

Strategic Supplier Engagement Forum

July 2021



Agenda



1	Safety Briefing
2	Welcome, introductions & Setting the scene
3	GCE address
4	Next Steps
5	Q&A session with the GCE

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Theme:

Building Strategic Supplier Relationships with Existing Suppliers

Objectives of the Supplier Engagement Forum

- Share Eskom's strategic direction
- Outline significant shifts in the energy industry
- Share Eskom's response and financial transformation plans
- Invite suppliers to participate in Eskom's transformation journey (Shared Value Partnering)

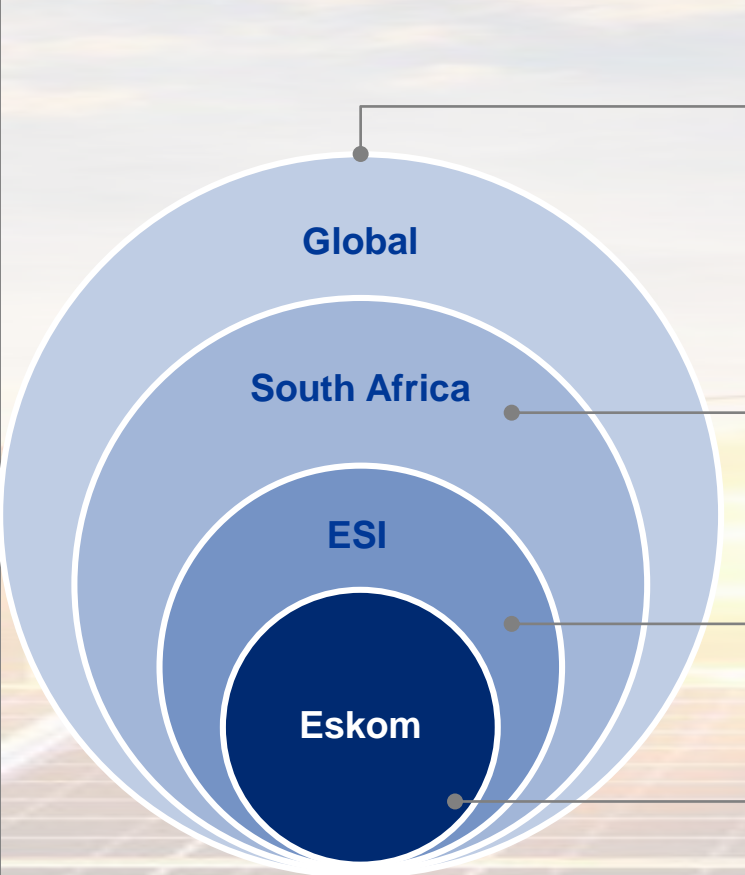
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Changes in the macro environment is impacting the electricity industry and Eskom's overall strategic direction

Threats

Opportunities



- **Paris Agreement commitment to shift away from large scale coal assets towards cleaner, decentralized systems** which will change Eskom's purchasing patterns
- SA has unique challenges, and a **constrained fiscus with growth further inhibited by COVID** which inhibits Governments financial support to Eskom
- **High unemployment and poverty** place greater limitations on government's support for increased tariffs
- **Some municipalities are not financially sustainable**, leading to increasing Eskom debt

- The **electricity supply industry is undergoing fundamental changes** with a need to increase capacity on both the generation and Grid infrastructure
- **~23GW of renewables to come online by 2030** according to IRP19

- **Severe financial challenges** driven by under-recovery of costs (**inadequate tariff, reducing sales, municipal debt, high cost structure**), giving rise to high borrowing and debt burden
- **Operating challenges:** maintenance constraints, unplanned outages, diesel cost, load shedding
- **Environmental emissions:** non-compliance, cost of addressing (~R300bn)





