COVID-19 lockdown badly affected sales performance, with a reduction of 13.8TWh, or 6.7%.

Operations less affected, as Eskom is an essential service.

4,493 COVID-19 infections by 31 March 2021, with 4,219 recoveries and 110 deaths.

New functions set up to support business separation and transitioned energy future.

Generating plant availability deteriorated to 64.19% (2020: 66.64%), due to higher planned maintenance under the Generation recovery plan.

Planned maintenance increased to 12.26% (2020: 8.92%), while unplanned maintenance decreased to 20.04% (2020: 22.86%)

Loadshedding implemented on 47 days during the year.

Lost-time injury rate improved significantly to 0.22

Support staff relinked to line divisions as part of functional separation.

Headcount reduced by 2,023 during the year, to 42,749 at 31 March 2021.

Government support of R56 billion received

Gross debt burden reduced by R81.9 billion to R401.8 billion

Transmission entity to be separated by 31 December 2021.

Tariff increase of 15.06% granted for 2022 financial year.

Final Medupi unit commissioned on 31 July 2021.

Government support of R31.7 billion received in 2022

Ongoing impact of COVID-19 regulations on sales and staff

Budgeted net loss after tax of R15.2 billion

We are a proud supporter member of the following bodies:

- Our finances (financial capital)
- Our infrastructure (manufactured capital)
- Our interaction with the environment (natural capital)
- Our people (human capital)
- Our role in communities (social and relationship capital)
- Our know-how (intellectual capital)
Our mandate as South Africa’s national electricity utility is to supply stable electricity in an efficient manner, to contribute to lowering the cost of doing business and enable economic growth. We recognise that we have a significant impact on the economy and the lives of South Africans. We serve a diverse range of stakeholders, such as our shareholder, customers, investors, employees, suppliers, civil society, regulators and Government.

We aim to provide a transparent and balanced account of how we create, preserve or erode value. Our value creation model depicts how the generation, transmission, distribution and sale of electricity create, preserve or erode value by transforming inputs from each of the capitals into electricity supplied to customers, as well as considering the impact of our business on the six capitals.

Our value creation model is set out on pages 4 and 5.

Approach to presentation

Our integrated report is based on the guiding principles and content elements contained in the International <IR> Framework, published by the International Integrated Reporting Council (IIRC). Furthermore, we have started addressing the recommendations of the revised International <IR> Framework issued by the IIRC in January 2021, even though these disclosures are only required for reporting periods commencing from January 2022.

The content is further guided by legal and regulatory requirements, such as the Companies Act, 2008 and the King IV Report on Corporate Governance for South Africa, 2016, as well as global best practice, including recommendations by the Task Force on Climate-related Financial Disclosures (TCFD).

This integrated report reviews our financial, operational, environmental, social and governance performance for the financial year from 1 April 2020 to 31 March 2021, as well as the outlook for the future. Unless otherwise stated, all performance data in this report, both financial and non-financial, relates to the 2021 financial year. Significant events up to the date of approval have been included.

This is our primary report to stakeholders, and is aimed predominantly at providers of financial capital. Nevertheless, the report seeks to provide information to a wide range of stakeholders. We endeavour to provide a balanced account of our performance, by focusing on material matters, both positive and negative, and considering qualitative and quantitative matters material to our operations and strategic objectives, which may affect our ability to create value. As part of this process, we consider our strategic risks and opportunities, as well as our operating context.

Our short-term turnaround objectives are used to connect our use of and impact on the six capitals to our strategy, material matters, strategic risks, key performance indicators and performance. In our context, short-term means within one year after year end, medium-term within one to five years, and long-term more than five years.

Although we continue to strive for a more concise report, our main aim is delivering a balanced, transparent and complete account that delivers adequate information on matters material to our ability to create value, and issues of concern to stakeholders.

We strive to embed integrated thinking in our way of doing business. It is applied by management, executives and the Board, in that the various capitals and trade-offs between them are constantly considered. An example of such a trade-off is the impact of running costly diesel turbines to ensure stability of the grid and provide security of supply to customers, at the expense of financial capital.

The information in this report covers the group performance of Eskom Holdings SOC Ltd (Eskom) and its major operating subsidiaries, unless otherwise stated. For a full overview of our financial performance, the integrated report should be read in conjunction with the group annual financial statements.

Eskom’s group annual financial statements are available at www.eskom.co.za/IR2021.

Unless noted otherwise, information presented is comparable to that of prior years, with no significant restatements.

Preparation process

Mr Calib Cassim CA( SA), Chief Financial Officer, is in charge of the preparation and presentation of the integrated report and supplementary information.

The report is produced by a dedicated team from the Group Finance Division, who work closely with representatives of all areas of the business to obtain the information presented in the report. The content of the report relies heavily on the information reported to the Department of Public Enterprises in Eskom’s quarterly report to the shareholder, as well as our strategic Corporate Plan, both of which are approved by the Board.

Financial information is presented in South African Rand, our functional and presentation currency. Figures are taken from Eskom’s group annual financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRS). Non-financial data is reported regularly to the Board and included in the quarterly shareholder report.

