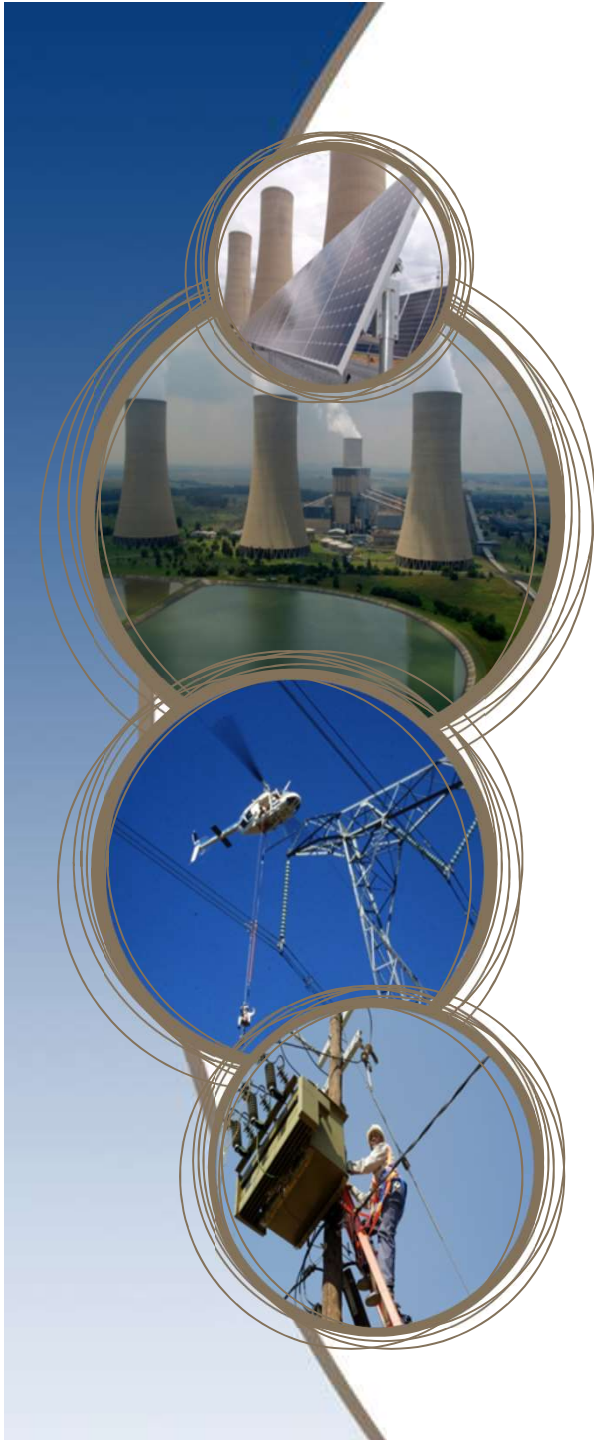




Eskom Presentation to the Standing Committee on Public Accounts (SCOPA)

Revised Quarterly Report

10 June 2020









1 Overview

2 Recommendations: 6.1 – 6.23

Overview and summary of Eskom system performance



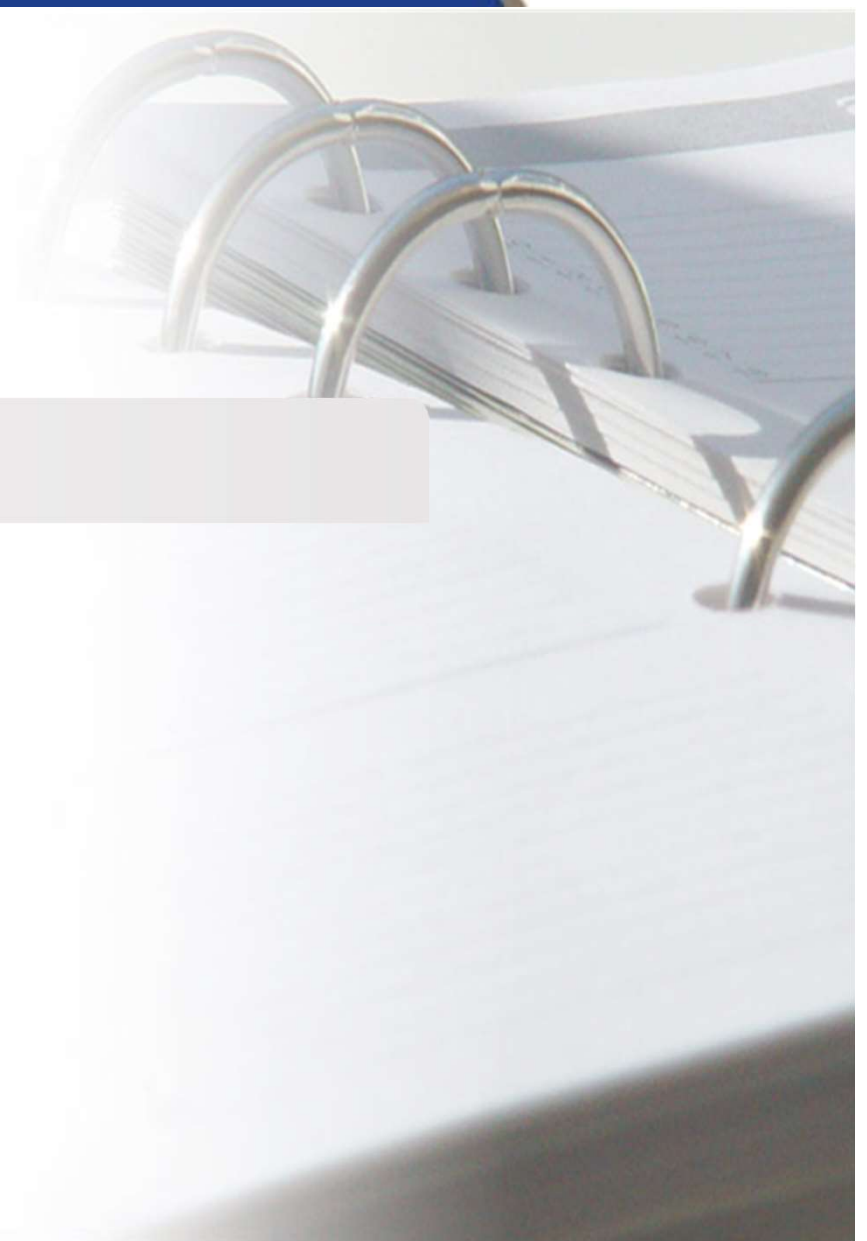
-  The **impact of COVID-19**, and especially the **lockdown**, have **reduced demand** by an average of **6 000 MW up to a maximum of 11 000 MW**
-  This has created the opportunity to **execute additional short term maintenance** to address emergent issues, including those that are **contributing to partial load losses (PLLs)**
 - **Planned maintenance** has roughly **doubled to more than 9 000 MW** on occasion
-  This also had **significantly reduced the need for OCGT usage**
 - In the first 28 days of April, **R 22.2m was spent on OCGT fuel**, with a load factor of 0.34%
 - In FY20, **R 2.67bn was saved on OCGT fuel** vs. the **provision of R 6.98bn**
-  On the other hand, the lockdown and COVID-19 related restrictions have meant that some **reliability outages have had to be delayed**
-  In particular, **Koeberg unit 2 was placed in cold reserve in April** in order to delay the start of its next refueling outage to:
 - Allow the unit to be **available when most needed** – in the months after lockdown (June or July)
 - **Improve the certainty** for required **international resources** (specialists and spares) to arrive
-  Eskom has plans in place to **gradually ramp up its power stations** in line with government's **risk adjusted COVID-19 strategy**

Contents



1 Overview

2 Recommendations: 6.1 – 6.23



Item 6.1 : Management of Contracts with skilled and qualified people



Item 6.1 *“Contracts must be managed properly by suitably skilled and qualified people to ensure that expiring contracts are identified timeously and the appointment of contractors is done through an open market process”.*

- Contracts management has been identified as a specific weakness in numerous investigations
- Contract Management Office initiated a contracts manager development program.
 - The 4th intake is taking place. All contracts managers at Kusile and Medupi will be measured against this program modules to confirm that they are suitably skilled. All contracts managers at Kusile have started the program.
- More than 150 people have been recruited on a Fixed Term Contract basis for the project.
- Monthly reviews take place to track contract expiry dates and bond and guarantee expiry dates.

Item 6.2: Employment of suitably qualified and skilled employees at Medupi and Kusile



Item 6.2 *“There must be no restrictions made for ESKOM to employ suitably qualified and skilled employees and contractors to ensure that the Medupi and Kusile projects are completed on time and are operated at maximum efficiency”.*

- ☐ Both teams on site have been assessed to identify the experience/skills gaps and measures put in place to fill these identified gaps.
- ☐ Approval was obtained from the Eskom Board to appoint staff on a fixed-term-contract basis, and the process to appoint them has commenced.
- ☐ To date, more than 150 appointments have been made. The process is ongoing, and it is expected to be completed by mid-year 2020.