- **International availability of >R100bn of green funding to assist Eskom's Just Energy Transition** and become financially sustainable over the next 5 years
- **60% decline in the costs of renewable technologies over the past 5 years**, and an expected further 30% decrease, making it feasible for Eskom to adopt

- **Opportunity for electricity supply industry to reignite the economy and create 110 000 jobs through reindustrialization** sparked by renewable energy rollout
- **Attractive foreign investment opportunity** due to energy security and price certainty


- **Eskom can refocus resources to become financially and operationally sustainable through repositioning its role** in the reconfigured industry

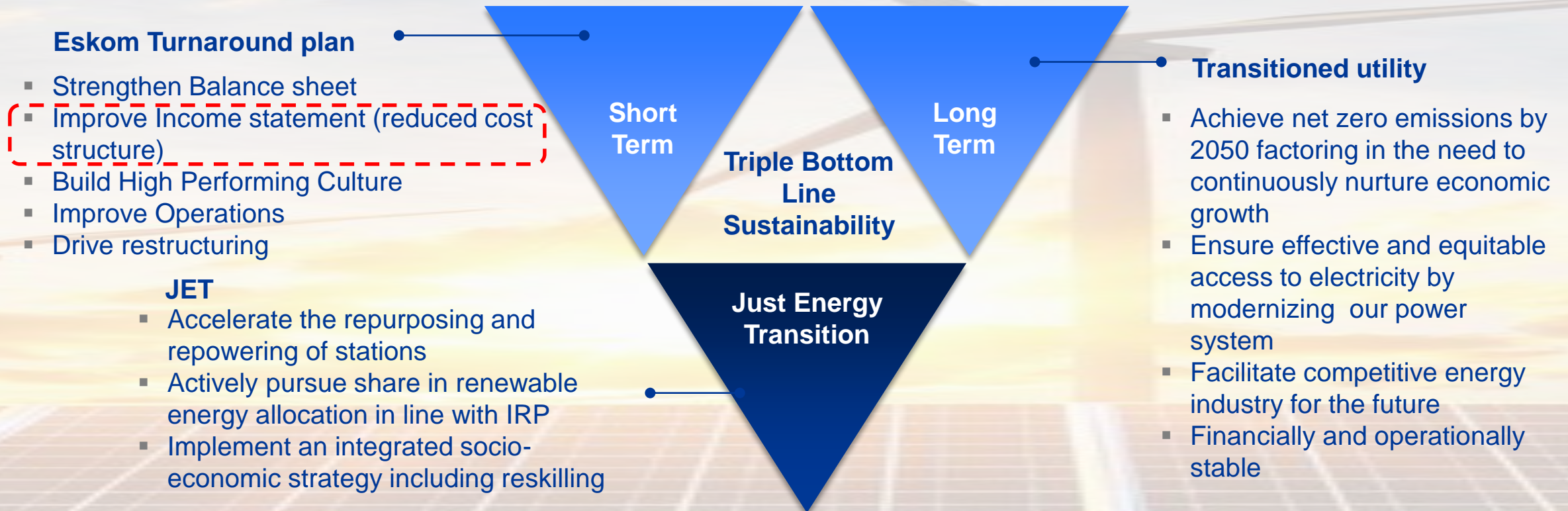
- **Eskom aims to utilize green financing to repurpose existing sites** to be decommissioned, reduce emissions and improve energy security
- **Eskom intends to become a competitive player** in the new energy industry by leveraging its infrastructure

Eskom is looking towards the future and will adapt to market trends in an agile manner

