Eskom Presentation

Briefing Meeting with SCOPA

3 March 2021

Contents

Disappointing financial results for the year ended 31 March 2020

Eskom

AdR

- **Revenue of R200 billion**, but sales **1.29% lower than 2019**, with growth hampered by capacity shortages and adverse economic conditions
- **Cost savings of R16.3 billion** achieved against a **target of R6.2 billion**, but largely absorbed by cost overruns on diesel to minimise loadshedding
- **Improvement in EBITDA to R37 billion** arising from growth in revenue
- **Operating profit (EBIT) of R9.2 billion** in a challenging environment
- Unsustainable debt burden leads to **net finance cost of R31.3 billion**, resulting in a **net loss R20.5 billion**
- **Net cash from operations improved** overall, but liquidity remains constrained
- **Favourable court judgments** received on a number of NERSA revenue review applications
- **Government support of R49 billion received in 2020** to support Eskom's status as a going concern, with **R56 billion committed for 2021**. Funds are reserved for debt servicing
- **Secured gross funding of R50.9 billion for 2020**, exceeding our target

Some progress made, off a low base

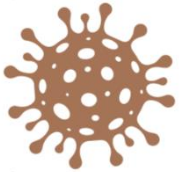
AdR

- In November 2018, **significant coal stock shortages** at a number of stations
- Normalised coal stock up to **50 days by 31 March 2020**
- Total coal burn cost for the 2021 financial **year projected to increase by only 0.3% year-on-year**
- **Total of R7.5 billion spent on diesel-generated power** to avoid or minimise loadshedding during 2020. Eskom OCGT costs for the 2021 financial year **projected to reduce by 30%**
- **Reliability maintenance programme** launched at end of 2020, **planned maintenance in October 2020 >14%**
- **Kusile Unit 2** achieved commercial operation on **29 October 2020**
- **Medupi design modifications successfully implemented** on four units by October 2020
- **Divisionalisation** as a first step towards restructuring, separate Transmission subsidiary by December 2021
- **More assertive approach to debt collection** and distribution energy loss prevention is delivering results
  - ❖ Municipal payment levels being maintained, despite challenging economic conditions
  - ❖ **Top 20** defaulting municipalities' **payment rate up from 42% at March 2020 to 49% at September** 2020
  - ❖ **Soweto payment improved** from 12.5% at March 2019 to 21% at March 2020

COVID-19 will have a substantial impact going forward

AdR

- Eskom's Pandemic Disaster Response Plan **invoked in February 2020** to contain spread of the virus, maintain the supply of electricity as an essential service, and maintain the safety of people
  - **Decline of 10.3% in sales volumes** year-to-date, compared to a decline of 16.5% in the first quarter. Overall, sales volumes for 2021 are expected to be around 7% lower than 2020
  - **Average demand was down 5 680MW** during lockdown level 5, **by 3 300MW** during level 4, by 1 **360MW** during level 3, by **365MW** during level 2, and **491MW** in level 1. Demand largely recovered to previous levels
  - **Planned and opportunity maintenance** was undertaken during initial lockdown due to lower demand
  - **Loadshedding implemented on 19 days** (July to Sept) due to high levels of breakdowns and high demand
  - **Delays in executing capital projects** due to lockdown restrictions relating to movement of people
  - **Tragically, 27 employees and three contractors** have succumbed to the disease at 28 October 2020
- **Revised Eskom's Corporate Plan** for the impact of COVID-19 and other changes in the operating environment
- **COVID-19 is a significant risk the factor** affecting the global and local economy, as well as our business, now and into the foreseeable future



Some significant challenges in the 2020 financial year

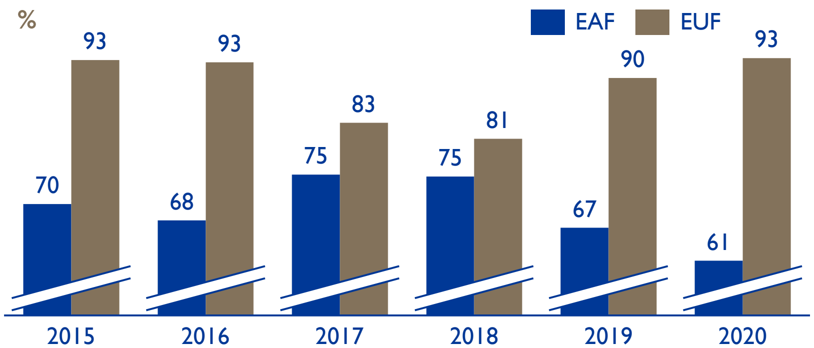
AdR

- **Generation energy availability factor** (EAF) at **66.64%,** together with unplanned maintenance at levels exceeding 20%, contributing to **46 days of loadshedding** during the 2020 financial year
- **Stage 6 loadshedding** on 9 December 2019 was a nadir for Eskom and South Africa
- **Severe transmission plant failures** negatively affected system reliability and system minutes <1 performance
- **Environmental performance remained poor**, particularly at Kendal Power Station
- **Slow progress on implementing supply chain recovery** with inefficiencies in the procurement process hampering operations and delivery on maintenance programme
- **Municipal arrear debt** escalated by 41% to **R28 billion**
- Community resistance, vandalism of equipment and threats to employees hamper efforts to curb electricity theft and non-payment
- **Five critical risks materialised** during March 2020, three being disaster risks

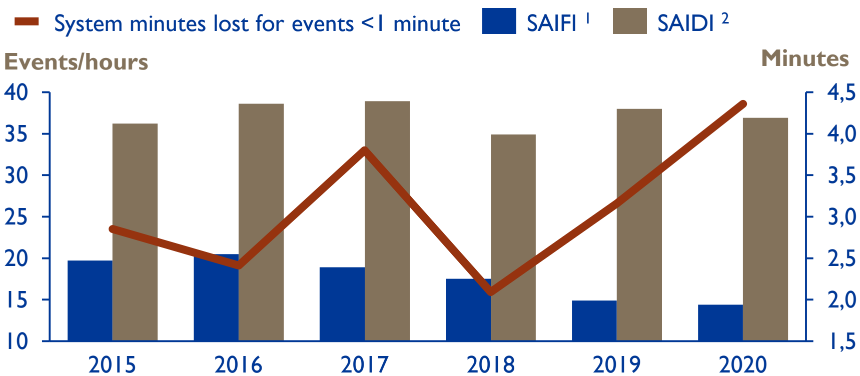
Generating plant and transmission network performance declined, distribution remained stable

Eskom AdR

Coal plant availability and utilisation



Network performance



1. System average interruption frequency index
2. System average interruption duration index

- Generation EAF declined to 66.64% (2019: 69.95%), mainly due to worsening coal plant performance
- Unplanned capability losses of 22.86% (2019: 18.31%), with average partial load losses of 4 651MW
- Coal energy utilisation factor (EUF) increased to 93% (2019: 90%). Median age of plant of 39 years
- Distribution network delivered stable performance, although Transmission performance deteriorated
- Ageing network assets pose a risk
- Medupi Units 3 and 2 achieved commercial operation, adding capacity of 1 588MW
- 250MVA transformer capacity installed, 127.9km of high-voltage transmission lines commissioned

Progress on new build defect correction plan

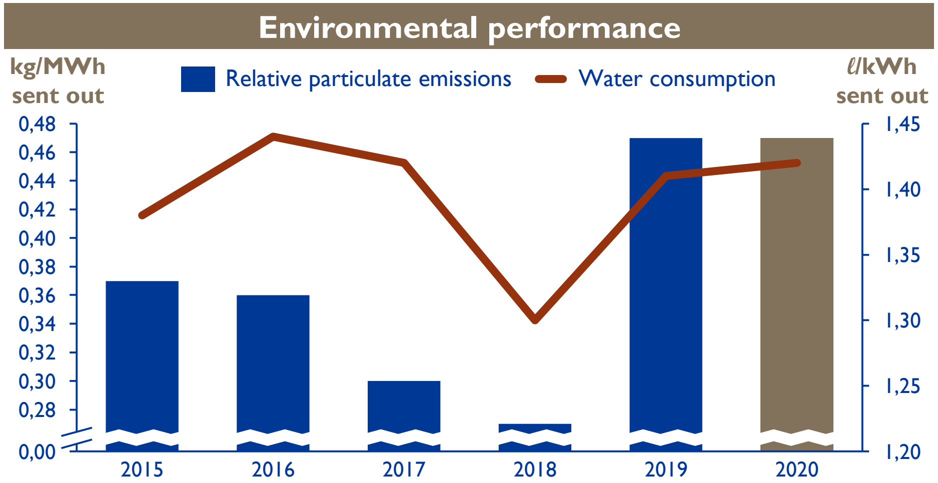
- From May 2020, design modifications implemented on Medupi Units 3, 6, 1 and 4, with the remainder to be completed by March 2021
- Medupi Unit 3 has achieved five consecutive months of improved performance since implementing design modifications
- Availability and reliability of the synchronised units at Medupi and Kusile are steadily improving
- Units in commercial operation: Medupi Units 6, 5, 4, 3 and 2 (3 970MW), and Kusile Units 1 and 2 (1 600MW)
- Medupi Unit 1 on track for commercial operation by July 2021
- Kusile Unit 3 on track for commercial operation by March 2021
- Currently, six units at Medupi and three at Kusile are contributing energy to the National Grid

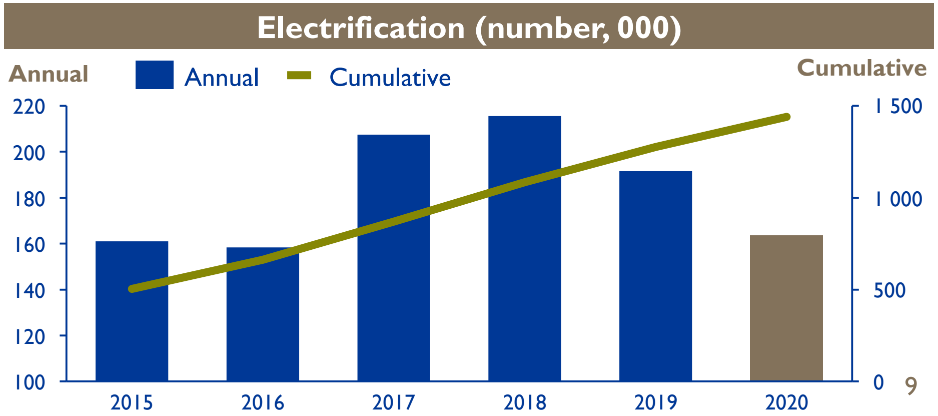
Environmental performance declines, with stable socio-economic and safety performance

