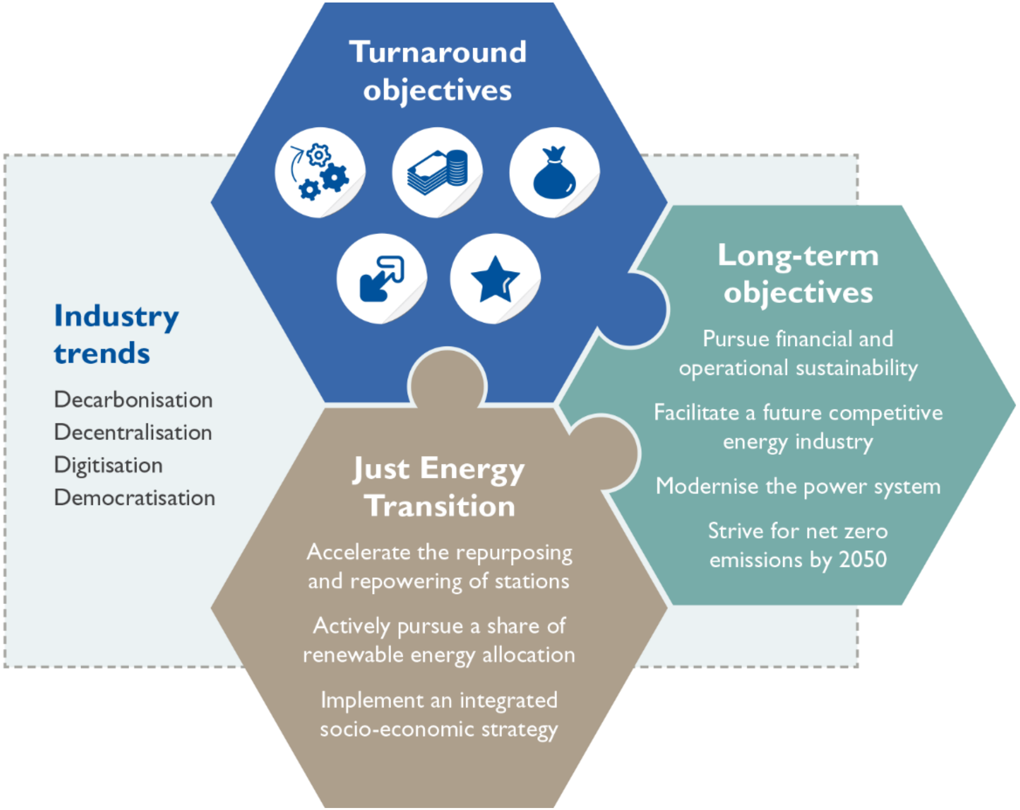
Generation output had to reduce drastically in response

The slowdown of the economy amid the COVID-19 pandemic led to an unprecedented decline in sales

Electricity sales
191 852GWh
down 6.7% YOY, with 78% of the reduction in the first half of the year

Industrial, rail and international sectors most severely affected

Our strategy and turnaround plan



- Operations recovery
- Improve the income statement
- Strengthen the balance sheet
- Business separation
- People and culture

Our Exco team driving the turnaround

André de Ruyter
Group Chief Executive

Calib Cassim
Chief Financial Officer

Jan Oberholzer
Chief Operating Officer

Faith Burn
Chief Information Officer

Nthato Minyuku
Group Executive:
Government and Regulatory Affairs

Nerina Otto
Acting Group Executive:
Legal and Compliance

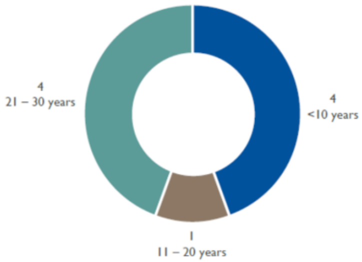
Elsie Pule
Group Executive:
Human Resources

Jainthree Sankar
Acting Chief Procurement Officer

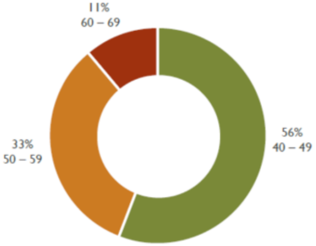
Vuyolwethu Tuku
Group Executive:
Turnaround Management Office

Exco diversity

Years in service



Age



Race

7
ACI (78%)

2
White (22%)

Gender

5
Female (56%)

4
Male (44%)

The recently launched Eskom Rising campaign is aimed at driving change and the success of our turnaround plan

Financial performance

IMPROVE THE INCOME STATEMENT

- The COVID-19 lockdown, depressed economic conditions and supply constraints hampered growth, with a 6.7% reduction in sales volumes. Winter sales incentives were offered to mitigate this impact
- Total revenue improved to R204.3 billion due to a 8.76% tariff increase
- Favourable High Court judgments received on a number of NERSA review applications
- Cost savings of R14.4 billion achieved against a target of R14.1 billion
- Growth in primary energy costs contained to 3.4%, with a 3.9% decrease in production, offset by higher use of relatively more expensive OCGTs to minimise loadshedding and higher RE-IPP use
- Decline in EBITDA to R32.8 billion due to lower sales volumes and an increase in primary energy and other operating expenditure
- Operating profit (EBIT) of R5.8 billion achieved despite a very challenging environment
- Unsustainable debt burden resulted in net finance costs of R31.5 billion, and a net loss after tax of R18.9 billion for the year

STRENGTHEN THE BALANCE SHEET

- Government support of R56 billion received to support Eskom's status as a going concern, with a further R31.7 billion committed for 2022
- Gross debt and borrowings reduced by R81.9 billion to R401.8 billion due to Government support and strengthening of the Rand
- Gross funding of R18.9 billion secured for 2021, mainly from DFIs and local bond issuances
- Further credit rating downgrades arising from concerns around operational and financial sustainability
- Payment levels for customers in arrears are improving, although they remain below acceptable levels
- Municipal arrear debt grew by R7.3 billion to R35.3 billion. Negotiations for active partnering agreements are under way with 45 municipalities for Eskom to act as agent for the supply of electricity, maintenance services and collection of revenue
- Opportunities for disposal of non-core assets bearing some fruit

Operating performance

OPERATIONS RECOVERY

- Generating plant availability deteriorated to 64.19% (2020: 66.64%), mainly driven by an increase in PCLF to 12.26% (2020: 8.92%)
- Satisfactory progress on the Generation recovery plan
- Improvement in transmission and distribution network performance, although energy losses have increased
- Transmission sustainability improvement plan and Distribution network development plan approved
- Two new build units commissioned at Kusile
- Significant improvement in particulate emissions performance, although Kendal challenges not yet resolved

BUSINESS SEPARATION

- Divisionalisation completed by March 2020
- New structures approved and operating model implemented
- Major milestones achieved by year end, except service level agreements and IT changes
- Business separation gaining momentum, with functional separation completed in June 2021
- New functions set up to support separation and a transitioned energy future
- Separation of the Transmission entity targeted by December 2021, although some dependencies are lagging behind
- Separation of the Generation and Distribution entities targeted by December 2022

PEOPLE AND CULTURE

- Headcount reduced by 2 023 to 42 749 (2020: 44 772), resulting in reduced employee benefit costs
- Support staff relinked to line divisions as part of functional separation
- Granted 74 voluntary separation packages
- Developing an improved performance management framework
- Lost-time injury rate improved significantly to 0.22 (2020: 0.30)
- External stakeholder relations and internal communications performed well despite constraints imposed by COVID-19

Progress on business separation

BUSINESS SEPARATION

- DPE's Roadmap provided timelines for the restructuring of Eskom from a vertically integrated utility to an unbundled state with three wholly owned, separate legal entities
- Functional separation to drive accountability for each division and thereby, improve business performance
- Divisions capacitated to function relatively independently while aligning with and implementing the overall Eskom strategy
- Following completion of functional separation, focus has shifted to legal separation

TRANSMISSION ENTITY

- Timelines are aggressive and considered high risk due to critical external and regulatory decisions and dependencies, and dependent on Government playing an active, supportive role
- Set up of the entity depends on lender approval and licensing by NERSA
- Eskom Conversion Act, 2001 and Electricity Regulation Act, 2006 to be amended
- Approved trading arrangements must be in place by 31 December 2021, which requires wholesale and aligned retail tariff structures

Transmission to be separated by December 2021

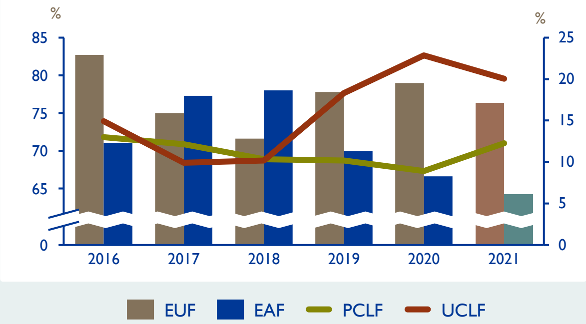
Generation and Distribution to be separated by December 2022

Generating plant and network performance

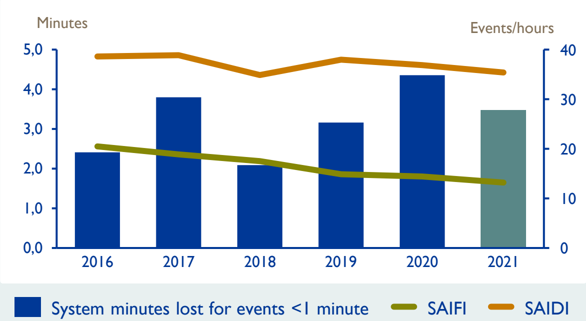
GENERATION AND NEW BUILD

- High unplanned load losses resulted in capacity constraints, leading to loadshedding on 47 days (2020: 46 days)
- Gas turbine usage remained high, at a cost of energy (Eskom and IPP-owned OCGTs) of R7 billion (2020: R7.5 billion)
- Generation recovery programme and reliability maintenance recovery programme showing results
- Investments in wet coal handling paid dividends – stations survived two weeks during Cyclone Eloise without having to loadshed due to wet coal
- Significant progress made correcting major plant defects on Medupi and Kusile units, with Medupi Unit 3 reaching full generation capacity in April 2020
- Operational excellence initiative launched to ensure skills and disciplined execution

Generation performance



Network performance



SAIFI = System average interruption frequency index
SAIDI = System average interruption duration index

NETWORK PERFORMANCE

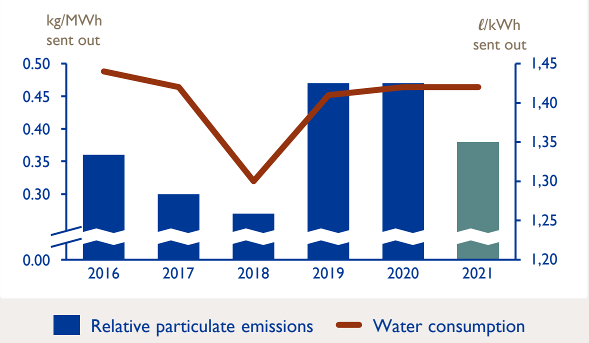
- System reliability improved, with both system minutes <1 and major incident performance meeting target
- Customers are experiencing fewer incidents of interruptions and shorter outage duration
- Load reduction initiative contributed positively to reducing equipment failure related to overloading caused by illegal connection and bypassing of meters
- Negative economic outlook and socio-economic challenges led to higher distribution non-technical losses, particularly due to theft of electricity
- Asset vandalism, equipment theft and overloaded networks has led to increased breakdowns, maintenance costs and increased safety risk

Environmental performance

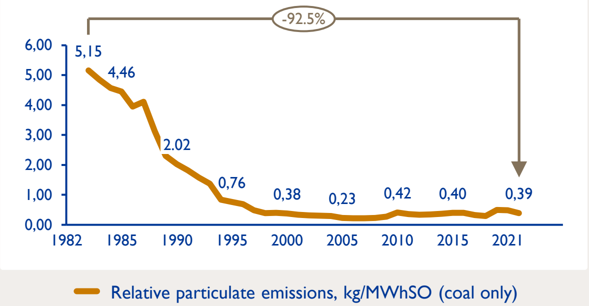
PERFORMANCE

- Relative particulate emission performance improved significantly to 0.38kg/MWh sent out (2020: 0.47kg/MWhSO)
- Besides Kendal Power Station, Kriel, Lethabo, Matla and Tutuka experienced periods of poor performance, due to poor coal quality and poor performing dust handling and SO_3 plant
- Water consumption at power stations deteriorated slightly to 1.42ℓ/kWhSO (2020: 1.41ℓ/kWhSO)
- A total of 80 environmental legal contraventions recorded (2020: 59), 68 were water-related
- Performance on legal contraventions showing improvement since year end
- Ingula Nature Reserve wetlands declared wetlands of international importance by the International Ramsar Convention

Environmental performance



Coal fleet emissions, past 40 years (1982 to 2021)



EMISSION CHALLENGES

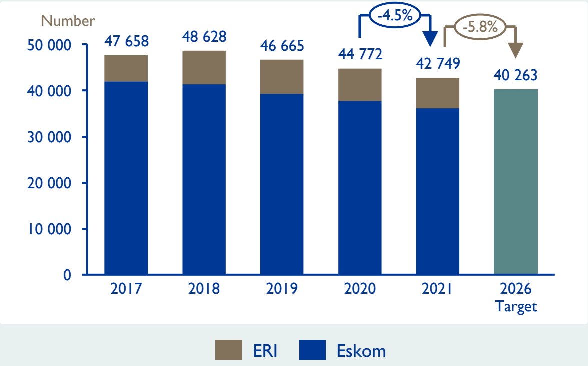
- Stations allowed by DFFE to operate under pre-1 April 2020 emission limits
- Cost of full compliance estimated at R300 billion, with significant implications for capacity, immediately and after 2025
- Emission abatement projects under way to reduce particulate emissions
- Kendal implementing an emission recovery plan across all units, leading to a significant reduction in emissions
- At times, Kendal had to operate outside allowed limits due to generation constraints
- Kendal operating in general compliance with emission limits since December 2020
- Criminal charges laid against Eskom in 2019 regarding Kendal's particulate emissions challenges. The matter was postponed

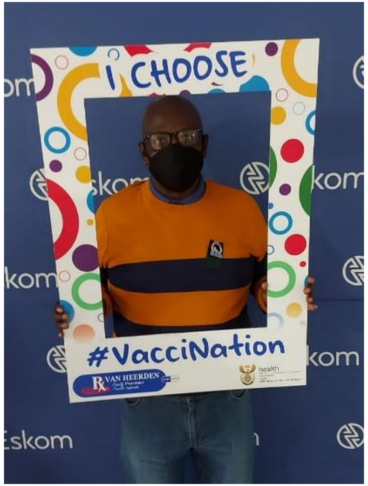
People and safety

- Lost-time injury rate improved to 0.22 (2020: 0.30). LTIR including contractors also improved to 0.25 (2020: 0.34)
- Sadly, two employee and eight contractor fatalities recorded during the year (2020: nine contractors)
- Adequate learner pipeline in place, with overall training spend at 2.58% of gross employee benefit costs, despite lockdown restrictions (2020: 3.67%)
- Racial equity improved substantially at senior management and middle management/professional level, at 73.72% and 80.10% respectively (2020: 71% and 78.04%)
- Gender equity at both levels showed improvement, to 41.99% and 38.95% respectively (2020: 41.73% and 38.24%)
- Disability equity deteriorated to 2.93% (2020: 3.01%)
- Employee benefits costs successfully managed within budget, driven by a reduction in headcount
- Production bonuses of R129 million to qualifying staff
- Reduction of R179 million in overtime costs. Further reduction remains a challenge, given poor plant performance
- Rollout of workplace vaccination programme for employees and contractors at a number of sites commenced