The report content is guided by the material matters determined as part of our preparation process. All content is reviewed by subject matter experts from the business, as well as the Eskom, the Audit and Risk Committee and the Social, Ethics and Sustainability Committee, as well as the Board, which assumes ultimate accountability for the content, completeness and reliability of the report.

Assurance approach to improve credibility

The Audit and Risk Committee and the Board depend on combined assurance to assess the adequacy of internal controls and risk management processes.

Our Assurance and Forensic Department (A&F) provided reasonable assurance on certain quantitative information, and to a reasonable degree, some qualitative aspects of the report. The group’s external auditors provided external assurance on the sustainability key performance indicators (KPIs) contained in the shareholder compact, all but three of the KPIs scoped in for reasonable assurance received an unqualified opinion.

The independent sustainability assurance report is included from page 139.

The consolidated annual financial statements have been audited by the group’s independent auditors, SNG Grant Thornton Inc, who issued a qualified opinion relating to the completeness of irregular expenditure disclosed in terms of the Public Finance Management Act, 1999 (PFMA). Except for this qualification, the consolidated annual financial statements are fairly presented in terms of IFRS. Furthermore, the independent auditors reported a material uncertainty relating to Eskom’s ability to continue as a going concern. However, this does not affect their opinion.

Our suite of reports

Our suite of reports is available online at www.eskom.co.za/IR2021, and consist of the following:

Integrated report and supplementary information

The integrated report provides an overview of how Eskom creates value by considering our value creation model, strategy, risks and opportunities, performance and outlook, as well as governance of these areas. It is prepared in accordance with the IIRC’s International <IR> Framework. Supplementary information of interest to a variety of stakeholders is available as fact sheets at the back of the report. As noted earlier, A&F has verified certain aspects of the report, and the external auditors provided reasonable assurance on specific KPIs.

Annual financial statements

Our independent auditors, SNG Grant Thornton Inc, have audited the consolidated annual financial statements of Eskom Holdings SOC Ltd, which have been prepared in accordance with IFRS as well as the requirements of the Companies Act, 2008 and the PFMA, 1999.

Sustainability report

This is our first standalone sustainability report. Previously, we published a standalone environmental report that evolved into an integrated report with the adoption of integrated thinking. We consider it best practice to publish a standalone sustainability report due to our significant positive and negative sustainable development impacts. The sustainability report supplements and provides more detailed information on our sustainable development impact than that provided in the integrated report. The report is guided by the reporting principles of the Global Reporting Initiative (GRI). It also considers our contribution to the United Nations’ Sustainable Development Goals (SDGs).

Forward-looking statements

Certain statements in this report regarding Eskom’s business operations may constitute forward-looking statements. These include all statements other than statements of historical fact, including those regarding the financial position, business strategy, management plans and objectives for future operations. Forward-looking statements constitute our current expectations based on reasonable assumptions, data or methods that may be inaccurate or incomplete and that may be incapable of being realised and as such, are not intended to be a guarantee of future results. Actual results could differ materially from those projected in any forward-looking statements due to various events, risks, uncertainties and other factors. Eskom neither intends nor assumes any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Future performance plans and/or strategies referred to in the integrated report have not been reviewed or reported on by the independent auditors.
As noted in our performance commentary for the six months ended 30 September 2020, one of our identified disaster risks materialised in March 2020 when the World Health Organization declared the COVID-19 outbreak a pandemic. Exco met daily to assess the situation. In the event of an emergency, our Emergency Response Command Centre was able to mobilise with immediate effect.

As an essential service, we were allowed to continue operating at full capacity during level 5 of South Africa’s national lockdown, with coal mines being permitted to operate to supply power stations. Our priority was the supply of electricity as an essential service, and maintaining the safety of our people. Employees were enabled to work at home since the start of the national lockdown, with some staff returning to work as restrictions were lifted.

Despite being allowed to operate, delays in executing capital and generation maintenance projects were experienced in the earlier stages of lockdown due to restrictions on the movement of people and a drive to contain the number of workers on site. Nevertheless, we were able to execute some opportunity maintenance to address critical issues across the generation fleet. The most noteworthy impact on our business came from the reduction in demand during the earlier levels of the lockdown.

Our focus during the ongoing COVID-19 pandemic is the health and well-being of our people, maintaining the supply of electricity to support economic recovery and supporting Government in containing the spread of the virus. Despite our concerted efforts, we are devastated by the loss of so many of our colleagues.

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

We have commented on the impact of the COVID-19 pandemic on our business to date throughout the report, wherever appropriate.

Impact on staff

A change management and engagement plan was developed to ensure employees, contractors, communities, organised labour and other key stakeholders are timeously informed and engaged, while building resilience and driving behaviour modification to address the COVID-19 pandemic. Employees are equipped with accurate and reliable information to drive appropriate behavioural change. Moreover, a number of guidelines were developed by the Office of Eskom’s Chief Medical Officer and shared with employees.

In a short space of time, Group IT enabled a large amount of our workforce to work remotely during the national lockdown. Managers maintain contact with team members working at home. Where they are able, a large part of our support staff are still working from home.

Eskom compiled a national lockdown register of critical staff who were required to commute or live on site. This register was submitted to the National Joint Operational Centre overseeing the country’s disaster management response. Staff identified as essential on this register were provided with permits to commute during the lockdown.

