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# **FLOW OF FUNDS**

## **EXHIBIT VV 8**

ALEXANDER  
WEISS



**JUDICIAL COMMISSION OF INQUIRY INTO ALLEGATIONS OF STATE CAPTURE,  
CORRUPTION AND FRAUD IN THE PUBLIC SECTOR INCLUDING ORGANS OF STATE**

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STATEMENT OF DR ALEXANDER WEISS



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**STATEMENT OF DR ALEXANDER WEISS**

for the purpose of the

**JUDICIAL COMMISSION OF INQUIRY INTO ALLEGATIONS OF STATE CAPTURE,  
CORRUPTION AND FRAUD IN THE PUBLIC SECTOR INCLUDING ORGANS OF STATE****Introduction**

1. I am a Senior Partner in the Berlin office of McKinsey & Company ("McKinsey"). I serve utilities globally for McKinsey's Electrical Power and Natural Gas Practice. I have been employed by McKinsey since September 2000, and hold a PhD in Civil Engineering and a PhD in Business Administration. During the period of July 2013 to July 2017, I served as Co-Lead of McKinsey's Client Service Team ("CST") at Eskom Holdings SOC ("Eskom").
2. This statement is intended to provide the Commission with information relating to my recollection of McKinsey's work at Eskom, including but not limited to the period of January 2015 through February 2017.
3. At the outset, I confirm that I worked with Eskom for many years, and never witnessed or otherwise became aware of any bribery or corrupt activities during that time, by either individuals at Eskom or by my colleagues at McKinsey.
4. I would also emphasize that while Eskom faced many challenges, I believed strongly that McKinsey could help Eskom restore a reliable power system to South Africa. I became personally invested in working to help Eskom, and South Africa, succeed. I believed that through our hard work with Eskom, McKinsey could help make a real difference in the lives of the people of South Africa.
5. If McKinsey's work involving Regiments and Trillian in any way made it possible for corrupt individuals to steal money from the people of South Africa, this was unknown to me at the time, was contrary to our efforts to assist South Africa, and is personally painful to me to learn now.
6. This statement sets out my recollection and understanding of events at the time they occurred. The facts described herein are within my personal knowledge unless otherwise indicated, and are true and correct to the best of my knowledge and belief. As significant time has passed since many of the relevant events occurred, my memory may be limited, inaccurate, or incomplete, but I have endeavored to recollect the relevant circumstances as completely as possible.

7. This statement has been prepared voluntarily to assist the Judicial Commission of Inquiry (the "Commission") in relation to its investigation. This statement supplements and amends my April 2019 statement, following a request by the Commission to address certain topics not discussed in my April 2019 statement.

**McKinsey's Work at Eskom (2005 – 2015)**

8. I began working on consulting projects at Eskom for McKinsey in 2005, after developing expertise in power utilities and capital productivity through my PhD programs and work experience. Between 2005 and 2015, I worked on projects at Eskom related to strategy, operations, logistics, capital expenditures, capital productivity, and construction. Over time, Eskom became a significant share of my client portfolio. Although I am a German citizen and am based in McKinsey's Berlin office, I frequently traveled to South Africa and to Eskom facilities. During some periods, I made weekly trips from Germany to South Africa to work with Eskom.
9. McKinsey worked with Eskom throughout the period between 2005 and 2015, in some years more than others. The institutional knowledge of Eskom that McKinsey developed during this time was particularly valuable given the frequent turnover of senior executives at Eskom. By mid-2015, I had worked at Eskom under more than a dozen CEOs and CFOs. Our mission was to help Eskom as an organization, not to serve the personal interests of any particular individuals.
10. Because McKinsey had deep institutional knowledge of Eskom as well as significant expertise on energy and electricity-related issues from our work globally, when a new executive management team joined Eskom we often helped onboard the team, who in some cases did not have prior experience at Eskom or in the energy industry. We provided in-depth information on subjects such as Eskom's organizational health and challenges, results achieved through prior projects, and proposed priorities to consider. We provided this extensive insight and analysis at no additional charge to Eskom.
11. Between 2005 and 2015, McKinsey also devoted significant resources to programs designed to enable Eskom to become less reliant on external consultants, including McKinsey. In particular, the "Top Engineers" program started in early 2013. The program increased Eskom's ability to internally execute projects that they otherwise would have outsourced. By 2015, McKinsey had recruited and trained two cohorts of Eskom Top Engineers—skilled Eskom internal technical consultants who were deployed across the business and led Eskom project teams. Each Top Engineer received a year of training (partly on McKinsey's premises) and access to valuable McKinsey intellectual property. **Annexure AW1 Mandate to Negotiate.**



### Challenges at Eskom as of 2015

12. By the end of 2014 and beginning of 2015, South Africa was experiencing severe load-shedding due to operational issues at Eskom. Eskom was running an unplanned capability loss factor of 25% across its fleet of power stations, which meant that one-quarter of the fleet's generation capacity was being lost due to unplanned shutdowns, load reductions, or unplanned extensions of scheduled outages. The energy availability factor ("EAF"), which measures output as a percentage of potential capacity, of key power stations had fallen significantly. Frequent and widespread power outages affected day-to-day life and also jeopardised South Africa's economic prospects. At that time, McKinsey had worked at Eskom for many years and knew the company very well, and we felt a sense of duty to help. McKinsey therefore provided emergency support to Eskom at no charge. **Annexure AW2 Proposal: Offering Eskom our Pro-Bono Support.**
13. In early 2015, Eskom was in a precarious financial position and continued to experience frequent turnover of senior executives. When Mr Brian Molefe (CEO) and Mr Anoj Singh (CFO) began to transition to Eskom from Transnet SOC Ltd. ("Transnet") starting in mid-2015, first on secondment and then permanently, they did not have prior experience working at Eskom or in the energy industry. To help Mr Molefe and Mr Singh succeed in leading Eskom during this difficult time, my colleagues and I provided extensive insight and analysis to assist senior management, as we had done in many prior leadership transitions. As in the past, we did not charge for this advice. I personally had not worked with Mr Molefe or Mr Singh before.
14. During this onboarding, McKinsey also provided additional advice over a two-month period for Mr Singh, without charge. Our objective was to determine what performance improvements would enable Eskom to keep electricity price increases below inflation, while also ensuring the security of South Africa's electricity supply and restoring Eskom's investment-grade credit rating. The financial component of this work was performed by Regiments Capital ("Regiments").
15. The concept developed during Mr Singh's onboarding was later developed in further detail and incorporated into the annual Corporate Plan that Eskom was required to submit to South Africa's Department of Public Enterprises by March 2016.

### Eskom Proposal of the At-Risk Fee Structure

16. Around late 2014 or early 2015, Eskom approached McKinsey about training a third cohort of Top Engineers. While the program had been very successful, we understood that Eskom would not be able to fund another cohort. At Eskom's request, in late January 2015 my colleagues and

I prepared a proposal in which McKinsey would train a third cohort of Top Engineers, and Eskom would only pay McKinsey for the training if Eskom realised savings from certain procurement projects on which McKinsey worked. **Annexure AW3 Proposal: Rapid Realisation of Procurement Savings.** My understanding is that the Eskom board was receptive to approving the program if the payments were in fact based on savings realised by Eskom. However, Eskom did not move forward with the third iteration of the program at that time.

17. Around May 2015, McKinsey began to discuss the possibility of a larger “turnaround” program with Mr Molefe, Mr Singh and others at Eskom. We eventually agreed with Eskom to conduct this larger turnaround program in conjunction with the Top Engineers program, and to train a greater number of Top Engineers than previously discussed.
18. Eskom requested that the entire program be funded on an impact or “at-risk” basis. Whether and to what extent impact had been achieved, and therefore whether payment was owed by Eskom to McKinsey, would be determined through a validation process that would involve determinations by both Eskom and McKinsey. While it was possible for McKinsey to earn substantial fees over the course of the three-year contract, those fees were contingent upon achieving measurable, validated success in improving Eskom’s performance and reducing its costs. In other words, McKinsey would only be paid a portion of the benefit that it achieved for Eskom.
19. Once we started work under the Turnaround Programme with Eskom in early 2016, McKinsey dedicated significant resources to address Eskom’s immediate challenges, with no guarantee of ever being paid. At the peak of our engagement, there were approximately 130 McKinsey consultants working on the ground at Eskom, with many more working at the back office to support the Turnaround Programme.
20. I had supported working on the Turnaround Programme on an at-risk basis because I believed McKinsey was doing crucial work and could help Eskom improve its performance. However, this arrangement created a significant risk to McKinsey as a firm and to me personally as the Co-Head of the Eskom CST. For instance, we would be paid for our work on the power stations only if we increased availability of power by a required amount. Since the power stations had experienced systematic deterioration in availability over a period of more than five years, it was uncertain whether we would achieve sufficient availability increases to earn payment. This was a huge risk for McKinsey and it also put significant pressure on the project teams on the ground.



21. My colleagues and I were aware prior to the start of work on the Turnaround Programme that National Treasury approval might be required, and discussed this with several individuals at Eskom in late 2015. Eskom explicitly told us that they had secured approval from the National Treasury. Indeed, minutes of a 9 February 2016 Turnaround Programme Steering Committee meeting attended by myself and numerous representatives from Eskom and McKinsey reflect that Eskom confirmed at the meeting that approval had been obtained. **Annexure AW4 Steering Committee Meeting Minutes, 9 February 2016.**

**Extensive Negotiation of the Turnaround Programme**

22. Together with McKinsey's in-house counsel and a McKinsey risk director, I led the firm's negotiations with Eskom for the Turnaround Programme. McKinsey was also represented at the negotiations by several McKinsey partners who worked on the Eskom CST. The negotiations began in July 2015 and were largely completed around October 2015. **Annexure AW1 Mandate to Negotiate; Annexure AW5 Report to the ExCo Procurement Sub-Committee (EXCOPS), 2 October 2015.** Negotiations on the final workstream took place in November 2015.
23. Eskom was represented at these sessions by its lead negotiator, several other employees, and its own in-house counsel. Both McKinsey and Eskom also brought in subject-matter experts as needed — for instance, when we negotiated the Generation workstream, a number of Eskom employees who worked in Generation participated in those sessions. Additionally, personnel from Regiments participated in negotiation sessions with Eskom in November 2015 with respect to the Balance Sheet workstream, which they were expected to execute alone given their finance expertise. Though I had not worked with Regiments prior to mid-2015, I understood that several of my McKinsey colleagues had worked with them for a number of years at Transnet and were familiar with their work.
24. We conducted approximately 30 full-day negotiation sessions at Eskom's headquarters, meeting one to two days per week from July 2015 through September 2015, with two additional negotiation days in November 2015 regarding the Balance Sheet workstream. Around October 2015, the McKinsey and Eskom negotiation teams had reached agreement on nearly all material provisions of the Turnaround Programme.
25. I understand that Eskom submitted the results of the negotiations to its senior management and its board, both of which confirmed the engagement in October 2015. Eskom formally accepted our proposal and the negotiated terms and conditions of the Turnaround Programme in a letter

of acceptance dated 17 December 2015. **Annexure AW6 Letter of Acceptance, 17 December 2015.**

26. The negotiations we conducted with Eskom were lengthy, hard-fought arm's-length commercial negotiations with multiple representatives present from both sides. Eskom asked many questions and was a tough counterparty. For example, both sides vigorously negotiated the baselines and methodology that would be used to calculate impact, as well as what percentage of those impacts McKinsey would earn as fees.
27. McKinsey was forced to make numerous concessions to Eskom in order to reach agreement. For example, McKinsey agreed to lower payment rates for projects with recurring impacts, which significantly reduced the total fees McKinsey could potentially earn over the three-year period anticipated in the contract.
28. During the course of negotiations and before work started under the Turnaround Programme, my team and I repeatedly consulted with internal risk committees at McKinsey regarding topics such as negotiation status, the scope of the program, forecasted fees, the calculation of impact payments, and standard risk-mitigation measures for working with supplier development partners ("SD&L Partners") in general and Regiments and Trillian specifically on a project of this scale and complexity. As part of these internal McKinsey discussions, we agreed that we would go forward with the project and conduct diligence of Trillian prior to contracting with them.
29. With the Letter of Acceptance in place, we had a signed agreement between Eskom and McKinsey and we began work on the Turnaround Programme in January 2016. At the same time, we continued to work to finalize the Services Level Agreement (SLA). Despite McKinsey's efforts, Eskom delayed signing the SLA. I eventually received the signed SLA from Eskom in late September or early October 2016. By then, Eskom had terminated the Turnaround Programme and had compensated McKinsey for our work. At that time, I did not expect that McKinsey would receive any additional compensation from Eskom.
30. The SLA that I received was signed on behalf of Eskom as of January 7, 2016. After consulting with in-house counsel regarding the SLA, I signed the SLA on behalf of McKinsey as of January 11, 2016, which was the approximate date that McKinsey began work on the project. I understood that Eskom's preference was that the SLA be signed as of the effective date, which was the date that we began work. I regret any confusion that this may have caused.



### **McKinsey Did Real Work and Obtained Real Results for Eskom**

31. As explained above, by late 2014 and early 2015, South Africa was enduring significant load-shedding. Eskom's power stations had not been maintained properly and were breaking down, and operating staff was often inadequately trained. McKinsey provided emergency support to Eskom at no charge to address some of these challenges — we viewed it as a chance to support Eskom on important work. **Annexure AW2 Proposal: Offering Eskom our Pro-Bono Support.**
32. Additionally, McKinsey invested substantial resources in undertaking the Turnaround Programme at Eskom in part because we recognised the importance to South Africa of helping Eskom operate more effectively. McKinsey remained fully committed to Eskom's success — and thus the success of South Africa — even after Eskom informed us in June 2016 that their board had decided to terminate the Turnaround Programme. We performed work for Eskom at no charge during this period, including working at Eskom's power stations until August 2016 and at its cost-plus mines until November 2016, and supporting the Top Engineers program until July 2017.
33. The work we did at Eskom in 2015 and 2016 — before and during the Turnaround Programme — had a real, visible impact on Eskom's operational performance and on South Africa in a short period of time. One area in particular that demonstrates the impact McKinsey had in unlocking Eskom's potential was with respect to the availability of electricity, something Eskom had struggled with for many years and indeed again struggles with now. By mid-July 2016, Eskom had continued to avoid load-shedding and even had surplus capacity. Its fleet-wide EAF had increased to over 75%, from less than 70% a year prior. Unplanned failures at the Majuba station were cut by more than half, from 19% to 8%. **Annexure AW7 Top Consultant Programme – MSA Update and Process Going Forward.**
34. The trend of improved Generation performance continued well into 2017 and beyond. Majuba became a top-performing station in Eskom's fleet, and fleet-wide performance continued to improve. Eskom avoided significant load-shedding until June 2018, nearly two years after the Turnaround Programme was terminated. I believe that if the Corporate Plan that McKinsey developed with Eskom had been fully implemented through the complete, three-year turnaround program that was envisioned, Eskom would have been in a stronger position operationally and may have avoided the serious challenges that it currently faces.
35. In addition to improvements in power availability, the work that McKinsey did at Eskom had a substantial impact on Eskom's financial health, which was in a precarious condition in 2015. As



one specific example of this impact, McKinsey helped Eskom achieve between September 2015 and September 2016 a 1.5% decrease in primary energy costs, which had increased by an annual average of more than 18% in the previous five fiscal years. More broadly, work done under the Turnaround Programme resulted in cost savings to Eskom of more than R8 billion.

**Annexure AW8 Eskom Group Reviewed Interim Results Six Months Ended 30 September 2016.**

36. McKinsey's work under the Turnaround Programme also helped further develop Eskom's human capital. The Top Engineers program provided opportunities for more than 30 Eskom engineers to develop valuable professional management consulting skills, receive one-on-one coaching from senior McKinsey colleagues, and work on high-impact, top-priority projects. These engineers could then lead projects that Eskom would have otherwise outsourced to external consultants. McKinsey also provided leadership training to power-station managers, and revived much-needed technical trainings for station operating staff. **Annexure AW7 Top Consultant Programme – MSA Update and Process Going Forward.**

**Introduction to Regiments/Trillian at Eskom and Subsequent Dealings with Regiments/Trillian**

*Introduction to Regiments at Eskom*

37. I first recall being introduced to Regiments around mid-2015, through my work at Eskom. I understood from colleagues that Regiments had worked extensively with McKinsey at Transnet for a number of years, including when Mr Molefe and Mr Singh were employed there.
38. As discussed above, when Mr Molefe and Mr Singh transitioned from Transnet to Eskom in mid-2015, Regiments worked with McKinsey on a two-month project that arose out of the CEO/CFO onboarding. I understood that Regiments was an established firm and had relevant expertise on the financial and balance-sheet aspects of the project, and thus was well-equipped to lead that portion of the project. I was aware of the project but had limited personal involvement in it, and thus limited interaction with Regiments at that time.
39. I also understood from my colleagues that McKinsey had previously undertaken a due diligence review of Regiments while working with them at Transnet, and was comfortable with the team involved in the work at Eskom.

*Mid-2015 Work with Regiments at Eskom*

40. McKinsey presented the model developed during the two-month project to Mr Singh around July or August 2015, and was asked to support Eskom in writing its annual Corporate Plan based on the model. Though McKinsey had not previously been engaged to provide support to Eskom in writing this annual submission, I believe the model was representative of the extensive institutional knowledge we had of Eskom, and that Mr Singh recognised the importance of such existing knowledge during a period of great challenges for Eskom, when a sound Corporate Plan was urgently needed.
41. We wrote a proposal, and the letter of acceptance we received from Eskom specified that McKinsey was required to engage an SD&L Partner. Given Regiments' financial modeling capabilities and work on the previous project, which formed the basis of the Corporate Plan, we envisioned Regiments as the SD&L Partner for the Corporate Plan project.
42. As explained further below, in October or November 2015 we learned that a Regiments partner with whom we had worked on the two-month project was planning a spin-off of the management-consulting arm of Regiments, which would ultimately result in the creation of an entity called Trillian Management Consulting ("Trillian"). We did not have a formal subcontracting agreement for the Corporate Plan, but we worked alongside Regiments/Trillian, who provided the financial component of the modeling required for the Corporate Plan.
43. While McKinsey was working with Regiments/Trillian on the two-month modeling project and the subsequent Corporate Plan, negotiations with Eskom for the Turnaround Programme were ongoing. I understood that an SD&L Partner would be required, and that Regiments/Trillian might become the SD&L Partner for the Turnaround Programme.
44. I understood from my McKinsey colleagues that Mr Singh had spoken positively about engaging Regiments at Eskom based on his experience with their work at Transnet. It was not unusual in my experience for executives to develop opinions on particular firms based on the work that they did, and to seek to engage firms that had performed well for subsequent projects. Additionally, as I noted above, I understood from my colleagues that Regiments had relevant expertise with financial modeling. I did not have any understanding, never heard any suggestion, and never saw any indication that Regiments or Trillian was suggested by Eskom so that it could be used to make improper payments to third parties, or for any other corrupt purpose.

#### *Regiments/Trillian Transition*

45. As discussed above, around October or November 2015, we learned that a Regiments partner, Dr Eric Wood, was in the process of buying out the management-consulting arm of Regiments



from his business partners, and would spin it off into Trillian. At that time, Regiments was already working on the Corporate Plan and McKinsey was finalizing the Turnaround Programme with Eskom, which envisioned Regiments as McKinsey's SD&L Partner. Though my personal interactions with Regiments were limited at that time, I understood that many consultants then at Regiments would move over to Trillian with Dr Wood, and conduct the same management consulting business under the Trillian corporate name. Thus, McKinsey would continue working with essentially the same consulting team after the spin-off of Trillian from Regiments. McKinsey's internal committees raised no concerns in relation to Dr Wood, with whom McKinsey had worked for several years during his time at Regiments.

46. I understood that an SD&L Partner was required by Eskom. I also recognised the important value in building up local firms through the SD&L program, and had previously worked on McKinsey engagements at Eskom with SD&L Partners. For example, the firm Letsema had acted as our SD&L Partner on a number of projects with Eskom. In anticipating partnering with Regiments, and eventually Trillian, I understood that McKinsey would work to build up the capabilities of a local firm while together doing work that Eskom needed. We anticipated providing professional coaching and working side-by-side with our SD&L Partner, on real work.
47. Although Trillian was a new company and still establishing itself as of late 2015 and into early 2016, I understood it to be a genuine company that did real work as its predecessor company had reportedly done. From my early interactions with them, I understood that Trillian was eager to get started on work. However, because they were still building their company, they would initially need to rely on subcontractors to secure sufficient staffing. In order to build up internal staffing, I understood that Dr Wood planned to bring current Regiments employees to Trillian and do additional hiring. He also brought in two executives from another company, Anglo-American Plc, to help manage Trillian.

*McKinsey Anticipated Working with Trillian*

48. In late 2015, there was a great sense of urgency at Eskom to begin our work on the Turnaround Programme, given the significant and serious challenges that Eskom faced. At the same time, I understood that Regiments was a known partner that had worked with my colleagues for many years, and that Trillian would be a spin-off of Regiments with much of the same team. Given these considerations, I believed that it was prudent to prepare to work with Trillian and start delivering results to Eskom as soon as possible, in anticipation of Trillian becoming our SD&L Partner. I fully expected that Regiments/Trillian would perform real work, and ultimately saw that

they did perform real work. Moreover, I had no understanding or belief that anyone intended to use these companies to make corrupt payments.

49. In addition, my Eskom CST colleagues and I continued to engage with McKinsey's risk committees in November and December 2015, keeping the committees informed of our progress and seeking recommendations and best practices for mitigating risks related to working with SD&L Partners.
50. In preparation for starting work on the Turnaround Programme, my colleagues and I drafted a potential fee table, which was based on forecasts of the program's total impact over the course of the complete three-year program. Eskom would only pay these impact-based fees in the event that the entire Corporate Plan was successfully implemented through the Turnaround Programme. Consistent with the SD&L requirement formulated by Eskom, the fee table calculated that 50% of the total impact fees would be allocated to work done by an SD&L Partner by the end of the three-year period. **Annexure AW9 Draft Table of Potential Fees, December 2015.**
51. In December 2015, my colleagues and I had a series of discussions with Dr Wood and other individuals at Trillian. Included among the topics addressed were McKinsey and Trillian's roles on different workstreams of the Turnaround Programme, plans for professional development of Trillian consultants, and the proposed division of the impact-based fees that were forecast at that time.

#### *Ownership Questions and Due Diligence*

52. At the same time, I understood that it was necessary to confirm, as part of our diligence, that Trillian was black-owned as this was required for McKinsey to satisfy our SD&L obligations. I requested that Trillian provide its Black Economic Empowerment ("BEE") certificate around November or December 2015. Dr Wood informed me that they did not yet have the certificate because the ownership and board structure of Trillian was not yet settled but assured me it would be forthcoming. At this point, I expected that Trillian would be able to expeditiously provide its BEE certificate and that it would become our SD&L Partner. However, I would not agree to formally engage them as our partner until they confirmed their BEE status.
53. To that end, my then-colleague Mr Vikas Sagar and I requested ownership and shareholding information from Trillian numerous times, first orally and then by email. **Annexure AW10 Email from B. Smith to A. Weiss and V. Sagar, 9 February 2016.** McKinsey eventually made formal requests in letters dated 25 February 2016 and 10 March 2016, as Trillian repeatedly failed to



provide the requested information. **Annexure AW11 Letter from McKinsey to E. Wood, 25 February 2016; Annexure AW12 Letter from McKinsey to E. Wood, 10 March 2016.** The little information we did receive was incomplete and did not answer our questions. For example, Trillian's then-CEO, Ms Bianca Smith (now Goodson), simply responded by stating that Trillian Management Consulting, our anticipated partner, was 100% owned by another entity, Trillian Capital Partners. **Annexure AW10 Email from B. Smith to A. Weiss and V. Sagar, 9 February 2016.** Dr Wood repeatedly informed Mr Sagar and me that he was still finalizing BEE shareholders and directors, but failed to provide the information we requested. Given the continued lack of transparency from Trillian and increasing concerns about whether they were in fact black-owned, McKinsey engaged an external due diligence firm in February 2016 to try to obtain more information. During this time, my team and I had several discussions with McKinsey's risk committees and individual risk colleagues regarding our efforts to obtain information from Trillian regarding its ownership.

54. While we were attempting to obtain Trillian's ownership and BEE information, news reports published in mid-February 2016 raised questions regarding the political connections of a former Regiments employee, Mr Mohamed Bobat. Mr Sagar, who had worked with Regiments for several years while on the Transnet CST, asked Dr Wood to provide information about Mr Bobat's relationships with Regiments and/or Trillian. We also received a formal request from Eskom on 19 February 2016 for a response to the news reports about Mr Bobat. **Annexure AW13 Letter from Eskom to McKinsey, 19 February 2016.** As with Trillian's responses to McKinsey's inquiries regarding its ownership during this period, Trillian's response that Mr Bobat had no relationship with Trillian was evaluated by McKinsey's risk committees as part of a broader risk review.

55. On 22 February 2016, McKinsey additionally learned that Trillian was working on both sides of an Eskom boiler-purchase transaction, which was potentially a material conflict of interest. What was particularly concerning about this was that Trillian had not disclosed the potential conflict — McKinsey only became aware of it during a meeting at Eskom. McKinsey then formally requested additional information from Trillian regarding the potential conflict. **Annexure AW14 Letter from McKinsey to Eskom, 24 February 2016; Annexure AW11 Letter from McKinsey to E. Wood, 25 February 2016.**

*McKinsey Determined Not to Partner with Trillian*

56. By mid-March 2016, McKinsey still had not received satisfactory responses from Trillian regarding its ownership, despite sending an additional formal request by letter on 10 March 2016.

**Annexure AW12 Letter from McKinsey to E. Wood, 10 March 2016.** On 14 March 2016, I attended a teleconference of McKinsey's Client Services Risk Committee, during which it was decided that McKinsey would terminate all further partnership discussions with Trillian, a decision which I supported. Given Trillian's lack of transparency and their failure to provide BEE credentials, McKinsey determined that we would not partner with them.

57. On 15 March 2016, McKinsey provided Dr Wood with a letter informing Trillian of our decision not to proceed with them as our envisaged partner on the Turnaround Programme. **Annexure AW15 Letter from McKinsey to E. Wood, 15 March 2016.** Mr Sagar and I informed Mr Singh of Eskom of the decision not to partner with Trillian orally. I then co-signed (with McKinsey's then-Managing Partner for Africa) a formal letter to Eskom regarding the decision on 30 March 2016. **Annexure AW16 Letter from McKinsey to A. Singh, 30 March 2016.** We made it very clear to Eskom on multiple occasions that we were not partnering with Trillian, both verbally and in writing.
58. McKinsey still had an SD&L requirement under the Turnaround Programme, but still did not have a partner. We had not identified any alternate firms, as we had anticipated working with Regiments and then Trillian. At this time, we developed the idea of creating an SD&L "fund" — the SD&L share of McKinsey's impact-based fees would go into the fund as fees were accrued. McKinsey would then decide with Eskom how to allocate fees to meet SD&L requirements, such as by identifying additional BEE-qualified firms to work on the Turnaround Programme. I raised this idea informally to Mr Singh and Mr Prish Govender (who was at the time an executive in Group Commercial) in late April 2016, and later presented it formally to Mr Govender and Mr Edwin Mabelane (then Chief Procurement Officer) in mid-May, as well as to the Turnaround Programme Steering Committee in June 2016. We understood that such a fund would still comply with the BEE requirements. **Annexure AW17 Steering Committee Meeting Minutes, 31 March 2016.** (Note that there is an error in the date on the front page of these minutes. This Steering Committee meeting took place in June 2016, as reflected on the last page of the minutes and the cover slide of the attached presentation deck.)
59. It was McKinsey's intention that multiple SD&L Partners would work on the Turnaround Programme and be paid from the SD&L fund. We began an internal process to identify potential candidates to work with for the remainder of this large, three-year engagement. However, McKinsey and Eskom had not decided on any alternate SD&L Partners by the time Eskom's board terminated the Turnaround Programme in early June 2016, approximately two to three weeks after McKinsey formally presented the SD&L fund concept to Eskom. Nor was the SD&L fund concept ever finalized prior to Eskom's termination of the Turnaround Programme.



*9 February 2016 Letter*

60. In late January 2016, Trillian asked that McKinsey authorize Eskom to pay Trillian directly for work that it performed. Trillian subsequently requested in early February 2016 that McKinsey issue a letter authorizing Eskom to pay Trillian directly for such work. If Trillian had ultimately been engaged as a subcontractor to McKinsey, one option for payment would have been for Eskom to pay McKinsey, and then McKinsey would have in turn paid Trillian. I understood that Trillian and Eskom preferred that Eskom pay Trillian directly for work that Trillian performed.
61. Direct payment by clients to subcontractors is not unusual in my experience and did not raise concerns for me at that time. I understood that direct payment of SD&L Partners ensured that Eskom, not McKinsey, received the benefit of BEE supplier spending. Additionally, I understood from consultations with McKinsey's risk committees in relation to the Turnaround Programme that it is McKinsey's preference to have subcontractors paid directly, rather than McKinsey acting as an intermediary between the client and the subcontractor.
62. I understand that Mr Sagar provided a letter to Eskom on 9 February 2016, which was drafted by our in-house counsel and addressed direct payment from Eskom to Trillian for work on the Corporate Plan, which had already been performed. The letter did not address direct payment to Trillian in relation to the Turnaround Programme.
63. I understand that the letter incorrectly described Trillian as McKinsey's subcontractor. While I was included on email communications regarding the letter, I was not responsible for drafting the letter and did not read it at that time, and hence was not aware that the content of the letter was inaccurate. I did not believe that it was necessary for me to review the letter, as I understood that Mr Sagar would send the letter and would be advised by McKinsey's in-house counsel.
64. I was not then and am not now aware of any improper motive on the part of anyone — at McKinsey, Eskom, or Trillian — in relation to the 9 February 2016 letter. Rather, I understood that the letter related to mechanics for payment for work that Trillian had performed under the Corporate Plan contract.
65. I now understand that my colleague Mr Sagar may have been in contact with Mr Salim Essa (**Mr Essa**) regarding Trillian's work at Eskom. I was not aware of any such discussions during the time that McKinsey was working with Eskom and/or alongside Trillian.

*Eskom Continued to Work with Trillian*

66. Although McKinsey had decided to terminate partnership discussions with Trillian, Eskom continued to work separately with Trillian. I understood that while McKinsey had determined not to engage Trillian as its SD&L Partner, Eskom was able to contract with Trillian if it wished to do so. As described above, my concerns with Trillian primarily related to whether it was in fact BEE-certified and thus whether contracting with Trillian would satisfy McKinsey's SD&L obligations.
67. I recall that Trillian worked on three workstreams at this time. It worked separately from McKinsey on projects related to procurement and Eskom's balance sheet. Trillian also worked alongside McKinsey on a project related to generation, which involved teams from both McKinsey and Trillian working on the ground at the Majuba power station. While the McKinsey team sought to be polite and professional with Trillian, we made it very clear to both Eskom and Trillian that Trillian was not our partner.
68. At the same time, my team and I had some visibility into the work Trillian was doing. I observed that Trillian had teams on the ground, and I understood them to be doing actual work and trying to help Eskom. I did not have any understanding or reason to suspect that Trillian's continued engagement was intended as a mechanism for any improper payments.

*Turnaround Programme Settlement Negotiations*

69. As mentioned above, Eskom's board decided in June 2016 to terminate the Turnaround Programme. As of this time, McKinsey had not been paid anything for the extensive work performed on the contract. After Eskom informed us of this decision in writing on 16 June 2016, I exchanged several letters with Mr Mabelane over the next two weeks about negotiating a financial settlement. **Annexure AW18 June Correspondence Between Eskom and McKinsey.** Ultimately, at Eskom's direction, my team and I prepared a cover letter for McKinsey's share of an initial settlement payment calculated by Eskom. We explicitly stated in the letter that the invoiced amount did not include any BEE partner share. **Annexure AW19 McKinsey Invoice, 11 August 2016.** I understand that Eskom paid the amount that was invoiced by McKinsey on or around 16 August 2016.
70. I understand that after Eskom paid McKinsey in August 2016, Mr Singh engaged an external consultancy to conduct an audit and technical review with respect to the Turnaround Programme, in order to validate the impact payment calculations used to determine the appropriate settlement amount. My understanding is that the external review confirmed that McKinsey's



impact was larger than the calculation used for the initial settlement amount paid to McKinsey in August 2016. **Annexure AW20 External Report, 15 December 2016.**

71. Around 14 February 2017, Eskom informed McKinsey that it was prepared to make an additional settlement payment based on the finalization of its external review of the impact of the Turnaround Programme. **Annexure AW21 Letter from Eskom to McKinsey, 20 January 2017; Annexure AW22 Letter from Eskom to McKinsey, 9 February 2017.**
72. The total settlement offer communicated by Eskom in February 2017, inclusive of the Turnaround Programme's SD&L share, was approximately equal to the amount of unpaid impact-based fees that the external report identified as being procedurally validated. Eskom asked McKinsey to provide documents necessary to effect a final payment, and accordingly my team and I prepared a cover letter and invoice to Eskom. **Annexure AW23 McKinsey Invoice, 21 February 2017.**
73. McKinsey's invoice sought payment on behalf of McKinsey only, while acknowledging that a portion of the impact fees accrued would apply toward satisfying our SD&L obligations. To that end, the letter dated 9 February 2017 from Mr Mabelane with regard to the final Turnaround Programme settlement payment to McKinsey references an amount inclusive of the BEE partner's portion of the contract, and the follow-on letter dated 16 February 2017 from Mr Mabelane references "McKinsey and its BBEEE Partner." **Annexure AW22 Letter from Eskom to McKinsey, 9 February 2017; Annexure AW24 Letter from Eskom to McKinsey, 16 February 2017.**
74. The McKinsey invoice did not seek payment on behalf of Trillian. As discussed above, after McKinsey decided not to proceed with Trillian as our envisaged partner on the Turnaround Programme, we discussed and proposed to Eskom an alternative SD&L fund into which the SD&L Partner share of impact payments would accrue. The proposal and discussions we had with Eskom about this fund anticipated that McKinsey and Eskom would decide together on new partners and on the allocation of the fees that had accrued. Given the short period of time between McKinsey's proposal of the SD&L fund and the termination of the Turnaround Programme by Eskom's board in June 2016, we ultimately were not able to identify any new partners prior to the termination of the Turnaround Programme.
75. However, McKinsey was not entitled to the full amount of the settlement offer communicated by Eskom in February 2017, which as noted included the SD&L share of impact payments. After discussions with our in-house counsel and the Finance function of McKinsey's Johannesburg

office, my team and I included the BEE share in an “SDL Fund Value Created” column of the invoice to demonstrate our fulfilment of the Turnaround Programme’s SD&L obligations.

76. Any assertion that McKinsey directed Eskom to pay Trillian under the Turnaround Programme is incorrect. McKinsey did not negotiate any settlement on behalf of Trillian at any time, nor did McKinsey direct Eskom to pay Trillian. As I stated earlier, we made Eskom aware on many occasions after our 14 March 2016 termination decision that Trillian was not our SD&L Partner.

### **Conclusion**

77. Between 2005 and mid-2017, I had the opportunity to work on a variety of projects small and large at Eskom. Over time, I came to understand Eskom’s challenges and strengths, and saw the positive impact that McKinsey’s work could have not only on Eskom, but also on everyday life in South Africa and the country’s economic growth.
78. This impact was possible due in part to the working relationships my colleagues and I built with our clients at Eskom, who in my experience were well-intentioned and worked hard to help Eskom succeed.
79. McKinsey worked under many executive management teams during that time period. Throughout, we focused on executing projects that created value for Eskom and helped improve its performance — real work that delivered real results. I never understood it to be the case that the SD&L Partners we partnered or considered partnering with — including Regiments and Trillian — operated any differently or were used as instruments for corrupt purposes.


80. I support the important work of the Commission and its crucial mission in combating corruption and protecting the integrity of South Africa's state-owned companies. I appreciate the opportunity to present my recollection of McKinsey's work at Eskom and wish to assist the Commission however I am able. I trust that this statement will be of assistance to the Commission.



**DR ALEXANDER WEISS**

25 November 2020

AW1

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		Document Type	OCSDTE
		Revision	0
		Review Date	July 2015
		Office of the Company Secretary Department	

EXECUTIVE SUMMARY

SUBMISSION TO:

EXCO PROCUREMENT SUB-COMMITTEE (EXCOPS)      DATE: 22 JUNE 2015

BOARD TENDER COMMITTEE (BTC)                              DATE: SPECIAL MEETING

1.      TITLE OF THE SUBMISSION

Mandate to negotiate with McKinsey & Co to develop the current Top Engineers programme into a consulting unit that can provide world class management consulting services capable of resolving emerging company-wide risks by driving savings and unlocking cash.


2.      RESOLUTION REQUIRED

RESOLVED THAT:

The Mandate to negotiate with McKinsey & Co to develop the current Top Engineers programme into a consulting unit that can provide world class management consulting services capable of resolving emerging company-wide risks by driving savings and unlocking cash is hereby approved subject to the following;

- 2.1      The contract value will be R0.00 as this initiative is self-funding. Consulting fees, expenses and performance incentives will be paid out of realized savings to a maximum of 12% per project with an exit period of 12 months from start of contract if no benefits are realized.
- 2.2      The BPP value package on optimisation of Eskom's total external spend, currently located within Group Commercial be used as a base project to generate savings for the whole of Eskom that will fund project set-up costs;
- 2.3      The development of packages relating to the unlocking of cash by optimising the balance sheet, the unlocking of funding sources through additional financing opportunities and claim management at Medupi, Kusile and Ingula, be approved. These projects, together with any other project as may be identified in the future, may be included in the program at Eskom's sole discretion on a case by case basis depending on value to Eskom.
- 2.4      That a Negotiating Team that will also serve as a Steering Committee for the development of Eskom Top Engineers consulting unit be authorised under



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the Chairmanship of the Acting Group Executive: Technology and Commercial to develop, negotiate and implement above strategy subject to Eskom Delegation of Authority.

3. SUMMARY OF FACTS


3.1 Salient Facts

It is proposed to develop the Top Engineers programme into a fully functioning consulting unit that can provide world class management consulting services capable to resolving emerging company-wide risks as well as temporarily run critical line functions as the need arises. This will require fundamental transformation of the current engineering focused Top Engineer's program through:-

- Expanding the professional background of the internal consultants from engineering to financial, economics and other relevant disciplines;
- Forming an internal leadership team by transferring senior Eskom talent into the unit;
- Developing a knowledge base capable of storing frameworks, best practice approaches, and benchmark data relevant to all core elements of Eskom's business;
- Setting up governance within Eskom that gives the unit responsibility for all external consulting and outsourcing work; and
- Adapting the current concept to enable a rapid increase of number of internal consultants to fulfil Eskom's current and future needs.
- The end state is that the Top Engineers will reach a stand-alone status where they are able to execute projects on their own.

3.1.1 Background

- Eskom annually spends between R1 Billion and R2 Billion for external consulting support directly and additionally outsources many tasks that in principle, a significant part, should be performed by own staff complement.
- Given Eskom's current financial situation this amount needs to be reduced to an absolute minimum as soon as possible. The manner in which to achieve this target is to build up capacity and capability

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internally. The Top Engineers consulting unit is a vehicle proposed for that purpose.

- It will be essential that this unit has to have the management consulting as well as the professional competence to successfully deliver projects and line function work that Eskom currently seeks external support for.
- Eskom has already started to build such capacity with the TOP Engineers group. TOP Engineers are young high potentials within Eskom's organisation that combine a solid engineering background together with a one year management consulting skills training by the global leading consulting firm McKinsey.
- To date, 2 cohorts of TOP Engineers, roughly 30 individuals, have graduated from the programme and taken up consulting work within Eskom across all functions.
- With their consulting work, the TOP Engineers have generated significant impact. They have designed Eskom's future gas strategy, run various work streams of Eskom's BPP programme and rolled out Eskom's new gold standard for outages execution. Consequently, the TOP Engineers have saved Eskom approximately R 500 Million in external consulting fees.
- Further development of the Top Engineers programme and its conversion into a capable consulting unit will require services of a suitable strategic partner with extensive skills and capabilities in the consulting world.

**3.1.2 Motivation for choice of Strategic Partner**

It is proposed that McKinsey & Co be chosen as a Strategic Partner for the development of the Eskom Top Engineers consulting unit. McKinsey is a suitable due to the following reasons:

- McKinsey developed the original TOP Engineers Programme and has intellectual property in the design of the programme that Eskom cannot recreate in respect of:
  - Content of class room training programmes;
  - Reverse secondment approach to include Eskom employees as trainees on McKinsey's engagements within Eskom and at other clients;
  - Specific mentorship methodology to fast track development; and

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- Specific evaluation schemes to assess consulting readiness of engineers in training
- Additionally, McKinsey is the only leading global consulting firm capable of delivering this world class knowledge in South Africa, bearing in mind the following:
  - McKinsey is the largest global management consulting house;
  - McKinsey has the largest knowledge development spent in the industry;
  - McKinsey is a global consulting company with a local presence of over 20 years, having transformed to a level 1 B-BBEE contributor
- Eskom has completed the majority of its management consulting projects with McKinsey support, giving McKinsey privileged insight into the business, culture, processes, and people of Eskom. This intrinsic insight cannot be offered by any other consultancy.


3.1.3 Motivation for Type of Contracting

The development of the Top Engineers consulting unit is envisioned to be a 2-3 year journey. During this period the strategic partner will lead the internal consulting unit to deliver consulting projects focusing on accelerating efficiencies that can unlock immediate cash for Eskom as well as embedding long term efficiencies.

The strategic partner will make projects accessible as training environment for the Top Engineers consulting unit. The Strategic Partner will be paid for their consulting services as well as the development of the internal consulting unit out of the impact they generate during these projects and thus be self-funding. Total fee volume will depend on the benefits generated for Eskom, however, fees paid to McKinsey be limited to maximum of 12% per of total savings per project.

Eskom's would be required approve work packages that will be earmarked for savings and the strategic partner will be required to define savings and capability-building targets/objectives early in each work package.

Impact would be measured separately to ensure transparency and close monitoring so that management can decide how to continue. The strategic partner would be contracted on a performance basis, where Eskom pays professional fees only if savings are achieved. However, the contract will include an exit clause after first 12 months if no benefits are realized.

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It is proposed that to kick-start the process, the BPP value package on optimization of Eskom’s external spend currently with the commercial department be made available as first work packages into the project.

The development of packages relating to the unlocking of cash by optimising the balance sheet, the unlocking of funding sources through additional financing opportunities and claim management at Medupi, Kusile and Ingula, be included in the programme. These projects, together with any other project as may be identified in the future, may be included in the program at Eskom's sole discretion on a case by case basis depending on value to Eskom.

**3.2 Key Assumptions**

None

**3.3 Financial Implications**

The strategic partner will be contracted in a manner that is self-funding and directly linked to their impact. This means that the professional fees in the project will be paid out of the cash in-flows generated by the project work, e.g., procurement savings and will be limited to maximum of 12% per of total savings per project.

It is anticipated that the positive financial impact of the work of the strategic partner will exceed their professional fees significantly. This means that the net financial impact of the above proposed development of the Top Engineers consulting unit will be positive.


It is Eskom's intention to negotiate zero payment from new cash. This will mean that the strategic partner will only be paid once savings are realized in a manner that will first make-up required project set-up costs prior to kick-in of savings benefits if realised to a maximum of 12% per project with an exit period of 12 months from start of contract if no benefits are realized.

**3.4 Human Resource Implications**

The scope would include world class consultant support of the programme for three years to cover at least three cohorts (~30 consultants) of the current Top Engineers programme. This would require full-time resources at both an associate and project management level dedicated to the programme, with weekly visibility from the external consultant leadership.

**3.5 Risks (including Environment, Legal or Contractual risks)**



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Not applicable.

3.6 Verification by independent party (if applicable)

Not applicable.

4. OTHER APPROVALS REQUIRED

Board Tender Committee and Board of Directors approval will be required.


EDWIN MABELANE  
GROUP EXECUTIVE: TECHNOLOGY AND COMMERCIAL (ACTING)

SIGNATURE

Who hereby represents that the above information is correct.

DATE

2015/07/03.

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CHECKLIST 1

1. INTERNAL PROCESS

1.1 BUSINESS PLAN

Has the project/issue been included in the business plan?  
(If no, information/explanation to be highlighted in documentation/ presentation/attachment.)

1.2 BUDGET

If financial approval is required, is the project/matter within the approved budget?  
(If no, information/explanation to be highlighted in documentation/ presentation/attachment.)

1.3 HUMAN RESOURCE IMPLICATIONS

Does the project have any HR implications?  
(If yes, information/explanation to be highlighted in documentation/presentation/attachment.)

1.4 FINANCIAL EVALUATION

- Has the project/issue undergone a financial evaluation? (If yes, by whom)
- Has the evaluation been verified?
- By whom (internally or independent)?

1.5 LEGAL/CONTRACTUAL ISSUES

- Are there legal implications?
- Has Corporate legal department input been obtained?
- If so, is the approval sought consistent with the legal input?


1.6 TAX IMPLICATIONS

- Are there tax implications?
- Has Corporate tax department input been obtained?
- If so, is the approval sought consistent with the tax input?

1.7 CAPITAL PROJECTS

If the project is of a capital nature the checklist 2 (attached) for the evaluation of capital projects should be completed

N/A	Yes	No
	X	
	X	
	X	
X		
X		
X		

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as well.

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- 1.8

TECHNICAL EVALUATION

-

Has the project/issue undergone a technical evaluation? (If yes, by whom)

-

Has the evaluation been verified?

-

By whom (internally or independent)?
- 1.9

BLACK ECONOMIC EMPOWERMENT IMPLICATIONS

Does the project have any BEE implications?
- 1.10

EMPLOYMENT EQUITY

Was due consideration given to employment equity in terms of the following:

-

Project team

-

Drafting of submission documentation

-

Individual(s) presenting to EXCO
2.

ADDITIONAL APPROVALS
- 2.1

NERSA

-

Is NERSA approval/consultation required?

-

If approval or consultation is required, provide details and also highlight the time lines, deadlines, etc.
- 2.2

PUBLIC FINANCE MANAGEMENT ACT (PFMA)

-

Is any PFMA approval required?
- 2.3

ARE THERE ANY OTHER APPROVALS REQUIRED? IN PARTICULAR

-

Reserve Bank

-


Competition Commission

-

National Treasury

N/A	Yes	No
		X
	X	
X		
X		
X		

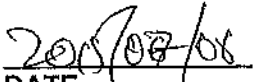
SIGNATURE:




EDWIN MABELANE

GROUP EXECUTIVE:

TECHNOLOGY AND COMMERCIAL (ACTING)



DATE

	<b>Mandate to Negotiate – No Prior Tendering / Sole Source</b>	Unique Identifier	240-53463044
		Revision	Rev. 1
		Revision Date	August 2015
		Group Technology and Commercial	

TO: THE CHAIRMAN DATE: 22 JUNE 2015  
 EXCO PROCUREMENT SUB-COMMITTEE DATE: 22 JUNE 2015

TO: BOARD TENDER COMMITTEE DATE: SPECIAL MEETING  
 COMPILER: LULU NJAZA TEL: 011 800 3177

BUSINESS UNIT & NAME OF END-USER  
 GROUP TECHNOLOGY  
 DANIE ODENDAAL

DESCRIPTION DEVELOPMENT OF THE CURRENT TOP ENGINEERS PROGRAMME INTO A CONSULTING UNIT THAT CAN PROVIDE WORLD CLASS MANAGEMENT CONSULTING SERVICES CAPABLE OF RESOLVING EMERGING COMPANY-WIDE RISKS BY DRIVING SAVINGS AND UNLOCKING CASH

PR NO.:

## 1. RECOMMENDATION


In accordance with the latest revision of Eskom's Procurement and Supply Chain Management Procedure 32-1034, a mandate is requested to negotiate with Mc Kinsey & Co to develop the Top Engineers programme into a fully functioning consulting unit that can provide world class management consulting services capable of resolving emerging company-wide risks by driving savings and unlocking cash.

The contract value will be R0.00 as this initiative is self-funding. Consulting fees, expenses and performance incentives will be paid out of realized savings to a maximum of 12% per project.


The contract will be for a period of **three (3)** years and shall include an exit clause after first 12 months from start of contract if no benefits are realized. It is anticipated that the contracts will commence on **01 August 2015** or as soon as possible thereafter.

It is to be noted that Mr Dunn Mukosa, the Top Engineers Programme Manager has been appointed as the *Employer's Agent* for this contract in terms of NEC Professional Services Contract. It is hereby confirmed that Mr. Mukosa has received the necessary training, and has the necessary expertise and experience to manage a contract of this magnitude.

It is further recommended that, Group Executive – Technology & Commercial Division be authorised, with the power to delegate further, to take all the necessary steps to give effect to the above, including the signing of any agreements, consents or other documentation necessary or related thereto subject to Eskom Delegation of Authority.

	Mandate to Negotiate – No Prior Tendering / Sole Source	Unique Identifier	240-53463044
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		Group Technology and Commercial	


SUPPORTED BY:

  
MS. L. NJAZA  
MIDDLE MANAGER: COMMODITY SOURCING  
GROUP COMMERCIAL

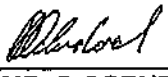
3 July 2015  
DATE

  
MRS. N. MOKOATLE  
SENIOR MANAGER: COMMODITY SOURCING  
GROUP COMMERCIAL


3 July 2015  
DATE

  
MR. P. GOVENDER  
GENERAL MANAGER: COMMODITY SOURCING (ACTING)  
GROUP COMMERCIAL


3/07/2015  
DATE

  
MR. D. ODENDAAL  
SENIOR GENERAL MANAGER – ENGINEERING (ACTING)  
GROUP TECHNOLOGY AND COMMERCIAL

6/7/15  
DATE

  
MR. E. MABELANE  
GROUP EXECUTIVE: TECHNOLOGY AND COMMERCIAL (ACTING)  
GROUP COMMERCIAL

20/5/07/15  
DATE

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2. BACKGROUND

The Top Engineers programme was launched in November 2012, as an SD&L requirement for McKinsey & Co on the extended outage contract. The first cohort began their training in February 2013 and graduated in March 2014. The second cohort has completed their training and will be graduating in June 2015. The aim of the programme was to develop engineers into consultants at an associate level within 12 months.

The programme was structured in a field and forum format, in which the field experience comprised McKinsey & Co engagements in Eskom. The first year of the programme was highly successful, with impact being felt across the engagements in which the engineers were involved. Internal capability to conduct short-duration and high impact projects that would ordinarily be outsourced to a management consulting firm is the expected benefit that Eskom will derive from the project.


It is anticipated that Eskom will save **at least R500 million** of the total of R1 billion that the company spends per year on External consultants when the Top Engineers consulting unit is fully capacitated within Eskom. Given Eskom's current financial situation this amount needs to be reduced to an absolute minimum as soon as possible. The manner in which to achieve this target is to build up capacity and capability internally. The Top Engineers consulting unit is a vehicle proposed for that purpose.

It will be essential that this unit have the management consulting as well as the professional competence to successfully deliver projects and line function work that Eskom currently seeks external support for. However, Commercial is in the process of establishing a Panel of Strategic and Business Management Consulting to service the business during this period of establishing the unit.

Eskom has already started to build such capacity with the Top Engineers unit. To date two (2) cohorts of Top Engineers, roughly 30 individuals have graduated from the programme and taken up consulting work within Eskom across all functions.

Within their consulting work, the Top Engineers have generated significant impact. They have designed Eskom's future gas strategy, ran various work streams of Eskom's BPP programme and rolled out Eskom's new gold standard on outages execution.

Further development of the Top Engineers programme at its conversion into a capable consulting unit will require services of a suitable strategic partner with extensive skills and capabilities in the consulting world.

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2.1 Purpose

It is proposed to develop the Top Engineers programme into fully functioning consulting unit that can provide world class management consulting services capable of resolving emerging company-wide risks. This will require fundamental transformation of the current engineering focused Top Engineer’s programme through:-


- Expanding the professional background of the internal consultants from engineering to financial, economics and other relevant disciplines.
- Forming an internal leadership team by transferring senior Eskom talent into the unit;
- Developing a knowledge base capable of storing frameworks, best practice approaches, and benchmark data relevant to all core elements of Eskom's business
- Setting up governance within Eskom that gives the unit responsibility for all external consulting and outsourcing work.
- Adapting the current concept to enable a rapid increase of number of internal consultants to fulfil Eskom’s current and future needs.

It is the intent that the Top Engineers will reach a stand-alone status where they are able to execute similar projects on their own.

The procurement mechanism selected to enable this service is that of negotiations, without prior tendering. The selection of this procurement mechanism is based on:


Reason for the use of negotiations without prior tendering	Tick
Dealing with an Eskom Internal Supplier in terms of the Hierarchy of Supplier Preference	
No other financially, commercially or technically acceptable tenders were received in response to a previous valid tender / enquiry, sent to the open market or to a valid list of 3 (three) or more potential suppliers as verified in writing by the Category Manager / Procurement Manager	
Assets, goods or services can be supplied only by one particular supplier and no reasonable alternative or substitute exists, for example for reasons connected with patents or copyright, or in the absence of competition for technical reasons	
Events unforeseen make it extremely urgent to obtain certain assets, goods or services, which could not be obtained in time by means of an open or closed tender / enquiry. <i>[The unforeseeable urgency of the requirement and its impact on the</i>	



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<b><i>Eskom business must be clearly demonstrated before the PTC as poor planning will not be an acceptable reason for bypassing the use of competitive tendering]</i></b>	
A change of supplier would compel Eskom to obtain spare parts or additional assets, goods or services that are not compatible or interchangeable with existing assets, goods or services that were obtained from an original supplier or original equipment manufacturer (OEM)	
Eskom procures prototypes, goods or services that are developed, at Eskom's request, under contract for research, experiment, study or original development, and Eskom obtains the rights to the design. After the development contract has been fulfilled, further purchases (re-buys) are subject to Eskom's normal procurement procedures, using the design so obtained	
Due to unforeseeable circumstances, additional construction services which are not part of the initial contract become necessary in order to complete the plant, system or works. If these additional construction services are within the objectives of the original enquiry / tender documents, Eskom may negotiate contracts for additional construction services with the original appointed supplier, provided that separating the additional construction services from the original contract will be difficult for technical and economic reasons, and that the separation will cause significant cost (e.g. site set-up costs) or time constraints to Eskom	
Assets, goods or services being procured under a new contract / project is a repetition of similar / identical assets, goods or services procured against contracts that form part of a programme / project for which an initial contract was awarded using tendering procedures, and where Eskom indicated, in the notice of intended procurement or in the enquiry or tender documents for the initial procurement of the goods / services, that further contracts may be awarded using negotiated contracting procedures	<b>X</b>
Eskom buys commodities on a commodity market	
Eskom has the opportunity to buy under exceptionally advantageous conditions that only arise in the very short term. This provision covers unusual disposals by entities that are not normally suppliers, and the disposal of assets of businesses in liquidation or receivership. It does not allow for routine purchases from regular suppliers, and specifically excludes purchases of remaining stock after the expiry of a Framework Agreement or from unsuccessful suppliers	
Releases (sub-orders) are placed on a previously approved Framework Agreement, where only delivery may be negotiated	
A Sole Source Justification Form was previously approved (as verified by signed and approved minutes and a copy of the original SSJ) by a procurement / tender committee for a stipulated period of time	



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3. SCOPE OF SERVICES

The scope of services was compiled by Mr Prish Govender, the GM: Commodity Sourcing (Acting), Group Technology and Commercial Division.

The key scope and deliverables for the external support would include:

The development of the current Top Engineers programme into a consulting unit that can provide world class management consulting services capable of resolving emerging company-wide risks by driving savings and unlocking cash by doing the following:

- The BPP value package on optimisation of Eskom's external spend, currently located within Group Commercial be used as a base project to generate savings that will fund project set-up costs;
- The development of packages relating to the unlocking of cash by optimising the balance sheet, the unlocking of funding sources through additional financing opportunities and claim management at Medupi, Kusile and Ingula, be included in the programme. These projects, together with any other project as may be identified in the future, may be included in the program at Eskom's sole discretion on a case by case basis depending on value to Eskom;
- Designing overarching programme approach and format, which would include developing the programme structure and helping set up the programme, governance structure and supporting the work allocation process.
- Providing light-touch project management support, with the focus on mentoring, coaching, training, project tools and benchmarking.
- Teaching, coaching and instilling the core fundamentals of good governance and leadership.
- Designing the impact tracking approach, this would provide progress and the effectiveness of the programme.
- Designing and delivering a development programme for the engineers that builds on, but goes beyond the current foundation training. This should build the skill base from a world class associate to a world class project manager. The programme should focus on, but is not limited to, operations, lean principles, change management, excellence and transformation. Industrial visits should be facilitated by the external consultant support.

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- The scope would include world class consultant support of the programme for three years to cover at least three cohorts (~30 consultants) of the current Top Engineers programme. This would require full-time resources at both an associate and project management level dedicated to the programme, with weekly visibility from the external consultant leadership.

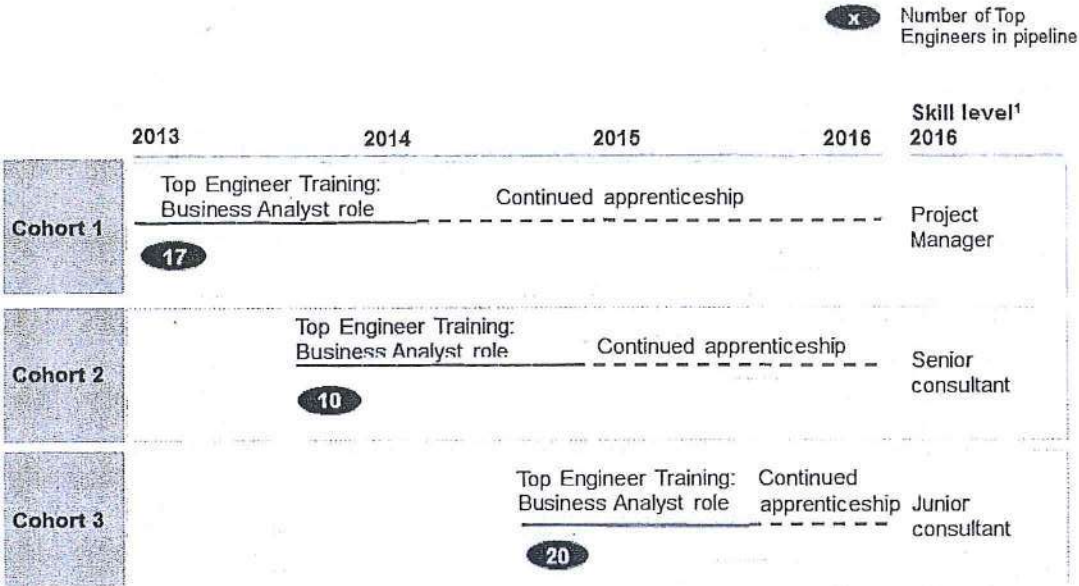
The programme will follow the following schedule:

Skill level	First Rotation	Second Rotation	Third Rotation
(Year 1) Junior Consultant	Solving complex business problems	Engaging business clients	Becoming a business partner
(Year 2) Senior Consultant	Management Master class	Leading a project team	Establishing coaching basics
(Year 3) Project Manager	Leading transformation projects	Managing a team of consultants	Becoming a thought partner and senior manager

Table 1: Overview of development activities

3.1 Timelines

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<sup>1</sup> Typical attrition rates assumed.

Figure 1: Shows the 3 year objectives of the programme

The above is the timeline that was originally proposed. Some of the timelines in the journey map given above have not been met which will result in a delay of about one year.


4. BENEFITS TO ESKOM

The programme was structured in a field and forum format, in which the field experience comprised McKinsey & Co engagements in Eskom. The first year of the programme was highly successful, with impact being felt across the engagements in which the engineers were involved. Internal capability to conduct short-duration and high impact projects that would ordinarily be outsourced to a management consulting firm is the expected benefit that Eskom will derive from the project.

It is anticipated that Eskom will save at least R500 million of the total of R1 billion that the company spends per year on External consultants when the Top Engineers consulting unit is fully capacitated within Eskom. This highlighted the need for the further development of the skills beyond an associate level to a project manager level in order to empower the current candidates who have been through the Top Engineers Programme to run projects independent of the external consultant support.

Below are the benefits for implementing the Programme.

- Reduction of the dependence on External consultants.

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- Cost reduction on consultants.
- The development of the Top Engineers from associate to project manager level.
- Retention of the current Top Engineers.
- Development of effective change agents.
- Development of the high performing culture in Eskom.
- The access to benchmarks from around the world.
- Access to leading expertise in wide-spectra of business.
- Mentorship and coaching in managing the challenges in the organization

5. SHAREHOLDER VIEW & RISK SUMMARY

Not applicable


6. MOTIVATION FOR THE SUPPLIER AS A SOLE SOURCE

It is proposed that Eskom enter into negotiations with McKinsey & Co as a Strategic Partner for the development of the Top Engineers consulting unit. Mc Kinsey is a suitable partner due to the following reasons:

McKinsey developed the original Top Engineers Programme and has intellectual property in the design of the programme that Eskom cannot recreate in respect of:

- Content of class room training programmes;
- Reverse secondment approach to include Eskom employees as trainees on McKinsey’s engagements within Eskom and other clients;
- Specific mentorship methodology to fast track development; and
- Specific evaluation schemes to assess consulting readiness of engineers in training
- Additionally, McKinsey is the only leading global consulting firm capable of delivering this world class knowledge in South Africa, bearing in mind the following:
  - McKinsey is the largest global management consulting house;
  - McKinsey has the largest knowledge development spent in the industry;
  - McKinsey is the only global consulting company with a local presence of over 20 years, having transformed to a level 1 B-BBEE contributor
  - Eskom has completed the majority of its management consulting projects with McKinsey support, giving McKinsey privileged insight into the business, culture, processes, and people of Eskom. This intrinsic insight cannot be offered by any other consultancy.



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**6.1 Motivation for Type of Contracting**

The development of Top Engineers consulting unit is envisioned to be 2-3 year journey. During this period the strategic partner will lead the Top Engineers consulting unit to deliver consulting projects focusing on accelerating efficiencies that can unlock immediate cash for Eskom as well as embedding long term efficiencies.

The strategic partner will make all of these projects accessible as training environment for Top Engineers consulting unit. The Strategic partner will be paid for their consulting services as well as the development of the Top Engineers consulting unit out of the impact they generate during these projects and thus be self-funding. Total fee volume will depend on the benefits generated for Eskom. However, the fees payable will be limited to a maximum of 12% per of total savings per project.

Eskom would be required to approve work packages that will be earmarked for savings and the strategic partner will be required to define savings and capability-building targets/ objectives early in each work package.

Impact would be measured separately to ensure transparency and close monitoring so that management can decide on how to continue. The strategic partner would be contracted on a performance basis, where Eskom pays professional fees only if savings are achieved. However, the contract will include an exit clause after first 12 months if no benefits are realized.

It is proposed that to kick-start the process, the BPP value package on optimization of Eskom's external spend currently with the commercial department be made available as first work packages into the projects.

A Sole Source Justification Form, completed and is attached hereto.

**7. COST COMPARISON ON A COMMON BASE**

Not applicable

**8. COMMERCIAL EVALUATION**

This is sole sources transaction.

**9. FINANCIAL EVALUATION AND COMMENTS ON CPA CONDITIONS**

Upon approval of the mandate to negotiate, the CPA will not be applicable as the transaction is expected to be self-funding.

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**10.FINANCIAL ANALYSIS OF THE TENDERER / SUPPLIER**

Upon approval of the mandate to negotiate, the audited financial statements for the past two (2) shall be requested. The outcome of the financial analysis of the recommended service provider will be submitted with the feedback report.

**11. TECHNICAL EVALUATION**

N/A – Sole source

**12.SD&L REQUIREMENTS**

In order to ensure that transformation requirements are met in this transaction, the SD&L input to this strategy, the following SD&L requirements will be incorporated into the strategy.

**Training and Mentorship**

The training of the agreed candidates will be representative of the previously disadvantaged individuals. Such training will provide all the necessary hands on mentorship to equip the candidates with a measurable outcome thereby equipping them to become fully fledged Management Consultants. The end result should be a formal accreditation of the candidates on the McKinsley methodologies.

**IP, Tools and Methodologies**


The IP, tools and consulting methodologies will be transferred to Eskom and the chosen candidates in order for them to replace McKinsley in future contracts.

**13.SHEQ**

This section is not applicable.