Safety performance

Group headcount





Socio-economic performance

- Customer satisfaction improved, particularly for top customers, although unreliability of supply and slow resolution of interruptions remain a concern
- Preferential procurement spend reduced slightly to 64.51% (2020: 65.97%)
- Preferential procurement spend is negatively affected by spend with RE-IPPs under contracts negotiated by DMRE to the extent of about 12%
- Procurement spend with the majority of supplier categories remains below target
- Electrification programme curtailed as DMRE reduced funding for the year by R1 billion, although connections were still delivered despite the lockdown
- Deploy modular microgrids developed by RT&D to accelerate electrification programme
- Financial challenges, exacerbated by the impact of COVID-19, limited the implementation of CSI programmes

106 669 electrification connections under DMRE's electrification programme

Committed CSI spend of **R67.4 million**, aiding **802 635** beneficiaries

B-BBEE level 8

Awarded 1 299 contracts worth **R102.5 billion**, with local content of **R67.7 billion**

Since inception of the new build programme, awarded contracts worth **R227 billion**, with local content of **R169.5 billion**

Advancing Broad-Based Black Economic Empowerment

PREFERENTIAL PROCUREMENT IN THE PAST FIVE YEARS (2017 TO 2021 FINANCIAL YEARS)

Total measurable spend
R731 billion

B-BBEE compliant suppliers
R498 billion (68% of TMPS)

Black-owned businesses
R251 billion (34% of TMPS)

Black women-owned companies
R87 billion (12% of TMPS)

Black youth-owned suppliers
R16 billion (2% of TMPS)

Small and medium enterprises (QSE & EMEs)
R109 billion (15% of TMPS)

ESKOM CONTRACTORS IN NEW BUILD PROJECTS (2007 TO 2021 FINANCIAL YEARS)

Total contracted value
R227 billion

Local content contracted
R146 billion (64% of contract value)

Local content spend
R170 billion (74% of contract value)

Large black-owned companies
R86 billion

Black women-owned suppliers
R19 billion

Small and medium enterprises (QSE & EMEs)
R18 billion

Local to site companies
R12 billion

Jobs created
~189 000

Skills developed
~11 400

Industrialisation
R1.12 billion

Infrastructure development
~R3 billion

Enterprise development
~R1 billion

Financial results for the year

PROFITABILITY

- COVID-19 hampered revenue, with industrial, rail and international sales most affected
- Growth in total primary energy costs was stable at 3.4% due to lower production, although more expensive production sources were required to minimise loadshedding
- Net finance costs and employee benefit costs remained stable
- Strengthening of the Rand had a significant positive impact on results for the year

LIQUIDITY AND FUNDING

- Liquidity remains constrained due to debt servicing and working capital requirements, and limited debt raising activities. Credit ratings remain at sub-investment grade level
- Concerted effort to reduce Eskom's debt burden and improve gearing, with the support of Government equity injections
- Lack of cost-reflective tariffs and escalating municipal arrear debt also contribute to liquidity constraints. Court review applications and municipal interventions being pursued
- Capital expenditure restricted to improve liquidity

AUDIT OPINION

- Qualified audit opinion relating to irregular expenditure under the PFMA
- Material uncertainty regarding Eskom's status as going concern

Electricity sales
191 852 GWh
down 6.7% due to national lockdown

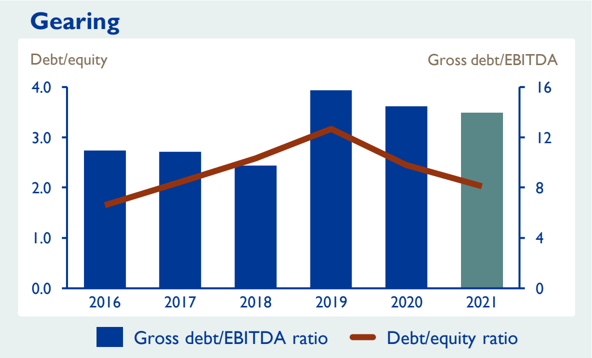
Electricity revenue
R202 644 million
up 2.7% due to 8.76% tariff increase

Favourable High Court judgments on NERSA's revenue and RCA decisions, with a **15.06% tariff increase** awarded for the 2022 financial year

Net interest-bearing debt
R393.6 billion
down 3.1% due to debt servicing

Net finance costs
R31.5 billion
up 0.3% due to higher borrowing costs and less interest capitalised

Received
R56 billion
in Government equity support

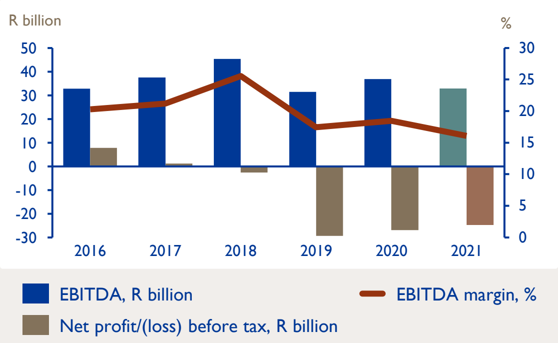


Key financial indicators

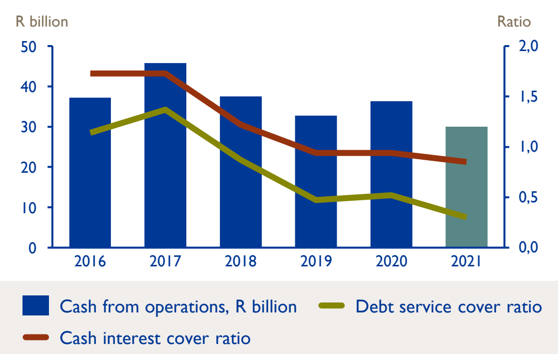
Financial indicator	2021		2020 [1]
Revenue, R million	**204 326**	●	199 468
EBITDA, R million	**32 813**	■	36 816
EBITDA margin, %	**16.06**	■	18.46
Operating profit (EBIT), R million	**5 797**	■	9 037
Net loss after tax, R million	**(18 934)**	●	(20 769)
Pre-tax nominal return on assets, %	**0.98**	■	1.56
Cash interest cover, ratio	**0.85**	■	0.94
Debt service cover, ratio	**0.30**	■	0.52
Gross debt/EBITDA, ratio	**13.96**	●	14.46
Debt/equity (including long-term provisions), ratio	**2.03**	●	2.45
Gearing, %	**67**	●	71
Free funds from operations (FFO) as % of gross debt	**9.53**	●	7.72

● Performance improved ■ Performance declined

Profitability



Solvency



KEY TAKEAWAYS

- Some financial indicators improved slightly despite very challenging conditions, yet remain well below acceptable levels
- Improvement in solvency ratios is largely attributable to the Government equity received, which supported our liquidity and helped us to reduce our debt balance during the year
- Cash interest cover and debt service cover ratios declined as operating cash flows remain inadequate to fund even the interest component of our debt servicing requirements

1. Restatements are disclosed in note 49 of the annual financial statements

Group income statement for the year ended 31 March 2021

R million	2021	2020 [1]	%
Revenue	**204 326**	199 468	2 ▲
Other income	**2 662**	1 238	115 ▲
Primary energy	**(115 903)**	(112 119)	3 ▲
Net employee benefit expenses	**(32 887)**	(33 158)	1 ▼
Net impairment (loss)/reversal	**(1 367)**	61	
Other expenses	**(24 018)**	(18 674)	29 ▲
EBITDA (before net fair value)	**32 813**	36 816	11 ▼
Depreciation and amortisation expenses	**(27 016)**	(27 779)	3 ▼
Operating profit (EBIT)	**5 797**	9 037	36 ▼
Net fair value and foreign exchange gain/(loss) on financial instruments and embedded derivatives	**883**	(4 626)	119 ▲
Net finance cost	**(31 509)**	(31 407)	
Share of profit of equity-accounted investees	**71**	63	
Loss before tax	**(24 758)**	(26 933)	
Income tax credit	**5 824**	6 164	
Net loss for the year	**(18 934)**	(20 769)	9 ▼

▲ Income/gain increased ▼ Income/gain declined
▼ Expense/loss declined ▲ Expense/loss increased

FINANCIAL COMMENTARY

- **Revenue**: 8.76% tariff increase for 2021, nearly fully eroded by an unprecedented 6.7% decline in sales volumes
- **Primary energy cost**: contractual price escalations as well as higher OCGT and RE-IPP usage, combined with lower Eskom coal production. Increase in average coal purchase cost per ton limited to 3.2% (2020: 16.3%)
- **Employee benefit cost**: no managerial salary increases and headcount reduction through natural attrition and VSPs, offset by a 7% increase for bargaining unit under the three-year wage settlement agreement
- **Other expenses**: increase in decommissioning provision costs due to a reduction in the long-term discount rate, as well as other once-off items; normalised increase of 1.6%
- **Net fair value gain**: recovery of the Rand to levels last seen before the SA credit rating downgrade in March 2020

R1.56 billion recovered from **ABB South Africa** through a voluntary disclosure of overpayments relating to the **Kusile** project

Long-term decommissioning provision discount rate **3.86%** (2020: 4.82%)

Year-end USD exchange rate **R14.75** (2020: R17.82)

1. Restatements are disclosed in note 49 of the annual financial statements

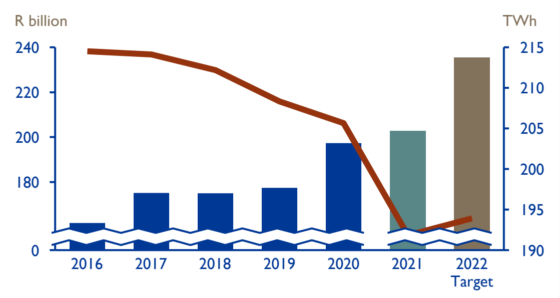
Sales and revenue

Revenue, R million	2021	2020	%
Local	202 429	196 868	3 ▲
International	10 383	12 229	15 ▼
Gross electricity revenue	**212 812**	209 097	2 ▲
Net revenue not recognised (IFRS 15)	(6 177)	(6 107)	1 ▲
Capitalised	(3 991)	(5 683)	30 ▼
Net electricity revenue	**202 644**	197 307	3 ▲
Other revenue	1 682	2 161	22 ▼
Total revenue	**204 326**	199 468	2 ▲

Sales volumes, GWh	2021	2020	%
Local	178 355	190 446	6 ▼
International	13 497	15 189	11 ▼
Total sales	**191 852**	205 635	7 ▼

▲ Revenue/sales increased ▲ Non-recognition/capitalisation increased
▼ Revenue/sales declined ▼ Non-recognition/capitalisation declined

Sales and revenue



Sales volumes per category, TWh	2021	2020	%
Distributors	82.4	86.0	4.1 ▼
Residential	10.9	11.3	3.0 ▼
Commercial	9.7	10.5	7.5 ▼
Industrial	40.9	45.6	10.4 ▼
Mining	27.0	28.7	6.0 ▼
Agriculture	5.5	5.8	5.4 ▼
Rail	1.9	2.6	25.7 ▼
International	13.5	15.2	11.1 ▼
Total	**191.9**	**205.6**	**6.7 ▼**

- Unprecedented 13.8TWh decline in sales due to the COVID-19 lockdown. Despite this, electricity revenue grew from a 8.76% tariff increase
- Reduction in sales across all customer categories due to economic downturn and depressed commodity prices
- Decline of 16.5% in sales volumes in Q1, recovered by year end due to the phased easing of the lockdown and recovery of commodity markets in the latter half of the year
- Customers in many sectors temporarily halted or curtailed operations, entered into business rescue or closed down
- Demand has increased in 2022, although sales are not expected to recover to pre-COVID-19 levels in the medium term

Primary energy expense

Category	2021 Cost, R million	2021 Sent out, GWh	2021 Unit cost, R/MWh	2020 Cost, R million	2020 Sent out, GWh	2020 Unit cost, R/MWh	R/MWh % change
Coal and other [1]	**74 908**	**184 305**	**406**	73 664	191 637	384	6 ▲
Nuclear	**1 040**	**9 903**	**105**	1 330	13 252	100	5 ▲
OCGTs [2]	**4 125**	**1 457**	**2 778**	4 350	1 328	3 231	14 ▼
Eskom generation [3]	**80 073**	**195 665**	**409**	79 343	206 217	385	6 ▲
Renewable IPPs	**27 921**	**12 821**	**2 178**	24 810	11 247	2 206	1 ▼
IPP OCGTs [4]	**2 911**	**704**	**3 579**	3 250	711	4 049	12 ▼
Total IPPs [3]	**30 832**	**13 526**	**2 280**	28 060	11 958	2 347	3 ▼
Imports [3]	**4 998**	**8 812**	**567**	4 716	8 568	550	3 ▲
Primary energy	**115 903**	**218 003**	**532**	112 119	226 742	494	8 ▲

▼ Production cost declined ▲ Production cost increased

- Energy produced reduced by 8.7TWh to meet lower demand
- Despite lower production, total primary energy costs increased by 3.4% due to use of more expensive sources to alleviate supply constraints experienced during periods of the year
- Growth in own generation costs was contained due to a decline in coal and nuclear production
- The increase in coal, nuclear and import unit costs (▲) were largely due to inflationary and contractual increases
- The decline in OCGT unit costs (▼) were as a result of favourable diesel price movements during the year

1. Excluding Medupi and Kusile pre-commissioning production of 5 735GWh (2020: 8 751GWh) for units synchronised to the grid, but not yet commissioned
2. OCGT unit cost is calculated on fuel and start-up cost, and excludes storage and demurrage charges. Storage and demurrage of R79 million (2020: R59 million) is included in the total cost shown
3. Note that the unit cost of IPPs and international purchases is based on the full cost of operation, whereas the unit cost of Eskom-owned generation is based only on the primary energy cost. Given that IPP and international purchases are treated as a variable cost in Eskom's accounts, this treatment is considered appropriate
4. The IPP OCGT unit cost is calculated on fuel cost (variable cost) only, and excludes maintenance and capacity charges. Maintenance of R391 million (2020: R371 million) is included in the total cost shown

Group statement of financial position at 31 March 2021

R million	2021	2020 [1]	%
Property, plant and equipment and intangible assets	**666 225**	657 189	1 ▲
Working capital – inventory and current receivables	**64 072**	57 563	11 ▲
Liquid assets – cash and cash equivalents and investments	**18 442**	34 971	47 ▼
Derivatives held for risk management	**11 379**	57 636	80 ▼
Other assets [2]	**21 530**	15 864	36 ▲
Total assets	**781 648**	823 223	5 ▼
Equity [3]	**215 836**	186 068	16 ▲
Debt securities and borrowings	**401 826**	483 682	17 ▼
Working capital – current payables	**52 288**	54 904	5 ▼
Derivatives held for risk management	**8 370**	2 941	185 ▲
Other liabilities [4]	**103 328**	95 628	8 ▲
Total equity and liabilities	**781 648**	823 223	5 ▼

▲ Asset increased ▼ Asset declined
▼ Liability declined ▲ Liability increased

FINANCIAL COMMENTARY

- **Liquidity**: constrained due to debt servicing and working capital requirements, and limited debt raising activities. The 2020 balance includes payments of R5.3 billion which were delayed due to technical IT issues
- **Working capital**: increase in coal stock, maintenance spares and consumables due to the Generation recovery programme, as well as growth in municipal and metro debt and diesel rebates
- **Derivatives**: derivatives used in hedging activities declined due to the strengthening of the Rand
- **Equity**: share capital of R56 billion issued in exchange for Government support, reduced by the loss
- **Debt**: R65.6 billion repaid, offset by R15.8 billion debt raised. Foreign-denominated borrowings declined due to the strengthening of the Rand

The largest movement is the **reduction of R81.9 billion** in debt securities and borrowings

1. Restatements are disclosed in note 49 of the annual financial statements
2. Mainly comprises future fuel and non-current receivables
3. Includes Government support of R56 billion received for the year (2020: R49 billion)
4. Mainly comprises non-current provisions, employee benefit obligations, contract liabilities and lease liabilities