Eskom

AdR

- Poor particulate emission performance continues, with increased water consumption
- 163 613 new households connected (2019: 191 585)
- Lost-time injury rate of 0.30 (2019: 0.31)
- Sadly, nine contractor fatalities during the year (2019: four, restated)
- Zero employee fatalities (2019: three)
- B-BBEE attributable spend of R102 billion (2019: R85 billion)
- Continued improvement in racial and gender equity. Disability equity did not meet target
- 1 479 395 beneficiaries through CSI programmes





Progress is being made on the turnaround

Eskom AdR

Operations recovery	Improve income statement	Improve balance sheet	Business separation	People and culture
• Coal stocks replenished • Coal quality a focus • Reliability maintenance ongoing • New build design defects being addressed • Kusile 2 commercial operation achieved	• Successful legal challenges on tariff decisions • Headcount reduced by about 2 000 in 2020 • Coal burn cost projected to increase only 0.3% in 2021 • OCGT spend for 2021 expected to be 30% lower than 2020 • Payment levels for customers in arrears rising	• Equity injections by Government to support debt servicing • Working capital being freed up, more assertive in collecting debt • Eskom compact agreed at Nedlac positive • Green financing being explored • High levels of debt requires structural solution	• Divisionalisation implemented • Divisional boards in place • Planning for functional separation by Mar 2021 • Transmission legal separation by Dec 2021 • Process to dispose of non-core assets (EFC and properties) commenced	• Driving high-performance culture • Consequence management stepped up • Regular staff engagements

There is light at the end of the tunnel

Eskom
AdR

- Generation outlook is improving, due to restructured organisational structure and enhanced maintenance focus, combined with priority being given to environmental issues
- End-of-life power stations (8 to 10GW) being retired, further capacity needed without delay
- Eskom welcomes DMRE procurement of 11 813MW of new electricity generation infrastructure under the IRP 2019, and 2 000MW of emergency procurement
- Substantial capital investment required to fund Transmission expansion and strengthening, as well as investment in cost-plus mines to sustain production
- Distribution revenue collection remains a challenge, but payment levels are improving
- Just Energy Transition Strategy brings equitable introduction of cleaner and greener technology
- Financial position remains challenging, largely as a result of unsustainable debt burden and tariffs that are not cost-reflective

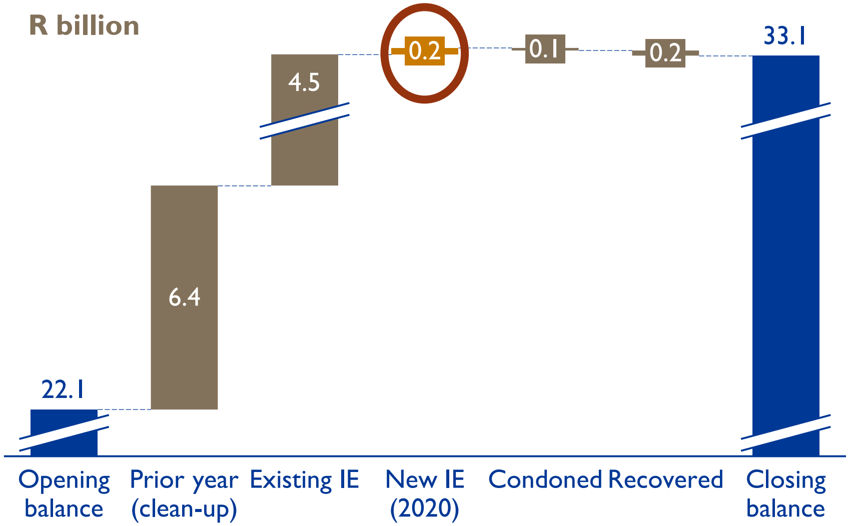
Driving Eskom's financial turnaround

CC

- **In 2019**, we announced that we would focus on the following financial issues to drive the turnaround:
  - **Revenue optimisation** through achieving cost-reflective tariffs and increasing sales volumes
  - **Cost curtailment** through cash savings on operational and capital costs, to improve liquidity and financial sustainability
  - **Debt relief** through Government support
- Although we have made progress in the majority of these areas, **municipal arrear debt escalated to R28 billion**. Soweto payment levels **improved from 12.5% to 20.7%**
- **Audit opinion** – 2020 consolidated annual financial statements fairly presented in terms of IFRS, except:
  - **Qualified audit** opinion relating to irregular expenditure under the PFMA
  - **Material uncertainty** regarding Eskom's status as going concern
  - **Key audit matter** on treatment of Eskom Pension and Provident Fund (EPPF)
  - **New reportable irregularities raised**

Process to manage irregular, fruitless and wasteful expenses improved, more initiatives under way

CC



New irregular expenses	Number	R million
Tender process and DoA	29	118
Other	44	73
Total	**73**	**191**

- Reporting directives amended to comply with recent National Treasury instructions
- Slow progress on condonations from National Treasury – until condoned, expenditure on affected contracts will remain irregular
- Loss Control Department to be established to address PFMA violations and oversight of consequence management, including disciplinary actions, condonations and recovery of losses
- Enabling agreements to address irregular expenditure from existing sole source contracts
- The auditors qualified the PFMA note as they cannot place any reliance on the opening balance. The qualified audit opinion will remain until all the transgressions have been condoned or Eskom has received a reprieve from the past

R191 million new irregular expenses

CC

R Million	Prior-year clean-up		Existing IE		New IE FY2020		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
CIDB certificates	1	0	9	136	4	20	14	156
Not in accordance with NT guideline	2	1					2	1
Modifications	6	806	925	1 394	3	24	934	2 225
Designated sector					25	17	25	17
Sole source	3	162	805	2 573			808	2 735
Incorrect procurement process - monetary threshold	1	61	723	23	4	1	728	85
Tax certificates	8	179	247	170	3	0	258	350
Not emergency	2	-	6	36			8	36
Tender process not followed	137	5 269	78	159	29	118	244	5 546
Other	5	7			5	10	10	17
Total	**165**	**6 486**	**2 793**	**4 491**	**73**	**191**	**3 031**	**11 168**

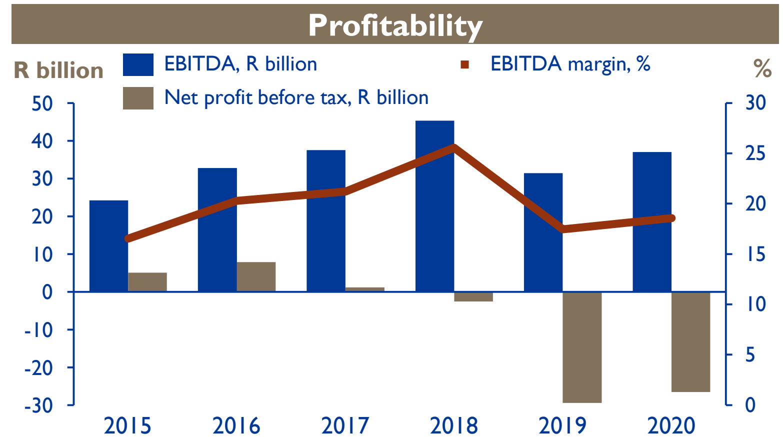
- Prior-year clean-up: Relates to the clean-up of transactions since 2012
- Existing irregular expenses: Relates to transactions awaiting NT condonation to regularise

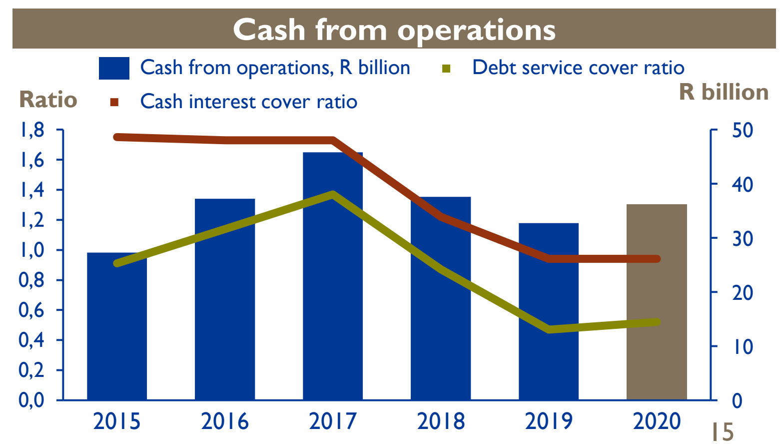
Most financial indicators improved slightly, but remain well below acceptable levels

Eskom
CC

Ratio	March 2020		Restated [1] March 2019
Revenue, R million	**199 468**	↑	179 892
EBITDA, R million	**36 998**	↑	31 417
Operating profit (EBIT), R million	**9 219**	↑	1 679
Net loss after tax, R million	**(20 502)**	↓	(20 930)
EBITDA margin, %	**18.55**	↑	17.46
Cash interest cover, ratio	**0.94**	→	0.94
Debt service cover, ratio	**0.52**	↑	0.47
Gross debt/EBITDA, ratio	**14.39**	↓	15.73
Debt/equity (including long-term provisions), ratio	**2.45**	↓	3.18
Gearing, %	**71**	↓	76
Free funds from operations (FFO) as a % of gross debt	**7.26**	↑	5.88

1. Restatements are disclosed in note 50 of the annual financial statements





Operating profit achieved, but eroded by excessive debt servicing costs

Eskom

CC

Income statement R million	March 2020	Restated [1] March 2019	YoY % change
Revenue	**199 468**	179 892	11
Other income	**1 238**	2 150	
Primary energy	**(112 119)**	(99 488)	(13)
Net employee benefit expenses	**(32 976)**	(33 183)	
Net impairment reversal	**61**	260	
Other expenses	**(18 674)**	(18 214)	3
EBITDA (before net fair value loss)	**36 998**	31 417	18
Depreciation and amortisation expenses	**(27 779)**	(29 738)	7
Operating profit (EBIT)	**9 219**	1 679	>400
Net fair value loss on financial instruments and embedded derivatives	**(4 592)**	(3 409)	(35)
Net finance cost	**(31 252)**	(27 732)	(13)
Share of profit of equity-accounted investees	**63**	35	
Loss before tax	**(26 562)**	(29 427)	10
Income tax credit	**6 060**	8 497	(29)
Net loss for the year	**(20 502)**	(20 930)	2

1. Restatements are disclosed in note 50 of the annual financial statements

- Revenue: 13.87% tariff increase, offset by capitalisation of pre-commissioning revenue and declining sales due to economic downturn
- Primary energy cost: higher coal cost coupled with higher OCGT utilisation and IPP production
- Employee benefit cost: headcount reduction through attrition, offset by three-year wage settlement agreement
- Depreciation: units at Hendrina and Komati placed in cold reserve in 2019
- Finance costs: higher indebtedness, coupled with more expensive borrowing costs

Electricity revenue increased by 12%
(before IFRS adjustments)