**14.MANDATE OBJECTIVES**

It is Eskom's intention to negotiate zero payment from new cash. This will mean that the strategic partner will only be paid once savings are realized in a manner that will first make-up required project set-up costs prior to kick-in of savings benefits if realised to a maximum of 12% per project.

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The contract will be for a period of three (3) years and shall include an exit clause after first 12 months from start of contract if no benefits are realized.

The BPP value package on optimisation of Eskom's total external spend, currently located within Group Commercial be used as a base project to generate savings that will fund project set-up costs;

The development of packages relating to the unlocking of cash by optimising the balance sheet, the unlocking of funding sources through additional financing opportunities and claim management at Medupi, Kusile and Ingula, be approved. These projects, together with any other project as may be identified in the future, may be included in the program at Eskom's sole discretion on a case by case basis depending on value to Eskom.

OTHER

The following additional issues will form part of the mandate objectives:

- Negotiate SD&L and skills development compliance matrix.

15. NEGOTIATION TEAM

Based on the expertise required to achieve the stated aspiration base and mandate objectives, the following individuals are nominated to form the negotiation team:

NAME	DESIGNATION	ROLE
Prish Govender	Acting Commodity Sourcing General Manager	Lead Negotiator
Ntombizodwa Mokoatle	Senior Manager - Commercial	Commercial Representative
Johnstone Makhubu	Senior Manager - Business Enablement	Business Representative
Freddy Ndou	Acting DE (Office of the CE)	Business Representative
Snehal Nagar	Senior Manager Finance Business	Financial Representative
Mandla Gobingca	Senior Manager – SD&L	SD&L Representative



AW2

Offering Eskom our pro-  
bono support



Proposal  
February 4, 2015

McKinsey&Company

Memorandum to  
Dan Marokane, Group Executive Group Capital  
Matshela Koku, Group Executive Technology and Commercial

From  
Norbert Doerr  
Michael Kloss  
Alexander Weiss  
Lorenz Juengling  
Peter Safarik

February 4, 2015

## Offering Eskom our pro-bono support

Dear Dan and Matshela,

In the spirit of our longstanding partnership, we at McKinsey & Company feel obliged to help Eskom during the current crisis. As a result we would like to offer you pro-bono support using our resources and expertise. This short memo outlines how we would propose structuring such an intervention.

### OUR UNDERSTANDING OF YOUR CURRENT SITUATION

Eskom's generation system is currently experiencing unprecedented strain. In recent weeks we have witnessed catastrophic failures of critical aggregates at Duvha and Majuba, UCLF has hit record highs at 25%, and Koeberg had to undergo an emergency shutdown last weekend due to a transformer fault.

Initial analysis has revealed that – besides a deteriorating asset base – operator errors are a major contributor to the current situation. Based on our experience, we believe turning Eskom's generation system around will require a multi-year journey addressing asset integrity as well as skills, mindsets and behaviours.

### FOCUS OF OUR PROPOSED SUPPORT

As an emergency intervention, last week Eskom sent roughly 30 E-band managers to its power stations. Their mandate is to obtain more transparency on the root causes of problems and stabilise performance, and ultimately start the journey of Eskom's turnaround. This is a significant resource commitment on Eskom's part, and also a very challenging assignment.

We propose focusing our pro-bono support on helping make this group of general managers successful, by means of the following three elements

1. Centrally coordinate the **E-band manager deployment**
2. Set up an **Emergency PMO** as a central body for storing information and making decisions
3. Complete **on-site diagnostics** to increase transparency on asset status and operator performance

#### **Coordinating the E-band manager deployment**

Eskom's decision last week to send roughly 30 E-band managers to the power station is a significant commitment of senior management capacity. To be most effective, these managers need to be properly coordinated.

We would suggest the following coordination activities:

- Identify the specific expertise of each intervention manager based on her/his experience, and match it to specific station needs
- Create a set of standard reports on each station's asset base and operational practices, to be collected and quality checked by the managers and then sent to the Emergency PMO
- Convene a weekly coordination meeting with the whole cohort, to exchange observations and align on priorities for emergency interventions
- Support the managers in involving additional internal and external experts and resources to increase their effectiveness

#### **Setting up an Emergency PMO**

Eskom has had very positive experiences with setting up central performance management offices. Successful examples include the OPIC for planned outages, and the MPIC for delivery of Medupi.

The role of such a centre in the current crisis would be to create "one view of the world" for the current status of Eskom's generation system, as a basis for decision making by Exco and communication to external stakeholders.

To achieve this level of transparency the Emergency PMO would monitor a comprehensive set of key performance indicators covering Eskom's generation asset base. These would include:

- Upcoming critical maintenance and outage activities
- Fuel availability (diesel and coal)
- Adherence to operational standards



- General asset condition
- Resolution of unplanned capacity loss events

During weekly meetings with key Exco members, the Emergency PMO would facilitate the identification and prioritisation of major interventions to trigger Eskom's turnaround.

We suggest setting up the Emergency PMO on the third floor in MWP, right in front of the offices of Eskom's executives, to ensure ready access to its critical information.

#### **On-site diagnostics**

Given the criticality of the situation, Eskom has little margin for further errors. In addition to the Emergency PMO collecting KPIs on the current status of Eskom's generation system, it will be vital to obtain first-hand impressions of the local situation at the stations and check that the reported information is correctly interpreted.

We would therefore propose a regular schedule of visits to stations by members of the EPMO as well as internal and external experts. These diagnostic visits should be conducted jointly with each power station's management team, and ideally with the power station manager and his key engineers present.

The insights from these on-site diagnostics would be fed back to the Emergency PMO, to update its fact base and trigger short term interventions where necessary.

#### **CONFIGURATION OF MCKINSEY SUPPORT**

We would provide a full-time team for three months, composed of an engagement manager and three consultants. This leaves sufficient time for the team to have impact, but will also force an early review of the approach. We envisage that the team should also be joined by 3-4 TOP engineers, to make the effort sustainable and transfer skills.

The team would be led by Lorenz Jungling and Peter Safarik, principals in our Johannesburg office, whom you know from previous projects. Michael Kloss and Norbert Doerr, directors in our Johannesburg office, would provide overall guidance and ensure quality control.

Exactly as in other engagements, the team would also draw on a number of experts from our Electric Power and Natural Gas Practice such as Paul Kolter (expert principal from Houston), Jochen Latz (expert associate principal from Cologne), or Jiri Franta (senior expert from Prague).

We would provide this support pro-bono, i.e., not charge any professional fees during the three-month period of the engagement. The value of such support, according the standard Eskom rate card, would amount to R21.1 million without travel and accommodation expenses and without VAT. We are happy to offer this support in the context of this proposal pro bono to Eskom.

#### **PRE-REQUISITES FROM ESKOM**

Several pre-requisites are necessary from Eskom's side to make such an intervention successful:

- Enforcing transparency by holding a weekly performance review of the individual power stations
- Commitment to freeing-up analysis of the above-mentioned technical data
- Commitment of the GM intervention group for collaboration
- A weekly Steering Committee with the COO/CEO
- Commitment to the on-site diagnostic visits
- Enforcing coordination of the intervention GMs through their direct exposure to the COO/CEO

□ □ □

Based on our decades-long global experience with turnarounds and performance transformations, we strongly believe the above actions are vital as the immediate and first step. We have a team of highly qualified specialists on standby to support you, and are ready to discuss this offer further at your earliest convenience.

AW3

Rapid realisation of  
procurement savings



January 28, 2015



Memorandum to  
Matshela Koko, Group Executive, Group Technology, Eskom  
Tsholofelo Molefe, Financial Director, Eskom  
Johnstone Makhubu, General Manager, Group Commercial, Eskom

## Rapid realization of procurement savings

Thank you for inviting McKinsey & Company to propose how we could support Eskom in accelerating the savings generated in the procurement work stream of Eskom's BPP programme. Through our long standing relationship with Eskom we very well understand the challenging situation Eskom is facing at the moment and the resulting importance to generate cash savings quickly.

As per your request, we have outlined in the following pages how we would structure and support such an effort, taking your specific requirements into account. Our proposal is structured in the following way

- Project context and scope
- Overall programme design
- Proposed approach
- Structure and timeline
- Proposed McKinsey support and
- Commercial offer

Please regard this memorandum as an initial draft that we would be most happy to amend based on further discussions with you.

### PROJECT CONTEXT AND SCOPE

Eskom is struggling with increasing operating cost for a number of varying reasons that largely lie beyond Eskom's control. NERSA's determination to grant only an increase of 8% of power tariffs compared to Eskom's initial request for 16% p.a. has created an initial financial gap of R225bn over the MYPD3 period. To address this gap Eskom initiated a Business Productivity Programme (BPP) targeted at reducing inefficiencies in the business. The revised BPP objective was to maintain

a R251bn CAPEX budget with R50 60bn cash savings vs. the Oct 2013 response budget in order to close the financing gap.

As part of the BPP programme, a procurement initiative was set up with the expectation of achieving rapid savings of R7.3bn for the MYPD3 while more complex cost levers were being addressed. Our understanding is that there have been challenges in attaining the required cost reduction and only four of the thirteen business cases originally developed within Commercial Division have delivered savings of in total R338m against a target of R1.11 4bn for FY14/15. To date there is limited transparency about the root causes for this underachievement and no interventions have been put in place.

The scope of this project is to Turnaround the BPP procurement work stream and deliver rapid procurement savings and working capital reduction. At the same time the necessary structure, resources, tools and skills should be put in place to allow Eskom to sustainably deliver further savings going forward.

#### OVERALL PROGRAMME DESIGN

In order to achieve the accelerated impact required we propose the following design principles for the project

- **Realise quick wins first:** In order to accelerate savings generation we will initially focus on quick wins. Based on our experience we believe that these can be found in multiple areas including eliminating price differences for same/ similar parts across suppliers, contract consolidation and demand management including inventory reduction across stations.
- **Implement innovative rapid transformation methods:** McKinsey undertakes a variety of innovative methods to successfully drive rapid transformations. This includes involving former Chief Procurement Officers who will get directly involved in diagnostic work and actual price negotiations with suppliers.
- **Undertake capability building:** Eskom's TOP Engineers have already been involved in the BPP procurement effort. We firmly believe in further building these capabilities within Eskom by launching a third cohort of TOP Engineers that is open to a broader audience and can be firmly integrated into this project to build a future procurement core team within Eskom.
- **Implement performance based compensation:** As a real demonstration of our belief in the savings that can be taken out of Eskom's current procurement spent, McKinsey is willing to operate on a full performance based fee contract.



## PROPOSED APPROACH

Given that the BPP procurement effort is already well under way and has gathered momentum we would choose a project approach that consists of the following two phases:

- **Turnaround Phase** that will focus on accelerating the current BPP procurement efforts and laying the foundations for the subsequent category phase
- **Category Work Phase** that addresses Eskom's entire spend

### Turnaround Phase

During the initial Turnaround Phase of the project we will focus our support on three major work streams.

Firstly, we will support and expedite Eskom's ongoing BPP procurement savings efforts with McKinsey expertise and methodology. The BPP procurement team is currently executing a number of work packages including Transformers, MV motors, Cables and Conductors, GC Group Excellence, Grinding Media, Diesel, , Spares Inventory, Obsolescence, HR Value package and Shipping & Haulage with significant spend volume. We would propose to continue these efforts and support them with additional diagnostic content, negotiation preparation and support to ensure that maximum savings in these work packages is achieved.

Secondly, as outlined above we believe that there is significant quick win potential in Eskom by pulling the following quick high impact levers

- *Eliminating price deltas*: Significant volumes of same and similar products are still bought through different contracts across Eskom
- *Inventory optimisation*: rapid reduction of the current level of R12bn working capital through centralisation of spare parts and consumable warehousing across Eskom's power station fleet
- *'Turning off the taps'*: reducing usage of certain commodities and services by implementing strict controls to limit ordering and maverick buying
- *Leveraging Eskom's purchasing power*: cancelling or renegotiating contracts or issuing discounts demands for contracts where Eskom is a major buyer in the local market
- *Top down cost control*: Implementing central reduction of budgets and requiring justification once existing budgets reach critical levels



The third work stream would focus on setting up a successful long term procurement effort at Eskom that over time addresses the Eskom's entire spend. Therefore we would propose to complete the following steps

- Develop an agreed spend baseline that takes factor cost increases, inflation and changes in Eskom's demand patterns into account
- Review the effectiveness of Eskom's current procurement practices and organisational capabilities using McKinsey's proprietary Global Purchasing Excellence Survey (GPE) Benchmark
- Refine procurement savings and working capital targets, levers and solutions based on McKinsey proprietary Commodity Database
- Reprioritise Eskom's spend categories into a suitable wave plan for accelerated savings delivery
- Develop a performance based McKinsey compensation mechanism

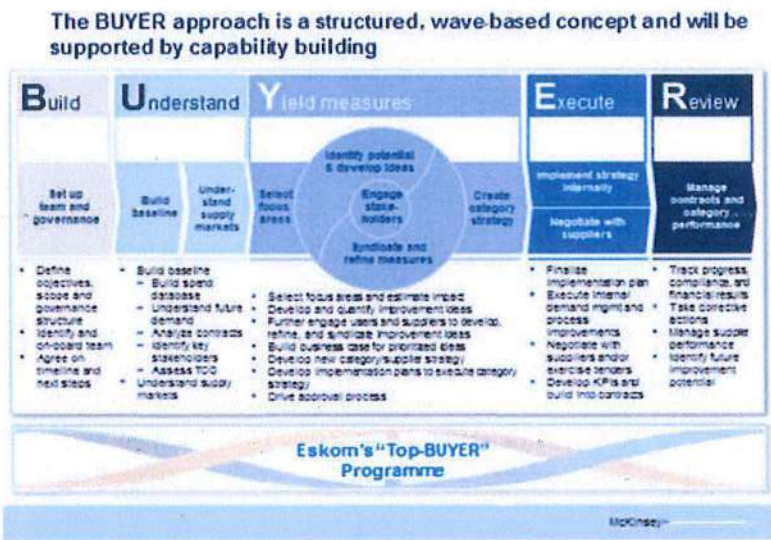
Key focus of this phase will be the expedited realisation of savings for the current financial year. This will therefore require significant support from Eskom's executives in making time sensitive decisions and implementing requisite changes.

### Category work phase

For the actual **category work** we propose to use McKinsey's proven BUYER framework to attain savings and release working capital. This framework follows the standard strategic sourcing process and uses the following procurement tools and methodologies

- *Total Cost of Ownership*: Account for all cost that incur over the life span of a part or machine including decommissioning/ recycling and comparing with alternatives
- *Best practice negotiations*: Build advantaged fact base prior to negotiations, e.g. "should cost models", supplier analysis and low cost country sourcing
- *Specification optimisation*: Conduct tear downs, design to value, specification consolidation and define fit for purpose specs
- *Contract Price Adjustment*: Analyse price indices in detail and build bottom up costing models
- *Supplier Collaboration*: Various approaches depending on the size of supplier and specific context, from supplier workshops to longer term strategic partnerships

We suggest that the category work is structured in a savings wave plan that prioritises high potential savings categories and considers realisation requirements.



Capability building and skills transfer

In order to ensure the long-term sustainability of Eskom’s procurement work, it is essential to set up a dedicated skill building effort in parallel. We therefore propose to initiate a Top Buyer programme that will expose about 5 – 10 young high caliber procurement professionals to McKinsey tools and best practices.

We propose to run this programme together with the third cohort of Top Engineers that will be starting in Q1 2015. For the Top Buyers, the formal training will be modified to include procurement specific modules like category strategy, baseline analysis, total cost opportunity, demand management, supply market dynamics, waste identification, purchasing analytics, supplier management and negotiation war gaming.



PROJECT STRUCTURE AND TIMELINE

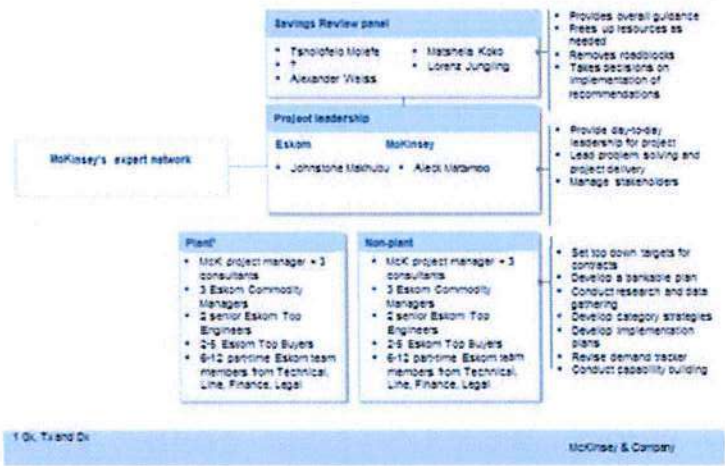
Steering committee, project team and stakeholder engagement

The overall project will inevitably impact significant aspects of Eskom’s business and its subsidiaries and relationship with external suppliers and Original Equipment Manufacturers (OEMs). Therefore it will be critical to involve key stake holders ensuring integration and buy in throughout Eskom.

Generally we suggest the following setup (see chart)

- Savings Review Panel comprised of three Eskom executives and two McKinsey partners to review and approve all savings numbers and targets plus providing oversight to the project.
- A joint project team comprising of
  - A full time Eskom senior commercial general manager who leads the overall effort and manages stakeholder relations
  - Six experienced commercial managers plus supporting Eskom resources from relevant areas like Finance, Technology, Generation
  - Four senior Eskom Top Engineers (first or second cohort)
  - Five to ten Eskom Top Buyers
- McKinsey project support as appropriate:

Suggested team setup and governance approach



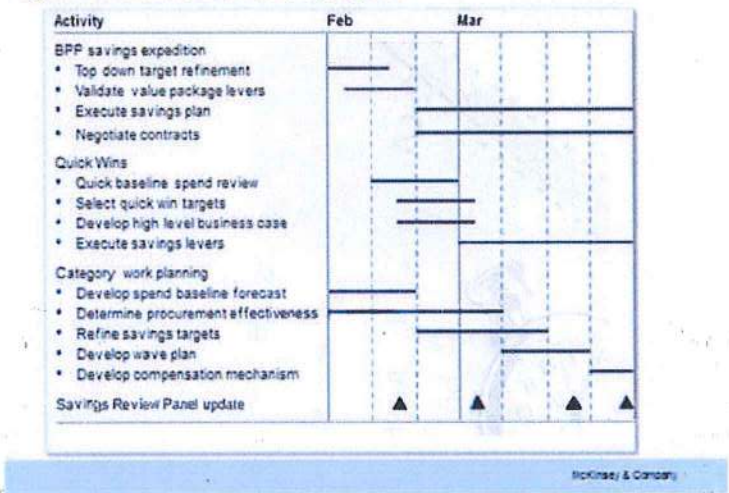


Timing of the individual project phases

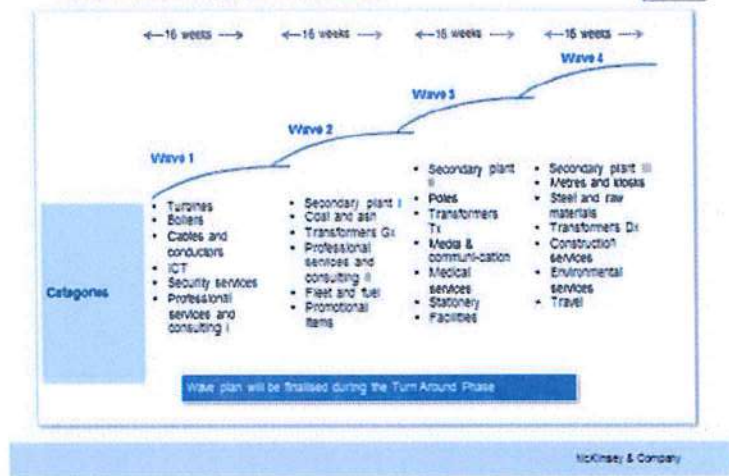
As outlined above we would structure the overall project into two phases.

The initial Turnaround phase geared at realising savings for this financial year will take 6 to 8 weeks depending on the timeline of ongoing activities at BPP as well as resource and data availability.

High level Turnaround Phase project plan



Potential phasing of commodities for each of the 16 week waves in the Category Work Phase



The Category Work Phase will be structured in 16 weeks waves each. Depending on the exact wave plan to our experience this phase will take up to 2 years to touch all of Eskom's spend categories.

#### **PROPOSED MCKINSEY SUPPORT**

##### **McKinsey team on the ground and senior leadership**

McKinsey will provide a team with significant global expertise and knowledge in both procurement and in cost reduction programmes within the Electric Power sector.

As with our other support from Eskom this team will comprise of a mixture of a full-time team on the ground that will run the day to day operations plus senior McKinsey leadership support and access to our global experts.

The full-time team will be structured as follows:

- Turnaround Phase: For this initial 6 to 8 weeks we will have a full-time project manager plus three experienced consultants. We would also involve one of our procurement experts full time in the Turnaround phase.
- Category Work Phase: Support during the Category Work Phase is highly dependent on the category wave plan as well as the individual challenges in each category (supplier base, geographical reach, localisation requirements). We will define our support during this phase in more detail during the programme design but based on our experience would suggest two full time project managers plus 6 experienced consultants during the initial waves of the programme.

The overall consulting team would be led by Michael Kloss, a director in our Johannesburg office, Alexander Weiss, a director from our Berlin office and Lorenz Juengling, a partner from our Cologne office.

In addition, Aleck Matambo, a Senior Implementation Lead from our Johannesburg office will coordinate our day to day efforts on the ground.

##### **Procurement experts**

As already mentioned above McKinsey is able to provide additional on the ground support by former Chief Procurement Officers. Their individual deep expertise and

first hand experience is an invaluable addition to the consulting team and the Eskom people involved in the programme. We would suggest to involve two of these individuals in our programme where appropriate

- Dr Peter Krampf who is a former Chief Procurement Officer and previously Head of Strategy at EnBW. He has implemented multiple savings programmes at utilities each averaging €1 bn. He is also a published author on innovative and best practise global sourcing techniques
- Jan Weydringer who is a former Chief Procurement Officer at Bugatti and has over 20+ years procurement experience. He currently leads our Africa procurement practise and has significant experience running cost reduction programmes in South African State Owned Enterprises (SOE).

#### **Access to McKinsey tools, benchmarks and best practices**

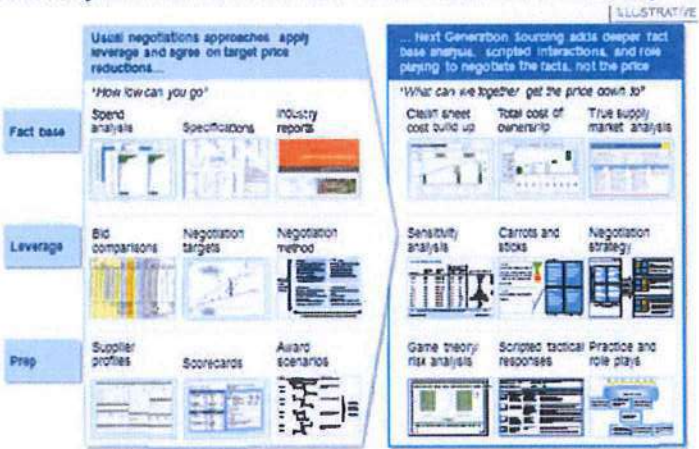
McKinsey has proven results having completed over 1600 procurement optimisation projects globally which averaged savings of approximately 15% over the last five years.

- Over 1,600 global purchasing engagement including over 80 engagements in Electric Power and Natural Gas in the last 5 years
- Addressed ~\$350 billion in spend over the last 10 years, Leading edge purchasing tools and methodologies
- 130+ purchasing partners, 550+ experienced purchasing consultants
- Global network of sourcing centers in low cost countries,
- Centre of competence with 25 ex Procurement managers and analysts

We will provide Eskom with access to these tools including our proprietary supplier and category databases that will enable global pricing benchmarking



McKinsey has a number of tools that will be utilised to attain the best price



SD&L contribution

Commitment to the transformation of South Africa is an integral part of our activities in this country. As a result of multiple dedicated initiatives in South Africa, McKinsey & Company South Africa is a proud level 2 contributor for 2015.

We also recognise the importance of Supplier Development & Localisation. As in our past work for Eskom we will contribute to this goal in the following ways:

- Running the Top Engineers programme: Our Top Engineer to date has trained nearly 30 Eskom engineers in our year long programme that focused on various consulting, project management and technical skills. In 2015 this programme will be expanded by an additional 30 Eskom professionals including young talent with a procurement background
- BEE consulting partnership: We partner with various local small black owned consultancies (i.e. Accompany Advisory whom we have partnered with on other Eskom and non Eskom engagements). Upon request by Eskom we will happily involve one of these partner consultancies in this programme.



## COMMERCIAL OFFER

### Turnaround Phase

The fees for the initial Turnaround phase of 6 to 8 weeks will be according to our standard compensation model while we agree on a joint baseline, way of measuring and compensating for savings.

As per the agreed rate card between McKinsey and Eskom the monthly professional fees for a team as described above is R10,471,965 for six weeks (excluding travel and accommodation excluding VAT).

As a sign of our commitment to Eskom we would propose to defer the payment of the Turnaround Phase and roll it into the performance based compensation of the Category Work Phase. Only in the case that Eskom decides to not move forward with the project or our support after the Turnaround Phase would these fees be required to be paid in full.

### Category Work Phase

As described in the design principles we would be willing to base our entire work during the Category Work Phase on a performance based compensation contract.

A Savings Review Panel comprised of both Eskom executives and McKinsey partners will be set up to jointly approve all relevant payments based on a detailed compensation scheme that we will jointly agree on during the programme design work in the Turnaround Phase.

While the detailed compensation scheme still needs to be agreed on we would be willing to cap our fees at 7.5% of total confirmed savings (excluding travel and accommodation excluding VAT). Based on current information this cap would equal roughly R350million but needs to be validated.

### Design principles for performance based fee arrangements

Based on our previous successful experience in such fee arrangements, McKinsey has determined a number of key requisites that are necessary in order for this arrangement to be successful for both parties.

- Upfront assurance that the performance based proposal is aligned to PFMA and Eskom procurement rules

- Eskom is required to reserve a budget that will also be sufficient to pay the full upside on the performance based fees
- A signed off baseline against which performance will be measured
- Agreement on how performance will be measured. This includes a savings calculation mechanism, defining how inflation and escalations will be dealt with. In addition there should be an audit process which signs off on all savings
- Alignment of incentives between McKinsey, the stream leads and the respective line managers all parties should be measured against the same savings targets
- Agreement to consider ideas that are technically feasible but that will not be pursued due to management decisions resulting from Eskom's broader context (e.g. SD&L and strategic imperatives)
- An arbitration mechanism consisting of "independent" parties from Eskom and McKinsey who will preside over areas of dispute, e.g., whether an idea can be moved from stage gate 3 to 4. The details of this mechanism (composition, frequency, etc.) will be defined at a later stage
- Establishment of clearly defined governance structures such as Review Panels, who will meet regularly to make decisions on the content of the programme and who will help to deal with bottlenecks
- Appropriate Eskom resourcing for each of the streams, as specified in the technical proposals
- Staffing level of the programme team and the workstreams as per pre agreed resourcing plan for the BPP
- Team members appointed based on clear role descriptions and interview (including McKinsey team)
- McKinsey leadership able to provide feedback to Eskom team members and input into performance reviews
- In case of an **extraordinary** event (e.g., management change, change in programme focus, approach or scope), full fees will be paid (to a minimum of 100% of incurred fees) leading to contract termination
- The contract can be terminated on a monthly basis from both Eskom and McKinsey's side

□ □ □

Eskom is in a very challenging situation right now and realising procurement savings quickly will be key to regain dearly required financial flexibility. Due to our long standing relationship we feel deeply responsible for making bringing our best knowledge and people to help Eskom achieve this goal. We are looking forward to discussing this proposal with you.

Sincerely,

Michael Kloss  
Director

Alexander Weiss  
Director

Lorenz Juengling  
Principal



## Summary of Professional Practices

McKinsey & Company, Inc.<sup>1</sup>, traditionally has followed several professional practices, summarized below, that are at the heart of our approach to client service. We consider it essential that our clients understand these practices.

### PROTECTING CONFIDENTIAL INFORMATION

Effective client service usually requires our access to confidential information. We recognize that you will entrust such information to us with the expectation that we handle it carefully and professionally. We are committed to meeting the highest professional standards.

We will never disclose your confidential information, materials that we develop for you from your confidential sources or information that we believe conveys significant competitive advantage, to anyone outside our Firm without your prior consent, except in the unusual circumstance when we are legally compelled to do so. We will only use such information in connection with our consulting services for you, and only those staff members with a "need to know" will have access to such information.

All McKinsey personnel are apprised of their professional obligations to our clients. Among these obligations is the vigorous protection of confidential client information. In addition, all McKinsey personnel must acknowledge their understanding of this responsibility by signing a confidentiality agreement with McKinsey.

The work that we do with you also may include information developed from non-confidential sources and conceptual frameworks, approaches, and generic industry perspectives that do not contain your confidential information. We bring such information, frameworks, approaches, and perspectives to each new assignment, and any such information may be shared within our Firm and with other clients. We are able to do this because we have retained ownership of such information, frameworks, approaches, and perspectives (and of any enhancements thereto) while serving our clients.

We aspire to a relationship based on trust and confidence, and we welcome the opportunity to discuss any areas of particular sensitivity you may have regarding

<sup>1</sup> These practices apply to services rendered by McKinsey & Company, Inc. or any of its affiliates.



the handling of confidential information. Where appropriate, we will enter into explicit confidentiality agreements.

#### **COLLABORATING AND GETTING YOUR FEEDBACK**

To ensure a structured and systematic dialogue about our joint collaboration and impact, it is our standard practice to ask for formal feedback from key client individuals (usually the Steering Committee) at the end of each engagement. We typically use our proprietary online tool to solicit feedback on our contributions towards the project's vision and goals. All data are secure and are used only as a basis for a dialogue with you on how to serve you better. The feedback is not used for evaluating individuals (neither McKinsey nor client team members).

#### **SERVING COMPETING CLIENTS**

It is the longstanding policy of McKinsey to serve competing clients and clients with potentially conflicting interests (including in connection with merger, acquisition, and alliance opportunities) and to do so without compromising our professional responsibility to maintain the confidentiality of client information. We place primary reliance on the integrity of our professional staff to maintain such confidences. Nonetheless, we ensure that consultants who develop important insights about your company are not later placed in a situation of potential conflict. To assure this, consultants who had access to your confidential information will not be assigned, for a significant period following an assignment for your company, to a study for another client where such confidential information could be used to your material competitive disadvantage.

Consistent with our confidentiality obligations, the consultants who work with you are unlikely to know that other McKinsey consultants serve one of your competitors or another party involved in a potential transaction that you are considering or effecting. Similarly, you should not expect to be advised or consulted about our serving your competitors or such other parties.

#### **MANAGING RELATIONS WITH OUTSIDE PARTIES**

As a basic policy, we do not make public client names, client materials, or reports prepared for clients without their permission. We similarly require that clients not use our name, refer to our work, or make our work products available outside their organization without our prior permission. In those cases when disclosure from

either side may be appropriate, we will discuss this first and only proceed if we reach agreement.

Occasionally, we become involved in legal actions as witnesses, sources of information, or as a party because of our work with a client. If this should occur, we will advise you promptly and work closely with you and your legal counsel to coordinate our response. We ask that you hold us harmless and indemnify us in connection with associated damages and costs, including legal costs, except to the extent they are found to have resulted from our gross negligence or willful misconduct. Also, in the event that a substantial amount of McKinsey professional time is required to respond to the action, the cost of such time will be discussed with you and billed accordingly.

**TERMINATION**

We believe that either party should have the freedom to terminate the relationship at any time if it becomes evident that the potential value of the work does not warrant further effort. In the event that a project is stopped before completion, only the professional fees and costs incurred to that date are billed.

□ □ □

The practices summarized above reflect key aspects of our basic approach to client service and reflect our commitment to maintain the highest professional standards. We would welcome the opportunity to discuss our professional practices with you.

## AW4

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**MINUTES OF THE TOP CONSULTANTS PROGRAMME STEERING COMMITTEE  
MEETING 01/2016 HELD AT KGORONG BOARDROOM ON 09 FEBRUARY 2016  
FROM 12H30**

**PRESENT:**

## MEMBERS

Mr Anoj Singh                      Chief Finance Officer ("CFO") Chairman  
Mr Matshela Koko  
Mr Abram Masango  
Mr Edwin Mabelane  
Mr Willie Majola

## OFFICIALS

Mr Prish Govender  
Ms M A Hendricks      Committee Secretary

**IN ATTENDANCE**

Mr Kobus Steyn	
Mr Vusi Mboweni	
Mr Dave Gorrie	
Mr Willie Pretorius	
Ms Unathi Hlaele	
Mr Jonathan Brown	Mckinsey & Company
Mr Alexander Weiss	Mckinsey & Company
Mr Lorenz Jungling	Mckinsey & Company
Mr Vikas Sagar	Mckinsey & Company
Mr Eric Wood	Trillian
Ms Bianca Smith	Trillian
Ms Mosilo Mothepu	Trillian

## APOLOGIES


## 1. OPENING AND WELCOME

The Chairman opened the meeting and welcomed all those present.

## 2. APOLOGIES

The above apologies were noted.



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3. QUORUM

A quorum being present the Chairman declared the meeting duly constituted. Everyone present introduced themselves.

4. DECLARATION OF INTEREST

No conflicts of interest were declared pertaining to the matters on the agenda.

5. SAFETY AND EVACUATION PROCEDURE

The safety and evacuation procedure to be followed in the event of an emergency was presented and noted.

6. APPROVAL OF THE MINUTES OF PREVIOUS MEETING


This is the first meeting and no previous minutes were approved

7. PURPOSE OF THIS MEETING

Prish informed the committee members this meeting is set up to assist the McKinsey Contract. To provide guidance and support to the Top Engineers Programme, as well as provide guidance to, and approval of all Work Package Initiatives (as defined in the Services Level Agreement to be entered into between McKinsey & Company and Eskom (the "Services Level Agreement") for generation of savings viz. Procurement, Primary Energy, Generation and Claim Management. The Committee shall be in operation for the duration and term of the Services Level Agreement.

Steering Committee Members:

Anoj Singh  
Maya Bhana  
Prish Govender  
Charles Kalima  
Dave Gorrie  
Mary Anne Hendricks  
Matshele Koko  
Ayanda Noah  
Abram Masango  
Edwin Mabelane  
Alex Weiss (McK)  
Lorenz Jüngling (McK)  
Eric Wood (Trillian)  
Bianca Smith (Trillian)  
Vikas Sagar (McK)  
Jonathan Bown (McK)  
Mosilo Mothepu (Trillian)

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**Top Consultants:**

Dunn Mukosa  
Lindiwe Gadd (McK)  
Aleck Matambo (McK)

**Five Work Packages:**

**Procurement:**

Edwin Mabelane  
Johnstone Makhubu  
Willie Pretorius  
Aleck Matambo (McK)  
Peter Safarik (McK)  
Bianca Smith (Trillian)

**Primary Energy:**

Vusi Mboweni  
Agesan Rajagopaul (McK)  
Lorenz Jüngling (McK)  
Bianca Smith (Trillian)

**Generation:**


Matshela Koko  
Kobus Steyn  
Peter Safarik (McK)  
Lindiwe Gadd (McK)  
Akash Dowra (McK)  
Jonathan Bown (McK)  
Ben Burnand (Trillian)

**Claims:**

Abram Masango  
Peter Sebola  
Gerhard Nel (McK)  
Christine Wu (McK)  
Carlos Mendes (McK)  
Bianca Smith (Trillian)

**Finance:**

Anoj Singh  
Maya Bhana  
Mosilo Mothepu (Trillian)  
Christine Wu (McK)  
Akash Dowra (McK)

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#### 8. High Level MSA Overview

A high level overview of the MSA was given by Prish. He informed the committee a letter of acceptance was issued to McKinsey in November 2015. National Treasury approved confirmation of the Contract Methodology for the Risk Based Approach with the Chief Procurement Officers Office. This contract is based on a three year period 100% performance based. There are down payments due in terms of the negotiation parameters. Over a 12 month period it reverts back to a rand zero base. If no value is generated we have the option to terminate this contract.

The essence of this contract is basically to develop the Top Consultants Programme. Work is structured around the key outputs is having a pipeline of Top Consultants Programme in Eskom. Top Consultants will be utilised across the business in critical areas. There are currently five work packages agreed upon. A note Trillian has been appointed as a BEE partner to McKinsey and Company.

#### 9. Steering Committee Terms Of Reference

The Terms of Reference (TOR) was discussed and copies handed out to be adopted in the next steering committee meeting.

##### Resolved/Action/Comment:

- Steering committee members to review TOR and forward comments to Prish
- TOR to be adopted at next steering committee meeting
- Resolve where Steerco gets its mandate from and what approval rights it has

#### 10. Key Elements Of The Steering Committee Meeting


Jonathan Bown gave a brief overview on the Key Elements of the Steering Committee Meeting. The McKinsey Wave Tool will be used as a instruments to measure impact. Eskom Internal Audit confirmed the tool has the necessary controls for auditing in place. Intent is to have Internal Audit to have timely reviews on the process and adherence to the controls.

Key role for members is to consider the following when Work Packages are submitted. In advance, apply its mind to the recommendations presented before it. Ensure that the approved savings and the Eskom commercial processes are in accordance with the Services Level Agreement and Eskom policies. Ensure the integrity of Eskom's commercial processes.

Approval of the work package Initiatives and Ideas underpinning approvals can be done at this session or conditionally and applied to alternative work packages. The Work Package Initiative can be rejected with reasons.

McKinsey's Role is to direct, guide and support the Top Consultants Programme. This team to implement a programme within Eskom's policies and procedures, with a strong focus on skills development. Development of internal capability for long term. McKinsey



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will act as a mediator for this programme. An External Auditor can be appointed if necessary.

The Chairman suggested that we do not limit the professional auditing to external, include that auditing will be done from an independent firm(s) (e.g. auditors) or Internal Auditors.

Prish presented the Stream Leads and the PMO Offices of McKinsey and Eskom to administer the contract and process. The both PMO provide an overall programme impact management and support the financial and contract management. Ensure consistent communication across the programme. Top Consultants will be involved in all the Streams

Jonathan touched on the key aspects on the Work Packages:

**Procurement:**

- Reduce external spend across key categories
- Build Commercial team sourcing and spend reduction capabilities

**Primary Energy: (Dan will be the appointed work stream lead)**

- Reduce escalation in Eskom long term coal prices
- Sustain or increase volumes in Eskom long term cost-plus and fixed price contracts
- Optimise prices of short term coal contracts – convert to medium/long term

Matshela requested on Primary Energy, quality is an issue. It must be as a minimum the same quality or more

**Generation:**

- Optimise technical project capex
- Reduce PLL daily average
- Reduce rate of EAF deterioration and lower rate of UCLF at turnaround stations

Matshela requested to change the last bullet (and make first bullet) to “Increase EAF”

**Resolved/Action/Comment:**


Jonathan to update slide on Page 9

**Claims:**

- Improve cost recovery and reduce future claims
- Reduce the commercial risks and accelerate priority claims resolution
- Optimise project cash flows
- Develop independent perspective on cost to completion
- Develop internal commercial capabilities

Edwin requested that optimization of inventory in Commercial be added to the work package.

Matshela informed this committee should not make commercial decisions.

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Matshela informed the committee he needs Kobus to fix things at Majuba and include Willy Majola in this meeting.

**Resolved/Action/Comment:**  
Willy Majola to be included in future meetings.

Matshela informed Mckinsey that Primary Energy, quality is an issue. It was requested to keep this as a minimum the same quality or increase the quality.

**Finance** (Trillian Mosillo gave an overview of Finance)  
Optimise Eskom balance sheet  
Identify and support negotiations for major funding facilities  
Liquidate EFC to generate cash-flows for Eskom  
Identify further opportunities to improve Eskom's liquidity position

Edwin needed clarity if Trillian was only involved in the finance package and who was managing the contract.

**Resolved/Action/Comment:**  
Jonathan confirmed that there are integrated teams with McKinsey and Trillian on all work packages

Dave and Charles will ensure alignment with the contract from the outside of the process with the PMO office. Delegation of Consent Form Edwin delegated to Prish to manage this contract. The Delegation of Consent Form approved by the board is Edwin and Prish as Senior Manager will manage this contract.

Prish gave a high level overview of the Steerco IL 2 and Payment Trigger approvals required by the Steerco. He also mentioned if additional work streams are required the SLA is set up that Exco can approve this. After IL2 approval Eskom will liable to pay the consultants for work completed even if Eskom terminate the initiative if not fully completed. At the start of a stream Eskom awards McKinsey a down payment. When the down payment is complete and McKinsey has not delivered according to the contract Eskom can terminate the contract and recover the costs including interest from Mckinsey by a formal written request.


Jonathan updated the Steerco on the intake of Cohort 3

11. CFO had the following questions and concerns to the members and must be addressed at the next Steering Committee Meeting:

This presentation does not fully cover this holistically. What will Trillion be doing? Why is Bianca the only one being developed in Trillion? Where are we starting, where is it ending, what is the impact on the company?

**Resolved/Action/Comment:**  
Will include scoping out of new builds in the next presentation – Vikas Sagar



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The programme only lives to enhance the ability to deliver on Design to Cost. there is no purpose to these work initiatives without aligning it to DTC. To what extent will this help me in achieving DTC, what is in and what is out?

**Resolved/Action/Comment:**  
General Comment

This is yet another part of programmes, what is special about this programme? How is it different from B2B or BPP. The committee needs to know how we are addressing the lessons learnt from B2B and BPP. Where are the lessons learnt? and how is this programme addressing those learnings? No one knows what their BPP targets are. Need to think about process and change management for change to be sustainable throughout the organization. B2B and BPP failed because of a lack of change management otherwise this will not succeed. We need to take the organization through the journey with us.

**Resolved/Action/Comment:**  
Prish Govender: This is different from BPP and B2B – in the next meeting will demonstrate the macro-level. Contracting is different. We will start top down instead of bottom up approach in the next presentation

Where does the Steerco get its mandate from? Otherwise the DOA might do whatever they want. What approvals does this Steerco has and what are the consequences. What is the mandate of the committee and who gives it? If we want to set this up the right way, let's do it properly. If McKinsey wants to stop the work, stop it, if you want to continue, continue at your own risk. Consider having an independent change management person to independently give a view of the success or failure of the programme

**Resolved/Action/Comment:**  
Will be addressed at the next Steerco

Benefits: What are the benefits to Eskom Commercial, DTC, Top Engineers and SD&L.


**Resolved/Action/Comment:**  
Will be addressed at the next Steerco

Top Engineers: What are the objectives and benefits? What will the Top Engineers be like, if they are supposed to be like consultants, do we have the internal ability to assess them? What are the KPIs? How do we measure the success of the Top Engineers? What are the attributes? How are we going to measure and monitor their KPI's. How will the changes be embedded into the organisation?

**Resolved/Action/Comment:**  
Will be addressed at the next Steerco

The CFO requested that a Human Resources Member to be appointed for this Steerco



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**Resolved/Action/Comment:**  
Prish to invite and appoint a HR Member

Wave Tool: We need a mechanism to agree to the inputs to the Wave tool so we don't argue about its outputs

**Resolved/Action/Comment:**  
Will be addressed at the next Steerco

Subcontractor Relationships: Have been lax in my experience in Transnet. Need to know about skills and quantum. How is the relationship between McKinsey and Trillion going to be measured?

**Resolved/Action/Comment:**  
Will be addressed at the next Steerco

Work packages: We have thus far spoken about value how will this be embedded?

**Resolved/Action/Comment:**  
Will be addressed at the next Steerco

I have seen issues pertaining to Primary Energy and we also have some questions regarding if reversal is benefit to Eskom or is there something McKinsey is working on. There are the details that needs to be worked on - Vusi Mboweni:

**Resolved/Action/Comment:**  
Will be addressed at the next Steerco

Sustainability: If we are not talking about process then we are not talking about sustainability


**Resolved/Action/Comment:**  
Will be addressed at the next Steerco

Procurement: We are not talking about contractor management and fraud and corruption. These are burning issues

**Resolved/Action/Comment:**  
Will be addressed at the next Steerco

Final Question needs to be addressed do we still need this programme for Generation and Group Capital considering the trajectory we are going to?

**Resolved/Action/Comment:**  
Will be addressed at the next Steerco

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11. GENERAL

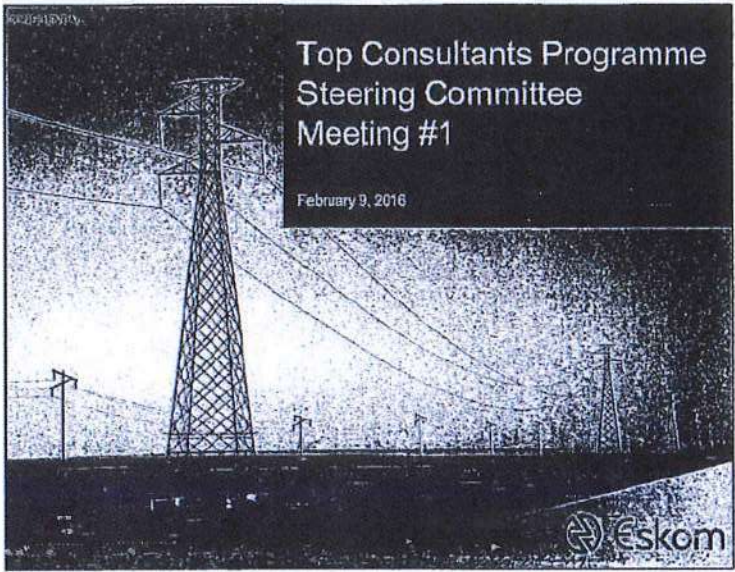
It was proposed to work on these numbers, compare notes and come back with the answers to the concerns and questions. No approvals to be done before the next Steering Committee Meeting

10. CLOSURE

There being no further business to transact, the Chairman declared the meeting closed at 12h55. The Chairman also requested that the material for this meeting be sent out earlier.

SIGNED AS A CORRECT RECORD OF THE PROCEEDINGS.

CHAIRMAN: \_\_\_\_\_ DATE: 15 February 2016



Steering Committee Meeting Agenda			Eskom
No	Subject	Sponsor/presenter	Time
1	Opening and welcome Safety briefing Introductions and apologies	Chair	12:30
2	Overall description of the mechanics of the contract <ul style="list-style-type: none"><li>• High level MSA overview</li><li>• Description of the work packages</li><li>• Approval role of Steering Committee</li></ul>	Chair	12:35
3	Progress update and approvals by work package <ul style="list-style-type: none"><li>• Work package approvals</li><li>• Work package initiative IL2 approvals</li></ul>	All	12:45
4	Additional points of discussion <ul style="list-style-type: none"><li>• Contract signing</li><li>• Communications</li><li>• External audit</li><li>• Programme name</li></ul>	All	14:10
5	Closing	Chair	14:30



Introductions



Eskom

Morinsig

Tribian



Alex Welis  
Director



Willem Saper  
Director



Lorenz Jongsing  
Partner



Jonathan Baum  
Associate Partner



Elna Venter  
Manager



Willem Saper  
Director



Alex Welis  
Director



Willem Saper  
Director



Lorenz Jongsing  
Partner



Jonathan Baum  
Associate Partner



Elna Venter  
Manager



Willem Saper  
Director



Alex Welis  
Director



Willem Saper  
Director



Lorenz Jongsing  
Partner



Jonathan Baum  
Associate Partner



Elna Venter  
Manager



Willem Saper  
Director




Alex Welis  
Director

1. No. using lights

2

Steering Committee Meeting Agenda			
			
No	Subject	Sponsor/presenter	Time
1	Opening and welcome <ul style="list-style-type: none"><li>Safety briefing</li><li>Introductions and apologies</li></ul>	Chair	12:30
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3	Progress update and approvals by work package <ul style="list-style-type: none"><li>Work package approvals</li><li>Work package initiative IL2 approvals</li></ul>	All	12:45
4	Additional points of discussion <ul style="list-style-type: none"><li>Contract signing</li><li>Communications</li><li>External audit</li><li>Programme name</li></ul>	All	14:10
5	Closing	Chair	14:30

MSA overview



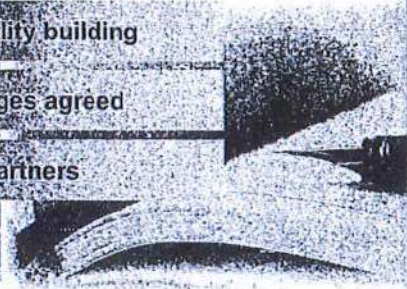
4 year contract

100% performance-based


Top Consultants capability building


currently 5 work packages agreed

Partnership with BEE partners



Steering Committee Terms of Reference





THE REPUBLIC OF SOUTH AFRICA  
Department of Energy

Version: 1.0

Page: 1 of 1

1. PURPOSE

The Steering Committee (SC) is a committee established to oversee the implementation of the Eskom Performance Improvement Programme (PIP) and to ensure that the programme is implemented in a timely and effective manner. The SC will be responsible for monitoring the progress of the programme and for reporting to the Eskom Board on the progress of the programme.

2. SCOPE

The SC will be responsible for overseeing the implementation of the PIP across all Eskom business units. The SC will be responsible for ensuring that the programme is implemented in a timely and effective manner and for reporting to the Eskom Board on the progress of the programme.

3. MEMBERSHIP

The SC will be composed of representatives from all Eskom business units. The SC will be chaired by the Eskom CEO and will report to the Eskom Board.

4. FUNCTIONS

The SC will be responsible for the following functions:

- 4.1 To oversee the implementation of the PIP across all Eskom business units.
- 4.2 To monitor the progress of the programme and to report to the Eskom Board on the progress of the programme.
- 4.3 To ensure that the programme is implemented in a timely and effective manner.
- 4.4 To ensure that the programme is implemented in a cost-effective manner.
- 4.5 To ensure that the programme is implemented in a manner that is consistent with Eskom's values and principles.

5. REPORTING

The SC will report to the Eskom Board on the progress of the programme. The SC will submit a report to the Eskom Board at least once a year.

1 Constitution

2 Delegation of Authority

3 Composition of the Committee


4 Role and Responsibilities of the Committee

5 Meetings

6 Conflicts of Interest

7 Reporting

Role and responsibilities of Steering Committee  
(1/2)




- Adopt the McKinsey WAVE TOOL to be used as the single instrument to measure impact
- Ensure that Corporate Audit evaluates and assures that the TOOL has the necessary controls for auditing
- When considering submitted Work Package Initiatives:
  - In advance, apply its mind to the recommendations presented before it
  - Ensure that the approved savings and the Eskom commercial processes are in accordance with the Services Level Agreement and Eskom policies
  - Ensure the integrity of Eskom's commercial processes
- Provide approvals
  - Approve the Work Package Initiative as submitted
  - Approve the Work Package Initiative conditionally
  - Approve an alternative Work Package Initiative as submitted
  - Approve an alternative Work Package Initiative conditionally
  - Support the Work Package Initiative, with a referral to a higher Delegated Approval Authority, where applicable
  - Reject the Work Package Initiative, with reasons

SOURCE: Top Engineers Steering Committee Terms of Reference Document

6

Role and responsibilities of Steering Committee  
(2/2)

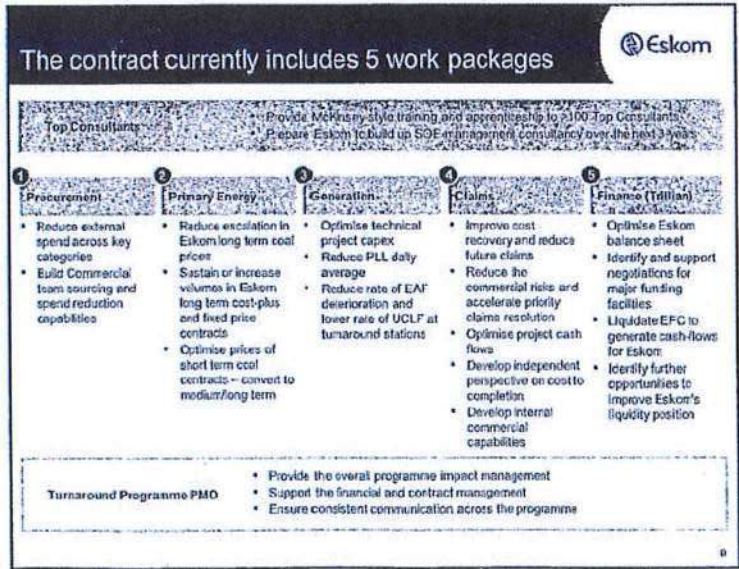
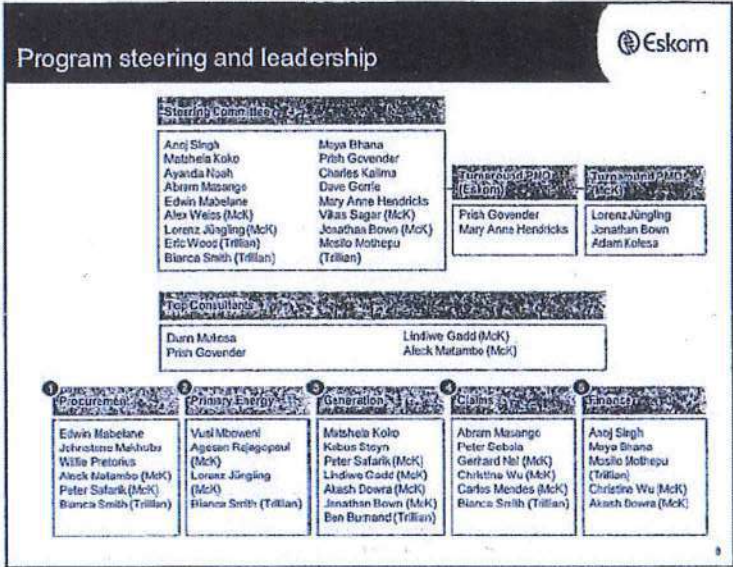


- When considering Eskom Top Engineers:
  - Direct, guide and support Programme team to implement a programme within Eskom's policies and procedures, with a strong focus on skills development
  - Direct the participation of the Eskom Top Engineers in all Work Package Initiatives
  - Assess the SD&L value creation as agreed by the parties
  - Monitor Eskom's progress on the program; provide guidance when needed
  - Provide feedback to required parties including Exco and Board
- Shall:
  - Consider any complaints raised by Eskom or McKinsey & Co
  - Be responsible for escalation or implementation of corrective actions
- Authorised to:
  - Investigate any matter brought before it for approval
  - Request other Eskom employees to attend the Committee meetings
  - Consult with and seek any information it requires from any Eskom employees
  - Obtain independent professional advice as it deems necessary and report promptly to the Senior Manager: Risk and Governance on any appointments made in this regard

SOURCE: Top Engineers Steering Committee Terms of Reference Document

7





Today we require Work Package Initiative approval

Eskom

Focus for the day

Level	Description	Approval process	Example
Work Package (WP)	<ul style="list-style-type: none"><li>Overall area for improvement</li><li>Contractual structure</li></ul>	<ul style="list-style-type: none"><li>Once-off</li></ul>	<ul style="list-style-type: none"><li>Procurement</li><li>Primary energy</li><li>Generation</li></ul>
Work Package Initiative (WPI)	<ul style="list-style-type: none"><li>Tangible improvement initiative within work package</li><li>Smallest level for business case and McKinsey / Eskom FTE staffing</li><li>With single impact-linked KPI to determine payment</li></ul>	<ul style="list-style-type: none"><li>Once-off</li></ul>	<ul style="list-style-type: none"><li>Yellow equipment</li><li>Cost-plus and fixed contract</li><li>UCLF reduction</li></ul>
Specific site (if applicable)	<ul style="list-style-type: none"><li>Specific site location if applicable (i.e. Generation and Primary Energy)</li></ul>	<ul style="list-style-type: none"><li>IL stage gates</li><li>Once-off</li></ul>	<ul style="list-style-type: none"><li>New Denmark coal mine</li><li>Mauba power station</li></ul>
Executable ideas	<ul style="list-style-type: none"><li>Executable ideas to enable achievement of work package initiative level targets</li><li>With assigned impact, timeline, milestones, owners, etc.</li></ul>	<ul style="list-style-type: none"><li>IL stage gates</li></ul>	<ul style="list-style-type: none"><li>Contract demand reduction</li><li>Rebur Mill 5</li></ul>

10

Steerco approvals are then required at IL2 and payment trigger

Eskom

	Defined	Contract	Ready for implementation	Realised benefit for Eskom	Implementation	Payment
Approver	<ul style="list-style-type: none"><li>PMO</li><li>Sponsor</li></ul>	<ul style="list-style-type: none"><li>PMO</li><li>ESOM</li><li>Steerco</li><li>Cost center</li></ul>	<ul style="list-style-type: none"><li>PMO</li><li>Sponsor</li></ul>	<ul style="list-style-type: none"><li>PMO</li><li>ESOM</li><li>Cost center</li><li>Steerco</li></ul>	<ul style="list-style-type: none"><li>Sponsor</li><li>Eskom CMO</li></ul>	<ul style="list-style-type: none"><li>Sponsor</li><li>Eskom CMO</li><li>Finance</li></ul>
Responsible	<ul style="list-style-type: none"><li>McK and Eskom WPI / Idea leads</li></ul>	<ul style="list-style-type: none"><li>McK and Eskom WPI / Idea leads</li></ul>	<ul style="list-style-type: none"><li>McK and Eskom WPI / Idea leads</li></ul>	<ul style="list-style-type: none"><li>McK and Eskom WPI / Idea leads</li></ul>	<ul style="list-style-type: none"><li>Eskom WPI / Idea leads</li></ul>	<ul style="list-style-type: none"><li>Eskom WPI / Idea leads</li></ul>
Assured McK payment after IL approval	<ul style="list-style-type: none"><li>N/A</li></ul>	<ul style="list-style-type: none"><li>50% of incentive payments</li></ul>	<ul style="list-style-type: none"><li>70% of incentive payments</li></ul>	<ul style="list-style-type: none"><li>100% of incentive payments</li></ul>	<ul style="list-style-type: none"><li>80% of incentive payments (if no IT)</li></ul>	
Completion criteria	<ul style="list-style-type: none"><li>Initiatives described in terms of levers addressed, risk, and benefits</li><li>Resources for further detailing assigned</li><li>Impact roughly quantified</li><li>Prerequisites in place</li></ul>	<ul style="list-style-type: none"><li>Detailed savings calculated</li><li>Milestone dates refined</li><li>Implications from key stakeholders incorporated</li><li>Feasibility confirmed</li></ul>	<ul style="list-style-type: none"><li>Detailed implementation plan provided</li><li>Milestones finalised</li><li>Quotes received from suppliers</li><li>Approvals for design changes obtained</li><li>Savings confirmed</li></ul>	<ul style="list-style-type: none"><li>Payment triggers fulfilled and signed off by specified stakeholders</li></ul>	<ul style="list-style-type: none"><li>Contracts in place</li><li>Design changes implemented</li><li>Performance management system operational</li></ul>	<ul style="list-style-type: none"><li>Impact flowed through to the bottom line</li></ul>

1 Some payment triggers in IL4 (e.g., O&M, Procurement)

2 Only for Procurement and FED

3 PFMA/NERSA/SCAL suitable

4 For WPIs that progressed through IL, but which have not progressed to following ILs due to Eskom not pursuing or implementing WPI in accordance with VWF schedule

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Steering Committee Meeting Agenda			
Eskom			
No	Subject	Sponsor/presenter	Time
1	Opening and welcome <ul style="list-style-type: none"><li>• Safety briefing</li><li>• Introductions and apologies</li></ul>	Chair	12:30
2	Overall description of the mechanics of the contract <ul style="list-style-type: none"><li>• High level MSA overview</li><li>• Description of the work packages</li><li>• Approval role of Steering Committee</li></ul>	Chair	12:35
3	Progress update and approvals by work package <ul style="list-style-type: none"><li>• Work package approvals</li><li>• Work package initiative IL2 approvals</li></ul>	All	12:45
4	Additional points of discussion <ul style="list-style-type: none"><li>• Contract signing</li><li>• Communications</li><li>• External audit</li><li>• Programme name</li></ul>	All	14:10
5	Closing	Chair	14:30

12

Top Consultants programme update	
Eskom	
283	Applications received
90	Problem Solving Test candidates
23/02-10/03	Scheduled interview dates
04/04-08/04	Planned BCR training
800	Required applications for target 40 Top Consultants-cohort (based on 5% application-offer cohort 2 rates)
Internal push needed to attract sufficient applicants for target cohort size	

13



① Procurement Excellence (1/3)					
Eskom					
PRELIMINARY					
Work Package Initiative (WPI)	Eskom lead	Baseline		Methodology	Estimated impact, R mn
		Total, R mn	Addressable, R mn		
ICT	Charles Kalima	2,900 (recurring)	2,000 (recurring)	<ul style="list-style-type: none"><li>Bottom-up analysis based on the contract price / budget for 20 ICT contracts and a forecast on tactical spend</li><li>Not addressable:<ul style="list-style-type: none"><li>IT professional service</li><li>Online vending agent strategy and contract</li><li>Contracts ending during year</li></ul></li></ul>	225
Yellow plans	John Lachenicht	550 (once-off)	550 (once-off)	<ul style="list-style-type: none"><li>Based on 2017 ERI budget for hiring and buying yellow plans</li><li>100% addressable baseline</li></ul>	150
		540 (recurring)	540 (recurring)	<ul style="list-style-type: none"><li>Capital project spend to be confirmed (not included in the current baseline)</li></ul>	140
Roller services	Charles Kalima	3,000 (recurring)	1,500 (recurring)	<ul style="list-style-type: none"><li>Based on budget for the 10-year contracts</li><li>~50% addressable baseline (labour represents a significant portion of costs and is not fully addressable)</li></ul>	225 (updated on 9/2)

① Procurement Excellence (2/3)					
Eskom					
PRELIMINARY					
Work Package Initiative (WPI)	Eskom lead	Baseline		Methodology	Estimated impact, R mn
		Total, R mn	Addressable, R mn		
Inventory obsolete	Neels De Wet	500 (once-off)	500 (once-off)	<ul style="list-style-type: none"><li>Based on SAP book value for all inventory identified as potentially obsolete (i.e. spares not utilised for &gt; 5yr for GX, &gt; 3yr for wires)</li><li>Total baseline excludes strategic and critical inventory</li></ul>	50
Inventory surplus	Neels De Wet	1,400 (once-off)	1,400 (once-off)	<ul style="list-style-type: none"><li>Based on analysis comparing target and actual stock-turn ratios</li><li>Total baseline excludes strategic and critical inventory</li></ul>	500
Inventory management	Neels De Wet	11,000 (recurring)	3,300 (recurring)	<ul style="list-style-type: none"><li>Based on SAP book value for total inventory, excluding surplus and obsolete inventory</li><li>~30% addressable baseline</li><li>Not addressable: strategic and critical inventory</li></ul>	250
SCOPS (logistics, distribution & warehousing)	Wille Prstorius	4,000	1,600	<ul style="list-style-type: none"><li>Based on historical spend trends and contracts</li><li>~40% addressable baseline</li></ul>	240

① Procurement Excellence (3/3)					
PRELIMINARY					
Work Package Initiative (WPI)	Eskom lead	Baseline		Methodology	Estimated impact, R mn
		Total, R mn	Addressable, R mn		
Technical sourcing group	Macedi Skosona	44,200	TBD	<ul style="list-style-type: none"><li>Based on FY15 Purchase Orders</li><li>Specific high-value contracts to be selected for review</li><li>Commodities to be selected for subsequent wave deep dives</li></ul>	TBD
Commodity sourcing group	Charles Kalima	16,200 (recurring)	TBD	<ul style="list-style-type: none"><li>Based on FY15 Purchase Orders</li><li>Baseline excludes ICT and Boiler Services (addressed in commodity deep dives)</li><li>Specific high-value contracts to be selected for review</li><li>Commodities to be selected for subsequent wave deep dives</li></ul>	TBD
Project sourcing group	Pieter Le Roux	14,500	TBD	<ul style="list-style-type: none"><li>Baseline derived from annualised YTD performance</li><li>Capital projects</li><li>Specific high-value contracts to be selected for review</li><li>Commodities to be selected for subsequent wave deep dives</li></ul>	TBD

② Primary Energy (1/2)					
PRELIMINARY					
Work Package Initiative (WPI)	Eskom lead	Baseline		Methodology	Estimated impact, R mn
		Total, R mn	Addressable, R mn		
Short-term fixed price contracts (Gauteng)	Ayanda Ntela	731 <sup>1</sup> (recurring)	731 (recurring)	<ul style="list-style-type: none"><li>Indicative baseline - escalated FY15 price and expected volumes</li><li>Baseline will be established during RFP process</li><li>Assumed saving: 5%<sup>2</sup></li></ul>	37
Short-term fixed price contracts (Gauteng)	Ayanda Ntela	458 <sup>1</sup> (recurring)	458 (recurring)	<ul style="list-style-type: none"><li>Indicative baseline - escalated FY15 price and expected volumes</li><li>Baseline will be established during RFP process</li><li>Assumed saving: 5%<sup>2</sup></li></ul>	23
Short-term fixed price contracts (Gauteng)	Ayanda Ntela	593 <sup>1</sup> (recurring)	593 (recurring)	<ul style="list-style-type: none"><li>Indicative baseline - escalated FY15 price and expected volumes</li><li>Baseline will be established during RFP process</li><li>Assumed saving: 5%<sup>2</sup></li></ul>	30
Existing contracts - Camden and Tlokoeng	Ayanda Ntela	1,552 <sup>2</sup> (recurring)	1,552 (recurring)	<ul style="list-style-type: none"><li>Based on prices agreed for 2,94 MT for Unheral PLC, Silverlake trading (Camden) and Wescoel mining (Tlokoeng) contracts</li><li>Assumed saving: 3%</li><li>Previous negotiated decline: 3%</li><li>Negotiated price above power station average: 28-56%</li></ul>	47

1. Indicative baseline, lowest technically acceptable offer of the initial round bids

2. Based on prices currently agreed with suppliers as per signed SRN

3. Based on historical McKinsey savings in raw material procurement

## ② Primary Energy (2/2)



PRELIMINARY

Work Package Initiative (WPI)	Eskom lead	Baseline		Methodology	Estimated impact, R mn
		Total, R mn	Addressable, R mn		
Bleeding top of Mafube coal pipeline	Ayanda Mtshali	3,400 (once-off)	3,400 (once-off)	<ul style="list-style-type: none"> <li>Current provision of R3.4Ba based on reduction for 1H FY16 results</li> <li>Approach to reduce full provision incorporates fit initiatives under development with PED</li> </ul>	3,400
Costs saving on Eskom's coal supply optimisation	Vusi Mboveni	7,123 (once-off)	6,560 (once-off)	<ul style="list-style-type: none"> <li>Baseline based on last capital plan submitted by Anglo</li> <li>Included in latest budget</li> <li>Updated capital plan requested from Anglo American will update baseline</li> <li>Reduce capital by 20% through optimisation, scrubbing and schedule acceleration</li> <li>McInnes typical SIB savings in mining of 25-30%</li> <li>Capex scrub will support fact base for further operational improvements at the mine</li> </ul>	1,320

1

② IL2 approval: Fixed price contracts – Camden




Description	<ul style="list-style-type: none"> <li>Minimise F&amp;E cost of fixed price contracts for uncontracted volumes at Candem for FY17</li> <li>Leaves to be used: Bottom-up models and value-in-use to create savings against the lowest financially acceptable offer</li> <li>Indicative value calculated using uncontracted volume (=1.7MT) and historical price (R43/t in FY15) growing by 15.7% in FY16</li> </ul>	Executive sponsor: Malaheta Koko Eskom owner: Ayanda Ndle McKinsey team: Ayman Ragupathi	Team	Timeline	Fermat figure description
	<p>Description: Lowest technically acceptable delivered offer of the initial round of bids from suppliers in the RFP process</p> <p>Indicative full value: R731m (of which all is addressable)</p>				
Assessment	<p>Impact type: Financial Investment required: 0</p>	<p>9 February: I1: Agree Baseline methodology</p> <p>30 April: I1.3 Conclusion of supplier shortlist</p> <p>30 July: I1.6 Payment trigger Signed SRN with supplier</p> <p>30 August: I1.4 Operational Impact (Board approval)</p> <p>30 Sept: I1.5 Financial Impact (Monthly savings realised on contracts' price)</p>			
	<p>FY17      FY18      FY19</p>				
Impact projection	<p>Assumptions: Impact based on 5% of total value (based on previous achievement and levers used in raw material procurement). Prices escalated at 6% p.a. as detailed in Eskom's financial forecast for medium term contracts</p>	<ul style="list-style-type: none"> <li>Required volume will be sourced via RFP process as part of the ~73.2 MT (for FY17-FY20) going out to tender, provided-board approval is granted on 10 February</li> <li>Cancellation of the supplier shortlist will be available once PED cross-functional teams have processed all submitted tenders</li> <li>Final prices will be determined, once negotiation process is completed and SRN (Summary of recorded negotiations) signed</li> <li>Financial impact will be realised by decreased cost base for the length of the contract</li> </ul>			

SOURCE: PED Finance adjustment model, PED Finance presentations FY07-FY15, PED Supply plan and PED negotiator interviews



② IL2 approval: Fixed price contracts – Grootvlei




Description	<ul style="list-style-type: none"> <li>Minimize RA cost of fixed price contracts for uncontracted volumes at GivEcoflex for FY17</li> <li>Levers to be used: Bottom-up mental and value-in-use to create savings along the highly technically accountable offer indicative value calculated using "uncontracted volume" (~1MT) and historical price (RA80th FY15) growing by 7% in FY16</li> </ul>	<p>Executive sponsor: Malvika Kato          ESK owner: Ayazul Niala          McKinley team: Anjali Rajagopal</p>	Team
Baseline	<p>Description: Lowest technically accountable delivered offer of the initial round of bids from suppliers in the RFP process</p> <p>Indicative full value: ₹68mm (of which all is addressable)</p> <p>Impact type: Recurring investment required: 0</p>	<p>07 February ♦ I2: Agreed Baseline methodology</p> <p>10 April ♦ I3: Conclusion of supplier shortlist</p> <p>10 June ♦ Preaward Meeting: Signed SOW with supplier</p> <p>10 August ♦ I4: Operational Impact (Board approval)</p> <p>10 Dec ♦ I5: Financial Impact (Monthly savings realized on contracts' expiry)</p>	Millstones
Impact properties	 <p>Assumptions: Impact based on 5% of total value based on previous achievements and levers used in new material procurement. Prices escalated at 8% p.a. as detailed in Eskom's financial forecast for medium term contracts</p>	<ul style="list-style-type: none"> <li>Required volume will be sourced via RFP process as part of the FY17-M1 FY17-FY20 going off for tender; provided board approval is provided on 10 February</li> <li>Conclusion of the supplier shortlist will be available once F&amp;E cross-functional teams has processed all submitted tenders</li> <li>Final prices will be determined, once negotiation process is completed and ERM (Gwinbury of Iscor) regulations are signed</li> <li>Financial impact will be realized by decreased bid base for the length of the contract</li> </ul>	Payment description

SOURCE: PED Finance attempt model, PED Finance powerizations FY07-FY15, PED Supply plan and PED negotiator interviews

31

② IL2 approval: Fixed price contracts – Arnot



Description	<ul style="list-style-type: none"> <li>Minimize Rft cost of fixed price contracts for uncontracted volumes at Amd for FY17</li> <li>Leaves to be used: Buy-back models and value-in-use to create savings against the lowest technically acceptable offer</li> <li>Indicative value reduced: 10% uncontracted volume (~10MT) and historical price (FY16) prevailing by 24% in FY16</li> </ul>	<p>Executive sponsor: Mahesh Kulkarni          Eskom owner: Ayanda Ntsho          McKinsey team: Agnish Rajgopal</p>	Team
Overview	<p>Description: Lowest technically acceptable delivered offer of the initial round of bids from suppliers in the RFP process</p> <p>Indicative full value: R263m (of which all is addressable)</p>	<p>0 February   R2: Agreed Baseline methodology</p> <p>~30 April   R3: Conclusion of supplier shortlist</p> <p>~30 July   Payment linked; signed SRN with supplier</p> <p>~30 August   R4: Operational impact (Board approval)</p> <p>~30 Sept   R5: Financial Impact (Monthly savings realized on contracts' price)</p>	Timeline
Impact projection, FY16 - FY17	<p>Impact type: Recurring              Investment required: 0</p>  <p>Assumptions: Impact based on 6% of total value (based on previous achievements and items used in the material procurement). Prices escalated at 8% p.a. as escalated in Eskom's financial forecast for medium term contracts</p>	<ul style="list-style-type: none"> <li>Required rollout will be sourced via RFP process as part of the ~732 MT for FY17-FY20 going out for tender</li> <li>Provision for award approval is granted on 10 February</li> <li>Consistency of the supplier shortlist will be maintained</li> <li>PEO cross-functional teams have processed all submitted tenders</li> <li>Final prices will be determined, once negotiation process is concluded and GRN (summary of recorded negotiations) signed (Sept 2016)</li> <li>Financial impact will be realized by decreased cash burn for the length of the contract</li> </ul>	Plant/ingrains description

SOURCE: PED Finance attempt model, PED Finance powerstations FY07-FY15, PED supply plan and PED negotiator interviews



IL2 approval: Fixed price contracts – Existing contracts – Tutuka, Camden

Description

15 fixed price contracts have been negotiated with prices agreed for first contracts yet to be signed

Three contracts: Universal PLC, Shushele Trading (Camden) and Wacoal Mining (Tutuka) have been prioritised due to their size and prices compared to the power station average

Contracts represent 2.54MT and contracts that are 28-55% above the power station average RCU price

Baseline

Description: Total cost p.a. of three contracts based on price and volume indicated in SRN (Summary of recorded negotiations)

Full value: R1,552m p.a.