At the start of the national lockdown, the register identified 10 554 essential staff who were required on site on a daily basis; 15 213 critical staff were required to remain at home on standby; and 19 162 employees were not required to work on site, the majority of whom could work from home.

To combat the effects of COVID-19, we continue to institute appropriate measures to protect critical staff and minimise the number of employees on site wherever possible. Plans are in place to protect key operations such as Koeberg Nuclear Power Station, National Control, Telecoms Control, Apollo Converter Station, Generation and Distribution control rooms, Resource Management Centres and some Generation sites.

Operational impact

During the level 5 lockdown to the end of April 2020, the daily peak demand on the power system reduced by between 7 500MW and 11 000MW as lockdown restrictions and depressed economic conditions led to a reduction in the average demand for electricity. The reduction in average daily demand during level 5 was 5 680MW. During the level 4 lockdown period, during May 2020, the reduction in average daily demand was 3 300MW. The System Operator had to curtail generation capacity imports and wind generation at night on several occasions, given the need to keep the system stable. Given that there is limited scope to reduce generation by renewable independent power producers, we had to drastically reduce generation output to adjust to the lower demand.

The slowdown of the economy amid the COVID-19 pandemic led to an unprecedented decline in sales during the year. Sales of 191 852GWh were 6.7% lower than the previous year (2020: 205 635GWh). Of the reduction of 13 783GWh, 10 728GWh is attributable to the first half of the year. Due to the return to operation of many sectors of the economy, the impact on sales in the second half of the year was less severe. Sales deteriorated year-on-year across every sector of the economy, with the industrial, rail and international sectors being most severely affected.

Despite green shoots emerging with the phased easing of lockdown restrictions, the continued uncertainty around COVID-19 is expected to continue threatening future sales volumes, the cost of production and customers’ ability to pay. Demand is not expected to recover to pre-COVID-19 levels in the short to medium term, due to the long-lasting impact of the economic recession experienced in 2020. Our Corporate Plan reflects largely stagnant sales volumes of approximately 190TWh per year for at least the next five years.
**VALUE CREATION MODEL**

**MANDATE**
To contribute to lowering the cost of doing business in South Africa and enable economic growth

**INPUTS**
- **Finance**
  - R18.9 billion Funding raised
  - R56 billion Government support
- **Infrastructure**
  - 46 466MW Nominal power station capacity
  - 399 546km Power lines and cables
- **Environment**
  - 104.87MCoal burnt
  - 270 736M3 Net raw water used
- **People**
  - 44 772 Employees (at 31 March 2020)
  - R820 million Training spend
- **Society and relationships**
  - R67.4 million CSI committed spend
  - R1.8 billion DMRE electrification funding
- **Know-how**
  - 12 research Grand Challenges

**Outputs**
- **Finance**
  - R102.7 billion Debt and interest repaid
  - R204.3 billion Revenue
  - R32.8 billion EBITDA
  - R35.3 billion Municipal arrear debt
- **Infrastructure**
  - 1 598MW New capacity from Kusile units
  - 65.6km Transmission lines installed
  - 750MVA Transmission transformer capacity installed
  - R24 billion Capital expenditure
- **Environment**
  - 50 Environmental legal contraventions
  - 0.38kg/MWhSO relative particulate emissions
  - 1.42/kWhSO Specific water consumption
- **People**
  - 42 749 Employees at year end
  - 0.22 Lost-time injury rate
  - 10 Employee and contractor fatalities
  - R32.9 billion Employee benefit expense
- **Society and relationships**
  - 802 635 CSI beneficiaries
  - 106 669 Electrification connections
  - 47 days Loadshedding
- **Know-how**
  - Tacit knowledge lost due to VSPs
  - Appointment of key executive positions

**Turnaround objectives**
- Operations recovery
- Improve income statement
- Strengthen balance sheet
- Business separation
- People and culture

**Value**
- Zero Harm
- Integrity
- Innovation

**S**: Sinobuntu
- Customer satisfaction
- Excellence

**C**: Customer satisfaction
- Value
- Innovation

**E**: Excellence
- Value
- Integrity

**System Operator**
- Maintain the frequency of the power system at 50Hz, to balance electricity supply and demand in real time

**Transmission**
- Provide a reliable and efficient transmission network and energy market services in South Africa and neighbouring markets

**Distribution**
- Provide reliable energy and related services to our customers, enhance the customer experience and collect revenue

**Products**
- 191 852GWh
- Electricity sales to distributors and industrial, commercial, international, residential and other customers
- Waste and by-products
- 30.84Mt Ash produced
- 71.35kt Particulate emissions
- 206.8Mt CO2 emitted

**Value creation model**

**Supply of electricity**
- 201 400GWh Generated by Eskom power stations
- 13 526GWh Supplied by IPPs
- 8 812GWh Imports from neighbouring countries
- Energy available for distribution 219 423GWh

**Electricity demand**
- 178 355GWh Sales to 6 857 018 local customers
- 13 497GWh Sales to 11 international customers
- 25 078GWh Technical losses, electricity theft and errors
- Energy demand 219 423GWh

Note: a selection of significant inputs and outcomes are shown in the business model.
We transform inputs from the natural environment – coal, nuclear fuel and diesel, as well as water and wind – and use those to generate more than 90% of the energy supplied to a wide range of customers in South Africa and the Southern African Development Community (SADC) region. To balance electricity supply and demand in real time, our System Operator has to maintain the frequency of the power system at 50Hz.