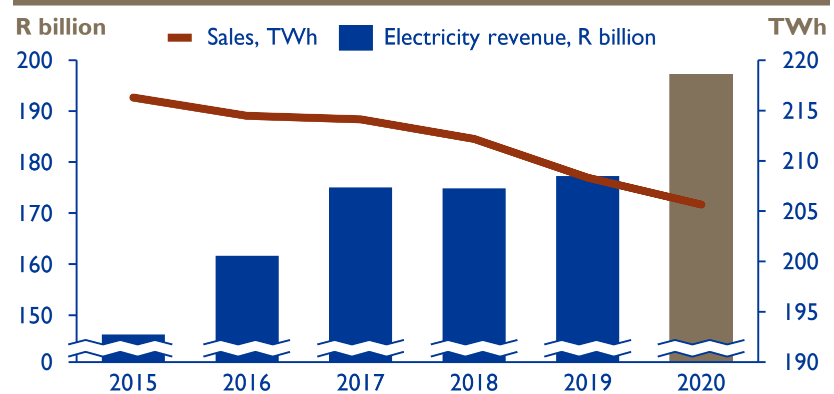
Eskom

CC

	March 2020	March 2019	YoY % change
Revenue, R million			
Local	196 868	178 906	10
International	12 229	8 241	48
Gross electricity revenue	**209 097**	**187 147**	**12**
Net revenue not recognised (IFRS 15)	(6 107)	(6 442)	5
Total electricity revenue	**202 990**	180 705	12
Other revenue	2 161	2 580	(16)
Capitalised	(5 683)	(3 393)	(68)
Total revenue	**199 468**	179 892	11
Sales, GWh			
Local	**190 446**	195 858	(2.8)
International	**15 189**	12 461	21.9
Total sales	**205 635**	208 319	(1.3)

- Reduction in sales across all domestic sectors, while international sales grew. Industrial sector most affected by the economic downturn and depressed commodity prices
- Average price increase of 13.2%, from 90.01c/kWh to 101.86c/kWh
- IFRS 15 applies the cash basis for defaulting customers, negatively impacting revenue

Sales and revenue

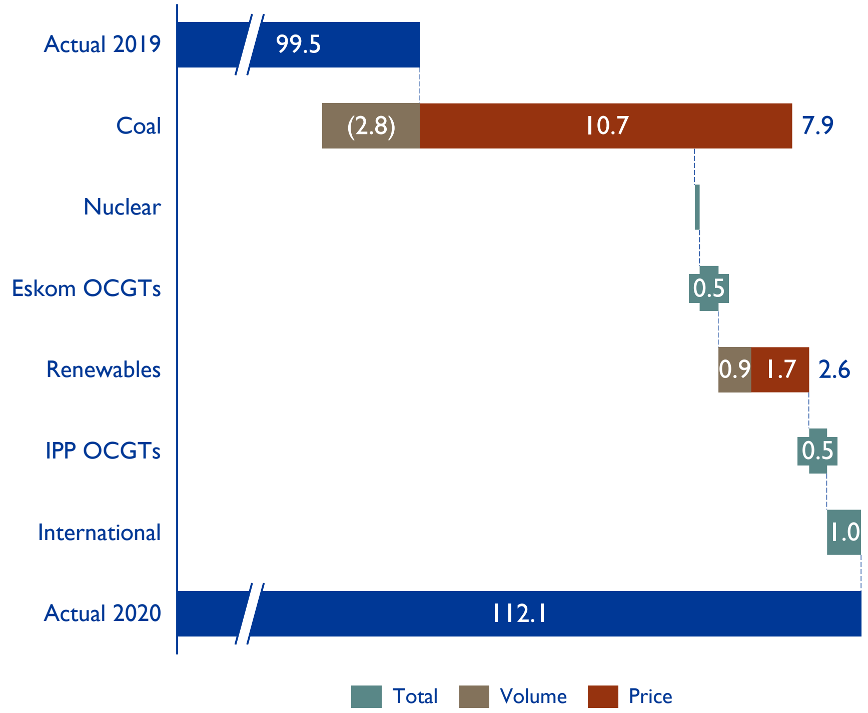


Primary energy cost increased by 13%

CC

- Eskom production volume reduced to 214 968GWh while IPP production volume increased to 11 958GWh (2019: 218 939GWh Eskom, 11 344GWh IPPs)
- Total Eskom and IPP OCGT cost of R7.5 billion, an increase of R1 billion
- Eskom production cost increased by R8.5 billion, or 14%
- Increase of 16.3% in the average coal purchase cost per ton, mainly due to short-term contracts concluded to rebuild stockpiles
- Renewable IPP cost increased by R2.6 billion and IPP OCGTs by R0.5 billion

Primary energy cost increase, R billion



Balance sheet strengthened through Government support

Eskom

CC

Financial position, R million	March 2020	Restated [1] March 2019	YoY % change
Property, plant and equipment and intangible assets	**657 189**	654 365	<1
Working capital – inventory and current receivables	**57 563**	49 041	17
Liquid assets – cash and cash equivalents and investments	**34 971**	11 594	202
Derivatives held for risk management	**57 636**	22 662	154
Other assets [2]	**15 580**	18 042	(14)
Total assets	**822 939**	755 704	9
Equity [3]	**185 863**	149 978	24
Debt securities and borrowings	**483 682**	440 610	10
Working capital – current payables	**54 904**	50 945	8
Derivatives held for risk management	**2 941**	7 040	(58)
Other liabilities [4]	**95 549**	107 131	(11)
Total equity and liabilities	**822 939**	755 704	9

1. Restatements are disclosed in note 50 of the annual financial statements
2. Mainly comprises assets held for sale and future fuel
3. Includes Government support of R49 billion received during the 2020 financial year
4. Mainly comprises non-current provisions, employee benefit obligations, contract liabilities and lease liabilities

Reliance on debt is unsustainable – gross finance costs are the second largest cost after primary energy

Eskom

CC

Group debt overview, R million	March 2020	Restated [1] March 2019	YoY % change
Debt securities and borrowings	**483 682**	440 610	10
Net market making liabilities	**62**	76	
Cash and cash equivalents [2]	**(22 990)**	(2 031)	>1 000
Net derivatives held for risk management [2]	**(54 695)**	(15 622)	>250
Net interest-bearing debt	**406 059**	423 034	(4)

Group finance cost overview, R million			
Finance cost	**42 305**	39 507	7
Finance income	**(2 610)**	(2 722)	4
Borrowings capitalised to assets	**(14 584)**	(15 378)	5
Other finance costs, including unwinding	**6 141**	6 325	(3)
Net finance cost	**31 252**	27 732	13

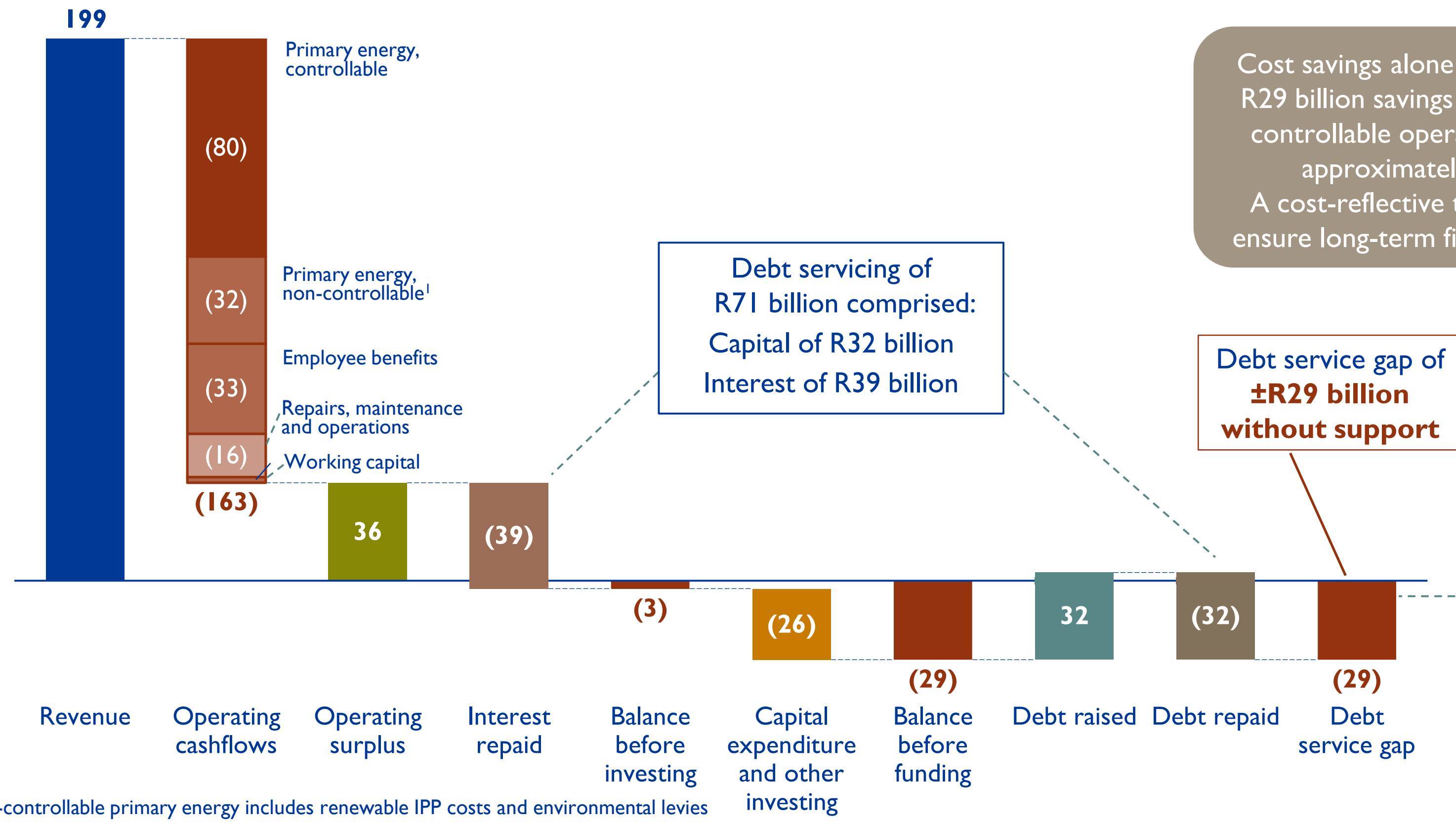
1. Restatements are disclosed in note 50 of the annual financial statements
2. In the table above, assets are reflected as negative amounts

- Growth in debt securities and borrowings largely attributable to weakening of the Rand in March 2020, with corresponding growth in derivative assets due to comprehensive hedging of market exposures
- Debt raising of R32 billion, offset by debt repayments of R31.5 billion (excluding commercial paper)
- Average cost of debt increased to 9.58% (2019: 9.33%)
- Approximately 72% of debt at fixed interest rates