	Current	Future
 Energy Mix	<ul style="list-style-type: none"> ~85% Coal fired, 4% Nuclear, ~6% OCGT and ~5% Renewables 	<ul style="list-style-type: none"> Reduced role for coal as per IRP19, opportunities for solar, wind and natural gas
 Financial	<ul style="list-style-type: none"> ~R411bn gross debt (Feb 2021) and reported a R20.5bn loss (March 2020) 	<ul style="list-style-type: none"> Profitable business with improved financial ratios in line with industry norms
 Operational	<ul style="list-style-type: none"> 62% EAF and occurrences of load shedding 	<ul style="list-style-type: none"> >72% EAF, new capacity to be added to eliminate loadshedding Transmission grid expanded to allow for new generation to be connected
 Structural	<ul style="list-style-type: none"> Vertically integrated, monolithic organisation 	<ul style="list-style-type: none"> Unbundled and agile ITSMO established to enable new generation capacity Business focus to drive efficiency

To become sustainable in the long term, Eskom is leveraging the JET to pivot to a transitioned utility while work on the Turnaround plan sets it up for success

 Focus area



Eskom will be a major driver of demand for goods and services in the SA economy – we intend to be a preferred customer



Generation

- **R128bn to be spent** on reliability maintenance. Arresting deteriorating plant performance through increase quality maintenance –
- **Four projects** underway to drive repurposing of end-of-life station in line with our just energy transition.
- **R167bn to be spent** on expansion projects that are focused on improving the infrastructure to meet demand



Transmission

- Catching up on maintenance on the grid ~ approximate **R 5bn required** over the next 5 years
- Rapid expansion and strengthening of grid to support the roll out of integrated resource plan
- **Approximately R150 bn** will be spent modernizing the grid infrastructure
- **Between 5000-8000 km of Tx lines** to be built over the next 10 years
- **3000 transformers** to support Tx network



Distribution / Retail

- Electrification remains a priority – developing micro grid solution targeting remote areas and SADC – Rollout of **microgrid solutions to 13% of the population** that requires electrification
- **200 000 smart meters per annum** to be rolled out to reduce electricity theft and improve revenue collection
- Strengthening of Dx grid and connection of embedded generation plant will require modernization of the grid estimated **at R50bn**

Eskom has developed a financial turnaround programme which entails procurement optimisation

Income statement

Balance Sheet statement

	Revenue recovery	Cost reduction	Debt and Capital spend	Working capital	Asset disposal
Key focus areas & initiatives	<ul style="list-style-type: none"> Tariff correction Revenue collection (Soweto & Municipalities) International sales 	<ul style="list-style-type: none"> Operational efficiencies <ul style="list-style-type: none"> Plant performance Asset management PED Procurement HR initiatives 	<ul style="list-style-type: none"> Portfolio optimisation Project scrubbing Improving project execution 	<ul style="list-style-type: none"> Reviewing supplier payment terms Spares optimisation 	<ul style="list-style-type: none"> Non-core properties
Levers being implemented	<p>Tariff correction</p> <ul style="list-style-type: none"> Address regulatory inconsistencies through court processes <p>Revenue collection</p> <ul style="list-style-type: none"> Drive active partnering with Municipalities 	<p>Operational efficiencies</p> <ul style="list-style-type: none"> Drive plant improvement Diesel to gas conversion Maintenance optimisation <p>Primary energy (coal)</p> <ul style="list-style-type: none"> Driving down coal costs through price and volume optimization <p>Procurement optimisation</p> <ul style="list-style-type: none"> Contract renegotiations Eliminate Eskom price premium Review of market approach in order to reduce costs Building strategic partnerships with suppliers Introduction of supplier evaluation <p>HR levers includes</p> <ul style="list-style-type: none"> 0% rate increases for senior managers, VSPs and overtime 	<p>Debt</p> <ul style="list-style-type: none"> Use of equity to reduce debt Engaging with Shareholder on long term debt solution options <p>Capital efficiency</p> <ul style="list-style-type: none"> Improving decision making on the deployment of capital to maximize returns and sustainability 	<p>Payment terms</p> <ul style="list-style-type: none"> Aligning supplier payment terms in line with market norms (excl. Emerging suppliers) <p>Spares Optimisation</p> <ul style="list-style-type: none"> Disposal of obsolete stock Limiting procurement of surplus spares/ procuring on consignment stock basis Digitization of the supply chain processes 	<p>Non-core properties</p> <ul style="list-style-type: none"> Disposal of non-core properties underway Private sector partnerships to repurpose buildings Optimising on lease agreements