Eskom is one of the few remaining vertically integrated utilities. We are connected to the Southern African Power Pool (SAPP) through an interconnected grid, which serves to support grid stability. We rely on SADC members to maintain sufficient and reliable transmission grids in their countries.

The foundation of our business is the generation, transmission, distribution and sale of electricity, supplemented by the construction of new power stations and network infrastructure. Our core divisions rely on support in the form of finance, human resources, procurement, information technology, telecommunications, strategy, risk and sustainability, legal and compliance, and stakeholder relations. In support of the electricity business, our subsidiary Eskom Rotek Industries performs turbine and transformer repairs and provides specialised construction and transport services.

Our operations

### GENERATION CAPACITY

<table>
<thead>
<tr>
<th>Type</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal-fired stations</td>
<td>183 553</td>
<td>174 357</td>
</tr>
<tr>
<td>Nuclear power</td>
<td>9 992</td>
<td>13 232</td>
</tr>
<tr>
<td>Pumped storage</td>
<td>4 795</td>
<td>5 040</td>
</tr>
<tr>
<td>Hydro stations</td>
<td>1 287</td>
<td>668</td>
</tr>
<tr>
<td>OCGTs</td>
<td>1 457</td>
<td>1 328</td>
</tr>
<tr>
<td>Wind</td>
<td>305</td>
<td>283</td>
</tr>
<tr>
<td>Total</td>
<td>201 404</td>
<td>194 768</td>
</tr>
</tbody>
</table>

Furthermore, IPPs supplied 13 526GWh, with another 8 812GWh being imported to supply customers.

A total of 178 355GWh was supplied to 6 587 018 local customers (2020: 6 547 410), and 13 252GWh were supplied to large customers over the past year. We estimate that loadshedding and load curtailment of large customers over the past year reduced our supply by approximately 1 034GWh, which equates to just over 0.5% of electricity demand for the year (2020: 1 290GWh). Estimates from a study by Nova Economics on behalf of Eskom indicate that 1% loadshedding (as percentage of electricity sales) is associated with a 0.4% decrease in GDP growth.

### Under the Electricity Regulation Act, 2006 and the National Energy Regulatory Act, 2004, the National Energy Regulator of South Africa (NERSA) regulates the industry by providing licences, regulatory rules, guidelines and codes. NERSA also determines our revenue in accordance with the Electricity Pricing Policy (EPP).

The National Nuclear Regulator (NNR) ensures that Koeberg, our nuclear power station, complies with nuclear safety standards, to protect individuals, society and the environment against radiological hazards linked to the use of nuclear technology.

### Supply and demand of electricity

Electricity is supplied by Eskom’s power stations, IPPs and cross-border suppliers, to local and export customers.

Eskom generated 201 400GWh for the year, from the following primary energy sources:

<table>
<thead>
<tr>
<th>Source</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal-fired stations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nuclear power</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pumped storage</td>
<td>2 724MVA</td>
<td>2 409MVA</td>
</tr>
<tr>
<td>Hydro stations</td>
<td>600MVA</td>
<td></td>
</tr>
<tr>
<td>OCGTs</td>
<td>5 060</td>
<td></td>
</tr>
<tr>
<td>Self-dispatching energy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sere Wind Farm</td>
<td>100MVA</td>
<td></td>
</tr>
</tbody>
</table>

Our new build programme commenced in 2005, and aims to cater for South Africa’s future energy demand by building new power stations and strengthening our transmission grid. Two units at Kusile Power Station were commissioned during the year as part of the programme, while defects on other units are being corrected under the Generation recovery plan. The final unit of Medupi Power Station achieved commercial operation on 31 July 2021.

### Electricity supply industry

South Africa’s electricity supply industry comprises the generation, transmission, distribution and sale of electricity, as well as the import and export thereof. Eskom owns and operates most of the load-base and peaking capacity, although there is a share of electricity supplied by independent power producers (IPPs) that continues to grow, largely in the form of wind and solar photovoltaic (PV) power.

Capacity added and energy supplied by IPPs are discussed from page 87.

Under the Electricity Regulation Act, 2006 and the National Energy Regulatory Act, 2004, the National Energy Regulator of South Africa (NERSA) regulates the industry by providing licences, regulatory rules, guidelines and codes. NERSA also determines our revenue in accordance with the Electricity Pricing Policy (EPP).

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A total of 178 355GWh was supplied to 6 587 018 local customers (2020: 6 547 410), and 13 252GWh were supplied to large customers over the past year. We estimate that loadshedding and load curtailment of large customers over the past year reduced our supply by approximately 1 034GWh, which equates to just over 0.5% of electricity demand for the year (2020: 1 290GWh). Estimates from a study by Nova Economics on behalf of Eskom indicate that 1% loadshedding (as percentage of electricity sales) is associated with a 0.4% decrease in GDP growth.