Without Government support, cash from operations would have been insufficient to meet debt servicing

CC

Cash flows for the year ended 31 March 2020, R billion



Cost savings alone is not the answer – R29 billion savings amounts to 22% of controllable operational outflows of approximately R131 billion.
A cost-reflective tariff is required to ensure long-term financial sustainability

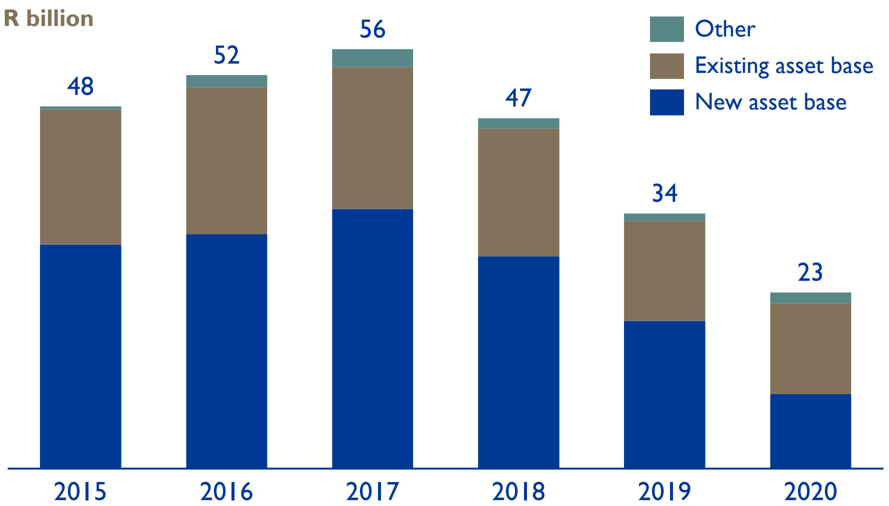
Cash balance improved by ±R20 billion due to Government support of R49 billion

1. Non-controllable primary energy includes renewable IPP costs and environmental levies

Capital expenditure contained to manage liquidity

CC

Total Eskom funded capital expenditure



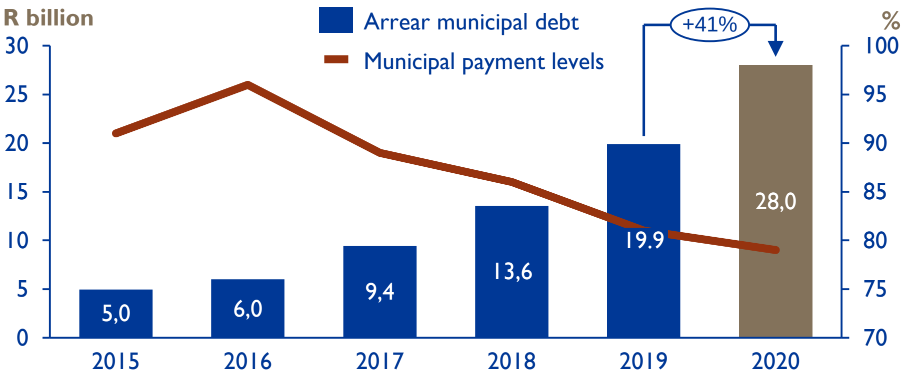
R billion	2020	2019
Medupi	2.9	4.9
Kusile	2.5	8.6
Total	**5.4**	**13.5**

- Total Eskom group funded capital of R23 billion (2019: R34 billion), with R10 billion used to expand the asset base and R12 billion spent on existing assets
- Restricted organisational capital expenditure requirements to improve liquidity
- Continued deferral of capital maintenance, refurbishment and replacement of infrastructure may lead to operational challenges
- Medupi: R118.4 billion spent, cost to completion of R145 billion (excludes FGD)
- Kusile: R137.4 billion spent, cost to completion of R161.4 billion (includes FGD)

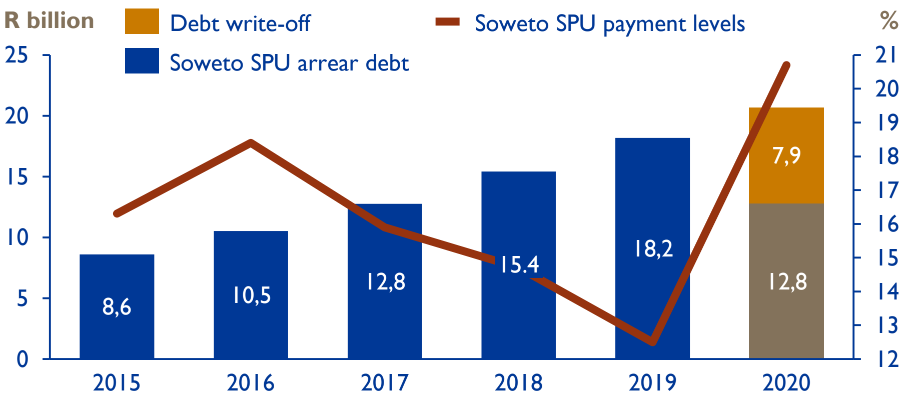
Arrear municipal debt continues to escalate, leading to additional liquidity pressure

Eskom
CC

Invoiced municipal arrear debt



Soweto small power user (SPU) debt



- Invoiced municipal arrear debt (including interest) escalated by R8.1 billion, to R28 billion
- Payment level of 79% by municipalities (excluding metros) on amounts billed, declining from 96% in 2016
- Payment level of 42% for top 20 defaulting municipalities
- Commenced a municipal debt management strategy to reduce and/or eliminate overdue debt, stop defaulting where it occurs, and prevent future defaulting by paying customers, including attachment of municipal assets
- Collaborating with the Eskom Political Task Team to address ongoing municipal debt challenges
- Invoiced Soweto SPU arrear debt (including interest) decreased to R12.8 billion (2019: R18.2 billion), after writing off *in duplum* debt components of R7.9 billion
- Debt recovered from ZESCO of Zambia and ZETDC of Zimbabwe; EDM of Mozambique remains in arrears

1. Prior year Soweto SPU debt includes *in duplum* debt components that were not written off at the time

Financial results for 2021 expected to be worse, before long-term improvements materialise

CC

Financial outlook	Actual March 2020	Budget March 2021
Revenue, R million	↑ **199 468**	201 536
EBITDA, R million	↓ **36 998**	23 522
Operating profit (EBIT), R million	↓ **9 219**	(5 322)
Net (loss)/profit after tax, R million	↑ **(20 502)**	(26 205)
EBITDA margin, %	↓ **18.55**	11.67
Cash interest cover, ratio	↓ **0.94**	0.31
Debt service cover, ratio	↓ **0.52**	0.11

Government support of R56 billion required to meet debt servicing requirements for 2021

- Results for 2021 expected to be worse than 2020, primarily due to the anticipated impact of COVID-19 on operations, particularly on sales
- Cash from operations remain insufficient to service debt without Government support
- Government support of R56 billion committed for 2021 to manage liquidity
- Most ratios maintain negative trend into 2021, however, return to profitability from 2023
- Corporate Plan assumes a cost-reflective tariff path

NERSA approved tariff as at 16 February 2021

CC

R'm	2020/21	2021/22
Standard tariff sales volumes GWh	184 898	183 856
MYPD 4 Standard tariff revenue	205 107	214 598
MYPD 4 decision- Average standard tariff price - c/kWh	110,93	116,72
MYPD 4 decision-Average standard tariff % increase		**5,22%**
MYPD 4 Standard tariff revenue	**205 107**	**214 598**
Add: MYPD 3 RCA's (Yr2 , 3 , 4)	7 776	7 776
Add: MYPD RCA (Yr5)	1 876	1 876
Add: Half of FY2019 RCA		6 636
Add: FY19 sup app & 3 RCAs for MYPD 3		6 036
Add: Implementation of execution order		10 000
MYPD 4 standard tariff revenue including RCAs	**214 759**	**246 924**
Average standard tariff price - c/kWh	116.15	134.30
Average standard tariff % increase		**15.63%**

NERSA to finalise the recovery from various customer groupings

Update on revenue and price decisions to be made

CC

Item	NERSA reviewed decision	Eskom Application	Amount Reviewed/ Application	NERSA reviewed decision	Status
FY 2019 revenue	✓		R5bn	R1.3bn	NERSA implemented in FY 2022.
FY 2015 -17 RCA	✓		R27bn	R4.7bn	NERSA implemented in FY 2022.
Recovery of incorrect deduction of Government equity	✓		R69bn	TBD	NERSA appealed decision in Supreme Court of Appeal. NERSA implemented R10bn in FY 2022. Recovery of R59bn to be determined by SCA
FY 2018 RCA	✓		R14bn	TBD	Court to determine hearing date
FY 2020 RCA		✓	R8bn	TBD	NERSA to approve. Eskom submission made on 11 Dec 2020

In conclusion

CC

- **On average**, Eskom requires Government **support of about R1 billion per week** in 2021. We regret the burden that this places on the fiscus, particularly in the current economic climate
- **Financial modelling** shows that with a significantly reduced **debt balance of R200 billion,** a cash balance of **R30 billion** and an EBITDA margin **of at least 35%,** Eskom would be in a position to achieve **independent financial sustainability**
- An improvement in operational performance will **positively affect financial results**
- **Cumulative cost savings of R62 billion** targeted by 2023 alone is not sufficient to improve Eskom's financial position
- **Government equity support is improving liquidity** by assisting with debt servicing, but will not resolve Eskom's financial viability and is an unsustainable solution
- The migration towards a **cost-reflective tariff is necessary** to cover our cost of capital and, combined with cost efficiencies and reducing debt levels, will restore financial sustainability

Contents

Overview of caseload as at 31 December 2020

NG

- ❑ As at 1 April 2017, A&F had 129 cases under active investigation and a further 16 new cases were carried over, on which investigations had not yet commenced. This is the base start date for reporting to SCOPA.
- ❑ Up to 31 December 2020, Eskom had registered a total of 707 new cases for investigation, while 511 investigations were completed. The latter number includes 398 cases related to new registrations since 1 April 2017, completed during this period. The balance relates to the old cases carried forward into FY17/18.
- ❑ As at 31 December 2020, there were 309 cases in various stages of progress under investigation

Balances	30/06/2020	30/09/2020	31/12/2020
Active cases at beginning of quarter	256	263	278
+ New cases added during the quarter	13	32	40
- Cases completed during the quarter	(6)	(17)	(9)
Active cases as at end of quarter	263	278	309