Item 6.3: Proper Document Management System at Medupi and Kusile



Item 6.3 *“Proper document management systems must be in place to create a paper trail for all transactions, in compliance with the Companies Act”.*

- ☐ Kusile and Medupi comply with Eskom procedure 32-6: Documentation Management Policy and supporting documentation management Standards applicable, to set the direction and controls applicable for business documentation to assure standardisation, optimisation and simplification.
- ☐ Medupi implemented SmartPlant for Owner Operators (SPO) for all documentation
- ☐ Kusile is using SPO for engineering documentation and implementing Hyperwave for document storage.

Item 6.4: Employment of skilled personnel in the Supply Chain Management Unit



Item 6.4 “*Skilled personnel must be employed in the supply chain management unit at head office, as well as at different projects where procurement takes place*”.

- ☐ Due to the divisionalisation and the relinking of the existing personnel, Eskom has currently placed a moratorium on external recruitment.
- ☐ This partially affects the resourcing of the Supply Chain Management division with skilled personnel, as the skills gaps can only be identified once this process has been concluded.
- ☐ As part of preparedness, P&SCM has embarked on a pre-skills audit exercise to determine the core and critical skills which might be required post divisionalisation both at Holdings as well as Division level.

Item 6.5: Status of Eskom Vetting Programme (1/2)



Item 6.5 “Vetting of all supply chain practitioners, managers and the Board must be implemented immediately, for the head office as well as other centres where procurement takes place, and a report on this must be sent to SCOPA within 60 days from the adoption of this report by the National Assembly”.

Procurement & Supply Chain Management Practitioners

Phase 1: all Senior managers involved in high value or crucial business transactions at Corporate level and in the Generation businesses were identified and the process of vetting awareness and consultation has commenced.

Phase 2: shall entail the vetting of all buyers involved in the various key commodities.

Board members: vetting is not the responsibility of Eskom - DPE has confirmed that all Board members were vetted prior to their appointment.

- ❑ Due to the COVID-19 pandemic and the declaration of the lockdown, the State Security Agency’s Security Clearance Assessment Board (SCAB) has not been in operation since April 2020 and the Vetting offices are operating with limited capacity and minimal progress on submitted applications, have been noted.

Item 6.5: Status of Eskom Vetting Programme (2/2)



EXCO Members: Majority of the applications for EXCO members have been administered and are in advanced stages of the process as at 31 May 2020, as follows:

Surname	Initials	Job Description	COMMENTS
De Ruyter	AM	Group Chief Executive	Z204 issued - In progress
Pule	E	Group Executive (HR)	Top Secret clearance granted
Etzinger	A	General Manager: Risk & Sustainability	Secret clearance granted
Mabena	P	General Manager - Office of the GCE	Awaiting feedback from SSA
Scheppers	S	Group Executive: Transmission	Top Secret clearance granted
Cassim	C	Chief Financial Officer	Application with SSA Vetting Board
Oberholzer	J	Chief Operating Officer	Application with SSA Vetting Board
Hewu	B	Group Executive - Legal & Compliance (Acting)	Awaiting feedback from SSA
Bakardien	R	Chief Nuclear Officer	Awaiting feedback from SSA
Singh	N	General Manager: Africa Strategy (Acting)	Completed- No clearance granted (dual citizenship)
Tshitangano	S	General Manager: Procurement	Awaiting feedback from SSA
Nxumalo	B	Group Chief Executive: Generation	Awaiting feedback from SSA
Pather	K	General Manager: Sustainability	Awaiting feedback from SSA
Bala	M	Group Executive: Distribution	Awaiting feedback from SSA
Pillay	K	General Manager: Security (Acting)	Top Secret clearance granted
Burn	F	Chief Information Officer	New appointment- Z204 issued

Item 6.6: Update on Declaration of Interest



Item 6.6 *“Compulsory declarations of interest must be done by all Senior Managers and Directors, at the very least annually, and declarations must be enforced immediately in instances where they have not been done, in order to avoid employees and Directors and their family members doing business with ESKOM”.*

- ❑ Eskom has a Conflict of Interest Policy in terms of which all employees and directors of Eskom are required to disclose their interests on an annual basis.
- ❑ Current employee disclosure rate and compliance with the submission of annual disclosure process:
 - Employees at all levels as at 31 March 2020 had reached 98% submission. From 1 April 2020 to date the submission rate is 64% lower compared to last year same period which was 81%. This is due to challenges experienced by employees with lockdown.
 - Exco, including the extended Exco in both of the above mentioned for employees periods: 100%
 - Eskom Board in both of the above mentioned for employees periods: 100%



Item 6.7 *“Internal investigations must be speeded up and finalised by the 31st of March 2020”.*

Fraud and Corruption Prevention

- ☐ FY2019/20 FRMP activities mostly completed as planned. Balance carried over to FY2020/21 FRMP, as approved.
- ☐ Fraud Risk Register updated and training programs developed and launched.
- ☐ An Anti Fraud and Corruption Campaign is currently under development to enhance awareness and importance of compliance to Eskom set standards and directives
- ☐ A single Investigation Standard has been completed that will apply to all investigations undertaken across Eskom.

Reporting and Analysis of Incidents

- ☐ A steady stream of incident reporting continues, with 274 new incidents having been reported since 31 December 2019.
- ☐ Of these, 188 were referred for preliminary investigation to facilitate faster closeout and isolation of Accounting Authority matters

Item 6.7: Update on Internal Investigations (2/4)



- ❑ As at 31 May 2020, Eskom had registered a total of 622 new cases for investigation, while 480 investigations were completed as at this date.
- ❑ The latter number includes 367 cases related to new registrations since 1 April 2017, completed during this period.
- ❑ The balance of 113 completed investigations relates to the old cases carried forward into FY17/18.
- ❑ As at 31 May 2020, there were 255 cases in various stages of progress under investigation.

Item 6.7: Update on Internal Investigations (3/4)



□ Overview of Caseload

	Active	New Cases	Completed
Carried forward from before 1 April 2017		16	
Balances as at 01 April 2017	129	-	-
+ New cases added during FY2017/18	-	231	-
- Cases completed during FY2017/18	-	-	(160)
Balances as at 31 March 2018	200		
+ New cases added during FY2018/19		257	-
- Cases completed during FY2018/19	-	-	(117)
Balances as at 31 March 2019	340		
+ New cases added during FY2019/20	-	118	-
- Cases completed during FY2019/20	-	-	(202)
Balance of active cases as at 31 March 2020	256		
Total cases to date		622	
Total cases completed to date			479
+ New cases added from 1 April 2020 – 31 May 2020		0	
- Cases completed from 1 April 2020 – 31 May 2020			(1)
Balance of active cases as at 31 May 2020	255		
Total cases to date (31 May 2020)		622	
Total cases completed to date (31 May 2020)			480

Item 6.7: Life style Audits (4/4)



Completed lifestyle audits

Grade Band	Total
EEE	357
FFF	25
Fixed Term Contract	1
Total	383

Case files referred to SIU - Status 30 April 2020

Status 30 April 2020	Number
Files returned and in progress to be returned to Eskom for disciplinary action	14
Still under investigation by ISU	7
Closed no issue	7
Employee resigned due to SIU pressure	6
Total	35

WORK IN PROGRESS

Next Levels: M, P, S, T, G + Fix Term Contractors identified as high risk

Stage 1 based on information from Procure Check, Private work and Declaration of Interest

- Total number of employees in stage 1 - 5 928
- Total population of employees - 44060

Estimated number of employees for future lifestyle audits - 38 132

Lifestyle audits by third parties prohibitively expensive, internal screening process being applied



Item 6.8 *“Financial losses to ESKOM must be recovered from those responsible, where wrongdoing has been established”.*

1. Trillian Management Consulting (Pty) Ltd (“Trillian”)

- Eskom is recovering R600m that was unlawfully paid to Trillian on the pretext that Trillian was the BBBEE partner of McKinsey & Company. Eskom did not have any contractual relationship with Trillian and the latter was not registered as a supplier to Eskom.
- Liquidation proceedings against Trillian are under way and Eskom is joined by the South African Revenue Service in this matter.

2. Tegeta Exploration and Resources (Pty) Ltd (“Tegeta”)

- Tegeta is currently under business rescue and Eskom has submitted a claim of R5bn against the business rescue practitioners for the pre and post business rescue penalties.
- Given the fact that Tegeta has other creditors, it is apparent the full R5bn may not be realised and Eskom could end up receiving only R1.24bn.



Item 6.8 *“Financial losses to ESKOM must be recovered from those responsible, where wrongdoing has been established”.*

3. Deloitte Consulting (Pty) Ltd (“Deloitte”)

- Eskom launched court proceedings against Deloitte in October 2019 to recover the sum of R207m arising from task orders that were awarded irregularly without an open and competitive tender process.
- Pursuant to a settlement agreement concluded between Eskom and Deloitte on 20 March 2020 Deloitte paid Eskom the sum of R171m (incl VAT) on 12 May 2020.

4. PriceWaterhouseCoopers (“PWC”)

- Eskom issued a letter of demand against PWC in April 2020 demanding the repayment of the sum of R95m that was unlawfully paid to PWC. PWC was contracted by Eskom on a risk based contract to realise capex savings on its generation projects. But for the lockdown, Eskom would have issued court papers to recover the sum of R95m.