Net interest-bearing debt and net finance cost overview

R million	2021	2020	%
Debt securities and borrowings	**401 826**	483 682	17▼
Net market making liabilities	**2**	62	
Cash and cash equivalents [1]	**(4 041)**	(22 990)	82▼
Net derivatives held for risk management [1]	**(3 009)**	(54 695)	94▼
Net interest-bearing debt	**394 778**	406 059	3▼

▼ Asset declined ▼ Liability declined

- Reliance on debt remains unsustainable, with gross finance costs the second largest cost after primary energy
- Efforts to reduce Eskom's debt burden were possible through Government support, leading to an overall reduction of R81.9 billion in gross debt
- Foreign-denominated borrowings (approximately 40% of portfolio) impacted by the strengthening of the Rand
- Derivatives held for risk management were similarly impacted by exchange rate movements

R million	2021	2020 [2]	%
Gross finance cost	**45 625**	48 601	6▼
Finance income	**(2 400)**	(2 610)	8▼
Borrowing costs capitalised to assets	**(11 716)**	(14 584)	20▼
Net finance cost	**31 509**	31 407	0.3▲

▲ Income/capitalisation increased ▼ Expense declined ▼ Income/capitalisation declined ▲ Expense increased

Debt securities and borrowings, R billion	2021
Opening balance	483.7
Debt raised (net of commercial paper)	15.8
Debt repaid	(65.6)
Exchange rate movement	(35.4)
Accruals, discounting, interest and other	3.3
Closing balance	**401.8**

Average cost of debt
9.66% ▲ (2020: 9.58%)

Average investment return
3.87% ▼ (2020: 6.81%)

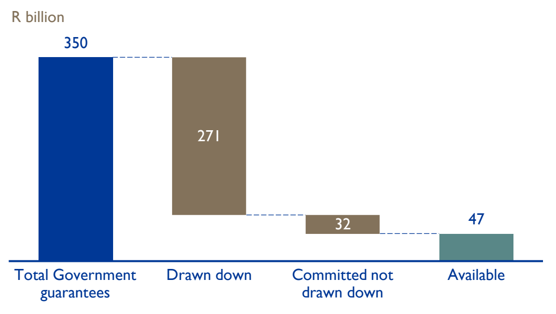
1. In this table, assets are reflected as negative amounts
2. Restatements are disclosed in note 49 of the annual financial statements

Funding plan progress

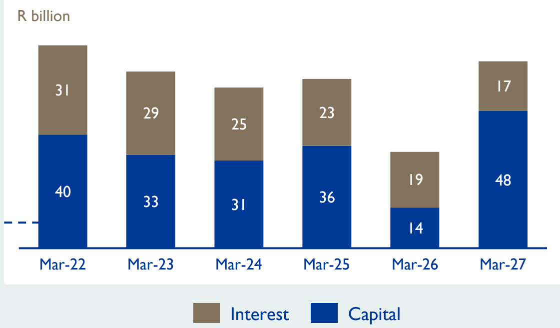
R billion	2021 Funding plan	2021 Secured at year end	2022 [1] Funding plan	2022 [1] Committed 31 July 2021
DFIs	11.8	9.3	8.5	8.2
ECAs	0.7	0.1	0.5	0.5
Domestic bonds and notes >1 year	5.4	5.4	–	–
Domestic bonds and notes ≤1 year	3.1	3.1	0.6	0.6
Derivative loans	1.0	1.0	–	–
International bond	–	–	10.0	–
Private placement [2]	7.0	–	7.0	7.0
Syndicated loan [2]	10.0	–	15.0	–
Total funding [3]	**39.0**	**18.9**	**41.6**	**16.2**
% secured		**48%**		**39%**

Debt servicing costs of **R71 billion for 2022**, reducing to an average of around R60 billion per year to 2025. Capital repayments in 2026 and 2027 based on maturities

Guarantee utilisation at 31 July 2021



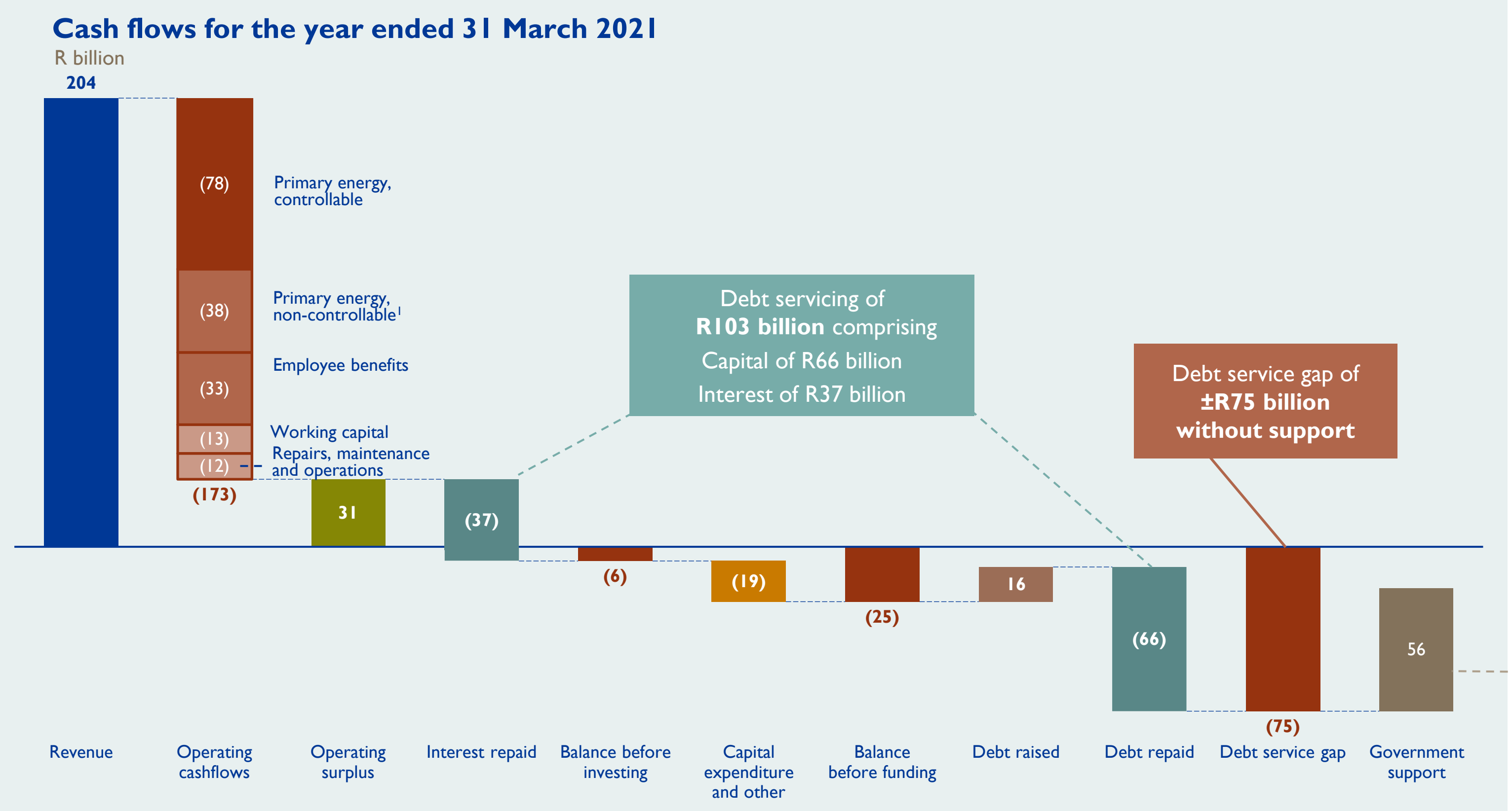
Debt maturity profile at 31 July 2021 [4]



1. Funding sources targeted for 2022 are subject to change depending on requirements
2. Delays in Government guarantees meant that certain planned funding had to be postponed to the 2022 financial year
3. The table above includes gross commercial paper, whereas the debt raised figure in the statement of cash flows is net of commercial paper

4. Based on existing debt only, using forward rates and net of swaps

Overview of cash flow movements



KEY TAKEAWAYS

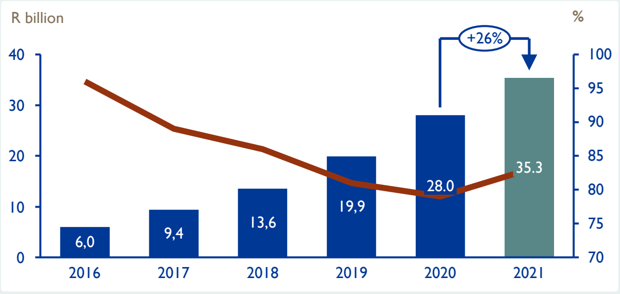
- Cash from operations remains insufficient to meet debt servicing and some capital investment requirements
- Cost savings alone is not the answer, as R75 billion in savings amounts to 43% of operational outflows
- Eskom's capital and tariff structure have to be resolved to ensure long-term financial sustainability

Government support of **R56 billion** was received to alleviate some of the cash flow pressure

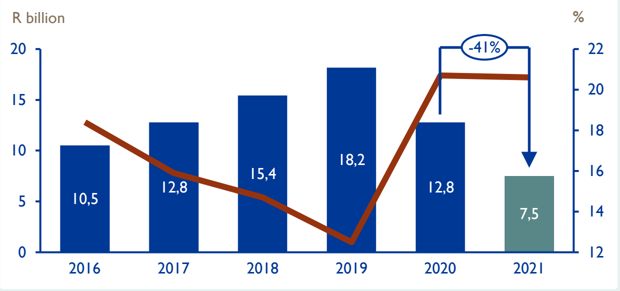
1. Non-controllable primary energy includes renewable IPP costs and environmental levies
2. Debt raised for the year is reported net of commercial paper in the statement of cash flows

Arrear debt management

Invoiced municipal arrear debt



Soweto small power user (SPU) debt



1. Soweto debt prior to 2019 includes prescribed debt and "*in duplum*" components that were not written off at the time

- Invoiced municipal arrear debt (including interest) grew by R7.3 billion, adding liquidity pressure
- Payment level of 83% by municipalities, excluding metros (2020: 79%). Payment level of 53% for top 20 defaulting municipalities (2020: 49%)
- Progress achieved from our municipal debt management strategy, as well as ring-fencing of arrear accounts, leading to lower interest charges
- The Political Task Team and Multi-disciplinary Revenue Committee are focusing their efforts on the top 20 defaulting municipalities
- Active partnering agreements are being pursued; discussions under way with 45 municipalities
- Invoiced Soweto SPU debt (including interest) decreased to R7.5 billion, due to write-off of prescribed debt and "*in duplum*" interest. Of this, only R536 million is deemed collectable and reflected as receivables in the financial statements
- In negotiation with the City of Johannesburg for the proposed transfer of customers to City Power
- Other than municipal and residential arrear debt, only two large customers, with combined debt of R0.7 billion, owe amounts in excess of R100 million

Our municipal debt management strategy focuses on

CURRENT ACCOUNT MANAGEMENT

Stop defaulting and enforce payment of current amounts

FUTURE DEBT MANAGEMENT

Reduce and/or eliminate overdue debt

ARREAR DEBT MANAGEMENT

Prevent future defaulting through pre-emptive action

Payment agreements at 31 March 2021

43 active payment agreements in place, with **only 10 fully honoured**

This includes **12 of the top 20** defaulting municipalities, with **only two fully honoured**

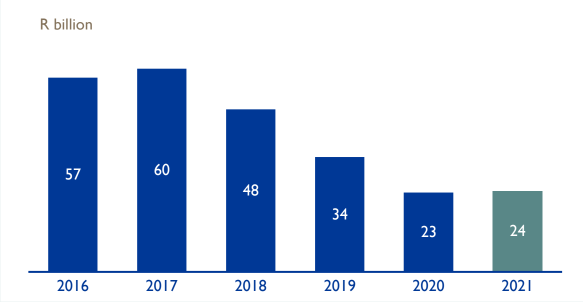
Non-adherence to payment agreements continues to contribute to the increase in arrear municipal debt

On 28 April 2021, we entered into our **first active partnering agreement** with Msunduzi Local Municipality in KwaZulu-Natal

Capital expenditure

- Total Eskom group funded capital of R24 billion (2020: R23.4 billion), with R9.3 billion used to expand the asset base through Group Capital projects
- Capital expenditure restricted to improve liquidity and also lower due to deferral of outages, resource constraints and a slowdown in activities as a result of the national lockdown
- Capital savings were targeted through Eskom's cost saving initiatives to offset the financial impact of lower sales volumes during the national lockdown
- Continued deferral of capital maintenance outages, refurbishment and replacement of infrastructure may lead to operational challenges
- Current total estimated cost to correct defects of all Medupi and Kusile units, based on the best available information, ranges between R5.6 billion and R7.2 billion, excluding amount to be recovered from contractors
- Medupi: R120.6 billion spent, cost to completion of R145 billion (excluding FGD). Remaining spend relates to balance of plant, including civil and mechanical work. Cost of Medupi FGD estimated at R38.4 billion
- Kusile *(pictured right)*: R141.1 billion spent, cost to completion of R161.4 billion (includes FGD)

Total Eskom funded capital expenditure



Financial outlook for 2022 financial year

Financial indicator	Actual March 2021		Budget March 2022
Revenue, R million	**204 326**	Performance improved	235 879
EBITDA, R million	**32 813**	Performance improved	45 113
EBITDA margin, %	**16.06**	Performance improved	19.13
Operating profit (EBIT), R million	**5 797**	Performance improved	13 978
Net loss after tax, R million	**(18 934)**	Performance improved	(15 155)
Cash interest cover, ratio	**0.85**	Performance improved	1.79
Debt service cover, ratio	**0.30**	Performance improved	0.74
Gross debt/EBITDA, ratio	**13.96**	Performance improved	11.30
Debt/equity (including long-term provisions), ratio	**2.03**	Performance declined	2.09
Free funds from operations (FFO) as % of gross debt	**9.53**	Performance improved	9.57

Performance improved   Performance declined

Without Government support, cash from operations remains insufficient to service debt. Gearing and solvency is expected to improve due to continued Government support, while profitability is expected to improve from growth in the tariff as well as cost containment measures

- Financial performance is expected to improve as a result of our turnaround plan
- Despite a tariff increase of 15.06% for the 2022 financial year, a loss after tax is anticipated due to the lack of cost-reflective tariffs, structural challenges and the continued impact of COVID-19. Our Corporate Plan assumes a return to profitability from 2026
- Demand is unlikely to recover to pre-COVID-19 levels for the next five years due to the economic recession
- We are working with Government to explore avenues to stimulate sales and implement long-term negotiated pricing agreements for the benefit of the economy
- We are awaiting NERSA's decisions on the MYPD 5 application and proposals for the restructuring of tariffs, to be implemented from 1 April 2022

Government support of **R31.7 billion** received for the 2022 financial year, and a further R21.9 billion and R21 billion committed for 2023 and 2024

Audit qualification

- Material uncertainty regarding Eskom's status as going concern
- Qualified audit opinion relating to irregular expenditure in terms of the PFMA.
  - Impacted compliance regarding the following:
    - Material misstatement because of irregular expenditure disclosure note
    - Expenditure management regarding completeness of irregular expenditure and incurring of fruitless and wasteful expenditure
    - Procurement and contract management
    - Consequence management
  - Internal control deficiencies noted as a result
- Corrected material misstatement regarding inventory
- Revenue management to collect all revenue

Processes to manage irregular and fruitless and wasteful expenditure

Movement in irregular expenditure since 2017

Irregular expenditure breakdown, R billion	2021
Opening balance	36.3
Prior year clean-up and existing IE (pre-2021)	9.5
New IE (2021)	2.2
Recovered	(1.2)
Condoned	(9.5)
Closing balance	**37.2**