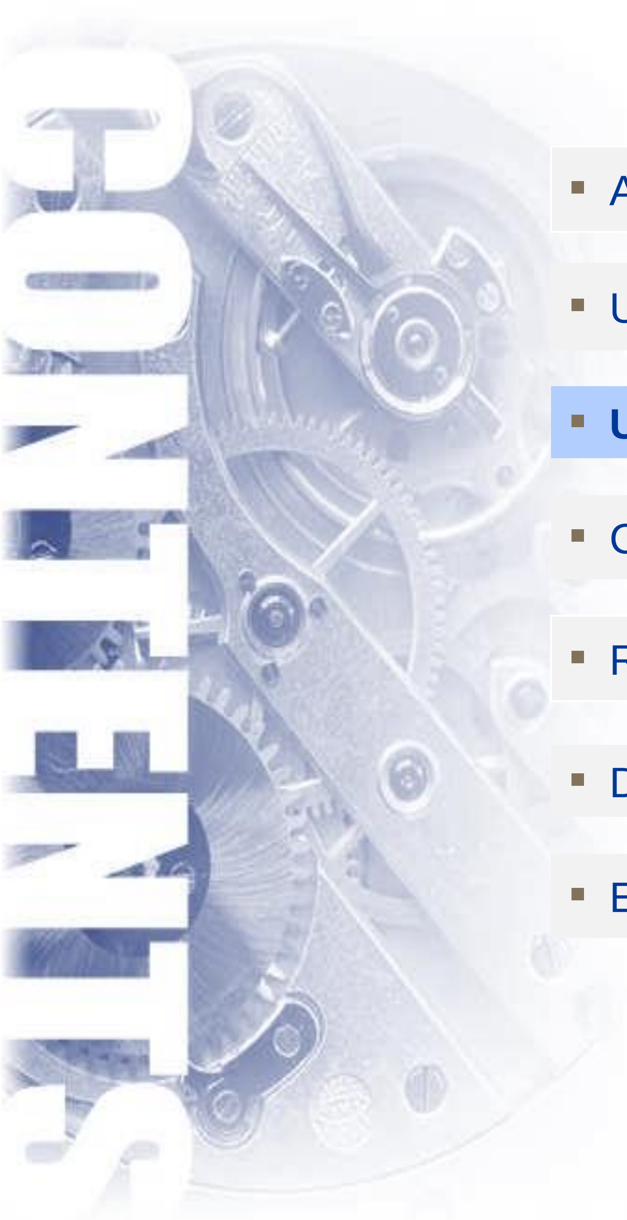
Cases referred to law enforcement agencies by Forensics

Eskom

NG

- As at **31 December 2020**, Forensic has in total recommended **84 instances** of criminal prosecution to SAPS
- Forensic registered **71 cases with SAPS**, while **13** are in the process of being registered
- **Five** of the registered cases have been **closed/completed by the SAPS**
- To date, **fifteen (15) matters** have been **referred to SIU / Hawks** for further investigation within their respective mandates.

Contents



Lifestyle Audits

(1/4)

Eskom

NG

Executives and senior management

- The **first phase of 383** mandatory lifestyle audits on executives and senior managers, and their partners where applicable, was completed. **34 high-risk cases** were handed over to the SIU for further investigation. **Seven of these (7**) resulted in no adverse **findings (closed), 8 resulted** in recommendations and referral to Eskom for disciplinary action and **7 employees resigned** during the process. **1 Eskom official was dismissed**.

- Apart from the above, A&F also conducted limited **data analytics testing on 73 SSE/PPE Executive Band grade employees** including fixed term contractors at this level i.e ("corporate/professional specialists"). **A total of 7 possible exceptions** were identified relating to non-disclosure of business related interests (5) and those who were flagged in certain SIU investigations (2). A detailed lifestyle audit, prioritising these exceptions first, will commence after the appointment of a service provider.

Managerial and bargaining unit employees

- A&F performed **a limited data analytics assessment** of all Managerial, Bargaining Unit employees and Fixed Term Contractors using internal sources of information for the period 1 April 2019 to 19 May 2020.
- It was established that **3812 employees at M, P, S, G, and T band grading levels**, **including Fixed Term Contractors (FTCs)** within the Eskom Group (3667 permanent employees, 145 contractors) **did not declare** any business related interests in their current DOI forms (answered "NO"), but according to Procure-check/CIPC records, **were active shareholders and directors** including the business status as being "active." (any general business interests).
- These employees did not apply for **permission to perform private work**.
- These anomalies indicate possible **non-compliances with Eskom's Conflict of Interest and Private Work Policies.** These exceptions account for **8,6%** of the total target employee population.

Lifestyle Audits

(3/4)

NG

Total of Eskom Exceptions	3812
Total Full Time Managerial Level Employees Exceptions	564
Total Full Time Bargaining Unit Level Employees Exceptions	3248

Lifestyle Audits

(4/4)

Eskom

NG

Employees with business interests in active Eskom vendors

- Three Eskom Group employees were **immediately referred to the Forensics Department** for further investigation, as the data results indicated that they had business-related interests in active Eskom vendors that were not declared in their latest DOI's. No supporting information was found to indicate that they had applied for permission to perform private work. Two employees' businesses had provided services to Eskom, and payments were made in this regard. The forensic investigations into these employees are ongoing.

Progress on consequence management

- The final report issued in **November 2020**, reported a total of **3799 exceptions referred to Management and Industrial Relations** for assessment of consequence management actions.
- **The difference** in exceptions referred of 3799 and those identified of 3812 relates to **employees who had left the employ of Eskom** during the intervening period.
- The Ethics office within Company Group Secretary is actively tracking and monitoring the closing out of exceptions. **Of the 3799** exceptions, **2656 have been dealt with and closed as at end January 2021** and a further 1143 cases are awaiting finalisation.

Contents

Consequence management: SIU investigations

(1/2)

EP

The progress on disciplinary action referrals received from the SIU:

- 3686 identified for disciplinary enquiry
- 1126 disciplinary enquiries completed
- 1241 disciplinary enquiries not required
- 1182 Below T09, no declaration required
- 6 Employees had declared
- 1319 disciplinary enquires outstanding

Disciplinary enquiries are being scheduled to complete outstanding cases.

The number of SIU reported cases do not correlate with the number of Eskom disciplinary enquiries:

- SIU reported cases refer to individual incidents differentiating between referrals from Lifestyle Audits as well as DOI Audits
- Eskom reporting on disciplinary enquiries are a combination of referrals per individual employee i.e. based on non-declaration of COI (from which both DOI and Lifestyle Audits contraventions emanate)

Consequence management: Forensic investigations (2/2)

As at 31 December 2020, Eskom Industrial Relations Department (IR) had registered 154 disciplinary cases emanating from forensic investigations:

- Of these, **143 had been completed**, and **11** are in progress
- The completed disciplinary cases resulted in **64 employees resigning** during disciplinary processes
- **26 being dismissed** as a result of fraud and corruption

Contents

Recovery of Financial Losses

(1/7)

NO

- **McKinsey**
  In 2018 Eskom recovered an amount of **R1 billion** from McKinsey.

- **Deloitte**
  In March 2020 Eskom recovered an amount of **R171 million** from Deloitte

- **Meagra**
  Eskom recouped **R3m** of the **R35m** from Meagra and we are pursuing the balance. The owner of Meagra and a former Eskom employee are facing **53 counts** of fraud and theft

- **ABB**
  In December 2020 Eskom recovered an amount **of R1,577 billion** from ABB

- **Brian Molefe and 11 others**

  - Eskom is pursuing civil action against a number of former Eskom executives to recover large sums of money lost as a result of State Capture.
  - **Combined summons** and particulars of claim **for R3,4 billion** were issued against the 12 defendants, with the SIU cited as co-plaintiff, on **3 August 2020.**
  - Of the **12 defendants**, we are only pursuing claims against the **7 former Eskom executives**, based on breach of fiduciary duties and contract.
  - In light of several notices and interlocutory applications having been filed by the defendants, the matter has been **placed under case management**, and a judge has since been appointed for this purpose. A meeting will be scheduled shortly.

Recovery of Financial Losses

(2/7)

Eskom

NO

- **Monies irregularly spent on behalf of senior executives and board directors for legal fees**

  Eskom has **instituted action to recover monies** previously advanced in respect of legal fees.

  - **R27 000** has been recovered from one ex-director
  - **One** ex-director **owing R500 000** entered into payment arrangement. This director has **defaulted on the payment arrangement** and default judgement has been applied for
  - **Three** ex-directors owing **R706 000; R595 000; and R201 000** respectively are defending the action. **A trial date** has been applied for these claims.
  - **One** ex-Executive **owing R70 000** is also defending the action. **Default judgement** has also been applied for against this executive

- **Impulse International**

  Two summons were served by Impulse (**R22 million to ERI and R61 million to Eskom Holdings**). Eskom is **opposing the actions**, and has also made an application requesting the **court to grant an order** declaring the contracts previously awarded to Impulse **unlawful and void ab initio, and that they be set aside.** Eskom is also requesting the court to order that it be **reimbursed for all payments made** to Impulse International pursuant to these contracts

Recovery of Financial Losses

(3/7)

NO

- ❑ **Tenova Mining and Minerals South Africa (Pty) Ltd**

  - ❖ Tenova initiated **Dispute Adjudication Board** (DAB) proceedings **against Eskom** arising from the engineer's rejection of certain claims, and claims **payment of an additional R339 million above the already paid R1.1 billion** on purported settlement agreements that Eskom alleges were not agreed to. The DAB will entertain certain preliminary defences first.

  - ❖ The **SIU is investigating the directors of the company** as it is suspected that they had colluded with Eskom personnel, through third party subcontractors.

- ❑ **Tubular Construction (P11A Air cooled condenser / Kusile)**

  - ❖ Tubular submitted an **ongoing delay and disruption claim against Eskom** in the amount of **approx. R240 million**. **Eskom successfully opposed** the claim at DAB, and they notified dissatisfaction. The **civil claims are dormant but the SIU is investigating**

  - ❖ **NPA has charged Tubular directors and ex-Eskom employees** with various fraud and corruption charges. Once further information is available, Eskom will consider the option of proceeding with a review application to have the contract set aside.

  - ❖ **Tubular** has since been **placed in liquidation**.

Recovery of Financial Losses

(4/7)

NO

Trillian

- Eskom instituted action against Trillian to **recover payment of approx. R600m** made on the pretext of Trillian being a supplier development and localisation partner to McKinsey.
- **Judgment was awarded in Eskom's favour**. Trillian's leave to appeal was refused, and it was **ordered to pay Eskom within five days** from 2 October 2019. **No payment was received.**
- Eskom launched **liquidation proceedings against Trillian** on 17 January 2020. Liquidators have been appointed and are working with SARS on the liquidation. Liquidation proceedings are underway.
- The inquiry in terms of section 417 of the Companies Act, 1973 commenced on 26 November 2020, **with the former CFO of Trillian giving evidence**. He will continue to testify when the inquiry recommences on 22-26 February 2021.