### How we define the six capitals

We use resources comprising all six capitals set out in the International <R> Framework as inputs in our business. As trade-offs are inevitable, creating value in one area frequently leads to the erosion of value in another. We have to ensure that our business remains sustainable across all the capitals.

The constitution of each of the capitals is described below, with more detail provided in the sections dealing with each of the capitals.

Financial capital is fundamental to our sustainability as a business. It comprises retained earnings, equity from our shareholder and debt funding provided by lenders, a large portion of which is guaranteed by Government. Lenders and bondholders earn a return in the form of interest. We are currently not paying dividends to our shareholder.

Manufactured capital comprises our power stations, together with our transmission and distribution networks. Our manufactured capital base is enhanced by the commissioning of new units, as well as through maintenance and capital refurbishment of existing plant. That base is eroded in the process of generating, transmitting and distributing electricity.

Natural capital is eroded by our utilisation of non-renewable or scarce primary energy sources used to generate electricity. These consist of coal, water, nuclear fuel and diesel. The generation process produces waste in the form of ash, gaseous and particulate emissions, and nuclear waste, further eroding natural capital. We aim to transition to a cleaner energy mix, mainly through the increased use of renewable energy, to reduce our impact on the environment. Our transmission and distribution networks also have a negative impact on bird life in some cases, although we strive to mitigate our impact on the natural environment.

Our human capital is made up of our employees and contractors, and their competencies, capabilities and experience. Our focus on improving the racial, gender and disability equity of our employee base continues. We are actively working to reduce our headcount, given the significance of employee benefit costs to our cost base, while still maintaining the productivity of the workforce. Human capital is enhanced through training and skills development, although these efforts continue to be hampered by our financial situation, as well as by many employees working from home.
UNDERSTANDING OUR BUSINESS continued

Social and relationship capital is based on interactions with customers, suppliers, communities and the public in general. We contribute by enabling economic growth through the supply of electricity, constantly electrifying new households in our licensed areas of supply; supporting job creation, skills development, supplier transformation and broad-based black economic empowerment (B-BBEE), as well as improving the lives of many South Africans through our corporate social investment (CSI) and socio-economic development activities. That said, our power stations also have a negative impact on the health of the communities in which we operate, and a pilot project is under way to consider how to mitigate the impact on air quality. Strong stakeholder relationships remain critical to our ability to create value.

Intellectual capital includes technology, comprising telecommunications, information and operational technology; organisational knowledge, systems, polices and procedures; as well as research and innovation to industrialise future technologies and improve current operations.

Our structure and regulation

How we are regulated

Eskom Holdings SOC Ltd is a state-owned company (SOC) as defined in the Companies Act, 2008 and is wholly owned by the South African Government.

Our mandate is to provide a stable electricity supply in a sustainable and efficient manner, to assist in lowering the cost of doing business in South Africa and enabling economic growth. We perform a significant developmental role in support of the National Development Plan 2020 (NDP), by supporting job creation, economic growth and the skills development, B-BBEE, transformation and other national initiatives. We also support a number of the United Nations’ Sustainable Development Goals.

The Department of Public Enterprises (DPE) is our shareholder ministry and sets our mandate. We are also subject to oversight or regulation by a number of other Government departments, Parliamentary committees and regulators.

Group overview

Eskom Holdings SOC Ltd houses our electricity business and also holds investments in subsidiaries. The Eskom group comprises the operating company with its subsidiaries and joint ventures.

We have operations across South Africa, with our head office based in Johannesburg and administrative offices in the major centres. Our local subsidiaries provide strategic services to Eskom and our employees; we also have a subsidiary based in Uganda. There have been no changes to the group structure during the past year.

A new subsidiary to house the Transmission business will be established during the 2022 financial year.

For more on the business separation project, refer to “Our strategic context – Our strategy and turnaround plan” from page 43.

Subsidiaries of Eskom

Eskom Enterprises SOC Ltd is an investment holding company.

Escap SOC Ltd is a wholly owned insurance captive company, which manages and insures the business risk of Eskom and its subsidiaries. Escap has started insuring other public entities to generate additional income and reduce policyholder concentration risk, as part of its long-term strategy to diversify its client base.

The shareholder has mandated the disposal of Eskom Finance Company SOC Ltd (EFC) to realise cash from non-core assets. An offer has been received for the sale of the company. Regrettably, the sale of EFC to the preferred bidder was not approved by DPE.

The Eskom Development Foundation NPC (the Foundation) is a non-profit company under section 21 of the Companies Act, 2008. It is responsible for implementing CSI programmes on behalf of Eskom, thereby improving the quality of life of communities where we operate.

Full details of Eskom’s equity-accounted investees and subsidiaries at 31 March 2021 are set out in notes 11 and 12 of the consolidated annual financial statements.

Subsidiaries of Eskom Enterprises

Eskom Rotek Industries SOC Ltd (ERI) provides lifecycle, plant maintenance and technical support to Eskom’s electricity business.

Eskom Uganda Limited, a subsidiary of EE, operates and maintains Nalubaale and Kiira hydroelectric power stations in Uganda under a 20-year concession arrangement that ends in 2023. The stations have a combined capacity of close to 380MW. Eskom Uganda supplied 1.5GWh, or about 30% of Uganda’s energy, in its financial year which ended in December 2020.