New irregular expenditure	No. of incidents	R million
Not an emergency	Monthly	1 251
Non-compliance with tender process	25	380
Not in accordance with NT instructions	1	260
Other	23	267
Total	**> 50**	**2 158**

- A centralised Loss Control Department has been established to address PFMA violations and oversight of consequence management, including disciplinary actions, condonations and recovery of losses
- Implemented revised PFMA reporting procedures to ensure that all assessments and investigations into occurrences of irregular expenditure and fruitless and wasteful expenditure are performed by this function from 1 April 2021
- Progress in obtaining condonations of irregular expenditure has been slow for a number of years. Until condoned, expenditure on affected contracts remains irregular. Towards the end of the year, we received notice of condonation of 296 transactions valued at R9.5 billion
- We are working with DPE and National Treasury to ring-fence historical irregular expenditure to prioritise the close-out of these items and minimise the continued impact on our annual financial statements
- A procurement roadmap is in place to enhance internal procurement processes and contract management

Interventions implemented to address Irregular Expenditure: internal control system in procurement and contract management

- Various interventions have been implemented to mitigate the recurrence of the findings which resulted into Irregular Expenditure as per the qualified opinion obtained for FY2020/2021;
- Eskom Procurement & Supply Chain Management Procedure 32-1034 has been enhanced to align with the relevant legislative prescripts.
- In collaboration with the Internal Audit Department, periodic reviews are being conducted on procurement processes as well as on awards to determine the level of compliance to Supply Chain Management (SCM) legislative frameworks and adherence to various internal controls;
- Awards identified to be irregular are logged onto the Central Condonation Register for preliminary investigation and determination subsequently submitted to National Treasury for approval;
- In instances where anomalies have been identified, lessons learnt are shared then trainings are being offered to ensure that all Procurement Practitioners are capacitated to prevent the recurrence of findings and eliminate any ambiguity that might arise due to different interpretations of the SCM governance frameworks;
- In accordance with the National Treasury Instruction Note 2 of 2019/2020 and the Irregular Expenditure Framework, all transactions which result in irregular expenditure are being condoned;
- Eskom has embarked with DPE and NT on an initiative to ring-fence the historical Irregular Expenditure (IE) to have it condoned before the end of the current financial year in order to minimise the impact on its annual financial statements.
- The Supplier Review Committee (SRC) has been re-established to decide on remedial actions on tenderers or suppliers found to contravene the SCM governance frameworks; and has concluded a total of 63 matters of 253 investigated issues as concluded by Assurance and Forensics department.

Material misstatement corrected - inventory

- The PFMA requires entities to submit draft financial statements by 31 May to National Treasury and the external auditors
- In preparing for the audit, it was established that the physical inventory and financial records did not reconcile in all instances, with financial records exceeding physical inventory
- Eskom and the auditors agreed on a process to quantify, reconcile and audit the difference. This process was only completed after submission of the draft financial statements
- It was noted in the submission letter to National Treasury that a number of significant accounting and auditing matters were still outstanding that could have a material impact on the draft financial statements

> It should be noted that there are still a number of significant accounting and auditing matters outstanding that could have a material impact on the draft Eskom AFS. In particular, the going concern basis is not guaranteed and can only be finalised with Government's assistance relating to government guarantees and foreign borrowing limits.

- Inventory amounting to R1.2 billion was written-off after submission of the draft financial statements
- Corrective action:
  - Independent investigation against employees in responsible areas
  - Warehouse augmentation to be implemented and introducing best practices in the industry
  - Automation implementation of Barcoding and Radio Frequency Identification
  - Enforced independent counts conducted by inventory accountants
  - Materials managers must ensure compliance to Materials Management Policies and Procedures by performing periodic checks and balances

Revenue management - Background and context

Extract from Management response to Audit Query

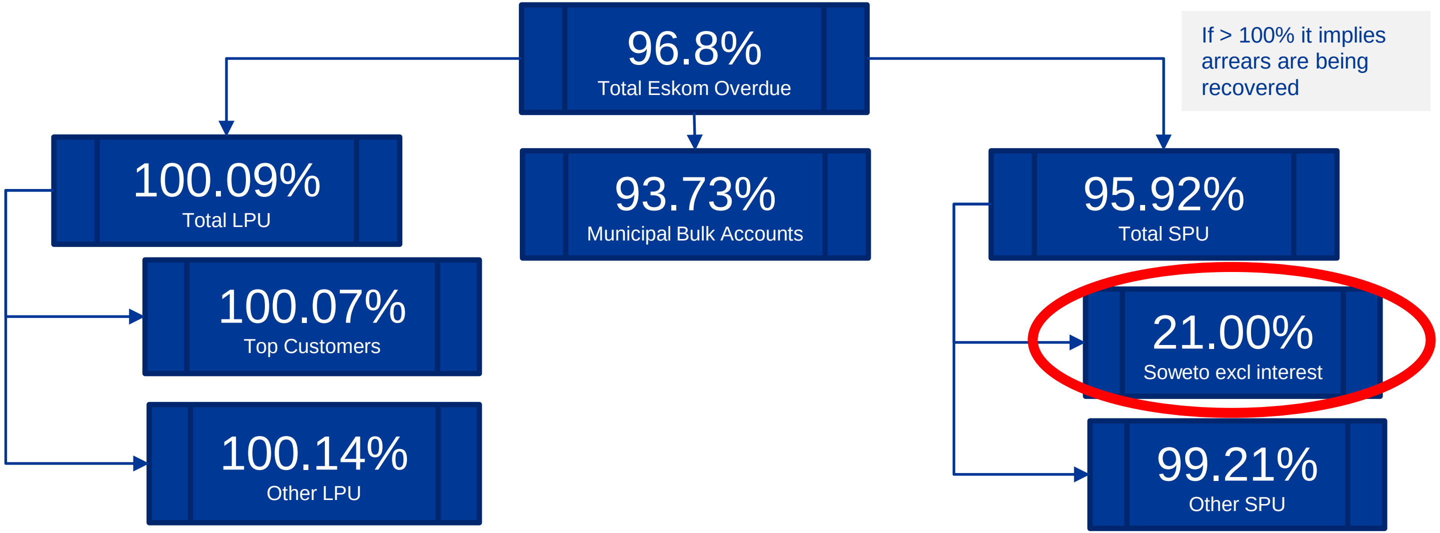
We strongly disagree with the statement that "management did not ensure effective internal controls were implemented to ensure that debt from electricity debtors is collected".
Eskom's achieved an overall payment level of 96.8% for the current year under review (2020: 96.24%), with payment levels for the non-municipal customer base (i.e. excluding Municipal entities) at 99.96% (2020: 99.83%).

Auditor's conclusion:
Management comments and specifically the percentage collection rates are noted. The rates quoted exclude the impact of one of the largest customer bases to Eskom, being municipalities. If this was included, it would certainly have a material negative impact to the rates quoted. Based on the audit work performed on the sampled items, the steps taken over revenue management collection are appropriate, however as there are still outstanding debts not recovered and certain of these debtors are not honouring payment arrangements, whilst Eskom continues to supply them, indicates that collection has been ineffective. The ultimate wording of the finding will be considered by the PFMA Audit team.

- Primary reason for not accepting the audit finding was due to the fact that the sampling extracted long outstanding debt as opposed to including accounts with overdue debt in the 30 to 90 days age category
- The sample chosen being greater than 90 days would typically be exceptions with reasons that Eskom may not have full control over. e.g accounts that may be in dispute, Legal challenges.
- The payment levels achieved would be a better indicator of the overall success in managing the growth in overdue debt
- The major portion of the overdue debt are in the municipal and Soweto segment making up over 95% of the overdue debtor's book
- 2% of the remaining 5% overdue debt (SPU (Excluding Soweto); LPU and Top Customers) is in the terminated debt status – meaning customers already disconnected and debt collection processes are being implemented

Payment levels split between customer segments

As at the end March 2021 – 12 Month Moving Average Results (12 MMA)



- Payment levels measure payments received of customers per month as a % of the previous period's current billed amount
- The table above clearly illustrates excellent payments in the SPU (Excluding Soweto); Top Customer and LPU Customer Segments
- These payment levels have been achieved by implementation of the credit and debt management policies.
- Summary of activities undertaken:
  - Payment reminders in the form of letters and automated SMS/s
  - Conclude payment arrangements where agreement is reached
  - Conclude debit order agreements
  - Create and execute disconnection requests

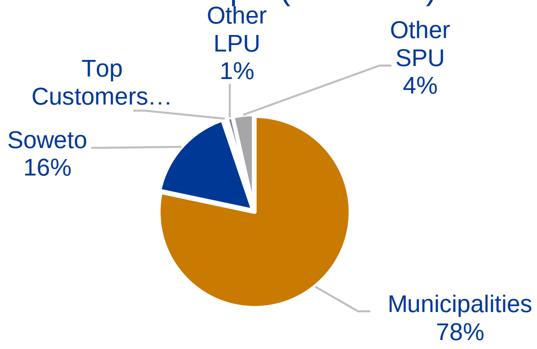
Debt overview – March 2021

Debt Status – March 2021	Total (R'm)	Interest Due (R'm)	Current (R'm)	Overdue (R'm)	% of Overdue Already Terminated
Total Debt (SAP, incl. Sales accruals)	**63 484**	**9 884**	**18 359**	**45 125**	
Municipalities	44 157	7 435	8 817	35 340	
Soweto	7 523	2 236	89	7 435	4 218 (57%)
Top Customers	**6 054**	**68**	**5 751**	**303**	**50 (17%)**
Other LPU	**2 390**	**31**	**1 951**	**440**	**163 (37%)**
Other SPU	**3 359**	**114**	**1 752**	**1 607**	**766 (48%)**

Overdue Debt (R'm)

	Total	Municipalities	Soweto	Top Customers	Other LPU	Other SPU
Mar-19	39 519	19 889	17 942	229	334	1 125
Mar-20	42 832	28 042	12 711	350	359	1 369
Mar-21	45 125	35 340	7 435	303	440	1 607

Overdue Debt Split (Mar 2021)



Lever SPU (Non Soweto); LPU	Results for FY21	Notes
1st Call Reminder	On average 63k reminders sent per month	Sent as soon as customer not paid by due date
2nd Call Reminder	On average 40k reminders sent per month	Only sent if customer did not pay after 1st Call
Disconnection Request	On average 25k requests created per month for any debt > R 1 000	Customer to be disconnected if not paid
Customer Disconnected	57k customers disconnected during FY21	Physically disconnected
Payment Arrangements	1 667 Customers had payment arrangements being honored	Not a given step since agreement must be reached by both parties

Positive financial outlook

- Require a reduction in debt and an improvement in EBITDA margin to be in a position to achieve independent financial sustainability
- Financial results will be positively affected by an improvement in operational performance
- Cost savings alone not sufficient to improve Eskom's financial position
- Government equity support has improved liquidity and key debt metrics by assisting with debt servicing, but will not resolve Eskom's long-term financial viability
- Leveraging relationship with Government for recovery of municipal and Soweto arrear debt
- Migration towards a cost-reflective tariff is necessary to recover our cost of capital and, combined with cost efficiencies and reducing debt levels, will restore financial sustainability
- Electricity Regulation Act amended to allow generation of up to 100MW without a licence. Customer-funded capacity and IPPs will address immediate supply/demand gap
- Repurposing and repowering ageing power stations will serve to reduce electricity supply gap
- Continued focus on Generation recovery plan and reliability maintenance recovery to improve plant performance
- Since completing Medupi, focus shifts to first synchronisation of Kusile Unit 4 (June 2022) and recovery of Medupi Unit 4
- JET required to attract funding to shift to cleaner power generation, while managing the impact on jobs and livelihoods

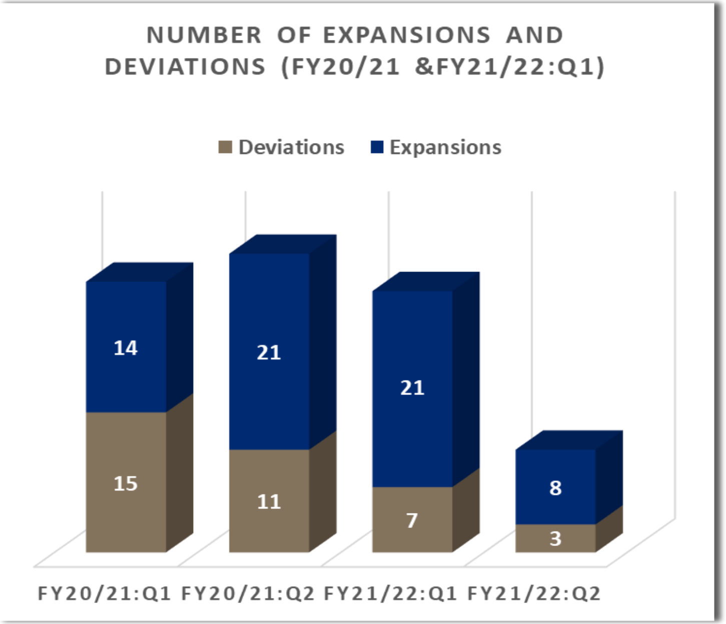
Table of Content

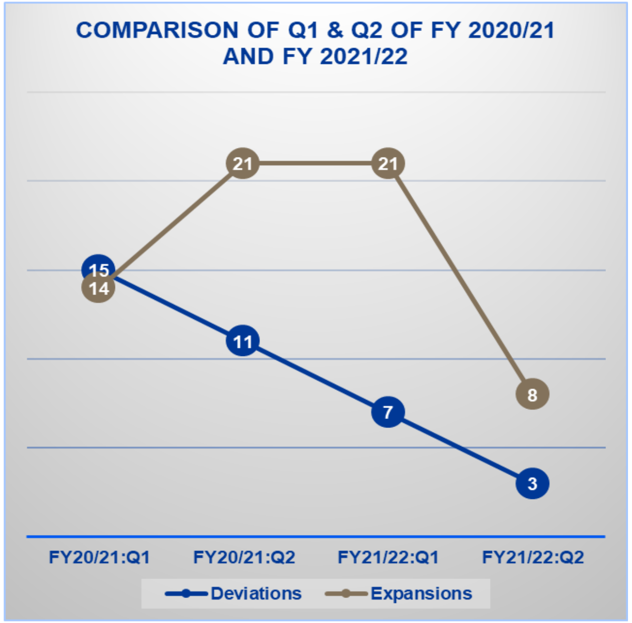
JS

Overview to Expansions and Deviations

- Eskom deviations and expansions are undertaken on an exception basis.
- Procurement through deviations **compromises the principles** of fairness, equitability, transparency, competitiveness and cost-efficiency.
- National Treasury **introduced instructions on procuring** through deviations because some organs of state were abusing this mode of procurement.
- **Single source procurement** may occur when more than one supplier exists in the market that can perform the contract, but a particular supplier is identified as the preferred supplier for various reasons, e.g. continuation of service. **Prior approval is required from National Treasury** for single source procurement**.**
- **Sole source supplier** is where one supplier possesses the unique and singularly available capacity to meet Eskom's requirements. **National Treasury approval is not required** for sole source procurement.
- **Motivations must also be provided** as to why procurement should be done through deviation as opposed to testing the market and concluding a new contract.
- **Equity condition** reporting is implemented and reported on monthly and quarterly basis.

Comparison of FY 2020/21 and FY2021/22 Deviations & Expansions





To note:

- Total of 10 Deviations and 29 Expansions were submitted during Quarter 1 and 2 of the current financial year.
- Entrenchment of compliance to Supply Chain Management Frameworks has begun to yield the results as there seem to be a decline.
- This is due to the commitment on the monitoring of the implementation of the Ministerial Equity Conditions.