Of which addressable: A1

Impact projection

Impact type: Requiring investment required: 0

47

50

54

FY17

FY18

FY19

Assumptions: Impact based on 3% annual value (based on previous achievement and latest use in new model at procurement). Prices escalated at 6% p.a. as detailed in Eskom's financial forecast for medium term contracts

19 months actuals and 3 months forecasts for FY19

SOURCE: PED Finance attempt model, PED Finance powerstations FY07-FY15, PED Supply plan and PED negotiator int./cr/ews

23

Executive sponsor: Mphahlele Koko

Eskom owner: Ayanda Ndle

McKinsey team: Agustin Rajagopal

9 February

IL2: Agree baseline methodology

4 March

IL3: Supplier approached for renegotiation

20 April

Payment trigger: New signed SRN with supplier

15 May

IL4: Contract signed

1 June

IL5: Financial Impact (Monthly savings realised on contracts price)

Impact will occur provided signed SRN does not restrict new negotiations occurring

Supplier will be approached for renegotiation, once evidence is provided, a better price could have been achieved

Signed SRN will indicate conclusion of negotiations and value for new price to be viable

Contracted can be signed once board has approved participation in contracts

Financial impact will be realised by decreased cost base for the length of the contract

IL2 approval: Bleeding topics - Medupi penalty provision

Description

Reduction of provision for future penalties stemming from take-or-pay coal contract for delayed Medupi power station to zero by FY16 end. This stream requires development of options for developing coal or reducing production to reduce the penalty, sizing the coal usage and financial implications of each option, facilitating planning within Eskom, and with external parties (e.g. Exxaro and Tharkeles), planning for robust, and ongoing evidence for audit purposes

Baseline

Description: All provisions related to Medupi coal at FY16 end

Full value: R5,000m. The penalty is presently R3,400m based on present value of 12m tons over the next 5 years

Of which addressable: R3,400m

Impact projection

Impact type: Once off investment required: None

3,400

Q4 FY16

Q1 FY17

Q2 FY17

Q3 FY17

Executive sponsor: Mphahlele Koko

Eskom owner: Vusi Mshweni

McKinsey team: Alexander Wolke, Lorenz Klinging, Agustin Rajagopal

Feb/16

IL2: Formulate options to reduce excess coal

Feb/16

IL3: Define final evidence and work plan

Mar/16

IL4: Payment trigger: Heads of Terms with Exxaro

Apr/16

IL5: Full write down approved by board

Apr/16

IL6: Actions completed and broadly recognized by Eskom

Signature of heads of terms with Exxaro and other 3<sup>rd</sup> parties enabling multiple parallel options how to use excess Medupi coal and assembly of related audit evidence proving likelihood of use of the outlined options



IL2 approval: Cost plus contracts - New

② Denmark colliery capex optimisation

Description

• At New Denmark Colliery (NDC) the unit cost of coal has escalated up to 739 R/tb in FY16 (22% p.a. since FY11) due to declining volumes and increasing costs.

• The contracts run until 2020 with R6.56bn of Capex required.

• A Capex scrubbing to reduce initial Capex costs.

• The 6-week capex optimisation program will be supplemented by an open diagnostic to initiate a subsequent lean transformation at NDC.

Baseline

Description: Capex requirements for NDC (10 year budget)

Full value: R6.56bn

Of which addressable: R1.56bn

Impact projection

Impact type: Once-off

Expected impact: 20% reduction in 10 year capex budget expected through scrubbing and optimisation based on initial spend analysis, market factors (i.e. benchmark based on equal)

1,316

Q1 FY11

Executive sponsor: Makhela Koko

Eskom owner: Vusi Mtshweni

McKinsey team: Alexander Weiss, Lorenz Jungling, Tommaso Macielak, Klaus Lamm, Jan Fischer

01/16

IL2 (Agreement of high level capex plan and expected impact)

05/16

IL3 (Detailed capex scrubbing and implementation plan)

06/16

Payment trigger (Approval of new capex plan)

09/16

IL4 (Eskom sign-off of new capex budget and submission to AAC)

09/16

IL5

Payment is triggered once the new capex plan (post scrubbing and optimisation) is approved. Tripartite approval among Eskom, AngloAmerican (AATC) and McKinsey is required.

Team

Milestones

Payment triggers description

1 Full value updated according to budget approved by Eskom IFC (Investment and Finance Committee) in February, 2016

25

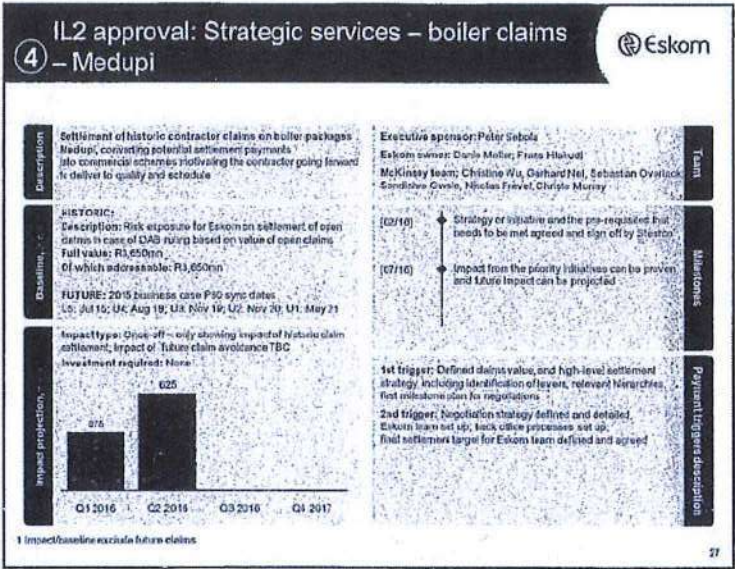
④ Claims and commercial management

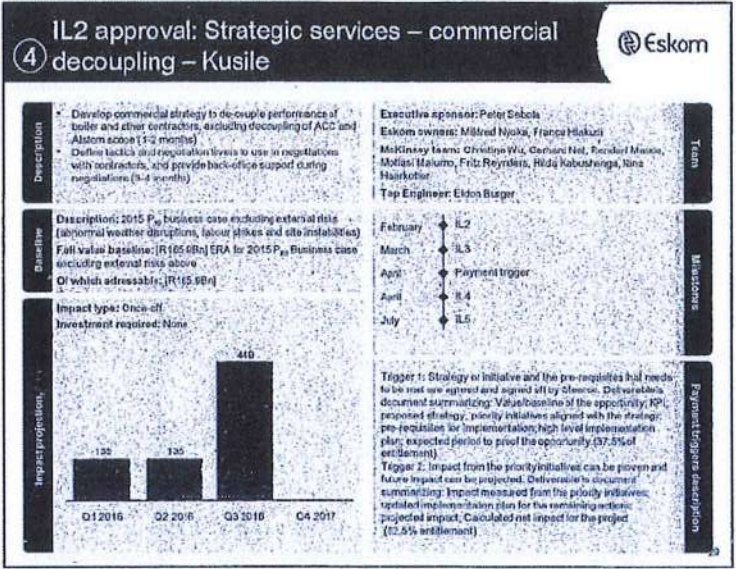
PRELIMINARY

Work Package Initiative (WPI)	Eskom lead	Baseline		Methodology	Estimated impact, R mn
		Total, R mn	Addressable, R mn		
Strategic services - boiler claims - Medupi	Peter Sebola	3,650 (once-off)	3,650 (once-off)	Historic: risk exposure for Eskom on settlement of open claims in case of DAB ruling based on value of open claims Future: 2015 business case P80 sync dates	1,000
Strategic services - boiler claims - Kusile	Peter Sebola	2,800 (once-off)	2,800 (once-off)	Historic: risk exposure for Eskom on settlement of open claims in case of DAB ruling based on value of open claims Future: 2015 business case P80 sync dates	800
Strategic services - commercial coupling - Kusile	Peter Sebola	166,000 (once-off)	166,000 (once-off)	2015 P80 business case excluding external risks (weather, labour strikes, site instabilities and elections)	720
Employer claim	Peter Sebola	3,900 (once-off)	2,900 (once-off)	Addressable employer claims in Medupi based on the employer claims register	550

26









5 Finance			
PRELIMINARY			
Work Package Initiative (WPI)	Eskom lead	Capital amount, mn	Notes
Master Vending Agent	Maishela Koko	R8,000	<ul style="list-style-type: none"><li>Advise on the appointment of master vending agent, and arrange capital for appointed master vending agent</li><li>Pre-paid electricity revenue for 2016/2017 FY</li></ul>
Sale of the Eskom Finance Company (EFC)	Anoj Singh	R8,000	<ul style="list-style-type: none"><li>Sell-side mandate to dispose of EFC as a going concern</li><li>Minimum selling price based on Eskom valuation of business; baseline for 2016/2017 FY</li></ul>
Issuance of Hybrid Capital	Anoj Singh	R10,000	<ul style="list-style-type: none"><li>Assist with structuring, pricing, and placing of Hybrid Capital</li><li>Originated Hybrid Capital; baseline for 2016/2017 FY</li></ul>
Arrangement of long-term debt facilities	Anoj Singh	R30,000	<ul style="list-style-type: none"><li>Advise on arrangement and negotiations of long-term funding facilities with DFIs and commercial banks</li><li>Originated long term financing proposals from local and international financial institutions; baseline for 2016/2017 FY</li></ul>
Arrangement of working capital facilities	Anoj Singh	USD 500	<ul style="list-style-type: none"><li>Advise on arrangement and negotiations of long-term funding facilities with DFIs and commercial banks (e.g., CDB)</li><li>Originated working capital facilities; baseline for 2016/2017 FY</li></ul>
Completion of the Duvha Insurance claim	Maishela Koko	R4,906	<ul style="list-style-type: none"><li>Assist Eskom to finalise the Duvha Insurance claim</li><li>Settlement claim value; baseline for 2016/2017 FY</li></ul>

Steering Committee Meeting Agenda			
PRELIMINARY			
No	Subject	Sponsor/presenter	Time
1	Opening and welcome <ul style="list-style-type: none"><li>Safety briefing</li><li>Introductions and apologies</li></ul>	Chair	12:30
2	Overall description of the mechanics of the contract <ul style="list-style-type: none"><li>High level MSA overview</li><li>Description of the work packages</li><li>Approval role of Steering Committee</li></ul>	Chair	12:35
3	Progress update and approvals by work package <ul style="list-style-type: none"><li>Work package approvals</li><li>Work package initiative IL2 approvals</li></ul>	All	12:45
4	Additional points of discussion <ul style="list-style-type: none"><li>Contract signing</li><li>Communications</li><li>External audit</li><li>Programme name</li></ul>	All	13:00
5	Closing	Chair	14:30




Topics for discussion at Sleerco

Confirmation of MSA signing

Communications strategy confirmation

External auditor confirmation

Programme name



33

Resolutions for communications management

Approve McKinsey and Trillian to work with Eskom Communications to develop a comprehensive communications strategy and plan


☒

Approve release of an internal communication to senior management across Eskom within the next two weeks

☒


As an interim measure, appoint an Eskom Steering Committee member to approve the release of the internal communication requested above

☒

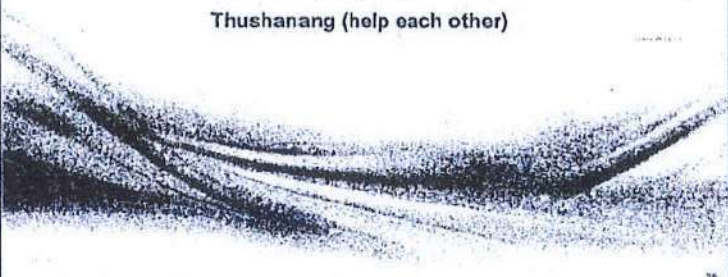


34

Resolution on programme name: suggestions




Siyakhula (we grow)  
Thushanang (help each other)



35






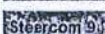
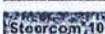
Subsequent Steerco agendas




- Attendance/Safety/Agenda overview
- Update on Top Consultants programme (i.e., recruiting, rotation, governance, knowledge)
- Contractual topics
  - Changes to contract (i.e., new work stream, new partners, etc.)
  - Issue resolution (i.e., prerequisites not met by Eskom, complaints against McKinsey, outstanding payments)
- Impact progress by work package
  - Current baseline
  - Snapshot of initiative progress (IL funnel, key topics worked on, successes)
  - Total impact achieved to date
- Approvals
  - Baseline changes
  - IL2 initiatives
  - Payment triggers
- Payment status
  - Down payment status
  - Reconciliation of incentive payments McKinsey is entitled to
  - Cash flow forecast
- Updates on communication strategy

Steerco submissions will be structured around IL2 and PT requirements, limited to 2-3 page standard template and 5-page maximum backup

36

Monthly Steerco sessions proposed for 2016			
	Tuesday 9/02	Confirmed with client leadership	
	Thursday 17/03	Proposed	
	Tuesday 19/04	Proposed	
	Monday 16/05	Proposed	
	Tuesday 14/06	Proposed	
	Tuesday 12/07	Proposed	
	Wednesday 17/08	Proposed	
	Wednesday 21/09	Proposed	
	Tuesday 25/10	Proposed	
	Monday 21/11	Proposed	

Steering Committee Meeting Agenda			
No	Subject	Sponsor/presenter	Time
1	Opening and welcome <ul style="list-style-type: none"><li>• Safety briefing</li><li>• Introductions and apologies</li></ul>	Chair	12:30
2	Overall description of the mechanics of the contract <ul style="list-style-type: none"><li>• High level MSA overview</li><li>• Description of the work packages</li><li>• Approval role of Steering Committee</li></ul>	Chair	12:35
3	Progress update and approvals by work package <ul style="list-style-type: none"><li>• Work package approvals</li><li>• Work package Initiative IL2 approvals</li></ul>	All	12:45
4	Additional points of discussion <ul style="list-style-type: none"><li>• Contract signing</li><li>• Communications</li><li>• External audit</li><li>• Programme name</li></ul>	All	14:10
5	Closing	Chair	14:30



Eskom

Appendix

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Work package approval pre-requisites

Eskom

• Pre-requisite for commencement of services under Work Package Schedule are agreement on the following

– Baseline value and renegotiation parameters

– Scope of services to be performed by McKinsey

– Point of contact

– Methodology and assumptions for calculation of the relevant impact amounts

– Work Package Initiatives to be implemented

– Short term incentives for staff on a Work Package are aligned with objects of Work Package

– Eskom to furnish McKinsey with all necessary documents for performance of services

– Eskom has made available financial resources and staff


• Confirmation of support from relevant Executive Committee member and a written approval for Work Package from Steering Committee

• Eskom to appoint a Top Engineer to each Work Package

40

1

Top 20 Tactical contracts expiring within the next 6 months  
(1/2)



NOT EXHAUSTIVE

Vendor contract	Contract value, Rm	Expiry date	Commodities	Business Unit	Utilisation <sup>1</sup>
1. SOUTHERN OVERLINE 450051797	390	2016-03-31	Electrification	Distribution	100%
2. WITATL ENGINEERING SERVICES 450051814	390	2016-03-30	Electrification	Distribution	100%
3. NATIONAL ELECTRICITY REGULATOR (NERSA) 450051937	264	2016-03-31	NERSA license fee	Corporate	100%
4. VENUS SECURITY SOLUTIONS 450051977	132	2016-03-31	Security Services	Corporate	50%
5. MAGDOLN CONSTRUCTION CO PROJECT 450052110	91	2016-05-14	Electrification	Distribution	100%
6. MANKUNA ENGINEERING AND CONSTRUCTION 450052164	85	2016-03-31	WTP Upgrade and Voids Rehabilitation	Generation	100%
7. HOLSTEN IMPACT 450052188	74	2016-07-30	Catering	Corporate	50%
8. BROOK PROPERTY GROUP 450052197	70	2016-07-31	Lease	Corporate	100%
9. NYZABUVEYA 450052187	68	2016-03-31	Survey works	Distribution	100%
10. GENSEC PROPERTY SERVICES 450052110	63	2016-06-30	Lease	Corporate	100%


1 Released contract value/ Total contract value

Source: Tactical Sourcing Contract Data Cx, Dx, Tx, Cx

41

1

Top 20 Tactical contracts expiring within the next 6 months  
(2/2)



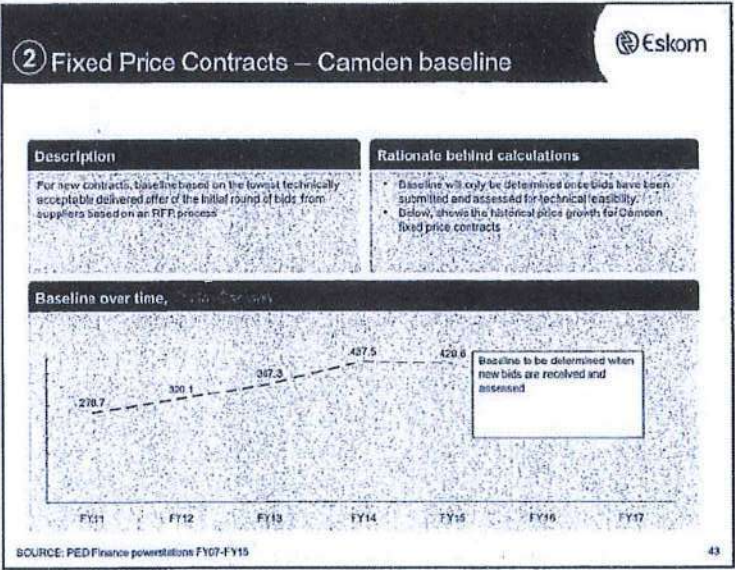
NOT EXHAUSTIVE

Vendor contract	Contract value, Rm	Expiry date	Commodities	Business Unit	Utilisation <sup>1</sup>
11. DELTA PROPERTY FUND 450052100	54	2016-06-30	Capital to Delta Property	Corporate	20%
12. YUKON PROPERTY FUND 450052101	56	2016-06-30	Lease	Corporate	100%
13. SPECIAL INVESTIGATING UNIT 450052107	54	2016-03-31	Corruption Investigation	Corporate	50%
14. RICHMOND POWER GENERATION 450052065	49	2016-02-19	HMI Upgrade (Migration)	Generation	100%
15. MELTON PROPERTIES LTD 450052072	45	2016-02-28	Lease	Generation	100%
16. TELKOM SA BOD 450051903	43	2016-06-30	ICT	Corporate	70%
17. HIGGINS & HOOD PLANNING 450052173	42	2016-07-31	Plant cleaning services	Generation	100%
18. NJINI SURVEYS 450052044	32	2016-03-31	Survey works	Distribution	100%
19. ERIS PROPERTY GROUP 450052078	40	2016-07-31	Lease	Corporate	100%
20. CITY SQUARE TRADING CO 450052075	39	2016-03-31	Valves	Generation	100%

1 Released contract value/ Total contract value

Source: Tactical Sourcing Contract Data Cx, Dx, Tx, Cx

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2

Fixed Price Contracts – Camden implementation

Risks

Business risks

- Changing demands from power stations
- Collusion by coal suppliers
- Selecting contracts that are not the best available price

High risk

Moderate risk

Low risk

Dependencies

- Dependent on changing burn plan and decision on continued use of Camden power station
- Dependent on board decision on contracts already negotiated for FY15

High risk

Moderate risk

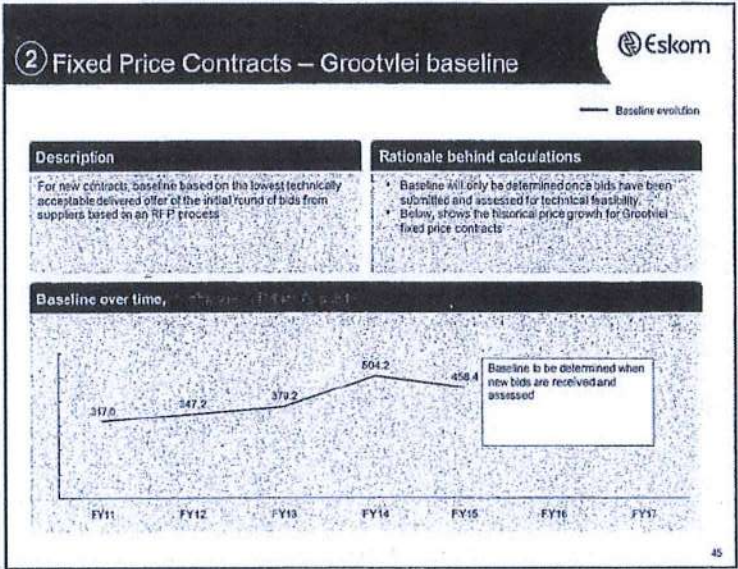
Low risk

Requirements from Eskom

- Access to C-max for WP team

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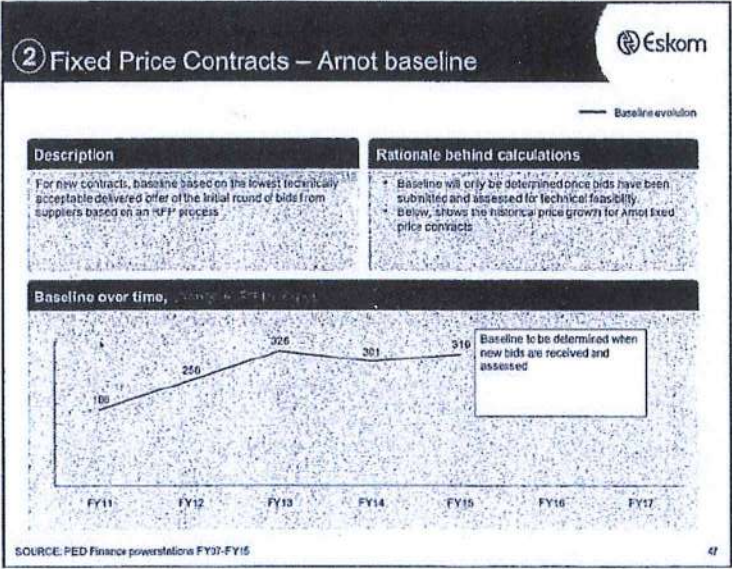


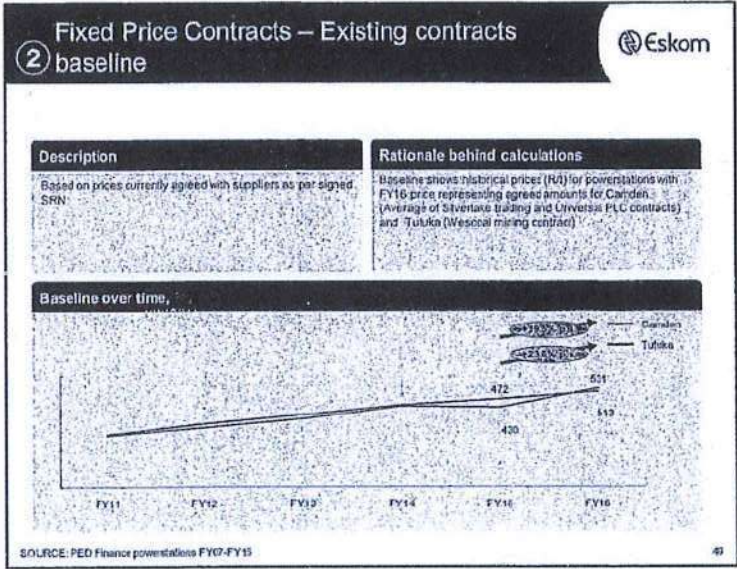
2 Fixed Price Contracts – Grootvlei implementation

● High risk ● Moderate ● Low risk

Risks	Requirements from Eskom
<b>Business risks</b> <ul style="list-style-type: none"><li>Changing demands from power stations ●</li><li>Collusion by coal suppliers ●</li><li>Selecting contracts that are not the best available price ●</li></ul>	<ul style="list-style-type: none"><li>Access to C-max for WP team.</li></ul>
<b>Dependencies</b> <ul style="list-style-type: none"><li>Dependent on changing burn plan from Generation and decision on the longevity of Grootvlei power station ●</li><li>Dependent on board decision on contracts already negotiated for FY15 ●</li></ul>	

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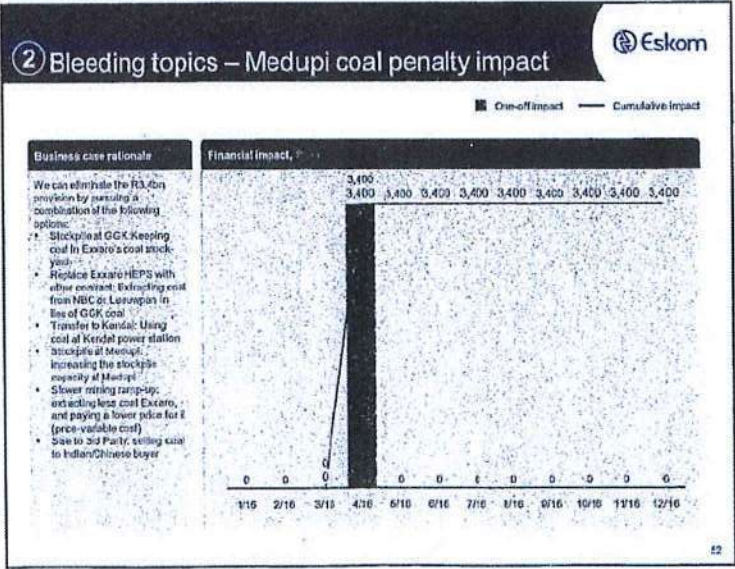
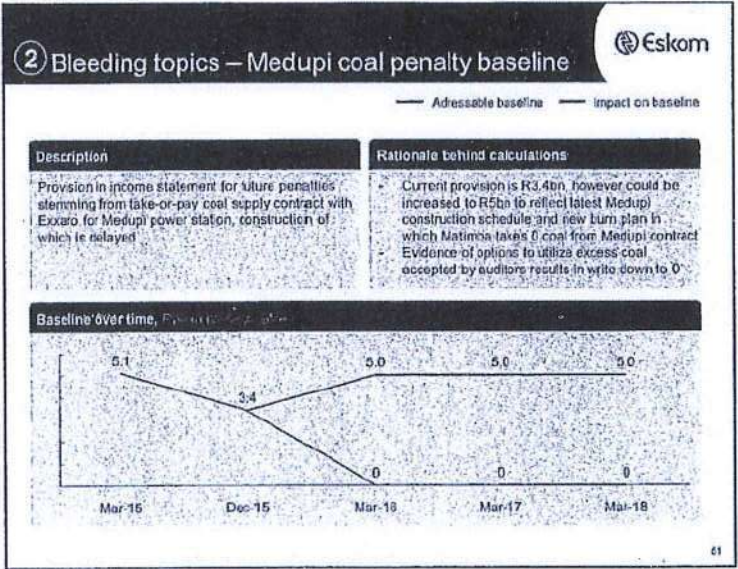
2 Fixed Price Contracts – Existing contracts

● High risk ● Moderate risk ● Low risk

Risks	Requirements from Eskom
<b>Business risks</b> <ul style="list-style-type: none"><li>Inability to renegotiate due to signed SRN with supplier</li><li>Selecting contracts that are not the best available price</li></ul>	<ul style="list-style-type: none"><li>Access to all data, tools and individuals involved in negotiating original prices</li></ul>
<b>Dependencies</b> <ul style="list-style-type: none"><li>Inability to renegotiate due to potential supply risks</li></ul>	

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Bleeding topics – Medupi coal penalty

2 implementation

Highest  
Moderate risk  
Low risk

Eskom

Risks

Business risks

- TFR inability to avail sufficient rail capacity on domestic and/or export rail line
- Exxaro unwillingness to provide stockpile capacity or access to siding/s
- Unwillingness of Kendal station manager to accept Medupi coal
- Need to apply for environmental licences to stockpile coal at Medupi or move coal from Matimba
- Inability to find buyer willing to accept Medupi coal quality

Political risks

- Strike action at Medupi which alters the F50-00 burn plan
- Strike action at TFR which inhibits coal movement on rail lines
- Scrutiny (external) regarding request for additional coal volumes at Leducwan and NDC

Dependencies

- Logistics coordination by PED team
- Negotiation completion (signed heads of terms) with Exxaro by negotiations team
- Facilitation of three-party negotiation between Exxaro, TFR and AMBA (if necessary)
- Approval from Kendal station manager
- Approval from Matimba station manager (if Matimba siding is used)
- Construction of additional Medupi stockpile capacity (if necessary)

Requirements from Eskom

On Exxaro

- Get commitment for Kendal coal burn
- Agree on joint team for loading solution at GGK
- Start Addendum 10 negotiation
- Sign Heads of Terms

On Transnet

- Obtain proposals for logistics to RBC and Kendal
- Facilitate Exxaro and Transnet dialogue

On Governance

- Inform BOD about opportunities considered and plan
- Map new coal contract approval process
- Obtain mandate to conclude negotiations
- Sign MOUs with Exxaro, Transnet, etc

On Internal Implementation

- Finalise Kendal burn feasibility, logistics and coal handling studies
- Identify new contracts
- Evaluate Matimba loading
- Analyse Medupi stockpile extension
- Evaluate new proposals from Exxaro
- Calculate final impact, financial benefit and additional Capex

On auditor approval

- Align on evidence required
- Audit final evidence
- Agree penalty

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Cost plus contracts - New Denmark colliery

2 capex optimisation impact

Eskom

Business case rationale

Financial impact, F10

Business case rationale

- Eskom 10 year capex plan accounts for 0.50 ZAR Bn<sup>1</sup>
- Projects include
  - Re-open North Shaft
  - Coal Beneficiation Plant
  - ED7 LHD X's
  - Project 4 RRM
  - Longwall Replacement
  - Diesel Replacement
  - CM Replacement
  - Longwall Conveyor and Section Conveyor Purchases
- Estimated 20% reduction in capex achievable through scrubbing and optimization, ceteris paribus (i.e., volumes and quality being equal)

Financial impact, F10

Category	Value (F10)
Initial AAI capex requirements	6.6
Actual capex requirements (post scrubbing)	5.3
Expected savings	1.3

1 Full value updated according to budget approved by Eskom F/C (Investment and Finance Committee) in February, 2016

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② Cost plus contracts - New Denmark colliery capex optimisation implementation



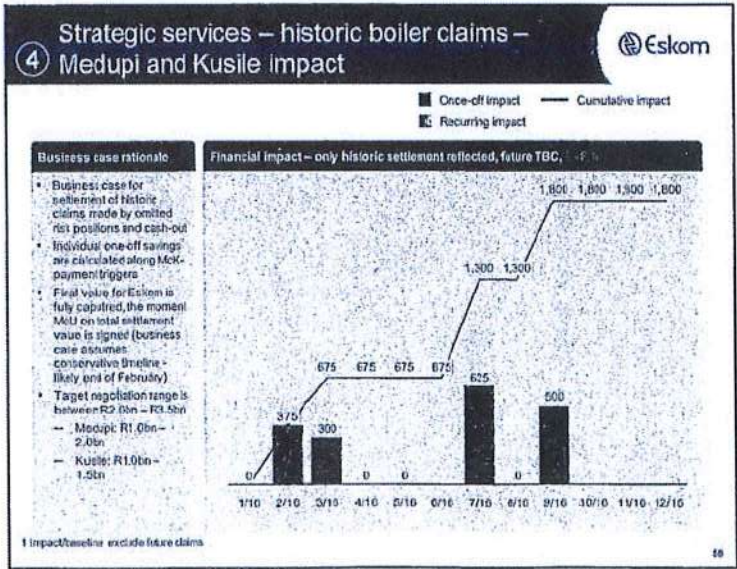
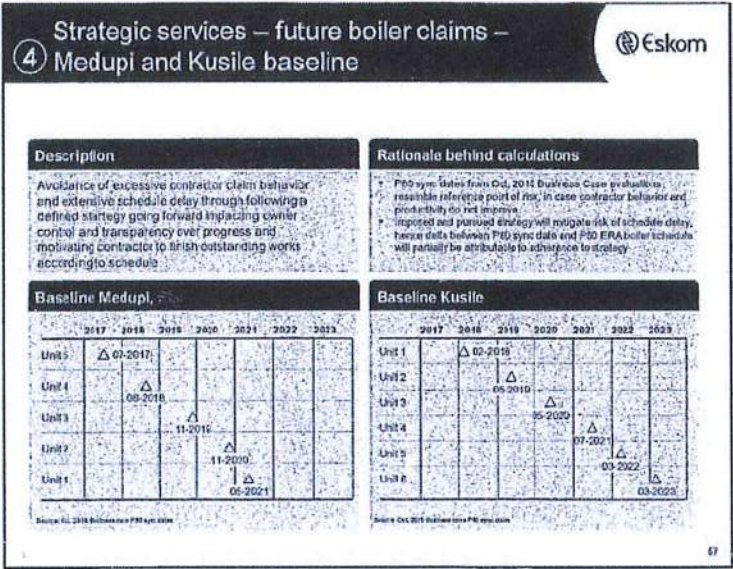
- High risk
- Moderate risk
- Low risk

Risks	Requirements from Eskom
<b>Business risks</b> <ul style="list-style-type: none"> <li>Further escalation of R/Ton due to ineffective capex decisions</li> <li>Project delays (e.g., flawed execution)</li> </ul>	<ul style="list-style-type: none"> <li>Full support from PED to get access to data from AATC</li> <li>Effective engagement model with AATC through PED leadership and respective coal contract manager to get access to mine</li> </ul>
<b>Political risks</b> <ul style="list-style-type: none"> <li>Safety at the mine</li> <li>Lay offs as result of rationalisation</li> <li>Strikes at the mine</li> </ul>	<ul style="list-style-type: none"> <li>Agreement with McKinsey on WPI baseline</li> </ul>
<b>Dependencies</b> WFI highly dependent on AATC's willingness to cooperate <ul style="list-style-type: none"> <li>Approval for Eskom and McKinsey expert team to access mine</li> <li>Validity and reliability of information and data provided by mine</li> </ul>	

④ Strategic services – historic boiler claims – Medupi and Kusile baseline

[illegible]





### Strategic services – historic boiler claims –

#### ④ Medupi and Kusile implementation

● High risk

● Moderate risk

● Low risk

Risks	
<b>Business risks</b> <ul style="list-style-type: none"><li>Stakeholder alignment during negotiations</li><li>Accelerated timeline, not allowing for thorough exploration of leverage</li><li>New quality performance issues arising</li></ul>	●
<b>Political external risks</b> <ul style="list-style-type: none"><li>HEROJA/NUMSA interference</li><li>Site stability, labor unrest, weather</li></ul>	●
<b>Dependencies</b> <ul style="list-style-type: none"><li>Leveraging results from employer claims over between</li><li>Influencing relationship between Eskom and contractor going forward – impact on de-coupling, delivery acceleration</li></ul>	●

Requirements from Eskom

- Availability of Eskom resources to process information and implement strategy
  - A full-time senior manager leading the programme and manage stakeholder relations
  - Three experienced managers plus supporting Eskom resources from Medupi, Kusile, CMO, Engineering, Finance and Legal
  - Senior Eskom Top Engineers (C1 or C2)
  - Eskom or sub-contractor resources to process the claims
  - Clear willingness across organization to expedite governance processes where required to capture opportunities
  - Explicit 100% support and leadership from Group Capital and Project Directors
  - Clear ownership from Eskom and willingness to engage key stakeholders if required
  - Commitment to participate in regular review meetings
  - Fortnightly sessions with overall program leadership
  - Weekly site team leadership meeting
- Access to data:
  - Full access to construction and commercial information related to the 3 focus areas (including access to all contracts and data owned by Eskom)
  - Willingness to pursue access to data not owned by Eskom as long as the data request is legally compliant
  - Eskom stakeholder buy-in/alignment and decisions
  - Willingness to take to place any opportunities/contracts that may be outside current Eskom standards – technical and transformational

1 Impact/baseline: exclude future claims

SOURCE: Master Service Agreement

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### ④ Employer claims baseline

☐ Baseline

Description	Rationale behind calculations
Assuring maximum value capture for the employer based on the settlement of historic employer claims and defining a future process for improving the employer claims process	<ul style="list-style-type: none"><li>Baseline is established based on the employer claims register in Medupi valued at « 2.5 committee value »</li><li>Deductions were made for all employer claims that were settled (including bulk settlements) or closed</li><li>Additions were made for contractor claims which are marked as backchargeable to another package but not actually included in the employer claims register</li><li>Caps to contract liabilities were considered but will not apply</li></ul>

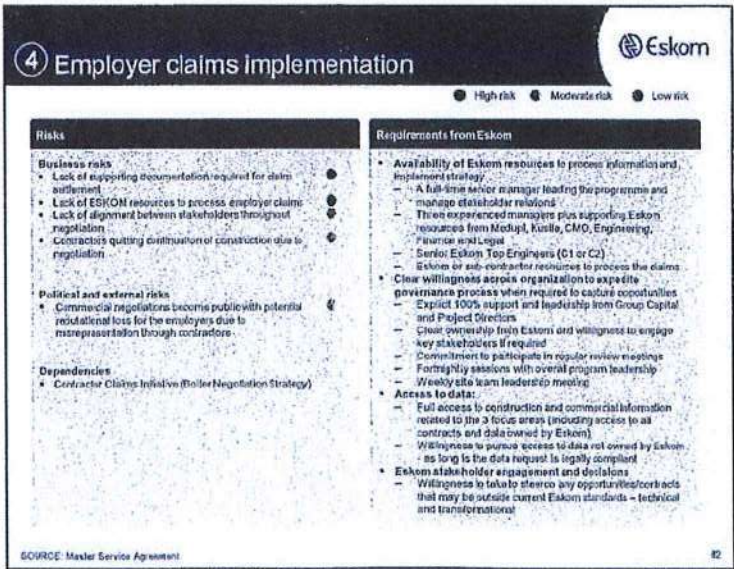
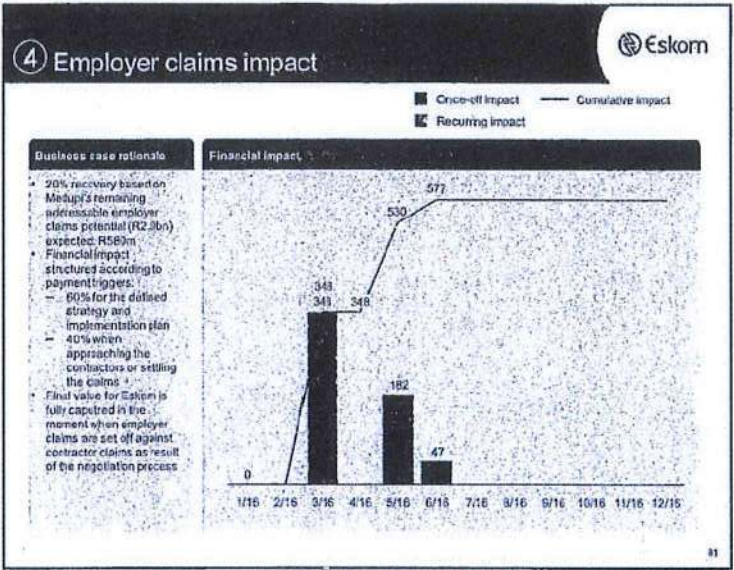
Baseline, Rm

Category	Value
Employer claims identified value	25.3
Employer claims 2.5 Eskom committee value	9.3
Capable Eskom engineering	4.0
Settled or closed claims	1.6
Open claims shown in registers	0.8
Add potential from registers	0.3
Bulk settlements	1.2
Withdrawn or subsumed claims and VO's	0.2
Caps to contract liability	0
Potential	27

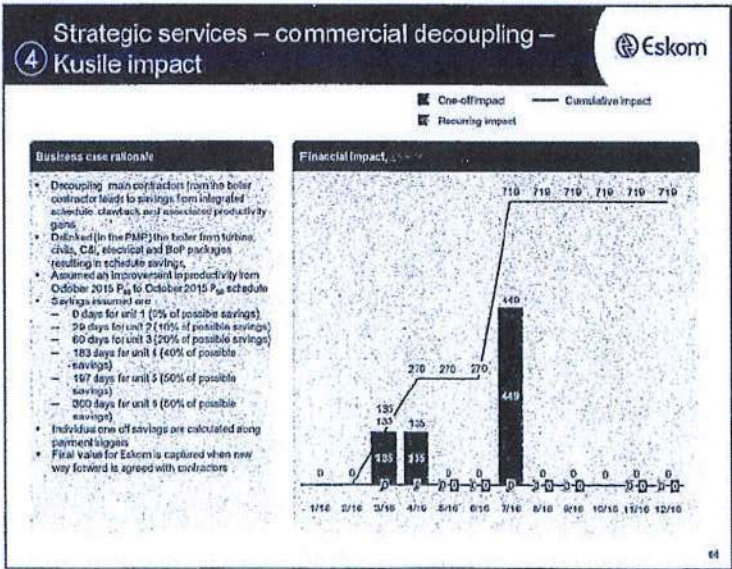
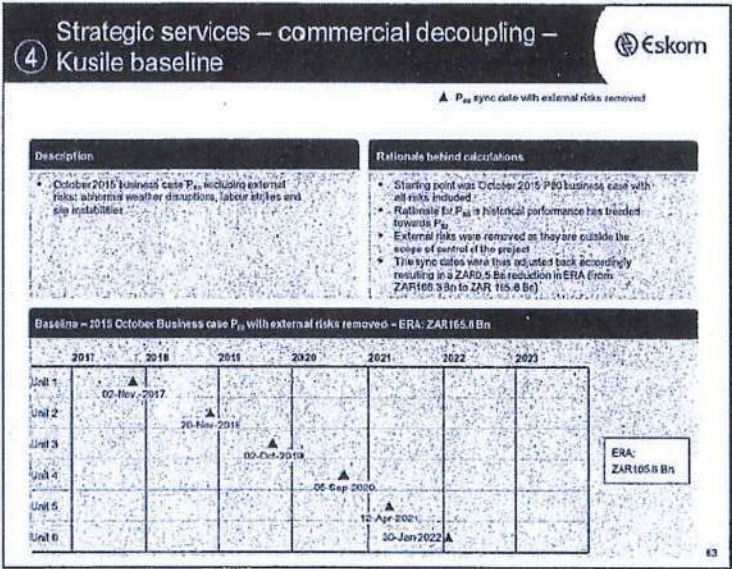
SOURCE: Employer Claims Register January 2016

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Strategic services – commercial decoupling –  
④ Kusile implementation



● High risk  
● Moderate risk  
● Low risk

Risks

Business risks

- Lack of internal stakeholder alignment on negotiating position
- Lack of contractor cooperation in negotiations
- New technical, quality or performance issues not already identified preventing fast tracking packages

Political risks (excluded from baseline)

- Labour strikes
- Election disruption

Dependencies


- Contractor interfaces e.g. Alstom dependent on civil work
- Settlement of employer and contractor claims key to agreeing way forward

Requirements from Eskom

- A full-time senior manager leading the programme and manage stakeholder relations
- Access to commercial and construction data
- Willingness to pursue access to data not owned by Eskom - as long as the data request is legally compliant
- Willingness to take to steerco any opportunities/contracts that may be outside current Eskom standards - technical and transformational
- Clear willingness across organization to expedite governance process when required to capture opportunities
- Clear ownership from Eskom and willingness to engage key stakeholders if required
- Commitment to participate in regular review meetings
  - Fortnightly sessions with overall programme leadership
  - Weekly site team leadership meeting
- Cooperation from main contractors

65

⑤ Master Vending Agent



PRELIMINARY

Description

- Propose a structured funded on-line vending solution that will see Eskom receive a substantial upfront payment for the distribution of prepaid electricity through its principal master vending agent
- Advise on the appointment of Master vending agent, and arrange capital for appointed master vending agent
- Advise Eskom on the commercial terms of the master vending agent agreement
- Assist appointed master vending agent in the arrangement and negotiation of capital raised (Quantum, structure, pricing and timing of cash flows)

Baseline

Description: Pre-paid electricity revenue for 2016/2017 FY

Full value: R8,000 mn

Of which addressable: R8,000 mn

Impact projection

Estimated impact: R8,000 mn

Impact type: Once-off

Executive sponsor: Mphahle Koko

Eskom owner: Mphahle Koko

Trillian/McKinsey team: Mosito Mothepe, Akash Doria, Christie Wu

May 2016

June 2016

R2

R134

When the appointed master vending agent has signed a term sheet with lender

When Eskom draws down on the R8,000 mn upfront payment

Team

Milestones

Payment Triggers Description

66



5

Sale of the Eskom Finance Company (EFC)

Eskom

PRELIMINARY

Description

• Sell-side mandate to dispose of EFC as a going concern

• Scope of activities include: market sounding with investors, preparing the indicative valuation, marketing material, data room preparation, negotiation and project management from initiation to close

Baseline

Description: Minimum selling price based on Eskom valuation of business

Full value: R8,00 mn

Of which addressable: R8,00 mn

Impact projection

Estimated impact: R8,000 mn

Impact type: Once-off

Executive sponsor: Anoj Singh

Eskom owner: Anoj Singh

Trilliaa/McKinsey team: Mosito Mthopu, Akash Doria, Christine Wu

June 2016

IL2

Sept 2016

IL3.4

Signed sales agreement between EFC and buyer

When Eskom draws down on upfront payment

Team

Milestones

Payment triggers description

67

5

Issuance of Hybrid Capital

Eskom

PRELIMINARY

Description

• Advise Eskom on the issuance of Hybrid Capital

• Assist Eskom with the structuring, pricing and placement of Hybrid Capital

• Liaise with Eskom's credit rating agencies, namely S&P and Moody's on how to optimally structure the instrument as to maximise equity credit

• Assist Eskom with internal approvals up to Board, National Treasury and DFE

Baseline

Description: Originated Hybrid Capital; passive for 2016/2017 FY

Full value: R10,000 mn

Of which addressable: R10,000 mn

Impact projection

Estimated impact: R10,000 mn

Impact type: Once-off

Executive sponsor: Anoj Singh

Eskom owner: Anoj Singh

Trilliaa/McKinsey team: Mosito Mthopu, Akash Doria, Christine Wu

Sept 2016

IL2

Sept 2016

IL3.4

Signed term sheet between Eskom and Hybrid Investor

When Eskom draws down on Hybrid Capital

Team

Milestones

Payment triggers description

68



5

Arrangement of long-term debt facilities

Eskom

PRELIMINARY

Description

• Advise Eskom on the arrangement and negotiations of long term funding facilities with various DFIs, commercial banks

Baseline

Description: Originated long term financing proposals from local and international financial institutions; baseline for 2016/2017 FY  
Full value: R30,000 mn  
Of which addressable: R30,000 mn

Impact projection

Estimated impact: R30,000 mn  
Impact type: Once-off

Executive sponsor: Anoj Singh  
Eskom owner: Anoj Singh  
Trillian/McKinsey team: Moshe Motepu, Akash Doria, Christine Wu

Feb/March 2016

April 2016

112

11.34

Team

Milestones

Payment triggers description

• Signed term sheet between Eskom and Lender

• When Eskom draws down on debt capital

66

5

Arrangement of working capital facilities

Eskom

PRELIMINARY

Description

• Assist Eskom in the arrangement and negotiations of working capital facilities with various local and international commercial banks

Baseline

Description: Originated working capital facilities; baseline for 2016/2017 FY  
Full value: USD 500 mn  
Of which addressable: USD 500 mn

Impact projection

Estimated impact: USD 500 mn  
Impact type: Once-off

Executive sponsor: Anoj Singh  
Eskom owner: Anoj Singh  
Trillian/McKinsey team: Moshe Motepu, Akash Doria, Christine Wu

Feb/March 2016

April 2016

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11.34

Team

Milestones

Payment triggers description

• Signed term sheet between Eskom and China Development Bank (CDB)

• When Eskom draws down on the working capital facility

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⑤ Completion of the Duvha insurance claim



PRELIMINARY

Impact projection	Impact description	Timeline	Significant events
Baseline	<ul style="list-style-type: none"> <li>Assist Eskom to finalise the Duvin Insurance claim.</li> <li>Quantify the impact of deferring the selected option in terms of the options presented by Marsh</li> <li>Support Eskom in accelerating the implementation of an EPC which meets Eskom's requirements in order to maximise the claim value.</li> </ul> <p>Description: Settlement claim value: baseline for 2016/2017 FY</p> <p>Full value: R4,998 mn</p> <p>Of which addressable: 4,906 mn</p>	<p>Executive sponsor: Makhela Koko</p> <p>Eskom owner: Makhela Koko</p> <p>Trillion McKinsey team: Mosib Mohepu, Akasha Dowa, Christine Wg</p>	<p>March 2016</p> <p>March 2017</p>
Impact projection	<p>Estimated impact: R4,100 mn</p> <p>Impact type: Once-off</p>	<ul style="list-style-type: none"> <li>Signed Agreement in principle letter between Eskom and Marsa</li> <li>Signed supplier agreement</li> </ul>	<p>IL2</p> <p>IL3/4</p>

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**EXECUTIVE SUMMARY**

**SUBMISSION TO THE EXCO PROCUREMENT SUB-COMMITTEE (EXCOPS) ON 8 OCTOBER 2015**  
**SUBMISSION TO THE BOARD TENDER COMMITTEE (BTC) ON 22 OCTOBER 2015**

**1. TITLE OF THE SUBMISSION**

Feedback on negotiated outcome with McKinsey & Co to develop the current Top Engineers programme into an Internal Consulting Unit that can provide world class management consulting services capable of resolving emerging company-wide risks by unlocking cash, without prior tendering.

**2. RESOLUTION REQUIRED**

**2.1** To accept the feedback of the negotiations with McKinsey and Co to develop the current Top Engineers programme into an Internal Consulting Unit that can provide world class management consulting services capable of resolving emerging company-wide risks, without prior tendering, for a period of 3 (three) years, with an option to terminate after a 12 (twelve) month period if no savings are realized.

**2.2** To ratify minor differences between negotiated outcomes and approved mandate parameters as contained in sub-clause 2.3.3 and 2.3.6.

**2.3** To note the following negotiated conditions:

**2.3.1** That the negotiated results for the Top Engineers Programme, Procurement (including inventory), Generations, Primary Energy and Claims Management value packages and the Supplier Development and Localisation (SD&L) proposal as contained in the attached Appendix 4, 5, 6, 7, 8 and 9 be accepted;


**2.3.2** That the contract will be based on the R0.00 and self-funding principle,

**2.3.3** That down payments, in lieu of project set-up cost and consulting fees at a total value of **R475 000 000.00 (four hundred and seventy five million rand)** broken down per value package as indicated below, be paid when they fall due after commencement of each value package, therefore requiring a positive value contract initially:

Value Package	Value
Module "Top Engineers"	R0.00
Module "Procurement"	R50 000 000.00
Module "PED"	R75 000 000.00
Module "Generation (PLL only)"	R50 000 000.00
Module "Generation (Project Factory)"	R50 000 000.00
Module "Generation (UCLF Reduction)"	R200 000 000.00
Module "Claims Management" (not yet concluded)	R50 000 000.00
<b>Total</b>	<b>R475 000 000.00</b>





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2.3.4 That the McKinsey bank guarantee be issued to Eskom as security for the down payments approved in 2.3.3 above, the value of which will include the down payments made plus interest, fixed at 12% p.a. (twelve percent per annum), in line with the SLA's Terms and Conditions relating to the Bank Guarantee;

2.3.5 Payment trigger points regime shall be between Implementation Level 3 and 4 (see Appendix 3) and payment on once-off and recurring benefits shall be at 10.80% and 10.55% (see Appendix 2) of projected savings respectively, and recurring benefits for impact calculation and for payment purposes is limited to 3 years;

2.3.5.1 That it be noted that the self-funding principle is envisaged to potentially be realised at some point in the future process, which will vary from package to package. The timing of the payments made to McKinsey and the potential benefits to be realized by Eskom will most probably be different;

2.3.6 To contract using an SLA format of contracting with its associated conditions;

2.4 That the Group Executive, Technology and Commercial is authorised to take all necessary steps to give effect to the above, including the signing of any agreements, consents or other documentation necessary or related thereto.

### 3. SUMMARY OF FACTS


#### 3.1 Salient Facts

##### 3.1.1 Background

The Board Tender Committee via Round Robin on the 06<sup>th</sup> July 2015 approved the following mandate to negotiate with McKinsey & Co, without prior tendering, to develop the current Top Engineers programme into an Internal Consulting Unit that can provide world class management consulting services capable of resolving emerging company-wide risks by driving savings and unlocking cash.

- Mandate to negotiate with McKinsey & Co to develop the current Top Engineers programme into an Internal Consulting Unit that can provide world class management consulting services capable of resolving emerging company-wide risks by driving savings and unlocking cash is hereby approved subject to the following:
  - The contract value will be R0.00 as this initiative is self-funding and the project duration be limited to a maximum of (3) three years. Consulting fees, expenses and performance incentives will be paid out of realised savings to a maximum of 12% per project. The contract will include an exit clause after first 12 months from start of the contract if no benefits are realised.



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- The BPP value package on optimisation of Eskom's total external spend, currently located within Group Commercial be used as a base project to generate savings for the whole of Eskom that will fund projects set-up costs;
- The development of packages relating to the unlocking of cash by optimising the balance sheet, the unlocking of funding sources through additional financial opportunities and claim management at Medupi, Kusile and Ingula, be approved. These projects together with any other projects as may be identified in the future may be included in the program at Eskom's sole discretion on a case by case basis depending on value to Eskom.
- That a Negotiating Team that will also serve as a Steering Committee for the development of Eskom's Top Engineers consulting unit be authorised under the Chairmanship of the Group Executive: Technology and Commercial to develop, negotiate and implement the above, subject to Eskom Delegation of Authority.

It is anticipated that the enabling contract will commence on the 01 October 2015 or as soon as possible after the contract has been signed by both parties.


### 3.1.2 Negotiation results

Negotiations were held with McKinsey & Co from the 28<sup>th</sup> July 2015 to 29<sup>th</sup> September 2015 at Megawatt Park. The contract is based on a Services Level Agreement, of which the terms and conditions have been substantially agreed. The value packages included in the negotiations were: Top Engineering Programme, Procurement (including inventory management), Primary Energy, Generation and Claims Management. SD&L was to be cross-cutting element in all the work packages.

The following are the results of the negotiations:

- A Service Level Agreement (SLA) – with terms and conditions is to be used for this type of contract because the NEC 3 Professional Services Contract framework was not suitable for this type of contract. The SLA will incorporate general conditions, that will govern all activities associated with the development and implementation of various value packages;
- That the objective of the contract is to develop the current Top Engineers programme into an Internal Consulting Unit that can provide world class management consulting services capable of resolving emerging company-wide risks by driving savings and unlocking cash;
- That the contract will be based on the R0,00 and self-funding principle, and will be for a period of three (3) years. Payments, however, will be made to McKinsey on work packages approved by a SteerCom. The envisaged end state or implementation level of the work packages for benefit/impact calculations will be at Implementation Level (IL) between IL3 and IL4 (see Appendix 2 and 3) and will be to a maximum of 10.80% and 10.55% of the




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savings for once-off and recurring benefits or impact that is calculated respectively.