PwC

- Eskom **issued a letter of demand to PWC** in April 2020 demanding **repayment of the sum of R95m** that was unlawfully paid to PWC.
- PWC was contracted by Eskom **on a risk based contract to realize capex savings** on its generation projects. It has since been established that **Eskom paid PwC R108 million**, and court papers will be issued and served shortly.

Recovery of Financial Losses

(5/7)

Eskom

NO

- ***Stefanutti Stocks Basil Read (SSBR) – Estimated overpayment of R1bn***

  - **SSBR (P16)** put in claims for **additional preliminaries and general** (P & G) due to prolongation and stacking - working in multiple areas at the same time. These claims were not substantiated as required by the contract

  - The employer's representative and contracts manager at the time **(2015 to 2018)** made **interim payments to the contractor without the requisite substantiation**, this was done on the basis that they would conclude an overall "settlement agreement". There was no consistency or verification of the actual P & G's being paid on a monthly basis. The monthly payments varied between **R15m to R50m per month**

  - **No settlement agreement was reached** and in early 2018 the new project director **stopped the interim payments** that were being made. SSBR referred this action (non-payment) to the **dispute adjudication board** (DAB).

  - **Eskom successfully defended this adjudication** and is now in mutually agreed discussions with SSBR and the standing DAB about the process **to determine the actual claim entitlement**. Progress has recently been made in relation to the delay analysis between the contractor and Eskom experts.

  - **SSIJV (P28)** - during the execution of the contract, **certain compensation events** (CE's) were agreed and paid without the final measurements being done. The contractor has also submitted various other deemed accepted CE's claiming that the work was done and needs to be paid for at the contractor's CE values. **These disputes are currently in adjudication**

Recovery of Financial Losses

(6/7)

NO

❑ Econ Oil and Energy Pty (Ltd)

i) Overcharging Dispute

On **14 December 2020**, Bowman Gilfillan Attorneys provided Eskom with its Interim Report on the **quantification of overcharging** by Econ Oil in the amount of **approx. R1.2 billion** over a 5 year period (2012-2017). Eskom **instituted arbitration proceedings against Econ Oil** (through AFSA) on **17 December 2020** to recover this sum. **Econ has not yet complied with the AFSA rules** regarding payment of administration fees, proposals on the appointment of an arbitrator, and filing of its Statement of Defence. Should it not comply, the arbitration will still proceed and Eskom would be required to pay Econ Oil's share of the relevant costs, including AFSA's fee. If successful in the arbitration, these costs would be recoverable from Econ Oil in terms of the arbitration award.

ii) Set aside of tender Bid Corp 4786

- In a dispute regarding the validity of a contract for fuel oil between Eskom and Econ Oil, **Adjudicator Trisk** found that a contract existed between the parties. Eskom has **referred the matter to arbitration** in terms of the NEC 3 Supply Contract. Eskom denies that it concluded a contract with Econ, FFS Refiners and Sasol Oil pursuant to Bid Corp 4786, and has filed an application to **A)** stay the dispute resolution proceedings; to **B)** obtain an order declaring that Eskom did not enter into a contract with Econ, FFS and Sasol pursuant to the award of Bid Corp 4786, alternatively and in the event of the Court finding that a contract was concluded, the setting aside of the contract; and an order reviewing and setting aside the award of Bid Corp 4786.
- Presently Econ Oil is the **only party opposing the review** proceedings.

Recovery of Financial Losses

Eskom

NO

❑ Wilge Residential Development Project

- ❖ Eskom suffered fruitless and wasteful expenditure of **R840 million** arising from the Wilge Housing Project.
- ❖ **In 2019**, Eskom appointed **Bowman Gilfillan Inc**. (“Bowmans”) to investigate various allegations of **fraud, corruption and financial irregularities**, pertaining to, inter alia, the Kusile Power Station build project (Kusile). Part of their findings included **fruitless and wasteful expenditure** on the Wilge Project.
- ❖ **Also in 2019**, Eskom instituted **disciplinary action against the General Manager of Facilities** of which the Wilge Project is part. The disciplinary process was **concluded in January 2020** and the General Manager was found guilty and subsequently, **Eskom terminated his employment.**
- ❖ Eskom is quantifying the amount that can be recovered from the former employee.
- ❖ Eskom is **currently concluding disciplinary process** on an **additional implicated employee**, this process is at an advanced stage

Contents

- Annual Report FY 2019/20
- Update on Investigations
- Update on Lifestyle Audit
- Consequence Management
- Recovery of Financial Loses
- **Deviations FY 2020/21 Q1 -Q3**
- Expansions FY 2020/21 Q1-Q3

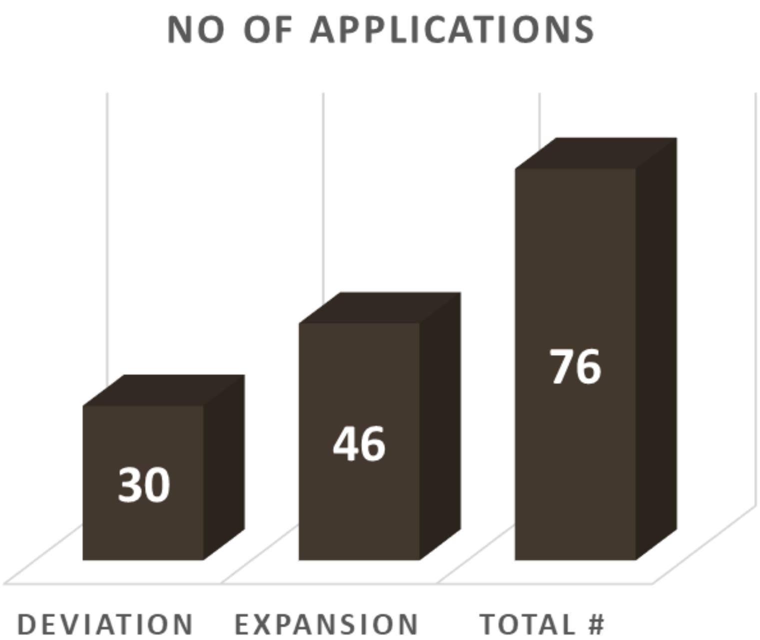
Overview to Expansions and Deviations

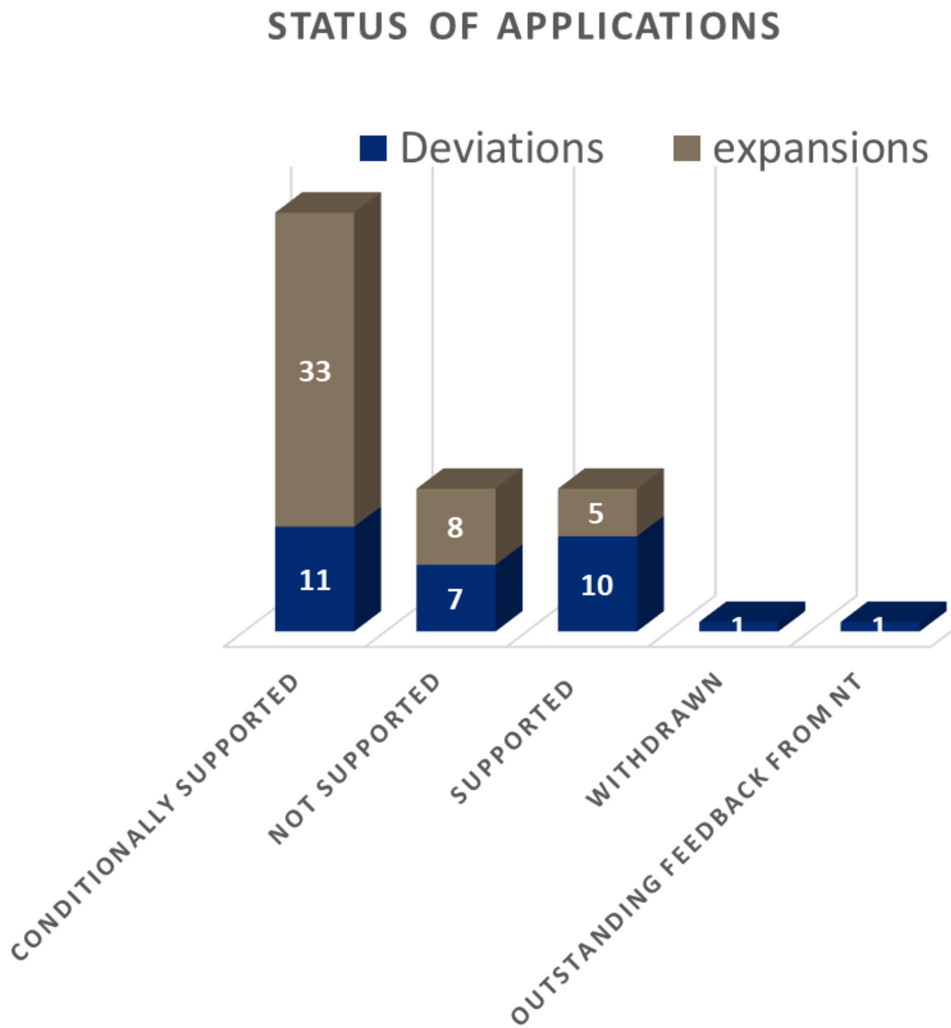
JS

- 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 as required

Eskom Deviations and Expansions requests to NT and status

JS





New contracts FY 21 – 1109
All open contracts FY 21 – 4034

Application as % of Total contracts
- Deviations 0.74%
- Expansions 1.14%

% Applications not supported
- Deviations 23.3% (0.19% of open contracts)
- Expansions 17.3% (0.17% of open contracts)

Deviations Not Approved - Quarter 1 Generation

PD

NT Ref. No	Project Description	Reason for Deviation	NT Response
72	Request for approval to solicit goods from a limited market for the manufacture, supply and delivery of air heater spares for Generation power stations **Supplier:** Balcke-Dürr Rothemühle GmbH & Howden Power **Contract Value:** R 172 500 000.00 for Rothemule spares R 80 500 000.00 for Quad sector spares for a 3 year contract 1st Deviation request	• Manufacturing, assembly and sub assembly drawings are covered under copyright and Intellectual Property protection and Eskom has no drawings or specifications to be able to issue a comprehensive tender to an open market	• Not supported.

NT Recommendation:

- Investigate Howden's conduct for supplying the spares and implementing design improvements even when they did not posses the required licenses.
- Must ensure that only service providers who posses the required licenses/accredited by the OEM for spares are approached on fair and transparent manner.