Quarter 1

Deviations

(Supported, conditional supported and not supported)

Deviations Supported – Q1
Eskom Rotek Industries

SM

Eskom

NT Ref. No	Project Description	Reason for Deviation	NT Response
TBC	Site supervision for the dismantling, loading, transportation, off-loading, assembling and testing of a 40MVA 132/33kV transformer from Witbank Mpumalanga stores to Maandagsgoek Substation. **Supplier:** SGB Smit Power Matla **Contract Value:** R174 943,75 **Approver/s:** Monde Bala	To retain a 3 year warranty with SGB Smit Power Matla, the Original Equipment Manufacturer .	• Approved

Conditionally Supported Deviations - Q1 Distribution

MB

NT No.	Project Description	Supplier	Value of Contract	Reason for Deviation	Approval Condition/s
89	Request for clarity on Distribution substation protection schemes	ACTOM, ABB South Africa, Integrators of Systems Technologies and CONCO Energy Solutions	R380 902 433,50	All of Eskom Distribution's Protection Scheme supply contracts have lapsed. The long term supply tender referenced DX698 that was issued in January 2016 to replace the existing protection scheme types is still in the development phase. The contracts resulting from this tender process are expected be in place in the second quarter of 2021. It was initially envisaged that these contracts would be established by the end of 2020. However, due to the delays encountered as a result of COVID 19 pandemic, the indication is that the contracts will be delayed as aforesaid.	National Treasury supports the deviation on condition the reasonableness of cost was assessed and that Eskom finalise the tender process for the long-term agreement(s) within the 18 months granted. This deviation will be effective as from 14 June 2021 for 18 months at the value of R380 902 433,50.

Status:
The contacts were concluded as follows: Actom - contract concluded Ref 4600069881 , Contract value R35 604 952,57. Reasonable price achieved, Eskom is currently busy with the negotiations for establishment of a long term contract. ABB - Contract not concluded , still busy with due diligence. Reasonable price achieved, Eskom is currently busy with the negotiations for establishment of a long term contract. IST -contract not concluded, report to be submitted to tender committee for approval of payment terms. Reasonable price achieved, Eskom is currently busy with the negotiations for establishment of a long term contract. CONCO - contract not concluded , the company is in a process of liquidation.

Approver: Jainthree Sankar

Consequences Management: Not applicable

Conditionally Supported Deviations - Q1
GROUP IT

NT No.	Project Description	Supplier	Value of Contract	Reason for Deviation	Approval Condition/s
87	Request for approval to solicit services from a single source for appointment of Genussoft (PTY) Ltd for the application support and license maintenance contract for feeder balancing and data validation modules	GENUSSOFT (Pty) Ltd.	R 27 752 197,51 (requested) R 11 100 878,00 (approved)	A RFI was issued to the market on 16 Sept 2020 for an Energy Balancing Solution. Eight (8) responses were received and evaluated. Three (3) of the tenderers met the technical evaluation criteria. The lowest quotation was provided by the current vendor, GenusSoft (Pty) Ltd. for the continuation of maintenance & support on the current solution. A new Energy Balancing Solution, which will replace the current solution with GenusSoft (Pty) Ltd, forms part of the integrated Meter Data Management System (MDMS) project which will commence in FY2023	National Treasury supports the extension of this contract by a period of two (2) years for business continuity on condition that the current contract is not irregular. The remaining period of three (3) that has been requested will only be considered after process of the Request for Information (RFI) & Request for Proposal (RFP) Meter Data Management System (MDMS) integrated project is finalised.

Status:

- National treasury conditionally supported the extension of the existing contract on 17 May 2021.
- The modification report, to extend the existing contract by 2 years, was approved by the Corporate Procurement Tender Committee on 28 May 2021. Upon negotiation with the supplier the contract was modified for a period of 2 years at a value of R 7 387 103,00. The new contract end date is 31 May 2023.
- The original contract was established through an open tender process and complied with all governance processes.
- The scope and budget for the Meter Data Management System (MDMS) integrated project is being finalized and the tender will be issued in Q4 of FY2021_2022

Approver: Faith Burn

Consequences Management: N/A –
A RFI was issued to the open market and indicative pricing received supported the continuation of the services on the existing solution with GenusSoft (Pty) Ltd. Capital budget constraints prevented Eskom from issuing the Meter Data Management System (MDMS) integrated project RFP earlier.

Conditionally Supported Deviations – Q1
Group IT

NT No.	Project Description	Supplier	Value of Contract	Reason for Deviation	Approval Condition/s
88	Licensing, Maintenance and Support of BENTLEY suite of applications	BENTLEY SYSTEMS INT	R131 219 832,30 (requested) R 65 609 916,15 (approved)	The existing Bentley solution is the best functional fit and most cost effective option in terms of subscription cost. An open market RFI processed during the last quarter of 2020 demonstrated that functional alternatives are potentially available but indicative pricing reflected significantly higher cost. The system is critical for the maintenance and expansion of Eskom networks. If the functionality is not available, it will lead to increased load-shedding, unplanned outages and unsafe change/outage working environment due to unavailability of accurate and relevant engineering documentation enabling the business to make the right decisions at the right time.	National Treasury supports the extension of the contract for 24 months on condition that the market is re-tested and that the initial terms and conditions of the contract remains the same.

Status:

- The contract has been extended by the approved 24 months with the same terms and conditions of the original contract as per NT instruction. The new contract end date is 31 January 2023.
- The scope and budget, to issue a RFP to the open market, is being finalized and the RFP will be issued during Q3 of FY2021_2022

Approver: Faith Burn

Consequences Management: N/A - A RFI was issued for a possible replacement but Capital budget constraints prevented Eskom from issuing a RFP.

FB

Deviations Not Supported – Q1
Group IT

NT Ref. No	Project Description	Reason for Deviation	NT Response
86	Request for approval to solicit services from a single source for the provision of software end user usage, maintenance and support for the Hospitality Management System for a period of three years **Supplier:** OMNI Africa (Pty) Ltd **Contract Value:** R1 863 241,81	• The hospitality solution was procured in 2016 through an open tender process. • For the hospitality information management systems to operate seamlessly with other systems within Eskom, namely SAP and access control systems an additional resource expenditure of R7m was required to integrate these systems. • The integration investment took eighteen (18) months to implement, and therefore the system has only been operating for three (3) years • Eskom has not fully realised the benefit of the investment made. • OMNI Africa (Pty) Ltd is the appointed OEM service provider	Not supported.

NT Recommendation:

- Eskom is advised to follow paragraph 8.1 of the SCM Instruction Note 3 of 2016/17 if the supplier is an OEM and sole distributor of this service.

Action Taken:

- Paragraph 8.1 of the SCM Instruction Note 3 of 2016/17 states that if the supplier is an OEM and sole distributor of a service, a contract can be established through a Sole Source procurement process.
- National Treasury approval is not required for OEM and Sole distributors.
- A contract for the period 19 Aug 2021 to 30 Jun 2024, was concluded with OMNI Africa (Pty) Ltd through a Sole Source procurement process.

Brief summary:
A contract was concluded with the OEM appointed Sole Distributor through a Sole Source procurement process. A feedback report to National Treasury is being prepared to close the request.

Approved: Faith Burn

Consequences Management: N/A
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Deviations Not Supported - Q1
Eskom Rotek Industries

SM

NT Ref. No	Project Description	Reason for Deviation	NT Response
85	Request for approval to solicit services from a single source for critical technical resources to run the Eskom Rotek Industries training academy **Supplier:** Trans-Africa Projects (PTY) Ltd **Requested Value:** R165 000 000,00	Trans-Africa Projects (PTY) is 50% owned by Eskom. To build competence in the critical technical roles in ERI in order to reduce human errors, delays and rework which impact on timelines, increased costs and quality of work. Equally important is to increase the capabilities of the human resources to understand on the job knowledge spanning from planning, plant inspections, supervisory and management aspects of the operations.	• Not supported.

NT Recommendation:

- National Treasury requested additional information on how the supplier was initially appointed, the duration and value of the contract which was awarded. It further queried the fact that the contract was allowed to expire if the services of the supplier are still required? Since ERI sub-contracts most of its services, is whether the on-job training going to cater for service providers as well. Detailed breakdown of how many service providers & internal resources will be catered for service. Evidence of how the supplier's services has contributed to Eskom's business, added value and did not create dependency over the period. Market analysis report that demonstrates the cost effectiveness of the service

Action Taken:

In response to the query, additional information was compiled then submitted to National Treasury. However, since the Deviation was not supported, an Open Tender has been issued to the market. The procurement process is still underway.

Brief summary:

ERI has issued the Tender to the market. The procurement process is still underway.

Approved: Stephen Meyers
Consequences Management: N/A

Deviations Not Supported - Q1
Eskom Rotek Industries

SM

Eskom

NT Ref. No	Project Description	Reason for Deviation	NT Response
TBC	Request for approval to solicit services from a single source for multidisciplinary professional service provider who will provide various engineering services for Eskom Rotek Industries on as and when required basis **Supplier:** Trans-Africa Projects (PTY) Ltd **Requested Value:** R495 000 000,00	Although a number of service providers exist each with expertise on one or two systems, only TAP has the full service offering that is aligned to Eskom and therefore that is required (DHP, coal, ash, auxilarry systems etc).	• Not supported.

NT Recommendation:

- National Treasury recommends that the market be tested to ensure that a fair and transparent process is followed, as there may be other potential role players in the market who can provide technical expertise that are required to execute the scope of work in those power stations. A deviation process cannot be used to circumvent competitive bidding process as a result of poor planning. National Treasury cannot encourage deviation from competitive processes to favour suppliers or contracts which were arranged without a competitive bidding process.

Action Taken:

ERI has not tested the market but has requested an exemption on Instruction Note 3 of 2016/17 by submitting letters to the Ministers of Department of Public Enterprises and the Department of Finance as recommended by National Treasury.

Brief summary:

ERI has requested an exemption on certain clauses of National Treasury Instruction Note 3 of 2016/17.

Approved: Stephen Meyers

Consequences Management: N/A

Quarter 1

Expansions
(Supported, conditional supported and not supported)

Expansions Supported – Q1 Generation

PD

NT Ref. No	Project Description	Reason for Expansion	NT Response
52	National Treasury is requested to approve modification of contract number 4600064574 for the payment of rates and taxes for Eskom Camden for an amount of R372 600,00 including VAT. **Supplier:** Msukaligwa Local Municipality **Original Value: R 636 000,00** **Approver/s: Jainthree Sankar**	The contract has to be modified to increase the contract value to cater for the increase of the rates and taxes of this specific farm Account 78065-292 Uitkomst IT 292 (new Ashdam property).	• Approved

Conditionally Supported Expansions – Q1 Generation

PD

NT No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
3	Supply, transportation, erection and dismantling of scaffolding and insulation material	Southey Contracting (Pty) Ltd; Kaefer Thermal Contracting Services (Pty) Ltd; SGB-Cape, a division of Waco Africa (Pty) Ltd and TMS Group Industrial Services (Pty) Ltd.	Continuation of service	R378 499 500,00	R 790 631 190,45	R8 494 268 137,27	National Treasury, however, supports the extension for three months ending 31 October 2021, based on the following: nature of the service and advice from CIDB as the issues noted in the tender were based on the allocation of word based on CIDB Grading for service providers. Eskom re-advertise the tender in compliance with the CIDB regulations 25(8) provision & incorporate inputs from CIDB in the new tender. Reasonableness of costs is assessed for the extension period.

Current Status and how NT condition was addressed:

- The meeting was held with both NT and CIDB to map a way forward;
- After the meeting with both NT and CIDB, a letter was received from CIDB dated 10 September 2021 supporting the award of tender CORP 5171;
- Subsequent to that Eskom representatives met the Advocate/Counsel for further engagement;
- On 13 September 2021, legal opinion was obtained supporting the completion of procurement process to award tender CORP 5171.
- The team is now finalizing the report to be presented to an Adhoc Gx Board for support. Thereafter the feedback report for approval to award CORP 5171 will be presented to IFC on 06 October 2021;
- Formal response with supporting documents to be made to NT by 22 September 2021, however NT was briefed on the outcome of CIDB in a meeting held on 14 September 2021.

Approver: Jainthree Sankar
Consequence Management: N/A

Conditionally Supported Expansions – Q1 Generation

PD

NT No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
46	Supply, transportation, erection and dismantling of scaffolding and insulation material – Modification 11	Southey Contracting (Pty) Ltd; Kaefer Thermal Contracting Services (Pty) Ltd; SGB-Cape, a division of Waco Africa (Pty) Ltd and TMS Group Industrial Services (Pty) Ltd.	Continuation of service	R378 499 500,00	R 790 631 190,45	R8 473 983 022,19	National Treasury supports the extension of this contract for one month ending 31 July 2021, based on the nature of the service and on condition that: • A meeting is held with relevant authorities (i.e. between CIDB, Eskom and National Treasury) on how the tender can best be awarded in compliance with the provisions of PPPFA, CIDB Regulations and other SCM norms and standards.

Current Status and how NT condition was addressed:

- Two meetings were held with both NT and CIDB to determine how best the tender can be awarded and a way forward was communicated. Eskom has submitted a formal response as obtained from CIDB to NT.
- The submission was presented to Eskom Board on 28 October 2021, Eskom Board requested additional information pertaining to the tendered rates which was incorporated including a QS Report. The submission is currently being circulated for signatures thereafter it will go through a round robin resolution by Eskom Board-Feedback to award the contract.

Approver: Jainthree Sankar
Consequence Management: N/A

Conditionally Supported Expansions – Q1 Generation

PD

NT No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
46	Supply, transportation, erection and dismantling of scaffolding and insulation material – Modification 12	Southey Contracting (Pty) Ltd; Kaefer Thermal Contracting Services (Pty) Ltd; SGB-Cape, a division of Waco Africa (Pty) Ltd and TMS Group Industrial Services (Pty) Ltd.	Continuation of service	R378 499 500,00	R 232 185 000,00 Approved amount: R131 771 865,08	0.00	National Treasury supports the extension for three months on condition that the reasonableness of price was assessed, as the cost of the modification for three months in comparison to the cost for 12 months seems escalated, and on condition that progress status of the tender process is provided. No further extension of this contract will be granted.

Current Status and how NT condition was addressed:

- The meeting was held with both NT and CIDB
- NT was furnished with the issued tender and other relevant documentation on 29 June 2021.

Approver: Jainthree Sankar
Consequence Management: N/A

Conditionally Supported Expansions – Q1 Generation

PD

NT No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
TBC	Fuel Oil Modification	Sasol, BP, FFS, Econ Energy and Refinex	Continuation of service	R 1 763 893 504,16	R 2 690 277 413,46	R0.00	National Treasury supports on condition that the cost implications are independently assessed, and a report is submitted to National Treasury. Should any irregularities be found in the assessment, the costs must be recovered from the Suppliers and the officials who are responsible, and further appropriate action should be taken against those who have been found to be the cause of the irregularities.

Current Status and how NT condition was addressed:

- Cost were independently assessed and a report will be submitted to NT by 30 September 2021.
- An enquiry for the new contract was issued to the market and a mandate to negotiate with the recommended suppliers will be presented to Gx Board and IFC on 06 October 2021.
- Negotiation process is ongoing and feedback report will be presented to Gx Board on 17 November 2021 and thereafter to Eskom Board IFC Ad-Hoc Committee (to be requested) to ensure that commencement date of 01 December 2021 is met.
- Contracts will start on 01 December 2021.

Approver: Phillip Dukashe

Consequence Management: N/A

Conditionally Supported Expansions – Q1 Generation

No.	Project Description	Supplier	Reason for Expansion	Original Contract Value (ex VAT)	Value of Contract Extension (ex VAT)	Value of previous extensions	Approval Condition/s
57	Boiler Feed Pump Maintenance expansion Request	Sulzer South Africa (Pty) Ltd,	To allow time for site demobilisation required for handover to a new contractor (mobilisation). Also this will allow enough time to put in place a new BFP Maintenance contract whilst ensuring continuity	R259 175 247,00	R76 433 244,00	0.00	NT supports the extension for six months, commencing on 1 July 2021, on condition that the tender process is finalised within the extension period and all handover processes are completed. Eskom must submit to National Treasury the status of this tender and the financial implications of the extension for the 6 months granted by end of September 2021. National Treasury will not consider further extensions of this contract.