- The self-funding principle will potentially be realised at some point in the future process which will vary from package to package. For example, self-funding on the Procurement stream is envisaged to be realised by month 12 (twelve). This could be earlier if the value generated exceeds the magnitude of the down payments.
- The intended implementation level for all packages will be between levels 3 and 4 in Appendix 3 as illustrated. This will be the package/stream deliverable points and thus trigger points for all payments will be agreed at the negotiated benefit percentage. The exact trigger events for payment will be negotiated for every workstream/value package and for each respective baseline;
- Only when a workstream/value package has passed IL2 and has been approved at the SteerCom, will it be considered for the arrangement under this agreement. If a package/workstream is not approved, no fees will be paid to McKinsey other than the upfront down payments.
- McKinsey has therefore proposed they receive a down payment in lieu of project set-up cost as consulting fees for each work stream that they will work on payable immediately after commencement of each work package. The down payments will be paid equally over a pre-determined duration (6 or 12 months depending on the individual workstream). The size and the duration of the down payments will depend on the nature and scope of work of each individual work stream.
- McKinsey will issue Eskom with a bank guarantee in lieu of the down payments. The bank guarantee value will include the down payments made plus the interest that will be incurred to the down payments at the potential termination point 12 months after contract start. The interest shall be fixed at 12% p.a;
- If McKinsey defaults, Eskom will i) immediately initiate a refund process, failing which, ii) will have the right to call-up the bank guarantee. Thus, ensuring that the principle of a R 0.00 value contract is maintained for Eskom. There will however be a timing difference from a cash flow perspective in terms of realising the R0.00 value principle. The model is illustrated in Appendix 1.
- After a 6 month period for each work stream, there will be a "true up" calculation (netting off benefits accrued against down payments already made) process. At the point of the "true up" the accumulated benefits of all the streams are multiplied by the agreed benefit percentage and compared to the down payments paid. In the case that the accumulated benefits of all the streams multiplied by the agreed benefit percentage exceed the down payments made, the excess fees become payable to McKinsey. In case that the accumulated benefits for all the stream multiplied by the fees payable is






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less than the down payments made after 6 months, McKinsey does not receive a payment for that month. This process repeats itself monthly;

- After month 12, Eskom has an option to cancel this agreement. At that stage, should Eskom elect to terminate the agreement, a "true up" process will take place. The Termination clause of the SLA will set in and settlement of monies owed to either party will take place.
- The payments/fees due to McKinsey will be paid over the terms as described in Appendix 1 and Appendix 2. Essentially Eskom will receive payment terms as follows for all payment due and payable to McKinsey:
  - 60% within 30 days of "true up" process.
  - 30% of "true up" process within 1 year of "true up" process; and
  - 10% within 2 years of initial "true up" process.
  - The deferred payments do not attract any interest.
- Negotiations of the individual value packages for Top Engineers Programme and Procurement (including Inventory Management), Primary Energy, Generation and Claims Management have been concluded. However, there are few but significant open items and actions to be approved by the SteerCom and/or actioned by the various teams. Value Package Memorandums are attached as Appendixes 5, 6, 7, 8 and 9 respectively. The value packages associated with funding sources and additional financing opportunities will resume once direction is provided by the Chief Financial Officer.
- An SD&L proposal that deals with skills development, local partner capacitation and the development of Top Engineers is attached as Appendix 4.
- McKinsey is willing to comply with the National Treasury guideline for expense payments and thus claims against Eskom for expenses. McKinsey however retains the right to apply its own travel guidelines. The expenses are also not available for scrutiny. The cap on expenses is at 10% of the McKinsey's share of benefits realised. See Appendix 2.




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Negotiation Results Summary per Value Package

Top Engineers Programme			
Agreed Scope	Proposed Down Payment	Additional Steps to be concluded by the Eskom Team	
<ul style="list-style-type: none"><li>• The scope of work defined under the SLA will encompass development of the Top Engineers:</li><li>• Programme participants will be involved in all value packages developed under the SLA</li><li>• All measures will include a description of required governance</li><li>• Overall performance of the programme will be measured based on critical developmental milestones</li><li>• The consultant shall have full access to study related IP</li><li>• The class room training for the senior tenure roles will be tailored to suit the individual scope of work of their value packages</li></ul>	N/A	None	
Procurement			
Agreed Scope	Proposed Down Payment	Additional Steps to be concluded by the Eskom Team	
<p>The scope of work for this value package is to deliver rapid bottom line savings and free up cash. As a consequence it will also deal with adapting Eskom's existing structures, resources, tools and skills where necessary to ensure a sustainable implementation. In order to achieve this goal, the work will focus on the following three work streams:</p> <ul style="list-style-type: none"><li>• Procurement capability transformation focused on Top Engineers</li><li>• Third party cost reduction</li><li>• Inventory management from its current high level of R13 billion by centralising spare parts and consumable</li></ul>	R50 000 000.00 over a period of six (6) months payable in 6 equal monthly instalments and shall be off-set against impact payments as agreed to in the SLA	<ul style="list-style-type: none"><li>• Validate McKinsey client references prior to commencement of the procurement work</li></ul>	

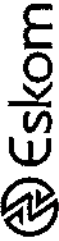


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warehousing across the power station fleet and Wires network.			
<p><b><u>Outstanding negotiation items – to be cleared with the SteerCom as this is an internal Eskom position</u></b></p> <ul style="list-style-type: none"><li>• Agreement on what the actual benefits are for any inventory reduction or improvement in the working capital balances</li></ul>			
<b>Generation</b>	<b>Partial Load Losses</b>	<b>Proposed Down Payment</b>	<b>Additional Steps to be concluded by the Eskom Team</b>
<b>Agreed Scope</b> The scope of work for this value package is to reduce the persistent partial load losses for specific root causes as agreed to with Gx. The scope will exclude PLL where a capital plan is in place and already approved.		R50 000 000.00 over a period of six (6) months payable in 6 equal monthly instalments and shall be off-set against impact payments as agreed to in the SLA	<ul style="list-style-type: none"><li>• Confirm addressable PLL baseline with Eskom</li><li>• Include into impact “pull-forward” of a solution that is already planned however due to the project can be executed earlier</li></ul>
<b>Generation</b>	<b>UCLF Reduction (Power Station Turnaround)</b>		
<b>Agreed Scope</b> This value package will run two fully-fledged power station turnarounds. Two stations have been selected because of their installed capacity and underperformance in terms of EAF. Kendal and Matla have been provisionally selected for this package due to the significance of installed capacity, underperformance in EAF, and their perceived good standing with organised labour when compared with other potential candidate stations.		<b>Proposed Down Payment</b> R200 000 000.00 over a period of six (6) months payable in 6 equal monthly instalments and shall be off-set against impact payments as agreed to in the SLA	<b>Additional Steps to be concluded by the Eskom Team</b> <ul style="list-style-type: none"><li>• Eskom and McKinsey to jointly Formulate a baseline for the two candidate stations</li><li>• Eskom Gx Negotiation representative to present proposal to Gx Exco</li><li>• Further clarify definitions for unforeseeable and unavoidable events</li></ul>






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Generation	Generation Project Factory	Proposed Down Payment	Additional Steps to be concluded by the Eskom Team
<b>Agreed Scope</b> Scrubbing and optimising the Generation Technical and maintenance plan (excluding outages) that is uncommitted for the period 2016-2020, estimated at R6,2bn budget spend (32 projects) of Technical scope and a further R1,3bn in maintenance for FY16. The scope would include any other projects approved and funded in the future or that Eskom wants to include in the work. The workstream ends, when all projects (current pipeline and later added ones) are optimised.	R50 000 000.00 over a period of six (6) months payable in 6 equal monthly instalments and shall be off-set against impact payments as agreed to in the SLA	<ul style="list-style-type: none"><li>• Agreement on start of this module</li><li>• Full list of projects and an agreement with which we start</li></ul>	
<b>Primary Energy</b>			
<b>Agreed Scope</b> The objective of this value package is to reduce coal costs. The scope will be conducted on a contract by contract level on a R/ton or R/GJ basis depending on the underlying contract. In addition, the work will aim to deliver a reduction in Eskom's capital costs per project and working capital related to coal with a net positive impact on Eskom's financial and technical performance and Generation performance (related to coal load losses). As a consequence it will also deal with adapting Eskom's existing coal contracting approach, where necessary, to ensure sustainable implementation. In order to achieve this goal, the work will focus on the following three work streams: <ul style="list-style-type: none"><li>• Cost-plus and Fixed price contracts;</li><li>• Short/Medium term contract and logistics optimisation;</li><li>• Critical bleeding; and</li><li>• Strategic topics.</li></ul>	Potential future down payment For those packages where the benefit/trigger point for payment is likely to be realised only after 12 months of value package being approved, Eskom shall accommodate on a case-by-case discussion to agree on	<ul style="list-style-type: none"><li>• Eskom and McKinsey to obtain the current PED contract-by-contract baseline data (R/ton prices and volumes by contract and power station)</li><li>• Further define the project and development plan</li><li>• Eskom negotiating team to get approval for impact and benefit payments to be made where the baseline is based on a cost avoidance scenario rather than a saving realised</li></ul>	



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<u>Outstanding negotiation items to be cleared with the SteerCom as this is an internal Eskom position</u> <ul style="list-style-type: none"><li>• Agreement on what the actual benefits are for any inventory reduction (as per the procurement stream, a general disagreement)</li></ul>	down-payments for that specific work package. The value of that additional down-payment is limited to 25% of the total expected benefit payable to McKinsey of that respective work package.	
<b>Claims Management</b>		
<b>Agreed Scope</b> <p>The scope of work for this value package is to recover the project costs for the Medupi and Kusile projects from the 2015 updated Programme with an eighty percent probability of success (P80) of the business case to be as close as possible to the P50 business case by developing and implementing strategic project schedule and risks interventions to proactively manage the project risks and reduce future claims. The commercial risks will be reduced and the cash-flows optimized through improved cost management practices, contract strategies and accelerated priority claims resolution. In order to achieve this goals, the work will focus on the following three work streams:</p> <ul style="list-style-type: none"><li>• Strategic services</li><li>• Future claims</li><li>• Employers claims</li></ul>	<b>Proposed Down Payment</b> <p>R50 000 000.00 over a period of twelve (12) months payable in 12 equal monthly instalments and shall be off-set against impact payments as agreed to in the SLA</p>	<b>Additional Steps to be concluded by the Eskom Team</b> <ul style="list-style-type: none"><li>• Eskom and McKinsey to develop and agree on the baseline for the 3 value areas. This will be done in line with the provision of the 2015 P80 business case taking into consideration the risks contained therein.</li><li>• Further define the project and the development plan;</li><li>• Confirm if there will be cross-subsidisation of benefits payments for any savings from P80 toward P50.</li><li>• Eskom and McKinsey to address some contradictions in the payment triggers.</li></ul>



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### 3.2 Key assumptions

The self-funding principle will be realised at some point in the future process which will vary from package to package and will be maintained for the duration of the contract, sustainable thereafter.

### 3.3 Financial implications

The down payments in lieu of project set-up cost and consulting fees will be paid equally over a pre-determined duration (6 or 12 months depending on the individual value package) at a total value of **R475 000 000.00 (Four hundred and seventy five million rand)** broken down per value package as indicated below:

Value Package	Value
Module "Top Engineers"	R0.00
Module "Procurement" (Payable in 6 equal monthly instalments)	R50 000 000.00
Module "PED" (Payable in 6 equal monthly instalments)	R75 000 000.00
Module "Generation (PLL only) (Payable in 6 equal monthly instalments)	R50 000 000.00
Module "Generation (Project Factory) (Payable in 6 equal monthly instalments)	R50 000 000.00
Module "Generation (UCLF Reduction) (Payable in 6 equal monthly instalments)	R200 000 000.00
Module "Claims Management" (Payable in 12 equal monthly instalments)	R50 000 000.00
<b>Total</b>	<b>R475 000 000.00</b>

The down payments will be expensed in the Income Statement as and when incurred. There will also most probably be a timing difference in that benefits will accrue in a different period to the down payments made.

McKinsey will issue Eskom with a bank guarantee in lieu of the down payments. The bank guarantee value will include the down payments made plus the interest that will be incurred to the down payments at the potential termination point 12 months after contract start. The interest shall be fixed at 12% p.a. The bank guarantee can only be called for in certain circumstances in line with the terms and conditions negotiated under termination of the agreement and the right to terminate the agreement.


If McKinsey defaults, Eskom will i) immediately initiate a refund process, failing which, ii) will have the right to call-up the bank guarantee. Thus, ensuring that the principle of a R 0.00 value contract is maintained for Eskom. There will however be a timing difference from a cash flow perspective in terms of realising the R0.00 value principle. The model is illustrated in Appendix 1.

### 3.4 Human Resource implications

The scope includes consultant support of the programme and will require full-time resources at both an associate and project management level dedicated to the






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programme, with weekly visibility from the Consultant's leadership teams. Thus Eskom will need to release internal or recruit resources to ensure that the project is sustainable post this contract.

### 3.5 Risks (including Environment, Legal or Contractual risks)

RISK	MITIGATING FACTORS	LEVEL (HIGH/MEDIUM/LOW)
<b>Financial:</b> Project not yielding savings benefits within a period of a year to cover the value of the down payments made	The consultant has agreed to a refund process that is supported by a bank guarantee issued to Eskom in lieu of the down payments plus 12% interest.	Medium
<b>Financial: Timing difference between down payments and true-up of realised savings</b> The savings benefits yielded may not accrue in the same year during which the down payments were made.  The payment point is also not at realisation point and thus there is a potential risk that Eskom makes payment for a good plan without implementing the actual solutions or not seeing the solution through to the desired end state.	It may be prudent to execute the projects in phases to limit the impact of the down payments.	High
<b>Financial – Impact to Income statement</b> The down payments will also be reflected as an expense in the Income Statement as and when paid. These down payments have not been budgeted for. Thus the down payments may negatively impact the Income Statement in the short term	It may be prudent to execute the projects in phases to limit the impact of the down payments. However, The self-funding principle has been designed in such a way that if the value generated exceeds the magnitude of the down payment, the down-payment instalments will be stopped.	High




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RISK	MITIGATING FACTORS	LEVEL (HIGH/MEDIUM/LOW)
<b>Governance:</b> The Steering Committee required to be setup needs to have the requisite Delegation of Authority in order to ensure a streamlined approval process. A non-appropriately delegated Steering Committee will result in significant delays in value generation for the project.	Appropriately delegate the required Steering Committee	High
<b>Human Resources:</b> No Eskom resources released. to participate in the project for skills transfer to ensure sustainability of the cost saving principles as a way of work	All Group Executives responsible for the value packages to sign-off the Eskom pre-requisites for their relevant value package;	High
<b>Non delivery:</b> No savings are realised	A Project Management Office is to be set up to diligently monitor the Consultants performance This Contract can be terminated within 12 (twelve) months if no savings are realised.	High
<b>Safety:</b> Increase in safety incidents as a results of safety performance	Consultant to ensure that safety compliance is being adhered to at all times	Low

### 3.6 Verification by independent party (if applicable)

N/A. Transaction is a Sole Source.




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4. OTHER APPROVALS REQUIRED

Possible application for a deviation from the National Treasury Cost Savings Instruction Note 1 prescripts may be required. Furthermore in the event that the contract value exceeds the R1 200 000 000.00, there will be a need to report it to the Minister for Public Enterprises.

Corporate Legal and IT are to approve McKinsey's IT Wave tool to be used as a repository for all project information.

  
\_\_\_\_\_  
CHARLES KALIMA  
GENERAL MANAGER (COMMODITY SOURCING) (ACTING)  
GROUP TECHNOLOGY AND COMMERCIAL

02/10/2015  
\_\_\_\_\_  
DATE


  
\_\_\_\_\_  
PRISH GOVENDER  
PROGRAMME DIRECTOR GROUP CAPITAL

02/10/2015  
\_\_\_\_\_  
DATE

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MATSHELA KOKO  
GROUP EXECUTIVE  
TECHNOLOGY AND COMMERCIAL

\_\_\_\_\_  
DATE



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CHECKLIST 1


**TITLE OF SUBMISSION:** Feedback on Negotiated outcome with McKinsey & Co to develop the current Top Engineers programme into an Internal Consulting Unit that can provide world class management consulting services capable of resolving emerging company-wide risks by unlocking cash, without prior tendering

**Please note:**

The headings should **NOT** be deleted if it is not applicable to the project, the sequence of the headings should not be changed.


Tick the applicable box (✓).

	N/A	Yes	No
<b>1. INTERNAL PROCESS</b>			
<b>1.1 BUSINESS PLAN</b> Has the project/issue been included in the business plan? <i>(If no, information/explanation to be highlighted in documentation/ presentation/attachment.)</i>			✓
<b>1.2 BUDGET</b> If financial approval is required, is the project/matter within the approved budget? <i>The down payment and related cash flow impacts have not been budgeted for. This is estimated to be R475 000 000.00 (four hundred and seventy five million rand) (If no, information/explanation to be highlighted in documentation/ presentation/attachment.)</i>			✓
<b>1.3 HUMAN RESOURCE IMPLICATIONS</b> Does the project have any HR implications? <i>(If yes, information/explanation to be highlighted in documentation/presentation/attachment.)</i>		✓	
<b>1.4 FINANCIAL EVALUATION</b> <ul style="list-style-type: none"><li>- Has the project/issue undergone a financial evaluation? <i>(If yes, by whom) John Skosana</i></li><li>- Has the evaluation been verified?</li><li>- By whom (internally or independent)? <b>Arthur Sebudi</b></li></ul>		✓ ✓	
<b>1.5 LEGAL/CONTRACTUAL ISSUES</b> <ul style="list-style-type: none"><li>- Are there legal implications?</li><li>- Has Corporate legal department input been obtained?</li><li>- If so, is the approval sought consistent with the legal input?</li></ul>		✓ ✓ ✓	
<b>1.6 TAX IMPLICATIONS</b> <ul style="list-style-type: none"><li>- Are there tax implications?</li><li>- Has Corporate Tax Department input been obtained?</li><li>- If so, is the approval sought consistent with the tax input?</li></ul>			✓


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	N/A	Yes	No
<b>1.7 CAPITAL PROJECTS</b> If the project is of a capital nature the checklist 2 (attached) for the evaluation of capital projects should be completed as well. <i>Checklist 2 not available.</i>			✓
<b>1.8 TECHNICAL EVALUATION</b> <ul style="list-style-type: none"><li>- Has the project/issue undergone a technical evaluation? (If yes, by whom)</li><li>- Has the evaluation been verified?</li><li>- By whom (internally or independent)?</li></ul>	✓ ✓		
<b>1.9 BLACK ECONOMIC EMPOWERMENT IMPLICATIONS</b> Does the project have any BEE implications?		✓	
<b>1.10 EMPLOYMENT EQUITY</b> Was due consideration given to employment equity in terms of the following: <ul style="list-style-type: none"><li>- Project team</li><li>- Drafting of submission documentation</li><li>- Individual(s) presenting to EXCOPS. <b>Prish Govender</b></li></ul>		✓ ✓ ✓	
<b>2. ADDITIONAL APPROVALS</b>			
<b>2.1 NERSA</b> <ul style="list-style-type: none"><li>- Is NERSA approval/consultation required?</li><li>- If approval or consultation is required, provide details and also highlight the time lines, deadlines, etc.</li></ul>	✓		
<b>2.2 PUBLIC FINANCE MANAGEMENT ACT (PFMA)</b> <ul style="list-style-type: none"><li>- Is any PFMA approval required?</li></ul>	✓		
<b>2.3 ARE THERE ANY OTHER APPROVALS REQUIRED? IN PARTICULAR</b> <ul style="list-style-type: none"><li>- Reserve Bank</li><li>- Competition Commission</li><li>- National Treasury - Possible application for a deviation from the National Treasury Cost Savings Instruction Note 1 prescripts may be required.</li></ul>	✓ ✓	✓	

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		Document Type	OCSDFM
		Revision	0
		Review Date	July 2015
		Office of the Company Secretary Department	

2.4. SUPPORTED BY:

  
\_\_\_\_\_  
CHARLES KALIMA  
GENERAL MANAGER COMMERCIAL (Acting)  
COMMODITY SOURCING

02/10/15  
DATE

  
\_\_\_\_\_  
PRISH GOVENDER  
PROGRAMME DIRECTOR GROUP CAPITAL


02/10/2015  
DATE

\_\_\_\_\_  
MATSHELA KOKO  
GROUP EXECUTIVE  
TECHNOLOGY AND COMMERCIAL

\_\_\_\_\_  
DATE

Who hereby confirms that all of the above requirements have been complied with.



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TO: The Chairman  
EXCO Procurement Sub-Committee  
Board of Directors  
Tender Committee

Date: 08 October 2015  
Date: 22 October 2015

COMPILER: Ntombizodwa Mokoatle  
BUSINESS Commodity Sourcing  
UNIT & NAME  
OF END- USER Matshela Koko

Tel: 011 800 2177  
Rev: 0

DESCRIPTION Feedback on negotiated outcome with McKinsey & Co to develop the current Top Engineers programme into an Internal Consulting Unit that can provide world class management consulting services capable of resolving emerging company-wide risks by unlocking cash, without prior tendering.

ENQUIRY NO.: Sole Source


## 1. INTRODUCTION

In accordance with a mandate approved by the Board Tender Committee via Round Robin on the 06<sup>th</sup> July 2015 to negotiate with McKinsey & Co to develop the current Top Engineers programme into an Internal Consulting Unit that can provide world class management consulting services capable of resolving emerging company-wide risks by driving savings and unlocking cash, this report reflects the results thereof and requests ratification of the negotiation feedback.

The mandate provided was as follows:

Mandate to negotiate with McKinsey & Co to develop the current Top Engineers programme into an Internal Consulting Unit that can provide world-class management consulting services capable of resolving emerging company-wide risks by driving savings and unlocking cash is hereby approved subject to the following:

- 1.1 The contract value will be R0.00 as this initiative is self-funding and the project duration be limited to a maximum of (3) three years. Consulting fees, expenses and performance incentives will be paid out of realised savings to a maximum of 12% per project. The contract will include an exit clause after first 12 months from start of the contract if no benefits are realised.
- 1.2 The BPP value package on optimisation of Eskom's total external spend, currently located within Group Commercial be used as a base project to generate savings for the whole of Eskom that will fund projects set-up costs;
- 1.3 The development of packages relating to the unlocking of cash by optimising the balance sheet, the unlocking of funding sources through additional financial opportunities and claim management at Medupi, Kusile and Ingula, be approved. These

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projects together with any other projects as may be identified in the future, maybe included in the program at Eskom's sole discretion on a case by case basis depending on value to Eskom.

- 1.4 That a Negotiating Team that will also serve as a Steering Committee for the development of Eskom's Top Engineers consulting unit be authorised under the Chairmanship of the Group Executive: Technology and Commercial to develop, negotiate and implement the above, subject to Eskom Delegation of Authority.


It is anticipated that the enabling contract will commence on the 01 October 2015 or as soon as possible after the contract has been signed by both parties.

Negotiations were held with McKinsey & Co from the 28th July 2015 to 29th September 2015 at Megawatt Park. The contract is based on a Services Level Agreement, of which the terms and conditions have been substantially agreed. The value packages included in the negotiations were Top Engineering Programme, Procurement (including inventory management), Primary Energy, Generation and Claims Management. SD&L was to be cross-cutting element in all the work packages.

## 2. APPROVED MANDATE PARAMETERS AND NEGOTIATION RESULTS


The table below reflects the approved mandate parameters and the results of the negotiations.

Approved Mandate Objectives	Results Achieved
<b>Conditions of contract</b> Terms and conditions remain the same as per the previous NEC contract	<b>Negotiated Terms and Conditions:</b> A Service Level Agreement (SLA) - with terms and conditions is to be used for this type of contract because the NEC 3 Professional Services Contract framework was not suitable for this type of contract. <ol style="list-style-type: none"> <li>1. The SLA, is a contractual document that incorporates general conditions, that will govern all activities associated with the development and implementation of various value packages;</li> <li>2. Key principles of the SLA have substantially been agreed in the Master Services Agreement</li> <li>3. Negotiations of the individual value packages for Top Engineers Programme and Procurement (including Inventory Management), Primary Energy, Generation and Claims Management have been concluded. However, there are few but significant open items and actions to be approved by the SteerCom and/or actioned by</li> </ol>


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	the various teams. Value Package Memorandums are attached as Appendixes 5, 6, 7, 8 and 9 respectively. The value packages associated with funding sources and additional financing opportunities will resume once direction is provided by the Chief Financial Officer.
The Mandate to negotiate with McKinsey & Co to develop the current Top Engineers programme into an Internal Consulting Unit that can provide world class management consulting services capable of resolving emerging company-wide risks by driving savings and unlocking cash was approved subject to the following:	Accepted. The negotiated principles of the programme are attached as Appendix 5 of this document.
<ul style="list-style-type: none"> <li>The contract value will be R0.00 as this initiative is self-funding and the project duration be limited to a maximum of 3 years. Consulting fees, expenses and performance incentives will be paid out of realised savings to a maximum of 12% per project</li> </ul>	<ul style="list-style-type: none"> <li>That the contract will be based on the R0.00 and self-funding principle, and will be for a period of three (3) years.</li> <li>However, payment will be made to McKinsey on work packages approved by a SteerCom. The envisaged end state or implementation level of the work packages for benefit/impact calculations will be at Implementation Level (IL) between IL3 and IL4 (see Appendix 2 and 3) and will be to a maximum of 10.80% of the savings benefits or impact calculated.</li> <li>The self-funding principle will potentially be realised at some point in the future process, which will vary from package to package. For example, self-funding on the Procurement stream is envisaged to be realised by month 12 (twelve).</li> </ul>
	<ul style="list-style-type: none"> <li>The negotiation results summarising key parameters associated with the payment regime is attached as Appendix 2. The negotiation results need to be read together with Appendix 3 (The different implementation levels defined by McKinsey).</li> <li>With reference to the table attached as Appendix 3, the intended implementation level for all packages will be between levels 3 and 4. This will be the package/stream deliverable points and thus trigger points for all payments will be agreed at the negotiated benefit percentage. The exact trigger events for</li> </ul>




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	<p>payment will be negotiated for every workstream/value package.</p> <ul style="list-style-type: none"> <li>Only when a workstream/value package has passed IL2 and been approved by the SteerCom, will it be considered for the arrangement under this agreement. If a package/workstream is not approved, no fees will be paid to McKinsey other than the upfront down payments.</li> </ul> <p>The presence of McKinsey to ensure a higher level of implementation (e.g. up to IL5) could result in the following:</p> <ul style="list-style-type: none"> <li>Significantly inflated use of expensive resources while potentially not improving the expected benefits for Eskom.</li> <li>Disempowerment of Eskom's own resources involved in the project work and by that significantly reducing the sustainability of activities.</li> </ul> <p>The above proposal is due to the fact that McKinsey would require significant involvement to ensure that all savings are banked. It is envisaged that the Top Engineers together with other trained Eskom personnel will drive all measures to bottom line impact viz Implementation Level 5.</p>
<ul style="list-style-type: none"> <li>The BPP value package on optimisation of Eskom's total external spend, currently located within Group Commercial be used as a base project to generate savings for the whole of Eskom that will fund projects set-up costs;</li> </ul>	<ul style="list-style-type: none"> <li>McKinsey has not accepted Eskom's initial position concerning project set-up costs and expenses payments only being paid from realised savings (money in the bank).</li> <li>McKinsey would require project setup and fees for value packages as a down payment as McKinsey is of the view that they will be exposed to a higher than acceptable cashflow risk. This risk would not be acceptable to McKinsey as a company.</li> </ul>
	<ul style="list-style-type: none"> <li>McKinsey has therefore proposed they receive down payments in lieu of project set up costs as consulting fees for each work stream that they will work on, payable after commencement of each work package. The down payments will be paid equally over a pre-determined duration (6 or 12 months depending on the individual</li> </ul>


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	<p>workstream). The size and the duration of the down payments will depend on the nature and scope of work of each individual work stream.</p> <ul style="list-style-type: none"> <li>McKinsey will issue Eskom with a bank guarantee in lieu of the down payments. The bank guarantee value will include the down payments made plus the interest that will be incurred on the down payments at the potential termination point of 12 months after contract start. The interest shall be fixed at 12% p.a.</li> <li>The proposed set-up costs plus consulting fees to be paid as a down payment for the Procurement stream is R50 000 000, 00, payable after commencement of each work package at equal tranches of R8 300 000.00 over a 6 month period. Refer Appendix 1.</li> </ul>
	<ul style="list-style-type: none"> <li>If McKinsey defaults, <u>i) immediately initiate a refund process</u>, failing which, <u>ii) will have the right to call-up the bank guarantee</u>. Thus, ensuring that the principle of a R 0.00 value contract is maintained for Eskom.</li> <li>There will however be a timing difference from a cash flow perspective in terms of realising the R0.00 value principle. The model is illustrated in Appendix 1.</li> </ul>
	<ul style="list-style-type: none"> <li>After a 6 month period for each work stream, there will be a "true up" calculation (netting off benefits accrued against down payments already made) process.</li> <li>At the point of the "true up" the accumulated benefits of all the streams are multiplied by the <u>agreed benefit percentage</u> and compared to the down payments paid. In the case that the accumulated benefits of all the streams multiplied by the agreed benefit percentage exceed the down payments made, the excess fees become payable to McKinsey. In case that the accumulated benefits for all the stream multiplied by the fees payable is less than the down payments made after 6 months, McKinsey does not receive a payment for that month. This process repeats itself monthly.</li> </ul>


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	<ul style="list-style-type: none"> <li>After month 12, Eskom has an option to cancel this agreement if no savings have been realised. At that stage, should Eskom elect to terminate the agreement, a "true up" process will take place.</li> <li>The Termination clauses of the contract will apply and settlement of monies owed to either party will take place, if there is money owed to either party. Thus if the financial benefit to Eskom is smaller than the down payments made to McKinsey, McKinsey will have to pay back the difference to Eskom.</li> <li>The payments/fees due to McKinsey will be paid over the terms as described in Appendix 1 and Appendix 2. Essentially Eskom will receive payment terms as follows for all payment due and Payable to McKinsey i.e. 60% within 30 days of "true up" process. 30% of "true up" process within 1 year of "true up" process and 10% within 2 years of initial "true up" process. The deferred payments do not attract any interest.</li> </ul>
<ul style="list-style-type: none"> <li>The contract will include an exit clause after first 12 months from start of contract if no benefits are realised</li> </ul>	<ul style="list-style-type: none"> <li>Accepted</li> <li>The following four termination scenarios are to apply:</li> </ul>
	<ul style="list-style-type: none"> <li>Eskom has the right to terminate, either the full contract or individual workstreams after 12 months of contract start or start of the workstream in case the benefits for either the whole contract or an individual workstream does not outweigh the down payments made until this point.</li> </ul>
	<ul style="list-style-type: none"> <li>In case the contract is terminated after 12 months of either contract or workstream start the true-up at the point of termination shall be the down payments net of the "realised measures" and the respective value shares for those measures between IL2 (approved by SteerCom) and IL "realised"</li> </ul>
	<ul style="list-style-type: none"> <li>Either of the parties may terminate if any of the events mentioned in the section "boundary conditions" arise and Eskom will be liable to</li> </ul>



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	provide full payment of all Initiatives approved by SteerCom in line with the stage gate process. In each event, a true up will be undertaken following a termination.
	<ul style="list-style-type: none"> <li>If a termination is due to any events outside any of the parties' control, (Force Majeure) Eskom shall pay to McKinsey: (1) any amounts due to McKinsey pursuant to a true up; or (2) 75% of any relevant down payment if impact does not exceed down payments received at the relevant time.</li> </ul>
<ul style="list-style-type: none"> <li>The development of packages relating to the unlocking of cash by optimising the balance sheet, the unlocking of funding sources through additional financial opportunities and claim management at Medupi, Kusile and Ingula, be approved. These projects together with any other projects as may be identified in the future may be included in the program at Eskom's sole discretion on a case by case basis depending on value to Eskom.</li> </ul>	<ul style="list-style-type: none"> <li>Accepted.</li> <li>Negotiations of the individual value packages for Top Engineers Programme and Procurement (including Inventory Management), Primary Energy, Generation and Claims Management have been concluded. However, there are few but significant open items and actions to be approved by the SteerCom and/or actioned by the various teams. Value Package Memorandums are attached as Appendixes 5, 6, 7 &amp; 8 respectively.</li> <li>The value packages associated with funding sources and additional financing opportunities will resume once direction is provided by the Chief Financial Officer.</li> </ul>
<ul style="list-style-type: none"> <li>That a Negotiating Team that will also serve as a Steering Committee for the development of Eskom's Top Engineers consulting unit be authorised under the Chairmanship of the Group Executive: Technology and Commercial to develop, negotiate and implement the above, subject to Eskom Delegation of Authority.</li> </ul>	<ul style="list-style-type: none"> <li>Accepted</li> <li>The terms of reference of this committee will be finalised once the required delegation of powers for this committee has been approved.</li> </ul>
<ul style="list-style-type: none"> <li>SD&amp;L and Skills development matrix</li> </ul>	A Supplier Development and Localisation (SD&L) proposal that deals with skills development, local partner capacitation and the development of Top Engineers is attached as Appendix 4.
<u>Travel and Subsistence</u> expenses shall be in accordance with the National Treasury Guideline	<p><b>McKinsey require expenses payments outside the "at risk" portion of its fees.</b></p> <p>McKinsey is willing to comply with the National Treasury guideline for expense payments. McKinsey however retains the right to apply its own</p>

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	travel guidelines. The cap on expenses is at 10% of the McKinsey's share of benefits realised. See Appendix 2. The expenses are also not available for scrutiny.
<b>Approved Negotiation Team:</b>	<b>Negotiation Team Participants:</b>
Lead Negotiator: Prish Govender	Lead Negotiator Prish Govender
Commercial Ntombizodwa Mokoatle	Commercial Ntombizodwa Mokoatle
Technical Johnstone Makhubu Freddy Ndou Snehal Nagar Mandla Gobingca	Business Enablement - Johnstone Makhubu Finance - Snehal Nagar SD&L - Mandla Gobingca Andile Dikana Top Engineers - Dunn Mukosa Bruno Correia Lyle Timm Freddy Ndou was not available for the negotiations due to prior engagements.

### 3. FINANCIAL EVALUATION OF NEGOTIATED CONTRACT PRICE


Due to the fact that the contract value will be R0.00 as this initiative is self-funding Eskom's financial evaluation was initially not done. However, the proposed down payment necessitated that the financial evaluation be done. The process is currently in progress and the financial report will be submitted to the members at the meeting. Furthermore, the principles relating to the execution of the programme (i.e. performance based), as negotiated, has been supported by the Finance representative on the negotiating team and the CFO.

### 4. RECOMMENDATION

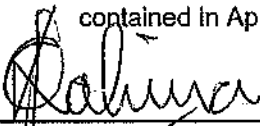
To ratify minor differences between negotiated outcomes and approved mandate parameters as contained in sub-clause 4.1 to 4.4:

4.1 That the proposed down payments to be paid in lieu of project start-up cost as consulting fees be supported. To give effect to this principle, a positive-value contract be setup and the associated budget for this be ring-fenced and sourced. An indication of the extent of the down payments is as follows:

- Top Engineers - R0.0m
- Module "Procurement" – R50.0m
- Module "PED" – R75.0m
- Module "Generation (PLL only) R50.0m;
- Module "Generation (UCLF) R200.0m
- Module "Generation (Project factory) R50.0m
- Module "Claims Management" – R50.0m
- **Total – R475 000 000.00**

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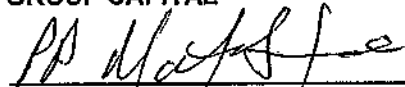
- 4.2 Payment trigger points Regime as per Appendix 2 be approved (not on the basis of realised savings)
- 4.3 Payment of expenses (travel and accommodation) be made outside of realised savings; but it be noted that the expenses have been capped at 10% of the 10.80% benefit sharing percentage resulting in the combined success fee and expenses being 11.88% which conforms with the 12% mandate. That it be noted that the rate of the expenses that McKinsey will charge Eskom will be based on National Treasury rates;
- 4.4 The SLA format of contracting be approved with its associated conditions;
- 4.5 That the Generation, Primary Energy and Claims Management value packages as contained in Appendix 7, 8 and 9 be accepted and included as part of this transaction.

  
\_\_\_\_\_  
CHARLES KALIMA  
COMMODITY SOURCING GM (ACTING)  
GROUP CAPITAL

02/10/15  
\_\_\_\_\_  
DATE

  
\_\_\_\_\_  
PRISH GOVENDER  
PROGRAMME DIRECTOR  
GROUP CAPITAL

02/10/2015  
\_\_\_\_\_  
DATE


  
\_\_\_\_\_  
MANDLA GOBINGCA  
GENERAL MANAGER: SD&L  
GROUP TECHNOLOGY AND COMMERCIAL

02/10/2015  
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MATSHELA KOKO  
GROUP EXECUTIVE  
GROUP TECHNOLOGY AND COMMERCIAL

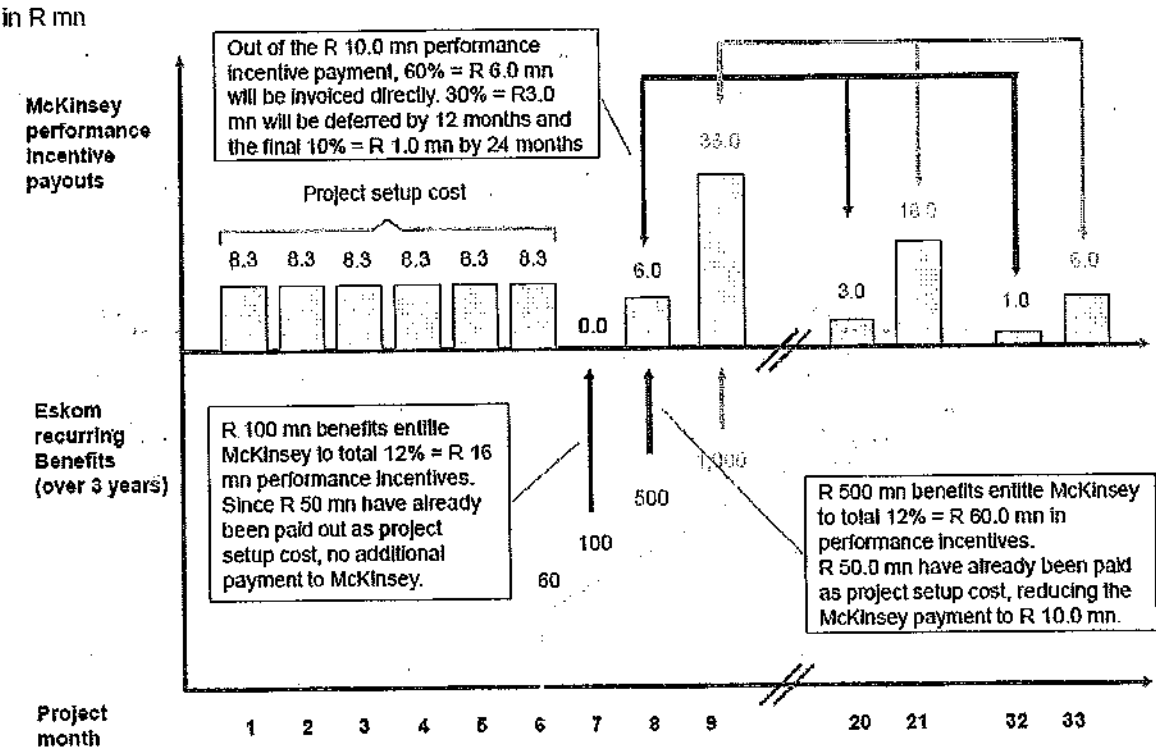
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Appendix 1: Payment of project set up costs, incentives and normalisation to R0.0 contract value

Payment Scheme Recurring Benefits for McKinsey – Overview ILLUSTRATIVE




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Appendix 2: Summary of Negotiation Results on Key financial parameters

Commercial negotiation trace – McK offer post governance

	Current status	Initial McKinsey response	Offer Eskom	Final offer McKinsey	Latest Eskom offer	McKinsey offer post governance approval	Revised McKinsey offer
Share on once off benefits	12.0%	11.8%	10.5%	11.25%	10.75%	11.15%	10.80%
Share on recurring benefits <sup>2</sup>	12.0%	11.3%	10.0% (discounted by 12% p.a. for year 2 and 3)	10.65%	10.25% (discounted by PPI p.a. for year 2 and 3)	10.55% (impact calculation will not consider inflation)	10.55% (impact calculation will not consider inflation)
Payment in case of rejection <sup>1</sup> at IL2 or higher	IL2 = 65% IL3 = 80% >IL3 = 100%	IL2 = 63% IL3 = 78% >IL3 = 100%	IL2 = 50% IL3 = 70% >IL3 = 90%	IL2 = 60% IL3 = 70% >IL3 = 90%	IL2 = 55% IL3 = 70% >IL3 = 90%	IL2 = 56% IL3 = 70% >IL3 = 90%	IL2 = 55% IL3 = 70% >IL3 = 90%
Cashflow recurring benefits	Year1/Year2/Year3 50%/25%/25%	Year1/Year2/Year3 60%/30%/10%	Year1/Year2/Year3 60%/30%/10%	Year1/Year2/Year3 60%/30%/10%	Year1/Year2/Year3 60%/30%/10%	Year1/Year2/Year3 60%/30%/10%	Year1/Year2/Year3 60%/30%/10%
Eskom bank guarantee	None	For deferred payments	None	None	None	None	None
Cap on expenses (travel and accommodation)	18%	15%	15%	15%	15%	15%	10%

1 Or termination of the workstream or the entire project      2 Recurring benefits to be paid 3 full years benefit multiplied by percentage


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Appendix 3: Table on Implementation Levels

Implementation level definition

	Identified	Value assessed/confirmed	Approved	Implemented	Delivered
	IL 1	IL 2	IL 3	IL 4	IL 5
Criteria for completion	<ul style="list-style-type: none"><li>▪ Concrete improvement initiative developed and described in tracking tool</li><li>▪ Benefits to Eskom roughly quantified using baseline data (can still be ranges)</li><li>▪ Major implementation steps identified</li></ul>	<ul style="list-style-type: none"><li>▪ General feasibility cleared with SD&amp;L and value package lead</li><li>▪ Benefits to Eskom evaluated in detail over 3 year period and cleared with cost center owner</li><li>▪ All Implementation steps described and responsables appointed</li><li>▪ Approved by Steercom</li></ul>	<ul style="list-style-type: none"><li>▪ All implementation steps have been signed off by responsables</li><li>▪ Exco/SGM have authorized implementation</li><li>▪ Resources/capital for implementations have been released</li></ul>	<ul style="list-style-type: none"><li>▪ All implementation steps have been completed</li><li>▪ New contract/operating procedure/equipment is in place and fully effective in day-to-day business</li><li>▪ Benefits for Eskom start to be collected (ramp-up)</li><li>▪ Implementation resources can be released</li></ul>	<ul style="list-style-type: none"><li>▪ Total benefits have been incurred for Eskom (over up to 3 year period)</li><li>▪ Bottom line effect on principle measurable on cost center</li><li>▪ No further tracking required</li></ul>



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**Appendix 4: SD&L Proposal**

**Appendix 5: Evolution of the Top Engineers Programme**


**Appendix 6: Summary: Procurement Workstream Negotiation Results**

**Appendix 7: Summary: Generation Workstream Negotiation Results**

**Appendix 8: Summary: Primary Energy Workstream Negotiation Results**

**Appendix 9: Summary: Claims Management Workstream Negotiation Results**

AW6

	ACCEPTANCE LETTER	Unique Identifier	240-54568433
		Revision	1
		Revision Date	October 2015
		Group technology & Commercial Division	

Alexander Weiss

Date: 17 December 2015

Mc Kinsey and Co

Enquiries:  
Tel +27 11 800 5358  
Dave Gorrie

NOTIFICATION OF ACCEPTANCE FOR THE PROVISION OF CONSULTING SERVICES

Basis of Acceptance

We accept your proposal for the provision of Consulting Services concerning the Top Engineers Program on the terms and conditions generally agreed in the draft contract recently negotiated between McKinsey and Eskom.

It is a condition of the acceptance that the Eskom considered opinion of the National Treasury Instruction will hold throughout the life of the contract. In an unlikely eventuality that the said opinion is conclusively altered the parties hereby agree to review the contract payment basis to reflect the revised opinion.

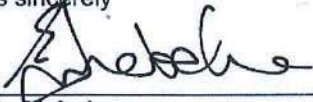
Documentation

The contract documents will be available for your signature and acceptance in due course.

Confirmation

We confirm that a contract will exist between Eskom and Mc Kinsey and Company on the above basis. Please indicate your acknowledgement thereof by signing below and deliver to the undersigned.

Yours sincerely

  
Edwin Mabelane  
Chief Procurement Officer (Acting)

2015/12/17  
Date:

Acknowledgement

We acknowledge receipt of your Notification of Acceptance dated ..... confirming that a contract will exist between Eskom and McKinsey and Company from 17 December 2015 or soon thereafter.

Signature for and on behalf of the Supplier:

  
Name: Alexander Weiss  
Designation: Director

2015/12/17  
Date:

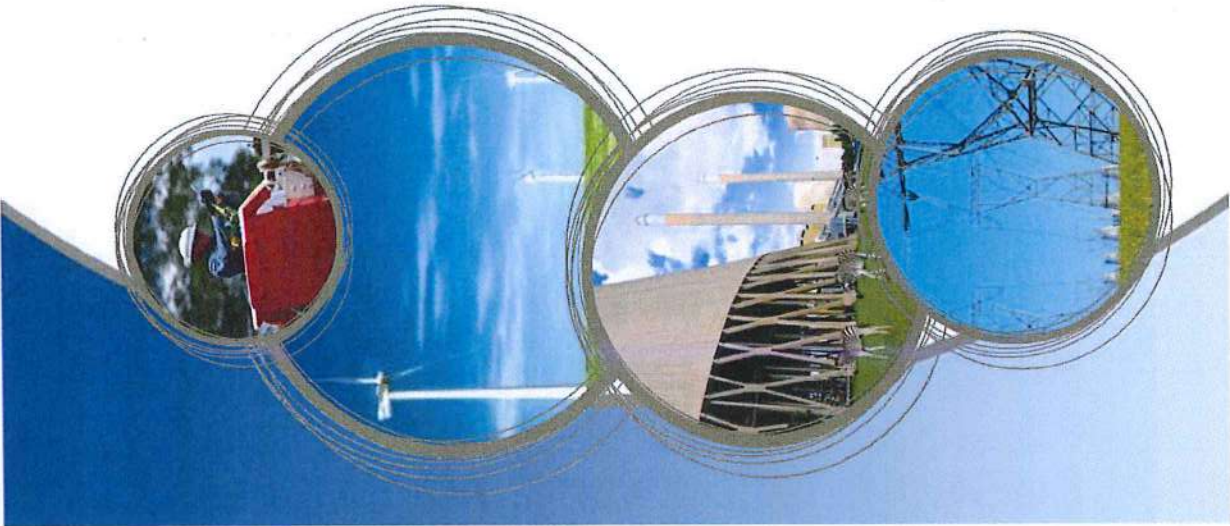
AW7



# Top Consultant Programme

MSA update and process going forward

15 July 2016







## Objectives for today's meeting

- Reflect on the impact delivered by the TCP program to date
- Clarify the steps and timeline to wind-down the TCP MSA



Contents

- Reflecting on progress and impact
- Next steps for the MSA



We have made tremendous progress in the past 12 months



- A precarious financial position to ~**R4bn profit**



- Fleet average **<70% EAF** in FY16 to current levels of **>75%**

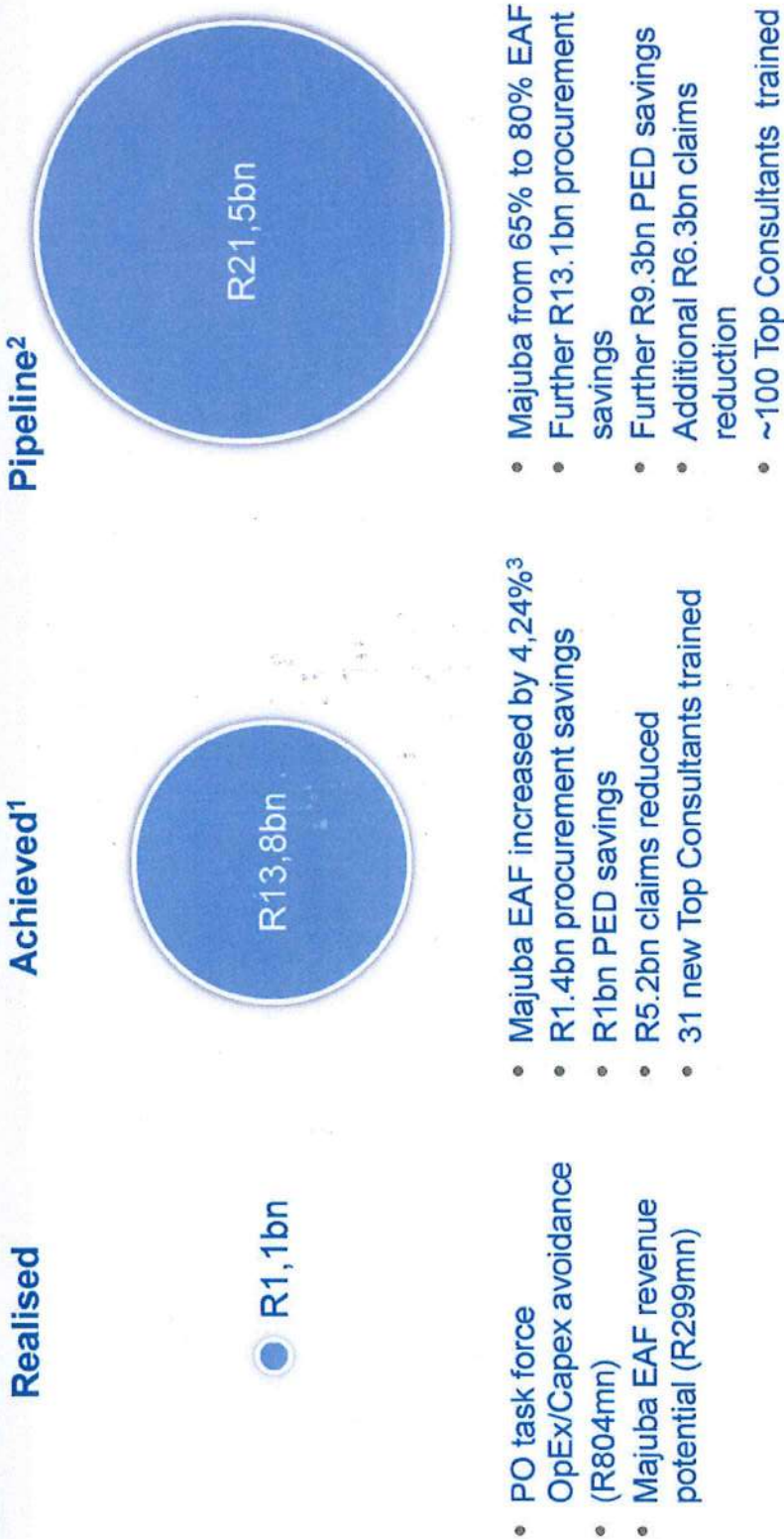


- Surplus capacity and no load shedding for **> 100 days**





~R35,3bn of impact is currently captured in Wave



<sup>1</sup> Includes all initiatives that have reached payment trigger and are in late stages of implementation; <sup>2</sup> Includes IL1 to IL5 only – the pipeline value including all ideas is ~R50bn; <sup>3</sup> Using a 12-month moving average basis



# Impact has been achieved by all MSA work packages

## Work Package Impact

### a Generation turnaround Majuba



- Reduced UCLF from 19% (12MMA) to 8% current level (June 2016)
- Reduced U6 GO to one outage of 115 days vs two outages of >200 days (>5% EAF impact) and intense execution support to end 19 July 2016
- Equipped 95 oil burners and purified 2 mills' oil

### b Procurement



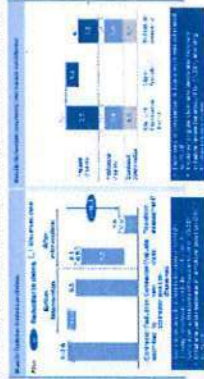
- Identified over R4bn of cost reduction opportunities at an average of over 15% of savings reduction
- Implemented a Spend Control Tower to improve visibility and that has stopped over R800m of purchase orders to date
- Key levers comprise price standardization across stations; CPA application, smart complexity and negotiation readiness

### c Primary Energy



- Increasing stockpile height by 25m and geographical expansion of the stockpile will result in saving of R1.7bn
- Fixed price coal contracts has been negotiated down by 2.5-15%
- Initiative to increase coal burn in Matimba to reduce penalties by R500mn under way

### d Claims



- R13.6bn removed through Boiler historic claims process
- The boiler delivery model is yielding results with Medupi U5 first sync date trending to ERA P50 – 6 months
- R146bn removed through Turbine historical claims
- R1bn saved via the Turbine claim avoidance strategy





The program has created positive momentum

Top Consulting Group



- 31 new Top Consultants enrolled to the program this year (total 53 on the program)
- Top Consultants working on >R49bn impact over next 3 years and supporting Group Execs with priority programs

Top Buyer



- Launched 12 month Top Buyer capability building programme
- Initial cohort of 40 people from across SD&L, stations, SCOPS and buyers

Sakhasonke (Majuba)



- Trained 30 managers in leadership coaching and revived technical trainings
- Distributed 2,000 pamphlets of first edition Sakhasonke journal

Impact managed day to day



- More than 260 ideas currently in Wave with impact potential of R49bn
- >75 Eskom users live and trained to use the tool





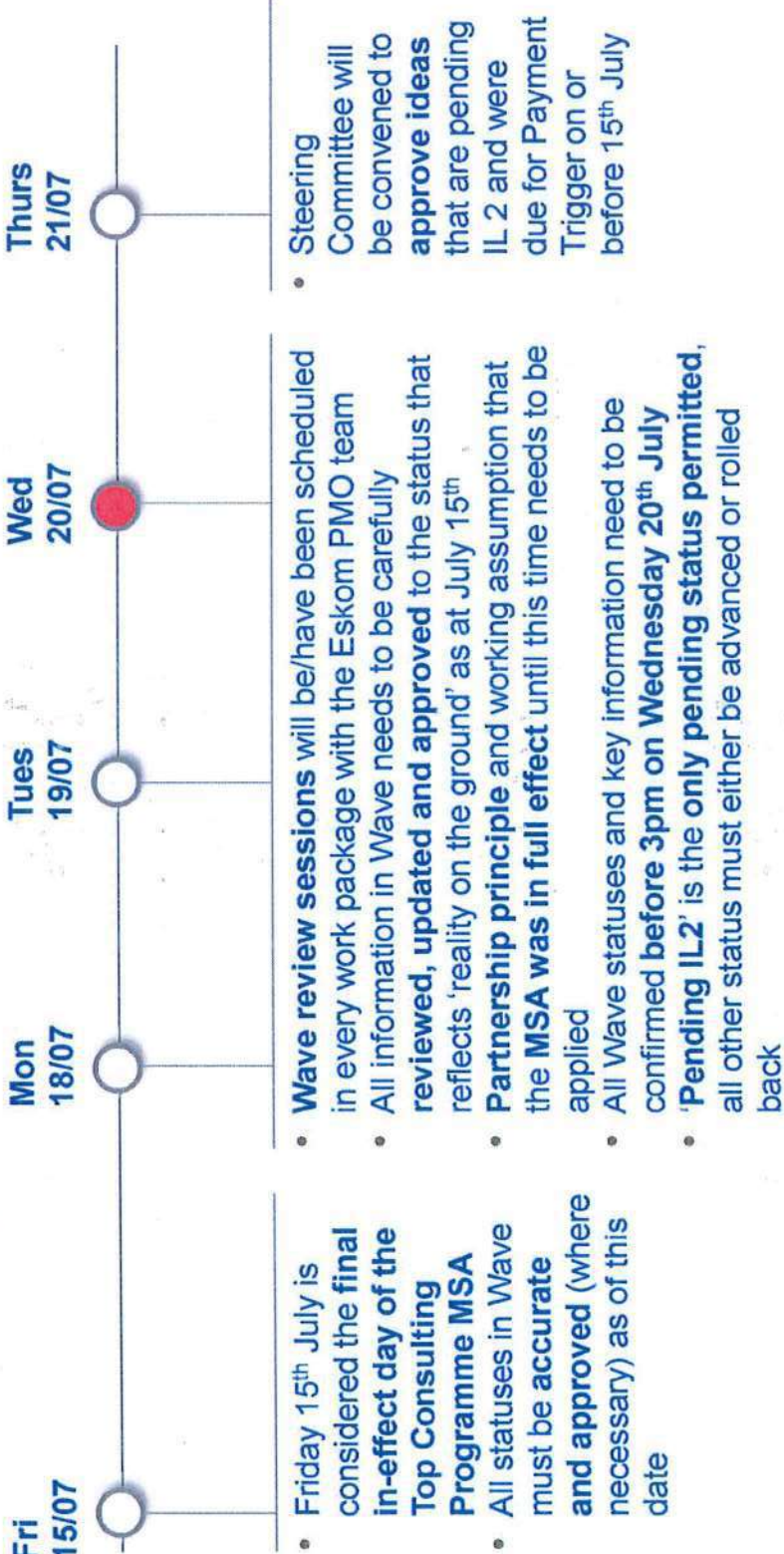
# Contents

- Reflecting on progress and impact
- Next steps for the MSA



# Steps and timeline to wind down the TCG MSA

Timeline and actions for preparing for Steerco



Success requires a focused team effort to ensure WAVE reflects the accurate status



## Guiding principles to wind down the MSA



**We are in a partnership** – we entered in to a partnership with the consultants that is of mutual benefit, the contract value was R0 where they work at risk for our benefit. So far more than R13bn has been achieved



**Progress is good for Eskom** – Eskom remains in a precarious financial position and we still need to deliver significant savings for the business through this program. Eskom enjoys >90% of the upside of the ideas we implement



**Transforming the MSA requires a clear audit trail** – we to need to ensure a clear audit trail is in place in Wave that truly shows how advanced each idea is that makes it clear where Eskom must continue to focus to realise impacts



**Eskom must ultimately realise impact and make it sustainable** – to realise the bottom line impact for Eskom there is still much work that needs to be done and we need to also focus our internal dialogue and action here



**The next steps and timing are now** – there is a clear process and timeline, work in the partnership, with trust and team work to meet the deadlines





BACK UP

Unconstrained views of idea statuses in Wave  
– to be resolved by close of business 20<sup>th</sup> July

Not exhaustive, reviews by teams ongoing

INITIATIVES TO BE UPDATED IN WAVE BY WEDNESDAY 20 JULY

Primary Energy – Bleeding issues

Eskom

Wave ID	Name	Impact type	Expected impact ZAR	IL status in Wave	"Should be" IL status	Wave working session set up?	Comment
1135	Medupi penalty provision: Operational actions- rerouting of up to 5.1 MT of coal to Kendal	Once-Off	1,500.0	IL 1- Identified	IL1	2018/07/20 10:00	• ...
1139	Medupi penalty provision: operational actions- increase existing Medupi stockpile height to 25m	Once-Off	478.0	Pending - IL 3 approval	IL3	2018/07/20 8:00	• ...
1140	Medupi penalty provision: Operational actions- Increase Matimba burn from plan to 95% EUF in FY17 <sup>19</sup>	Once-Off	245.0	Pending IL 2 approval	IL2	tbc	• ...
1141	Medupi penalty provision: Commercial actions: Sale of up to 3.6 MT of coal to a 3rd party	Once-Off	300.0	IL 1- Identified	IL1	2018/07/20 8:00	• ...
1361	Medupi Penalty Provision: Geographical expansion of Medupi stockpile to accomodate an additional 9.5 MT of cocal	Once-Off	1,255.0	Pending IL 2 approval	IL2	tbc	• ...