Eskom intends to strengthen relationship with strategic suppliers

- Eskom views its supplier partners as integral in the execution of its **procurement operations/reforms**, increasing **efficiencies** as well as ensuring contribution to **Eskom's financial sustainability**.
- As part of enhancing its financial position and ensuring operational resilience, Eskom will facilitate robust engagements on the reduction of **poor performance, quality issues** and unnecessary **delays in projects execution** in order to drive cost efficiencies.
- Some of the challenges and opportunities for improvement identified as follows:

a Sustainability & Innovation

- Defining long-term **convergent sustainability goals**.
- Establishing KPIs to monitor supplier sustainability.
- Reduce **total cost of ownership** through benchmarking and innovation.
- Conducting **market intelligence** for forecasting purposes.
- Improve longer-term planning including supply chain
- Encouraging **Supplier-enabled innovation**.

b Transformation

- Challenges on **non value adding intermediaries**
- Challenges in **achieving transformation mandate** through Shareholders compact (SHC).
- Need to supporting **local entrepreneurship**.
- Implementing SDL&I obligations/targets (B-BBEE Compliance, Local Content, NIPP, Skills, Subcontracting and Enterprise Development)

c Cost Efficiencies & Savings

- Challenges on **escalated prices** and non-conformance costs.
- Need for interventions such as Supplier terms, price verification system and e-auction, Codification/ **cataloguing** of material/stock items, etc.
- Collaboration required on new and **renegotiation** of contracts

d Public Procurement

- Adherence to **code of conduct and regulatory frameworks**.
- Protects the integrity of procurement systems.
- Compliance to Supplier integrity pack.
- Guard against Price collusion /bid rigging

e Optimal Execution of Projects

- Delivery on key projects
- Adherence to Safety requirements, Quality requirements
- **Delays** which are due to poor performance.
- Identify and **mitigate risk** during execution including cost escalation items
- Improve **communication**

To strengthen relationship with strategic suppliers, focus areas for new and existing contracts, procurement reforms and relationship improvement are required

1. Improvement on Relationships

- ❖ Supplier Forums
- ❖ Engagement with authority/industry bodies
- ❖ Partnerships /Alliances

2. New contracting

- ❖ E-auction
- ❖ Price checks
- ❖ Digital procurement
- ❖ Savings opportunities

Building
Sustainable
Supplier
Relationships
for Financial
Sustainability

4. Procurement reforms

Integrity pacts
Supplier review
Process improvements
Transformation

3. Existing contracts

Contract Performance
Opportunities for cost reduction
Re-negotiations on selected

Suppliers need to align to focus areas for new and existing contracts, procurement reforms and relationship improvement are required

Focus

Focus Area description

Improving wider relationships

- I. Work with the authorities on procurement related transgressions (NT, SIU, BEE commission, state capture etc)
- II. Engage Industry bodies, such as CIDB
- III. Foster co-operation with governmental areas eg DTI, DMRE, DPE, NT
- IV. Current suppliers through forums and 1-1 engagement
- V. Wider interest groups, including potential suppliers
- VI. Profiling of suppliers for target engagement

New contracts

- I. Reducing non value adding intermediaries
- II. Look at innovation
- III. Address internal improvement in skills, process and technology
- IV. Use wider platform, e-auction and electronic tender receipts
- V. Improve market analysis, CPA and Price checks
- VI. Seek savings opportunities prior to contracting
- VII. Effect changes in procedure, eg payment terms

Existing contracts

- I. Seek internal improvement in contract management
- II. Focus on Contract Performance
- III. Seek opportunities for cost reduction
- IV. Evaluation of suppliers performance across contracts
- V. Start re-negotiations on selected