Action Taken:

While Eskom was reviewing and analysing the recommendations from National Treasury, Howden has acquired Balcke-Dürr Rothemühle since December 2020 (effective from 29 January 2021). Thus as per National Treasury response, Eskom did not implement a deviation from competitive bidding process to a confined market.

Brief summary:

With the acquisition of Balcke-Dürr Rothemühle by Howden effective from 29 January 2021, the request for sourcing from a confined market to National Treasury is no longer required. A feedback report to National Treasury is in process to close the request.

Deviations Not Approved - Quarter 1 Group Capital

Eskom

BN

NT Ref. No	Project Description	Reason for Deviation	NT Response
75	Single source for Services of an independent environmental control officer (ECO) to monitor conditions of the integrated environmental authorisation (IEA) for construction at the new Camden ash dam project **Supplier:** Leroy Building Construction **Contract Value:** R1 202 293.95	• Leroy Building Construction was resident ECO from June 2018 • Retaining the supplier (Leroy) will also ensure continuity whilst ensuring legislative compliance.	• Not supported.

NT Recommendation:

- Eskom had ample time to ensure that a competitive bidding process is conducted when the contract expired in December 2019.
- Follow a competitive process

Action Taken:

- Required services sourced via Eskom's Panel of Environmental Service Providers Contract**.**

Brief summary

Incorrect procurement mechanism followed instead of using Environmental Panel

New supplier appointed in January 2021 through the Environmental Panel

Deviations Not Approved - Quarter 2 Group Capital

BN

NT Ref. No	Project Description	Reason for Deviation	NT Response
73	Services for the completion of the construction of the new ash dam: phase 1, ash water return dams and auxiliary works at Camden power station **Supplier:** WBHO **Contract Value:** R212 996 854.40	• Appointing a new Contractor will delay the final completion of the project	• Not supported.

NT Recommendation:

- Eskom has an obligation to ensure that any contract for goods and services is in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.

Action Taken:

- Appealed the first time then issued a competitive enquiry to the market. Contract to be awarded by 01 April 2021.

Brief summary:

The new Enquiry was issued to the market.

Deviations Not Approved – Quarter 1 Primary Energy

Eskom

SN

NT Ref. No	Project Description	Reason for Deviation	NT Response
68	Request for approval to solicit services from a single source **to offload 6 trains stationed at various Transnet Freight Rail Sidings** • The deviation was for an estimated **amount not exceeding R2.18M incl VAT.** • The **initial contract duration and value are not applicable**. • The application dated **18 May 2020** was received by NT on **22 May 2020**. • National Treasury responded on **4 June 2020**	Approval was sought for the deviation for use of **a single source to negotiate a once off** agreement with **Makoya Supply Chain Holdings** facilities located at Highveld Industrial Park, for the offloading of 26 337 tons of coal that was loaded on 6 trains stationed at various Transnet Freight Rail (TFR) sidings	**Single source not supported.**
NT Recommendation: **Single source not supported but closed bid supported** by NT to be conducted for suppliers based in Highveld Industrial Park for offloading of coal.		Action Taken: The closed RFP was however issued to both suppliers as per the NT response. Sable did not respond and a contract was concluded with Makoya Supply Chain (Pty) Ltd.	

The **tippler incline conveyor structure and the 4 000 ton silo at Majuba were damaged** by a fire on 18 December 2019 and therefore **the 6 (six) trains could not be off loaded**. The trains cannot be returned to the mines because the mines do not have off loading facilities.

There are only 3 (three) rail sidings in South Africa with rotary tippler facilities capable of offloading the coal from these six trains. These sidings are at Highveld Industrial Park (Highveld), Richard's Bay Coal Terminal (RBTC) and at Majuba. **RBCT is located 386Km from Majuba** and Highveld Industrial Park is 178Km from Majuba.

Deviations Not Approved – Quarter 2 Primary Energy

SN

<table>
<tr><th>Project Description</th><th>Reason for Deviation</th><th>NT Response</th></tr>
<tr>
<td rowspan="2">NT Reference 80

Deviation to negotiate coal supply with a single source - contract with South32 (tied colliery for Duvha Power Station). Power Station life estimated to be 2034. Current contract is a 10Mtons per annum agreement

• Estimated value of the deviation for 14 years at 10Mtons per annum (incl. Vat) R66.98bn

• The current CSA is a 30-year contract ending on 31 Dec 2024, with an option to extend for 10 years

• The initial contract value was R11.4bn

• The CSA was modified 5 times

• The application dated 14 July 2020 was received by NT on 23 July 2020.

• National Treasury responded on 19 October 2020</td>
<td>Continuity of supply – Duvha Power Station (“Duvha”) was built with an adjacent long term tied colliery as the anchor supplier.

South32 has contractually declared hardship. Eskom appointed consultants to perform a hardship verification. As one of the outcomes of the hardship verification, in June 2020, the consultants recommended that Eskom engage South32 to enter into a new contract with a revised price. Eskom accepted the recommendation with due consideration to the availability of options. Accordingly, on 23 July 2020 Eskom submitted this deviation request to NT.

The deviation was to negotiate with the tied colliery to continue supply to Duvha until the end of Duvha’s life. Duvha’s stock yard reclaim capability is limited to only 3 units of the productive 5 units of Duvha because it was designed to receive coal from the adjacent mine. Therefore Duvha requires coal supply from the adjacent mine and cannot rely completely on the stockyard reclaim capability on a full time basis to meet full production requirements. NT declined Eskom’s application on the 19 Oct 2020.

On 25 October 2020, Eskom sent National Treasury an appeal letter related to the South32 single source deviation.</td>
<td>Not Supported. Eskom should test the market. Allow other suppliers to compete.

NT did not support the appeal, but rather supported the extension of the interim addendum by an additional 21 months over and above 9 months already granted (30 months in total) with conditions</td>
</tr>
<tr>
<td colspan="2">Eskom’s Actions: Post NT not supporting deviation and based on recent developments and the threat of the SAEC operations going into business rescue, Eskom is in the process of reapplying to NT for a modification of the existing agreement based on the capability of the mine. At this point and based on the assessment conducted at the mine by Eskom’s consultants, the mine will only be able to produce coal for the next 4 years. Eskom has gone out to test the market via RFP, however, this will not solve the reclaim capability constraint at Duvha. The RFP will be used to determine the long term coal supply options/solutions for Duvha Power Station.</td>
</tr>
</table>

Deviations Not Approved - Quarter 2 Nuclear

RB

NT Ref. No	Project Description	Reason for Deviation	NT Response
85	Request for approval to solicit services from a single source for the transfer of all generator and transformer protection functions to a new digital protection system **Supplier:** ABB **Contract Value:** R72 790 515.00	ABB South Africa (Pty) Ltd is the preferred service provider because of the existing engineering and maintenance knowledge base and experience at Koeberg Nuclear Power Station	• Not Supported. • This application will only be considered after a market analysis report is provided and after receiving evidence that other potential accredited service providers will not be able to render this service at Koeberg Nuclear Power Station.

NT Recommendation:
- Eskom should do a market analysis that includes all the accredited service providers.

Action Taken:
Further analysis was done, ABB is the OEM as captured in the Eskom Generation Standard and applied to other Power Stations

Brief summary:

The team applied the Eskom Generation Standard that supports the OEM

The team is currently awaiting the offer to then negotiate, feedback to be sent to National Treasury**.**

Contents

Eskom

Expansion Not Approved – Quarter 1
Group Capital

BN

NT Ref. No	Project Description	Reason for Expansion	NT Response
59	Request for approval to modify a contract (Mod. 7) for the Main Civils Works at Medupi Power Station. **Supplier:** Medupi Power Station Joint Venture **Original Approved Value:** R 4 160 325 176.00 **Accumulative modification value up to Mod.6:** R5 388 855 669.00 **Current Approved Value**: 9 549 180 835.00 **Mod. %:** 129	Extension of Time/ Disruption/ Access Delay Costs Increased Scope	• National Treasury does not support the expansion of an expired contract.

NT Recommendation:
- Eskom must conduct an assessment of elements of fruitless and wasteful expenditure on the costs incurred as a result of numerous design changes, delays in document review and approval times and take appropriate action.
- Furthermore, National Treasury does not support requests for approval of unknown scope as this is viewed as an abuse to the SCM Process.

Action Taken:
- Works were suspended on 01 November 2020 and Eskom is awaiting feedback from National Treasury as per Appeal Letter dated 07 December 2020.

Brief summary:
- Normal Scope of work continued post DCF date (31 January 2020) until 30 October 2020.
- Eskom and the Contractor are in engagement to sought an amicable agreement to end contract - 31 March 2021.
- Scope of Work is being finalized to go on open market. – target 01 April 2021

Expansion Not Approved – Quarter 1
Group Capital

Eskom

BN

NT Ref. No	Project Description	Reason for Expansion	NT Response
70	Response to query relating to approval to modify a contract for Unit Transformer System and Earthing Equipment for Kusile power station **Supplier:** Actom **Original Value:** R215 192 778.28 **Mod. Value: R0** **Mod. %: 0**	Continuity of service	National Treasury cannot support this extension. Eskom will continue to incur irregular expenditure until completion of the project due to non-compliance with paragraph 56 (a-h) of the Irregular Expenditure Framework.

NT Recommendation:

National Treasury (NT) cannot support this **time** extension. Eskom will continue to incur irregular expenditure until completion of the project due to non-compliance with paragraph 56 (a-h) of the Irregular Expenditure Framework

Action Taken:

A condonation process has been initiated and Eskom to consider the following options:

Termination and incur additional costs
Complete the works under the existing contract and continue incurring irregular expenditure up to completion of the legal contract.

Brief Summary:

On 24 October 2018, the Eskom Board approved **modification no.3** as follows:

- To increase the contract period by thirty (30) months from ninety one (91) months to one hundred and twenty one (121) months

NT granted a conditional extension of one month to 11 December 2018, subject to submission of additional information.
The additional information was not submitted to NT in time and the request was rejected on Appeal.

GC: Expansion Not Approved - Quarter 3 Group Capital

BN

NT Ref. No	Project Description	Reason for Expansion	NT Response
73	Modify Task Order 237A for the provision of safety, health and environmental services at Kusile PS project **Supplier:** Atvance Empowered Risk Management **Original Value:** R9 954 912.00 **Mod. Value:** R1 260 960.37 **Mod. %:** 12.7%.	• The reason for this modification is to ensure there is stability and no disruption on the current services provided; for managing the implementation of ISO 45001 management system by all contractors in order to maintain compliance and certification. Continuation of these services is required because five (5) Kusile units are not handed over to Generation. The existing task order expires on 26 November 2020.	National Treasury does not support the extension of an expired task order.

NT Recommendation: Eskom must go out on an open and competitive process to secure a service provider for the services.

Action Taken:

- Kusile demobilized the Atvance resources on 26 Nov 2020.