SOURCE: Wave export (as of 14/07/2016)



INITIATIVES TO BE UPDATED IN WAVE BY WEDNESDAY 20 JULY



Fixed Price Contracts and Transport and Logistics (1/3)

PRELIMINARY							
ID	Name	Impact	Impact type	IL status	"Should be" IL	Wave working session set up?	Comment
10	Silverlake; Negotiate contract savings of R95,62m p.a.	95.6	Recurring	Pending IL 2 approval	IL2	15:00 Monday 18 July	Part of legacy contracts. Not approved by board tender committee therefore there is uncertainty with IL status movement
11	Universal Coal PLC; Negotiate contract savings of R99,55m p.a.	99.6	Recurring	Pending IL 2 approval	IL2	15:00 Monday 18 July	Part of legacy contracts. Not approved by board tender committee therefore there is uncertainty with IL status movement
12	Wescoal Mining (Tutuka); Negotiate contract savings of R90m p.a.	79.7	Recurring	Pending IL 3 approval	IL3	15:00 Monday 18 July	Part of legacy contracts. Not approved by board tender committee therefore there is uncertainty with IL status movement
26	Weigemeend; Negotiate contract savings of R33,23m p.a.	33.2	Recurring	Pending IL 2 approval	IL2	15:00 Monday 18 July	Part of legacy contracts. Not approved by board tender committee therefore there is uncertainty with IL status movement
28	Ntshovelo Mining; Negotiate contract savings of R17,75m p.a.	17.8	Recurring	Pending IL 3 approval	IL3	15:00 Monday 18 July	Part of legacy contracts. Not approved by board tender committee therefore there is uncertainty with IL status movement
191	Wescoal Mining (Majuba); Negotiate contract savings of R20,16m p.a.	20.2	Recurring	Pending IL 3 approval	IL3	15:00 Monday 18 July	Part of legacy contracts. Not approved by board tender committee therefore there is uncertainty with IL status movement
247	Sudor Coal; Negotiate contract savings of R28,89m p.a.	28.9	Recurring	Pending IL 2 approval	IL2	15:00 Monday 18 July	Part of legacy contracts. Not approved by board tender committee therefore there is uncertainty with IL status movement
657	Mbali Coal; Negotiate contract savings of R1,25m p.a.	1.3	Recurring	Pending IL 2 approval	IL2	15:00 Monday 18 July	Part of legacy contracts. Not approved by board tender committee therefore there is uncertainty with IL status movement
1280	Kusile; Negotiate contract savings of R12,84m p.a.	7.9	Recurring	IL 1 - Identified	IL1	15:00 Monday 18 July	Idea okay. Wording to be cleaned up by Monday

SOURCE: Wave export (as of 14/07/2016)



INITIATIVES TO BE UPDATED IN WAVE BY WEDNESDAY 20 JULY



Fixed Price Contracts and Transport and Logistics (2/3)

PRELIMINARY						
ID	Name	Impact	Impact type	IL status	"Should be" IL	Wave working session set up? Comment
1340	Umsimbithi Mining - Arnot Spec A - negotiate 21% price saving	218.0	Recurring	IL 1 - Identified	IL2	15:00 Monday 18 July Idea okay. Wording to be cleaned up by Monday
1341	Umsimbithi Mining - Arnot Spec B - contract negotiation (quality not suitable)	45.0	Recurring	Cancelled	Cancelled	15:00 Monday 18 July Idea okay. Wording to be cleaned up by Monday
1342	Msobo Coal (Mimosa/Moolplaats) - Arnot Spec A - negotiate 5% price saving	50.0	Recurring	Pending IL 2 approval	IL2	15:00 Monday 18 July Idea okay. Wording to be cleaned up by Monday
1343	Msobo Coal (Moolplaats) - Arnot Spec A - negotiate 13% price saving	60.0	Recurring	Cancelled	Cancelled	15:00 Monday 18 July Idea okay. Wording to be cleaned up by Monday
1344	Msobo Coal (Sara Buffels) - Arnot - contract negotiation (mine not ready)	48.0	Recurring	Cancelled	Cancelled	15:00 Monday 18 July Idea okay. Wording to be cleaned up by Monday
1345	Izimbiwa Coal - Arnot Spec B - negotiate 11% price saving	18.0	Recurring	IL 1 - Identified	IL1	15:00 Monday 18 July Idea okay. Wording to be cleaned up by Monday
1346	Overlooked Colliery - Arnot Spec B - negotiate 6% price saving	28.0	Recurring	Pending IL 2 approval	IL2	15:00 Monday 18 July Idea okay. Wording to be cleaned up by Monday
1347	Namane Resources - Elandsfontein - negotiate 10% price reduction	46.0	Recurring	Pre-IL	Pre IL	15:00 Monday 18 July Idea okay. Wording to be cleaned up by Monday
1348	Universal - Kangala - negotiate 10% price reduction	-	Recurring	Pre-IL	Pre IL	15:00 Monday 18 July Idea okay. Wording to be cleaned up by Monday

SOURCE: Wave export (as of 14/07/2016)

INITIATIVES TO BE UPDATED IN WAVE BY WEDNESDAY 20 JULY

Fixed Price Contracts and Transport and Logistics (3/3)



PRELIMINARY						
ID	Name	Impact	Impact type	IL status	"Should be" IL	Wave working session set up? Comment
1416	Iyanga (Leeuport); Negotiate contract savings of R71m p.a.	71.0	Recurring	IL 1 - Identified	IL1	15:00 Monday 18 July Idea okay. Wording to be cleaned up by Monday
1419	Iyanga (Klipfontein); Negotiate contract savings of R133,2m p.a.	133.2	Recurring	IL 1 - Identified	1	15:00 Monday 18 July Idea okay. Wording to be cleaned up by Monday
1447	African Exploration Mining - Kusile - negotiate 10% price reduction	449.0	Recurring	Pre-IL	Pre IL	15:00 Monday 18 July Idea okay. Wording to be cleaned up by Monday
1114	Sudor Rail siding; Supplier to install R94m rail siding at Halfgewonen	94.0	Recurring	Pending IL 2 approval	IL2	15:00 Monday 18 July Part of legacy contracts. Not approved by board tender committee therefore there is uncertainty with IL status movement
1480	Majuba (GGV claim); Recover excess paid to Transnet (R46m)	45.0	Once-Off	Pending IL 2 approval	IL2	15:00 Monday 18 July Idea okay. Wording to be cleaned up by Monday
1481	Majuba (GGV claim); Reduce FY17-FY18 cost by R11m p.a.	11.0	Recurring	Pending IL 2 approval	IL2	15:00 Monday 18 July Idea okay. Wording to be cleaned up by Monday
1295	Increase volume from Goedgedonden to displace shortfall coal and achieve a potential savings of R 31.8 mn	-	Once-Off	Pending IL 1 approval	IL2	15:00 Monday 18 July Work being done on this idea if successful the idea can be moved into IL 2 on Monday. If not the idea can be moved into IL1
1296	Modify Stuart CSA to increase volumes to displace shortfall coal	-	Recurring	Pending IL 1 approval	IL2	15:00 Monday 18 July Work being done on this idea if successful the idea can be moved into IL 2 on Monday. If not the idea can be moved into IL1
1302	Majuba (GGV claim); Reduce FY17-FY18 cost by R11m p.a.	-	Once-Off	Pending IL 1 approval	IL2	15:00 Monday 18 July Work being done on this idea if successful the idea can be moved into IL 2 on Monday. If not the idea can be moved into IL1



INITIATIVES TO BE UPDATED IN WAVE BY WEDNESDAY 20 JULY

Procurement – Inventory



PRELIMINARY							
ID	Name	Impact	Impact type	IL status	"Should be" IL	Wave working session set up?	Comment
64	Inventory: 1. Cancel unnecessary PR/POs and reroute where possible (Spend Control Tower – Inventory Spend)	500	Recurring	Pending IL 4 approval	IL4	15:00 Monday 18 July	Needs re-approval from finance(per email) to approve reduction in baseline due to card split up
65	Inventory: 1.1 Cancel unnecessary PR/POs and reroute where possible (Spend Control Tower - Inventory) – Tracking 1 Apr '16 - 11 May '16	48.66145	Recurring	Pending IL 4 approval	IL5	15:00 Monday 18 July	This card might be split into another card to reflect the once-off portion, which might reduce impact on this card. Team working on resolving matter.
66	Inventory: 1.2 Cancel unnecessary PR/POs and reroute where possible (Spend Control Tower - Inventory) – Tracking 12 May '16 - 31 May '16	804.1667	Recurring	Pending IL 4 approval	IL5	15:00 Monday 18 July	This card will be split into another card to reflect the once-off portion, which might reduce impact on this card. Team working on resolving matter.
67	Inventory: 1.3 Cancel unnecessary PR/POs and reroute where possible (Spend Control Tower - Inventory) – Tracking 1 Jun '16 - 30 Jun '16	26.4	Recurring	Pending IL 4 approval	IL5	15:00 Monday 18 July	This card might be split into another card to reflect the once-off portion, which might reduce impact on this card. Team working on resolving matter.
68	Inventory: 1.4 Cancel unnecessary PR/POs and reroute where possible (Spend Control Tower - Inventory) – Tracking 01 Jul '16 - 14 Jul '16	34.5	Recurring	IL 3 - Ready for implementation	IL5	15:00 Monday 18 July	This card might be split into another card to reflect the once-off portion, which might reduce impact on this card. Team working on resolving matter.
72	Inventory: 2. Reduce operational stock by optimising MRP parameters using a model	174	Recurring	IL 1 - Identified	IL3	15:00 Monday 18 July	Finance is not aligned on the impact calculation but team is working to resolve this before Tuesday 19 July
564	Inventory: 1.2 PO Cancellations Tracking - Majuba U6 outage	13.41519	Recurring	Pending IL 4 approval	IL5	15:00 Monday 18 July	This card might be split into another card to reflect the once-off portion, which might reduce impact on this card. Team working on resolving matter.
1711	Spend Control Tower. Cancel unnecessary POs/PRs (Non-inventory/Unmodified spend)	222	Recurring	Pre-IL	IL4	15:00 Monday 18 July	Client requested this lever to be split from card #64 to be more accurate - needs to be approved to IL4 to reflect true status (This is a parent card for monthly tracking cards)
1735	Spend Control Tower. Cancel unnecessary PR/POs (Non-Inventory/Unmodified) –	12.6	Once-Off	Pending IL 1 approval	IL5	15:00 Monday 18 July	This is a monthly tracker for card #1711

SOURCE: Wave export (as of 14/07/2016)





INITIATIVES TO BE UPDATED IN WAVE BY WEDNESDAY 20 JULY

Procurement – Liquid Fuels



PRELIMINARY

ID	Name	Impact	Impact type	IL status	"Should be" IL	Wave working session set up?	Comment
1199	Liquid Fuels - OCGT Diesel: Renegotiate contract terms and conditions with PetroSA for Gourikwa and Ankerlig	3	Recurring	Pending IL 2 approval	IL3	15:00 Monday 18 July	Needs to be approved Eskom PMO
1200	Liquid Fuels - OCGT Diesel: Shift volumes for diesel to Masana (supplier)	18	Recurring	Pending IL 2 approval	IL3	15:00 Monday 18 July	Needs to be approved Eskom PMO
1375	Liquid Fuels - Fuel Oils: Negotiation of base price	167	Once-Off	Pending IL 2 approval	IL3	15:00 Monday 18 July	Needs to be approved by WP lead and Eskom PMO
1376	Liquid Fuels - Fuel Oils: Claim back payments if CPA not correctly applied	150	Once-Off	Pending IL 2 approval	IL3	15:00 Monday 18 July	Needs to be approved by WP lead and Eskom PMO
1479	Liquid Fuels - Fuel Oils: Reduce fuel oil consumption by tackling root causes	385	Recurring	Pending IL 2 approval	IL3	15:00 Monday 18 July	Needs to be approved by WP lead and Eskom PMO

SOURCE: Wave export (as of 14/07/2016)



INITIATIVES TO BE UPDATED IN WAVE BY WEDNESDAY 20 JULY

Procurement – Power Transformers and Tactical Sourcing



PRELIMINARY

ID	Name	Impact	Impact type	IL status	"Should be" IL	Wave working session set up?	Comment
62	Power Transformers: Early payment discount	20.4	Once-Off	Pending IL 3 approval	IL3	15:00 Monday 18 July	Awaiting WP lead approval
63	Power Transformers : Reduce demand in line with stock on hand	171.2	Once-Off	Pending IL 2 approval	IL4	15:00 Monday 18 July	Was pushed back for re-approval due to Wave glitch
20	Tactical: Pole Transformers - Sign contract for items currently bought off contract	42.4	Once-Off	Pending IL 2 approval	IL4	15:00 Monday 18 July	Was pushed back for re-approval due to Wave glitch
35	Tactical: Sign contract for contract Wooden Poles & X-arms spend currently off contract using e-auction	33.8	Once-Off	Pending IL 4 approval	IL4	15:00 Monday 18 July	Needs Eskom PMO approval - Awaiting Sustainability plan to be uploaded
577	Tactical: Concentric Cables - Place off-contract spend on contract	36.7	Once-Off	Pending IL 3 approval	IL4	15:00 Monday 18 July	Awaiting WP lead approval

SOURCE: Wave export (as of 14/07/2016)



## Procurement – Project Sourcing Group



PRELIMINARY

ID	Name	Impact	Impact type	IL status	"Should be" IL	Wave working session set up?	Comment
1350	Project Sourcing - Camden AHP - Optimise slurry pipe wall thickness/grade	25	Once-Off	Pending IL 2 approval	IL3	15:00 Monday 18 July	Awaiting WP lead, Finance and Eskom PMO approval
1352	Project Sourcing - Camden AHP - Construction Acceleration	10	Once-Off	Pending IL 2 approval	IL3	15:00 Monday 18 July	Needs re-approval by all IL2 approvers due to calculation changes
1372	Project Sourcing - Camden AHP - Optimise water pipes (thickness or material)	48	Once-Off	Pending IL 3 approval	IL3	15:00 Monday 18 July	Needs WP lead approval
1373	Project Sourcing - Camden AHP - Negotiate pipe material prices (slurry and water)	11	Once-Off	Pending IL 2 approval	IL3	15:00 Monday 18 July	Needs Eskom PMO approval
1374	Project Sourcing - Camden AHP - indirect costs negotiation	15	Once-Off	Pending IL 2 approval	IL3	15:00 Monday 18 July	Needs Finance, WP lead and Eskom PMO approval

SOURCE: Wave export (as of 14/07/2016)

INITIATIVES TO BE UPDATED IN WAVE BY WEDNESDAY 20 JULY

Procurement – Switchgear




ID	Name	Impact	Impact type	IL status	"Should be" IL	Wave working session set up?	Comment	PRELIMINARY
1396	Switchgear: Reduce demand in line with stock on hand	42	Once-Off	Pending IL 2 approval	IL3	15:00 Monday 18 July	Needs all approvals again due to manual Admin error (was approved by Finance, SD&L and WP lead)	
1397	Switchgear: Standardise equipment specifications	23.2	Recurring	Pending IL 3 approval	IL3	15:00 Monday 18 July	Needs to be approved by WP lead.	
1398	Switchgear: Optimise equipment selection process based on TCO analysis	58	Recurring	Pending IL 1 approval	IL2	15:00 Monday 18 July	To be approved by WP lead, Finance, SD & L and Eskom PMO	
1399	Switchgear: Negotiate long term contracts on improved fact base and commercial levers	25.38	Recurring	Pending IL 2 approval	IL3	15:00 Monday 18 July	Needs WP lead and Eskom PMO approval	

SOURCE: Wave export (as of 14/07/2016)

INITIATIVES TO BE UPDATED IN WAVE BY WEDNESDAY 20 JULY

Procurement – Turbines



ID	Name	Impact	Impact type	IL status	"Should be" IL	Wave working session set up?	Comment
1273	Turbine - Long Term Spares Agreement Commercial Levers	482	Recurring	Pending IL 3 approval	IL3	15:00 Monday 18 July	Awaiting WP lead approval

PRELIMINARY



INITIATIVES TO BE UPDATED IN WAVE BY WEDNESDAY 20 JULY



Procurement – Cancelled initiatives to be closed out

ID	Name	Impact	Impact type	IL status	"Should be" IL	Wave working session set up?	Comment	PRELIMINARY
568	[Cancelled - Limited involvement] Boiler Services; Negotiate short term contract	66	Once-Off	Cancelled	IL4	15:00 Monday 18 July	Was cancelled due to misalignment between client and consultant	
34	[Cancelled - Limited involvement] Tactical: Boiler Tube - Enforce buyer and plant to use new material number	2.83	Once-Off	Cancelled	IL4	15:00 Monday 18 July	Was cancelled due to misalignment between client and consultant	

SOURCE: Wave export (as of 14/07/2016)

INITIATIVES TO BE UPDATED IN WAVE BY WEDNESDAY 20 JULY

Project Delivery and Claims



PRELIMINARY

Wave ID	Name	Impact and type ZAR M	IL status in Wave	"Should be" IL status	Wave working session set up?	Comment
#1	Kusile turbine claims avoidance and recovery	778 (Once-off)	Pending IL 3 approval	IL 3	No	• ...
#2	Historic boiler claims - Medupi	1000 (Once-off)	Pending IL 2 approval	IL 3	No	• ...
#3	Historic boiler claims - Kusile	600 (Once-off)	Pending IL 3 approval	IL 3	No	• ...
#4	Boiler employer claims - Medupi	374 (Once-off)	Pending IL 2 approval	IL 3	No	• ...
#5	C&I employer claims	6.9 (Once-off)	Pending IL 2 approval	IL 3	No	• ...
#16	Boiler employer claims - Kusile	554.4 (Once-off)	Pending IL 3 approval	IL 3	No	• ...
#608	Boiler New Delivery Model: Medupi U4 Initiative Agreement	194.5 (Once-off)	Pending IL 2 approval	IL 4	No	• ...
#609	CBZ Intervention	149.5 (Once-off)	Pending IL 2 approval	IL 5	No	• ...
#610	Boiler New Delivery Model: Medupi U3 to U1	2291 (Once-off)	Pending IL 1 approval	IL 1	No	• ...
#1128	Boiler new delivery model: Kusile unit 2 - 6 initiative agreement	8000 (Once-off)	Pending IL 1 approval	IL 1	No	• ...

SOURCE: Wave export (as of 14/07/2016)





Powering your world



The group's condensed interim financial statements are available on Eskom's website at [www.eskom.co.za/IR2016/interim](http://www.eskom.co.za/IR2016/interim)

Group reviewed interim results for the six months ended 30 September 2016

Surplus capacity available to support economic growth

Revenue increased by 10.5% year-on-year to R97.1 billion

EBITDA increase of 23.1% to R31.5 billion

Cash flow from operating activities increased by 38.6% to R31.9 billion

86% of funding for the year secured

Plant availability increased to 78.49%

Ingula Units 4, 2 and 1 in commercial operation, adding 999MW of peaking capacity

Medupi Unit 5 synchronised to the national grid on 8 September 2016 (794MW installed capacity)

Almost 15 months of no load shedding to November 2016

Electrification connections increased by 139% to 99 869

Business overview

During the six months ended 30 September 2016, Eskom continued to further stabilise the business with improved operational and financial performance, with almost 15 months of no load shedding. Eskom is now delivering excess electricity capacity to it will not be a constraint to South Africa's future growth. Our five year plan to 2020/21 aims to re-establish Eskom as a catalyst for growth.

Our five year plan is grounded on the "delist-to-own" paradigm, which is underpinned by two main drivers: namely cost optimisation and modern price increases. Achieving this paradigm shift will require us to:

- Continue the turnaround in Generation performance by increasing plant availability (EAF) to 80% by 2020/21
- Deliver the new build programme within the latest schedule, by completing Ingula by 2017, Medupi by 2020 and Koebe by 2022; and optimise the capital portfolio through prioritisation based on our core business
- Increase electricity sales volumes
- Ensure revenue certainty through the RICA regulatory mechanism and preparation for FYPD 4
- Direct a cost containment effort focused on primary energy, manpower and other external spend to ensure long-term sustainability of the business
- Strengthen and stretch the balance sheet in the short term, while establishing long-term stability
- Ensure regulatory and legal compliance in order to maintain our licence to operate and promote a sustainable business, including environmental and N-1 grid compliance
- Deliver on Government's strategic objectives by meeting targets on transformation, facilitating the entry of independent power producers (IPPs) and other key initiatives

Financial performance

Revenue amounted to R97.1 billion for the six months to September 2016 (September 2015: R87.9 billion), an increase of 10.5%, due to the NERSA-approved price increase in 2016, supported by a marginal increase in sales volumes.

Electricity sales of 108 570 GWh (September 2015: 107 307 GWh) were 1.2% higher than the comparative period. The net growth in sales was due to a decline in local sales volume of 0.6%, coupled with an increase in energy exports. A strategy to address the decline in local sales volumes has commenced, and will address both the retention of sales to existing customers and the stimulation of sales growth. The strategy, still in its infancy, addresses cross-border sales, local demand stimulation, public-private partnerships, corporate development and unregulated revenues.

International sales have increased by 31.6% to 7 811 GWh. Non-firm sales are being made to Zambia and Zimbabwe. Eskom was also able to increase exports to Namibia, Botswana and Swaziland. These sales are made mainly during off-peak hours, but with the increasing excess capacity, sales are also made during peak hours. Eskom has entered into sales contracts with SAPV trading partners are sufficiently flexible to allow supply to be restricted during emergency situations in South Africa, if required.

With the anticipation of additional surplus capacity in the coming months and years, Eskom is focusing on signing long-term power supply agreements with regional partners. Engagements with utilities and mining houses active in the region have commenced.

Primary energy costs of R40.4 billion (September 2015: R41 billion) decreased by 1.3%, compared to an average increase of 18.8% over the last five financial years, meaning a significantly negative trend. When generation costs of R26.6 billion (September 2015: R26.3 billion) generated 1 170 GWh (September 2015: 109 245 GWh). Independent power producers (IPPs) generated 4 910 GWh (September 2015: 3 986 GWh) at a cost of R8.7 billion (September 2015: R6.5 billion). Eskom spent R4.2 billion and R4.1 billion respectively on the environmental levy and international electricity purchases (September 2015: R4.1 billion and R2.1 billion).

Business productivity cash savings of R8.1 billion (September 2015: R8.9 billion), against a year-end target of R7.1 billion, has been achieved during the six months. Inception-to-date savings at 30 September 2016 amount to R26.4 billion against a target of R4.3 billion.

The group EBITDA of R31.5 billion has increased significantly by 23.1% (September 2015: R25.6 billion). The EBITDA margin improved to 32.7% (September 2015: 32.5%).

Depreciation increased by 31.4% to R10 billion (September 2015: R7.6 billion) due to the generation and transmission plant placed into commercial operation since August 2015. A net fair value loss on financial instruments of R1.9 billion was recorded for the period (September 2015: R3 million profit, restated), improved by exchange and interest rates. An increase in the gross finance expense and a reduction in borrowing cost being capitalised, resulted in an increase in net finance cost of R6.8% to R6.5 billion (September 2015: R3.5 billion).

The group achieved a net profit after tax of R9.4 billion (September 2015: R10.3 billion, restated) for the period ended 30 September 2016.

Funding

The group's net cash inflow from operating activities was R31.9 billion for the period (September 2015: R23 billion), representing an increase of 38.6%. Cash flows used in investing activities amounted to R29.3 billion (September 2015: R26.5 billion). Refer to the section on the capacity expansion programme for the progress on the build programme.

The group's liquidity position has improved significantly, with liquid assets increasing by 81.6% from R24.1 billion a year ago, to R43.8 billion at 30 September 2016. The group has access to adequate resources and facilities to continue as a going concern for the foreseeable future.

Eskom has secured funding of R78 billion for financial years 2016/17 and 2017/18. For the current financial year, 86% of the R49 billion funding requirement has been secured. This includes three loan facilities with the African Development Bank amounting to R20 billion, a R7 billion short-term credit facility with the China Development Bank, as well as committed facilities of R22 billion. The remaining 14% required for the year, which constitutes R10 billion, will be raised through domestic medium-term notes, commercial paper, development financing and export credit agreements.

On 14 September 2016, Moody's announced its decision to place Eskom on credit review.

Debt management

Municipal arrears debt increased from R5.6 billion at 30 September 2015 to R9.2 billion at 30 September 2016. Eskom is considering the prepaid billing as a way of dealing with the growth in municipal electricity debt. The provision for arrears debt for municipalities has increased by R2.5 billion since September 2015.

Soweto outstanding debt (excluding interest) increased from R4.6 billion at 30 September 2015 to R5.2 billion at 30 September 2016. Eskom is currently installing prepaid meters in Sandton, Midrand, Soweto, Kogelo and other areas around Gauteng. This is in order to increase revenue collection and address Eskom's debt collection challenges. In Soweto, Sandton and Midrand, we installed 12 123 smart meters from April 2016 to date. We aim to install 18 000 prepaid meters in Soweto, Sandton and Midrand for the year ending March 2017.

Economic regulation

NERSA allowed Eskom additional revenue of R11.2 billion for the 2016/17 financial year in respect of the Regulatory Pricing Account (RPA) application for 2016/17.

The North Gauteng High Court set aside NERSA's decision and remitted it back to NERSA. NERSA and Eskom announced that they will appeal the ruling. The 2016/17 tariff to direct customers and municipalities will remain in force.

Eskom applied for further RICA applications for the 2016/17 and 2017/18 financial years, amounting to R12.2 billion and R23.6 billion respectively, through the FYPD methodology. These have now been placed on hold by NERSA due to the court case. Eskom will submit a revenue application in due course.

Operating performance

There has been a significant improvement in plant availability compared to the previous period. Plant availability improved from 71.23% for the six months to September 2015, to 78.49% for the six months to September 2016, exceeding the year-end target of 72%. Unplanned breakdowns have improved from 14.75% for the six months to September 2015 to 9.73% in the current period. Unplanned outages due to cable faults have decreased by 37.8%. Partial load losses have improved and the energy lost due to partial load losses has decreased by 27%. The higher level of planned maintenance in the previous year is starting to bear fruit.

As a result of this increased availability and the additional generating capacity added, the reliance on open-cycle gas turbines (OCGTs) has reduced considerably. Diesel usage decreased from R6.7 million in the six months to September 2015 to R3.8 million in the current period.

Coal stock increased to 26 days at 30 September 2016 (September 2015: 57 days), as part of a risk mitigation strategy. A total of 4.49% coal was transported by rail (September 2015: 4.29%).

Particulate emissions performance has improved compared to the previous period, to 0.29kg/MWh sent out (September 2015: 0.34kg/MWh). Water usage related to power station operations for the period was 1.45ENWWSO (September 2015: 1.7ENWWSO), worse than target and the prior period performance. Water usage at coal-fired stations remains high, partially due to the dry hot weather resulting in higher evaporation, although certain operational issues also need attention.

At 30 September 2016, total IPP capacity of 4 730 MW was available to the system (September 2015: 3 986 MW). This included renewable IPPs of 2 870 MW, IPP partners of 1 605 MW and short-term IPPs of 255 MW. In total, we purchased 4 940 GWh from IPPs (September 2015: 3 986 GWh), at an average cost of 191c/kWh. Renewable IPPs delivered energy at an average load factor of 30.2% (September 2015: 28.5%) over the six months, at an average cost of 216c/kWh.

Transmission system minutes lost less than 1, of 2.74 system minutes lost, is below expectations for the six months to September 2016 (September 2015: 1). Year-to-date performance has been impacted by a few relatively large incidents involving plant failures. The Distribution system average interruption frequency index of 19.8 events (September 2015: 19.8) and system average interruption duration index of 38.3 hours (September 2015: 35.4) are better than target, an improvement in performance has been seen since March 2016.

Operation Khamsi, the Eskom-led and electricity theft campaign, is steadily making progress. Since 2013, the campaign has helped reduce Eskom's distribution losses from 7.2% to 5.8%. This translates to about R1.4 billion savings every year. The campaign has helped to recover R48 million in previously unbilled revenue over the same period, and resulted in the arrest of 50 electricity theft suspects and the opening of 26 cases on the court roll.

Despite our commitment to safety, we sadly experienced one employee and four contractor fatalities during the period (September 2015: two employees and nine contractors). The Board of Directors and employees of Eskom convey their sincere condolences to the affected families.

Capacity expansion programme

Eskom is building new power stations and high-voltage power lines to meet South Africa's growing energy demand. The capacity expansion programme will increase Eskom's generating capacity by 17 380 MW by 2022, and includes one pumped storage and two coal-fired power stations.

Units 4, 2 and 1 at Ingula Power Station have been in commercial operation since 10 June, 22 August and 20 August 2016 respectively. The remaining unit at Ingula (Unit 3) has already been synchronised to the grid, and is undergoing repairs after experiencing problems during the test phase. The unit is on track for commercial operation by 2017.

The commercial operation of the three units at Ingula has added an extra 999 MW of peaking capacity, contributing to ensuring security of power supply for South African homes and businesses. Besides being a catalyst for economic growth, a stable power supply will also enable Eskom, together with municipalities, to roll out electrification programmes to make life easier for millions of households who currently rely on one fuel and one for domestic cooking and heating.

Unit 4 of Medupi Power Station has been in commercial operation since August 2015. Unit 5 was synchronised to the national grid on 8 September 2016, at which time the Minister of Public Enterprises, Mr. Lynne Brown, congratulated Eskom's inspirational leadership for getting the build programme back on track. The synchronisation of Unit 5 marks a key milestone towards the full commercial operation of the unit, ahead of its scheduled commercial operation in March 2018. Good progress is also being made on Unit 4 of Medupi.

Eskom's Group Chief Executive, Brian Molefe said: "The Medupi Unit 5 synchronisation is a clear indication that we are on track on delivering the entire new build programme to the country. This milestone further strengthens our position that load shedding is becoming a thing of the past. I am delighted by this achievement. Eskom is turning a corner."

The Koebe Power Station project is making significant strides: Unit 1 continues to achieve set milestones, on the path to commercial operation by the second half of 2018. Key milestones achieved include the completion of the chemical loop in August 2016 and first fire using oil in September 2016. The Koebe project has mechanically completed and commissioned the first wet fire gas development, thereby being the first to install the technology, not only in South Africa, but the continent of Africa. Unit 2 is progressing well. The project completed hot-fire testing of the Unit 2 boiler on 1 October 2016, which will positively influence the achievement of boiler registration.

While the construction of Transmission substations is on target, the construction of lines is behind target, mainly due to delayed permits and licences. Difficult construction terrain, adverse weather and contractor performance lagging progress. Eskom has revised the schedules of these lines to achieve the year-end target.

Empowerment and CSI

Procurement from 8-BBEE compliant suppliers achieved 65.38% (September 2015: 67.59%) of total measured procurement spend, which included spend with black-owned suppliers of 30.18% (September 2015: 30.03%). The large reduction in the performance in the current year is due to the large number of suppliers being without a valid B-BBEE certificate, due to changes to the Codes during the period. Mechanisms to collect valid certificates are in place, to ensure that year-end targets are achieved. A total of 85.4% of Eskom-wide procurement was awarded to local content, against a target of 70%.

At 30 September 2016, 61.67% of senior management were black (September 2015: 61.32%), while 28.5% of senior management were female (September 2015: 27.81%). Eskom has developed an ambitious and rigorous gender equality plan which serves to close the gender gap by 2020, through the Eskom Women Advancement Programme (EWAP). It is envisaged that opportunities which arise due to attrition will be targeted and reserved for women. Employees with disabilities constitute 2.75% of the workforce, and there are 2 580 learners in the pipeline.

Eskom committed R7.4 million to corporate social investment during the period (September 2015: R6.3 million), impacting 120 246 beneficiaries (September 2015: 49 867), an increase of 143.3%. Two trusts funded by the Eskom Foundation in the current year contributed a significant number of beneficiaries.

Eskom electrified 99 849 households during the six months (September 2015: 41 778), an increase of 139%. The implementation of the new performance centre established at our head office in Megawatt Park, which focuses solely on the delivery of electrification, has enabled the significant increase in connections. Eskom is gearing itself up for even better results over the rest of the year, during which focus will be placed on building required infrastructure, while also continuing to electrify households across the country. Eskom is aiming to achieve 200 000 connections by year end, against the target of 187 722 set by the Department of Energy.

Governance

Mr. Ramona Kumbula and Mr. Marius Cassim resigned as directors, on 12 and 14 April 2016 respectively. Mr. Ntshiri Carrim and Mr. Vinodini Naidoo did not make themselves available for reappointment as directors at the annual general meeting on 1 July 2016. No new appointments were made to the Board at the annual general meeting.

During FY 2016, Mr. Elio Pule was appointed as Group Executive: Human Resources. Mr. Sean Maritz was appointed as Group Executive: Information Technology with effect from 1 June 2016.

Outlook

Eskom currently has excess capacity, which is projected to grow steadily over the next three years. We call on customers to increase their consumption and engage Eskom proactively to take advantage of the excess capacity situation.

Condensed group interim financial information

Condensed income statement

for the six months ended 30 September 2016

	Sept 2016 Rm	Restated Sept 2015 Rm	Movement %
Continuing operations			
Revenue	97 131	87 876	11
Other income	752	1 349	(43)
Primary energy	(40 390)	(40 999)	1
Net employee benefit expenses	(15 738)	(13 804)	(14)
Net impairment loss	(615)	(123)	(404)
Other expenses	(8 234)	(8 723)	(10)
Profit before depreciation and amortisation and net fair value loss (EBITDA)	31 496	25 595	23
Depreciation and amortisation expense	(9 998)	(7 406)	(31)
Net fair value loss on financial instruments	(1 875)	3	(-)
Net finance cost	(6 523)	(3 490)	(87)
Share of profits of equity-accounted investees, net of tax	18	38	(26)
Profit before tax	13 106	14 519	(10)
Income tax	(3 750)	(4 172)	(9)
Profit for the period	9 356	10 347	(10)

Condensed group statement of financial position

at 30 September 2016

	Sept 2016 Rm	Restated Sept 2015 Rm	Movement %
Assets			
Property, plant and equipment and intangibles	154 535	486 720	84
Financial assets	43 766	24 104	82
Working capital	44 119	43 753	1
Other assets	46 440	57 145	(18)
Total assets	689 080	611 722	12
Equity	(86 581)	(71 117)	9
Liabilities			
Trade payables and borrowings	332 920	297 449	(12)
Working capital	49 637	49 320	1
Other liabilities	(19 322)	93 836	(28)
Total liabilities	363 235	440 615	(14)
Total equity and liabilities	689 080	611 722	(12)

Condensed group statement of cash flows

for the six months ended 30 September 2016

	Sept 2016 Rm	Restated Sept 2015 Rm	Movement %
Net cash from operating activities	31 913	22 646	39
Net cash used in investing activities	(29 276)	(26 518)	(10)
Net cash from financing activities	(837)	7 400	(111)
Cash and cash equivalents at the beginning of the period	28 454	8 863	221
Foreign currency translation	(10)	(5)	(100)
Effect of movements in exchange rates on cash held	22	36	(39)
Non-current assets held-for-sale	(25)	-	-
Cash and cash equivalents at the end of the period	30 311	12 846	136
Investments in securities	12 455	11 258	20
Liquid assets at the end of the period	43 766	24 104	82

Condensed group interim financial statements

The condensed group interim financial statements have been prepared under the supervision of the Chief Financial Officer, Mr. Anel Singh CA(SA), and reviewed by the group's independent auditors, Sizwe Ntshubh Gabahele Inc. The reviewed condensed interim financial statements of the group, together with the unmodified review opinion, are available for inspection at Eskom's registered office and on [www.eskom.co.za/IR2016/interim](http://www.eskom.co.za/IR2016/interim).

Disclaimer

This announcement does not constitute an offer to sell or an indication of any offer to buy securities of Eskom Holdings SOC Ltd (Eskom) or any of its subsidiaries in any jurisdiction. Certain statements in this announcement regarding Eskom's business operations and financial position may constitute forward-looking statements, which are not intended to be a guarantee of future results but instead, constitute Eskom's current expectations based on reasonable assumptions. Actual results could differ materially from those projected in our forward-looking statements due to risks, uncertainties and other factors.

Eskom Holdings SOC Ltd

Reg No: 2002/015527/30

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Tel: +27 (11) 882 2795

[www.eskom.co.za](http://www.eskom.co.za)



AW9

Updated without new build	Total cash flow	T						
		Proposed share		Cash flow				
		%	Rand	year1	year2	year3	year4	
Top Engineer	341	50%	170	57	57	57	57	-
Recovered from all projects								
PMO	320	50%	160	53	53	53	53	-
Recovered from all projects								
Gx design and scale*	-1 537	30%	-461	-369	-92	-92	-92	-
Gx roll out*	-1 537	60%	-922	-138	-691	-92	-92	-
Procurement	-1 603	30%	-481	-91	-130	-168	-91	-
PED	-1 677	35%	-587	-147	-411	-29	-29	-
Claims	-710	30%	-213	-45	-98	-70	-70	-
New build			-	-	-	-	-	-
To be negotiated after MSA signed								
Financing & funding	-1 500	95%	-1 425	-784	-499	-143	-143	-
Corporate plan	-98	30%	-29	-29	-	-	-	-
Fixed- finance, strategy, other	-450	55%	-248	-83	-83	-83	-83	-
Need approval asap for urgent issues- coal SPV; DOE/IPP; NT								
Nuclear	-300	30%	-90	-30	-30	-30	-30	-
Total cash inflow	-9 411		-4 456	-1 716	-2 034	-615	-91	-
Net cash flow	-8 750		-4 125	-1 605	-1 923	-505	-91	-
			47%	0,49	0,49	0,42	0,30	

\* Assumed baseline for 4 stations; there is potential to increase this

M		Cash flow				
Proposed share		year1	year 2	year 3	year 4	
%	Rand					
50%	170	57	57	57		-
50%	160	53	53	53		-
70%	-1 076	-860	-215			-
40%	-615	-92	-461	-61		-
70%	-1 122	-213	-303	-393	-213	-
65%	-1 090	-273	-763	-55		-
70%	-497	-104	-229	-164		-
100%	-					-
5%	-75	-41	-26	-8		-
70%	-69	-69				-
45%	-203	-68	-68	-68		-
70%	-210	-70	-70	-70		-
	-4 955	-1 790	-2 134	-818	-213	-
	-4 625	-1 680	-2 024	-708	-213	-

AW10

From: Bianca Smith <[bianca@tcp.co.za](mailto:bianca@tcp.co.za)>  
To: Alexander Weiss <[alexander\\_weiss@mckinsey.com](mailto:alexander_weiss@mckinsey.com)>, Vikas Sagar  
<[vikas\\_sagar@mckinsey.com](mailto:vikas_sagar@mckinsey.com)>  
Cc: [clive@tcp.co.za](mailto:clive@tcp.co.za), Ben Burnand <[ben@tcp.co.za](mailto:ben@tcp.co.za)>  
Date: 2016-02-09 09:13 AM  
Subject: Trillian's Shareholding

Hi Alex & Vikas,

Last night you requested the current status of Trillian's shareholding. At this point, all that I can state is that Trillian Management Consulting is 100% owned by Trillian Capital Partners.

From a discussion with Clive, I understand that you are communicating with him, on the shareholding of TCP.

Regards,

**Bianca Smith**

Chief Executive Officer



T +27 01 020 2179 C +27 83 345 0095 E [bianca@tcp.co.za](mailto:bianca@tcp.co.za) W [www.tcp.co.za](http://www.tcp.co.za)

2<sup>nd</sup> Floor, 44 Melrose Boulevard, Melrose Arch, Sandton, 2196



AW11

McKinsey&amp;Company

February 25, 2016

CONFIDENTIAL

Eric Wood  
Trillian Management Consulting  
ericw@tcp.co.za

Dear Mr. Wood

**TRILLIAN, HUBEI HONGYUAN, E GATEWAY GLOBAL CONSULTANTS  
FZC, AND ESKOM DUVHA BOILER PURCHASE**

We refer to your discussion with Mr. Vikas Sagar with respect to the above matter on 23 February 2016. We have also now received a Duvha Unit 3 Combined Clarification Register from Eskom confirming that:

1. Trillian Management Consulting is the BBBEE partner to Hubei Hongyuan, the principal boiler vendor in respect of the Duvha Unit 3 boiler purchase, and
2. E Gateway Global Consultants FZC, Trillian's subcontractors on the Generation Work Package, have been appointed as EPCM coordinators in respect of the Duvha Unit 3 boiler purchase.

We are of the view that Trillian and E Gateway's respective roles as described above may represent a material conflict of interest with their prospective respective roles under the Procurement and Finance Packages contemplated under the 3-year at-risk contract due to be executed between McKinsey and Eskom to support its Top Consultants Programme. In particular, Trillian has identified the following initiatives to be undertaken by it in respect of the Finance Package: "Rebuild – Duvha Unit 3 Recovery Project to recover the 600MW capacity loss" and "Insurance claims management for the Duvha Unit 3 Recovery Project".

Despite the potential material conflict of interest represented by these roles, the multiple conversations we have had on the basis for our potential work with Trillian, our unanswered requests for you to confirm your corporate structure and related party interests, we learnt of Trillian's involvement with Hubei Hongyuan and E Gateway's role for the first time during an internal Eskom tender clarification meeting held on 22 February. We find this development unacceptable, particularly in light of the high levels of transparency and good faith we expect from entities with which we seek to partner, the potential legal and reputational ramifications involved, and the specific nature of the relationship between BBBEE partners and organisations they work with. We are duty bound to Eskom to avoid material conflicts of interests and ensure that our prospective subcontractors and their

subcontractors give effect to the same obligations. Where we do not give full effect to these obligations, we face the potential prospects of legal action flowing from such breach. Potential conflict issues may also create risks to our clients, whose interests we always place first.

Given the above, we have automatically triggered a global review (in line with McKinsey's risk management policies) of our potential arrangement with Trillian on work for Eskom. An emergency risk and legal call was held on the evening of 23 February 2016. To give effect to the conclusions of this call, and to progress both our internal conversations and ongoing discussions with Eskom, we request that you furnish us with the written confirmations below before or during the course of Friday 26 February, with confirmation on point 4 by 5pm today, 25 February:

1. Detailed account of the form and legal status of Trillian's relationship with Hubei Hongyuan;
2. Detailed account of the form and legal status of Trillian's relationship with E Gateway Global Consultants FCZ;
3. Confirmation that Trillian, its employees, or any of its subcontractors or affiliates have no other interests which may conflict with their respective roles as advisor to Eskom;
4. Confirmation that, pending your detailed response to this letter and with immediate effect, no Trillian personnel, subcontractor personnel, or personnel of any affiliate undertaking will conduct or undertake any activities on any element of the Top Consultants Programme which may lend themselves to a conflict of interest whether real or perceived;
5. Confirmation that Trillian indemnifies, defends and holds McKinsey harmless from any and all claims brought against McKinsey in respect of and relating to Trillian's relationship with Hubei Hongyuan and any services performed by Trillian and/or any of its subcontractors or their affiliates for Eskom.

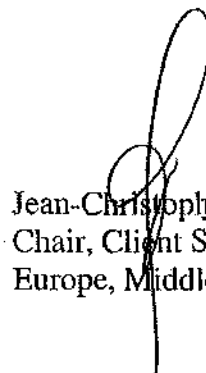
We should note that we will also inform Eskom of these developments.

We look forward to your favourable reply.

Yours sincerely,



Georges Desvaux  
Managing Partner, Africa



Jean-Christophe Mieszala  
Chair, Client Service Risk Committee  
Europe, Middle East & Africa



# AW12

## McKinsey&Company

March 10, 2016

CONFIDENTIAL

Eric Wood  
Trillian Management Consulting  
eric@tcp.co.za

Dear Mr. Wood

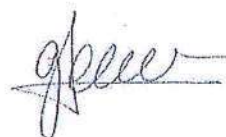
### TRILLIAN, HUBEI HONGYUAN, E GATEWAY GLOBAL CONSULTANTS FZC, AND ESKOM DUVHA BOILER PURCHASE

The above matter refers. Mr. Vikas Sagar has forwarded your e-mail dated March 08, 2016 to us. We have noted the contents thereof with thanks. We wish to inform you however that our global risk review remains ongoing with a view to being concluded during the middle of the coming week. To this effect, in addition to your undertaking to furnish us with a detailed group profile of the Trillian Group (which we have still not received), we would also appreciate your detailed responses to our letter dated February 25, 2016 before the close of business on Friday 11 March 2016. Your response should contain the following, as previously requested by us:

1. Detailed account of the form and legal status of Trillian's relationship with Hubei Hongyuan;
2. Detailed account of the form and legal status of Trillian's relationship with E Gateway Global Consultants FCZ;
3. Confirmation that Trillian, its employees, or any of its subcontractors or affiliates have no other interests which may conflict with their respective roles as advisor to Eskom;
4. Confirmation that, pending your detailed response to this letter and with immediate effect, no Trillian personnel, subcontractor personnel, or personnel of any affiliate undertaking will conduct or undertake any activities on any element of the Top Consultants Programme which may lend themselves to a conflict of interest whether real or perceived;
5. Confirmation that Trillian indemnifies, defends and holds McKinsey harmless from any and all claims brought against McKinsey in respect of and relating to Trillian's relationship with Hubei Hongyuan and any services performed by Trillian and/or any of its subcontractors or their affiliates for Eskom.

We look forward to your favourable reply.

Yours sincerely,



Georges Desvaux  
Managing Partner, Africa



J.C.M.  
Jean-Christophe Mieszala  
Chair, Client Service Risk Committee  
Europe, Middle East & Africa





AW13

Dr Alexander Weiss  
McKinsey & Company  
88 Stella Street  
Sandton,  
2196

Date:  
19 February 2016

Dear Dr. Weiss

**TOP CONSULTANTS PROGRAMME - RISK BASED CONTRACT PROPOSAL AND NEGOTIATIONS**

In relation to the above, Eskom requests a formal response on the following items:

- Eskom understands that the intended BBBEE partner to McKinsey & Co. is Regiments Group. We also further note that Regiments Group is in a process of transition and that the ultimate BBBEE partner would be Trillian Group. Eskom would like McKinsey to provide a response relating to an article published on page 9 of the Financial Mail (February 18 – February 24) regarding allegations associated with Mr Mohammed Bodat, a former employee of Regiments Group.
- Further to the above, Eskom seeks a response to key issues raised by the myself at a meeting with McKinsey that took place on 9 February 2016 relating the objectives of the above-mentioned proposed contract. The issues are as follows:
  1. The alignment of the programme as a vehicle to deliver Eskom's Design to Cost Strategy and 5 year Corporate Plan.
  2. How lessons learnt from other organisational turn around programmes such as Back-to-Basics and the Business Productivity Programme have been incorporated into the Top Consultants Programme.
  3. The development and implementation of a Change Management Process to ensure sustainability of the programme.
  4. The development of the BBBEE partner (Regiments Group) as regards the vision, aspirations, skills and competency mix and overall plan for success over the contract duration, including a focus on the health of the relationship with McKinsey.
  5. The development of the Eskom's Top Consultants regarding the intended aspirations, road map and key success measures with a clear goal to minimising the future use of consultants in the organisation.
  6. The inclusion into the programme of other key focus areas such as Contracts Management and Fraud and Corruption.

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Eskom Holdings SOC Ltd Reg No 2002/015527/30

Your urgent response, within 7 days, on the above issues will be appreciated. The signing of the proposed contract is contingent upon the receipt of satisfactory responses to the above requests.

Yours sincerely

  
Anoj Singh  
**CHIEF FINANCIAL OFFICER**

AW14

McKinsey&amp;Company

February 24, 2016

CONFIDENTIAL

Mr. Matshela Koko and Mr. Edwin Mabelane  
Eskom Holdings SOC Ltd  
kokomm@eskom.co.za  
MabelaET@eskom.co.za

Dear Mr. Koko and Mr. Mabelane

**TRILLIAN, HUBEI HONGYUAN, E GATEWAY GLOBAL CONSULTANTS FZC, AND ESKOM DUVHA BOILER PURCHASE**

In line with our approach to client service, and our commitment to serving Eskom, we are writing to confirm discussions that our colleagues have had with you concerning a potential conflict of interest concerning Trillian Management Consulting and E Gateway Consultants FZC, and to share our response to date to the issues involved.

We have noted that the Duvha Unit 3 Combined Clarification Register confirms that:

1. Trillian Management Consulting is the BBBEE partner to Hubei Hongyuan, the principal boiler vendor in respect of the Duvha Unit 3 boiler purchase; and
2. E Gateway Global Consultants FZC, Trillian's subcontractors have been appointed as EPCM coordinators in respect of the Duvha Unit 3 boiler purchase.

In our view, Trillian and E Gateway's respective roles as described above represent a potential material conflict of interest with their respective prospective roles under the 3-year at-risk contract due to be executed between McKinsey and Eskom to support Eskom's Top Consultants Programme. In particular, it had been envisaged that Trillian would work on the following initiatives in respect of the Finance Package: "Rebuild – Duvha Unit 3 Recovery Project to recover the 600MW capacity loss" and "Insurance claims management for the Duvha Unit 3 Recovery Project". This would appear to place them on both sides of the Duvha Unit 3 purchase process.

This concerns us and given this concern, our colleague Aleck Matambo, initiated a discussion with yourselves and Mr. Charles Kalima following the tender clarification meeting held on 22 February to discuss Trillian's role in the Duvha



Unit 3 boiler purchase. This discussion was followed by written correspondence from Mr. Kalima to the effect that we confirmed that, due to the potential conflict of interest, neither McKinsey nor Trillian could support Eskom on procurement topics related to the Duvha Unit 3 boiler.

Despite McKinsey not being involved in any procurement topics related to the Duvha Unit 3 boiler, we have continuing concerns about the potential legal and reputational consequences to Eskom and McKinsey of Trillian's involvement in the Top Consultants Programme. As a result, we have also:

1. Raised the matter directly with Trillian and sought their clarifications and assurances to ensure that Eskom and McKinsey's interests are safeguarded. This is over and above confirmations we have sought previously with respect to, inter alia, Trillian's ownership structure and related party interests;
2. Sought immediate confirmation from Trillian that, with immediate effect, no Trillian personnel, subcontractor personnel, or personnel of any affiliate undertaking will conduct or undertake any activities on any element of the Top Consultants Programme which may lend themselves to a conflict of interest whether real or perceived
3. Triggered an automatic risk and legal review of Trillian's role on the Programme within McKinsey, which was immediately followed by a meeting held on the evening 23 February 2016.

We shall keep you apprised of all relevant developments herein.

Yours sincerely,



Georges Desvaux  
Managing Partner, Africa



Jean-Christophe Mieszala  
Chair, Client Service Risk Committee  
Europe, Middle East & Africa

# AW15

## McKinsey&Company

March 15, 2016

CONFIDENTIAL

Eric Wood  
Trillian Management Consulting  
eric@tcp.co.za

Dear Mr. Wood

### **TERMINATION OF INTERACTIONS BETWEEN MCKINSEY AND THE TRILLIAN GROUP IN RESPECT OF THE TOP CONSULTANTS PROGRAMME AT ESKOM**

We refer to our letters to you dated February 25 and March 10, 2016 and to which we have not received any formal responses. In particular, we did not receive your responses to the following requests:

1. Detailed group profile of the Trillian Group including ultimate beneficial shareholders, related parties and executive management;
2. Detailed account of the form and legal status of Trillian's relationship with Hubei Hongyuan;
3. Detailed account of the form and legal status of Trillian's relationship with E Gateway Global Consultants FCZ;
4. Confirmation that Trillian, its employees, or any of its subcontractors or affiliates have no other interests which may conflict with their respective roles as advisor to Eskom;
5. Confirmation that, pending your detailed response to this letter and with immediate effect, no Trillian personnel, subcontractor personnel, or personnel of any affiliate undertaking will conduct or undertake any activities on any element of the Top Consultants Programme which may lend themselves to a conflict of interest whether real or perceived;
6. Confirmation that Trillian indemnifies, defends and holds McKinsey harmless from any and all claims brought against McKinsey in respect of and relating to Trillian's relationship with Hubei Hongyuan and any services performed by Trillian and/or any of its subcontractors or their affiliates for Eskom.

As we mentioned to you, our global risk committee has reviewed and discussed the proposal to work with Trillian, as our BBBEE partner, on our engagement with Eskom. As a result of this discussion, we have decided not to proceed with this proposal.

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Whilst we are aware that this will be a disappointment to you, we hope that you will understand that, for a programme of this scale and importance, we require more clarity on our partner firm than you have been able to provide us to date. We may consider any additional information that you may furnish subsequent hereto.

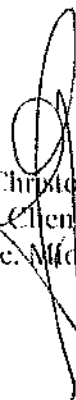
We will inform Eskom of the recent developments and trust that you will be willing for our team to discuss with you and with Eskom how to transition arrangements in a way that best supports Eskom's plans.

We will also communicate any advices from the client in this regard.

Yours sincerely,



Georges Desvaux  
Managing Partner, Africa



Jean-Christophe Mieszala  
Chair, Client Service Risk Committee  
Europe, Middle East & Africa



# AW16

## McKinsey&Company

30 March, 2016

CONFIDENTIAL

Mr. Anoj Singh  
Group CFO  
Eskom Holding SOC Ltd  
Megawatt Park  
Sunninghill, Sandton  
Johannesburg  
South Africa

Dear Mr. Singh

### TOP CONSULTANTS PROGRAMME

We refer to your letter to us dated February 19, 2016 and our response thereto dated February 25, 2016. This letter serves as an update on further developments since our last letter to you on February 25, 2016. In particular, you may recall, that we confirmed to you that we will not be in a position to commence a relationship with Trillian, or any other partner/sub-contractor until the criteria below have been met and approved by our global risk and legal teams:

- Shareholding of holding companies
- Ultimate beneficial shareholders
- Related parties and group companies (e.g., significant lenders)
- Executive management team and other “key man” dependencies for both the company and group companies
- Majority Black ownership
- Majority Black management and staff or a clear and committed plan to deliver this outcome

We have requested the above, and other additional relevant information, from Trillian on separate occasions including via letters to them dated 25 February 2016 and 10 March 2016. We have, to date, not received any formal responses to each of the letters despite the respective deadlines of 25 February 2016 and 11 March 2016.

We have also had separate discussions with Mr. Eric Wood on a number of occasions. During these meetings, Mr. Wood orally provided partial information

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concerning Trillian's potential shareholders and directors but expressed that the information was neither complete nor final. The information received served as input into McKinsey's risk management process and review of the proposed contracting arrangement which has been ongoing.

All information received to date concerning our requests to Trillian, as set forth above, was presented and evaluated during a periodic McKinsey global risk committee meeting. The committee came to the following conclusions:

- McKinsey does not know enough about Trillian, its ownership and governance to be comfortable going ahead on a programme of this scale
- Trillian's speed and clarity of response to McKinsey's questions has not been satisfactory
- McKinsey is uncomfortable about Trillian's transparency on conflict issues
- McKinsey has material concerns around reputational risk to the Firm given the above.

As a result, McKinsey's interactions with Trillian have now been terminated with confirmation having been sent to Trillian.

We acknowledge that the draft of the Services Level Agreement between Eskom and McKinsey entails the requirement of outsourcing a percentage of the total consulting fee to a Supplier Development partner. We are fully committed to giving effect to this obligation despite the termination. In light of the previously envisaged sub-contracting relationship with Trillian which, under the current conditions, will not be possible, we would appreciate an opportunity to develop options with Eskom to ensure that we meet our supplier development obligations.

We are very much committed to support Eskom on this going forward. Please take it as our sign of commitment that we so far continued our teams to push for impact

Yours sincerely,




Dr. Dr. Alexander Weiss  
Director



Georges Desvaux  
Managing Partner, Africa

AW17

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**MINUTES OF THE TOP CONSULTANTS PROGRAMME STEERING COMMITTEE  
MEETING 02/2016 HELD AT KGORONG BOARDROOM ON 31 March 2016 FROM  
12H30**

**PRESENT:**

**MEMBERS**

Mr Anoj Singh	Chief Finance Officer ("CFO") Chairman
Mr Abram Masango	
Mr Edwin Mabelane	
Mr Willie Majola	
Mr Andre Pillay	
MS Maya Bhana	

**OFFICIALS**

Mr Prish Govender	
Ms M A Hendricks	Committee Secretary

**IN ATTENDANCE**

Mr Kobus Steyn	
Mr Peter Sebola	
Mr Johnston Makhubu	
Ms Maya Bhana	
Mr Jonathan Bown	Mckinsey & Company
Mr Alexander Weiss	Mckinsey & Company
Mr Vikas Sagar	Mckinsey & Company
Mr Eric Wood	Trillian
Ms Faheema Badat	Trillian
Mr Ben Burnand	Trillian
Mr Arvn Babu	Deloitte
Ms Sihle Mdluli	Deloitte


**APOLOGIES**

Mr Matshela Koko  
Mr Vusi Mboweni

**1. OPENING AND WELCOME**

The Chairman opened the meeting and welcomed all those present and introductions were done.



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2. APOLOGIES

The above apologies were noted.

3. QUORUM

A quorum being present the Chairman declared the meeting duly constituted for Approvals.

4. DECLARATION OF INTEREST

No conflicts of interest were declared pertaining to the matters on the agenda.

5. SAFETY AND EVACUATION PROCEDURE

The safety and evacuation procedure to be followed in the event of an emergency was presented and noted.

6. APPROVAL OF THE MINUTES OF PREVIOUS MEETING

The minutes for steerco 2 held on 31 March 2016 will be approved at the next Steerco

7. OPENING MATTERS FOR INFORMATION/ DISCUSSION

Prish Govender gave an overview of the agenda and requested the approval of the minutes be moved to the next Steerco

8. LESSONS LEARNT /CHANGE MANAGEMENT

Alex Weiss from Mckinsey & Company (McK) gave an overview of the implementation and the focus of the four key levers of organisational change.


Anoj Singh stated that an incentive scheme for the successful programme performance needs to be developed and linked to the overall Performance. (linked to KPA 2 or 3)

Resolved/Action/Comment:

- Anoj Singh actioned Maya Bhana and Prish Govender to discuss with Anton and to present at the next Steerco Meeting

9. Trillian/SD&L

Faheema Badat from Trillian gave a brief description and status update on the projects Trillian is involved in Eskom. Eric Wood gave a brief overview of the organisation in terms of people, skills, competencies and BEE status currently and going forward. Alex gave an overview of the relationship with Trillian and McK, an update on the key dimensions of McK SD&L plan as agreed during the MSA negotiations and shared the modified SD&L implementation plan.

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**Resolved/Action/Comment:**

- The CFO requested Prish Govender to distribute the Trillian presentation to the committee members
- CFO requested Prish Govender to align Trillian with Harry Gazendam regarding engagement with EFC

**10. WAVE TOOL**

Jonathan Bown from McK gave an overview on the critical inputs that is documented and tracked on wave. To ensure content quality and data security, Wave has a number of controls. Wave training for all users given by the PMO and Wave Team. Ongoing Support is let by the Work Package Liaisons and PMO. Quality Checks are done by the PMO. The approvals for Stage gates must be approved by Work Package Leads and PMO for all stages. Approval from the Cost Centre and SD&L is required, if applicable, for IL2. Steering Committee approval is required for payment triggers for IL2. For IT General Controls, the responsible owner is the PMO. IT Security responsible owner is the Wave team, PMO and Eskom IT.

**11. TOP CONSULTING GROUP (TCG) UPDATE**

In the absence of Willy Majola, Dunn Mukosa gave an overview on the Top Consulting Group on the current status of the program and the future plan for the next three years. Anoj Singh requested feedback from Lynelle Singh on behalf of the Cohort 1 and 2 that the programme is a success and there are two way communications.

**12. STEERCO GOVERNANCE**

Prish Govender presented an overview on the three best options on how to align the TCP Steering Committee. This committee is put in place to drive the Design to Cost Strategy and how the Corporate Plan results can be achieved. Guidance from the Committee members on the Governance and Decisions to be made at this committee in terms Eskom's overall Guidance. Prish to engage with Deloitte, Matshela Koko and Abram Masango with the proposed options for the Steerco Governance and mandate in setting up the RMO.


**Resolved/Action/Comment:**

- Prish Govender to provide feedback at the next Steerco after discussion with Matshela, Abram and Sihle from Deloitte.

**13. PAYMENT TRIGGER APPROVALS**

Edwin Mabelane to update the CFO on outcomes of the disciplinary action regarding Switchgear PO, and distribute a memo to the 225 employees in Procurement regarding this incident.



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- Resolved/Action/Comment:**
- Edwin Mabelane to update CFO and distribute memo

**13.1 Payment Trigger Approvals**

IL2 and Payment Trigger submissions were approved by the SteerCo with the understanding that relevant Eskom divisions were satisfied with the ideas; ICT Procurement submissions were conditionally approved subject to Chief Information Officers approvals after this meeting

Idea #1139 impact value of R530M must be corrected on wave to R478m

- Resolved/Action/Comment:**
- Dan Mashigo to ensure and agree on the correct wave figure

Idea #1278 Kusile historic turbine claims

- Resolved/Action/Comment:**
- Approved with amendment – Peter to engage with Mck

**Payment Trigger Approval Initiatives - Primary Energy (Fixed Price Contracts):**

**Project: # 11** Fixed price contracts, existing contracts - Universal Coal PLC  
**Eskom Lead:** Dan Mashigo (Edwin Mabelane)  
**Approved (Impact - Rmil):** 100 (24) (Opex) (Recurring)

**Project: # 12** Fixed price contracts, existing contracts – Wescoal Mining (Tutuka)  
**Eskom Lead:** Dan Mashigo (Edwin Mabelane)  
**Approved (Impact - Rmil):** 90 (21) (Opex) (Recurring)

**Project: #28** Fixed price contracts, existing contracts - Ntshovelo Mining  
**Eskom Lead:** Dan Mashigo (Edwin Mabelane)  
**Approved (Impact - Rmil):** 18 (4) (Opex) (Recurring)

**Project: #191 -** Fixed price contracts, existing contracts – Westcoal Mining (Majuba)  
**Eskom Lead:** Dan Mashigo (Edwin Mabelane)  
**Approved (Impact - Rmil):** 20 (5) (Opex) (Recurring)

**Project: #10** Fixed price contracts, existing contracts - Silverlake  
**Eskom Lead:** Dan Mashigo (Edwin Mabelane)  
**Approved (Impact - Rmil):** 96 (23) (Opex) (Recurring)

**Project: #26** Fixed price contracts, existing contracts – Welgemeend  
**Eskom Lead:** Dan Mashigo (Edwin Mabelane)  
**Approved (Impact - Rmil):** 33 (8) (Opex) (Recurring)



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**Project: #247** Fixed price contracts, existing contracts – Sudor Coal  
**Eskom Lead:** Dan Mashigo (Edwin Mabelane)  
**Approved (Impact - Rmil):** 29 (7) (Opex) (Recurring)

**Project: #657** Fixed price contracts, existing contracts – Mbali Coal  
**Eskom Lead:** Dan Mashigo (Edwin Mabelane)  
**Approved (Impact - Rmil):** 1.3 (0.3) (Opex) (Recurring)

**Project: #1114** Sudor rail siding  
**Eskom Lead:** Dan Mashigo (Edwin Mabelane)  
**Approved (Impact - Rmil):** 95 (23) (Opex) (Recurring)

#### **Payment Trigger Approval Initiatives – Project Delivery and Claims Management**

**Project: #5** C & I employer claims  
**Eskom Lead:** Peter Sebola  
**Approved (Impact - Rmil):** 7 (1) (PT1 and PT 2) (Capex) (Once-off)

**Project: #608** Boiler New Delivery Model: Medupi U4 Initiative Agreement  
**Eskom Lead:** Peter Sebola  
**Approved (Impact - Rmil):** 195 (15) (PT1) (Capex) (Once-off)

**Project: #609** CBZ Intervention  
**Eskom Lead:** Peter Sebola  
**Approved (Impact - Rmil):** 150 (11) (PT1 and PT2) (Capex) (Once-off)

**Project: #1278** Kusile historic turbine claims  
**Eskom Lead:** Peter Sebola  
**Approved (Impact - Rmil):** 2265(171) (PT1) (Capex) (Once-off)

#### **Payment Trigger Approval Initiatives – Procurement – Edwin Mabelane**

**Project: #568** Boiler Services: Negotiate short term contract  
**Eskom Lead:** Edwin Mabelane (Johnstone Makhubu)  
**Approved (Impact - Rmil):** 66 (5) (Opex and Capex) (Once-off)

**Project: #63** Power Transformers: Reduce demand in line with stock on hand  
**Eskom Lead:** Edwin Mabelane (Johnstone Makhubu)  
**Approved (Impact - Rmil):** 171 (14) (Opex and Capex) (Once-off)

**Project: #125** Boiler service: Standardize core crew for maintenance across stations  
**Eskom Lead:** Edwin Mabelane (Johnstone Makhubu)  
**Approved (Impact - Rmil):** 44 (10) (Opex) (Recurring)

**Project: #35** Tactical: Sign contract for contract Wooden Poles & X-arms spend currently off contract using e-auction  
**Eskom Lead:** Edwin Mabelane (Johnstone Makhubu)  
**Approved (Impact - Rmil):** 34 (8) (Opex) (Recurring)

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**Project:** #34 Tactical: Boiler Tube - Enforce buyer and plant to use new material number  
**Eskom Lead:** Edwin Mabelane (Johnstone Makhubu)  
**Approved (Impact - Rmil):** 3 (1) (Opex) (Recurring)

**Project:** #14 and #760 ICT: Adobe (Tactical) - Delay purchase of upgrades, limit new licenses, and buy standard instead professional version  
**Eskom Lead:** Edwin Mabelane (Johnstone Makhubu)  
**Approved (Impact - Rmil):** 1 (0.2) (Recurring) (Capex); 4 (0.3) (Once-off) (Opex)

**Project:** #65 Inventory: 1.1 PO Cancellation Taskforce - Tracking 1 Apr '16 - 11 May '16  
**Eskom Lead:** Edwin Mabelane (Johnstone Makhubu)  
**Approved (Impact - Rmil):** 49 (2.3) (Capex/Opex) (Recurring)

**Project:** #564 Inventory: 1.2 PO Cancellations Tracking - Majuba U6 outage  
**Eskom Lead:** Edwin Mabelane (Johnstone Makhubu)  
**Approved (Impact - Rmil):** 13 (0.6) (Capex/Opex) (Recurring)

**Project:** #66 Inventory: 1.3 PO Cancellation Taskforce - Tracking 12 May '16 - 31 May '16  
**Eskom Lead:** Edwin Mabelane (Johnstone Makhubu)  
**Approved (Impact - Rmil):** 804 (38) (Capex/Opex) (Recurring)

The CFO questions the Steerco and Mckinsey regarding the ease of approvals of savings ideas. Alex Weiss assures the CFO that all savings ideas have been ticked off and approved by a stream of people in Wave that includes the manager, finance manager and so on.