Pebble Bed Modular Reactor SOC Ltd (PBMR) is wholly owned by EE. It remains in a state of care and maintenance to preserve the intellectual property created during operation. The Board awaits guidance from the shareholder on the future of PBMR.

EE holds an effective interest of 69% in South Dunes Coal Terminal Company SOC Ltd (SDCT), both directly and indirectly through Golang Coal SOC Ltd. SDCT owns rights to export coal through its participation in the Phase V expansion of the Richards Bay Coal Terminal (RBCT).

Other dormant subsidiaries of EE are in the process of being wound up or liquidated.

Contribution to financial performance

The contribution by the main group companies to performance and financial position is shown below. The Eskom business remains by far the most significant.

Under the PPMA, 1999 we are required to submit a strategic Corporate Plan on an annual basis, setting out our strategic objectives, with plans and targets to achieve those. We also agree on an annual shareholder compact with DPE, which tracks the KPIs that support our mandate and the strategic objectives under the Strategic Intent Statement set out by DPE. Our latest annual Corporate Plan covers the three-year period to 2024. Performance against the 2021 shareholder compact is dealt with comprehensively in the directions’ report in the consolidated annual financial statements. Throughout tables in the report, shareholder compact KPIs are denoted using SC. Where relevant, these KPIs are included in the statistical tables, available as a fact sheet at the back of this report, from page 128.

Eskom is subject to numerous laws and regulations which govern our operations, including conditions relating to tariffs, activities, environmental compliance, expansion, procurement and human resources. Our licensing conditions place strict limits on plant emissions to limit our environmental impact. Relevant laws and regulations include the Electricity Regulation Act, 2006; Companies Act, 2008; PPMA, 1999; National Treasury regulations; National Environmental Management Act, 1998; National Energy Regulator Act, 2004; National Nuclear Regulator Act, 1999; Occupational Health and Safety Act, 1993; Basic Conditions of Employment Act, 1997; Labour Relations Act, 1995; Broad-Based Black Economic Empowerment Act, 2003; and the Promotion of Access to Information Act, 2000, among others.

Under the PFMA, 1999 we are required to submit a report on our operations, including conditions relating to tariffs, activities, environmental compliance, expansion, procurement and human resources. Our licensing conditions place strict limits on plant emissions to limit our environmental impact. Relevant laws and regulations include the Electricity Regulation Act, 2006; Companies Act, 2008; PPMA, 1999; National Treasury regulations; National Environmental Management Act, 1998; National Energy Regulator Act, 2004; National Nuclear Regulator Act, 1999; Occupational Health and Safety Act, 1993; Basic Conditions of Employment Act, 1997; Labour Relations Act, 1995; Broad-Based Black Economic Empowerment Act, 2003; and the Promotion of Access to Information Act, 2000, among others.

Eskom Holdings SOC Ltd

Main subsidiaries

Support functions

Generation

Distribution

Transmission

2022. Transmission company

financial statements

31 March 2021

31 MARCH 2021

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Comprehensive segment disclosure for Generation, Transmission, Distribution and other segments is provided in note 7 of the consolidated annual financial statements.

EE holds an effective interest of 69% in South Dunes Coal Terminal Company SOC Ltd (SDCT), both directly and indirectly through Golang Coal SOC Ltd. SDCT owns rights to export coal through its participation in the Phase V expansion of the Richards Bay Coal Terminal (RBCT).

Other dormant subsidiaries of EE are in the process of being wound up or liquidated.

Contribution to financial performance

The contribution by the main group companies to performance and financial position is shown below. The Eskom business remains by far the most significant.

Under the PFMA, 1999 we are required to submit a strategic Corporate Plan on an annual basis, setting out our strategic objectives, with plans and targets to achieve those. We also agree on an annual shareholder compact with DPE, which tracks the KPIs that support our mandate and the strategic objectives under the Under the PFMA, 1999 we are required to submit a strategic Corporate Plan on an annual basis, setting out our strategic objectives, with plans and targets to achieve those. We also agree on an annual shareholder compact with DPE, which tracks the KPIs that support our mandate and the strategic objectives under the Strategic Intent Statement set out by DPE. Our latest annual Corporate Plan covers the three-year period to 2024. Performance against the 2021 shareholder compact is dealt with comprehensively in the directions’ report in the consolidated annual financial statements. Throughout tables in the report, shareholder compact KPIs are denoted using SC. Where relevant, these KPIs are included in the statistical tables, available as a fact sheet at the back of this report, from page 128.

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Racial diversity

- ACI (78%)
- White (22%)

Gender diversity

- Female (44%)
- Male (56%)

Ages are shown at 31 March 2021.