Current Status and how NT condition was addressed:

- Eskom was not able to respond to NT condition timeously (end of September) as internal approval regarding new process was being obtained.
- A revised Contract Strategy was approved internally by Generation Board on 16 September 2021 (Single Source Procurement Mechanism). Eskom could not timeously respond to National Treasury until an approval of the strategy is sought through internal governance process. Approval was thus required from NT to commence with the procurement process based on the internally approved procurement mechanism.
- New process regarding single source procurement process mechanism application was made to NT on 30 September 2021. On the 18 October 2021, Eskom received a response letter from NT whereby the request for single source mechanism was not supported.
- Eskom is currently appealing non-approval of a single source procurement process mechanism by National Treasury thereafter will be able to issue RFQ to the market.

Approver: Phillip Dukashe

Consequences Management: N/A

Expansion Conditionally Approved – Q1
Primary Energy

<table>
<tr><th>NT No.</th><th>Project Description</th><th>Reason for Expansion</th><th>NT Response</th></tr>
<tr>
<td rowspan="2">48</td>
<td rowspan="2">Request for approval to modify a contract for the provision of logistics and safety management services to Eskom Rotek Industries (ERI):
▪ Additional 12 months until 31 July 2022
▪ to allow logistics services to continue up to the expiry of Free Carrier Arrangement (FCA) coal transport contracts in December 2021 (uncertainty due to request to extend)
▪ to permit Eskom time to conclude a new logistics service contract for the remaining Delivered-at-Terminal (DAT) coal haulage thereafter and have clarity regarding expiry date of FCA contracts
▪ Provide additional funds to this contract as it is projected that the approved value will be exhausted end June 2021.

• The application dated 13 May 2021 and was received 14 May 2021.
• National Treasury responded on 08 June 2021.

NT submission approver:
• Jainthree Sankar: CPO (Acting)
• Jan Oberholzer (COO)</td>
<td>▪ Eskom’s road coal haulage operations are divided across FCA and DAT transporters, and are supported by the logistics and safety management services contract with ERI
▪ The 5 year contract with ERI expires in July 2021, while the FCA coal transport contracts expires in December 2021.
▪ The reasons for the modification is to allow the logistics and safety management services to continue until the expiry of the FCA contracts or to have more clarity on potential extension, and to permit Eskom time to conclude a new logistics service contract for the remaining DAT coal haulage thereafter
▪ The modification was for additional time of 12 months and for an additional amount of R623 449 500,00</td>
<td>National Treasury supported the extension for 5 months ending 31 December 2021 on condition that:
▪ Eskom commences and concludes with the tender process within this period.
▪ Internal Audit investigates if the funds in the current contract were utilized for their intended purposes and verify the depletion of funds before the contract expires is justifiable and provide with NT with feedback of the conditions by 30 September 2021.</td>
</tr>
<tr>
<td colspan="2">Eskom’s Actions: Internal Audit investigation into the funds utilization has been finalised. Results of the Internal Audit conducted was sent to NT on 1 October 2021 and an appeal letter on the 5 months extension was sent on 30 September 2021. A response from NT to the appeal Letter dated 04 November 2021 is with Eskom and a response is in the process of being compiled

Consequence Management: None. The approved contract value was exhausted in the final month of a 60 month contract. The additional expenditure was due to changes in the Labour Relations Amendment Act and severe coal shortages experienced during the contract period, which led to 7 day operations instead of 5.5 days. This resulted in additional contract cost not fully offset by cost containment measures instituted in other areas of the contract. This request was also to allow for the Eskom wholly owned subsidiary to be paid.

Controls put in place: PR’s will be loaded on a monthly basis for actual expenses incurred on the contract.</td>
</tr>
</table>

Conditionally Supported Expansions – Q1
Legal and Compliance

MG

NT No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
45	Task Order Modification for provision of Legal services in the contractual dispute referred to arbitration by a coal supplier, 2 Seam (Pty) Ltd.	Thipa Attorneys	Continuation of service	R1 150 000,00	R2 300 000,00	0.00	• NT supports the extension on condition that the rates per hour per resource are market related.

Current Status and how NT condition was addressed:

- The matter was part heard and proceedings for the main hearing have been adjourned. During the hearing on 30 July 2021 Eskom decided not to close its case in the arbitration, and instead sought the Arbitrators permission to call a further witness. Eskom sought to adduce further evidence on an issue which was substantively identified during the course of the evidence as it developed. The Arbitrator directed that Eskom file its application early August. Eskom duly filed the application seeking leave to adduce the evidence of a further witness. The application was heard on the 28 August 2021 and judgement has been reserved. In the event that Eskom' application to call a further witness is unsuccessful then the main hearing is expected to resume by the end of November 2021. Fixed dates for the main hearing will be allocated in due course.

- Thipa Attorneys was appointed in terms of the urgent process. During tender award Eskom negotiated and agreed to standard rates per resource with all the firms on the panel thus ensuring rates for urgent matters are market-related and fixed for the duration of the Service Level Agreement concluded with all the firms on the panel.

Approver: Nerina Otto
Consequences Management: N/A

Conditionally Supported Expansions – Q1
Legal and Compliance

No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
49	Request for approval to modify the current task order with ENS Africa for legal services to represent Eskom in the review application brought by Eskom against Econ Oil to review and set aside the tender award / contract pursuant to bid corp 4786 for heavy fuel oil.	ENS Africa	Continuation of service	R 2 875 000,00	R6 325 000,00	0.00	NT supports the extension only for this scope of work and on condition that its cost-effective for Eskom to use the same service provider to render this service than any other service provider and on condition that rates per hour/per resource are market related.

Current Status and how NT condition was addressed:

- In a dispute regarding the validity of a contract for fuel oil between Eskom and Econ Oil, the adjudicator found that a contract existed between the parties. Eskom opposed this and referred the matter to arbitration.
- Eskom launched a High Court application in Jan'21 to review and set aside the tender award. Part A was heard on 15 Apr'21 and Eskom was successful. Part B was heard in Jun'21. The High Court reviewed and set aside the award of the Oct'19 tender, and awarded costs against Econ Oil. The Court further ruled that no contract was concluded between Eskom and Econ Oil for the supply of fuel oil for a period of five years commencing since 01 Oct'19. Econ Oil applied for leave to appeal against the High Court's judgement. The application was dismissed on 22 Jul'21. Econ Oil has since applied for leave to appeal to the Supreme Court of Appeal or to the full bench of the High Court. Eskom's answering affidavit was served in Sept'21
- A procurement process was followed to establish a panel of attorneys for Eskom. Law firms are appointed using either: (1) Standard (mini tender) process whereby an RFQ is issued, attorneys tender their rates and are evaluated and the successful firm is appointed. 2) Urgent process (PSCM Procedure 32-1034) whereby GE L&C appoints a law firm and obtains ratification from the PCC. The rates per hour for urgent matters are contained in the SLA with the law firms. Thus, rates are market-related

Approver: Nerina Otto

Consequences Management: N/A

Conditionally Supported Expansions – Q1
Legal and Compliance

MG

NT No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
50	Request for approval to modify the current task order with Makaula Zilwa Inc. for the provision of legal services during arbitration proceedings in relation to a dispute arising from a coal supply agreement	Makaula Zilwa Inc.	Continuation of service	R 2 875 000,00	R 9 147 574,00	0.00	NT supports the extension only for this scope of work and on condition that its cost-effective for Eskom to use the same service provider to render this service than any other service provider and on condition that rates per hour/per resource are market related.

Current Status and how NT condition was addressed:

- The arbitration hearing was set down for 20 October 2021 to 5 November 2021. However the matter was not finalized. Therefore it will continue during the period December 2021 to March 2022 depending on the availability of Arbitrator and parties legal teams.
- It would have been costly to procure the services of another firm, who did not have the historical background, to finalize the matter. Makaula Zilwa was the successful bidder pursuant to a mini-tender process. On tender award the firm's tendered price/rate was negotiated and duly reduced by Procurement.

Approver: Nerina Otto
Consequences Management: N/A

Conditionally Supported Expansions – Q1
Legal and Compliance

MG

NT No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
51	Request for approval to modify the current task order with Maponya attorneys for opposing the condonation and review application pending in the labour court, Johannesburg	Maponya Attorneys	Continuation of Service	R 575 000,00	R115 000,00	0.00	National Treasury supports the extension only for this scope of work and on condition that its cost-effective for Eskom to use the same service provider to render this service than any other service provider and on condition that rates per hour/per resource are market related.

Current Status and how NT condition was addressed:

- The labour court case has been concluded and judgement was handed down in terms of which the court found that reinstatement was not appropriate but awarded compensation to the applicant.
- It was cost effective to use the same firm of attorneys as the matter was at an advanced stage. Should a different firm, without background knowledge of the matter, have been used it would have led to unnecessary legal costs being incurred. Maponya Attorneys was the successful bidder pursuant to a mini tender process and they had the most cost effective rates per hour per resource.

Approver: Nerina Otto
Consequences Management: N/A

Conditionally Supported Expansions – Q1
Legal and Compliance

MG

NT No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
56	Request to modify a Task Order for the provision of Legal Services to recover monies from former executives	MBA Inc.	Continuation of service	R 2 070 000,00	R 7 130 000,00	0.00	National Treasury supports the extension only for this scope of work and on condition that its cost-effective for Eskom to use the same service provider to render this service & rates per hour/per resource are market related & payment amount are verified prior to being paid, and Eskom submits a report that reconciles the fees against the deliverables/benefit, and plan by Eskom to manage this expenditure not to continue to balloon.

Current Status and how NT condition was addressed:

- A procurement process was followed to establish a panel of attorneys for Eskom. Law firms are appointed using either: (1) Standard (mini tender) process whereby an RFQ is issued, attorneys tender their rates, are evaluated and the successful firm is appointed 2) Urgent process (PSCM Procedure 32-1034) whereby GE L&C appoints a law firm and obtains ratification from the PCC. The rates per hour for urgent matters are contained in the SLA with the law firms. Thus, the rates are market-related. Eskom's internal audit team is currently verifying the invoices prior to payment being made. A report will thereafter be sent to NT.

Approver: Nerina Otto

Consequences Management: N/A

Conditionally Supported Expansions
Legal and Compliance

MG

No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
56	Request to modify a Task Order for the provision of Legal Services to recover monies from former executives	MBA Inc.	Continuation of service	R 2 070 000,00	R 7 130 000,00	0.00	National Treasury supports the extension only for this scope of work and on condition that its cost-effective for Eskom to use the same service provider to render this service & rates per hour/per resource are market related & payment amount are verified prior to being paid, and Eskom submits a report that reconciles the fees against the deliverables/benefit, and plan by Eskom to manage this expenditure not to continue to balloon.

Current Status and how NT condition was addressed:

- Eskom is pursuing a claim for R3.8bn against 7 former Eskom executives (Messrs. Molefe, Singh, Koko, Daniels, Ngubane, Mabude and Pamensky) as a result of state capture and their involvement therein. In light of several notices and interlocutory applications filed by the defendants, Eskom's attorneys have written to the Acting Deputy Judge President requesting that the matter be placed under case management, and a judge has since been appointed for this purpose
- Eskom still awaiting a meeting with the case manager
- The rates per hour for urgent matters are contained in the SLA with the law firms on Eskom's Panel of attorneys who were appointed thereto after following a procurement process. Thus, the rates are market-related.
- Eskom's internal audit team is currently verifying the invoices prior to payment being made. The matter has also been referred to the Loss Control Function for assessment and determination. A report will be sent to NT to close out the conditional approval.
- Further, a communique has been sent to all legal advisors to ensure that records of confirmed/agreed disbursement costs, as required by the NEC, i.e. SC fees, travelling, printing, etc. are maintained on file for record/audit purposes. A report will be sent to NT

Approver: Nerina Otto

Consequences Management: N/A

MG

Conditionally Supported Expansions – Q1
Legal and Compliance

NT No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
61	Request for approval to modify the current task order with ENS Africa for legal services to represent Eskom in the review application brought by Eskom against Econ Oil to review and set aside the tender award / contract pursuant to bid corp 4786 for heavy fuel oil.	ENS Africa	Continuation of service	R 2 875 000,00	R6 325 000,00	0.00	NT supports the extension only for this scope of work and on condition that its cost-effective for Eskom to use the same service provider to render this service than any other service provider and on condition that rates per hour/per resource are market related.

Current Status and how NT condition was addressed:

- A procurement process was followed to establish a panel of attorneys for Eskom. Law firms are appointed using either: (1) Standard (mini tender) process whereby an RFQ is issued, attorneys tender their rates and are evaluated and the successful firm is appointed. 2) Urgent process (PSCM Procedure 32-1034) whereby GE L&C appoints a law firm and obtains ratification from the PCC. The rates per hour for urgent matters are contained in the SLA with the law firms. Thus, rates are market-related

Approver: Nerina Otto

Consequences Management: N/A

MG

Conditionally Supported Expansions – Q1
Legal and Compliance

No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
61	Task order modification request for coal supply contractual dispute with Seriti	ENS Africa	Continuation of Service	R977 500,00	R517 500,00	0.00	National Treasury supports the extension, on condition that the rates per resources are competitive and the service provider was initially appointed through a competitive bidding process and process used to transfer this service provider into the current final panel was fair and transparent and in line with the SCM norms and standards

Current Status and how NT condition was addressed:

- The appeal award has been published. Save for the taxation of the costs awarded in favour of Eskom the matter has been finalised.

- Prior to the expiry of Eskom's old panel on 30 June 2018, Eskom issued a RFP for legal services on an as and when required basis. The adjudication process took several months, as such, from 1 July 2018 to 31 December 2018 Eskom did not have a panel of attorneys. On 2 January 2019, an interim panel of attorneys comprising 10 law firms was established for a period of 4 months . These law firms had already been pre-qualified for the new panel which was to come into effect on a later date. In selecting the law firms for instructions, consideration was given to, amongst others, the following factors: urgency of the matter; risk to Eskom; nature and complexity of the matter; volume of work to be done; experience, skill and expertise of the attorney; rates for legal services; distribution of work and BBBEE rating of the law firm. Some of the instructions given to interim panel have been finalized, however this matter is still ongoing and has to be transferred from the interim panel to the new panel, which came into effect in March 2019 and expires end March 2024. On 3 July 2019 Eskom's Chief Financial Officer approved the transfer of the purchase orders for the instructions given to the interim panel, to the new panel, and the loading of funds to pay for the law firms' invoices.

Approver: Nerina Otto
Consequences Management: N/A

Expansion not supported – Q1
Group Capital

No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
59	Expansion request for P18 CBMS Medupi Mod.4	Honeywell Automation and Control Solutions	Expansion of scope (time & material)	R 315 125 454.52 (Original contract value) Original contingency R22 058 767.82	(R25 431 930.49) Mod 1 (R 17 768 782.00) Mod 4 Additional contingency R65 337 054.36 (Mod 4)	Value of previous contingency expansions R130 329 997.09	On 30/06/2021 NT responded : National Treasury does not support because this contract has not been properly managed, as it has been modified for a period of 54 months since inception (2013) and been operating on contingency funds and contingency value has been varied by 887% of the original contingency value from R22 058 767.82 to R217 725 822.48. "Eskom must conduct an investigation of these costs and submit a report to National Treasury. The investigation must include: i. Verification that the costs utilised for contingency were not abused, they were used for their intended purposes and should not be classified as fruitless and wasteful expenditure, ii. Assessment that the costs incurred for the reworks of installed equipment by the Contractor's should be classified as fruitless and wasteful expenditure & recovered from the contractor/s, iii. Assessment if the costs incurred as a result of scope of works not completed (i.e. doors, ceilings and walls in Unit 1 & 2) by others should not be classified as fruitless and wasteful expenditure, iv. Ascertain who caused the access delay costs, and the appropriate action that should be taken to recover from those contractors who caused delays."