**IL2 Approval Initiatives – Ratification – Primary Energy**


**Project:** #246 Cost Plus – New Denmark Volume Improvement  
**Eskom Lead:** Dan Mashigo  
**Approved (Impact - Rmil):** 277 (Opex) (Recurring)

**Project:** #1139 Medupi penalty provision: Operational actions - Medupi stockpile height increase  
**Eskom Lead:** Dan Mashigo  
**Approved (Impact - Rmil):** 478 (Opex) (Once-off)

**IL2 Approval Initiatives – Ratification – Procurement (ICT subject to Sean Maritz approval)**

**Project:** #105 ICT: WAN - Reduce capacity of underutilized links and open links for tender (WAN ultimate providers)  
**Eskom Lead:** Dan Mashigo  
**Approved (Impact - Rmil):** 15 (Opex) (Recurring)

**Project:** #352 Boiler service: Renegotiate contract - Price, Productivity & Quality levers

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Eskom Lead: Dan Mashigo  
Approved (Impact - Rmil): 967 (Opex/Capex) (Recurring)

Project: #121 Boiler Services: Agree early payment discount for short term contract  
Eskom Lead: Dan Mashigo  
Approved (Impact - Rmil): 8 (Both Opex and Capex) (Once-off)

Project: #56 Power Transformers: Improve negotiation approach  
Eskom Lead: Dan Mashigo  
Approved (Impact - Rmil): 150 (Capex) (Recurring)

Project: #248 Yellow Plant: Run e-Auction on hire contract for Majuba and Medupi  
Eskom Lead: Dan Mashigo  
Approved (Impact - Rmil): 82 (Opex) (Once Off)

Project: #57 Yellow Plant: Run e-Auction on hire contract for 13 power stations (excl. Majuba and Medupi)  
Eskom Lead: Dan Mashigo  
Approved (Impact - Rmil): 106 (Opex) (Once Off)

Project: #13 ICT: Microsoft - Renegotiate 3-year contract  
Eskom Lead: Dan Mashigo  
Approved (Impact - Rmil): 25 (Opex) (Recurring)

Project: #42 ICT: Desktops/ laptops - Reduce specification requirements  
Eskom Lead: Edwin Mabelane (Johnstone Makhubu)  
Approved (Impact - Rmil): 4 (Capex) (Recurring)

Project: #118 ICT: IT Outsourcing - Improve negotiation strategy  
Eskom Lead: Dan Mashigo  
Approved (Impact - Rmil): 20 (Opex) (Recurring)


Project: #108 ICT: Printers/ copiers - Return unused leased printers to vendors and implement printing policy controls  
Eskom Lead: Dan Mashigo  
Approved (Impact - Rmil): 14 (Capex) (Recurring)

Project: #30 Tactical: Cables - Off-Contract to be placed on Contract  
Eskom Lead: Dan Mashigo  
Approved (Impact - Rmil): 3 (Opex) (Recurring)

Project: #31 Tactical: Modules - Place Off-Contract spend on Contract  
Eskom Lead: Dan Mashigo  
Approved (Impact - Rmil): 8 (Opex) (Recurring)

Project: #29 Tactical: Low/Medium/High Pressure Pumps - Sign contract for items bought off-contract  
Eskom Lead: Dan Mashigo  
Approved (Impact - Rmil): 16 (Opex) (Recurring)



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**Project: #33 Tactical: Bearings - Place Off-Contract spend on Contract**  
**Eskom Lead: Dan Mashigo**  
**Approved (Impact - Rmil): 6 (Opex) (Recurring)**

**Project: #36 Tactical: Seals - Place Off-Contract spend on Contract**  
**Eskom Lead: Dan Mashigo**  
**Approved (Impact - Rmil): 2 (Opex) (Recurring)**

**Project: #87 Tactical: Transmitters - Place Off-Contract Spend on Contract**  
**Eskom Lead: Dan Mashigo**  
**Approved (Impact - Rmil): 2 (Opex) (Recurring)**

**Project: #21 Tactical: Bars - Sign contract for items currently bought off contract**  
**Eskom Lead: Dan Mashigo**  
**Approved (Impact - Rmil): 10 (Opex) (Recurring)**

**Project: #64 Inventory: 1. Cancel unnecessary PR/POs and reroute where possible (Taskforce)**  
**Eskom Lead: Dan Mashigo**  
**Approved (Impact - Rmil): Presented Monthly (Capex) (Recurring)**

**Project: #41 ICT: SAP (recurring): Reduce spend through maintenance level reduction and negotiation**  
**Eskom Lead: Dan Mashigo**  
**Approved (Impact - Rmil): 11 (Opex) (Recurring)**

**Project: #62 Power Transformers: Early payment discount**  
**Eskom Lead: Dan Mashigo**  
**Approved (Impact - Rmil): 20 (Capex) (Recurring)**


**Project: #122 ICT: WAN - Reduce spend with T-systems (reduce SLA requirements and spend on back-up links)**  
**Eskom Lead: Dan Mashigo**  
**Approved (Impact - Rmil): 9 (Opex) (Recurring)**

**IL2 Approval Initiatives – Ratification – Inventory**

**Project: #577 Tactical: Concentric Cables - Place off-contract spend on contract**  
**Eskom Lead: Edwin Mabelane (Johnstone Makhubu)**  
**Approved (Impact - Rmil): 8 (Opex) (Recurring)**

**Project: #20 Tactical: Pole Transformers - Sign contract for items currently bought off contract**  
**Eskom Lead: Edwin Mabelane (Johnstone Makhubu)**  
**Approved (Impact - Rmil): 42 (Opex) (Recurring)**

**Project: #806 ICT: SAP (once-off) - Reduce spend through license swaps**  
**Eskom Lead: Edwin Mabelane (Johnstone Makhubu)**

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Approved (Impact - Rmil): 64 (25) (Capex) (Once Off)

Project: #72 Inventory: 2. Reduce operational stock by optimising MRP parameters using a model

Eskom Lead: Edwin Mabelane (Johnstone Makhubu)

Approved (Impact - Rmil): 393 (25) (Capex) (Recurring)

8. COMMUNICATIONS UPDATE

Office of GCE (Freddy Ndou appointed as Project Manager) mandated to take ownership of the Project Mario and Communications efforts for Corporate Plan and liaise with GCE and CFO on strategic communications plans. The CFO indicated external broadcasting of strategies and plans should only occur once key questions for "DTC 2" are answered internally, i.e.: Capacity, Costs, and Economic Growth. All Internal communications should commence as well as selective external parties that are agreed by the GCE and GCFO, e.g. credit agencies, investors, National Treasury

Resolved/Action/Comment:

- Freddy Ndou to engage with CFO and GCE with alignment

9. GENERATION UPDATE

CFO requested a fleet-wide view of Generation performance (like the graph shown on p.58)

Resolved/Action/Comment:

- Edwin Mabelane tasked with this as he is acting for Matshela Koko this week

10. GENERAL

Alignment and change management for communications going out to the business.

Resolved/Action/Comment:

CFO, Maya and Lynelle to identify and manage the alignment risk


The Chairman stated that all Future Payment Trigger submissions must include findings and proposals regarding: the root cause(s) analysis; sustainable changes required and improved criteria to be developed and agreed with the Work Streams for sustained success

Resolved/Action/Comment:

- Prish Govender to ensure the above information is presented at the next Steerco –

11. CLOSURE


There being no further business to transact, the Chairman declared the meeting closed at 14h20.


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SIGNED AS A CORRECT RECORD OF THE PROCEEDINGS.

CHAIRMAN: \_\_\_\_\_ DATE: 15 June 2016








# Top Consultants Programme (TCP)

Steering Committee Meeting #3

June 7, 2016

Contents



**Part 1: Opening and regular updates**

- Opening
- Review of past minutes and actions
- Lessons Learned/Change Management Process
- Wave Tool
- Top Consulting Group (TCG) Update
- Steerco Governance
- SD&L Update

Part 2: Impact management


Part 3: Communications update

1

Steering committee meeting agenda			Eskom
Subject	Presenter	Time	
Part 1: Opening, governance and regular updates	Opening	20 minutes	
	• Safety briefing	Prish Govender	
	• Introductions and apologies	Prish Govender	
	• Review of past minutes and actions	Prish Govender	
	• Lessons Learned/ Change Management	Alexander Weiss	
	• Wave Tool	Jonathan Bown	
	• Top Consulting Group (TCG) update	Wily Majola	
	• Steerco Governance	Prish Govender	
Part 2: Impact management	SD&L Update	Alex Weiss	
	Impact management	30 minutes	
	• Impact overview in Wave	Jonathan Bown	
Part 3: Communications and update	• IL2 and Payment Trigger approvals	WP leads	
	Communications update	5 minutes	
	• Current communications set up	Jonathan Bown	
Part 4: Generation update	Next steps		
	Generation update	5 minutes	
	• Overall set up	Kobus Steyn	
	• Technical initiatives		
	• Outage		
	• Mindsets and behaviors		

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Meeting Minutes from Steerco 1









Topic	Task description/questions	Resolutions	Responsible person
Terms of Reference (TOR) Steerco committee mandate	<ul style="list-style-type: none"><li>• Steering committee members to review TOR and forward comments to Pinch</li><li>• TOR to be adopted at next steering committee meeting</li><li>• Resolve where Steerco gets its mandate from and what approval rights it has</li></ul>	Included in the document	Pinch Coovard
Y&L	<ul style="list-style-type: none"><li>• Should a Y&amp;L person be involved in the Steering Committee?</li></ul>	Yes, Y&L invited to steering committee	Pinch Coovard
Trillian	<ul style="list-style-type: none"><li>• What will Trillian be doing and who at Trillian will be developed?</li><li>• Where are we starting, where is it ending, what is the impact on the company?</li></ul>	Not applicable	Elaine Smith
Corporate plan	<ul style="list-style-type: none"><li>• Align Top Consultants Programme Initiatives to Corporate plan, Explain benefits to Eskom Commercial, Top Engineers, and S&amp;L</li></ul>	Aligned with CFO as part of biweekly updates	McKinsey
Lessons Learned/Change management process	<ul style="list-style-type: none"><li>• What is special about the program and how is it different from S&amp;L-SPF?</li><li>• What are the lessons learnt and how is the program addressing those findings?</li><li>• Need to focus on process and change management for change to be sustainable throughout the organization</li></ul>	Included in appendix	McKinsey
Top Consulting Group	<ul style="list-style-type: none"><li>• What are the benefits and objectives of the Top Consulting Group?</li><li>• What does success look like and what KPIs should we track and monitor?</li><li>• How will changes be embedded into the organization?</li></ul>	Included in the document as a regular update	McKinsey
Wave tool	<ul style="list-style-type: none"><li>• Need mechanism to agree about Wave inputs to avoid argument about output</li></ul>	Included in the document	McKinsey
Subcontractor relationship	<ul style="list-style-type: none"><li>• Need health measurement of relationship between McKinsey and Trillian</li></ul>	Not applicable	McKinsey
Generation	<ul style="list-style-type: none"><li>• Is this program still needed for Generation/Group Capital considering the current trajectory?</li></ul>	Yes, program agreed and signed off	Mathina Koko
Primary Energy input and scope	<ul style="list-style-type: none"><li>• Is Primary Energy to remain external to Eskom?</li></ul>	New Model possibly external Agent to P&L BlueCo	Vusi Maweni
Procurement	<ul style="list-style-type: none"><li>• Need to talk about bettering issues of procurement management and accountability</li></ul>	Included as part of Trillian support	Jonathan Mahabir




Meeting Minutes from Steerco 2 (1/3)		
Topic		Responsible person
Payment Trigger Approvals	<ul style="list-style-type: none"><li>• Predefined payment triggers fulfilled and approved by specified stakeholders. Explicit support as specified in contract</li><li>• The following projects were approved for Project Delivery and Claims Management for Payments:</li><li>• Project: Historic Boiler Claims - Medupi - Eskom Lead: Peter Sebola<ul style="list-style-type: none"><li>– Payment 405 (37.5% of total payment)</li><li>– Rm – 1000 (once off)</li></ul></li><li>• Project: Historic Boiler Claims - Kusile - Eskom Lead: Peter Sebola<ul style="list-style-type: none"><li>– Payment 405 (37.5% of total payment)</li><li>– Rm – 600 (Once Off)</li></ul></li><li>• Project: Boiler Employer Claims - Medupi - Eskom Lead: Peter Sebola<ul style="list-style-type: none"><li>– Payment 246 (60.5% of total payment)</li><li>– Rm – 380 (Once Off)</li></ul></li><li>• Project: Boiler Employer Claims - Kusile - Eskom Lead: Peter Sebola<ul style="list-style-type: none"><li>– Payment 359 (60.5% of total payment)</li></ul></li></ul>	Peter Sebola (Eskom Project Delivery and Claims Lead)
	<ul style="list-style-type: none"><li>• Detailed savings calculated. Milestone dates required. Implications from key stakeholders incorporated, feasibility confirmed. Explicit support from VPP lead, PMO, cost center, SD&amp;L2</li><li>• The following projects were approved for Project Delivery and Claims Management for IL2:</li><li>• Project: Kusile Turbine Claims Avoidance and Recovery - Eskom Lead: Peter Sebola<ul style="list-style-type: none"><li>– Claims value, pre-requisites, and high-level settlement strategy agreed by SteerCo</li><li>– 05/01/2016 (PT #1, 37.5%)</li></ul></li><li>• The following projects were approved for Generation for IL2:</li><li>• Project: Improve EAF: Majuba Power Station Turnaround (Impact Tracker) - Eskom Lead: Kobus Steyn<ul style="list-style-type: none"><li>– Every 6 months EAF will be measured and if higher, a payment will be triggered</li></ul></li><li>• Project: Optimize Majuba UEGO - Eskom Lead: Kobus Steyn<ul style="list-style-type: none"><li>– Completion of outage, i.e., June 2018</li></ul></li></ul>	Peter Sebola (Eskom Project Delivery and Claims Lead)  Kobus Steyn (Eskom Generation Lead)

Meeting Minutes from Steerco 2 (2/3)		
Topic		Responsible person
IL 2 Approval	<ul style="list-style-type: none"><li>• The following projects were approved for Procurement ( Johnston to include Functional Lead for the Procurement Projects)</li><li>• Project: Adobe Licenses - Eskom Lead: Johnston Makhubu<ul style="list-style-type: none"><li>– Demand reduction resulting into corresponding budget reduction compared to pre-agreed baseline - 04/08/2016</li></ul></li><li>• Project: Desktops and laptops - e-Auction - Eskom Lead: Johnston Makhubu<ul style="list-style-type: none"><li>– Receipt of an indicative (subj. to SteerCo approval) or binding offer of min. viable tech. solution - 04/22/2016</li></ul></li><li>• Project: 3G - Eskom Lead: Johnston Makhubu<ul style="list-style-type: none"><li>– Budget reduction to 3TB as opposed to 6TB</li><li>– Supplier agreement to optimized payment terms - 07/11/2016</li></ul></li><li>• Project: Ansys maintenance - Eskom Lead: Johnston Makhubu<ul style="list-style-type: none"><li>– SteerCo approval to not buy maintenance in second and third year - 04/22/2016</li></ul></li><li>• Project: Operational, Generation -cancel POs if delivery would violate MRPUle - Eskom Lead: Johnston Makhubu<ul style="list-style-type: none"><li>– Bottom-up savings potential signed off by stakeholders, feasibility evaluated, and implementation plan approved - 04/04/2016</li></ul></li><li>• Project: Strategic &amp; Critical, Generation -cancel POs if delivery would violate MRPUle - Eskom Lead: Johnston Makhubu<ul style="list-style-type: none"><li>– Bottom-up savings potential signed off by stakeholders, feasibility evaluated, and implementation plan approved - 04/04/2016</li></ul></li><li>• Project: Strategic &amp; Critical, Wires-cancel POs if delivery would violate MRPUle - Eskom Lead: Johnston Makhubu<ul style="list-style-type: none"><li>– Bottom-up savings potential signed off by stakeholders, feasibility evaluated, and implementation plan approved - 04/04/2016</li></ul></li><li>• Project: Operational, Wires-Sales/open demand internally from excess stock - Eskom Lead: Johnston Makhubu<ul style="list-style-type: none"><li>– Bottom-up savings potential signed off by stakeholders, feasibility evaluated, and implementation plan approved - 04/04/2016</li></ul></li></ul>	Johnston Makhubu (Eskom Procurement Lead)

Meeting Minutes from Steerco 2 (3/3)			
Topic	Task description/questions	Responsible person	
I. 2 Approval	• Project: Operational, Generation - Satisfy open demand internally from excess stock - Eskom Lead: Johnston Makhubu	Johnston Makhubu (Eskom Procurement Lead)	
	– Bottom-up savings potential signed-off by stakeholders, feasibility evaluated, and implementation plan approved - 04/04/2016		
	• Project: Strategic & Critical, Wires - Satisfy open demand internally from excess stock - Eskom Lead: Johnston Makhubu		
	– Bottom-up savings potential signed-off by stakeholders, feasibility evaluated, and implementation plan approved - 04/04/2016		
	• Project: Cancel PO with 1.2 Rm for Meter (SAP number 193570) - Eskom Lead: Johnston Makhubu		
II. 2 Approval (with Conditions)	– Bottom-up savings potential signed-off by stakeholders, feasibility evaluated, and implementation plan approved - 04/04/2016	Johnston Makhubu	
	• Project: Cancel PO with 1.2 Rm for Meter (SAP number 193570) - Eskom Lead: Johnston Makhubu		
	– Bottom-up savings potential signed-off by stakeholders, feasibility evaluated, and implementation plan approved - 04/04/2016		
	• Project: Operational, Generation -cancel POs if delivery would violate MRP rule		
	– Approved with condition, a cross-functional team needs to be put in place for all Gx initiatives within Procurement, Willy Majola to be added as the functional lead from Gx		
	• Project: Strategic & Critical, Generation -cancel POs if delivery would violate MRP rule	Willy Majola	
	– Approved with condition, a cross-functional team needs to be put in place for all Gx initiatives within Procurement, Willy Majola to be added as the functional lead from Gx		
	• Project: Operational, Generation -Satisfy open demand internally from excess stock		
	– Approved with condition, a cross-functional team needs to be put in place for all Gx initiatives within Procurement, Willy Majola to be added as the functional lead from Gx		

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To ensure success of implementation, we focus on four key levers of organizational change




Combination of key levers that drive shifts in mindsets and behaviors to increase the odds of a successful transformation

<div>1Leadership action and commitment</div>	<ul style="list-style-type: none"><li>Engage senior team and key influencers to transform themselves and lead by example</li><li>"I see my leaders, colleagues, and staff behaving differently"</li></ul>
<div>2Understanding and conviction</div>	<ul style="list-style-type: none"><li>Developing and delivering a change story that resonates with the diverse workforce and ensuring full ownership by working team</li><li>"I understand what is being asked of me and it makes sense"</li></ul>
<div>3Reinforcing mechanisms</div>	<ul style="list-style-type: none"><li>Formal structures to promote change, including targets and metrics, business processes, org structure, rewards and consequences</li><li>"I see that our structures, processes, and systems support the changes I am being asked to make"</li></ul>
<div>4Developing talent and skills</div>	<ul style="list-style-type: none"><li>Invest in developing leaders through on-the-job development, training, and action learning, focusing on changing mindsets before behaviors</li><li>"I have the skills and opportunities to behave in the new way"</li></ul>

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Based on the four levers and BPP/B2B learnings we compiled a list of must-haves to ensure success (1/2)



Must-haves	Description	How we will do this
<div>1Leadership action and commitment</div>	<b>Clear visible leadership from CEO/CFO</b> <ul style="list-style-type: none"><li>Public aspiration setting (impact targets, time horizon and milestones)</li></ul>	✓ Clear targets and timelines set a through WPIs and aligned with Corporate plan KPIs
	<ul style="list-style-type: none"><li>Regular, cascaded performance dialogue (CEO/CFO with ExCo peers, ExCo members with their direct reports, and...)</li></ul>	✓ Will be included in fixed-cost proposal being made to the CFO
	<ul style="list-style-type: none"><li>Alignment amongst leadership on target, role and methodology of the programme</li></ul>	✓ Senior team aligned in the regular SteerCos and using a standard methodology for the program with defined stage-gates
	<ul style="list-style-type: none"><li>Programme prioritized over immediate business pressures</li></ul>	✓ Programme aligned with Corporate plan firm-wide strategy serving as an implementation vehicle
<div>2Understanding and conviction</div>	<b>Impactful communication</b> <ul style="list-style-type: none"><li>Clear, regular (at least once a week) and transparent communications</li><li>Communication plan developed for all the key stakeholders using all the relevant channels</li><li>Communication to be delivered from relevant sources (e.g., CEO + middle management)</li></ul>	✓ Formulate an integrated and holistic communications plan with Eskom communications team and oversee roll-out of communications
	<b>Working team ownership</b> <ul style="list-style-type: none"><li>Eskom ownership and co-development of initiatives at working team level</li></ul>	✓ Each initiative assigned an Eskom implementation lead to manage and drive initiative

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Based on the four levers and BPP/B2B learnings we compiled a list of must-haves to ensure success (2/2)

Reinforcing  
must-haves

Developing  
enabling  
skills

Must-haves	Description	How we will do this
Reinforcing must-haves	<b>Performance management</b> <ul style="list-style-type: none"><li>Tool to track and manage individual initiatives with clear reporting</li><li>Clear consequence management to resolve underperformance</li></ul>	<ul style="list-style-type: none"><li>✓ Wave tool deployed to facilitate tracking and reporting on all initiatives across WFls</li><li>✓ Performance management in place with opportunity to increase implications on remuneration – TBD</li></ul>
	<b>Programme governance</b> <ul style="list-style-type: none"><li>Regular updates where EaCo members and programme responsible jointly report on progress</li><li>Governance structure linked to targets that are expected to be achieved at milestones</li></ul>	<ul style="list-style-type: none"><li>✓ Structured monthly steering committee meetings with clear mandate from the GCE to align senior teams of stakeholders</li><li>✓ Detailed leadership structure at programme level, WFls and initiative level with specific baselines and targets</li></ul>
	<b>Truly empowered project team</b> <ul style="list-style-type: none"><li>Most capable resources (nothing should be more important than the programme)</li><li>Team members full-time employed</li><li>Incentives for team members in case programme delivers successfully</li></ul>	<ul style="list-style-type: none"><li>✓ Full time central PMO team dedicated to monitoring the entire programme</li><li>? TBD – For discussion</li></ul>
	<b>Capability building</b> <ul style="list-style-type: none"><li>Selected process redesign and capability building initiatives to ensure lasting change and long-term target fulfilment</li></ul>	<ul style="list-style-type: none"><li>✓ Top Consultants programme extended to build core capabilities and a 100+ dedicated change group</li><li>✓ Selected capability building initiatives planned (e.g. Top Buyers programme)</li></ul>

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Although it is targeted at value creation, the programme entails multiple change management initiatives

Top Consulting Group

Top Buyer Programme

Go culture transformation

PED coal strategy

Project delivery capability building

PMO execution

Communication strategy

The programme will deliver an internal consulting unit that builds Eskom's capabilities and experience beyond the Top Engineers' Programme
Intends to leave a procurement optimization that delivers a whole new performance level through dedicated workstream
Dedicated initiatives done at Majuba to enable sustainable performance improvement (e.g., by using McKinsey organization diagnostics tool like OHI)
Enables PED to deliver on planned coal price trajectory in a sustainable way
Trains the newly established CMO (contract management office) and ensures sustainable improvement in project delivery and claims management
Design and set-up a performance management organization, train a team to run it, and leave behind Wave tool for 1+ years after end of McKinsey contract
PMO will cooperate with Eskom's communication department to develop and deliver key information to relevant stakeholders

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Critical inputs per idea will be documented and tracked on Wave



**Phone after a life loss**

**Personal information**

First name:  Last name:  Date of birth:  Place of birth:

Address:

City:  Zip:

Phone:

**Insurance information**

Insurance company:  Policy number:

**Emergency contact**

Name:  Relationship:  Phone:

**Other information**

Other contact:

**Comments**

**Buttons**

Save  Cancel  Print

**Key Inputs:**

- Title
- Context and source of impact
- Responsible executive, implementation lead, team members
- Baseline: type, total, addressable, rationale
- Payment trigger
- KPI conversion to ZAR
- Expected impact over time
- Key risks and dependencies
- IL expected dates
- Opex/capex requirements
- KPIs over time

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Wave has a number of controls to ensure content quality and data security

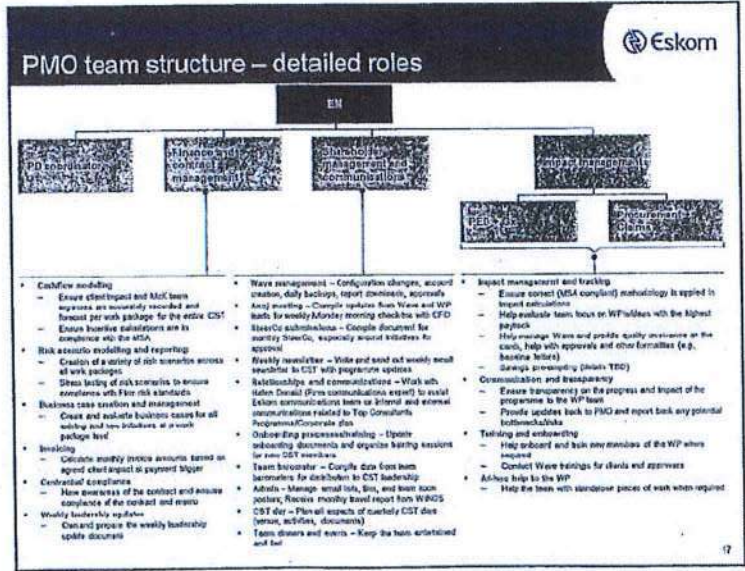
Eskom

Content quality

IT controls


Control mechanism	Description	Responsible owner
Training and guidance	<ul style="list-style-type: none"><li>Wave training sessions for all users (Eskom, McKinsey, Trillar)</li><li>Comprehensive user guide with detailed input descriptions and instructions</li></ul>	<ul style="list-style-type: none"><li>PMO</li><li>Wave team</li></ul>
Empirical support	<ul style="list-style-type: none"><li>Regular problem solving and evaluation of input quality</li><li>Weekly reviews of Wave content</li></ul>	<ul style="list-style-type: none"><li>PMO, led by Work Package liaisons</li></ul>
Quality checks	<ul style="list-style-type: none"><li>Mandatory input fields</li><li>Adhoc data pulls to ensure quality (e.g., Highlights impact outliers, Value inconsistencies)</li></ul>	<ul style="list-style-type: none"><li>PMO</li><li>Wave team</li></ul>
Formal approval	<ul style="list-style-type: none"><li>For stage gate approvals, automatic e-mail triggers to designated authorities<ul style="list-style-type: none"><li>Teams have live syndication meetings</li><li>Approval documented via Wave</li></ul></li></ul>	<ul style="list-style-type: none"><li>Work Package lead (all stages)</li><li>PMO (all stages)</li><li>Csat center (if applicable, IL2)</li><li>SD&amp;L (if applicable, IL2)</li><li>Steering Committee (IL2, payment trigger)</li></ul>
IT general controls	<ul style="list-style-type: none"><li>Wave access limited to individuals with valid McKinsey, TCP, and Eskom domains</li><li>User rights and visibility controlled by PMO (i.e., view of work packages, editing rights)</li></ul>	<ul style="list-style-type: none"><li>PMO</li></ul>
IT security	<ul style="list-style-type: none"><li>ISAE 3000 SOC 252 – secure platform according to ISAE guidelines; reviewed by external auditor</li><li>Daily incremental back-up, weekly full back-up; back-up data stored off-site</li><li>Approved by Eskom CIO and IT Security (internal report available upon request)</li></ul>	<ul style="list-style-type: none"><li>Wave team</li><li>PMO</li><li>Eskom IT</li></ul>

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Top Consulting Group will be established over the next 3 years



 Milestones

 Next slides

1 Growth to 100 and more consultants within next 3 years will require external hires of project and senior managers to build sustainable pyramid

2 McKinsey will provide support until end of 2018

### The 31 consultants of cohort 3 are staffed and have started working in their new teams

- The new cohort of Top consultants has been staffed across 8 priority projects (Primary Energy, EMO, Moolaitsh power, Procurement, Generation Grants, Unit 5, Shield Generation Office & Line G6)
- These new consultants will rotate 3 times in the next 12 months
- Consultants will have both office and site experience during these rotations
- Each consultant will have exposure to Capital Productivity, Strategy and Operations project as part of their learning journey
- Individual development needs will be taken into account when considering staffing opportunities and rotations
- Following their 12 month secondment the new cohort will officially graduate into the Top Consulting Group


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### To ensure the right development, consultants will be enrolled onto the following training program

**PRELIMINARY**

	12 months	12 months	12-14 months	12 months	12-14 months
<b>McKinsey</b>	Basic consulting readiness Leading others Driving business excellence Leading self	RCA bootstrap Bachelor Financial accounting for consultants	Lean boot-camp Unit planner	Pill Guide to Engagement Crafted Leadership & Executing with excellence workshop Pilot on testing tools Team Management Mastering Challenging Conversations	Mapping others' mindsets Business strategy Entrepreneurship
<b>Eskom</b>	My Eskom PowerPoint and excel modules	Finance modules Corporate plan modules National development plan Leader & coach			PFMA
<b>External</b>	MBTI	BDN		Office 2 Business report writing	Post graduate diploma: Change management/finance

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**Eskom**  
NEXT STEPS

## We are currently in the process of doing performance reviews following the following process

Evaluation of performance consultant	Consolidation of scores	Decision committee	Performance discussion
<ul style="list-style-type: none"> <li>Individual performance on each project is assessed by project lead</li> <li>To ensure common standards the project lead will use a template with detailed descriptions of performance aspiration</li> </ul>	<ul style="list-style-type: none"> <li>Mentors/reviewers will collect an overview of consultants performance</li> <li>This will be done telephonically to gather EPR scores and insight and they will also collect LEE 360 where applicable</li> </ul>	<ul style="list-style-type: none"> <li>Mentors/reviewers will present findings to the committee in an unbiased manner</li> <li>A committee of McKinsey and Eskom HR leads will evaluate the readiness for progression to next role and give recommendation to talent board in accordance with the advance or transform model</li> <li>The ultimate decision will be taken by Eskom leadership based on Eskom's talent board recommendations</li> </ul>	<ul style="list-style-type: none"> <li>The mentor/reviewer will provide feedback on performance to the consultant to address individual development needs</li> <li>The development and feedback discussion will be strengths based</li> </ul>

1. Mentors/reviewers for the 1<sup>st</sup> two years will be McKinsey leadership following which it will be TCG leadership

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There are 3 options on how the TCP Steering Committee can be set up

Chair • CEO

Purpose • The Corporate plan Results Management Committee is constituted to ensure the delivery of Corporate plan objectives and targets, oversee supplier development and development of ESK Top Talent

• Oversee the execution of nominated initiatives, including to nominate and priorities initiatives, provide strategic direction, take decisions to resolve problems and accelerate delivery with the powers delegated by the ESK

Each option with different pros and cons


- Faster group set up and higher flexibility as the official approval is not needed (excluding endorsement)
- Mandate in line with the mandate of working group members (e.g., CFO, COO)
- Longer implementation timeline due to official approval needed to set up a new committee (including endorsement)
- Mandatory board updates
- Strong mandate on the level of other ESK sub-committees
- Faster set-up than other ESK committees
- Stronger mandate than ad-hoc working group


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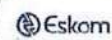
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Key dimensions of the McKinsey SD&L plan as agreed during MSA negotiations	
	
Plan element	Resolutions
Top consultants program	<ul style="list-style-type: none"><li>How many top consultants to develop from which area</li><li>What are the opportunity costs of the program</li><li>Development plan (training, application outside Eskom, etc.)</li></ul>
Plan to further develop black ownership	<ul style="list-style-type: none"><li>What is the share of black ownership to date</li><li>How is the black ownership share envisaged to be developed in the future</li></ul>
Share of professional fees to BBBEE companies	<ul style="list-style-type: none"><li>What share of McKinsey's professional fees is intended to be given to BBBEE companies</li></ul>
Development philosophy management consulting partner	<ul style="list-style-type: none"><li>What is the track record in developing management consulting partners</li><li>What is the development philosophy for the management consulting partner(s)</li></ul>
Development philosophy other partners	<ul style="list-style-type: none"><li>How are remaining partners developed</li></ul>
Quantified opportunity for other partners	<ul style="list-style-type: none"><li>How much opportunity can be created for others outside of Eskom via this contract</li></ul>

The modified SD&L plan achieves the same objectives and outcomes as the original plan	
	
Original SD&L plan - key principles	Modified SD&L implementation plan
<ul style="list-style-type: none"><li>McKinsey to partner with a single BBBEE firm across multiple work packages</li><li>Consulting fees would be shared across all work packages, with each party issuing a separate invoice for their respective quota of those fees</li><li>Over and above the Top Consultants program the fee sharing arrangement would aspire to a split of up to 50% of contract value over the life of the contract (across all streams)</li><li>BBBEE partners will be subject to the same conditions as McKinsey in order to be eligible for payment</li></ul>	<ul style="list-style-type: none"><li>In order to execute the work in the respective work packages Eskom and McKinsey will jointly decide, which BBBEE partner is best suited to partner with McKinsey on the respective work package</li><li>McKinsey will continue to comply with the fee sharing quota and with the sharing mechanics (i.e., each party issuing a separate invoice)</li><li>These fee quotas will be accrued in a SD&amp;L fund. This means that at every impact payment event McKinsey will invoice only to the amount of its quota with the remaining funds going "virtually" into the SD&amp;L development fund</li><li>The consulting fee for that BBBEE partner will be paid out of the SD&amp;L fund;</li><li>The same conditions as for the McKinsey impact payment apply</li></ul>

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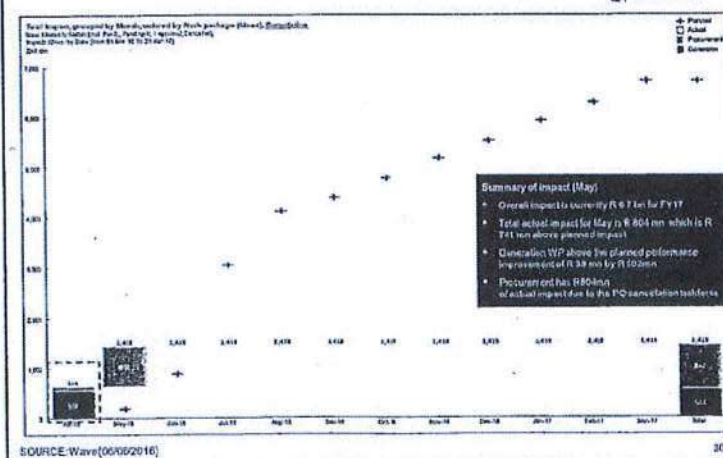
## Part 2: Impact management

- IL2 and Payment Trigger approvals

### Part 3: Communications update

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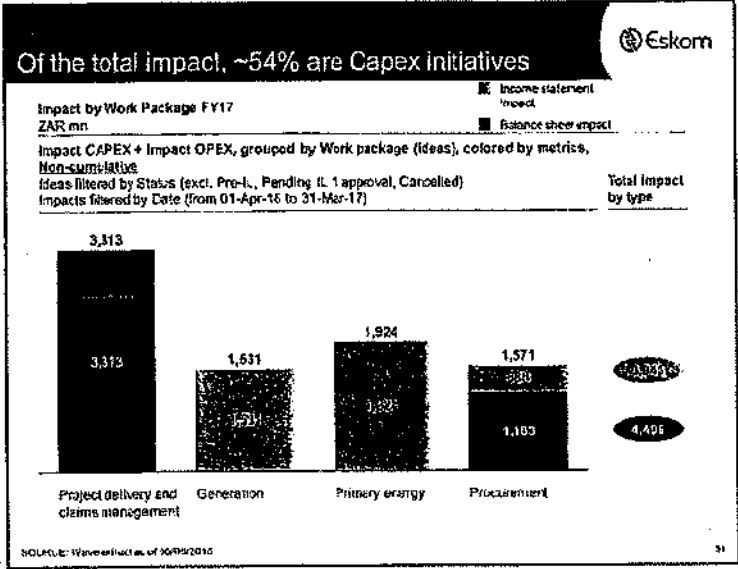
R804mn realized in May, well in excess of the planned impact of R63mn due to the Procurement team

 Detail on next page

SOURCE: Wave (06A002016)

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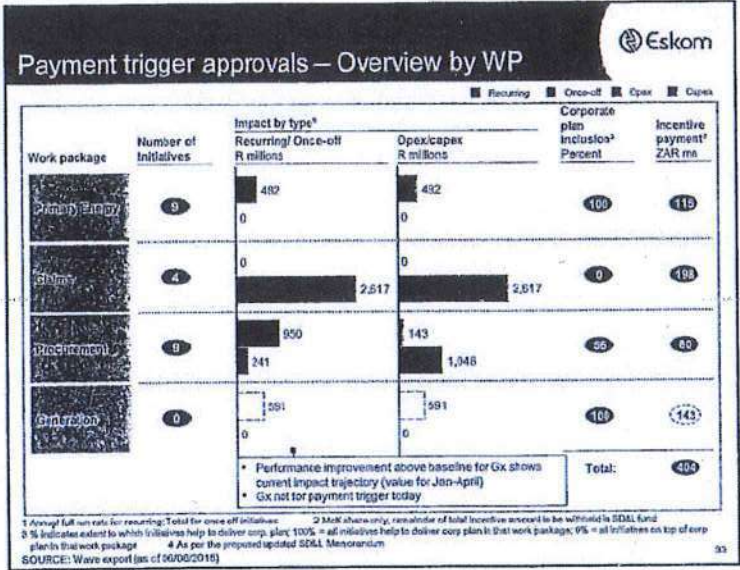
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- Impact overview in Wave
- IL2 and Payment Trigger approvals

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### Payment trigger approval Initiatives – Primary Energy (Fixed Price Contracts) (2/3)



Wheat ID	Name	Description, 24H M	Insider (indicate if ZAF M)	Estimate implementation lead	Estimate functional lead	Payment trigger description/ 18 days gate <sup>1</sup>	KPI impact	Corporate Plan Instruction
#13	Fixed price contracts, selling contracts - Wheatbela	Contract: Baseline price is an agreed price (416 \$/ton) that Esters has agreed with the supplier for 4.84M tonnes and was ready to sign. The contract will ramp down to 0.72 M tonnes in Year 1 to 1.2 M tonnes in Year 2 of the contract. Sources of impact: 1) data analysis to identify correct price points, 2) ESK team preparation for further negotiations and 3) responses to suppliers to broker the price Outcome: New price point of 416 \$/ton (p.a. 20 \$/ton below baseline)	46 (\$2 (\$/ton) (Financial)	Leila Mathew	Esti Mungana (Esti Mungana)	• Newly signed SGN with supplier • 3- June 2018 • 3- June 2018 • 3- June 2018	Cost Purchase	(align to deliver the C)
#24	Fixed price contracts, selling contracts - Wapdamen	Contract: Baseline price is an agreed price (416 \$/ton) that Esters has agreed with the supplier for 0.84 M tonnes and was ready to sign. Sources of impact: 1) data analysis to identify correct price points, 2) ESK team preparation for further negotiations and 3) responses to suppliers to broker the price Outcome: New price point of 416 \$/ton (p.a. 20 \$/ton below baseline)	33 (\$1 (\$/ton) (Financial)	Leila Mathew	Esti Mungana (Esti Mungana)	• Newly signed SGN with supplier • 3- June 2018 • 3- June 2018	Cost Purchase	(align to deliver the C)
#25	Fixed price contracts, selling contracts - Bunter Coal	Contract: Baseline price is an agreed price (247 \$/ton) that Esters has agreed with the supplier for 1.75 M tonnes and was ready to sign. Sources of impact: 1) data analysis to identify correct price points, 2) ESK team preparation for further negotiations and 3) responses to suppliers to broker the price Outcome: New price point of 247 \$/ton (p.a. 0.5 \$/ton below baseline)	29 (\$7 (\$/ton) (Financial)	Zybil Casson	Esti Mungana (Esti Mungana)	• Newly signed SGN with supplier • 3- June 2018 • 3- June 2018	Cost Purchase	(align to deliver the C)

Total: #133M (\$)

1 Incentives calculation based on Mkt share only - 75%  
2 Ready for IL3 and payment trigger pending CFO approval  
SOURCE: Wave export (as of 06/06/2016)

Total: 1815 items (2.8)  
1000  
(1100 items)

35

## Payment trigger approval Initiatives – Primary Energy (3/3)



Work ID	Item	Description	Impact (minutes) ZAN is	Excess implement within limit	Excess WD and functional limits	Payment trigger description (if IL stage gate)	KPI Impact	Customer Plan Indicators
#1114	Suber rail siding	<ul style="list-style-type: none"> <li>• Construct: Suber cut to build rail siding at Mine to shorten distance involved by Mopids and Camden Pioneer shuttles</li> <li>• Review of Impact: Additional value included in contract - 5% saving on lighter work siding is worthwhile.</li> <li>• Outcome: Total additional cost incurred by the supplier for the rail siding</li> </ul>	85 (20) (Spec) (Planning)	2yrd Cassini	Don Maulgry (Liam Moloney)	<ul style="list-style-type: none"> <li>• Construction of Suber contract with agreement on rail siding to be built to order 3 years</li> <li>• 01-June-2015</li> <li>• Pending L2 approval</li> </ul>	Integration of cost delivery source from rail to rail	✓ (value to deliver P2)

Total Risks (23)

1 Incentives calculation based on NOK share only – 75%  
2 Ready for IL3 and payment trigger, pending CFO approval  
SOURCE: Wave export (as of 05/06/2016)

Total Rooms (23)  
(Used)  
(Reserving)

38



Payment trigger approval Initiatives – Project Delivery and Claims Management (1/2)							Eskom	
Work ID	Name	Description	Input (contract/2024)	Eskom implementation lead	ESKOM and functional leads	Payment trigger description/initial 3 stage gate	KPI	Corporate Plan Inclusion
R13	C & S employer claims	<ul style="list-style-type: none"><li>Contract Extension of Notice/employer claims against Eskom (C&amp;S)</li><li>Partnership C&amp;S in Eskom</li><li>Partnership: Addressing employer claims in Eskom based on the employer claims register (i.e., R13) for FY17</li><li>Impact: Eskom Settlement of Notice/employer claims against the contractor as Eskom was not aware of a future process for integrating the C&amp;S employer claims.</li><li>The impact was achieved through reviewing R13 claims on the register and reviewing benefit status.</li></ul>	R13 (C&S) (FY17 and FY18) (C&S) (Contract)	Senior Manager	Senior Manager	<ul style="list-style-type: none"><li>PT 1: Strategy, pre-requisites, and potential value added off by Eskom</li><li>PT 2: Beginning of processing of claims at Eskom/contractor/claims register for processing</li><li>12 May 2018 for FY17 and FY18</li><li>13</li></ul>	Cash interest cover	Incorporated in EP (Package budget)
R13	Subsidiary claims	<ul style="list-style-type: none"><li>Contract Extension of Notice/employer claims against Eskom (C&amp;S)</li><li>Partnership: 2018 business case/PT value for Eskom of R13.7 bn, including the future scope of 40% of contract budget</li><li>Impact: Eskom Settlement of Notice/employer claims against the contractor as Eskom was not aware of a future process for integrating the C&amp;S employer claims.</li><li>The impact was achieved through reviewing R13 claims on the register and reviewing benefit status.</li><li>Data bank consolidation of benefits</li><li>Increased planning of resources and activities</li><li>Coordination of Eskom, Eskom and Eskom/contractor/claims register</li><li>Coordination of Eskom/contractor/claims register</li><li>Implementation of R13 for Eskom/contractor/claims register</li></ul>	R13 (C&S) (FY17 and FY18) (C&S) (Contract)	Senior Manager	Senior Manager	<ul style="list-style-type: none"><li>PT 1: Strategy, pre-requisites, and potential value added off by Eskom</li><li>PT 2: Beginning of processing of claims at Eskom/contractor/claims register for processing</li><li>12 May 2018 for FY17 and FY18</li><li>13</li></ul>	Cash interest cover	Incorporated in EP (Package budget)
R13	C&S interaction	<ul style="list-style-type: none"><li>Contract Extension of Notice/employer claims against Eskom (C&amp;S)</li><li>Partnership: 2018 business case/PT value for Eskom of R13.7 bn, including the future scope of 40% of contract budget</li><li>Impact: Eskom Settlement of Notice/employer claims against the contractor as Eskom was not aware of a future process for integrating the C&amp;S employer claims.</li><li>The impact was achieved through reviewing R13 claims on the register and reviewing benefit status.</li><li>Data bank consolidation of benefits</li><li>Increased planning of resources and activities</li><li>Coordination of Eskom, Eskom and Eskom/contractor/claims register</li><li>Coordination of Eskom/contractor/claims register</li><li>Implementation of R13 for Eskom/contractor/claims register</li></ul>	R13 (C&S) (FY17 and FY18) (C&S) (Contract)	Senior Manager	Senior Manager	<ul style="list-style-type: none"><li>PT 1: Strategy, pre-requisites, and potential value added off by Eskom</li><li>PT 2: Beginning of processing of claims at Eskom/contractor/claims register for processing</li><li>12 May 2018 for FY17 and FY18</li><li>13</li></ul>	Cash interest cover	Incorporated in EP (Package budget)

1 business case/PT value for Eskom of R13.7 bn, including the future scope of 40% of contract budget

Payment trigger approval Initiatives – Project Delivery and Claims Management (2/2)							Eskom	
Work ID	Name	Description	Input (contract/2024)	Eskom implementation lead	ESKOM and functional leads	Payment trigger description/initial 3 stage gate	KPI	Corporate Plan Inclusion
R13	Subsidiary claims	<ul style="list-style-type: none"><li>Contract Extension of Notice/employer claims against Eskom (C&amp;S)</li><li>Partnership: 2018 business case/PT value for Eskom of R13.7 bn, including the future scope of 40% of contract budget</li><li>Impact: Eskom Settlement of Notice/employer claims against the contractor as Eskom was not aware of a future process for integrating the C&amp;S employer claims.</li><li>The impact was achieved through reviewing R13 claims on the register and reviewing benefit status.</li><li>Data bank consolidation of benefits</li><li>Increased planning of resources and activities</li><li>Coordination of Eskom, Eskom and Eskom/contractor/claims register</li><li>Coordination of Eskom/contractor/claims register</li><li>Implementation of R13 for Eskom/contractor/claims register</li></ul>	R13 (C&S) (FY17 and FY18) (C&S) (Contract)	Senior Manager	Senior Manager	<ul style="list-style-type: none"><li>PT 1: Strategy, pre-requisites, and potential value added off by Eskom</li><li>PT 2: Beginning of processing of claims at Eskom/contractor/claims register for processing</li><li>12 May 2018 for FY17 and FY18</li><li>13</li></ul>	Cash interest cover	Incorporated in EP (Package budget)

1 business case/PT value for Eskom of R13.7 bn, including the future scope of 40% of contract budget

## Payment trigger approval Initiatives – Procurement (1/3)



Ward ID	Name	Description	Impact (approx.) 2018 M	Estim implementation status	Estim WP and functional lands	Payment trigger/stoppage date/gate	KPI Impact	Corporate Plan Inclusion
#563	Bellar Services: Negotiate short term contract	<ul style="list-style-type: none"> <li>The pre-existing Bellar Services Franchise Agreement with Axiom (Bellar) and Mobilmar expired in March 2016.</li> <li>Axiom has signed a contract with Axiom from April 2016 to 20 September 2018 with Axiom, Mobilmar and Mobilmar and achieved 9% cost savings</li> </ul>	81 (E) (Tax and Cases) (One-off)	Charles Kubisa	Edwin Mubumba (Johannes Mubumba)	<ul style="list-style-type: none"> <li>Signing of the short term contract</li> <li>30-Apr-2010</li> <li>Pending L2 approval</li> </ul>	Free funds as 5% of Cases	✓
#63	Power Transformer 1: Negotiate contract in line with lock on hand	<ul style="list-style-type: none"> <li>There is potential to reduce the total demand for distribution transformers.</li> <li>100% savings - 100% savings in volume by consuming all items in stock above the minimum required stock level (RIL) (e.g. In March to buy 2 240kV distribution transformers there are 4 spares against a minimum RIL of 1, resulting in available spares of 3. We recommend the business buys no additional units and utilizes the available spares thus reducing the demand for 3rd items to 0</li> </ul>	171 (14) (Tax and Cases) (One-off)	Verona Romeo	Edwin Mubumba (Johannes Mubumba)	<ul style="list-style-type: none"> <li>Proof of process</li> <li>27-May-2018</li> <li>Pending L2 approval</li> </ul>	Free funds from operations as 5% of Cases	✓
#115	Bullet service: Abandonment core crew for maintenance across stations	<ul style="list-style-type: none"> <li>Optimization of the core crew headcount and tasks required across the fleet will save Eskom an extra crew</li> <li>Some of the core crew staff could be used only during the peak hours (up to 100% of time)</li> <li>Currently Eskom is paying for 100% time of the core crew which supplies either some of the crew at all various stations</li> </ul>	44 (10) (Overtime)	Chains Kubisa	Edwin Mubumba (Johannes Mubumba)	<ul style="list-style-type: none"> <li>Payment is triggered when Eskom reserves a signification offer from the supplier after negotiation</li> <li>20-Sep-2018</li> <li>8.3 Ready for implementation</li> </ul>	Opening cost employee	6.5

1 inclusive calculation based on MCF share only – 71%

SOURCE: Wave report for 05/05/2017

Page Total: 2361mm  
(22)

## Payment trigger approval Initiatives – Procurement (2/3)



Work ID	Name	Description	Impact (year(s)) ZAR M	Exsom Implementation lead	Exsom HW <sup>1</sup> and functional leads	Payment Vigner description/dates if, stage logs	RPI Impact	Corporate Initiative
R35	Tactical: Sign contract for expanded Wondra Poles & X-corr currently off contract using e-auction	<ul style="list-style-type: none"> <li>R35 is an annual spend for Wondra poles, are done at point of R35 bid to supply of the wondra poles, and R35 for transport by R35.</li> <li>• Point placed 1 year with ~10 suppliers (2014), reallocation, taking in auction for these items.</li> <li>R35 for (5-6) savings have been identified.</li> <li>• Transport: TCO model was been developed to optimize supply routes and helped to reduce cost. As the overall cost of R35 has (5% of the R35).</li> </ul>	54 (8) (Open) (Recurring)	Harriet Samson	Exsom Hardware (Johnstone Makhulu)	<ul style="list-style-type: none"> <li>• Project of an individual subject to exploit teamwork approach or</li> <li>• finding offer of minimum viable technical solution</li> <li>• 17-Mar-2016</li> <li>• Pending, N.A.</li> </ul>	Expanding unit	Energy
R36	Tactical: Supplier Take - Extrahe buyer and placed to use new material market	<ul style="list-style-type: none"> <li>Of contract spend is the result of buyer using old material supplier</li> <li>Average annual spend of contract over the past 3 years is R36, but R36 is adjustable. Remaining spend relates to recent buys &amp; services</li> <li>The savings between old price and new price go up to 20%, leading to an overall savings potential of R36</li> <li>• Relative savings then 1. May not often economic, 2. commensurate to them to understand if any specific reason, 3. to block system to avoid further PO for old material market.</li> </ul>	5 (1) (Open) (Recurring)	Markus Nkomo	Exsom Hardware (Johnstone Makhulu)	<ul style="list-style-type: none"> <li>• R36 of an individual subject to exploit</li> <li>• teamwork approach or</li> <li>• finding offer of minimum viable technical solution</li> <li>• 17-Mar-2016</li> <li>• E. 3. Monthly for implementation</li> </ul>	Operating unit	Energy
R44 and R45	ICT-Africa (Africa) - Delay purchase of upgrades, less new licenses, and buy standard instead professional version	<ul style="list-style-type: none"> <li>• Allow 3-year Africa contract to budgeted for 400 Africa Annual Professional upgrade, 400 new licenses of Autodesk Professional, 400 new subscribers to Oracle CRM, 7 licenses of Oracle CRM (including technical support).</li> <li>• Recurring purchase (PO) 5M p.a. at the end of each fiscal (R5M) reduced maintenance costs by saving the following items: <ul style="list-style-type: none"> <li>- Eliminate upgrade of software</li> <li>- Limit new licenses by performing demand management</li> <li>- Buy Autodesk Standard instead of Autodesk Pro</li> </ul> </li> </ul>	1 (3) (Recurring) (Camp) 4 (3) (Open) (Open)	Debra Venter	Exsom Hardware (Johnstone Makhulu)	<ul style="list-style-type: none"> <li>• Demand reduction only</li> <li>• Recurring reduction</li> <li>• Recurring reduction</li> <li>• 7 June 2016</li> <li>• E.3. Monthly for implementation</li> </ul>	Operating unit	Energy

1. *Isopropyl alcohol* based on MEK solubility = 76%.

SOURCE: *Wired* 10/20/01 (as of 05/06/2016)

Page  
Total 144min (10)

45

### Payment trigger approval Initiatives – Procurement (Inventory) (3/3)



Waza ID	Name	Description	Impact (acronym) ZAR M	Estim. Implementation lead	Estim. WP start function at/leads	Payment trigger description/date/ stage gate	KPI Impact	Corporate Plan Inclusion
R05	Inventory: 1.3 PG Consultation Taskforce Tracking 1 Apr '16 - 11 May '16	<p>Forward (R04) Inventory 1. Consult unnecessary PFI/PGs and resolve where possible (Taskforce). Target: R05/Issue PFI/PG (position) cancelled PFI, R1/00m resolved)</p> <p>• PFI/PG planning requires purchasing check only under the following:</p> <ul style="list-style-type: none"> <li>FO: Reservations + Stock at hand</li> <li>VI: Reservation + max stock level &gt; Stock at hand</li> <li>VR: Reservation + max stock level &gt; Stock at hand</li> </ul>	40 (2.35) CapeTown (Processing)	Visual R04/Issue Mthabane	Edwin Mabasa (Lobatse Mthabane)	<p>• Successfully cancelled PFI and re-allocated parts</p> <p>• 13-May-2016</p> <p>• Funding R 4 Approved</p>	Free funds from operations as % of gross debt	✓
R06	Inventory: 1.2 PG Consultation Taskforce Tracking-Majuba Off outage	<p>Forward (R04) Inventory 1. Consult unnecessary PFI/PGs and resolve where possible (Taskforce). Target: R06/Off for PFI/PG (position) cancelled PFI, R1/00m resolved)</p> <p>• Analysis PFI/PG outage team reported annual direct and savings through elimination of unnecessary procurement.</p>	11 (2.0) CapeTown (Processing)	Visual R04/Issue Mthabane	Edwin Mabasa (Lobatse Mthabane)	<p>• Sign off on all cancellations and cancellations</p> <p>• 30-May-2016</p> <p>• Funding R 4 Approved</p>	Free funds from operations as % of gross debt	
R07	Inventory: 1.3 PG Consultation Taskforce Tracking 12 May '16 - 31 May '16	<p>Forward (R04) Inventory 1. Consult unnecessary PFI/PGs and resolve where possible (Taskforce). Target: R07/Off for PFI/PG (position) cancelled PFI, R1/00m resolved)</p> <p>• Analysis PFI/PG outage team reported annual direct and savings through elimination of unnecessary procurement.</p>	84 (3.6) CapeTown (Processing)	Visual R04/Issue Mthabane	Edwin Mabasa (Lobatse Mthabane)	<p>• Successfully cancelled PFI/PGs and re-allocated parts (closed sourcing)</p> <p>• 7 June 2016</p>	Free funds from operations as % of Capex	✓

† bootstrap calculation based on 10000 cases only = 10%

**SCIENCE:** Wave-report use of DASH/SHIR

Page 100  
Total 1000000

4

## IL 2 approvals – Overview by WP



■ Recurring ■ One-off ■ Opex ■ Capex

Impact by type <sup>1</sup>				
Work package	Number of initiatives	Recurring/ Once-off R millions	Opex/capex R millions	Corporate plan inclusion <sup>2</sup> Percent
Primary/initial	1	277 630	807 0	89
Cost	0	Price 1.24m per day, previous 1.3m 318,000/316,500		N/A
Procurement	25	1,725 200	501 1,484	38
General	0	Price 1.24m per day, previous 1.3m 318,000/316,500		N/A

1 Annual full run rate for recurring; Total for one off initiatives 2 MoK share only

3 % indicating extent to which initiatives help to deliver corp. plan; 100% = all initiatives help to deliver corp plan in that work package; 0% = all initiatives irrelevant to corp plan in that work package

SOURCE: Wave export (as of 06/06/2016)

4



## IL2 approval Initiatives – ratification



Was it ID	Name	Description	Impact (negative) ZARM	Explan. Implementation	WP and function all leads	Payment trigger description/rate & stage gain	KPI Impact	Plus Indicators
R248	Cost Plus - New Contract Volume Improvement	<ul style="list-style-type: none"> <li>Contract: Volatility, Explan. revised. Cost Plus and Fixed Price contracts with the bulk of the volumes killed by cost plus mixes. However, reduced input from cost plus mixes has increased pressure to work short and weaker tiers vertically. Along with higher costs associated with shorter contracts, the Value at Risk amount of cost plus mixes increases as volumes decrease.</li> <li>Source of impact: Reduce the unit cost of cost (Value) on cost plus mixes in line with MPTG by increasing volumes</li> </ul>	R77 (Revenue) (x)	Don Muehlap	Don Muehlap (Global Materials)	<ul style="list-style-type: none"> <li>Acceleration of initial production increase</li> <li>15-July-2016</li> <li>Pending 4.2 approval</li> </ul>	Cost purchase	✓
R1130	Medical penalty provision: Operational efficiency - Medical at-risk increase	<ul style="list-style-type: none"> <li>Contract: The goal of the R1130 is to minimize the problem for the take-or-pay penalty through shortening additional cost of Muehlap by increasing the shortage height</li> <li>Source of impact: Shortening additional cost at increased on height or Medical Power Similar to ensure that all contracted shortages are taken and saving on financial cost of making funds to pay the penalty</li> </ul>	R29 (Oxyx) (Cost off)	Harroene Eshahan	Don Muehlap (Global Materials)	<ul style="list-style-type: none"> <li>Signed agreements between TCD and Muehlap regarding to additional shortage and non-use profits</li> <li>15-July-2016</li> <li>4.2 confirmed</li> </ul>	Cost purchase	✗

SOURCE: Wave export (as of 08/06/2016)

Total: 887.00  
(Open)  
(Recurring)

1

## IL 2 approval Initiatives – ratification Procurement (1/11)



Wave ID	Name	Description	Impact 2023/24	Ekam implementation lead	Ekam APP and functional goals	Payment trigger description/date/ K. alias	KPI target	Overall Final Timeline
	ICT1: WAN - Raidoo expansion of underutilized links and open links for tender (WAN ultimate prelude)	<ul style="list-style-type: none"> <li>The 9500xvse and 8 Wile Aude Network contract is coming up for negotiation in August</li> <li>The Infratec aims to Reduct bandwidth requirements for links that are chronically overutilized (P11 savings) and to Amend knowr links to a different vendor in order to signal to the market that vendors must be competitive (Risk)</li> </ul>	15 (Open) (Resolving)	Responsible Wilyay	Edwin Mabiane (Johnstone hand-off)	<ul style="list-style-type: none"> <li>Receipt of an indicative offer by 10 Aug 2018</li> <li>+ 31 Aug 2018</li> <li>+ 8.3 Ready for implementation</li> </ul>	Opening cost/ employee	✓
#302	Buller survival Renegate contract- Price, Flexibility & Quality Issues	<ul style="list-style-type: none"> <li>The previous long-term Buller Services Enabling? Agreement with Acton, Bulfinch and Bismarck expired in March 2018</li> <li>Bidings are submitted through 4 negotiation rounds</li> </ul>	(OpenCapa X) (Resolving)	Charles Kellins	Edwin Mabiane (Johnstone hand-off)	<ul style="list-style-type: none"> <li>Payment to happen when Ekam receives a significantly accepted offer from the supplier after negotiation.</li> <li>30 Sep 2018</li> <li>Pending 5.3</li> </ul>	Opening cost/ employee	✓
		<ul style="list-style-type: none"> <li>1. Price <ul style="list-style-type: none"> <li>- 1.1 Reforce future rates to align with SKP SA growth rates in FY16-FY16</li> <li>- 1.2 Cap Kulu increases in bids rates to DEWA growth rate</li> <li>- 1.3 Cap accommodation rates</li> <li>- 1.4 Introduce early payment discount for long term contract</li> </ul> </li> <li>- Introduce competitor between existing changes by relating this</li> <li>2. Productivity &amp; quality <ul style="list-style-type: none"> <li>- 2.1 Improve performance bonus KPI scale to drive improvement in productivity and quality</li> <li>- 2.2 Quality scope to reduce standing time due to parts delays</li> <li>- 2.3 Reduce demand by replacing manual welding with automated welding for H01</li> </ul> </li> </ul>						
		<ul style="list-style-type: none"> <li>* Note: Lower cost updated to timeline #128566131285200-27018-001-045</li> </ul>						

...and the ...