Qualifications listed are not exhaustive. Refer to pages 123 and 124 for full details of directors’ qualifications and active directorships.
EXECUTIVE MANAGEMENT COMMITTEE AT 31 MARCH 2021

1. MR ANDRÉ DE RUYTER (53)
   Group Chief Executive
   Appointed to Exco in January 2020
   1 year in Eskom
   LLB (Unisa)
   MBA (Nyenrode University)

2. MR CALIB CASSIM (49)
   Chief Financial Officer
   Appointed to Exco in July 2017
   19 years in Eskom
   Chartered Accountant (SA)
   Master of Business Leadership (Unisa)

3. MR JAN OBERHOLZER (62)
   Chief Operating Officer
   Appointed to Exco in July 2018
   28 years in Eskom (including from 1983 to 2008)
   B Sc Electrical Engineering (University of Pretoria)
   Master of Business Leadership (Unisa)
   Executive Program (University of Michigan)

4. MS FAITH BURN (52)
   Chief Information Officer
   Appointed to Exco in May 2020
   <1 year in Eskom
   M Sc Mathematics (University of Johannesburg)
   Master of Business Leadership (Unisa)

5. MS NTHATO MINYUKU (42)
   Group Executive: Government and Regulatory Affairs
   Appointed to Exco in October 2020
   <1 year in Eskom
   B Architectural Studies (University of Witwatersrand)
   Master of City Planning and Urban Design (University of Cape Town)

6. MS NERINA OTTO (49)
   Acting Group Executive: Legal and Compliance
   Appointed to Exco in December 2020
   23 years in Eskom
   LLB (University of Natal)
   Master of Law (University of Johannesburg)

7. MS ELSIE PULE (53)
   Group Executive: Human Resources
   Appointed to Exco in November 2014
   22 years in Eskom
   BA (Hons) Psychology (University of Pretoria)
   M Sc Business Engineering (Wits University)

8. MS JAINTHREE SANKAR (49)
   Acting Chief Procurement Officer
   Appointed to Exco in March 2021
   27 years in Eskom
   B Com (Hons) Business (Unisa)
   MBA Sustainable Business (University of Southern Queensland)
   Master of Project Management (University of Southern Queensland)

9. MR VUYOLWETHU TUKU (45)
   Group Executive: Transformation Management Office
   Appointed to Exco in July 2020
   <1 year in Eskom
   B Sc Electrical Engineering (University of Cape Town)
   MBA (University of Witwatersrand)

Qualifications listed above are not exhaustive. Refer to pages 124 and 125 for full details of Exco members’ qualifications and active directorships.
CHAIRMAN’S STATEMENT

Over the past few years, Eskom has focused on cleaning up governance issues, containing costs and re-energising the business, which has set a firm foundation for growth. At the same time, management has focused on strengthening the financial position through demand stimulation, cost curtailment and efficiencies and limiting capital expenditure. The Board has supported actions to pursue a cost-reflective price of electricity. The equity injection from Government, which commenced in the 2020 financial year, assisted in addressing liquidity challenges.

Although the COVID-19 pandemic added to the challenges of implementing Eskom’s turnaround plan, the country’s collective response to the pandemic underlined the ability of South Africans to rally towards a common sense of purpose in responding to a crisis. This expression of the culture of Ubuntu is what is required to transcend the electricity crisis that is hampering the country’s efforts to stimulate economic growth.

The prevailing global trends towards digitisation, democratisation, decentralisation and decarbonisation of electricity supply need to be borne in mind on the path ahead. There is a growing movement towards agile and scalable electricity solutions with a negligible impact on the economy, which respond effectively to the climate crisis and simultaneously foster socio-economic development. Eskom intends to participate in these solutions.

Strategic context

Unless we act now to take decisive steps, a continued electricity supply shortfall of up to 6 000MW may be expected over the next five years, as old coal-fired power stations reach their end of life. To close this gap, Government has announced a 2 000MW emergency procurement programme and fast-tracked the process to purchase an additional 11 800MW of capacity, in line with the Integrated Resource Plan 2019 – the guiding document for the growth of a low-carbon future for the South African electricity sector.

While it is Government’s intention to close the capacity gap as soon as possible, it is becoming evident that adding the planned capacity over the medium term alone will not be enough. New approaches, fresh policies and innovative strategies are required to close this gap in the shortest possible time. An integrated and coordinated approach by all stakeholders is required.

To supplement capacity, Eskom will continue its intensive maintenance of power stations, improve on emissions compliance and complete the construction of the Medupi and Kusile Power Stations.

DMRE will, in collaboration with other relevant entities, rapidly develop and deploy new, clean sources of electricity by procuring more generation capacity, and by opening up the power system even further to renewable energy sources such as wind and solar.

Government will continue to support Eskom’s financial sustainability by leveraging the country’s existing infrastructure and capabilities to reposition Eskom as a pivotal platform in the future electricity supply industry.

Furthermore, Eskom will continue its restructuring to enable the legal separation of its line divisions. December 2021 has been set as the target date for the establishment of a separate legal entity for the Transmission business, with the objective of establishing an independent Transmission System and Market Operator.

Government is intensifying its efforts to implement a market code and new tariff structure to ensure reliability and fairness. This will also address the need of generators and customers to trade with each other over the network. Eskom will work closely with DMRE, NERSA and industry to shorten the lead-time for new connections, although funding constraints may cause delays.

DMRE is addressing regulatory, technical and commercial requirements to allow privately-owned producers of electricity to feed any excess into the grid, with a maximum of 100MW consideration. Similar liberalisation rapidly unlocked additional capacity in other countries, up to 7.2GW in the case of Vietnam.