Item 6.8 *“Financial losses to ESKOM must be recovered from those responsible, where wrongdoing has been established”.*

5. **ABB**

- Eskom is working with the Special Investigating Unit (SIU) to set aside the contract that was irregularly awarded to ABB.

6. **Wilge Housing Project**

- Eskom suffered financial losses of approximately R75 839 738.50 due to the negligence of its former General Manager: Facilities. Eskom dismissed the employee after a disciplinary hearing process and instructed Attorneys to recover the sum of R75 839 738.50 from the former employee.



Item 6.8 *“Financial losses to ESKOM must be recovered from those responsible, where wrongdoing has been established”.*

7. Meagra Transport CC (“Meagra”)

- Meagra submitted fraudulent invoices with the assistance of a former Eskom employee to the tune of R35m to Eskom for coal transport between 2016 and 2018. Eskom recouped R3m of the R35m from Meagra and we are pursuing the balance of R32m.
- The owner of Meagra and a former Eskom employee are facing 53 counts of fraud before the Specialised Commercial Crimes Court in Johannesburg.

8. Africawide Consulting (Pty) Ltd (“Africawide”)

- Africawide was awarded a contract by Eskom without an open and competitive tender process. The original contract value was R9m and was modified without National Treasury approval to R17m. Eskom is recovering the R17m from Africawide.



Item 6.8 *“Financial losses to ESKOM must be recovered from those responsible, where wrongdoing has been established”.*

9. Impulse International (Pty) Ltd (“Impulse”)

- Impulse was awarded contracts worth billions of Rands by Eskom. It was later discovered that a step-daughter of a former Eskom Executive was a shareholder in Impulse, which was a conflict of interest that was not disclosed by the former Executive.
- Eskom has instructed Attorneys to set aside the unlawful contracts and recover the full values of all the contracts that were awarded to Impulse. The SIU, SARS and the DPCI are also involved in this matter.



Item 6.9 *“Consequence management must be followed through where wrongdoing has been proven, and quarterly reports in this regard should be submitted to SCOPA ”.*

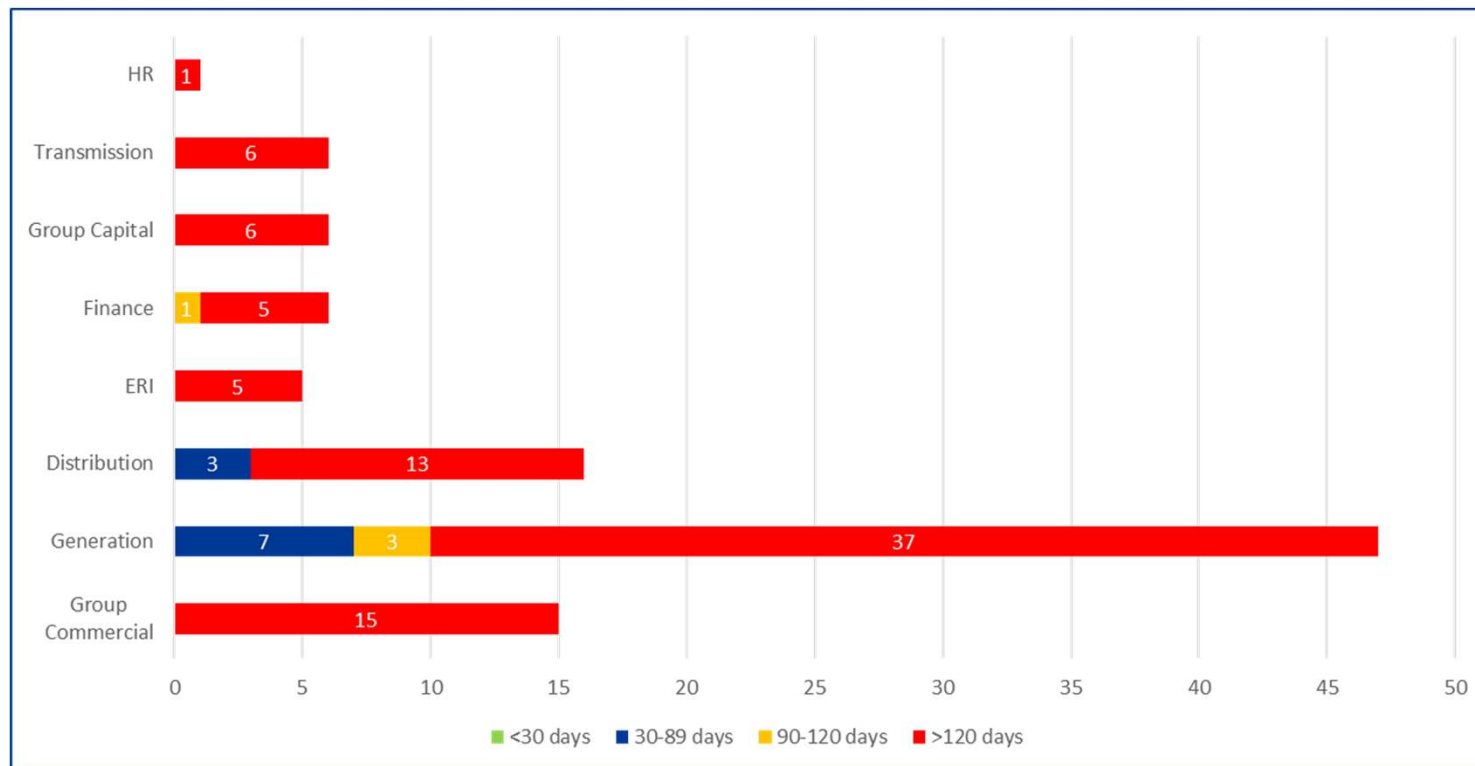
Overview of disciplinary action following from investigations

- ❑ As at 31 March 2020, Eskom Industrial Relations Department (IR) had registered 141 disciplinary cases emanating from forensic investigations.
 - There are 102 (compared to 133 at end of March 2020) outstanding employee disciplinary actions as at 31 May 2020.
 - A total of 92 employee disciplinary action (120 at 31/12/2020) are considered long-outstanding (>90 days)

Item 6.9: Consequence Management (2/3)



- ❑ As at 31 March 2020, Eskom Industrial Relations Department (IR) had registered 141 disciplinary cases emanating from forensic investigations.
- ❑ There are 102 (compared to 133 at end of March 2020) outstanding employee disciplinary actions as at 31 May 2020. A total of 92 employee disciplinary action (120 at 31/12/2020) are considered long-outstanding (>90 days)





- ❑ Due to the slow progress being made on expediting employee discipline from completed investigations, the Audit and Risk Committee of Board has requested that the following matters be reviewed:
 - Training of disciplinary chairpersons and case presenters
 - Incentives for closing out on cases in predetermined time frames, and with appropriately harsh punishment
 - Reconsidering the terms of 'Suspension with pay' to remove any incentives for those implicated to allow cases to drag on.
- ❑ Eskom Forensic has also revised its previous stance and no longer terminates any investigations where implicated employees have resigned, but follows through on investigating such cases, where financially justified and recoveries / criminal prosecution appears likely.
- ❑ Eskom Conditions of Service and Disciplinary codes are compliant with the Labour Relations Act and can only be changed in accordance with current / future legislation

Item 6.10: Update on Internal Audit Unit



Item 6.10 *“The internal audit unit must be capacitated and fully functional at head office and other cost centres so that early warning signs of corruption and maladministration are picked up”.*

- ☐ In the interest of business continuity, the decision to stop recruitment (new adverts) was reviewed by the Group Executive HR and as from 09 May 2020 internal recruitment for managerial vacancies (new adverts) can go ahead as majority of employees in this category have remote access to Eskom systems.
- ☐ Regrettably most of the A & F posts are non-managerial and thus the process of recruitment has been delayed by the Covid-19 Lockdown
- ☐ The vacant post for Senior Manager Forensic Investigation (E-band) has been advertised and is in the recruitment process
- ☐ Beyond this position, there are a further 8 auditing and 6 Investigations related positions to be filled.

Item 6.11: Institution of Criminal Charges against the employee implicated with wrong doing



Item 6.11 *“All previous employees that have left the employ of ESKOM and who have been implicated in malfeasance of any sort must, in collaboration with law enforcement agencies such as the NPA and the HAWKS, have criminal charges instituted against them”.*

- ☐ As at 31 May 2020, there were 76 instances recommended for criminal prosecution
- ☐ 59 have been registered with SAPS
- ☐ 15 are in the process of being registered
- ☐ 2 are under review due to insufficient evidence
- ☐ 4 cases have been completed by SAPS.
- ☐ A total of 13 cases have been referred to the Hawks/ SIU for further investigation within their respective mandates.