Flats: 1000  
Total: 1000

IL 2 approval Initiatives – ratification  
Procurement (2/11)



Winn ID	Issue	Description	Impact (Incident)	ERM Implement- tailor lead	ERMS WSP and functional leads	Payment trigger description/detail if, stage gate	KPI Impact	Corporate Plan Initiative
2121	Order Services Agree early payment discount for a short term contract	<ul style="list-style-type: none"> <li>On average ERM takes 40 days to process payment once an invoice is submitted. Delays in payment usually due to the 3 way match between PO, invoice and goods receipt.</li> <li>Claim that suppliers are cash-strapped, a discount will be negotiated for paying earlier, whilst also accounting for making capital investments (approx. 5% discount for paying within 15 days, 2.5% for paying within 30 days)</li> </ul>	(Incident) ZAR M + (High Capex and Capex- (Direct- off)	Charles Kaine	Edith Mabhele (Infrastructure Mabhele)	<ul style="list-style-type: none"> <li>Payment is triggered when ERM receives a signed accepted offer from the supplier</li> <li>20 June 2016</li> <li>Pending L 2 approval</li> </ul>	Opening new employee	✓
202	Power Trans-Formers: Improve negotiation approach	<ul style="list-style-type: none"> <li>Following to the 2-year R1, 30-million contract being placed, we have identified ways to improve supplier negotiations.</li> <li>Improve CPA (R20m)</li> <li>Improve equipment power bill audit and fuel (save TCO, LTP, whole household (R22m savings)</li> <li>When potential supplier enters (R15m)</li> </ul>	180 (Type) (Recurring)	Various Farmers	Edith Mabhele (Infrastructure Mabhele)	<ul style="list-style-type: none"> <li>Receipt of a bill of sale or binding offer</li> <li>26-Sep-2016</li> <li>L3 Cleared</li> </ul>	Free funds from operations as % of Capex	✓

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IL 2 approval Initiatives – ratification  
Procurement (3/11)



Wave ID	Name	Description	Impact (Quarter)	Impact ZAR R	Eskom Implementation lead	Eskom VP and functional leads	Payment/Vigilance development/HR, e-tips gate	EPF Impact	Corporate Plan Impact
2248	Yellow Plant: Run e-Auction on the contract for Mayha and Mapup	<ul style="list-style-type: none"> <li>The objective is to run an e-Auction for 100% of FY17 and FY2018 line spend for yellow plant used in coal &amp; sub services for Sakhisa and Mapup to save 15% in Eskom Rola industries (EPI) spend, and therefore, Eskom spend</li> <li>The amount to be e-auctioned is R224m.</li> <li>The RFP and e-Auction will be conducted by EPF. EPF will sub-contract to the winners of the e-Auction.</li> </ul>	R2 (Open) (Close On)	R200	Kapisa Mshane	Edwin Mshane (Jobirane Mshane)	<ul style="list-style-type: none"> <li>Receipt of an indicative or binding offer of minimum viable technical solution</li> <li>15-July-2016</li> <li>Finalising E. 3 approval</li> </ul>	Operating cost/ employees	4%
257	Yellow Plant: Run e-Auction on the contract for 13 power stations (lead, Mapup and Mayha)	<ul style="list-style-type: none"> <li>The objective is to run an e-Auction for 100% of FY2017 and FY2018 line spend for yellow plant used in coal &amp; sub services on 13 power plants (lead, Mapup and Mayha) to save 10% in Eskom Rola industries (EPI) spend, and therefore, Eskom spend</li> <li>The amount to be e-auctioned is R1000m.</li> <li>The RFP and e-Auction will be conducted by EPF. EPF will sub-contract to the winners of the e-Auction.</li> </ul>	R10 (Open) (Close On)	R1000	Mshane	Edwin Mshane (Jobirane Mshane)	<ul style="list-style-type: none"> <li>Receipt of an indicative or binding offer of minimum viable technical solution</li> <li>05-Aug-2016</li> <li>1. 5 Ready for implementation</li> </ul>	Operating cost/ employees	1%

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IL 2 approval Initiatives (ratification) –  
Procurement (4/11)



Worx ID	Name	Description	Impact (Revenue) ZAR M	Explanatory Implementation Timeline	Explanatory WP and functional leads	Prerequisites description/Status/ date	KPI target	Corporate Plan Initiation
#13	ICT: Microsoft Reengulfed 3-year contract	<ul style="list-style-type: none"> <li>Explanatory uses Microsoft software in a variety of contexts - as a desktop operating system, for productivity software (e.g., Office) and for servers (email, databases, content).</li> <li>Explanatory has an explanatory agreement with Microsoft, which it would like to renew.</li> <li>The explanatory agreement lasts for 3 years and is a combination of software licenses, software maintenance (which provides access to the latest version of the software), and cloud development services.</li> </ul>	25 (Ongoing Pricing)	Nonchalant Majors	Edwin Majors (Johnston Majors)	<ul style="list-style-type: none"> <li>Receipt of an indicative or binding offer or demand is received resulting in corresponding budget reduction completed to pre-agreed baseline</li> <li>15 July 2016</li> <li>8. 3 Ready for implementation</li> </ul>	Operating cost employees	✓
#42	ICT: Desktop/laptops - Purchase specification requirements	<ul style="list-style-type: none"> <li>The laptop and desktop computers explained and a binder sent for replacement for a new 2-3 year working agreement. The explanatory opportunity to save costs through reducing requirements stated in specifications and replacing part of demand for laptops with desktop.</li> </ul>	4 (Capex) (Pricing)	John Johnston Edwin Majors (Johnston Majors)	<ul style="list-style-type: none"> <li>Receipt of an indicative or binding offer or demand is received resulting in corresponding budget reduction completed to pre-agreed baseline</li> <li>31 August 2016</li> <li>8. 2 Confirmed</li> </ul>	Operating cost employees	✓	

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Page Total: R29m

SCIENCE. Web export (as of 06/04/2015)



## IL 2 approval Initiatives – ratification Procurement (5/11)



Wise ID	Name	Description	Impact (Executive ZAR M)	Is/has implemented/being	Is/has NP and functional heads	Payment/budget or expenditure/date/1. stage/2.	KPI Impact	Corporate Plan Inclusion
R115	KIT-IT Outsourcing- business negotiation strategy	<p>A R1,76m sale of 3-4 contracts for IT outsourcing, catering services, and courier support services to various, and disaster recovery. This work partly replaces the existing T-Sytems contract.</p> <p>In 2014, Muckeary worked with Group IT to develop a bottom-up budget for these of three four years. The current budget encompasses all of Muckeary's efforts from this project. As a result, the major opportunity to reduce cost is in the negotiation phase, when offers from vendors can be analysed and price concessions can be achieved.</p>	29 (Open) (Planning)	Not/has/being	Is/has Muckeary (Business Development)	<p>Receipt of an indicative or binding offer</p> <p>31-Aug-2016</p> <p>1.2 Confirmed</p>	Operating cost/ employee	
R105	KIT- Political unaffiliated members- Return unaffiliated members to vendors and implement pricing policy controls	<p>Is/has a 60% year-on-year contract to manage printer services at all Eskom sites. There are 2 years left on the contract. Monthly utilization is 60% or less than the 60% target.</p> <p>This project primarily comes from understanding that SLA to the contract that requires devices have at least 60% utilization per month.</p>	16 (Open) (Account)	Not/has/being	Is/has Muckeary (Business Development)	<p>Work on acceptance of supplier action plan to reduce units to bring average device utilization up to 40%</p> <p>30 October 2016</p> <p>1.3 ready for implementation</p>	Operating cost/ employee	

Page: 10347  
Total: 10347




SOURCE: Wren report (as of 10/15/2012)

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## IL 2 approval Initiatives – ratification Procurement (6/11)



Where	Name	Description	Impact ZAR M	Exem Implementation lead	Exem NP and functional leads	Payment trigger and/or tender/EtP stage gate	KPI Impact	Corporate Plan Inclusion
#30	Tactical Cables - Off-Contract as placed on Contract	• Significant cables spend is done off contract. The initiative consists of aggregating the existing cable contracts with the BIDs, currently set on a contract to ensure a stable and lower price and further procurement lead times	5 (Open) (Reviewing)	Thamba Nini	Edwin Mahabane (Laboratory Mahabane)	• Receipt of an indicative (subject to approval) or binding offer of minimum viable technical solution • 14 Sept 2018 • 12 Confirmed	Operating staff employee	
#31	Tactical Modules - Place Off-Contract spend on Contract	• Significant modules spend is done off contract. The initiative consists of placing the 50% of modules spend or spend to parameters lower and stable prices and further procurement lead times	4 (Open) (Reviewing)	Musasa Mafumane	Edwin Mahabane (Laboratory Mahabane)	• Receipt of an indicative (subject to approval) or binding offer of minimum viable technical solution • 14 Sept 2018 • 12 Confirmed	Operating staff employee	
#32	Tactical Low/Medium/High Pressure Pump - Eigen contractor Items bought off-contract	• Off contract spend for pumps represents an average amount of -R220m. Only R150m is utilised and can be utilised in 2020 process • 12 % of these R100m are OEM products, and 88% are non-OEM. • Initiative consists of contracting OEM products with OEM, but going with for non-OEM products	16 (Open) (Reviewing)	Akbar Takaboli	Edwin Mahabane (Laboratory Mahabane)	• Receipt of an indicative (subject to approval) or binding offer of minimum viable technical solution • 16 August 2018 • 12 Confirmed	Operating staff employee	




Phone 827m

SCIENTIFIC WORKS OF THE DEPARTMENT OF

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## IL 2 approval Initiatives – ratification Procurement (7/11)



WVVR ID	Name	Description	Impact (months) ZAR M	Exkom implementation lead	Exkom WP and functional leads	Payment bigger disaster/IT/IL stage gate	XPI Impact	Corporate File Inclusion
#20	Technical - Bearings - Flare CR - Contract spend on Contract	<ul style="list-style-type: none"> <li>• Significant bearings spend is done off-contract</li> <li>• The relative criteria of placing bearings spend on contract to guarantee lower and stable prices and shorter procurement lead times</li> </ul>	0 (Open) (Recurring)	Enron Nagay	Edwin Mabasa (Johannesburg Nobuhle)	<ul style="list-style-type: none"> <li>• Receipt of an indicative (subject to explicit Statecom approval) or binding offer of minimum viable technical solution</li> <li>• 19 August 2016</li> <li>• 2.2 Confirmed</li> </ul>	xxx	
#30	Technical - Seals - Flare CR - Contract spend on Contract	<ul style="list-style-type: none"> <li>• Significant seal spend is done off-contract</li> <li>• The relative criteria of placing the 80% of seals spend on contract to guarantee lower and stable prices and shorter procurement lead times</li> </ul>	2 (Open) (Recurring)	Daily Mavoko	Edwin Mabasa (Johannesburg Nobuhle)	<ul style="list-style-type: none"> <li>• Receipt of an indicative (subject to explicit Statecom approval) or binding offer of minimum viable technical solution</li> <li>• 21 August 2016</li> <li>• 2.2 Confirmed</li> </ul>		
#17	Technical - Transmitters - Flare CR - Contract Spend on Contract	<ul style="list-style-type: none"> <li>• Significant transmitters spend is done off-contract</li> <li>• The relative criteria of placing the 80% of transmitters spend on contract to guarantee lower and stable prices and shorter procurement lead times</li> </ul>	2 (Open) (Recurring)	Enron Nagay	Edwin Mabasa (Johannesburg Nobuhle)	<ul style="list-style-type: none"> <li>• Receipt of an indicative (subject to explicit Statecom approval) or binding offer of minimum viable technical solution</li> <li>• 16 July 2016</li> <li>• 2.2 Confirmed</li> </ul>		

Page 110m  
Total 110m

SOURCE: The above list of OASIS data

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IL 2 approval Initiatives – ratification  
Procurement (8/11)



Wave ID	Name	Description	Target ZAG M	Estimate Implementation lead	Estimate WP and functional lead	Payment/trigger description/deliverable date	KPI target	Corporate Plan indication
71	Tactical: Bare - Site contract for bare currently bought contract	<ul style="list-style-type: none"> <li>Oil contract spent for Bare represents an amount average of -R170m -R22m is actually misclassified and more related to OEM pumps and valves equipment for example, and metal was misclassified (part of offstation and F2D item). Therefore addressable is -R18m.</li> <li>Bare has been grouped by chemical component (e.g. Cl, Copper, Al, etc.) and 10 top groups represent 65% of the total addressable spend.</li> <li>However, Estaim has already 2 supplier with project contract and are within 30m. Some work is added.</li> <li>First RFQ sent to the market showed significant price different (more than 100% difference). Technical clarification is therefore recommended and savings before being able to coordinate structure and negotiation.</li> </ul>	10 (Ops) (Recurring)	Months Gat	Edwin Mathiane (Johnstone Mathiane)	<ul style="list-style-type: none"> <li>Receipt of an inclusive (subject to explicit Shareline approval) binding offer of minimum viable technical solution.</li> <li>14 Sept 2016</li> <li>R.3 Confirmed</li> </ul>	Operating cost employee	✓
854	Inventory: Cl, Coresel secondary RFQs and results where possible (Taskforce)	<ul style="list-style-type: none"> <li>Target: Estimated average priority target is R1723 spent on previous 3 would weekly savings</li> <li>PO Reservations &gt; Stock at hand</li> <li>V1 Reservation &gt; max stock level &gt; Stock at hand</li> <li>V2 Reservation &gt; max stock level &gt; Stock at hand</li> <li>For several items these rules are not held due to human error, restructure conditions without informing MRP planners etc.</li> </ul>	NA (Capex) (Recurring)	Months Nathanya	Edwin Mathiane (Johnstone Mathiane)	<ul style="list-style-type: none"> <li>Successfully awarded 4 RFQs and selected parts (internal sourcing)</li> <li>1 Oct 2016</li> <li>R.3 - Ready for implementation</li> </ul>	Free funds from operation as % of Capex	✓

Page: R10m  
Total:

FIGURE 10.10: When you get too old to exercise

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## IL 2 approval Initiatives – Procurement (9/11)



Ward ID	Name	Description	Impact (Priority)	Implication (ZAR/N)	Eskom Function/Location	Eskom W/P and Functional Leads	Payment/Vigilant and/or Complaints Date/1. Stage	KPI Impact	Corporate Plan Initiatives
#41	ICT: SAP (Resourcing)	<ul style="list-style-type: none"><li>A 5-year, R20m contract for licences, maintenance, and services was signed in late 2015 with Kconia from paid up invoice.</li><li>Software maintenance is an annual cost calculated at 17% of the software license cost.</li><li>Group IT would like to purchase additional software licenses worth R20m.</li><li>A review of the products purchased in 2012 indicates that Kconia's worth R20m are not being used. This number could increase if we are able to identify how many licences of which products are being used.</li></ul>	T1 (Open) (Financial)	Montyano	Edwin Mkhabela (Business Development)	<ul style="list-style-type: none"><li>Supplier agreement to be updated payment terms through its initiative of budgeting.</li><li>30-Sep-2016</li><li>Pending 1, 2 approval</li></ul>	Operating cost employee	✓	
#42	Power Transformer: Early payment discount	<ul style="list-style-type: none"><li>Part of the 2-year R1.5m interim contract being placed, there is potential to get a 2% discount if invoices are paid in less than 30 days and 2.5% if invoices are paid in 31 days, based on invitation from suppliers of other categories. Analysis accounts for the impact of the opportunity cost of capital based on Eskom's WACC.</li></ul>	20 (Closed) (Financial)	Yemba Ramona	Edwin Mkhabela (Business Development)	<ul style="list-style-type: none"><li>Receipt of an indication on timing offer</li><li>28-Sep-2016</li><li>Pending 1, 2 approval</li></ul>	Free funds from operations as % of Capital	✓	
#43	ICT WAN- Reduce spend (reduce 5 year term) (reduce SLA requirements and spend on back-up links)	<ul style="list-style-type: none"><li>Eskom pays T-Systems to monitor and repair Wide Area Network (WAN) connections across Eskom's 20+ different locations.</li><li>The savings will come from 3 sources:<ul style="list-style-type: none"><li>Reducing the service level from Silver to Bronze SLA</li><li>Eliminating 2G backup links at operations with pure 3G coverage</li><li>Reducing the service fee paid to monitor the 3G backup links</li></ul></li></ul>	6 (Open) (Financial)	Norvaluzo Mityo (Financial)	Edwin Mkhabela (Business Development)	<ul style="list-style-type: none"><li>Receipt of an indicative or bidding offer</li><li>31-Aug-2016</li><li>Pending 1, 2 approval</li></ul>	Operating cost employee	✓	

**Total: R40m**


Total: R40m

COLLECTED: 1996-1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677

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## IL 2 approval Initiatives – Inventory (10/11)



WFO ID #377	Name	Description	Impact (Revenue) ZAR M	Excon implementation lead	Excon functional areas	Excon NP and functional areas	Payment trigger description/date/IL stage gaps	IGP impact	Corporate Plus inclusion
#377	Tactical: Concocting Calico - Flare off-contract spend on contract	<ul style="list-style-type: none"> <li>Currently 37% of total economic cash spend is off-contract (Aug FY 2014, 2015, 2016) while contracts are in place for 2+ years material rebarbers</li> <li>Not all concerned are Polysarone Capital, Melonix Capital and Alkora Alkora Capital</li> <li>Ensure all spend is on contract and regulars national contract negotiations already ongoing</li> <li>There is no available detailed future forecast. This average annual consumption over past 3 years has been taken as reference, assuming that demand will remain unchanged. Average annual off contract spend over the past 3 years was -R44M. The same volume would have cost -R44M even if on contract - video analysis</li> </ul>	8 (Cost) (Recurring)	Manodi Shumane	Excon	Marketing (Johnathon E. Mathabane)	<ul style="list-style-type: none"> <li>Receipt of an addition (subject to explicit discussion approval) or leading offer of additional viable economic solution</li> <li>15-June-2016</li> <li>Pending R.2 approval</li> </ul>	Operating cost employee	
#20	Tactical: Pole Transformers - Sign contract for same currently bought off contract	<ul style="list-style-type: none"> <li>Forecast R300K/annum (new power contract) to supply pole transformers in the context of electrification program. But there is no existing contract for those specific items. Transport represents ~3% of the total cost</li> <li>Pole transformer, phase 1, year 2015 is known suppliers. Analysis indicates R40M in savings with additional potential 3-4% by committing a minimum volume which is possible due to electrification program</li> <li>Transport, TCO model has been developed to optimize supply routes - savings to be calculated once suppliers are known</li> </ul>	42 (Cost) (Recurring)	Manodi Shumane	Excon	Marketing (Johnathon E. Mathabane)	<ul style="list-style-type: none"> <li>Receipt of an addition (subject to explicit discussion approval) or leading offer of additional viable economic solution</li> <li>15-June-2016</li> <li>Pending R.2 approval</li> </ul>	Operating cost employee	

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STUDIOS: WE ARE PROUD OF OUR CRAFTSMEN

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## IL 2 approval Initiatives – Inventory (11/11)



Wave ID	Items	Description	Impact ZARM	Isom implementation lead	Isom WF and functional labels	Payment bigger description and tags gate	KPI impact	Corporate Plan Evaluation
#E05	ISIT: SAP (on-site) - Reduce spend through license swaps	<ul style="list-style-type: none"> <li>A 5-year, \$17.30m contract for license, maintenance, and services was signed in late 2019, with license fees paid up-front.</li> <li>Software maintenance is an annual cost calculated at 17% of the software license costs.</li> <li>Group IT would like to purchase additional software licenses worth \$50m.</li> <li>A review of the products purchased in 2012 indicates that licenses worth \$55m are not being used. This number could increase if we are able to identify how many licenses of each product are being used.</li> </ul>	64 (Capex) (Once-off)	Non-strategic delay	License maintenance (Software Subsidy)	<ul style="list-style-type: none"> <li>Supplier agreement to customized payment terms through an indication or binding offer</li> <li>31 Oct 2019</li> <li>Pending L2</li> </ul>	<ul style="list-style-type: none"> <li>Spending roll employee</li> </ul>	✓
#I2	Inventory 2: Reduce operational stock by optimizing MRP parameters as a pilot	<ul style="list-style-type: none"> <li>MRP parameters are key to managing inventory levels and these have historically determined and not updated in reflect current demand patterns. A lot of the failure is to determine the optimal MRP parameters (e.g., max, safety stock, ROP, EOQ, etc.) for all non-promotional (regularly used) transactions operational items using a dedicated model.</li> </ul>	392 (Opex) (Ongoing) (Recurring)	Non-strategic delay	Edits: Mahesh (Johnstone Mahesh)	<ul style="list-style-type: none"> <li>Payment bigger will Operating occurrence 2 pilots roll employee</li> <li>have been completed and full roll out hands-on begins on 4 July 2019</li> <li>4 July 2019</li> <li>Pending L1</li> </ul>	<ul style="list-style-type: none"> <li>Spending roll employee</li> </ul>	✓


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Part 2: Impact management

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Part 4: Generation Update

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DTC Communications Plan



PRELIMINARY

Activities to do

• Provided the Eskom communications team with an illustrative DTC communications plan, including:

- Overall messaging and storyline highlighting key messages from the Corporate Plan
- Internal
  - Example activities: day 1, week 1, first 100 days (MWP & remote sites)
  - Example division-specific messages
  - Example of priority actions by division
- External
  - Options for external launch
  - Example activities by stakeholder: day 1, week 1, first 100 days
  - Example stakeholder-specific messages
  - High-level strategic comms plan based on three themes (reshaping coal, building generation capacity, developing local suppliers/enterprises)

• Developing a detailed DTC communication strategy and plan to:

- Identify stakeholders, strategic objectives, outcomes and specific topics of engagement and channels for internal (divisional – level) and external stakeholders
- Provide a template to capture transformation goals, detailed actions, timing and task owners for each activity

Next step

• Appoint a Communications Champion (Board-level sponsor) and a Change Communications Team to create, execute and monitor the communication plan

OR

• Outsource DTC comms to an external strategic communications company

Key activities

• Engage with business partners/stakeholder specialists to complete detailed plan per stakeholder

• Compile a master schedule to track implementation of DTC Communication Plan

• Build on the three strategic communications themes

• Monitor execution of the plan against key outcomes and master schedule

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**Part 4: Operational Update**

Eskom

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Current EAF performance at Majuba is 2.9pp above baseline

Eskom

Historic EAF Percent

92

89

80

76

70

65

FY11

FY12

FY13

FY14

FY15

FY16

Weekly EAF 2016 (Mon-Sun) Percent

Week's actual

12MMA

Baseline

65

64

57

44

63

69

79

81

67

60

81

73

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66

67

62

65

73

Jan 10

Jan 17

Jan 24

Jan 31

Feb 7

Feb 14

Feb 21

Feb 28

Mar 6

Mar 13

Mar 20

Mar 27

Apr 3

Apr 10

Apr 17

Apr 24

May 1

May 8

May 15

May 22

May 29

UO outage

Preparation

Execution

Feb 8

Mar 21

Jun 24

Transformation

Design

Build

Implementation

Jan 13

Mar 14

May 2

12-18 Jun

Teams

1 Engagement Manager

3 Consultants

3 Top Engineers

2 Gx Top Managers

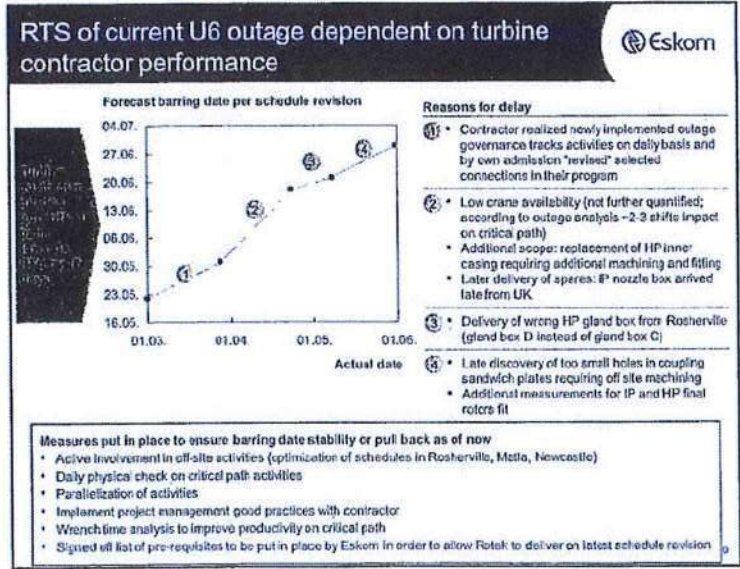
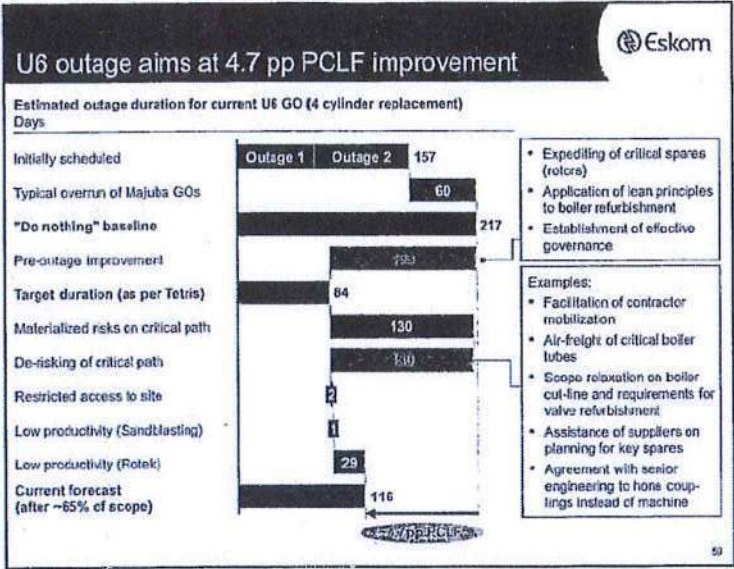
2 Engagement Managers

6 Consultants

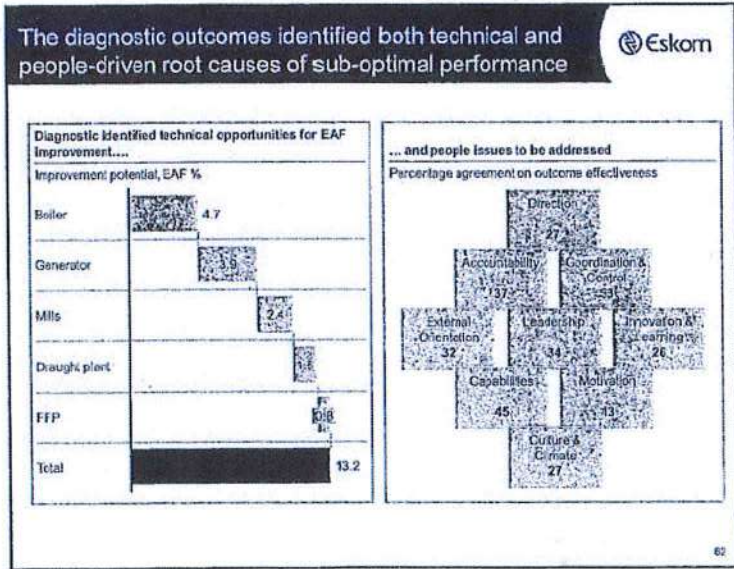
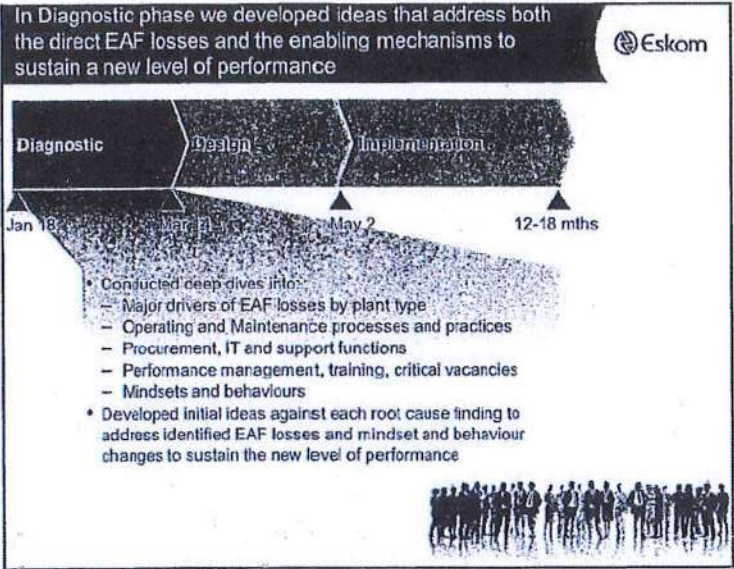
2 Engineers

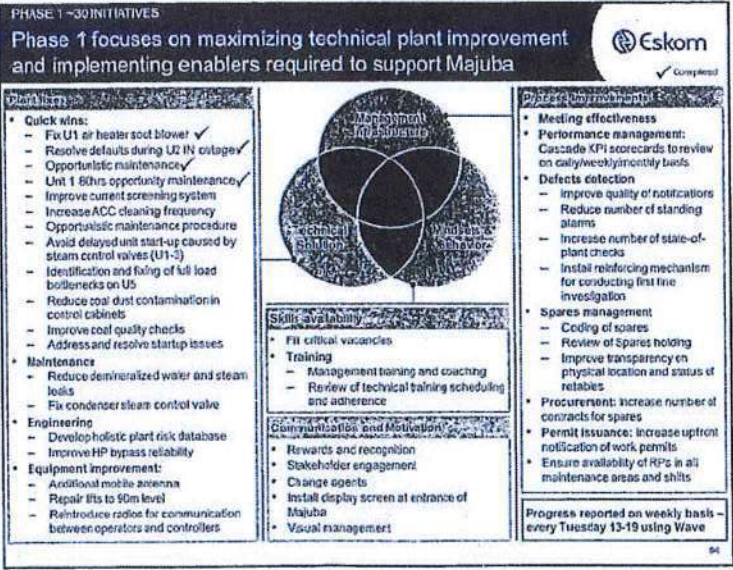
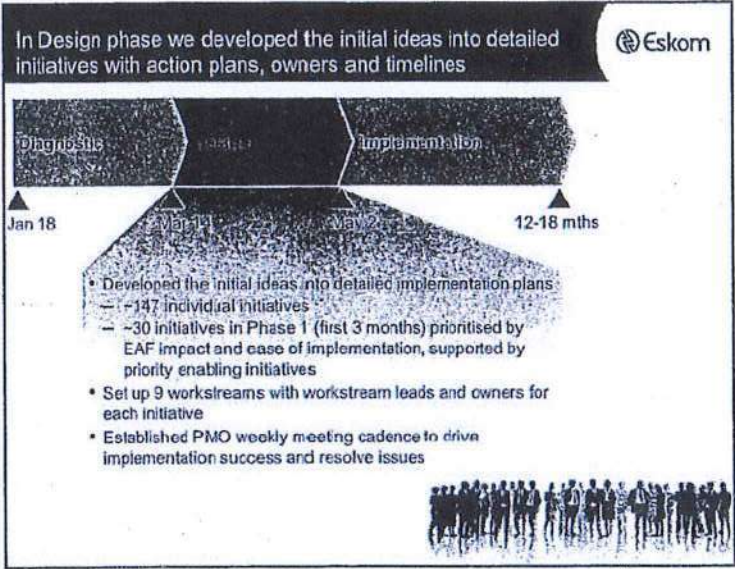
4 Top Engineers

SOURCE: DPSS













AW18



Dr. Alexander Weiss  
Director  
McKinsey & Company  
3<sup>rd</sup> Floor Sandown Mews East  
SANDOWN  
2196  
•

16 June 2016  
Edwin Mabelane  
011 800 8697

Dear Dr. Weiss

**TERMINATION OF TOP CONSULTING GROUP MSA**

This letter serves to officially notify McKinsey & Company of a Board Decision taken on 09 June 2016 to terminate the McKinsey Risk Based Contract.

You are requested to engage with Mr Prish Govender to discuss the pertinent issue to give effect to the Board Resolution.

In conclusion Eskom will embark on a transparent procurement process to reallocate the activities under the risk based contract. McKinsey & Company is welcome to participate in this process.

Yours sincerely

  
Edwin Mabelane  
**CHIEF PROCUREMENT OFFICER**  
Date: 16 June 2016



Dr. Alexander Weiss  
Director  
McKinsey & Company  
3<sup>rd</sup> Floor Sandown Mews East  
SANDOWN  
2196

20 June 2016

Dear Dr. Weiss

**TOP CONSULTING GROUP MSA REMIBURSEMENT OF COSTS**

Further to the letter dated 16 June 2016 based on the Board decision to cancel the above contract we would like to inform you that Eskom will reimburse McKinsey & Company for costs up until the 08 August 2016.

We hope the above meets with your expectations

Yours sincerely

Edwin Mabelane  
**CHIEF PROCUREMENT OFFICER**  
Date: 20 June 2016

McKinsey&Company

21 June 2016

Mr Edwin Mabelane  
Chief Procurement Officer  
Eskom Head Office  
Megawatt Park  
Maxwell Drive  
Johannesburg 2000 SA

**TOP CONSULTING GROUP MSA REIMBURSEMENT OF COSTS**


Dear Mr. Mabelane,

Many thanks for the letter dated 20 June 2016. We unfortunately notice that the board has decided to cancel the above Master Service Agreement (MSA) and that the board has further decided to reimburse McKinsey&Company for the cost until up the 08 August 2016.

Given the details of the MSA we cannot accept to be reimbursed on cost only – especially considering the risks that McKinsey took in the context of the MSA. The MSA points out that in the case of a termination McKinsey will be reimbursed the agreed share of the measures implemented and the agreed fraction of the share for those measures which have passed implementation stage IL2.

May we kindly request that Eskom reviews the terms of the MSA and reimburse McKinsey&Company in light with these contractual agreements?

Yours sincerely



Alexander Weiss  
Senior Partner





Dr. Alexander Weiss  
Director  
McKinsey & Company  
3<sup>rd</sup> Floor Sandown Mews East  
SANDOWN  
2196

24 June 2016  
Edwin Mabelane  
011 800 8697

Dear Dr. Weiss

**TOP CONSULTING GROUP MSA REIMBURSEMENT OF COSTS**

In response to your letter dated 21 June 2016, Eskom has reconsidered your request and is still of the view that a cost based settlement is a prudent mechanism to conclude the Risk Based MSA with McKinsey & Company.

Your understanding on this issue is highly appreciated

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Edwin Mabelane'.

Edwin Mabelane  
**CHIEF PROCUREMENT OFFICER**  
Date: 24 June 2016

**McKinsey&Company**

28 June 2016

Mr Edwin Mabelane  
Chief Procurement Officer  
Eskom Head Office  
Megawatt Park  
Maxwell Drive  
Johannesburg 2000 SA

**TOP CONSULTING GROUP MSA REIMBURSEMENT OF COSTS**

Dear Mr. Mabelane,

Many thanks for the letter dated 24 June 2016. We are very surprised that Eskom is of the opinion that a cost based settlement is a prudent mechanism to conclude the Risk Based MSA with McKinsey. We have put 100% of our consulting fees at risk and have since 6 months not received a single payment to cover for the risk taken. We have virtually an army of consultants working across the business at significant cost. This effort has yielded significant results for Eskom- we have fully delivered and generated impact far exceeding ZAR 25 bn to date.

You will recognize that we dedicated a team for a period of 6 months, starting on 06-12-2015, to negotiate the Master Services Agreement that we finally concluded in January 2016. This agreement clearly outlines how McKinsey will be reimbursed including in the case of termination.

- §24.14 clearly states, that "... Termination of this Agreement for any cause shall not release a Party from any liability which at the time of termination has already accrued to such Party or which thereafter may accrue in respect of any act or omission prior to such termination. The provisions of this Agreement which expressly or impliedly have effect after termination will continue to be enforceable notwithstanding termination, notwithstanding that the clauses themselves do not expressly provide for this."
- §13.1 states that "Unless pursuant to a Force Majeure Event, the employer may not terminate this Agreement or any obligations under any Work Package Schedule within a period of twelve (12) months from the Effective Date." This

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## McKinsey&Company

should be a subject of discussion between the two parties as opposed a unilateral decision by Eskom.

- §7.3 clearly states how McKinsey should be remunerated for the impact generated.
  - §7.3.1 "... in respect of any Recurring Realised Impact Amounts, ten point five five percent (10.55%) of the relevant Delta ..."
  - §7.3.2 "... in respect of any Once Off Realised Impact Amount, ten point eight percent (10,8%) of the relevant Delta ..."
- §7.3.3 to §7.3.5 outline clearly that Eskom is liable for impact payments in case Eskom decides not to implement ideas although they have passed IL2:
  - §7.3.3 "... in respect of Work Package Initiatives that have progressed to Implementation Level 2 (but which have not progressed through any other Implementation Levels due to the employer not pursuing or implementing such Work Package Initiatives strictly in accordance with the applicable Work Package Schedule), fifty five percent (55%) of the relevant Delta ..."
  - §7.3.4 "... in respect of Work Package Initiatives that have progressed to Implementation Level 3 (but which have not progressed through any other Implementation Levels due to the employer not pursuing or implementing such Work Package Initiatives strictly in accordance with the applicable Work Package Schedule), seventy percent (70%) of the relevant Delta ..."
  - §7.3.5 "... in respect of Work Package Initiatives that have progressed to Implementation Level 4 (but which have not progressed through any other Implementation Levels due to the employer not pursuing or implementing such Work Package Initiatives strictly in accordance with the applicable Work Package Schedule), ninety percent (90%) of the relevant Delta ..."
- §7.6 states that Eskom is furthermore liable to remunerate McKinsey in parallel for the expenses that it incurred in the following way: "The contractor shall invoice the employer for any expenses incurred on a monthly basis subject to any guidelines published by the South African National Treasury. The parties agree that such expenses shall be payable by the employer to the contractor separate from any amounts which may be payable by the employer to the contractor under any other provision of this Agreement."

Considering all of the above McKinsey feels entitled to be reimbursed as per the contractual arrangements. McKinsey would expect Eskom to review its contractual obligations and to honor the legal arrangements of the MSA between Eskom and McKinsey. We are sure that on this basis Eskom and McKinsey find a prudent arrangement on how to terminate the agreement and compensate McKinsey for the



**McKinsey&Company**

impact it has generated. Based on the Master Services Agreement, McKinsey has earned and is eligible for significant reimbursement – impact payments – based on the over R25bn in value created for Eskom. Considering the situation McKinsey willing to discuss the settlement in the form of a payment plan.

As part of this we would also recommend discussing the prudent termination time for each workstream to ensure benefits realization for Eskom is maximized. This may result in a 'transition period' for some of the workstreams.

□ □ □

McKinsey has been in a partnership with Eskom for many years. We continue to approach our relationship with you in this spirit of partnership and wish to resolve this matter in a mutually beneficial manner.

Yours sincerely



Vikas Sagar  
Senior Partner



Alexander Weiss  
Senior Partner

AW19

McKinsey&amp;Company

MSA Memo – 8 August Board Tender Committee

11 August 2016

Prish Govender  
 Director Project Development  
 Eskom Holdings SOC Ltd  
 Megawatt Park  
 Maxwell Drive, Sunninghill  
 Sandton 2157

Dear Prish,

Thank you to you and the Eskom colleagues for the successful steering of the Master Services Agreement since February this year. Over the past seven months, together with Eskom, we have advanced more than R34 billion in impact and identified an additional R30 billion in opportunities over the next five year period. Beyond the significant bottom line impacts, key achievements also include:

- Cohort 3: 31 new Top consultants were recruited and allocated to 8 priority projects on the DTC program, growing the total complement to 53 Top Consultants
- Top Consultants Group: Conducted mid-year performance reviews for Cohort 1 and Cohort 2 resulting in 4 Manager level recommendations and gained approval of the TCG structure and GM position allowing for future appointments
- Sakhasonke (Majuba): Trained 30 managers in leadership coaching and revived technical trainings and held two mass briefings addressing the 580 Majuba employees with regular distribution of ~2000 copies of the Sakhasonke journal
- Top Buyer: Launched 12 month Top Buyer capability building program with an initial cohort of 40 people from across SD&L, stations, SCOPS and buyers
- Change Engine: More than 270 ideas have been created with an impact potential exceeding R60bn over the five year horizon, today more than 50 Eskom users are live and trained to use the Wave impact and tracking tool

The Board Tender Committee of 8th August 2016 confirmed the termination of the Master Service Agreement(MSA) with effect 15th July 2016 and supported the next steps for a cash settlement for work done up to 15th July. The Board also gave support to a 3-6 month transitionary phase as proposed by the presenting Executive.

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 Directors: L J H Arwidi (Swedish) S Wu P Parbhoo V N Magwentshu T Legoete (Independent)

*MSA Memo – 8 August Board Tender Committee*

**McKinsey&Company**

Since embarking on the Top Consulting Programme journey with you, four steering committees were convened giving the required approval of ideas tabled for payment by the presiding Eskom Work Package Lead. The last Steering Committee was convened on 4th August 2016 to close out approvals that had been pending since 15th July 2016.

The invoiced amounts are calculated as per the MSA and the applicable Work Package annexes that were negotiated between Eskom and McKinsey. These were put into effect by the Letter of Acceptance issued by Eskom in December 2015 and then again at the first steering committee held on 31st March 2016.

Please note that the incentive payments only include McKinsey's share of the respective Work Package and do not include the pre-determined SD&L BBBEE partner share. The SD&L BBBEE partner share set aside for each Work Package is: up to 30% for Project Delivery & Claims, Procurement, and Primary Energy, respectively; and up to 25% for Generation – Majuba Turnaround.

All prior invoices will be retracted by McKinsey and subsumed by this invoice as per the resolution of the Board Tender Committee on 8th August 2016.

In this context we are invoicing Eskom as per the attached tax invoice number 6595 for the incentive payments that progressed to the level required for payment on or before 15th July 2016 and were approved by the Steering Committee.

Enclosed below is a listing of these ideas.

For your records, the physical original of this invoice, this memorandum and a file of supporting documents has been couriered to Mary-Ann Hendricks for safe-keeping.

Kind Regards,



Alexander Weiss

Senior Partner

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MSA Memo – 8 August Board Tender Committee

McKinsey&amp;Company

**LISTING OF IDEAS APPROVED FOR PAYMENT:****Once-Off:**

- **Generation:**
  - Wave ID#6 (Optimize Majuba U6 GO 4.5% EAF improvement (PCLF avoidance))
- **Primary Energy:**
  - Wave ID#1139 (Medupi penalty provision: operational actions - increase existing Medupi stockpile height to 20m)
- **Procurement:**
  - Wave ID#35 (Tactical: Sign contract for contract Wooden Poles & X-arms spend currently off contract using e-auction)
  - Wave ID#63 (Power Transformers : Reduce demand in line with stock on hand)
  - Wave ID#65 (Inventory: 1.1 PO Cancellation Taskforce - Tracking 1 Apr '16 - 11 May '16)
  - Wave ID#66 (Inventory: 1.3 PO Cancellation Taskforce - Tracking 12 May '16 - 31 May '16)
  - Wave ID#564 (Inventory: 1.2 PO Cancellations Tracking - Majuba U6 outage)
  - Wave ID#760 (ICT: Adobe (Tactical) - Delay purchase of upgrades, limit new licenses, and buy standard instead professional version)
  - Wave ID#20 (Tactical: Pole Transformers - Sign contract for items currently bought off contract)
  - Wave ID#577 (Tactical: Concentric Cables - Place off-contract spend on contract)
  - Wave ID#1735 (SCOPS: 6.1 Spend Control Tower: Cancel unnecessary PR/POs (Non-Inventory/Uncodified) – Tracking 01 July '16 - 14 July '16)
- **Project Delivery & Claims:**
  - Wave ID#1 [merged with ID#1278] (Kusile Historic Turbine Claims)
  - Wave ID#2 (Medupi Historic Boiler Claims)
  - Wave ID#3 (Kusile Historic Boiler Claims)

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MSA Memo – 8 August Board Tender Committee

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- Wave ID#4 (Medupi Employer Boiler Claims)
- Wave ID#5 (Medupi C&I Employer Claims)
- Wave ID#16 (Kusile Employer Boiler Claims)
- Wave ID#608 (Boiler NDM: Medupi U4 Initiative Agreement)
- Wave ID#609 (Medupi CBZ Intervention)

**Recurring:**

- Generation
  - Wave ID#85 (Improve EAF: Majuba Powerstation Turnaround July 15<sup>th</sup> 2016 True-Up 4.97% EAF improvement (reduced UCLF over a 12 month moving average))
- Primary Energy:
  - Wave ID#10 (Fixed price contracts, existing contracts – Silverlake)
  - Wave ID#11 (Fixed price contracts, existing contracts – Universal Coal PLC)
  - Wave ID#12 (Fixed price contracts, existing contracts – Wescoal Mining (Tutuka))
  - Wave ID#26 (Fixed price contracts, existing contracts – Welgemeend Mining)
  - Wave ID#28 (Fixed price contracts, existing contracts – Ntshovelo Mining)
  - Wave ID#191 (Fixed price contracts, existing contracts – Wescoal Mining (Majuba))
  - Wave ID#247 (Fixed price contracts, existing contracts – Fixed price contracts, existing contracts – Sudor Coal)
  - Wave ID#657 (Fixed price contracts, existing contracts – Mbali Coal)
- Procurement:
  - Wave ID#14 (ICT: Adobe (Tactical) - Delay purchase of upgrades, limit new licenses, and buy standard instead professional version)
  - Wave ID#125 (Boiler service: Standardize core crew for maintenance across stations)

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Tax Invoice 6595 – Board Tender Committee 08 August 2016

McKinsey&Company

Eskom Holdings SOC Ltd  
Megawatt Park  
Maxwell Drive  
Sunninghill  
Sandton  
2157

Attention: Prish Govender

McKinsey and Company Africa  
(Pty) Ltd  
Sandown Mews East  
88 Stella street  
Sandown  
Sandton  
2196  
Reg No: 2013/091251/07

VAT no: 4740101508

Unique Identifier: 240-54568433

VAT no: 4040268668  
TAX Invoice: 6595  
Charge code: ESK168

Payment due within 30 days of invoice date

11 August 2016  
Summary

Impact Type	Total Incentive Payment Due (ZAR)
A. Once-off	
Generation	79,760,043
Primary Energy	18,068,400
Procurement	84,433,356
Project delivery and claims management	197,372,889
Sub-Total	379,634,689
B. Recurring	
Generation	155,017,189
Primary Energy	56,342,381
Procurement	5,957,391
Project delivery and claims management	-
Sub-Total	217,316,960
Total	596,951,649
VAT 14%	83,573,231
Grand Total	680,524,879

Payment may be made by direct transfer to:  
Account Name: McKinsey and Company Africa (Pty) Ltd  
Account Number: 421061812  
Branch: 019205  
Bank name and address: The Standard Bank of South Africa Ltd.  
Sandton Branch  
156 Fifth Street  
Sandton, 2196

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Tax Invoice 6595 – Board Tender Committee 08 August 2016

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A. Schedule of Once-Off Impacts

Work Package	Wave ID	Once Off Impacts - Detail	Impact Amount (ZAR)	Total Incentive Payment Due (ZAR)
Generation	6	Optimize Majuba U6 GO: 4.5% EAF improvement confirmed (PCLF avoidance) from the agreed baseline (4.5% EAF improvement above baseline x installed capacity (3843 MW) x R650/MWh X 8760 hrs p.a) considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 984,69m impact x 10.8% impact share x 75% McKinsey invoicing share)	R 984 691 890.00	R79 760 043.09
Primary Energy	1139	Medupi penalty provision: operational actions - increase existing Medupi stockpile height to 20m (ZAR 239,000,000 impact confirmed at payment trigger by SteerCo 04/08/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 239m impact x 10.8% impact share x 70% McKinsey invoicing share)	R 239 000 000.00	R18 068 400.00
Procurement	35	Tactical: Sign contract for contract Wooden Poles & X-arms spend currently off contract using e-auction (ZAR 33,800,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 33,8m impact x 10.8% impact share x 70% McKinsey invoicing share)	R 33 800 000.00	R 2 555 280.00
Procurement	63	Power Transformers : Reduce demand in line with stock on hand (ZAR 171,200,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 171.2 m impact x 10.8% impact share x 70% McKinsey invoicing share)	R 171 200 000.00	R12 942 720.00
Procurement	65	Inventory: 1.1 PO Cancellation Taskforce - Tracking 1 Apr '16 - 11 May '16 (ZAR 48,661,453.30 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 48,7m impact x 10.8% impact share x 70% McKinsey invoicing share)	R 48 661 453.30	R 3 678 805.87
Procurement	66	Inventory: 1.3 PO Cancellation Taskforce - Tracking 12 May '16 - 31 May '16 (ZAR 804,166,695.90 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 804m impact x 10.8% impact share x 70% McKinsey invoicing share)	R 804 166 695.90	R60 795 002.21

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Work Package	Wave ID	Once Off Impacts - Detail	Impact Amount (ZAR)	Total Incentive Payment Due (ZAR)
Procurement	564	Inventory: 1.2 PO Cancellations Tracking - Majuba U6 outage (ZAR 13,415,190.56 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 13.4m impact x 10.8% impact share x 70% McKinsey invoicing share)	R 13 415 190.56	R 1 014 188.41
Procurement	760	ICT: Adobe (Tactical) - Delay purchase of upgrades, limit new licenses, and buy standard instead professional version (ZAR 4,000,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 4m impact x 10.8% impact share x 70% McKinsey invoicing share)	R 4 000 000.00	R 302 400.00
Procurement	20	Tactical: Pole Transformers - Sign contract for items currently bought off contract (ZAR 7,000,000 impact confirmed at payment trigger by SteerCo 04/08/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 7m impact x 10.8% impact share x 70% McKinsey invoicing share)	R 7 000 000.00	R 529 200.00
Procurement	577	Tactical: Concentric Cables - Place off-contract spend on contract (ZAR 22,000,000 impact confirmed at payment trigger by SteerCo 04/08/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 22m impact x 10.8% impact share x 70% McKinsey invoicing share)	R 22 000 000.00	R 1 663 200.00
Procurement	1735	SCOPS: 6.1 Spend Control Tower: Cancel unnecessary PR/POs (Non-Inventory/Uncodified) – Tracking 01 July '16 - 14 July '16 (ZAR 12,600,000 impact confirmed at payment trigger by SteerCo 04/08/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 12.6m impact x 10.8% impact share x 70% McKinsey invoicing share)	R 12 600 000.00	R 952 560.00
Project Delivery and Claims Management	1 [merged with 1278]	Kusile historic turbine claims (ZAR 2,265,000,000 impact confirmed at payment trigger 1 by SteerCo 07/06/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 2265m impact x 10.8% impact share x 37.5% due for Payment Trigger 1 x 70% McKinsey invoicing share)	R 2 265 000 000.00	R64 212 750.00

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McKinsey&Company

Work Package	Wave ID	Once Off Impacts - Detail	Impact Amount (ZAR)	Total Incentive Payment Due (ZAR)
Project Delivery and Claims Management	2	Historic boiler claims - Medupi (ZAR 1,000,000,000 impact confirmed at payment trigger 1 by SteerCo 31/03/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 1000m impact x 10.8% impact share x 37,5% due for Payment Trigger 1 x 70% McKinsey invoicing share)	R 1 000 000 000.00	R28 350 000.00
Project Delivery and Claims Management	3	Historic boiler claims - Kusile (ZAR 600,000,000 impact confirmed at payment trigger 1 by SteerCo 31/03/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 600m impact x 10.8% impact share x 37,5% due for Payment Trigger 1 x 70% McKinsey invoicing share)	R 600 000 000.00	R17 010 000.00
Project Delivery and Claims Management	3	Historic boiler claims - Kusile (ZAR 600,000,000 impact confirmed at payment trigger 2 by SteerCo 04/08/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 600m impact x 10.8% impact share x 62,5% due for Payment Trigger 2 x 70% McKinsey invoicing share)	R 600 000 000.00	R28 350 000.00
Project Delivery and Claims Management	4	Boiler employer claims - Medupi (ZAR 374,000,000 impact confirmed at payment trigger 1 by SteerCo 31/03/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 374m impact x 10.8% impact share x 60% due for Payment Trigger 1 x 70% McKinsey invoicing share)	R 374 000 000.00	R16 964 640.00
Project Delivery and Claims Management	5	C & I employer claims (ZAR 6,900,000 impact confirmed at payment trigger 1 and 2 by SteerCo 07/06/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 6,9m impact x 10.8% impact share x 70% McKinsey invoicing share)	R 6 900 000.00	R 521 640.00
Project Delivery and Claims Management	16	Boiler employer claims - Kusile (ZAR 554,400,000 impact confirmed at payment trigger 1 by SteerCo 31/03/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 554,4m impact x 10.8% impact share x 60% due for Payment Trigger 1 x 70% McKinsey invoicing share)	R 554 400 000.00	R25 147 584.00
Project Delivery and Claims Management	608	Boiler New Delivery Model: Medupi U4 Initiative Agreement (ZAR 194,500,000 impact confirmed at payment trigger 1 by SteerCo 07/06/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 194,5m impact x 10.8% impact share x 37,5% due for Payment Trigger 1 x 70% McKinsey invoicing share)	R 194 500 000.00	R 5 514 075.00

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Tax Invoice 6595 – Board Tender Committee 08 August 2016

McKinsey&Company

Work Package	Wave ID	Once Off Impacts - Detail	Impact Amount (ZAR)	Total Incentive Payment Due (ZAR)
Project Delivery and Claims Management	609	CBZ intervention (ZAR 149,500,000 impact confirmed at payment trigger 1 and 2 by SteerCo 07/06/2016; considered as a once off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 149,5m impact x 10.8% impact share x 70% McKinsey invoicing share)	R 149 500 000.00	R11 302 200.00
Sub total			8,084,835,229.76	379,634,688.58
VAT		@ 14%		53,148,856.40
TOTAL				432,783,544.98

Payment may be made by direct transfer to:  
Account Name: McKinsey and Company Africa (Pty) Ltd  
Account Number: 421061812  
Branch: 019205  
Bank name and address: The Standard Bank of South Africa Ltd.  
Sandton Branch  
156 Fifth Street  
Sandton, 2196

McKinsey and Company Africa Propriety Limited  
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Incorporated and registered in South Africa NO 2013/091251/07  
Directors: LH Arwidi (Swedish) S Wu P Parbhoo VN Magwentshu T Legoete (Independent)

Tax Invoice 6595 – Board Tender Committee 08 August 2016

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B. Schedule of Recurring Impacts

Work Package	Wave ID	Once Off Impacts - Detail	Impact Amount (ZAR)	Total Incentive Payment Due (ZAR)
Generation	85	Improve EAF: Majuba Powerstation Turnaround July True-Up 4.97% EAF improvement above the baseline over a 12 month moving average confirmed (4.97% EAF improvement x installed capacity (3843 MW) x R650/MWh x 8760 hrs p.a) considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 1088,4m impact x 3 x 10.55% impact share x 75% McKinsey invoicing share X 60% due in 30 days)	R 1 088 412 769.08	R155 017 188.64
Primary Energy	10	Fixed price contracts, existing contracts – Silverlake (ZAR 114,380,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 114,38 m impact x 3 x 10.55% impact share x 70% McKinsey invoicing share X 60% due in 30 days)	R 114 380 000.00	R 15 204 533.40
Primary Energy	11	Fixed price contracts, existing contracts - Universal Coal PLC (ZAR 100,010,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 100,01 m impact x 3 x 10.55% impact share x 70% McKinsey invoicing share X 60% due in 30 days)	R 100 010 000.00	R 13 294 329.30
Primary Energy	12	Fixed price contracts, existing contracts – Wescoal Mining (Tutuka) (ZAR 103,210,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 103,21m impact x 3 x 10.55% impact share x 70% McKinsey invoicing share X 60% due in 30 days)	R 103 210 000.00	R 13 719 705.30
Primary Energy	26	Fixed price contracts, existing contracts – Welgemeend (ZAR 32,610,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 32,61 m impact x 3 x 10.55% impact share x 70% McKinsey invoicing share X 60% due in 30 days)	R 32 610 000.00	R 4 334 847.30
Primary Energy	28	Fixed price contracts, existing contracts – Ntshovelo Mining (ZAR 17,670,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 17,67 m impact x 3 x 10.55% impact share x	R 17 670 000.00	R 2 348 873.10

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Work Package	Wave ID	Once Off Impacts - Detail	Impact Amount (ZAR)	Total Incentive Payment Due (ZAR)
		70% McKinsey invoicing share X 60% due in 30 days)		
Primary Energy	191	Fixed price contracts, existing contracts – Wescoal Mining (Majuba) (ZAR 25,660,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 25,66 m impact x 3 x 10.55% impact share x 70% McKinsey invoicing share X 60% due in 30 days)	R 25 660 000.00	R 3 410 983.80
Primary Energy	247	Fixed price contracts, existing contracts – Sudor Coal (ZAR 28,790,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 28,79 m impact x 3 x 10.55% impact share x 70% McKinsey invoicing share X 60% due in 30 days)	R 28 790 000.00	R 3 827 054.70
Primary Energy	657	Fixed price contracts, existing contracts – Mbali Coal (ZAR 1,520,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 1,52m impact x 3 x 10.55% impact share x 70% McKinsey invoicing share X 60% due in 30 days)	R 1 520 000.00	R 202 053.60
Procurement	14	ICT: Adobe (Tactical) - Limit new licenses, and buy standard instead professional version (ZAR 816,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 0,816 m impact x 3 x 10.55% impact share x 70% McKinsey invoicing share X 60% due in 30 days)	R 816 000.00	R 108 470.88
Procurement	125	Boiler service: Standardize core crew for maintenance across stations (ZAR 44,000,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 44 m impact x 3 x 10.55% impact share x 70% McKinsey invoicing share X 60% due in 30 days)	R 44 000 000.00	R 5 848 920.00
Sub total			R 1 557 078 769.08	R 217 316 960.02

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Work Package	Wave ID	Once Off Impacts - Detail	Impact Amount (ZAR)	Total Incentive Payment Due (ZAR)
VAT		@ 14%		R 30 424 374,40
TOTAL				R 247 741 334,42

Payment may be made by direct transfer to:  
Account Name: McKinsey and Company Africa (Pty) Ltd  
Account Number: 421061812  
Branch: 019205  
Bank name and address: The Standard Bank of South Africa Ltd.  
Sandton Branch  
156 Fifth Street  
Sandton, 2196

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AW20



## REPORT

TO:	Prish Govender
DATE:	15 December 2016
SUBJECT:	Technical review of Top Consultants Programmo (TCP project) variable fee contract with key supplier

### Executive Summary

Eskom engaged Marsh and its sister company Oliver Wyman to undertake a technical review of the performance of the TCP project, in terms of the payments associated with the specific variable fee contract (the MSA), that the Eskom Board halted on 15<sup>th</sup> July 2016.

This review focuses purely on a technical peer-to-peer assessment of the work conducted by the supplier and its BBBEE Partner. It does not constitute any opinion on the legal contract or legal basis of the work performed. The scope of this work is only to review the variable payments to the supplier and its BBBEE Partner. The original contracting process, the cancellation process and the work/fee splits between the consulting supplier and its BBBEE partner are not part of the scope.

Based on the technical review performed, we recommend that Eskom performs an independent legal review of the MSA and contracting process of the overall programme. We understand this legal assessment has already begun and should be a precursor to the findings outlined in this report.

The key findings of the technical review are:

- 100% risk based contracts of such magnitude are rare and thus pose a relatively unique context between Eskom and the supplier; lessons should be derived and taken into further engagements
- Of the R2,839MM payment Eskom might have needed to pay under the termination and settlement clauses of the MSA (subject to legal opinion):
  - R1,786.5MM is based on R1,679.3MM of consulting initiatives that were approved by the Steering Committee and R107.2MM from the financial advisory work
  - R1,052.5MM is based on payment triggers that were never approved by the Steering Committee but are accounted for based on the cancellation terms of the MSA
- Of the R1,786.5MM:
  - R937.63MM has already been paid to the consultant supplier and the BBBEE partner
  - The payment of the remaining R848.83MM could be further negotiated with the consultant supplier
    - Our analysis points to clear challenges to R387.50MM of the payments identified
    - The remaining R461.33MM has no procedural issues associated that would allow it to be challenged. However from a technical perspective, we believe there are questions to be asked on the fairness and calculation of the pay out on a number

of initiatives. We therefore recommend further analysis in order to provide evidence and support for negotiation with the supplier and its BBBEE Partner.

- The structure of any additional pay outs also needs to be assessed in terms of immediate vs. delayed pay out

The report is structured in the following seven sections with two appendices

1. Context of the work
2. Approach taken
3. Summary of findings and recommendations on payments
4. Supporting details to findings
5. Benchmarking of fair value
6. Lessons learned and suggestions for future gain share contracts
7. Next steps for Eskom

Appendix 1: Prioritisation of Initiatives

Appendix 2: Financial Advisory Work by BBBEE Partner

## 1. Context of the work

- Eskom engaged Marsh and its sister company Oliver Wyman to undertake a technical review of the performance of the TCP project, in terms of the payments associated with the specific variable fee contract (the MSA), that the Eskom Board halted on 15<sup>th</sup> July 2016.
- This review focuses purely on a technical peer-to-peer assessment of the work conducted by the supplier and its BBBEE Partner. It does not constitute any opinion on the legal contract or legal basis of the work performed. The scope of this work is only to review the variable payments to the supplier and its BBBEE Partner. The original contracting process, the cancellation process and the work/fee splits between the consulting supplier and its BBBEE partner are not part of the scope.
- The objective of the assignment was to produce an independent peer review with regards to the reasonableness of the conditions, performance measurement and remuneration.
- Two separate pieces of work are also being conducted independently by Eskom including an internal audit review of the contract and a legal review of the MSA and split of fees between the consultant and BBBEE partner.



## 2. Approach taken

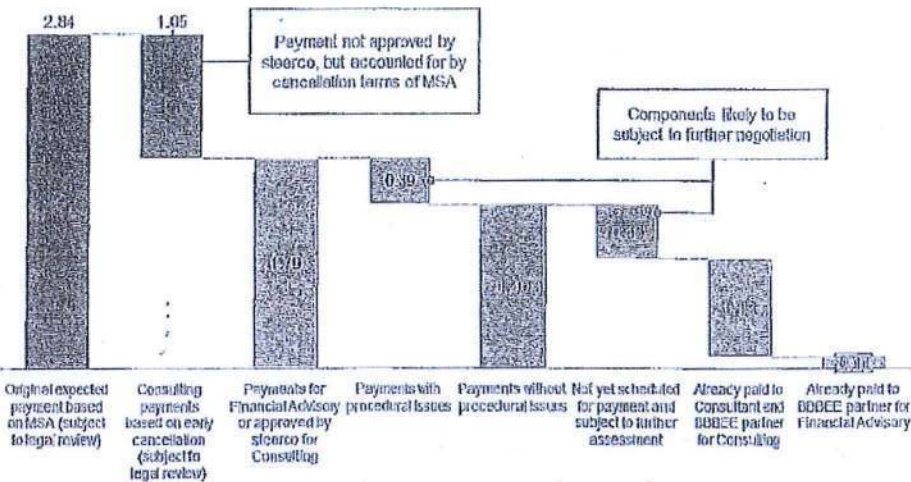
The project was conducted at the Eskom headquarters at Megawatt Park in a four step approach as detailed below. The Project started on the 23<sup>rd</sup> of November and concluded on the 15<sup>th</sup> of December 2016.

The team worked in coordination with Prish Govender (Programme Director, Capital Projects) and reported out to Anoj Singh, the Eskom Chief Financial Officer.

- Step 1 (Week 1-2): Conduct a diagnosis of programme arrangements
  - Assemble and review critical documentation on the terms of contract, deliverables, performance measurement, governance and earn-out of performance related payments and their conditions.
  - Develop an issue list and review preliminary conclusions with key personnel
- Step 2 (Week 2): Engage with Eskom senior leadership team
  - Clarify ambiguities coming from document review through focused interviews to obtain additional qualitative insights and diagnostic information.
- Step 3 (Week 2-3): Benchmark against industry practice
  - Conduct a high level benchmarking exercise on industry practices of contract structure for similar engagements and performance based payments.
  - Identify challenges or issues.
- Step 4 (Week 4): Conclusion synthesis and report production
  - Synthesize the output of Steps 1, 2 & 3 to categorize and prioritize the issue-list incorporating legal review and expert insights.
  - Develop final report and present to key personnel.

3. Summary of findings and recommendations on payments

Figure 1: Reconciliation of total incentive payment (R BN)

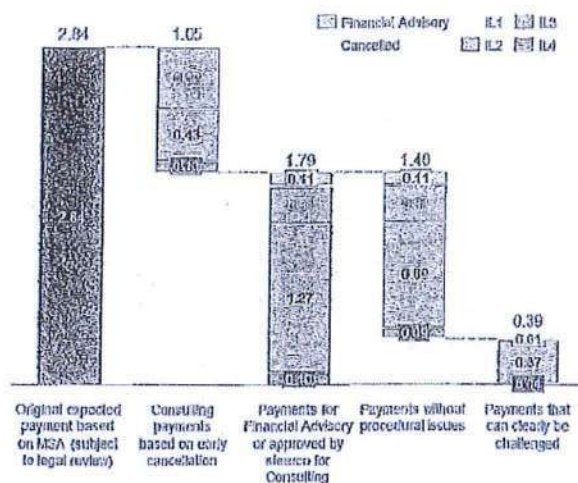


Sources: Consultant and BBEE partner invoices, Wave extract from July 2023, TCP project steering committee materials and minutes

Our assessment (as shown in Figure 1) indicates Eskom may have been required to pay R2,839MM under the termination and settlement clauses of the MSA. This needs to be validated through an independent legal review. Of this amount:

- R1,052.5MM of payment triggers has not been approved by the steering committee: our calculation indicates this is the payment that would be due for consulting initiatives based on the cancellation terms of the MSA but we believe this amount can be challenged from a technical perspective. No approval has been given for these payments and the majority of them originate from initiatives at only an IL2 status as shown in Figure 2. IL2 requires savings to be calculated, milestones to be drafted, and a confirmation of feasibility, but is not yet ready for implementation.

**Figure 2: Breakdown of payments by implementation level (R BN)**



- Most payments are based on an implementation level of 3, i.e. they are ready for implementation and have a detailed implementation plan with milestones
- However, the majority of the R1,05BN of payments based on early cancellation and a significant amount of payments approved by the steering committee are only at IL2
- IL2 requires savings to be calculated, milestones to be drafted, and a confirmation of feasibility, but is not yet ready for implementation

- R1,786.5MM has been approved by the steering committee:
  - Financial advisory: the invoiced amount, supported by an hours and rates calculation from the BBBEE partner, is for R107.2MM
  - Consulting: from a review of the minutes and materials to the MSA project steering committees, we find R1,679.3MM of payments were approved
- Of the R1,786.5MM:
  - R937.63MM has already been paid to the consultant supplier and the BBBEE partner
  - The payment of the remaining R848.83MM could be further negotiated with the consultant supplier
    - Our analysis points to clear challenges to R387.50MM of the payments identified
    - The remaining R461.33MM has no procedural issues associated that would allow it to be challenged. However from a technical perspective, we believe there are questions to be asked on the fairness and calculation of the pay out on a number of initiatives.
    - The structure of any additional pay outs also needs to be assessed in terms of immediate vs. delayed pay out
- Our analysis therefore indicates, of the outstanding R848.83MM at risk payment, no more than R461.33MM should be paid to the supplier. Of the R461.33MM, we recommend further analysis in order to provide evidence and support for negotiation with the supplier and its BBBEE Partner. All of this is contingent on the legal review that is being undertaken on the contracting terms and legal construct of the programme.



In the next section, we provide further detail on the payments we believe can clearly be challenged based on procedural issues, and on those that seem technically in order, but have other issues that may allow for delayed payments. Finally we provide a case study on the two initiatives invoiced within the Generation work package, highlighting the lessons learned for future projects.

#### 4. Supporting details to findings

##### A: R387.5MM of payments that can be challenged based on procedural issues

We considered several sources to assess what payments are due for each initiative, including:

- Minutes and materials from the project steering committee meetings
- Initiative progress tracking from the Wave tool
- Invoices and supporting documentation from the suppliers

The steering committee has the authority to approve the triggering of payments, but investigation of these sources shows that there are several initiatives where the approved payment amount appears not to be correct, and where there seems to be a case to revise down the payment amount.

In Figure 3 below we set out the details of why we would challenge the payments approved for several initiatives, and the amounts by which it seems appropriate to revise down the payment. This amounts to a reduction of R387.5MM to the total payment due.

Figure 3: Procedural issues

Initiative	Issue	SteerCo (R1,399MM)	Comments
6: Majuba U6 outage optimisation	<ul style="list-style-type: none"><li>Steering committee approved payment subject to internal confirmation of treating impacts as recurring</li><li>However, it was later decided the impact should be once-off, so subject to a lower total incentive payment</li></ul>	-265.7	<ul style="list-style-type: none"><li>SteerCo 4</li><li>Meeting with work package lead</li></ul>
1: Kosi turbine claims	<ul style="list-style-type: none"><li>Steering committee signed off payment trigger 1 (97.6% of total incentive payment).</li><li>However, the amount noted in the minutes for this approval is equal to 100% of the total incentive payment: this seems mistaken</li></ul>	-162.5	<ul style="list-style-type: none"><li>SteerCo 3</li><li>Wave extract from July 27th</li></ul>
609: Medupi U4 boiler delivery model	<ul style="list-style-type: none"><li>Approved impact was R104.5MM; total approved incentive payment was R35MM, 17.8% of the impact</li><li>For a once-off impact, this incentive rate is higher than allowed in the contract: it seems it should be 10.8%</li></ul>	-13.5	<ul style="list-style-type: none"><li>SteerCo 3</li><li>Wave extract from July 27th</li></ul>
606: Boiler services short term contract negotiation 34: Boiler tube (new material number)	<ul style="list-style-type: none"><li>Both these initiatives are marked as canceled in Wave because of limited involvement of the consultants</li></ul>	-6.0	<ul style="list-style-type: none"><li>Wave extract from July 27th</li><li>Meeting with work package lead</li></ul>
36: e-auction setup for wooden poles & x-arms	<ul style="list-style-type: none"><li>Approved SteerCo amount is based on a recurring impact calculation</li><li>However, Wave and the consultants invoice both reflect a once-off impact</li></ul>	-7.0	<ul style="list-style-type: none"><li>SteerCo 3</li><li>Wave extract from July 27th</li></ul>
5: C&I cables -- Medupi 20: Tactical Pole transformers 577: Tactical Cables	<ul style="list-style-type: none"><li>Steering committee records show amounts rounded to nearest R0.1MM</li><li>Wave extracts show more precise figures that appear more correct</li></ul>	-0.7	<ul style="list-style-type: none"><li>SteerCo 3 &amp; 4</li><li>Wave extract from July 27th</li></ul>
Total		-387.5	

B: R1,399MM of payments without procedural issues

We have also investigated the payments that appear appropriate from a procedural perspective on an initiative level through a series of interviews with the leads of the work packages, and where relevant through follow-up discussions with the owners of individual initiatives, in order to understand the activities undertaken, the role the consultants played, the source of benefit from the initiative and how far the work had progressed by July.