Status:
Eskom responded to NT on 5 August 2021 with an investigation, verification and assessment of the costs and provided proof of evidence to National Treasury to ascertain who caused the delays.

Approver/s: Bheki Nxumalo and Jainthree Sankar

Consequence Management: Not Applicable

Expansions Not Supported – Q1 Generation

NT Ref. No	Project Description	Supplier/s	Reason for Expansion	Original Approved Value	Value of Contract Extension	Value of previous extensions	NT Response
53	Modification of the current contract for the provision of Total Fluid Management System and Maintenance Service at Medupi Power Station, to increase the contract value by R6 704 155,80, increase the contract period by 5 months, from 01 May 2021 to 30 September 2021.	Engen Petroleum Limited,	It is critical for Medupi to have this contract in place to ensure that Fuel Oil Analysis on Fuel Oil deliveries continues as well as lubrication maintenance and other oil analysis on gearboxes and hydraulic systems are not interrupted. This is essential to ensure that equipment failures are minimized due to lubrication issues that can predicted well in advance with the oil analysis and preventative maintenance activities. Modifying this contract will ensure continuations of the service to reduce load losses and the verification of fuel oil quality.	R65 553 996,55	R6 704 155,80	R10 154449,17	The reasons provided for extension are justifiable. However, the application was received after the current contract expiry and the reason to request National Treasury to extend a contract that has elapsed on 30 April 2021 is not permissible. National Treasury does not support ex-post facto approval.

NT Recommendation:
Eskom has been advised to start with the condonation process as this contract is already irregular.

Actions since the approval of the deviation:

- The service has been sourced on a short term contract
- The enquiry was reissued with a reduced technical threshold of 75%.
- The tender evaluation process is completed and was submitted for approval 5th November 20

Approver: Phillip Dukashe

Consequence Management: NA

Expansions Not Supported – Q1 Generation

NT Ref. No	Project Description	Supplier/s	Reason for Expansion	Original Approved Value	Value of Contract Extension	Value of previous extensions	NT Response
58	Modification of the J&C Engineering contract by increasing the contract value by an amount of **R28 474 584.73**, for the replacement of the damaged Electrodes (CE) for fields 1 to 4, Discharge Electrodes (DE) for fields 1 to 7, and associated components of a complete assembly of electrostatic precipitators for two (2) Units at Kendal Power Station. The duration of the contract is 18 months with a completion date of 19 January 2022. There is no time extension required.	J&C Engineering	The reasons provided for the modification is to allow for the acceleration of the project schedule in order to complete the project within the approved outage duration. The assessment conducted during the project execution of Units 5&6 has identified damaged collector plates in the last three fields (Field 5 to 7) and require replacement to ensure the overall improvement in the performance of the electrostatic precipitators.	R260 417 208.04	R28 474 584.73	N/A	Expansion was not supported.

NT Recommendation:
The reasons provided for variation of costs to the amount of R28 474 584.73 are not verifiable. The evidence regarding the damaged collector plates identified in the fields 5 to 7 and quotation from the supplier were not submitted for verification purposes.

National Treasury cannot support the variation in the absence of the information mentioned in Paragraph 5.

Action Taken:
The detailed information was subsequently submitted to NT to enable verification of the amount

Approver: P Dukashe

Consequence Management: N/A

Quarter 2

Deviations
(Supported, conditional supported and not supported)

Conditionally Supported Deviations Q2 Generation

PD

NT No.	Project Description	Supplier	Value of Contract	Reason for Deviation	Approval Condition/s
2	Installation of SEC Rubber Lined Replacement Piping at Koeberg PS Reference FY21/22-KOEBE6	NECSA	R36 389 388,00	NECSA is a state owned entity and following the hierarchy of procurement NECSA is the preferred supplier At the time of the manufacturing contract NECSA was the single supplier with a N certification in South Africa. They still are. No other companies have been audited by Eskom for compliance. That made them sole source at the time of the manufacturing contract. Therefore it was not irregular. See attached the ASME certification. Installation is different. Other companies could perform the installation which make Necsa not a sole supplier. We have motivated why we wanted to proceed with them as preference.	National Treasury supports the deviation on the condition that the cost implications are market related and that the initial appointment of this service provider was not irregular.

Status: Discussions between Eskom and NECSA are still ongoing. Awaiting final proposals from NECSA by 10 November. The condition of cost implications can be presented after negotiations.

Approver: Barry Culligan

Consequences Management: Not applicable

FB

Deviations Not Supported - Q2
Group IT

NT Ref. No	Project Description	Reason for Deviation	NT Response
1	Request for approval to solicit services from a single source for appointment of Lawtrusted third party services (pty) Ltd or the procurement of the Eskom electronic signature solution **Supplier**: LawTrusted Third Party Services **Requested Value:** R9 418 659,25	The contract was awarded to LawTrusted Third Party Services (Pty) Ltd on the 31 October 2017 for duration of 3 years, ending on the 01 November 2020 but only went live in April 2020 instead of February 2019 due to challenges in getting the new Eskom Policy signed off by all the relevant forums. This meant that the system has only been in production for 7 months. Eskom has already spent R8 736 302,25 to date and due to the short lifecycle of the system, Eskom cannot currently show a return on investment or realise the full value of the application.	• Not supported.

NT Recommendation:
National Treasury still maintains its position of not supporting this application without a market analysis report. Eskom is therefore, requested to test the market. This application will only be considered after a market analysis has been provided to justify the cost implications for this deviation.

Action Taken:
The licensing structure is currently being assessed with due consideration for post COVID-19 processes. It is envisioned that the contract strategy will therefore alter. A tender to the open market will be issued in Q4 of FY 2021-2022.

Brief summary:
The commercial process to test the open market will be commence in November 2021. The request for services from a single source will no longer be required. A feedback report to National Treasury is being prepared to close the request.

Approved: Faith Bunn
Consequences Management: N/A

Deviations Not Supported - Q2
Corporate Tactical Procurement

MR

Eskom

NT Ref. No	Project Description	Reason for Deviation	NT Response
3	Site Preparation and Pre-Works, to comply with a Ministerial & Inter-govermental Delegation to Komati Power Station **Supplier: Eskom Rotek Industries** **Requested Value:** R849 293,06	National Treasury does not support the deviation. Eskom is requested to obtain quotations from other bidders to ensure that the proposed price from ERI is market-related.	• Not supported.

NT Recommendation:
Eskom is requested to obtain quotations from other bidders to ensure that the proposed price from ERI is market-related.

Action Taken:
The initial works were performed by ERI for a period of three (3) weeks and that part of works will be taken through the condonations process. However, the bulk of the Scope of work has been reissued out to the market.

Brief summary:
On Thursday, 05 August 2021 Risk & Sustainability were advised by the GCE in a meeting that a Ministerial delegation will be visiting the site on 20 August 2021, together with dignitaries representing COP26. In this meeting, we discussed the need for an accelerated construction schedule, albeit a reduced scope to be run in parallel to the main test facility scope, so that we have some level of construction at site completed prior to this high level delegation visit. We also concluded that we need to transport the microgrid containers from Rosherville to Komati.
Given the strategic importance of this site visit and the need to have construction on an urgent basis, we explored various options to get contractors on site to commence works without delay, and have come to the following conclusions:

- Following the urgent procurement process as established in Eskom Procurement and Supply Chain Management Procedure (32-1034) will result in us placing a contract on Thursday, 12 August 2021 at the earliest, which will leave us with less than a week to complete the scope of work we established in the meeting of the 5th of August. Given the times required for foundation curing alone, we will not be in a position to meet the objectives established.
- There is no opportunity to modify any of the existing contracts at site to cover the scopes envisaged as those scopes are very specific and purely for maintenance and operating, with limited contingency or opportunity for modification.
- Eskom Rotek Industries (ERI) are already established on site and have teams available that could implement the envisaged scope within the timeframes required.
- Utilising ERI as a single source will obviate the need for site establishment and associated costs as they are already established on site. This will also save us on site establishment time.
- ERI has the necessary equipment and can commence the work immediately, upon receiving a purchase order from Eskom.

The Minister's & COP 26 delegation visit to Komati was deemed as an emergency, request was received on 5 Aug. Request was sent to NT by Eskom CPO, the response from NT was received after the work was completed. Note: Funding and procurement was done through Komati PS for Risk & Sustainability.

Approved: Andrew Etzinger
Consequences Management: N/A

Quarter 2

Expansions

(Supported, conditional supported and not supported)

SS

Conditionally Supported Expansions – Q2 Transmission

NT No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
4	Provision of a Heritage Specialist for exhumation and rescue of heritage resources at Manogeng Substation	Thero Services	Stockpile salvaging and reburial phase	R2 470 219,04	R3 163 256,80	N/A	National Treasury support the extension due to the nature of service and on condition that the modification costs are independently assessed and evidence of the independent assessment is submitted to National Treasury for review.

Status:
Feedback was provided to National Treasury on 16 July 2021, where independent cost of the assessment of the modification was submitted for NT consideration. Further feedback as requested by NT on the scope being finalized within a period of six months, and audit report on quotation and breakdown of cost for the reburial will be provided once the project is complete.

Approver/s: Clint Fisher

Consequence Management: N/A.

Expansion Conditionally Supported – Q 2
Primary Energy

SS

<table>
<tr><th>NT No.</th><th>Project Description</th><th>Reason for Expansion</th><th>NT Response</th></tr>
<tr><td rowspan="2">7</td><td rowspan="2">Free Carrier Agreements (FCAS) for 54

Coal Road Transporters

▪ The submission was received by NT on 02 August 2021

NT submission approver:
• N/A</td><td>▪ There was no request for the expansion of the FCA contract submitted to National Treasury however there was a submission to National Treasury to request their support to start the condonation process on the transaction for their consideration.</td><td>• National treasury indicated that they are in a position to consider the condonation, however the Eskom team should follow their internal process to get the transaction approved for consideration by NT.</td></tr>
<tr><td colspan="2">Eskom’s Actions: The condonation has been registered and currently the investigation of the transaction is ongoing

Consequence Management: Not yet determined

Controls put in place: To be confirmed</td></tr>
</table>

Conditionally Supported Expansions – Q2 Generation

PD

NT No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
8	The maintenance and outage repair services for boiler pressure parts, and/or the maintenance and outage repair services for high pressure pipework for generation power station.	Steinmuller Africa Babcock Ntuthuko Engineering Actom	Continuation of service	R 851 000 000,00	R1 382 424 390,49	N/A	National Treasury supports the extension for three months from 01 July 2021 to 30 September 2021, on condition that Eskom finalise the RFP process, provide the status of the RFP process & provide feedback to National Treasury after Gx Board Meeting to be held on 13 July 2021. Provide Board resolutions for meetings held on 25th November 2019 & 24th of February 2021. Provide status on the outcome of the negotiations for the meeting scheduled for 30th June 2021.

Current Status and how NT condition was addressed:

- The submission was signed by the CPO on 11 August 2021.
- Eskom submitted the resolutions of the Eskom Board meeting held on 25th November 2019 & 24th of February 2021 and provided status on the outcome of the negotiations for the meeting scheduled for 30th June 2021.
- The outcome of the negotiations was presented at Eskom Board on 07 October 2021-Eskom Board Legal Opinion regarding assurance of the transaction. The Legal Opinion was subsequently sought and submitted on 04 November 2021. The submission will then be adjudicated through Round Robin Resolution process.

Approver: Jainthree Sankar
Consequence Management: N/A

PD

Expansions Conditionally Supported – Q2 Generation

NT Ref. No	Project Description	Supplier/s	Reason for Expansion	Original Approved Value	Value of Contract Extension	Value of previous extensions	NT Response
58	Modification of the J&C Engineering contract by increasing the contract value by an amount of **R28 474 584,73**, for the replacement of the damaged Electrodes (CE) for fields 1 to 4, Discharge Electrodes (DE) for fields 1 to 7, and associated components of a complete assembly of electrostatic precipitators for two (2) Units at Kendal Power Station. The duration of the contract is 18 months with a completion date of 19 January 2022.	J&C Engineering	The reasons provided for the modification is to allow for the acceleration of the project schedule in order to complete the project within the approved outage duration. The assessment conducted during the project execution of Units 5&6 has identified damaged collector plates in the last three fields (Field 5 to 7) and require replacement to ensure the overall improvement in the performance of the electrostatic precipitators.	R260 417 208,04	R28 474 584,73	N/A	National Treasury approved the expansion on condition that the additional costs identified are reasonable and are independently assesses before payment.

NT Recommendation:
The reasons provided for variation of costs to the amount of R28 474 584.73 are not verifiable. The evidence regarding the damaged collector plates identified in the fields 5 to 7 and quotation from the supplier were not submitted for verification purposes.

Action Taken:
- On 4 November 2021 National Treasury approved the expansion on condition that the additional costs identified are reasonable and are independently assesses before payment.
- Kendal Power Station is in the process of responding to the recommendation from National Treasury.

Approver: P Dukashe

Consequence Management: NA

Expansion Conditionally Approved – Q2
Group Capital

No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
12	Expansion request for P18 CBMS Medupi Mod.4	Honeywell Automation and Control Solutions	Expansion of scope (time & material)	R 315 125 454.52 (Original contract value) Original contingency R22 058 767.82	(R25 431 930.49) Mod 1 (R 17 768 782.00) Mod 4 Additional contingency R65 337 054.36 (Mod 4)	Value of previous contingency expansions R130 329 997.09	On 30/09/2021 NT responded : Based on the urgency of this contract, National Treasury supports this application for six months starting from 01 October 2021 to 31 March 2022 based on the following conditions: i) To allow NT to go through the 3 batch of documents submitted by Eskom ii) The contingency costs were utilised for their intended purposes iii) None of these costs incurred for previous variations were classified as fruitless and wasteful expenditure iv) Any payment made to the contractors will be independently verified before it is made v) Any expenses incurred before this approval is classified as irregular as it was not supported by National Treasury

Status:

Eskom responded to NT Any payments of Variation Orders or Claims dictate that there is a Quantity Surveyor's (QS) report that is independently verified by a Professional QS. The QS report is then included in the Project Change Request (PCR) which is subsequently presented to the Variations Claims Committee (VCC) for approval. In addition Eskom has established a panel contract of consultants from which one will be selected to provide an independent verification of payments that will be made to the CBMS Contractor for the approved period of 01 October 2021 to 31 March 2022.

Approver/s: Bheki Nxumalo and Jainthree Sankar

Consequence Management: Not Applicable

Conditionally Supported Expansions – Q2
Legal and Compliance

NT No.	Project Description	Supplier	Reason for Expansion	Original Contract Value	Value of Contract Extension	Value of previous extensions	Approval Condition/s
9	Request for approval to modify the current task order with ENS Africa for legal services to represent Eskom in the review application brought by Eskom against Econ Oil to review and set aside the tender award / contract pursuant to bid corp 4786 for heavy fuel oil.	ENS Africa	Continuation of service	R 391 000,00	R402 500,00	0.00	National Treasury support the extension only for this scope of work and on condition that its cost-effective for Eskom to use the same service provider to render this service and on condition that rates per hour/per resource are market related.

Current Status and how NT condition was addressed:
Eskom launched an application at the High Court on 29 Jan’21 to review and set aside the tender award. Part A was heard on 15 Apr’21 and Eskom was successful. Part B was heard on 09 Jun’21. On 29 Jun’21 the South Gauteng High Court reviewed and set aside the award of the Oct’19 tender award, and awarded costs against Econ Oil. The Court further ruled that no contract was concluded between Eskom and Econ Oil for the supply of fuel oil for a period of five years commencing since 01 Oct’19. Econ Oil applied for leave to appeal against the High Court’s judgement. The application was dismissed on 22 Jul’21. Econ Oil has since applied for leave to appeal to the Supreme Court of Appeal or to the full bench of the High Court. Eskom’s answering affidavit was served on 16 Sept 2021. The rates used are as per the signed contract.