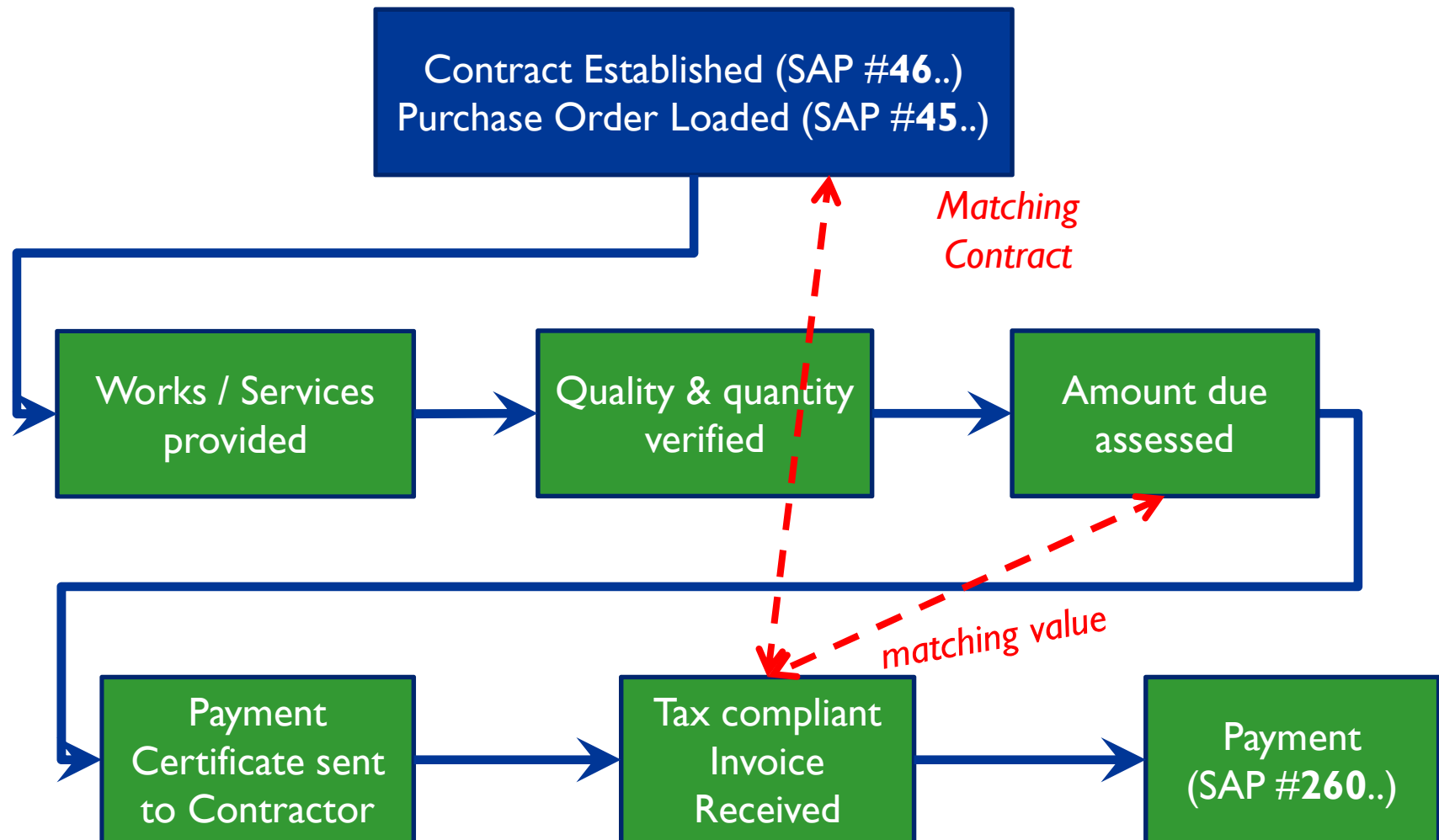
Item 6.12: Implementation of proper controls on payments to suppliers (1/3)



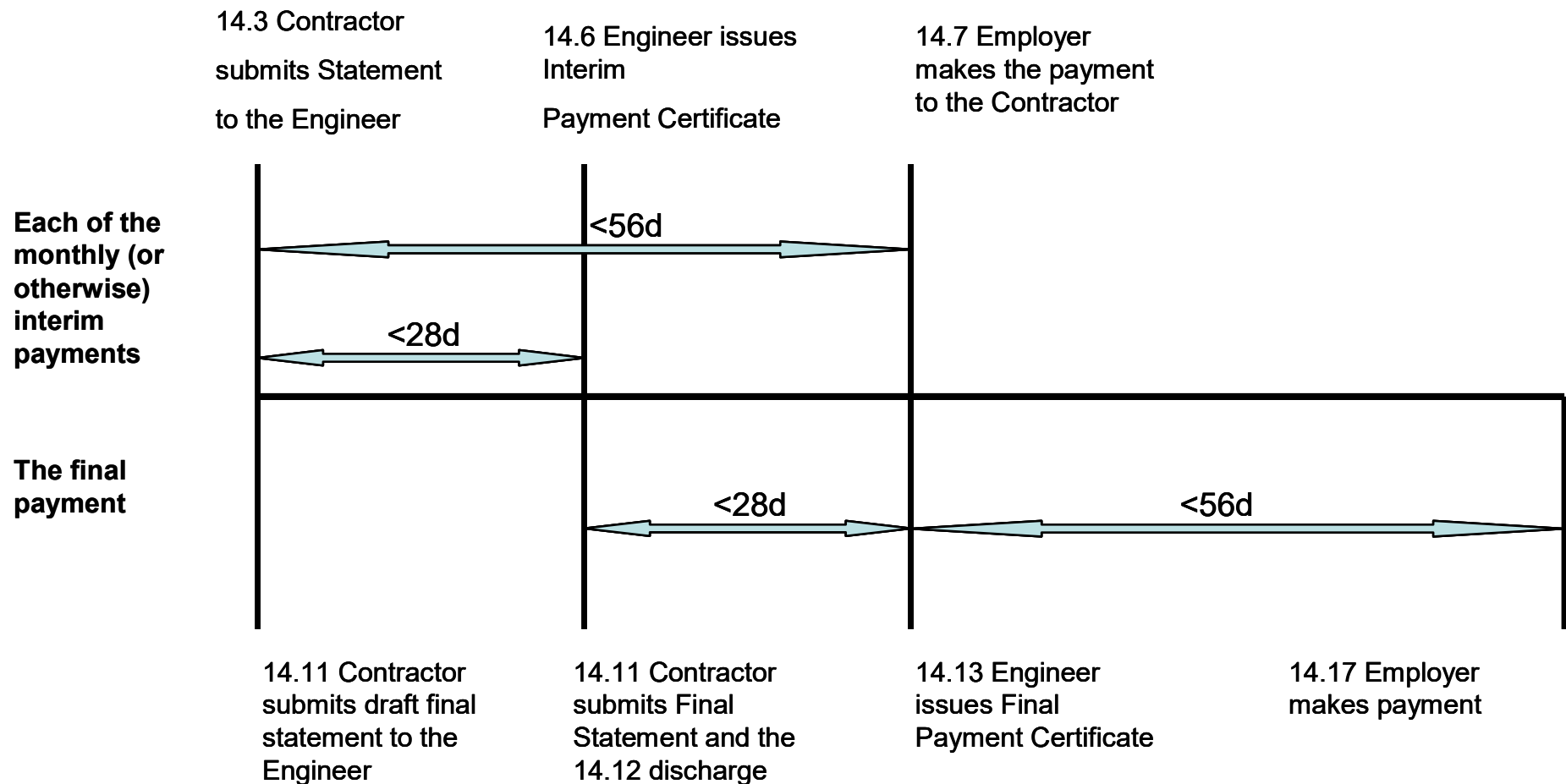
Item 6.12 *“Before payments to suppliers are made, proper controls must be implemented through documented checks and balances. This is to ensure that payments are made for value received and are not advance payments for which non commensurate, or worse no value at all, is received”.*

- ❑ Eskom implemented a process flow to confirm validity of payments and control payments.
- ❑ All historical contracts have been reviewed and all advance payments for contracts previously placed have been recovered or are being recovered.
- ❑ The advance payment guarantee for the air-cooled condensers contractor at Kusile has been “called on” and was encashed on 25 April 2020
 - This action has been taken in order to recover the advance payment made to the contractor and;
 - The advance payment should have been recovered during the execution of the contract

6.12 - Contract & Payment Management process flow (2/3)



6.12 - Standard FIDIC Contractual Payment Process Flow (3/3)



Item 6.13: Management of Expiring Contracts



Item 6.13 *“Existing contracts which are due to expire must not be extended through variation orders without a proper due diligence being done, which due diligence records must be kept on file for audit purposes”.*