Although there are no clear-cut procedural reasons to challenge these payments, in some cases there are technical issues that could be raised to question whether they represent fair value for the work, and in some cases there are reasons to argue that a portion of the payment should be delayed rather than paid immediately. Consequently, the portion of the payment not already paid might be negotiated further. We recommend conducting additional analysis to further assess the key initiatives in order to develop supporting evidence for negotiation.

We found eight issues relevant to the initiatives investigated.

1	Baselining	Is the baseline for cost improvements reasonable? Or is it chosen to be as high as possible?
2	Impact calculation	Has the impact been calculated fairly and, for recurring impacts, over how many years is the impact measured?
3	Idea origination	Can the original idea be attributed to the consultant?
4	Definition of recurring	Is it really a recurring impact?
5	Spend stop	Does this actually count as a saving? Is it truly halted or simply postponed? Or did other spend replace it?
6	Short term savings	Savings for next 3 years can mean increases in total lifetime cost
7	Delayed benefits	Have the impacts been achieved yet and if not, when will they be?
8	Impact equal to savings	Is this a fair impact assessment or does it not account for some effects of the decision? For instance, when reducing inventories are we accounting for the reduction in inventory value?

These are detailed on the Initiative level in Figure 4 for all initiatives that we have identified issues for.



Figure 4: Non-procedural issues by initiative

	Initiative	Impact	Impact
	Only initiatives listed for which issues were identified during interviews or analysis of supporting material	In ZAR MM	Baseline Impact calculation Idea originator Definition of recurring Spend stop Short term savings Delayed benefits Impact equivalent savings
Generation	85 Majuba Powerstation Turnaround	1,038	
	6 Optimize Majuba US GO	885	
Primary Energy	1361 Medupi Penalty Provision: Geographical expansion	1,511	
	1114 Sudor oil ciding	415	
	1139 Medupi Penalty Provision: Increase stockpile height	230	
	247 Sudor Coal contract	29	
Claims	610 Boiler Delivery Model: Medupi U43	2,291	
	1128 Boiler Delivery Model: Kusile U2-S	1,586	
	2 Historic boiler claims - Medupi	1,000	
	3 Historic boiler claims - Kusile	603	
	15 Boiler employer claims - Kusile	554	
	4 Boiler employer claims - Medupi	374	
	600 Boiler Delivery Model: Medupi U4	495	

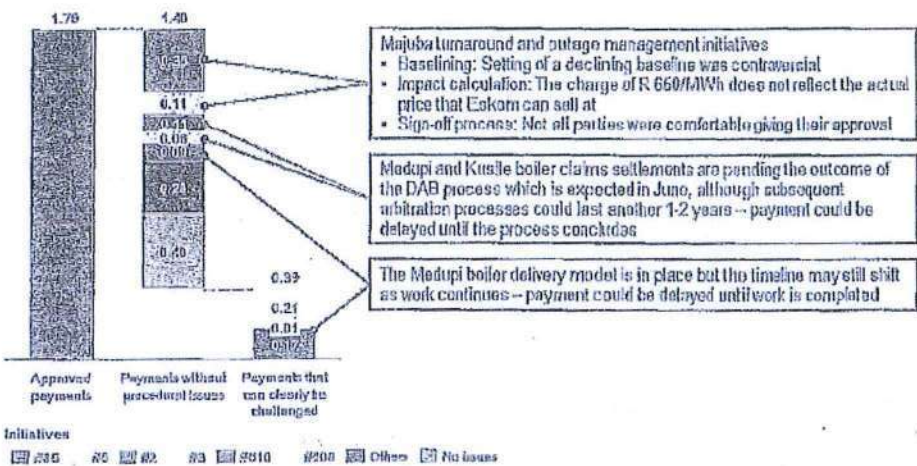
1. Impact from interviews or from Vaviloff not included; Impact shown in table for initiatives, not an overall the issue might lead you to change

	Initiative	Impact	Impact
	Only initiatives listed for which issues were identified during interviews or analysis of supporting material	In ZAR MM	Baseline Impact Impact Idea Definition of recurring Spent Stop Short term savings Delayed Benefits Impact equal to savings
Procurement	352 Boiler service: Renegotiate contract	997	
	60 Inventory: Tracking 12 May '16 - 31 May '16	804	
	63 Power Transformers: Reduce demand in line with stock on hand	171	
	65 Inventory: Tracking 1 Apr '16 - 11 May '16	49	
	126 Boiler service: Standardise core crew	41	
	68 Inventory: Tracking 01 Jul '16 - 14 Jul '16	35	
	87 Inventory: Tracking 1 Jun '16 - 30 Jun '16	26	
	577 Technical: Cascade Cable	22	
	664 Inventory: 12 PO Cancellations Tracking - Majuba US outage	13	
	1736 SCOPs: 6.1 Spend Control Tower - Tracking 01 July '16 - 14 July '16	13	

1. Impact from interviews or from Vaviloff not included; Impact shown in table for initiatives, not an overall the issue might lead you to change

Of the initiatives affected by one or more of these eight issues, a small number of the initiatives drive the overall pay out. In Figure 5 below we identify some of the key challenges and questions to these.

Figure 5: Breakdown of approved payments by issue type (R BN)



The key pay out drivers include the Generation initiatives for turnaround and outage management at the Majuba power plant, as well as initiatives from the Project Delivery and Claims management work package regarding the settlement of outstanding claims at Kusile and Medupi, and consequent investment of savings into recovery of project timelines for boiler construction (Boiler New Delivery Model).

For many initiatives, especially in the Project Delivery and Claims Management work package, a delay of payments may be appropriate until the relevant impacts have been achieved or contracts signed. These initiatives are listed below in Figure 6.

Figure 6: Non-procedural issues where payment could be delayed

Initiative/Initiative	Delayed payment (\$M)	Reasoning/Notes
Boiler delivery delays • 800: Medupi U4 • 610: Medupi U3 to U1 • 1128: Kusile U2 to U8	165.7	• Boiler construction is still ongoing, timelines have been revised but final impact will only be measurable when construction is completed (see backup material on delivery times) • Wave extracts • Meeting with work package lead and one initiative lead
2,4: Medupi boiler claims 15: Kusile boiler claims	100.0	• Claims settlement processes are currently ongoing with both the Medupi and Kusile boiler claims currently in the process of external settlement with the Dispute Adjudication Board (DAB) • Earliest settlement expected for June 2017 if no further arbitration processes are initiated, which is likely however and could take an additional 1-2 years • Meeting with work package lead and one initiative lead
1144: Saser rail siding	30.7	• The contract with the supplier has only recently been signed and construction of the rail siding has not yet started • Construction is expected to be completed in February 2019 • Wave extracts • Meeting with initiative lead
126: Standardisation of core crew for boiler services	6.0	• Core crew standardisation for boiler services is still ongoing, however has been stagnating since MSA termination • Core crew standardisation was initiated, but in order to achieve impact, negotiations with power station managers are necessary • Meeting with initiative lead
247: Saser Coal fixed price contract negotiation	3.9	• Negotiations are currently ongoing, but no long-term contract has been signed yet • Meeting with initiative lead
Total	314	

Case study on Generation work package

The Generation work package with its initiatives on turnaround of the Majuba power plant made up a large part of the impact reported and the payments invoiced based on just two major initiatives. The following figures show additional detail on these initiatives and the subsequent payments to help highlight some of the valuable lessons learned that can help shape a more sustainable framework for future projects.



Work package content

BACKGROUND

- The EAF for Eskom's fleet had been deteriorating over the last 10 years to 69% in 2016 (versus 84% in 2011)
- Majuba was chosen as a pilot project because its EAF was very low and its turnaround along with management restructuring efforts had already been initiated

MAJUBA PLANT TURNAROUND

- The target was a full plant turnaround, which included addressing technical issues, employees' mindset and behaviour, introducing advanced analytics solutions, and implementing proper discipline to outage management procedures
- Outage management consisted of implementing the gold standard for the process and reducing two planned outages in 2016 to just one, thereby reducing total number of outage days
- Although turnaround and outage management were tracked as separate initiatives with separate incentive payments, they were both part of the overall Majuba turnaround and treated as such on an operational level

Potential issues

1. BASELINING AND IMPACT CALCULATION

- Baseline was set as a declining baseline based on past years' development without later re-adjustments
- Impact was calculated based on average price of 650 R/MWh soon across the load curve
- The consultant's initial request was to set this rate at ~1,100 R/MWh based on an assumption that additional capacity at Majuba could replace gas/fossil based generation

2. PAYMENTS FOR MAJUBA EAF IMPROVEMENT

- Payments for the outage management and plant turnaround initiatives were both based on overall Majuba EAF improvement
- Payments for the turnaround as a whole were based on a 12-month moving average after 6 months
- Additionally, a payment was charged on the predicted impact of outage reduction on H2/2016
- For the payment due in year 1, this could seem as if the EAF improvement were being double-charged
- Negotiation processes on payments are not transparent and poorly documented

Figure 7: Payment calculation based on different baseline and impact scenarios for Majuba turnaround recurring payment

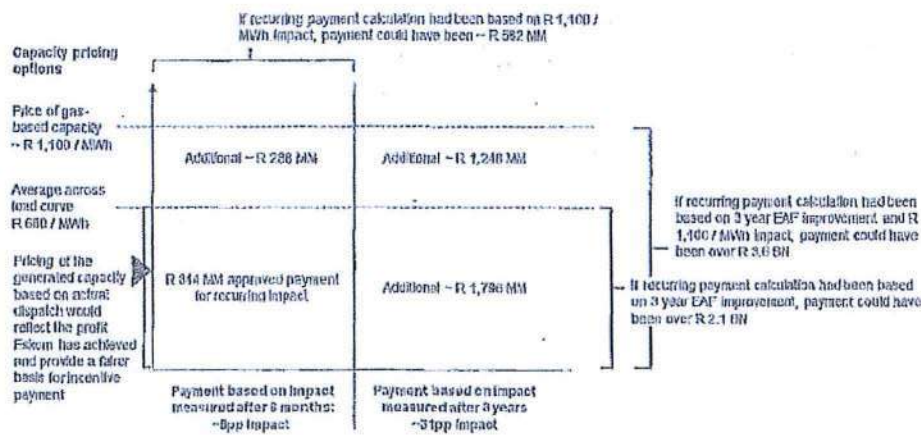
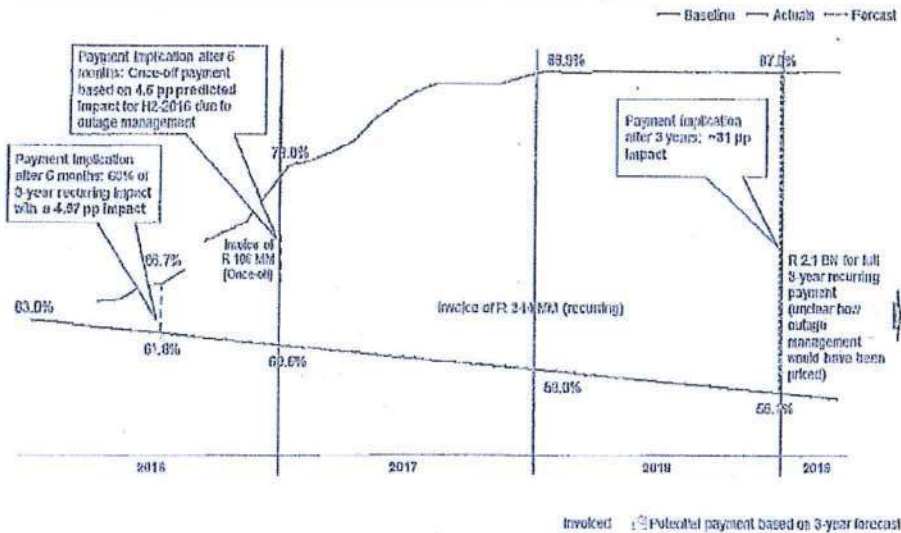


Figure 8: Payments for Maluba EAF improvement (EAF in %)



Payment implications of invoice

In ZAR MM				
	Year 1	Year 2	Year 3	Total
Initiative B (outage management; once-off)	Impact 905			Impact 905
	Payment 100			Payment 100
Initiative 25 (turn-around; recurring)	Impact 1,068	Impact 1,068	Impact 1,068	Impact 3,204
	Payment 207	Payment 163	Payment 14	Payment 344

Potential issues


- EAF improvement achieved in the first 6 months seems to have been double charged when looking at the payments and the impact achieved in H1/2016
- From the contractor's point of view, one payment was made for the impact recorded in H1/2016 and the other was made for the predicted impact in H2/2016 due to outage management efforts performed in H1/2016
- Independent of whether or not the payment is appropriate, negotiation processes that led to these payments are poorly documented and lack transparency

Payment calculations

R 108 MM	=	4.5%	*	3483 MW	*	R850/MWh	=	8750h	*	10.8%
Involved amount		EAF improvement		Installed capacity		Average pricing		Generating time		Once off impact
R 207 MM	=	4.97%	*	3483 MW	*	R850/MWh	=	8750h	*	10.66%
Involved amount		EAF improvement		Installed capacity		Average pricing		Generating time		Recurring impact
										Recurring impact
										Share due in year 1

Source: Eskom and BODF performance, Waverley from July 2016, Maluba with work package

Figure 9: Lessons learned from Generation case study

Personal financial services performance		Public utility revenue contracts	
1	Baseline setting	<ul style="list-style-type: none"><li>A declining baseline without readjustment may exaggerate the impact achieved</li></ul>	<ul style="list-style-type: none"><li>Use of a stepwise baseline</li></ul> 
2	Impact calculation	<ul style="list-style-type: none"><li>Impact calculation based on average selling price across load curve is not reflective of actual impact achievable</li></ul>	<ul style="list-style-type: none"><li>Dispatch based approach that looks at actual amounts earned in real-time or retrospectively</li></ul>
3	Documentation of negotiations and communication	<ul style="list-style-type: none"><li>Opacity of negotiations and communication regarding payment and impact agreements</li><li>Lack of documentation hinders auditing processes</li></ul>	<ul style="list-style-type: none"><li>Ensure that impact and payment results and are transparent across the project and well documented</li></ul>
4	Approval process	<ul style="list-style-type: none"><li>Communication on payment processes seems to have been lacking with many people not aware of the consequences of a sign-off</li><li>This is at least partly due to lacking board-approval of the MSA contract, because of which the contract was not released to key employees from project start</li></ul>	<ul style="list-style-type: none"><li>Ensure key people are comfortable with the sign-off and know what the consequences are</li><li>Ensure there is transparency across project teams with regards to agreements and sign-offs</li><li>Allow for a working environment that supports reaching mutually accepted agreements</li></ul>

5. Benchmarking of fair value

- The purpose of the outside-in benchmarking exercise was to review the incentive rates approved for the TCP project in the context of established practices in the global power industry. The benchmarking exercise addressed the four work packages separately and is built on relevant project data and interviews of industry experts from Marsh & McLennan Companies as well as independent market experts operating in leadership functions responsible for decisions related to the work packages of the TCP project.
- The results give an indicative, directional view, but the nature of this kind of benchmarking means it is limited by the fact that broader industry work generally has a different context to the specific situation at Eskom:
  - The business environment of the benchmarks is not usually completely aligned with that of South Africa
  - The motivation for the MSA project was one of distress, which called for unique measures to address urgent and immediate performance problems of Eskom
  - Projects where fees are 100% at risk are very unusual, particularly of such contractual magnitude, so benchmarking examples are sometimes drawn from cases where a smaller proportion of fees are at risk (and the size of the incentive is correspondingly smaller)
  - Consequently, comparisons are not necessarily like-to-like



Figure 10: Benchmarking – Primary Energy

The payment under the MSA for coal negotiations is around twice what a broker might charge for a comparable service in a mature market environment

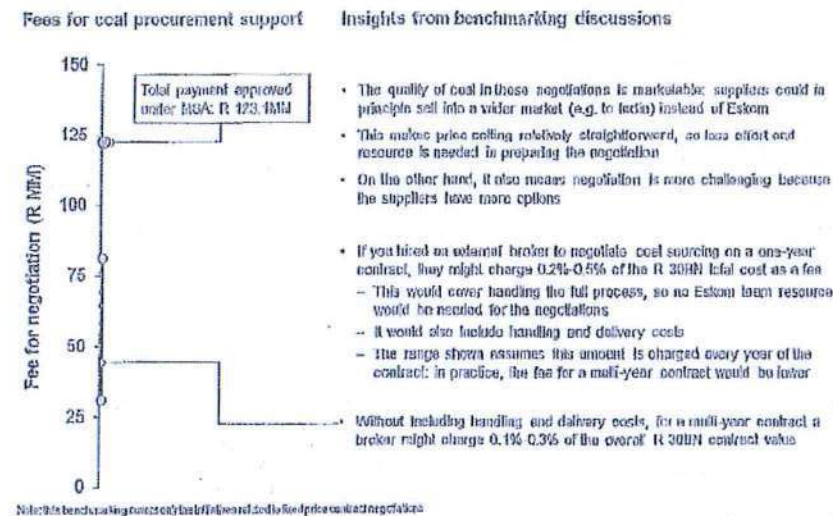


Figure 11: Benchmarking – Generation

The payment under the MSA for the work at Majuba is at the upper end of what a consulting project of this scale with a success fee might typically cost

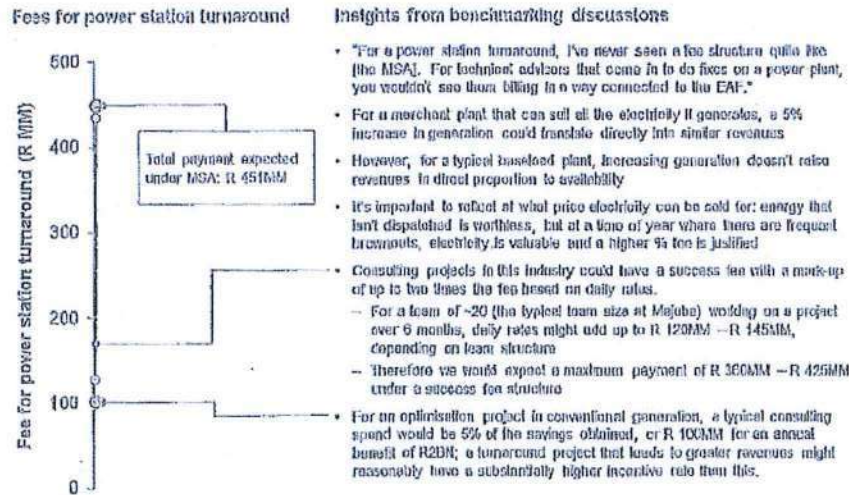
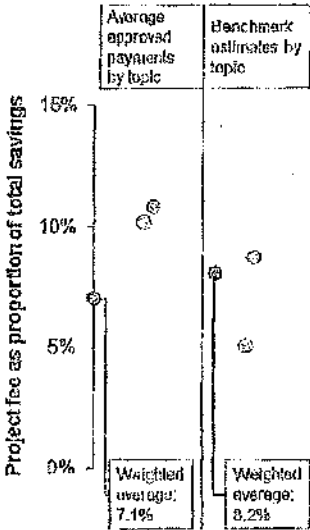


Figure 12: Benchmarking – Procurement

The overall weighted average of Incentive payments for procurement initiatives is slightly below what we might expect from benchmarking

Fees for procurement support



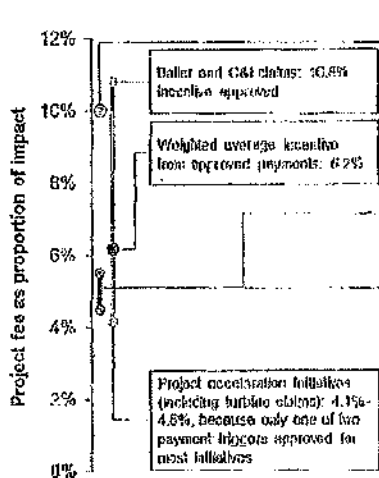
Insights from benchmarking discussions by category

- Control tower: cancellation of un-needed requisitions and orders**
  - Approach should centre on building a systematic framework for review.
  - For recurring needs, differentiation between strategic (low challenge) and non strategic (high challenge; stop buying or strongly decrease volume)
  - For projects, challenge amount or postpone activity
- Reduce demand: transformers, valves, software**
  - For a signed-off plan (typical achievement level in this project), we generally expect a lower incentive payment than for a project where the savings are fully realised
- Move off-contract spend to contract**
  - Project would be a straightforward request for proposal
  - Savings would come from increased competition and offering bids on a multi-year opportunity
  - The key challenge is to ensure enough competition in the RFQ process
- Standardise boiler service crew**
  - Work would consist in a detailed review and alignment over existing contracts
  - For recurring savings, a standard ramp-up would give a benefit over the first three years equal to twice the final annual benefit
  - Hence basing the impact on three times the annual benefit is appropriate

Figure 13: Benchmarking – Claims and Project Delivery

The average payment approved under the MSA for the work package is just above the range we would expect from benchmarking

Fees for claims and project delivery

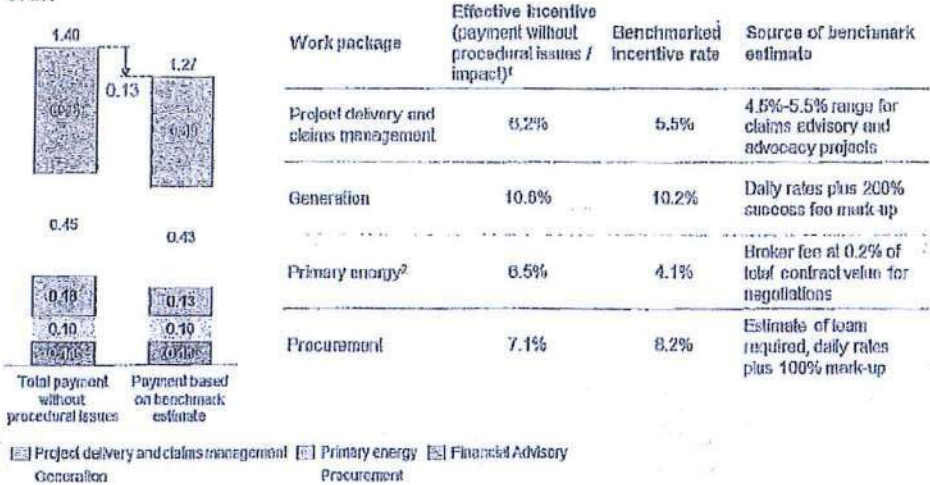


Insights from benchmarking discussions

- For employer claims that have initially been repudiated by a contractor, a project that captures some value from these could be expected to charge 10% of this value (on a contingency basis)
- For optimising claims, a typical advisory project could include negotiation assistance, process assistance and work to streamline timing
- The fee for this kind of project would typically be 4.5% - 5.5% of the value obtained from negotiating a lower-than-expected settlement
- In cases where a delay to a project has arisen, a project involving advocacy work with contractors to reduce the delay through investment would also command a fee of ~5% of the impact achieved

Figure 14: Benchmarking – Summary of Findings: Payments under MSA without procedural issues, and benchmark for comparison (R BN)

Payments under MSA without procedural issues, and benchmark for comparison  
R BN



Note: Benchmarking has only been done for existing work packages. Financial Advisory is included in the graph for ease of comparison against other analyses.  
1. Incentive is calculated based on the total payment and total impact for each facility, i.e. the three year total if the impact is recurring, or the spread total if the impact is one-off.  
2. For primary energy, benchmarking has only been done for fixed price contracts; in this exhibit we extrapolate this benchmark across the whole work package.

6. Lessons learned

In engaging consulting suppliers to deliver the TCP project, Eskom generally had several objectives:

- To deliver immediate improvements in Eskom's performance at a critical time for the company
- To obtain consulting support in the most economically feasible way under consideration of the rules initiated by the National Treasury
- To develop local suppliers and integrate them in sustainable programmes of work

The Top Consulting Programme has highlighted that in seeking to meet these objectives, Eskom is exposed to several corresponding types of risk:

- Risk that the project may not deliver the expected impacts, or that the results may not be sustainable
- Risk that Eskom will be left open to excessive economic exposure



- Risk of conflicts between suppliers and subcontractors that disrupt the development of a sustainable local supplier base for consulting services
- Risk that baselining and success fees defined by the supplier are unrealistic and thus creating excessive and unfair pay out structures

We have identified four areas where there are lessons Eskom can learn in order to mitigate these risks in future projects:

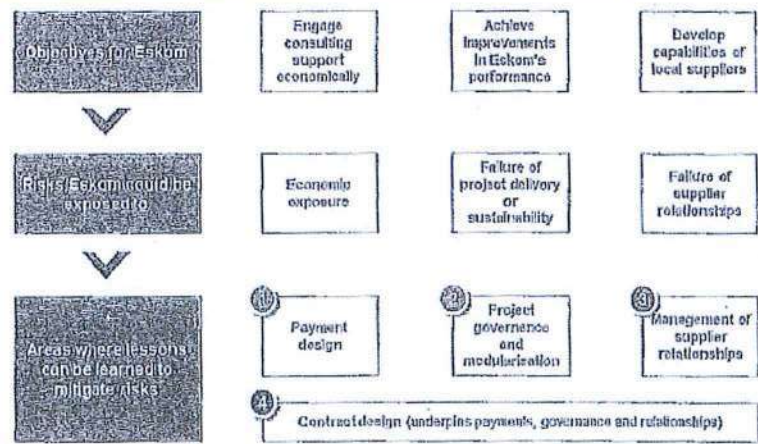
1. Payment design
2. Project governance
3. Management of supplier relationships
4. Contract design

Over the course of the next four sections, we address these areas in turn.

- For areas 1-3, we set out the key issues associated with each of these areas, examples of where these presented risks in the programme, and lessons for how to address the risks in future projects.
- For area 4, we raise some areas of concern from our review of the MSA based on a peer assessment perspective. This is not a legal opinion or advice, which we are not positioned to provide.

Finally, we provide general recommendations for the next steps Eskom could take to make sure these lessons translate into an improved approach in future projects.

Figure 15: Overview of objectives and areas of lessons learnt



1: Payment design

	Proportion of fees at risk	Fee capping
Issues	<ul style="list-style-type: none"><li>With 100% of fees at risk, consultants may focus too much on immediate impacts, and not enough on sustainability of results and capability building</li><li>Stricter governance and chonding is required than for conventional fixed-fee projects</li></ul>	<ul style="list-style-type: none"><li>Depending on the structure of KPIs, an uncapped incentive fee could mean Eskom ends up paying for a theoretical value instead of true bottom line impact, or suffering a cash flow issue because of incentives for future impacts being billed up front</li></ul>
Options	<ul style="list-style-type: none"><li>Procurement initiatives 20, 35, 577 all involved moving off-contract spend to new contracts</li><li>Where Eskom offers a new contract, suppliers may aim to provide an initial discount, and then raise prices over time once the relationship is in place</li><li>Basing consultant incentives on immediate savings may discourage a review of how sustainable the prices achieved are</li></ul>	<ul style="list-style-type: none"><li>For the Generation initiatives at Matuba (6 and 85), the incentive was entirely tied to FAF improvements, irrespective of how much extra revenue these created for Eskom in reality</li><li>Eskom would have continued to pay for FAF improvement in 2-3 years' time even if by that stage the station was generating more electricity than could be sold at the expected prices</li><li>See Generation case study for more detail</li></ul>
Recommendations	<ul style="list-style-type: none"><li>Put less than 100% of fees at risk: 30%-50% of risk would be better aligned with benchmarks</li><li>Implement quality checks and audits as part of the regular project process</li></ul>	<ul style="list-style-type: none"><li>Model likely impacts and payments before project start to decide maximum feasible payment Eskom would be happy with</li><li>Cap payments at this level</li></ul>

	Choice of areas for variable fees	Baselining
Issues	<ul style="list-style-type: none"><li>Variable fees may be less appropriate in areas where:<ul style="list-style-type: none"><li>Ultimate benefit for Eskom will remain uncertain after consulting work has been completed</li><li>Consultants are supporting execution of ideas originated by the Eskom team without creating additional upside</li></ul></li></ul>	<ul style="list-style-type: none"><li>Where a supplier aims to reverse a declining performance, setting a declining baseline gives repeated credit over time for halting the decline</li><li>Keeping a baseline constant over three years may allow suppliers to "double count" benefits that they lock in during the first year</li></ul>
Options	<ul style="list-style-type: none"><li>Fuel oil demand reduction (1479): consultants designed KPIs, targets and best practice, but until these are implemented the benefit remains uncertain</li><li>Increasing Madupl stockpile (1139 and 1361): consultants supported smooth execution and tracking of initiative, but idea and original design were from Eskom</li></ul>	<ul style="list-style-type: none"><li>Generation at Matuba (6, 85): baseline was designed to decline by 4% per year</li><li>Renegotiating boiler service contracts (352): baseline for multi-year agreement based on first year without subsequent updates</li></ul>
Recommendations	<ul style="list-style-type: none"><li>Only put a portion of fees at risk for work where:<ul style="list-style-type: none"><li>Suppliers have opportunity to outperform existing plans</li><li>There will be a high degree of certainty of the impact before the end of the project</li></ul></li></ul>	<ul style="list-style-type: none"><li>Update baselines annually to reflect results that have already been achieved</li></ul>

	Provisions for cancellation	Contingency planning
Issue	<ul style="list-style-type: none"><li>MSA provided for a portion of the potential incentive payment to be paid to the suppliers if the project or an initiative was canceled, even where Eskom was not set to achieve the impact on their own</li></ul>	<ul style="list-style-type: none"><li>In the event of a external event that prevents Eskom from realising the benefit of an initiative (e.g. a flood or fire at a project site), the existing MSA leaves Eskom entirely exposed to the potential payment to the supplier</li></ul>
Example	<ul style="list-style-type: none"><li>Standardisation of boiler core service crew (125): achieving impact will be difficult without specialist consulting support because of need to negotiate with station managers</li></ul>	<ul style="list-style-type: none"><li>Project delivery acceleration initiatives (e.g. 600, 600, 610, 1128): incentive is paid based on a plan to recover schedule being agreed with contractors</li><li>However, if this plan is disrupted by external factors, the full benefit will not be realised</li></ul>
Lesson	<ul style="list-style-type: none"><li>Change terms of contract so that suppliers are paid on a time and rates basis instead of an expected impact basis if work is canceled</li><li>Insist on regular tracking of resource deployment by the suppliers from the outset to support this contingency</li></ul>	<ul style="list-style-type: none"><li>Add to terms of contract so that the risk of catastrophic events (and hence the cost of any insurance required) is fairly shared between the supplier and Eskom, e.g. paying the supplier on a time and rates basis for work done up to that point</li></ul>

2: Project governance

	Communication and transparency	Distortion of incentives
Issue	<ul style="list-style-type: none"><li>Lack of communication between initiatives, or lack of transparency of the financial implications of signing off progress and payments, could expose Eskom to a risk of overpayment</li></ul>	<ul style="list-style-type: none"><li>Artificial time horizons (e.g. evaluating savings over three years) can lead to decisions that don't optimise overall long term value for Eskom</li></ul>
Example	<ul style="list-style-type: none"><li>Generation at Majuba (6, 85): both initiatives had impact measured on the basis of improvements to the overall EAF at the plant</li><li>There could have been a risk of double counting of impacts without clear communication between teams</li></ul>	<ul style="list-style-type: none"><li>Optimisation of water pipes (initiative 1372): using cheaper materials or a less robust design might reduce spend in the short term, but could increase long term costs if it means components have to be replaced more often</li></ul>
Lesson	<ul style="list-style-type: none"><li>Ensure co-ordination between potentially overlapping initiatives, e.g. those that contribute to the same KPI</li><li>Clarify who has Wave administrative rights and implement quality checks</li><li>Create a regulated process for re-setting baselines and impacts</li></ul>	<ul style="list-style-type: none"><li>Evaluate procurement savings on the basis of lifetime cost of ownership of materials</li><li>Review KPIs to be used in calculating incentive payments to ensure alignment with Eskom's long term interests</li></ul>



### 3: Management of supplier relationships

Topic	Subcontracting and BBBEE involvement
Findings	<ul style="list-style-type: none"> <li>Ambiguity in the relation of a contractor to its BBBEE partners could expose Eskom to complications in billing and damage the process of local supplier development</li> </ul>
Examples	<ul style="list-style-type: none"> <li>The consultant's BBBEE partner and the portion of work to be subcontracted to them for each workshop were never specified in the MSA</li> <li>Contract between consultant and its BBBEE partner was still under negotiation at the start of the TCP project, and was never signed</li> <li>Subsequent agreement of Eskom to pay the BBBEE partner directly without a contract in place exposed both sides to risks</li> </ul>
Recommendations	<ul style="list-style-type: none"> <li>Require visibility at start of project of who subcontractors will be</li> <li>Require view of contracts between primary contractor and subcontractors</li> <li>Define process to manage optimal relations between contractors and subcontractors in the interest of local supplier development</li> </ul>

### 4: Contract design – This does not constitute legal advice or legal opinion

The review of the contract materials by Marsh (from a peer perspective) identified several areas of concern that are set out below. Note that these findings do not constitute a legal assessment of the contract. The basis of the below is to provide Eskom with recommendations to improve the contracting process in the future.

- Several terms of the contract appear to favour the supplier:
  - The agreement "locks" the employer into the contract for a minimum period of 12 months.
  - There is uncertainty regarding the fees and how the employer will be invoiced – this clause should be clearly set out with no ambiguity.
  - The agreement contains a review clause however the clause should have allowed for an exit provision within this clause to ensure that neither party are forced to renegotiate when the desired effect is immediate termination.
  - If the contractor intends to service competitors then the employer must be comfortable that their rights and interests have been taken into consideration and that same in fact has some form of protection.
  - The Indemnification clause could have been more detailed and cater for more specific events occurring.
- There is ambiguity in the contract terms that deal with payments:
  - Various types of payments are referred to throughout the agreement such as work costs, mobilization/initiation payments, incentives, guarantees and down payments but these are not defined in detail and payment dates of same are not always clearly set out.
  - Reference is made to expenses being remunerated separately but this is not elaborated on.
  - Clause 7.10 states "either of the parties may request (no more than twice in a calendar year) that an external audit firm audit any aspect of this Agreement, its performance or implementation provided that such external audit firm shall not be

- entitled to request and/or audit any supporting documentation in respect of expenses charged by the contractor. The parties agree that the fees for such audit shall be considered "relevant costs" as contemplated in clause 6.1.10.2" – this is not standard practice as if it is a true 'audit' then the auditor has to comply with the audit standards which would require them to inspect supporting documentation.
- The contract lacks key details about outsourcing:
  - There is no reference to the specific BBEE partner to be used, and no reference to a contractor being allowed to outsource services
  - Mention is made of subcontracting in appendix 4, but this clause does not meet the outsourcing legal contract requirements as it does not cover aspects such as what services will be outsourced, how the service provider will be remunerated, how the service provider will be elected etc.
- Reference is made to the baseline value and baseline renegotiation parameters– it is not clearly set out in the agreement as to how and when they apply.
- Important clauses are apparently missing:
  - There is no warranty clause.
  - There is no breach clause. Every agreement must have a breach clause. The table of contents states that there is one, but upon reading the agreement it is clear that there is no such clause in place.
- Clause 8 makes reference to the use of the tracking tool, but should have elaborated more on data privacy and protection and touched on the Protection of Personal Information Act, No 4 of 2013 (POPI) which promotes the protection of personal information by public and private bodies.
- Clause 18 deals with serving competitors. This clause could be more comprehensive in that it simply states that the contractor will not refuse to serve competitors and that it will assign other consultants to work on the project to prevent a conflict of interest. It does not state how the information will be protected and how the consultants will be denied access to competitive information.



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  - There is no reference to the specific BBBEE partner to be used, and no reference to a contractor being allowed to outsource services
  - Mention is made of subcontracting in appendix 4, but this clause does not meet the outsourcing legal contract requirements as it does not cover aspects such as what services will be outsourced, how the service provider will be remunerated, how the service provider will be elected etc.
- Reference is made to the baseline value and baseline renegotiation parameters-- It is not clearly set out in the agreement as to how and when they apply.
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- Clause 18 deals with serving competitors. This clause could be more comprehensive in that it simply states that the contractor will not refuse to serve competitors and that it will assign other consultants to work on the project to prevent a conflict of interest. It does not state how the information will be protected and how the consultants will be denied access to competitive information.



Recommendations for future contracts:

This is not a legal opinion

1	Engage legal advice	<ul style="list-style-type: none"><li>• To prevent a one sided agreement, engage legal advice to protect Eskom's interests (and the interest of the BBBEE partner)</li><li>• Exit clauses are vital with provisions for early termination and an understanding of penalty clauses</li></ul>
2	Know the service provider	<ul style="list-style-type: none"><li>• Do a due diligence on the service provider</li></ul>
3	Involve the Board	<ul style="list-style-type: none"><li>• When contracts of this magnitude are entered into, involve the Board of Directors<ul style="list-style-type: none"><li>- Have them review the contract and raise any concerns they may have prior to the agreement</li><li>- Ensure that all are satisfied before proceeding</li></ul></li></ul>
4	Ensure a well drafted SLA	<ul style="list-style-type: none"><li>• A well drafted Service Level Agreement:<ul style="list-style-type: none"><li>- Identifies and defines the clients requirements and sets out each parties responsibility</li><li>- Simplifies complex issues and provides a framework for understanding the scope of the work</li><li>- Reduces areas of conflict and encourages efficient escalation and resolution of disputes</li><li>- Provides for realistic expectations and parameters and establishes the penalties and remedies for failure to meet service levels;</li></ul></li></ul>
5	Address outsourcing	<ul style="list-style-type: none"><li>• When work is outsourced to additional partners, the agreement must address the following<ul style="list-style-type: none"><li>- Performance tracking and reporting as well as legal compliance</li><li>- Third party dependencies and subcontractor relationships that the service provider may enter into and the terms thereof</li><li>- Exclusive relationship with the service provider and the circumstances under which a client may engage other service providers</li><li>- Security and information security as well as intellectual property rights and confidential information</li><li>- Service providers duties and responsibilities as well as conditions for termination of the contract.</li></ul></li></ul>

5: Next steps for Eskom

Based on the 4 week technical review we see 2 key next steps that need to be undertaken before negotiating the final pay out terms of the contract:

- 1) Conduct an independent legal review of the MSA, contracting terms between parties and the overall legal construct of the programme
- 2) Conduct further detailed analysis on a number of key initiatives in order to further refine the fair pay out amount, whilst developing evidence for the negotiation process.




In addition, in order to ensure the lessons above are fully adopted in future projects, Eskom should consider preparing two key resources:

- A project design handbook that encapsulates best practice on setting up payment structures, governance systems, and supplier and subcontractor relationships for new projects
- A set of contract-writing guidelines, to be produced with appropriate legal advice to prepare for future framework contracts with suppliers and their BBBEE partners

We would see the lessons learned that are set out in the sections above as feeding in to those two resources.

Appendix 1: Prioritisation of Initiatives

Priority groups for MSA initiatives

Priority	Definition and size of group	Actions
	Initiatives that appear in the McKinsey August Invoice 30 Initiatives Expected impact from Wave: R 8.6BN	<ul style="list-style-type: none"><li>Review whether invoiced payments seem correct based on impacts, MSA and steering committee approvals</li><li>Benchmark of incentive rates for train work packages of initiatives against broader industry practice</li><li>Assess to what extent further payments would be reasonable</li></ul>
	Initiatives that: <ul style="list-style-type: none"><li>do not appear in the August Invoice</li><li>reached at least implementation level 2 (i.e. they were approved to be covered by the MSA)</li><li>have an expected impact in Wave of at least R 300MM (cutoff chosen to capture ~80% of impact)</li></ul> 8 Initiatives Expected impact from Wave: R 7.9BN	<ul style="list-style-type: none"><li>Assess to what extent payment for these initiatives might be required by the MSA</li><li>Provide a view on how reasonable these payments would be</li></ul>
	All other initiatives 242 initiatives Expected impact from Wave (including only those that reached implementation level 2): R 2.0BN	<ul style="list-style-type: none"><li>Tabulate aggregate information by work package</li></ul>

Priority A initiatives: payments and approvals

Wave projects	ID	Title	Impact type	Benefit (R/m)	Cost (R/m)	Net benefit (R/m)	Payable	Approved	Notified
Procurement (continued)	35	Tactical Sign contract for contract Wooden Poles & X arms spent currently off contract as an extension	Once-Off	34	2.6	✓			
	577	Tactical Concentric Cables - Have off contract spend on contract	Once-Off	22	1.7	✓			
	504	Inventory: 1,2 PO Cancellations Tracking - Majuba U6 outage	Once-Off	13	1.0	✓			
	1735	SCOPs: 6.1 Spend Control Tower; Cancel unnecessary PR/POs	Once-Off	13	1.0	✓			
	20	Tactical Pole Transformers - Sign contract for items currently bought off contract	Once-Off	7	0.5	✓			
	760	KT: Aduba (Tactical once-off) - Delay purchase of upgrades, limit new licenses, and buy standard instead professional version	Once-Off	4	0.3	✓			
	14	KT: Aduba (Tactical recurring) - Delay purchase of upgrades, limit new licenses, and buy standard instead professional version	Recurring	1	0.1	✓			
Project delivery and claims management	1	Kusile Hstado turbine claims recovery and future claims avoidance	Once-Off	2,205	84.2	✓			
	2	Hstado boiler claims - Medupi	Once-Off	1,900	28.4	✓			
	3	Hstado boiler claims - Kusile	Once-Off	600	45.4	✓			
	16	Boiler employer claims - Kusile	Once-Off	664	25.1	✓			Stewco approvals not in Wave
	4	Boiler employer claims - Medupi	Once-Off	374	17.0	✓			
	603	Boiler New Delivery Model: Medupi U4 Initiative Agreement	Once-Off	195	5.5	✓			
	600	CH2 Intervention - Medupi	Once-Off	150	11.3	✓			
Generation	5	CH2 employer claims - Medupi	Once-Off	7	0.5	✓			
	85	Improve EAF: Majuba Powerstation Turnaround (Impact Tracker)	Recurring	1,009	155.0	✓			Impact differs from Wave
	5	Optimize Majuba US GO	Recurring	885	79.8	✓			Impact not listed in Wave
	1139	Medupi penalty provision: operational actions - increase existing Medupi stockpile height to 20m	Once-Off	239	18.1	✓			
	10	Giyarihu; Negotiate contract savings of R114.38m p.a.	Recurring	114	15.2	✓			
	12	Wescoal Mining (Tutuka); Negotiate contract savings of R103m p.a.	Recurring	103	13.7	✓			
	11	Universal Coal PLC; Negotiate contract savings of R100.01m p.a.	Recurring	100	13.3	✓			
Primary energy	25	Welgeraend; Negotiate contract savings of R32.61m p.a.	Recurring	33	4.3	✓			
	247	Sudor Coal; Negotiate contract savings of R28.70m p.a.	Recurring	29	3.8	✓			
	194	Wescoal Mining (Majuba); Negotiate contract savings of R26m p.a.	Recurring	26	3.4	✓			
	23	Mshovelu Mining; Negotiate contract savings of R17.07m p.a.	Recurring	18	2.3	✓			
	657	Mhail Coal; Negotiate contract savings of R1.52m p.a.	Recurring	2	0.2	✓			
	86	Inventory: 1,2 Cancel unnecessary PR/POs and reroute where possible (Spend Control Tower - Inventory)	Once-Off	804	60.0	✓			
	63	Power Transformers: Reduce demand in the with stock on hand	Once-Off	171	12.8	✓			
Procurement	95	Inventory: 1,1 Cancel unnecessary PR/POs and reroute where possible (Spend Control Tower - Inventory)	Once-Off	40	3.7	✓			
	125	Boiler service: Standardize core crew for maintenance	Recurring	14	6.0	✓			



**Priority B initiatives: None of these appear in the August invoice; however half have had payment triggers approved by the steering committee**

Initiative	ID	Title	Payment triggers approved?	Expected impact (from Wave 2) (M)
Primary energy	1361	Medupi Penalty Provision: Geographical expansion of Medupi stockpile to accommodate an additional 10.4 MT of coal	x	1,511
	1114	Sutor Roll siding; Supplier to install roll siding which will save R415m p.a. from Feb 2019.	✓	415
	246	CP NDC - Increase volumes from 2.91MT to 3.62MT in FY17	✓	374
Procurement	352	Boiler service; Renegotiate contract - Price, Productivity & Quality factors	x	967
	64	Inventory; 1. Cancel unnecessary PR/POs and route where possible - FY16/17 (Spend Control Tower - Inventory Spend)	x	600
	1479	Liquid Fuels - Fuel Oil; Reduce fuel oil consumption by tackling root causes	x	385
Project delivery and claims management	610	Boiler New Delivery Model: Medupi U3 to U1	✓	2,291
	1123	Boiler new delivery model: Kusile unit 2 - O initiative agreement	✓	1,600
Total:				7,943

## Appendix 2: Financial Advisory Work by BBBEE Partner

As part of the TCP project, the Financial Advisory work package was worked on exclusively by the BBBEE partner.

This work package included eight initiatives. The BBBEE partner sent Eskom an invoice for R107.2MM and a memo to break down the contents by initiative in August. The total is allocated as follows. Note that three of the initiatives are intentionally unbilled; the memo explains these were performed at risk and for developmental purposes.

Initiative	Amount Invoiced (R MM)
Project Surge	49.8
Project Green	12.0
Online Vending Strategy	30.0
Short term funding	0
Long term funding	0
Duvha	0
Hitachi	5.0
Corporate development opportunities	10.4
<b>Total</b>	<b>107.2</b>

We have seen the following evidence related to completion of these initiatives:

- A set of deliverable materials for each initiative (note that we have not validated the content of these deliverables)
- E-mail chains of regular updates to Prish Govender (Programme Director, Capital Projects, Eskom lead of the turnaround PMO) on the status of progress towards several initiatives (Project Surge, Project Green, Online Vending Strategy, Hitachi, Long term funding)
- An Excel sheet from the BBBEE partner setting out how the time and materials deployed on the project, charged at their rates, give the total invoice value (we note that this adds up to R107.9MM in this Excel sheet)
- A memo from Prish Govender dated 14/12/2016 confirming:
  - That weekly updates were received and weekly deliverables were completed
  - A meeting was held on 29/06/2016 at which the hours and fees on each of the finance initiatives were agreed

AW21



Dr. Alexander Weiss  
Director  
McKinsey & Company  
3<sup>rd</sup> Floor Sandown Mews East  
SANDOWN  
2196

20 January 2017

Dear Dr. Weiss

**TOP CONSULTING GROUP MSA FINAL NEGOTIATION OF COSTS**

Based on the finalisation of the External Due Diligence Process on the McKinsey Risk Based Contract, as well as the latest resolution received from the Board, Eskom is now in the position to negotiate a final settlement with the contractor.

Please make yourself available for the negotiations process which will take place during the week of the 23 January 2017.

We hope the above meets with your expectations

Yours sincerely



Edwin Mabelane  
**CHIEF PROCUREMENT OFFICER**  
Date: 20 January 2017



AW22



Dr. Alexander Weiss  
Director  
McKinsey & Company  
3<sup>rd</sup> Floor Sandown Mews East  
SANDOWN  
2196

Dear Dr. Weiss


**TOP CONSULTING GROUP MSA NEGOTIATION PAYMENT**

Based on the outcome negotiated process Eskom agreed to settle on an amount of R460 000 000.00 million inclusive of the BEE partners portion as approved by Eskom Board.

Please provide the necessary documents so the payment can be effected.

We hope the above meets with your expectations

Yours sincerely

  
Edwin Mabelane  
**CHIEF PROCUREMENT OFFICER**  
Date: 01/02/2017.

AW23

McKinsey &amp; Company

*Top Consulting Group MSA Negotiation Payment*

21 February 2017

Prish Govender  
 Director Project Development  
 Eskom Holdings SOC Ltd  
 Megawatt Park  
 Maxwell Drive, Sunninghill  
 Sandton 2157

Dear Prish,

We are extremely proud of the impact achieved through the Top Consulting Program, and in such a short space of time. The results of the Corporate Plan FY16/17 bears testament to the impact this program had in stabilising the performance of Eskom.

A range of practices from this program have now set the benchmark for Eskom in terms of how Eskom crafts commercial arrangements with consultants and has brought about new rigor in the implementation of strategic initiatives across Eskom.

Together with Eskom we delivered significant impact. Initiatives under the MSA achieved more than R18.6 billion of annualised impact for Eskom.

Highlights of the impact that was confirmed and approved, at the time of the effective termination of the Master Service Agreement (MSA) on 15th July 2016, are highlighted below:

- **Generation.** The first six months of the Majuba turnaround programme ("Sakhasonke") reduced 12-month moving average UCLF by 4.97pp and the support of the Unit 6 GO confined maintenance works to a single outage and avoided a further 4.5pp of PCLF in 2017/18 for Unit 6
- **Procurement.** Average savings of 15% were attained, a Spend Control Tower was implemented and the Top Buyer training programme was launched building the core skills of 40 buyers
- **Primary Energy.** Fixed price coal contracts price were reduced by 2.5 - 15% and changes in stockpile height and geographical expansion mitigated the impact of the Medupi claim which carried a R3.2billion EBITDA impact for Eskom
- **Claims and Project Delivery.** Historical claims for boilers and turbines limited claims potential down by R5.1billion and the boiler delivery model and turbine

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 Directors: LH Arwidi (Swedish) S Wu P Parbhoo VN Magwentshu T Legoete (Independent)

*Top Consulting Group AIS-1 Negotiation Payment*

**McKinsey & Company**

claim. avoidance strategies were developed that will limit future claims by more than R3.7billion

The programme generated significant change momentum across Eskom. Notably, recruiting more than 30 new TOP consultants to work on high impact and top priority topics for Eskom Executives, the 300 commercial colleagues who attended the cost saving programme launch and more than 100 Eskom employees who used the Wave tool on a daily basis to capture and track their improvement ideas.

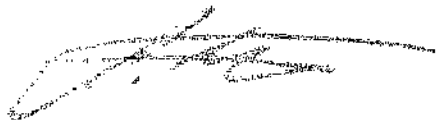
As per the correspondence received from Eskom on 20 January 2017 and 9 February 2017 we understand that Eskom wants to settle all outstanding impact payments under the contract.

In this context we are invoicing Eskom as per the attached tax invoice number 6730 for the remaining incentive payments that are due.

The remittance enclosed below only includes ideas where impact was confirmed by the Workpackage Lead and approved for payment at the Steering Committee. We have not included any part payments for ideas developed beyond IL2, and we have taken every measure to ensure that there is no overlap with the ideas presented for payment in the first settlement invoice that was paid in 2016.

For your records, the physical original of this invoice, this memorandum and a file of supporting documents has been couriered to Mary-Ann Hendricks for safe-keeping.

Kind Regards,



Alexander Weiss

Senior Partner

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McKinsey&Company

Tax Invoice 6730

Eskom Holdings SOC Ltd  
Megawatt Park  
Maxwell Drive  
Sunninghill  
Sandton  
2157

McKinsey and Company Africa  
(Pty) Ltd  
Sandown Mews East  
88 Stella street  
Sandown  
Sandton  
2196

Attention: Prish Govender

Reg No: 2013/091251/07

VAT no: 4740101508  
Unique Identifier: 240-54568433

VAT no: 4040268668  
TAX Invoice:6730  
Charge code: ESK167

Payment due within 30 days of invoice date  
17 February 2017

Work Package	Wave ID	Detail	Impact Amount	Total Incentive Earned for Payment Trigger	Due in 30 Days	SDL Share	SDL Fund Value Created	Total Incentive Payment Due
Project Delivery & Claims	2	Historic boiler claims - Medupi Considered as a once-off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 1 000m impact x 10.8% impact share x 70% McKinsey invoicing share x 62.5% for Payment Trigger 2)	R 1 000 000 000.00	R67 500 000.00	R47 250 000.00	30%	R20 250 000.00	R 67 500 000.00
Project Delivery & Claims	16	Boiler employer claims - Kusile Considered as a once-off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 554.4m impact x 10.8% impact share x 70% McKinsey invoicing share x 40% for Payment Trigger 2)	R 554 400 000.00	R23 950 080.00	R16 765 056.00	30%	R 7 185 024.00	R 23 950 080.00
Project Delivery & Claims	610	Boiler New Delivery Model: Medupi U3 to U1 Considered as a once-off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 2 291m impact confirmed by SteerCo on 08/04/2016 x 10.8% impact share x 70% McKinsey invoicing share x 37.5% for Payment Trigger 1)	R 2 291 000 000.00	R92 785 500.00	R64 949 850.00	30%	R27 835 650.00	R 92 785 500.00
Project Delivery & Claims	1128	Boiler new delivery model: Kusile unit 2 - 6 initiative agreement Considered as a once-off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 1 462m impact confirmed by SteerCo on 08/04/2016 x 10.8% impact share x 70% McKinsey invoicing share x 37.5% for Payment Trigger 1)	R 1 462 000 000.00	R59 211 000.00	R41 447 700.00	30%	R17 763 300.00	R 59 211 000.00
Procurement	68	Inventory: 1.4 Cancel unnecessary PR/POs and reroute where possible (Spend Control Tower - Inventory) – Tracking 01 Jul '16 - 14 Jul '16 (ZAR 34,90m impact confirmed by SteerCo on 08/04/2016; considered as a once-off impact with a 10.8% remuneration share as per the MSA; invoice amount calculated as ZAR 34,90m impact x 10.8% impact share x 70% McKinsey invoicing share)	R 34 898 393.88	R 3 769 026.54	R 2 638 318.58	30%	R 1 130 707.96	R 3 769 026.54
Total: Once-Off Impacts achieved by 15 July but not invoiced			R 5 342 298 393.88	R 247 215 606.54	R 173 050 924.58		R74 164 681.96	R 247 215 606.54

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Tax Invoice 6730

Work Package	Wave ID	Detail	Impact Amount	Total Incentive Earned for Payment Trigger	Due in 30 Days	SDL Share	SDL Fund Value Created	Total Incentive Payment Due
Primary Energy	10	Fixed price contracts, existing contracts – Silverlake (ZAR 114,380,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 114,38 m impact x 3 years x 10.55% impact share x 70% McKinsey invoicing share x 40% (30% year 2 + 10% year 3) recurring amount payable)	R 114 380 000.00	R 36 201 270.00	R 10 136 355.60	30%	R 4 344 152.40	R 14 480 508.00
Primary Energy	11	Fixed price contracts, existing contracts – Universal Coal PLC (ZAR 100,010,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 100,01 m impact x 3 years x 10.55% impact share x 70% McKinsey invoicing share x 40% (30% year 2 + 10% year 3) recurring amount payable)	R 100 010 000.00	R 31 653 165.00	R 8 862 886.20	30%	R 3 798 379.80	R 12 661 266.00
Primary Energy	12	Fixed price contracts, existing contracts – Wescoal Mining (Tutuka) (ZAR 103,210,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 103,21m impact x 3 years x 10.55% impact share x 70% McKinsey invoicing share x 40% (30% year 2 + 10% year 3) recurring amount payable)	R 103 210 000.00	R 32 665 965.00	R 9 146 470.20	30%	R 3 919 915.80	R 13 066 386.00
Primary Energy	26	Fixed price contracts, existing contracts – Welgemeend (ZAR 32,610,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 32,61 m impact x 3 years x 10.55% impact share x 70% McKinsey invoicing share x 40% (30% year 2 + 10% year 3) recurring amount payable)	R 32 610 000.00	R 10 321 065.00	R 2 889 898.20	30%	R 1 238 527.80	R 4 128 426.00
Primary Energy	28	Fixed price contracts, existing contracts – Ntshovelo Mining (ZAR 17,670,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 17,67 m impact x 3 years x 10.55% impact share x 70% McKinsey invoicing share x 40% (30% year 2 + 10% year 3) recurring amount payable)	R 17 670 000.00	R 5 592 555.00	R 1 565 915.40	30%	R 671 106.60	R 2 237 022.00
Primary Energy	191	Fixed price contracts, existing contracts – Wescoal Mining (Majuba) (ZAR 25,660,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 25,66 m impact x 3 years x 10.55% impact share x 70% McKinsey invoicing share x 40% (30% year 2 + 10% year 3) recurring amount payable)	R 25 660 000.00	R 8 121 390.00	R 2 273 989.20	30%	R 974 566.80	R 3 248 556.00

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Tax Invoice 6730

Work Package	Wave ID	Detail	Impact Amount	Total Incentive Earned for Payment Trigger	Due in 30 Days	SDL Share	SDL Fund Value Created	Total Incentive Payment Due
Primary Energy	247	Fixed price contracts, existing contracts – Sudor Coal (ZAR 28,790,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 28,79 m impact x 3 years x 10.55% impact share x 70% McKinsey invoicing share x 40% (30% year 2 + 10% year 3) recurring amount payable)	R 28 790 000.00	R 9 112 035.00	R 2 551 369.80	30%	R 1 093 444.20	R 3 644 814.00
Procurement	14	ICT: Adobe (Tactical) - Limit new licenses, and buy standard instead professional version (ZAR 816,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 0,816 m impact x 3 years x 10.55% impact share x 70% McKinsey invoicing share x 40% recurring amount payable)	R 816 000.00	R 258 264.00	R 72 313.92	30%	R 30 991.68	R103 305.60
Procurement	125	Boiler service: Standardize core crew for maintenance across stations (ZAR 44,000,000 impact confirmed at payment trigger by SteerCo 07/06/2016; considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 44 m impact x 3 years x 10.55% impact share x 70% McKinsey invoicing share x 40% recurring amount payable)	R 44 000 000.00	R13 926 000.00	R 3 899 280.00	30%	R 1 671 120.00	R5 570 400.00
Generation	85	Improve EAF: Majuba Powerstation Turnaround July True-Up 4.97% EAF improvement above the baseline over a 12 month moving average confirmed by SteerCo 08/04/2016 (4.97% EAF improvement x installed capacity (3843 MW) x R650/MWh x 8760 hrs p.a) considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 1088,4m impact x 3 years x 10.55% impact share x 40% McKinsey invoicing share x 40% for remaining recurring impact payments due)	R 1 088 412 769.08	R344 482 641.41	R55 117 222.63	60%	R82 675 833.94	R 137 793 056.57
Sub-Total: Remaining 40% (30%+10%) of recurring impacts due from the 1st Settlement Invoice			R 1 555 558 769.08	R 492 334 350.41	R 96 515 701.15		R 100 418 039.02	R196 933 740.17
Procurement	13	ICT: Microsoft - Renegotiate 3-year contract and reduce demand Considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 50.29m impact confirmed by SteerCo on 08/04/2016 x 3 years x 10.55% impact share x 50% discount agreed in writing with Group CIO (S. Maritz) x 70% McKinsey invoicing share)	R 50 292 708.34	R 7 958 821.09	R 5 571 174.77	30%	R 2 387 646.33	R 7 958 821.09
Primary Energy	1114	Sudor Rail siding Considered as a recurring impact with a 10.55% remuneration share as per the MSA; invoice amount calculated as ZAR 415.00m impact confirmed by SteerCo on 07/06/2016 x 3 years x 10.55% impact share x 70% McKinsey invoicing share)	R 414 514 340.00	R131 193 788.61	R 91 835 652.03	30%	R39 358 136.58	R131 193 788.61
Sub-Total: Recurring Impacts achieved by 15 July but not invoiced previously			R 464 807 048.34	R 139 152 609.70	R 97 406 826.79		R 41 745 782.91	R139 152 609.70

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Tax Invoice 6730

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Work Package	Wave ID	Detail	Impact Amount	Total Incentive Earned for Payment Trigger	Due in 30 Days	SDL Share	SDL Fund Value Created	Total Incentive Payment Due
Grand Total: Recurring Impact achieved by 15 July			R 2 020 365 817.42	R 631 486 960.12	R193 922 527.94		R 142 163 821.93	R336 086 349.87

INVOICE SUMMARY	Impact Amount	Total Incentive Earned	Due in 30 Days	SDL Fund Value Created	Total Incentive Payment Due
GRAND TOTAL - of which:	R 7 362 664 211.30	R878 702 566.66	R 366 973 452.52	R216 328 503.89	R583 301 956.41
Once-Off Impacts achieved by 15 July but not invoiced previously	R 5 342 298 393.88	R 247 215 606.54	R 173 050 924.58	R74 164 681.96	R247 215 606.54
Remaining 40% (30%+10%) of recurring impacts due from the 1st Settlement Invoice	R 1 555 558 769.08	R 492 334 350.41	R 96 515 701.15	R100 418 039.02	R196 933 740.17
Recurring Impacts achieved by 15 July but not invoiced previously	R 464 807 048.34	R139 152 609.70	R 97 406 826.79	R41 745 782.91	R139 152 609.70

APPROVED FOR SETTLMNT BY BOARD TENDER COMMITTEE					R460 000 000.00
Board Approval Adjustment Value					R-123 301 956.41
TOTAL AMOUNT VAT @14%			R305 322 474.31	R154 677 525.69	R460 000 000.00
FINAL SETTLEMENT AMOUNT DUE			R42 745 146.40		
			R348 067 620.72		

Payment may be made by direct transfer to:  
Account Name:  
Account Number:  
Branch:  
Bank name:

McKinsey and Company Africa (Pty) Ltd  
421061812  
019205  
The Standard Bank of South Africa Ltd.  
Sandton Branch  
156 Fifth Street  
Sandton, 2196, South Africa

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AW24



Dr. Alexander Weiss  
Director  
McKinsey & Company  
3<sup>rd</sup> Floor Sandown Mews East  
SANDOWN  
2196

Dear Dr. Weiss

**FULL AND FINAL SETTLEMENT OFFER IN RESPECT OF THE TOP CONSULTANT  
PROGRAMME/TOP ENGINEERS PROGRAMME**

At the outset, Eskom records that it values the service it has received from McKinsey & Company ("McKinsey") to date and looks forward in continuing its relationship with McKinsey.

Eskom has considered pursuant to meetings and correspondence exchanged with McKinsey, the settlement of the Top Engineers Programme (also known as the Top Consultant Program) for the period December 2015 to 15 July 2016 based on the terms of the Service Level Agreement ("SLA") (also interchangeably referred to as the Master Service Agreement) between the parties.

We confirm that on 16 June 2016 a termination notice was issued by Eskom to McKinsey and the SLA was subsequently terminated on 15 July 2016.

As a result of the termination of the SLA, the Board Tender Committee mandated Eskom to consider the settlement amount payable to McKinsey for services rendered for the period up and until 15 July 2016 on the risk based principles.

After due consideration and without admitting any liability, Eskom is prepared to offer in full and final settlement an amount of R 461 330 000 in addition to the R937 630 000 already paid by Eskom to McKinsey and its BBEE Partner on 11 August 2016 ("Settlement Offer"). The total settlement amount to McKinsey and its BBEE Partner for the services rendered in terms of the SLA's risk based principles is (R 460 000 000 plus R937 630 000) which totals R1 398 960 000 ("Settlement Amount");


This Settlement Amount is in lieu of all claims by McKinsey and its BBEE Partner for services rendered in terms of the SLA.

**Head office**  
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PO Box 1091 Johannesburg 2000 SA  
Tel +27 11 800 4647 [www.eskom.co.za](http://www.eskom.co.za)  
Eskom Holdings SOC Ltd Reg No 2002/015527/30


Please inform us within five (5) days from receipt hereof whether the Settlement Offer above is acceptable.

We await your reply.

Yours sincerely

  
Edwin Mabelane  
**CHIEF PROCUREMENT OFFICER**  
Date: 2017/02/16

**Accepted/Rejected**

  
Dr Alexander Weiss  
Date: 2017/02/17