Current Status:

- The work was redistributed to other team members and to the additional engineering resources that were moved to the project.

Brief Summary:

A letter dated 24 Nov 2020, was submitted to National Treasury requesting for an approval to modify the existing task order with, Advance Empowered Risk Management, by 3 (three) months from, 26 November 2020 to 26 February 2021, and to increase the task order value by R1 380 000 (inclusive of VAT) for the provision of quality and/or inspection services. NT rejected the request

Expansion Not Approved - Quarter 3
Group Capital

BN

NT Ref. No	Project Description	Reason for Expansion	NT Response
60	Task Order 237B for the provision of quality and/or inspection services at Kusile PS project **Supplier:** Tivanathi Engineering (Pty) Ltd **Original Value:** R49 415 960.00 **Mod. Value:** R 7 258 620.60 **Mod. %:** 14.6%.	• The need to continue with the task orders is because five (5) units are not handed over to Generation. The inspection scope remains as per the original project scope until all units are handed over.	• National Treasury does not support the extension of an expired task order.

NT Recommendation:

Eskom must go out on an open and competitive process to secure a service provider for the services.

Action Taken:
Kusile demobilized the Tivanathi resources on 26 Nov 2020.
Work was redistributed to allow time to establish a new task order.
A new task order was requested from the current SHEQ panel of contracts for a 3 month duration to allow continuity of service and for an RFP to be issued to the market.
Kusile issued an RFP to the market for quality services for 25 months. The tender closed 28 Jan 2021 and the Evaluation is in progress, expected award is May 2021.
Current Status of Task Order 237b:

Closed.

Brief Summary: The deviation was to ensure there is stability and no disruption on the current services provided; for managing the implementation of ISO 45001 management system by all contractors in order to maintain compliance and certification. Kusile demobilized the Tivanathi resources on 26 Nov 2020. Also, it was to ensure there was sufficient time and money to conclude the current commercial process to replace the current contract. Current Status of Task Order 267. The Task Order is on Approval stage and will be presented to SPCC on 02 March 2021.

Expansions Not Approved - Quarter 2 Generation

PD

NT Ref. No	Project Description	Reason for Expansion	NT Response
45	Contract for conveying air quality improvement **Suppliers:** Mabro Engineering and Technical Services Pty **Contract Value:** R14 365 650.79 on a 12 month contract **Original Value:** R14 365 650.79 **Mod. Value:** R1 636 495.54 and 3 months time extension (on top of a 1st modification of 3 months time only extension approved internally in Eskom) **Mod. %:** 11% on Value and 50% on time	• Delays caused by the national lockdown and the additional scope variation to complete the project.	• National Treasury does not support ex-post facto approval.

NT Recommendation:

- National Treasury does not support ex-post facto approval.

Action Taken:

As the contract already expired, the market was tested through an open tender process to establish a new contract for the remaining scope.

Brief background:

The team went out on open tender process (RFQ) twice since the contract expired on June 2020, with the 1st tender process being non-responsive with no bids received.

Expansion Not Approved - Quarter 3 Transmission

SS

NT Ref. No	Project Description	Reason for Expansion	NT Response
66	Softmax Software solution for the supply and maintenance of support for the OPSX and Chartermax software system **Supplier:** Softmax Software solution **Original Value: R351 816.00** **1st Mod. Value: R42 408.00 Mod. 12.05%. Period: 4 months**	To allow sufficient time to finalise the commercial process to establish a new contract from an open tender process.	Not supported

NT Recommendation: Team should test the market	**Action Taken:** As the enquiry for the services was out in the market, the commercial process for the transaction was followed through, and new contract has been awarded

Brief summary: the OPSX and Chartemax Software is a system used by Eskom for Flight Operations Management tasks, such as flight scheduling, generation of quotations and monthly reports and reconciling aviation projects/jobsschedule and track Eskom helicopters. The contract was established through a single source approval by National Treasury in 2016 for a period of 36 months with an end date of 20 April 2020. An Expression of Interest was issued to the market on 24/10/2019 in support of NT's instruction to test the market. There were delays in issuing the tender to the market, which was done on 25 March 2020. There was a resulting need to modify the existing contract. Approval for 4 months and for R42 408.00 granted internally on 25 March 2020. The modification request to National Treasury was received on 22 April 2020, two days after the contract had expired. National Treasury declined the request and advised the team to go to the open market. Enquiry process was finalized and awarded.

Expansion Not Approved - Quarter 3 Transmission

SS

NT Ref. No	Project Description	Reason for Expansion	NT Response
67	Provision of civil works at Merensky and Witkop substation. **Supplier:** Machite Engineering **Original Value:** R8 495 934.t8 **1st Mod. Value:** R4 603 289.52, time: none **2nd Mod: Value:** R823 415.39, time: 6 months **Cumulative value of Mod:** 63.7%	The project was dependent on outages and due to system constraints, the outages were delayed and/or cancelled, leading to delays in the execution of the remaining 20% scope of the scope of work.	Not supported

NT Recommendation:

- Team should test the market.

Action Taken:

- Eskom has complied with NT decision.
- The market was tested through existing Civil Works Panel.

Brief Summary:

The civil works contract for Merensky and Witkop substation was approved on 13 December 2016 with a contract commencement date of 22 January 2017 and ending on 21 January 2020 at a contract value of R7 452 574.37. the contract was modified twice (x2). 1st Mod was for money (R4 603 289,52) and was approved on 22 March 2018. The 2nd Mod was for money (R823 415,39) and time (additional 6 months requested). The request to modify the contract with National Treasury was on the second modification and was submitted to NT on 18 April 2020 and received on 19 April 2020. National Treasury declined to approve the modification on the basis that the 1st modification which was supposed to be submitted for approval did not reach National Treasury. The reasons why the first modification was not submitted was because of the "and/or" rule on modifications provided for in the Eskom Procurement and Supply Chain Management procedure. The mod was not pursued and the condonation process was followed.

Expansion Not Approved - Quarter 3 Transmission

SS

NT Ref. No	Project Description	Reason for Expansion	NT Response
68	Construction of a new 100/132 Kv Terrace at Komsberg MTS substation for IPP Integration **Supplier:** Rigamani Construction (Pty) Ltd **Original Value:** R91 140 481.42 **Cumulative Mod. Value:** R32 652 298,57 **Cumulative Mod. %:** 55,76%	To implement the Adjudicator's decision award in favour of the Contractor which is enforceable under the NEC contract.	Conditionally approved

NT Recommendation:
- Eskom is advised to submit a variation request to National Treasury when the dispute resolution process is finalised.

Action Taken:
- ❑ Eskom is taking the matter to arbitration after the adjudications' ruling.
- ❑ Once finalized the matter shall be closed & feedback will ne provided to National Treasury.

Brief Summary:
This transaction was a Task Order to the supplier from the Civils Panel. The first modification on the Task Order was for value only for R18 194 984,21 (Ex Vat). The second modification was for time only, 1 month time only. The third modification request was for 21 days (time only). Mod No4 was for R14 557 314,36 (ex Vat), no time requested. The request to National Treasury for approval of the modification was submitted on 27 June 2020 and response received on 15 September 2020. **The approval was conditional** and Eskom was requested to submit a variation request when the dispute resolution process was finalized.

Expansion Not Approved - Quarter 1 Transmission

SS

NT Ref. No	Project Description	Reason for Expansion	NT Response
58	Legal services for Medupi Borutho Line **Supplier:** Gildenhuys Malatji Inc **Original Value:** R1 150 000.00 (Incl. Vat) **Mod.1: Value:** Nil, time: two months Mod 2: Value: Nil, time: 12 months Mod 3; Value, nil, Time: 09 months **Cumulative Mod. Time:** 23 months **Cumulative Mod. % Time:** 192%	Continuation of services with the originally appointed legal firm as the matter had not yet been fully resolved and the appeal process was still pending	Not approved

NT Recommendation:
Modification request was rejected by National Treasury as it was received after the contract expiry date

Action Taken:
Eskom is pursuing a different procurement mechanism to access legal services to see this transaction to completion.

Brief Summary:
This transaction was for the resolution of a dispute between Eskom and the Contractor (Instalaciones Inabensa) appointed for the construction of the Medupi Borutho line. Eskom terminated the contracts for Medupi Borutho Sections A and B line and applied for the release of the performance guarantees with the supplier's Guarantor (Sanlam). The supplier filed an urgent interdict to the request and to oppose the interdict, Gildenhuys Malatji Inc attorneys were appointed on 17 August 2018 for 12 months. The contract with the legal firm was for a year for R1 million (excl VAT). The contract has been modified two (2) times for time only, and it was rejected by NT on modification number 3, which was also for time. The contract expiry date was 17 October 2020. The submission was received by National Treasury on 21 October 2020. National Treasury advised that it cannot extend an expired contract. Eskom will be pursuing a single source application to National Treasury to mitigate the risk of wasteful and fruitless expenditure and increased costs as a result of the appointment of a different service provider without a background to the transaction.

Conclusion

JS

- 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 take place
- It has been agreed that regular feedback will be provided to ExCo and Board

Conclusion

Back-up Slide

- **Nova Allegation**

Summary of Events on NOVA Allegation

- NOVA raised concerns since May 2020, the latest concern being 1 October 2020 to Eskom and National Treasury **re: Serious flaws regarding PSCED0136 with health and quality of life implications**

- The requester, NOVA (Dr Murray), involved numerous personnel of position on this issue and continues to escalate, though concluded.

- **PAIA request:** Eskom dealt comprehensively with the request for records and the allegations. Eskom CPO responded on the PAIA request and subsequently conducted an **Eskom internal A&F audit** related to the issues at hand. The PAIA request was responded to in full, and where clarity was required, this was dealt with.

  - On 11 September 2020 the CPO responded to NOVA (Dr Murray)'s email dated 13 August 2020.

  - On 1 October 2020 the GCE responded to NOVA (Dr Murray's) email dated 15 September 2020.

  - On 29 January 2021 the CPO responded to National Treasury, letter dated 24 December 2020.

- **After the internal audit**, Eskom also appointed an **external** company (Morar) to conduct an **audit on this transaction**. The forensic report conducted by Morar incorporated and reviewed Eskom's internal A&F report. The audit was concluded on 28 January 2021.

- The **outcome** of the audit report indicates that NOVA's allegations were unfounded.

- **The CPO responded to NOVA & National Treasury**, stating that these allegations were unfounded. NOVA received the response.

Summary: Eskom followed the PAIA procedure at the time and concluded on the issues and concerns raised by NOVA. Eskom responded to NOVA on several occasions. The court provides recourse should NOVA wish to pursue. Allegations have been dealt with and no wrong doing on the part of Eskom and its officials concerned were found. NOVA (Dr Murray) can approach court should he wish to do so.