Procurement reforms

- I. Focus on open, transparent and cost effective procurement
- II. Improvement on governance, process and competency
- III. Driving transformation, innovation and sustainable practice
- IV. Code of conduct and integrity pacts
- V. Supplier review process enhanced

What we require

Innovation and ideas on reducing risk and improving the supply chain

Partnering in transformation

Participation in

- Supplier evaluation
- Contract management reviews
- Re negotiations
- Internal/external investigation
- Supplier forums

Supplier integrity pact and reporting of incidents

Join in Divisional engagements

The following roadmap has been developed to ensure that the aspiration for with collaboration existing suppliers is transformed into reality

Short term – next 6 months

Stop the bleeding

- Divisional Supplier forums kick off
- Eskom to initiate supplier engagements on suppliers on renegotiations
- Eskom and suppliers to jointly engage to identify specific areas for cost optimisation
- 1st round of renegotiation process to be concluded by September 2021
- Revise payment terms

Developing shared value model

- Eskom to undertake individual supplier assessment based on the Supplier Evaluation Framework and provide feedback on supplier categorization by Nov 2021

Medium term – 12 months

Developing shared value model

- Strategic alliances to be formed with suppliers that support the shared value model
- Jointly identify areas of collaboration and objectives for shared value
- Development of action plans for collaboration areas
- Suppliers to submit improvement roadmaps in response to Eskom assessment
- Engage National Treasury on policy elements that hinder effective supplier relations
- Eskom to review market approach strategies to optimise on strategic partnerships

Long term – 24 month and going forward

Implementing shared value model

- Tracking of supplier roadmaps
- Review of joint commitment to collaboration
- Identifying corrective actions where desired outcome have not been met
- Sharing of success stories

Key milestones

Output

- Strengthened Divisional engagements
- Renegotiation outcomes implemented
- Supplier categorization and assessment feedback

- Commitment to collaboration
- Areas of collaboration outlined
- Supplier improvement roadmaps
- Action plans on areas of collaboration

- Assessment of Transformation journey and collaboration outputs
- Corrective actions to keep Eskom and Suppliers on track to shared objectives

In line with the unbundling process, procurement responsibilities have been shifted to divisions

Meet the Divisional GEs that will be engaging suppliers further based on their divisional outputs



Phillip
Dukashe
**Group Executive:
Generation**



Segomoco
Scheppers
**Group Executive:
Transmission**



Monde
Bala
**Group Executive:
Distribution**



Bheki
Nxumalo
**Group Executive:
Group Capital**



Stephen
Meyers
**CEO: Eskom Rotek
Industries**

For cross divisional supplier engagement, the CFO will initiate and facilitate such engagements

Key takeaways

- The energy landscape is changing and Eskom has embarked on a transformational journey to ensure that it is able to be a viable and key player in this market going into the future.
- As part of the transformation journey, Eskom will be focusing on strengthening and developing strategic partnerships with its suppliers based on the shared value principle.
- Eskom however has requirements that suppliers need to consider in order to make the partnership to work. Therefore Eskom will be introducing a Supplier Evaluation Framework which suppliers will be assessed against.
- In the immediate term, Eskom is inviting suppliers to collaborate in an exercise to jointly reduce costs as part of the contracts renegotiation process.
- While there are enormous challenges that Eskom faces now, there are also significant collaboration opportunities for Eskom and its suppliers that lie ahead and Eskom would like to invite suppliers on this journey.

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- Inputs from suppliers based on supplier engagement forum to be collated and driven through CPO's office
- Feedback on actions to be provided at next engagement
- Divisional Supplier engagements forum to kick off from July onwards.
- Eskom to initiate focused individual supplier discussions on cost reduction opportunities between July and September – this will be done on a prioritized basis in consideration of savings opportunities
- Next supplier forum to be held by October to review progress

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Thank you