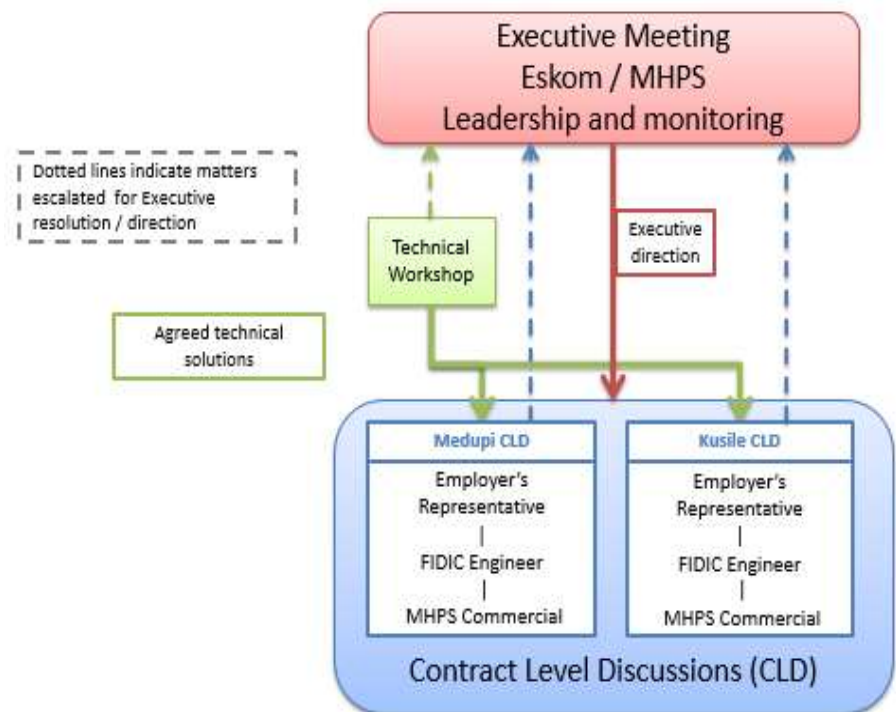
- ❑ As part of monitoring expiry of the existing contracts, procurement plans are developed and agreed on by the business before being submitted to the National Treasury for approval on an annual basis
 - Procurement plans are constantly monitored.
 - Early warning on contracts that are about to expire in the next six months in order to update the respective plans
 - Enable placing of new contract to commence well in advance before the expiry of preceding contracts
 - Eliminate any poor planning that might lead to unnecessary modification or expansion of contracts.
- ❑ Status reports on procurement plans are submitted to the National Treasury on a quarterly basis as part of ensuring that there is adherence to the approved plans and that unnecessary deviations are eliminated

Item 6.14: Update on Medupi and Kusile Defects (1/2)



Item 6.14 *“Defects identified at Medupi and Kusile must be corrected expeditiously to avoid further project delays and cost escalations”.*

- ❑ All defects are being dealt with in accordance to the contractual conditions.
- ❑ Specific to the Mitsubishi Hitachi Power Systems Africa (MHPSA) defects, the clause 3.5 process - contract-level discussions (CLD) process is being followed under the guidance of Eskom & MHPSA senior/executive management.
- ❑ The process allows the senior executives of both Eskom and MHPSA to track and monitor the resolution of the defects on a monthly basis



Item 6.14: Status of Medupi and Kusile Major Plant Defects (2/2)



- ❑ The availability and reliability of the synchronised units at Medupi, Kusile, and Ingula are steadily improving.
 - Currently, the six units at Medupi and three units at Kusile contribute energy to the national grid
 - All six units at Medupi (rated at 794 MW each) and all three units at Kusile (rated at 800 MW each) have achieved the maximum output
- ❑ Since December 2018, a new plant defect correction plan, endorsed at Eskom Exco level, has been executed and closely monitored to effectively resolve all the major new plant defects and improve the inefficiencies in the operation and maintenance of the new plants.
 - Liable contractors are being held to account, within the provisions of the contract, to correct the new plant design deficiencies at the contractors' cost, within the defect correction period as per the contract

Item 6.15: Holding contractors responsible for cost related to defects



Item 6.15 *“The issue of responsibility by contractors for defects must be followed up and contractors must be held responsible for costs where necessary”.*

- ❑ All contracts at Kusile and Medupi have a clause in which Eskom is allowed to address the defects.
 - This is being implemented as per the contract and the contractors have been instructed to rectify accordingly.
 - It must be noted that specifically on the boiler defects, strict contractual processes have been enforced.
- ❑ Eskom Senior Management and Mitsubishi Hitachi Power System Africa (MHPSA) have regular meetings to ensure that the defects are being addressed and/or following the contractual process to be resolved.
 - Boiler defect rectification has been implemented on Medupi Unit 3, plant optimisation is currently in progress



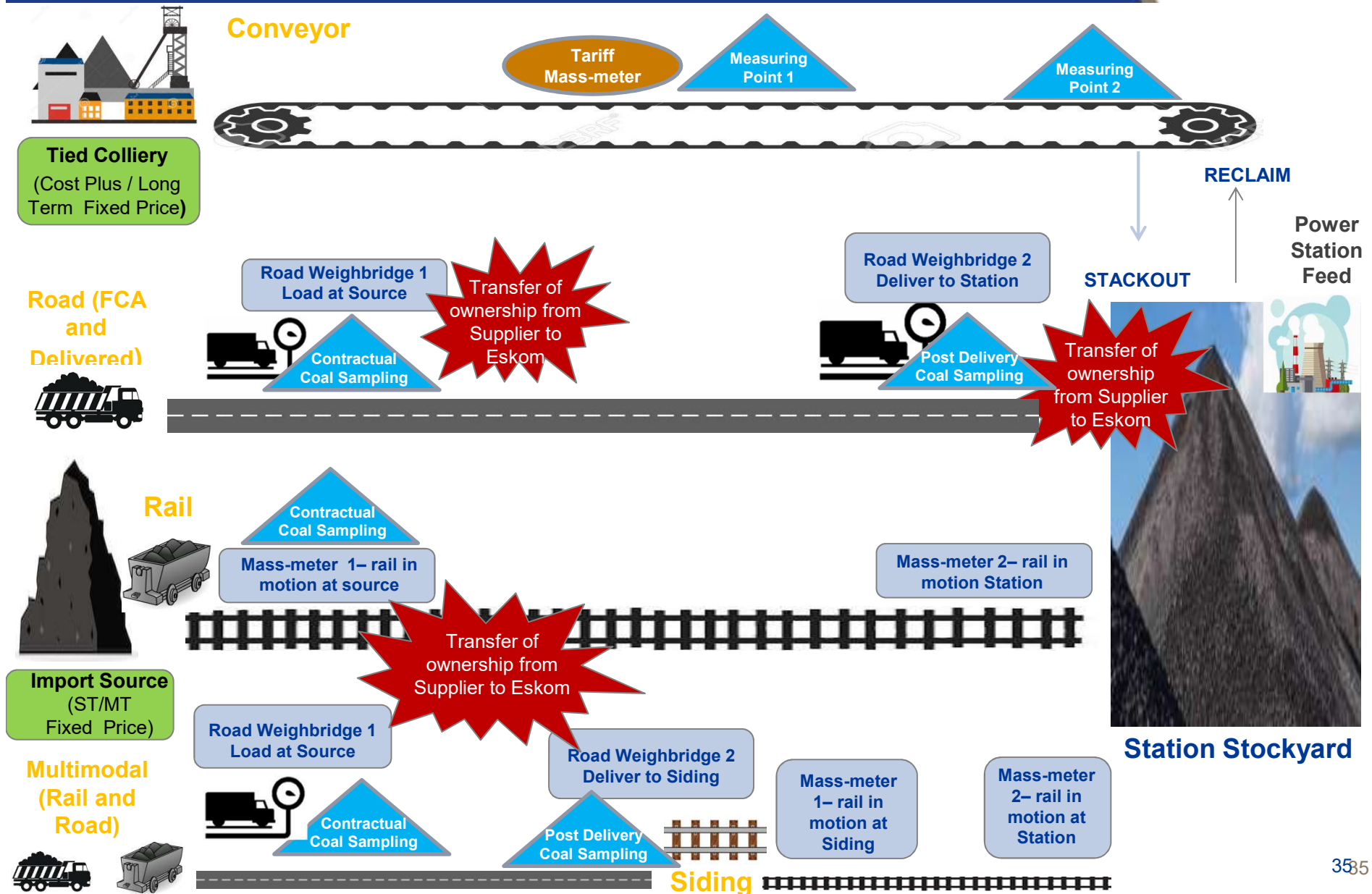
Item 6.16 *“Coal quality must be prioritised and checked regularly”.*

- ❑ All coal contracts have a coal quality management procedure (CQMP) that governs
 - the coal quality determination process, covering coal quality specification, coal sampling, coal sampler calibration, coal sample handling and transportation, coal analysis, coal results management, coal quality deviations management, and remedies.
- ❑ Coal quality analysis is conducted by Eskom-owned laboratories, third-party-constructed laboratories, and mine laboratories. Additionally, Eskom analyses and verifies coal quality at the power station after delivery, known as verification coal sampling and analysis.
- ❑ Power stations that **receive coal from a tied mine via a conveyor system**, coal deliveries are governed by the coal supply agreement (CSA) between Eskom and the supplier.
 - The conveyor system has an auto-mechanical sampling plant, which takes coal samples at regular intervals