Approver: Nerina Otto
Consequences Management: N/A

Expansion Not Supported - Q2
Eskom Rotek Industries

SM

NT Ref. No	Project Description	Supplier	Reason for Deviation	Original Approved Value	Value of Contract Extension	Value of previous extensions	NT Response
5	Arnot Ash Contract Period Modification**.**	Arnot Ash (PTY) Ltd	To ensure that there is sufficient time for the project to be economically viable as the contractor needs to construct a R20 Million plant at Arnot Power Station to be able to collect the fly ash. During the design and costing phase of the required plant, it became evident to Arnot Ash's funders that the 5 years period will not be sufficient to recover the investment made hence the request to extend the contract period from 5 years to 10 years in order for the project to be attractive to potential funders.	R4 500 000,00	R5 625 000,00	N/A	• Pending NT feedback.

NT Recommendation:
Test the market and ensure that a fair and transparent process is followed, as there may be other potential role players in the market who can provide technical expertise that is required to execute the scope in those power stations. A deviation process cannot be used to circumvent competitive bidding process as a result of poor planning. National Treasury cannot encourage deviation from competitive processes to favour suppliers or contracts which were arranged without a competitive bidding process

Action Taken:
Responses were submitted to National Treasury on 26 July 2021. Subsequently, a meeting was held on 16 August 2021 for further clarification. ERI is still awaiting feedback from National Treasury

Brief summary:
Awaiting feedback from National Treasury.

Approved: Investment Tender Committee

Consequences Management: N/A

Expansion Not Supported - Quarter 2
Eskom Rotek Industries

SM

NT Ref. No	Project Description	Supplier	Reason for Deviation	Original Approved Value	Value of Contract Extension	Value of previous extensions	NT Response
6	Modification of the records and documentation contract with Metrofile.	Metrofile	To ensure that there is sufficient funds in the contract while ERI is completing the in-house storage facility, address the significate audit finding raised by SNG Grant Thornton and ensure that document are kept in a safe manner to address the current safety hazard in the organization.	R2 222 177,29	R422 213,69	N/A	• Not supported

NT Recommendation:

- Eskom is requested to commence with the condonation process for this contract as it was declared irregular.

Action Taken:

The Determination Report has been concluded and will be taken to DTC and National Treasury thereafter.

Brief summary:

A request for Single Source Submission will be submitted to National Treasury.

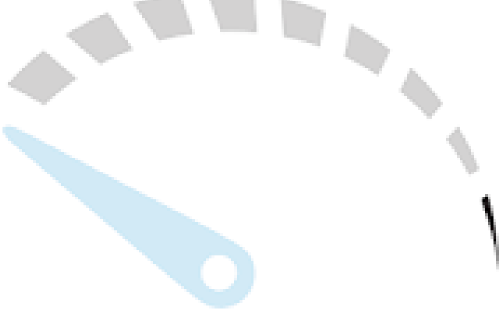
Approved: Triple Adjudication

Consequences Management: N/A

JS

Conclusion

- Eskom and National Treasury are engaging at a higher level to agree on the acceptable turnaround time to process the applications. There are now regular meetings scheduled between the parties.
- The finalization of the appointment of the Divisional Procurement leads is complete and they are tasked with the responsibility to monitor compliance to the requirements of the Ministerial Equity Conditions which include *inter alia* deviations and expansions at a Divisional level
- Reconciliation of the NT registers and Eskom registers is ongoing.
- Regular feedbacks are provided to ExCo and Board as well as at DPE/NT Weekly engagement session.



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Eskom Executive Lifestyle Audits

ENS and Mazars Gauteng Inc. were appointed to **conduct lifestyle audits on senior management which included 383 executives and senior managers and their partners**, where applicable. The process **highlighted 34 high-risk cases**, which were handed over to the Special Investigating Unit (SIU) for further investigation.

Status Feedback

Of the 34 high-risk cases handed over to the SIU for further investigation, **seven resulted in no adverse findings** (closed), **11 resulted in referrals to Eskom for disciplinary action** and **seven employees resigned** during the investigation. **One Eskom official was dismissed on unrelated charges**. A further **three cases are in the process of being referred to Eskom for disciplinary action**, while the remaining five cases are still under investigation by the SIU.

With regard to the 11 disciplinary referral cases made to Eskom, the status is as follows:

- 6 Executives were found guilty with sanctions imposed ranging from 6 or 12 months written warnings to suspension for 14 days.
- 1 Executive was found not guilty.
- 2 matters are still pending completion of the IR process.
- Management decided not to implement any consequence management action for 1 Executive.
- 1 Executive retired from Eskom

Progress Feedback on Eskom Actions

DISCIPLINARY REFERRALS BY SIU: 5594

Status	
Disciplinary process not started	**17**
Disciplinary process in progress	**51**
Disciplinary processes completed (sanctions imposed)	**1651**
Various sanctions imposed	Written warnings; dismissals; suspension without pay
No disciplinary actions based on internal assessment	**3864**
The 11 are related to the Lifestyle audit.	**11**

Where no action were taken against the Eskom employees based on Eskom's internal assessment, the following reasons apply:

- Extensive data clean-up and verification exercise by Eskom.
- Employees have since left the organisation through either retirements, resignations or dismissals.
- Some of the employees were learners at that time and were not required to submit declaration forms.
- Some were third party contractors and therefore not employees during the period in issue.
- T09 task grade employees were not required to declare.
- Instances were found where employees submitted manual declaration of interest forms.
- Death in service.

MG

SIU Investigations Status Feedback

Coal Supply Agreements (CSA)

Specific Area	Status Feedback
Tegeta Brakfontein (Majuba Power Station)	**Phase 1 of civil proceedings instituted by the SIU**: Contract of **R3.7bn** declared invalid and set aside by the High Court on the basis that the process followed in conclusion thereof was unconstitutional. As result of declaration of invalidity (contract cancellation), prevention of future payments (savings/losses prevented) has been calculated at R2 684 361 306,00. **Phase 2 of civil proceedings instituted by the SIU:** Recovery of **R734 million** for losses suffered. Court papers have been served an litigation is ongoing.
Tegeta / Koornfontein (Komati Power Station)	Contract in the amount of **R6.955bn** was cancelled by Eskom as it was concluded on the same basis as the Brakfontein contract. The investigation is in respect of contract pricing irregularities and overpayments has been completed. The SIU found no evidence of overpayments. Disciplinary referrals against **2 officials are being considered** for failing to act in Eskom's best interest by agreeing to coal qualities that were not in line with technical advice.
Tegeta / Optimum (Hendrina Power Station)	This contract **has run its course** and as such no application to set it aside was brought by the SIU. **Civil proceedings have been instituted** to recover **R3.8bn** by SIU and Eskom which are ongoing. Implicated Eskom officials are no longer in Eskom employ and as such no disciplinary referrals will be made by the SIU.

SIU Investigations Status Feedback

Build Packages	
Specific Area	**Status Feedback**
32 contract packages have been red flagged. **24** at Kusile **5** at Medupi **1** at Ingula **1** at Majuba **1** at Matla **Note : 6** of these packages have yet to commence.	• **Current status of 26 packages**: Findings to date include that unauthorised gratification was paid by four build contractors to Eskom officials. **54** matters have been referred to the NPA and AFU **10** Officials have been referred for suspension / disciplinary action of which 2 officials resigned & 1 was dismissed & 7 was suspended. Four arrests have been made by SAPS. 4 civil litigation matters have been referred to counsel by the SIU – quantification processes are ongoing. The SIU also plays a supporting role in respect of the investigations related to **certain contract packages** under investigation. In these instances Eskom appointed external service providers to conduct the investigations. • **Corrupt award of contract to company that self-reported (ABB International)**: The SIU, Eskom and ABB entered into a settlement agreement and in accordance with the settlement, **ABB** repaid **R1.577 bn** to Eskom in December 2020. The SIU and Eskom will bring an application to set aside the contract concluded between the parties.

MG

SIU Investigations Status Feedback

Cloud Computing , Software and Licences	
Specific Area	**Status Feedback**
Cloud computing & Software and licenses	**Potential corrupt payments** were identified. Evidence has been referred to the NPA related to 6 roleplayers implicated in alleged fraud and/or corruption. The SIU has referred a request to appoint Counsel to the Office of the State Attorney, in order to launch civil proceedings against SAP for the following relief: 1. Setting aside the relevant contract. 2. Recover fruitless and wasteful expenditure incurred to the total value of **R385 076 988.40**.
Procurement of Diesel and Coal Transportation	
Procurement of Diesel	The investigation commenced during **March 2021** and is ongoing.
Procurement of Coal Transportation	The investigation commenced during **April 2021** and is ongoing. **14** coal transportation service providers have been implicated in potential wrongdoing. The SIU launched an urgent application in the Special Tribunal for an order freezing **R11.5 million** held in the bank account of an entity to which a senior Eskom official was a signatory. A final forfeiture order was made by the Special Tribunal on 4 October 2021. Referral was made to Eskom recommending the suspension of, and the institution of disciplinary proceedings against, the official in question. Eskom instituted the recommended action and the official has been dismissed. The SIU is in the process of referring the matter to the NPA.

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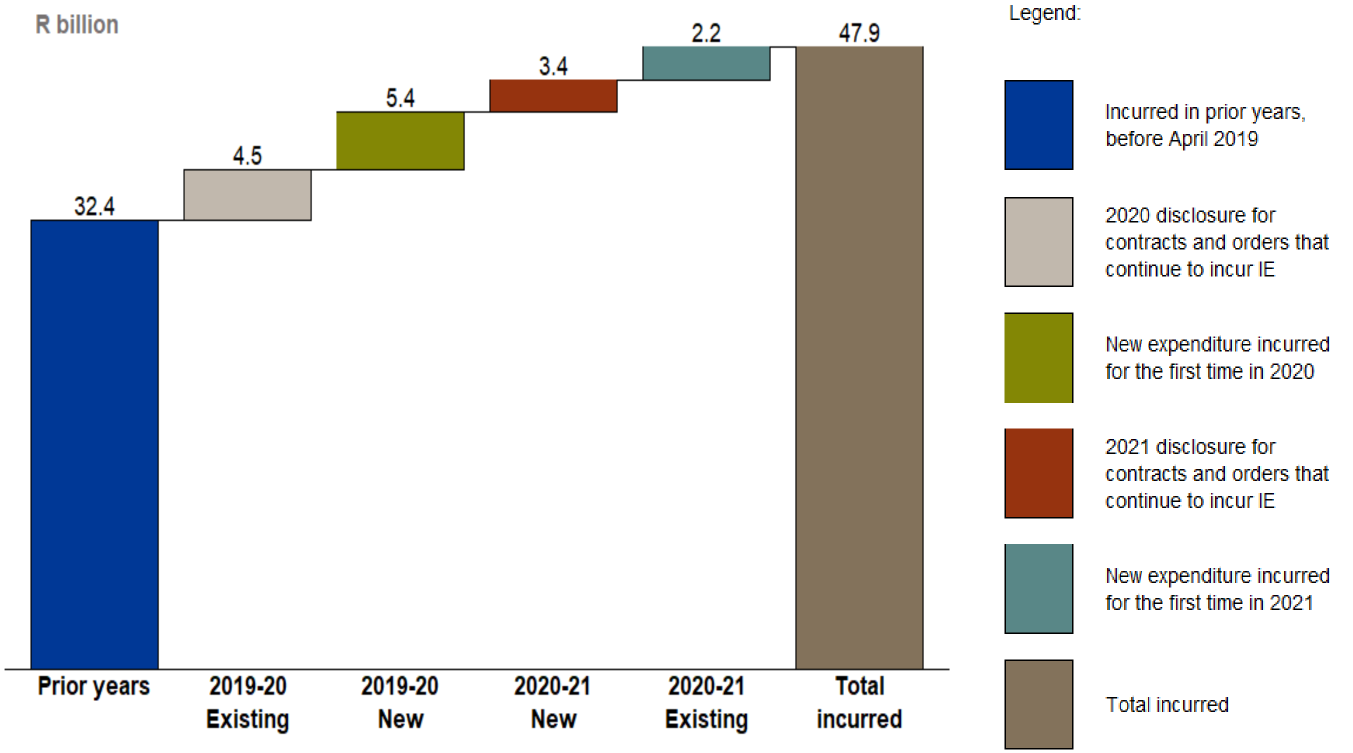
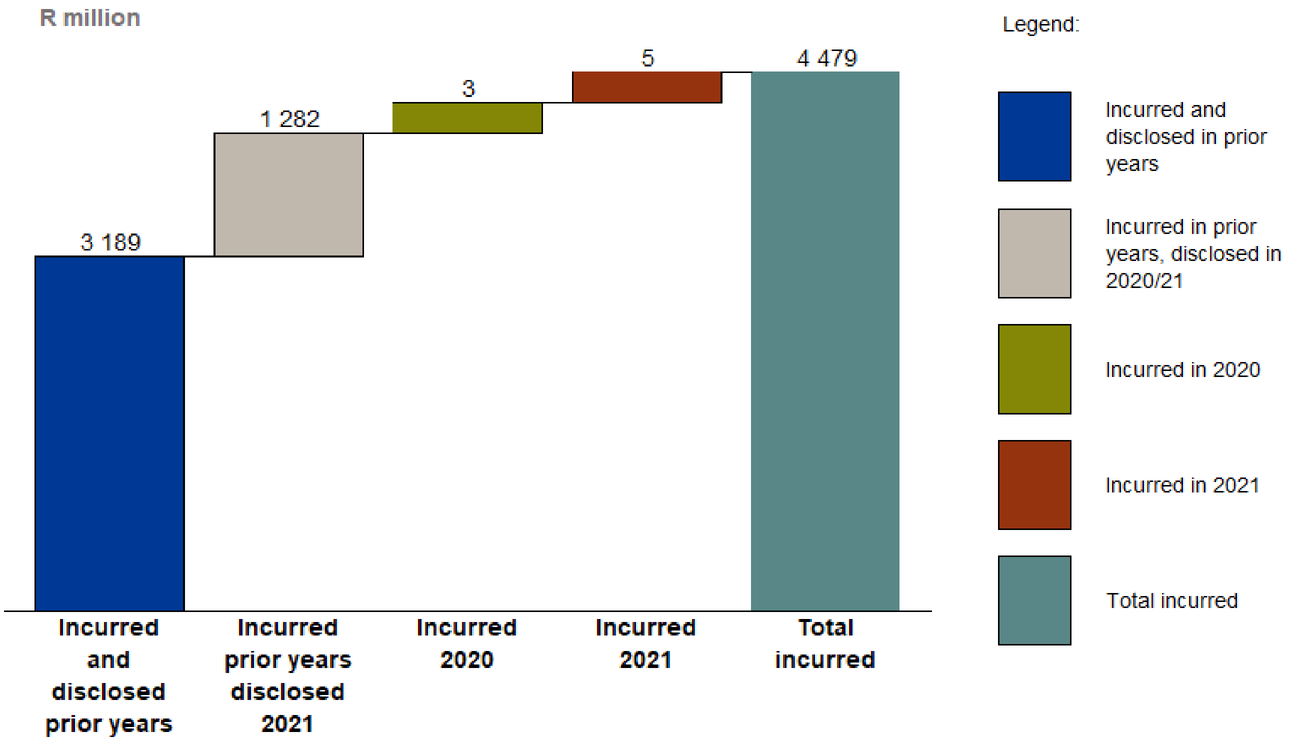
Irregular expenditure incurred



Fruitless and wasteful expenditure incurred



Overview of irregular expenditure

Irregular expenditure during 2019/20 and 2020/21 involved 151 suppliers

Fruitless and wasteful expenditure are in most instances as a result of a lack of discipline by employees

Consequence management implemented includes:

- Dismissal
- Seven days suspension
- Twelve- month final written warning
- Six month written warning

Conclusion