- ❑ Coal delivered through **road and rail** is on pre-certified basis at the source mine before dispatch to the power stations, as per the coal qualities management procedure (CQMP).
- ❑ Pre-certification process involves the production of coal stockpiles at the mine in the presence of Eskom-contracted monitors
 - Coal samples are taken at regular intervals by an auto-mechanical sampler while the stockpile is being produced
 - Coal samples are then transported by Eskom-contracted service providers to Eskom-contracted coal laboratories for analysis
 - The results of a stockpile being produced are communicated simultaneously through email to both Eskom geologists and mine representatives within 24 hours.
 - In the event that the power station coal qualities specification is met, the stockpile is loaded and trucked to the power station

Coal delivery volume and quality measurement (3/5)





Eskom has undertaken additional initiatives and projects to improve coal quality assurance to its power stations

Short Term

- ☐ Installation of tamper proof tags on all coal cargo bins
- ☐ Deployment of monitors at mines and power stations to observe loading and offloading
- ☐ Suspension of coal supply in the event truck have defective tamper proof devices
- ☐ Random as delivered sampling and verification of coal qualities
- ☐ Tracking of coal trucks

Long term projects pipeline

- ☐ Automation of the entire coal supply value chain from pit to boiler – Investment approved and procurement process underway
- ☐ Transfer of payment point for road delivered coal – Pilot concept investment funding approved and procurement process underway
- ☐ Insourcing of all coal analysis to Eskom – Project in ideation phase to construct a central Eskom laboratory
- ☐ Inland Coal Terminal – In ideation/conceptualisation phase



Item 6.17 *“Retention bonds must be used against contractors as recourse for delays and sub-standard work that has been performed “.*

- ❑ The Fédération Internationale des Ingénieurs-Conseils (FIDIC) Standard form of contracts, under which Medupi and Kusile have contracted, provides for Retention Money.
 - The Contract provides that Retention Money shall be retained and released in instalments based on the Taking-Over Certificates.
 - The proportions for release are clearly provided for in the Contract.
 - Outstanding balances of retention money are released promptly after the latest of the expiry dates of the Defects Notification Periods.
 - If the Works still remains to be executed, retention money may be withheld.
- ❑ Retention Bonds to the value of R3.3 billion are in force for the boiler contracts at both Medupi and Kusile. Eskom will exercise its rights to step in using these bonds if MHP SA do not rectify the defects.



- ❑ Retention money deducted from payment certificates or retained by a retention bond can only be used where the Contractor is not correcting Defects notified by the Employer.
 - In most cases the Contractors have not indicated that they will not be fixing a defect.
 - Within the contracts, as contractors fail to remedy defects, 15% of the monthly invoicing is being withheld.

Item 6.18: Stability of Project Managers at Kusile Power Station



Item 6.18 *“There must be stability of project managers at Kusile to avoid delays”.*

- ❑ A new project director (with vast related project experience, including 20 years of Eskom experience on related projects) was appointed for Kusile Power Station on 23 January 2020.
- ❑ The overall project team has been stable with respect to key positions in the structure for the past 12 to 24 months, and multiple vacancies have been filled since the SCOPA visit to Kusile Power Station.

Item 6.19: Weighbridges and off loading facilities at Kusile (1/5)



Item 6.19 *“Weighbridges and off loading facilities must be constructed at Kusile to Transport coal from the mine to the plant.*

Coal Offloading Facility:

- ☐ Construction of the Coal Offloading Facility started in 2015 and is still under execution.
 - The project was scheduled to be executed in five (5) phases.
 - Two phases have been completed and the third phase is currently under execution and will be completed in June 2020.
- ☐ The Coal Hopper and West Access Road are the outstanding phases.
 - The Coal Hopper enquiry has been delayed mainly due to Legal review.
 - The enquiry will now be issued to the market on the 29 June 2020, with contract award by October 2020 and construction completion by October 2022. The west access road will be executed in the same time frame.
 - The delay in the coal hopper execution emanated from the National Treasury not supporting the approach adopted by the project to execute the civil and mechanical scope of work as a variation order

Item 6.19: Weighbridges and off loading facilities at Kusile (2/5)

Additional Weighbridges:

- ❑ Kusile Project took a decision to install four additional weighbridges in the strategic coal stockyard area to enable the station to process more than 80 coal trucks per hour to meet the burn rate of 2 280 tons/hour to supply six units.
 - The Scope is being executed by Eskom Rotek Industries (ERI) under an existing contract.
 - Work has started, two Weighbridges have been delivered to site and installation will resume on 17 June 2020. Completion has been delayed by COVID-19 and procurement delays internally to ERI. Completion date will now be December 2020 instead of August 2020 as planned.

Additional Feed Conveyor (AFC):

- ❑ The AFC is an additional conveyor that the project is erecting to enable coal feed to the Section 1 and 3 coal stockyard machines, Stacker 1 and Drum Reclaimer 1&3. Work was underway and was impacted by COVID-19.
 - Construction Work is about 80% complete on this conveyor, electrical cabling and outdoors switchgear (Kiosk) installation then commissioning is outstanding. Planned completion is by October 2020 instead of August 2020 as previously planned

Item 6.19: Negotiations for the development of New Largo Coal Field (3/5)



- ❑ Seriti is lead negotiator on behalf of New Largo Coal Company. Eskom has had several negotiations intervention with Seriti post Board mandate to negotiate a long term coal off-take agreement.
- ❑ Seriti has requested time to review the New Largo Mine Establishment, feasibility study completed by Anglo American, to optimise and update.
 - They experienced some delays, currently estimating to present the review outcomes to Eskom by end May 2020, but this has not been received as yet.
- ❑ It is still envisaged that New Largo will supply approximately 12Mt of Kusile's required 16Mt per annum for the life of the power station.
 - The shortfall will still be sourced from other suppliers who were shortlisted in the Kusile RFP.
- ❑ To accelerate the project, New Largo has offered Pits H and D to supply approximately 30Mt, i.e 3.0Mt per annum.
 - First coal is dependant on Eskom and Seriti resolving the offtake start date due to Eskom being fully contracted at Kusile up to 2026 based on current ramp up. Parties still engaging to resolve the offtake start date due the New Largo cost of coal advantage being in close proximity to the power station.
 - According to Seriti the Pits D & H are gearing up to start production in 2020.
 - Pit H is approximately 9 kilometres to Kendal and approximately 29 kilometres to Kusile.

Item 6.19: Negotiations for the development of New Largo Coal Field (4/5)



- ❑ Eskom has requested New Largo to develop a business case to build, operate and maintain the conveyor belt under the already existing Anglo American Inyosi Coal's environmental approvals.
 - The conveyor is to handle both the New Largo coal and all the third party coal into Kusile to mitigate the trucking of the coal into Kusile. The timelines for building Phase 1 (one), is estimated to be 18 months.

Short term Coal Supply

- ❑ Additional feed conveyor at the strategic coal stockyard (CSY) revised completion is October 2020, to increase the capacity to feed the units with coal.
 - Two additional weighbridges have been delivered completion revised to end December 2020, to reduce congestion and speed up coal delivery.
 - Additional yellow plant has been mobilised. Delays experienced due to COVID19 lockdown
- Medium term Coal Supply
- ❑ An additional coal hopper to feed the transfer house is under construction, and the commissioning of Drum Reclaimer 1 will increase the capacity to feed the units with coal.
 - The Coal Hopper enquiry has been delayed due to Legal review. The enquiry will be issued on 29 June 2020 and construction estimated completion end October 2022.

Item 6.19: Negotiations for the development of New Largo Coal Field (5/5)



□ Latest Negotiation progress update for New Largo Pits D & H

Negotiations	Status
1. Coal Supply Agreement (CSA)	<ul style="list-style-type: none">▪ Final draft CSA done with all the key terms and conditions agreed on.▪ Draft to be sent to Corporate Legal for final review
2. Price	<ul style="list-style-type: none">▪ Price has been negotiated and agreed.
3. Coal Qualities	<ul style="list-style-type: none">• Coal Quality agreed as per the Kusile RFP Coal Quality parameters
4. Contract start date	<ul style="list-style-type: none">▪ This coal is destined for Kusile with an option to supply Kendal. The parties deadlocked on the contract start date due to the two stations being fully contracted up to Financial Year 2026 and coal stockpiles exceeding their expected levels as prescribed by the Eskom coal stockholding policy. Parties still engaging to resolve the offtake start date due the New Largo cost of coal advantage being in close proximity to the power station.



Item 6.20 *“The ‘Take or Pay’ system must be revisited and the cost-benefit analysis must be conducted to determine the viability of the system, and a report on this is sent to SCOPA within 60 days from the adoption of this report by the National Assembly”.*

- ❑ Most industries dealing with large value trades, suppliers and buyers require some kind of performance guarantee. This becomes more prevalent when a supplier or buyer of a product invests up-front capital to establish its plant or manufacturing facility.
- ❑ The above statement has an impact on Eskom to the extent that Eskom has invested major capital in the build of its power stations.
 - These power station have long tenures of operation, that is, 40 years plus.
 - The power stations require certainty of coal volume at a specified rate/tempo and quality..
 - The suppliers of coal similarly invest in a mining operation to supply coal to Eskom. Those suppliers also require certainty of offtake in order to meet the buyer's supply requirements, run their operations, repay their capital and operating expenses, and earn a shareholder return.



Item 6.20 *“The ‘Take or Pay’ system must be revisited and the cost-benefit analysis must be conducted to determine the viability of the system, and a report on this is sent to SCOPA within 60 days from the adoption of this report by the National Assembly”.*

- ❑ All of Eskom’s coal supply agreements have some level of performance guarantees. Should these not be met, a take or pay penalty is levied against the supplier.
- ❑ Take or pay to suppliers in the Witbank rarely occurs as Eskom has options to deliver coal to alternative power stations.
- ❑ In the case of Medupi and Matimba Power Stations commercially viable options are limited.
 - The contract entered into with Exxaro Coal (Pty) Ltd is a long term Fixed Price linked to an escalation index contract.
 - The contract was signed in September 2008 for supply to Medupi Power Station, for approximately 49 years.



Item 6.20 *“The ‘Take or Pay’ system must be revisited and the cost-benefit analysis must be conducted to determine the viability of the system, and a report on this is sent to SCOPA within 60 days from the adoption of this report by the National Assembly”.*

- ❑ Due to Medupi construction delays, Eskom and Exxaro modified the contract 9 times.
 - Exxaro commenced production of contract coal as per the amended CSA but Eskom was unable to offtake coal due to the further delays, hence the take or pay penalties were levied against Eskom as per the provisions of the CSA.
- ❑ Eskom then built an additional coal stockyard to enable contractual offtake and to mitigate further take or penalties.
 - The offtake risk still prevail due to plant issues e.g. the breakdown conveying infrastructure.
- ❑ If Medupi Power Station was completed on time but the mine expansion delayed, then Eskom would claim payment from the coal supplier.
 - In the 9 contract modifications Eskom tried to renegotiate the amendment of the take or pay penalty with no success. Given the location of the Power Station, Eskom does not have other supply options at a competitive price to the current agreement.
 - Most of the coal assets in the Waterberg are still not developed

Item 6.20: update on Take or Pay' system (4/5)



Item 6.20 *"The 'Take or Pay' system must be revisited and the cost-benefit analysis must be conducted to determine the viability of the system, and a report on this is sent to SCOPA within 60 days from the adoption of this report by the National Assembly".*

- ❑ As at end May 2020, the Medupi take-or-pay penalty amounted to R9,3 billion

Payments (RM) (Excluding VAT) 1									
Fin. Year	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	TOTAL
Rands	633 891 356.37	1 806 584 194.00	1 825 840 756.00	839 581 881.00	1 576 658 662.00	1 040 660 827.66	844 280 065.40	702 246 896.37	9 269 744 638.80

- ❑ Eskom received invoices from Exxaro for failure to take during the National Lockdown for April 2020 (R42,8m) and May 2020 (R53,2m).
- ❑ Eskom did declare force majeure at the beginning of the lockdown period.
- ❑ Eskom raised an accrual for the two invoices received but no payment was processed to date.

Item 6.20: Update on evacuating excess coal from Medupi to Mpumalanga (5/5)



- ❑ Eskom and Exxaro have explored various ways of evacuating Medupi coal for use at Kendal and Kusile Power Stations in Mpumalanga.
 - The parties have been negotiating a 12-month interim contract, where Exxaro uses its infrastructure at the mine while a long-term solution is being developed.
- ❑ During the negotiations, Exxaro has been insisting on a cancellation clause in the contract if the interim solution has an impact on its business.
- ❑ This position poses a risk to Eskom because there will be other contracts signed with TFR for railing and offloading the trains in Mpumalanga.
- ❑ The negotiations with Exxaro to find a way forward are in progress but affected by the COVID19 Lockdown as Exxaro prioritised coal supply operations and put projects on hold.



Item 6.21 *“The production of Gypsum should be processed further in order to capitalise on beneficiation for additional revenue for ESKOM”.*

- ❑ Eskom Rotek Industries (ERI) has been assigned to deal with the commercialisation of gypsum. Market research has been conducted, and there is appetite for the product, mainly in the construction, building-related application, and agriculture sectors
- ❑ The approval of the commercial strategy has been initiated and is going through the internal governance processes for approval. The strategy has been approved by the ERI Board and the commercial process will proceed and anticipated to be concluded no later than end January 2021

Item 6.22: Update on holding contractors accountable for sub-standard work (1/2)



Item 6.22 “Contractors must be held accountable for sub-standard work”

- ❑ The Fédération Internationale des Ingénieurs-Conseils (FIDIC) Standard form of Contract provides for Performance Security for proper performance.
 - Eskom shall ensure that the Performance Security is valid and enforceable until the Contractor has executed and completed the works and remedied any defects.
 - The contract provides for the circumstances under which the Employer may make a claim against the Performance Security for any poor performance.
- ❑ A system of monthly reviews has been implemented since January 2019 to track contract expiry, bond and guarantee validity/expiry.
- ❑ The FIDIC contract, furthermore, provides for delay damages, which are compensation to be paid by the contractor to the employer if the works are not completed within the time for completion
- ❑ The Contractor may prevent this deduction by submitting claims for extension of time. The amount payable may be limited by provisions of the contract/tender where a maximum amount which cannot be exceeded is stated. (Limitation of Liability)

Item 6.22: Update on holding contractors accountable for sub-standard work (2/2)



- ❑ All works are being inspected as the work progresses and the non-conformances (NCR) are being raised for Contractors to rectify the defective work.
 - These NCR are also being tracked to ensure that the defect is officially closed out.
Many of these defects also require outages and hence the delay in rectification in some instances.
- ❑ Contracts also have a Defect Notice Period (DNP) which is being used where Eskom has a period of 12 months on average in most contracts, where the contractor is notified to correct his work and failure to do so is where Eskom will use the retention money to rectify.

Item 6.23

Salient Points: Medupi and Kusile Projects

(1/11)



- Currently, six units at Medupi, three units at Kusile and four units at Ingula are contributing energy to the National Grid
- The energy availability factor (EAF) of the Eskom new plants is steadily improving. This is attributed to current interventions to correct (fix) the major plant design defects, which is part of the Eskom/Generation 9 Point Plan
- Two units, 794 MW each, at Medupi achieved Commercial Operation (CO) in the 2019/20 financial year, adding 1 588 MW of total installed capacity to the National Grid.
- In April 2019, the Eskom Board approved the continuation of the construction to completion of the Medupi and Kusile projects, following a detailed feasibility study of the projects

Item 6.23

Salient Points: Medupi and Kusile Projects

(2/11)



- The Eskom Board and management are committed to complete Medupi and Kusile Power Stations by the revised dates of financial years 2020/21 and 2023/24, respectively and has been applying its energy and efforts to drive the completion of these projects through the executives to meet these target dates. The priority has been to unlock and resolve the issues hindering completion of these power stations
- Significant and major risk exists that the current corruption investigation outcomes and the COVID-19 impacts will delay completion at Kusile. There also is a significant and major risk that COVID-19 impacts will delay the completion at Medupi
- At this stage, the projects are only revising their business cases for time, with no associated cost impact. The current total approved project cost for Medupi and Kusile remains unchanged at R 145 billion and R 161.4 billion, excluding interest during construction (IDC), respectively

Item 6.23 Progress on Medupi and Kusile Power Stations

(3/11)



□ Current Status: Budget and Expenditure, as at April 2020

	Current ERA Budget: P80 (EPC)	Current ERA Budget: P50 (EPC)	Inception to date expenditure (EPC)	Remaining ERA Budget (P50)	Overall Budget Expenditure (P50)	Overall Completion	
						Constructio n	EPC
Medupi	R145.0bn	R135.0bn	R118.4bn	R16.6bn	87.7%	99.9%	98%
Kusile	R161.4bn	R156.0bn	R137.7bn	R18.3bn	88.2%	87%	94%

Item 6.23 Progress on Medupi and Kusile Power Stations

(4/11)



- Current Status: Latest Schedule, Actual and Forecast, as at June 2020

Current Status: Ingula, Medupi and Kusile

Construction Schedule: Actual and Forecast-to-Completion **(P50)**



as at June 2020



Commercial Operation Achieved



Commercial Operation Forecast



First Synchronisation Achieved

		Unit 6	Unit 5	Unit 4	Unit 3	Unit 2	Unit 1
Medupi (P50)	Unit Completion	100%	100%	100%	99.99%	99.97%	99.49%
	Commercial Operation	Aug 2015 	Apr 2017 	Nov 2017 	July 2019 	Nov 2019 	Feb 2021

		Unit 1	Unit 2	Unit 3	Unit 4	Unit 5	Unit 6
Kusile (P50)	Unit Completion	100%	99.50%	97.60%	91.96%	82.98%	74.15%
	Commercial Operation	Aug 2017 	Aug 2020 	Sep 2020 	Jun 2022 	Jun 2023 	Dec 2023

Item 6.23 Medupi Construction Progress

(5/11)



- **Medupi Unit 1:** Commissioning is progressing well, with control and instrumentation (C&I) optimisation in progress. The contractor responsible for the dust handling plant (DHP) is in business rescue; therefore, construction of the DHP is incomplete. Vacuum trucks are currently used to remove ash, with limited success. Commissioning and optimisation of the unit have been delayed. Unit load losses have been experienced due to issues with milling plant reliability. The milling plant forms part of the major defect correction plan, which is under way
- Full commercial operation of the unit is currently forecasted for December 2020; this is, however, dependent on the resolution of contractual challenges with the existing DHP contractor and placement of the new DHP contract, which has been further delayed due to contractors being non-responsive
- The unit is on load, intermittently supporting the national grid at an average of 500 to 600 MW
- **EAF Improvement:** The EAF at Medupi has improved from 35.06% in March 2019 to 70.9% at the end of March 2020 (currently at 55.08% with Unit 6 currently on outage)

Item 6.23 Medupi Unit 3

(6/11)



- Eskom is pleased to announce that since its return to service following a 75-day outage to repair major design defects, Medupi's Unit 3 has on Tuesday, 05 May 2020, reached the full generation capacity of 793 MW
- The major focus of the outage was to implement the technically agreed solutions for the boiler issues that hobbled the performance of the unit; these being the boiler plant modifications of the re-heater spray flow, pulse jet fabric filter plant, gas air heater, milling plant, duct erosion, and dust arrestors
- The Unit is currently undergoing optimisation and performance testing prior to conducting the boiler performance verification tests, which require inspections and equipment tests to be conducted after 2 500 hours of operation in order to verify the success of the modifications
- Eskom is currently implementing similar modifications for which the level of confidence of success is high on Units 6 and 1. Unit 4 will also be taken off the grid in July 2020 for similar modifications, where after Unit 2 will follow late August 2020 and Unit 5 in November 2020



Kusile Units 2 and 3

- Optimisation work of the units is currently on schedule to achieve the latest forecasted commercial operation (CO) dates. Unit 2 reached full load (808 MW) on 23 February 2020 and is supporting the national grid intermittently at a monthly average of between 400 MW to 500 MW. Unit 3 is also on load and is supporting the national grid intermittently, at a monthly average of 550 MW.
- Kusile Unit 2: The forecasted date has been influenced by mill performance, peak season, unknowns, plant performance, gas air heater (GAH) left-hand side (LHS) outage, and ID fan repairs (August 2020)
- Kusile Unit 3: Coal mill failures, gas air heater leaks outages, and pulse-jet fabric filter (PJFF) blocked bags have caused CO delays. Contractor liquidity challenges are, furthermore, exacerbating CO delays, that is, CBZ being in business rescue (September 2020)



Kusile Units 4 to 6

- Progress on Units 4 to 6 has been delayed due to contractor(s) financial, commercial, and/or contractual issues
- Indications are that the current planned commercial operation (CO) dates of Units 4, 5, and 6 will be difficult to meet. The project team is pursuing schedule recovery plans for those milestone achievements that are at risk
- **EAF Improvement:** the EAF at Kusile has improved from 44.67% in March 2019 to 51.08% in March 2020

Item 6.23

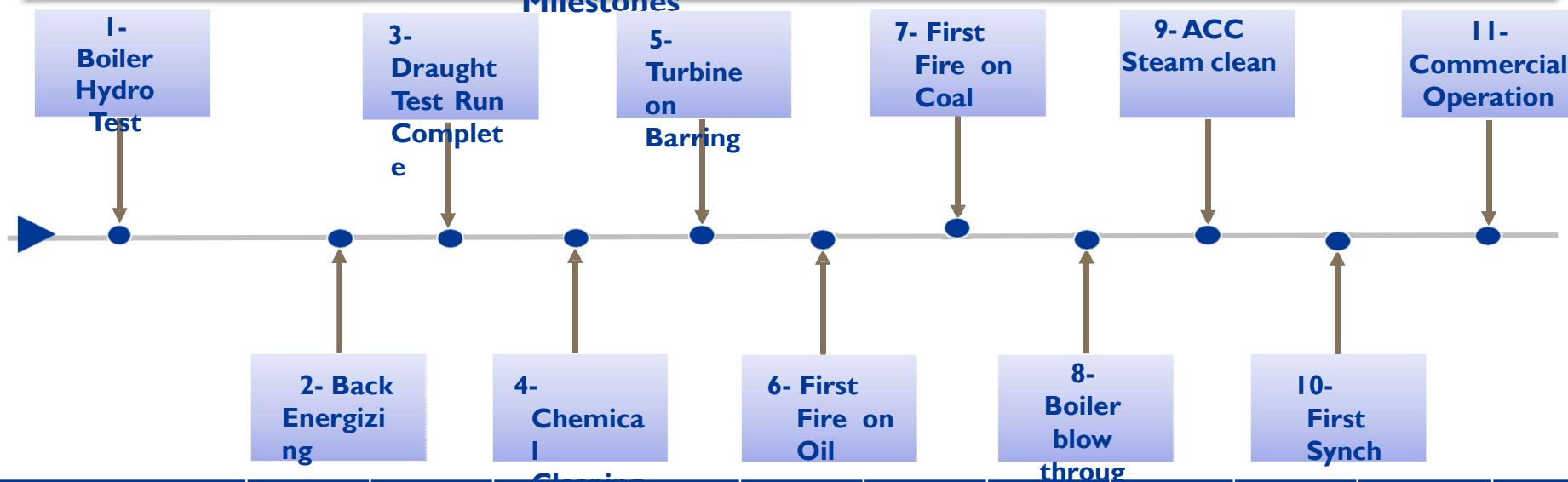
Latest Schedule Progress: Medupi and Kusile Units

(9/11)



Milestone Complete

Construction to Commissioning Milestones



Unit	1	2	3	4	5	6	7	8	9	10	11
MEDUPI UNIT 3	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
MEDUPI UNIT 2	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
MEDUPI UNIT 1	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
KUSILE UNIT 2	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
KUSILE UNIT 3	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
KUSILE UNIT 4	✓	✓									
KUSILE UNIT 5	✓										
KUSILE UNIT 6	✓										

High Priority Risks in the Eskom New Build Programme

(10/11)



Risk	Key Risk Drivers	Risk Treatment Approach
Stability Challenges	<ul style="list-style-type: none"> Local community protests Ineffective management of contractor employee issues by contractors (i.e. disputes, salaries, demobilisation) Non-compliance to the site partnership agreement requirements Unstable Industrial Relations climate 	<ul style="list-style-type: none"> Project risks are managed at site level, through collaboration and engagement with the contractors, local community, organised labour, government entities and Eskom head office functions
Productivity challenges	<ul style="list-style-type: none"> Poor contractor performance Inadequate skills and capacity Ineffective Eskom oversight Site instability Ineffective construction risk prevention and management COVID-19 pandemic 	<ul style="list-style-type: none"> The Site Project Directors take final accountability for the effective execution of the risk treatment plans Monthly/weekly meetings are held to discuss risks and monitor the implementation of the risk treatment plans
Contractor's liquidity challenges	<ul style="list-style-type: none"> Under-estimation of cost requirements at tender award by contractors Poor construction performance Difficult economic climate Recruitment of unsuitable construction resources by contractors Contractors filing for bankruptcy and/or business rescue COVID-19 pandemic 	<ul style="list-style-type: none"> Risk Management is implemented as per the GCD Integrated Risk Management (IRM) procedure Project risks are uploaded in the Central Eskom Risk Database (CURA) and are updated at project level
Availability and Reliability	<ul style="list-style-type: none"> Design issues due to inadequate front-end-engineering development (FEED) Major new plant defects at construction Poor construction and engineering performance Poor plant performance and reliability of units due to plant commissioning issues at synchronisation through to commercial operation 	<ul style="list-style-type: none"> Project risk treatment plans, at regular intervals, are quantified and costed, included in the project budget revisions (ERA), at package and project level Effective implementation of the Eskom COVID-19 emergency response plans and the business continuity protective measures

Item 6.23

Covid-19 Readiness and Response Plans

(11/11)



- Functional Tactical Command Centre (TCC) in place that liaises with the Eskom Response Command Centre (ERCC) and HR TCC for direction and guidance to effectively respond to the COVID-19 pandemic
- COVID-19 Protective Measures Works Instruction (policy) developed/implemented to guide compliance by Eskom and Contractors, as per the COVID-19 Lockdown COGTA Regulations and the OHS requirements to contain and prevent the spread of the corona virus
- Executing the GCD COVID-19 emergency response plans, risk assessments and business continuity plans in a coordinated, controlled manner to manage the spread of the virus to our people
- The TCC uses WhatsApp for instant messaging to drive fast communication on COVID-19 updates and follow through on response actions. The TCC convenes regularly through a digital platform (Microsoft Teams) to discuss COVID-19 matters
- The project sites conduct on an ongoing basis risk assessments, reviewing the workplace readiness plans to resume required limited construction (critical works) using essential Eskom and Contractor staff
- Weekly project updates are shared at the ERCC, covering status of COVID-19 compliance. The latest return-to-work compliance is 94%
- On 15 May 2020, one positive COVID-19 case (Contractor employee) recorded at Kusile. The employee is in quarantine, disinfection of the workplace was done immediately and contact tracing measures are implemented – person doing well

Thank
you