Eskom and the shareholder are keenly aware of the global move towards cleaner and sustainable ways of producing electricity, to avert the dire consequences of climate change caused by human activities. By 2020, 1 200 institutions had already divested trillions of dollars from the fossil fuel industry, and both international and local banks have announced their intentions to withdraw funding from fossil-fuel plants. Many of Eskom’s largest asset technical partners are following suit and have indicated their intentions to move away from coal-based projects towards renewable energy. The appetite to finance future coal-fired power stations is waning.
Opportunities for Eskom

Nevertheless, these challenges also create exciting opportunities for Eskom. As coal-fired generation capacity is retired, under severe pressure to the large-scale rollout of cleaner and greener electricity. The availability of green financing highlights the global support for decarbonisation, and supports the addition of significant capacity to address the generation shortfall.

South Africa has an opportunity to re-energise the manufacturing sector by implementing smart industrial policies to take advantage of the large-scale construction required. This will create new job opportunities for manufacturers and provides a stimulus for the local and global economies. Eskom is committed to delivering this vision.

South Africa is a proud signatory to the Paris Agreement on Climate Change and is fully committed to meeting its local and global obligations in terms of the agreement, which supports Eskom’s full support.

In November 2021, the nations of the world will meet at the COP 26 summit in the United Kingdom to assess the progress on the fight against climate change and to develop strategies for the future. This is an opportunity for South Africa to highlight its commitments, including the initiatives aimed at a Just Energy Transition.

As Eskom moves away from its reliance on coal, it will shift its focus to the implementation of the Just Energy Transition. This also considers the impact of decisions on workers in the coal industry and communities invested in the coal value chain and associated economies. Eskom, by virtue of the size of its operations, plays a central role in facilitating such a transition, while also ensuring equitable access to affordable electricity for all South Africans.

Eskom has already established a presence in the renewable energy space. It intends to play a leading role in facilitating the connection of renewable energy through an expanded and strengthened grid, and by participating in the building of renewable energy, as the country transitions towards a low-carbon future.

To fulfil this mandate, Eskom will pursue strategies and mechanisms to work in partnership with the private sector to build at least half of the renewable capacity envisaged in the Integrated Resource Plan between now and 2030. Eskom will work with key stakeholders to ensure this commitment can be delivered effectively and efficiently. Furthermore, Eskom will collaborate with private sector partners to engage with DPRE to provide the required determinations to Eskom consortiums, as well as with NERSA to accelerate the processing of licence applications.

Solving Eskom’s financial challenges

The unsustainable debt burden threatens the survival of the business, and also weighs heavily on the national budget. Under severe pressure from the COVID-19 pandemic, the Eskom Compact signed by labour, business and Government at Nedlac is an important step in addressing the debt burden, and provides the foundation for future initiatives. Both Eskom and the Government acknowledge concerns raised regarding the utilisation of workers’ pensions to address Eskom’s debt. It is clear that the electricity tariff dispensation must make efficient use of Eskom incurs in the production of electricity and further, allow for a fair return. Without such measures, the equity support that Eskom requires from taxpayer funds over the next five years would not be reduced. There is consensus that electricity tariff increases above inflation is painful, especially at this point in the country’s economic trajectory. However, users have to pay for the services that they consume without burdening the broader taxpayers’ community. By implementing targeted policies and possibly sector-specific subsidies, the impact of tariff increases on critical sectors can be alleviated, and the effect of a move to cost-reflective tariffs mitigated.

There are continuous engagements among Government and various stakeholders to find a sustainable solution to the perennial problem of municipal debt owed to Eskom. Instead of primarily turning to the courts, collaborative discussions have taken place between various stakeholders in recent months. An active partnering model is being implemented in municipalities to allow local authorities, with Eskom stepping in to maintain and operate municipal distribution systems.

Conclusion

By taking bold steps now, we will create a future in which South Africa has the electricity required for economic growth, and where we can leverage our vast endowment of renewable energy sources to ensure a cleaner environment and create employment in a thriving and competitive electricity industry.

I would like to extend my sincere condolences to the family and friends of the late Mr Jabu Mabuza and Dr Baldwin Ngubane, who served Eskom and our country very well. The loss of men such as these is devastating.

As always, we remain grateful for the support of our stakeholder representative, the Honourable Minister Pravin Gordhan, as well as Government’s continuous support of Eskom.

Prof. Malegapuru Makgoba
Interim Chairman

The Board has expressed its commitment to rooting out fraud and corruption and addressing issues related to past corporate governance breaches, in order to restore Eskom’s reputation as a trusted corporate citizen and further, to improve the organisation’s financial and operational sustainability.

Our response to this challenge centres on the following key areas:

- Implementing proactive lifestyle audits and reviews of conflicts of interest based on risk analysis
- Strengthening ethics and anti-fraud frameworks and enhancing consequence management processes
- Instituting disciplinary charges against employees and suppliers, and pursuing criminal and civil legal action where appropriate
- Enhancing PFMA and commercial governance processes to ensure robust scrutiny and address irregular expenditure

Lifestyle audits and conflicts of interest

Phase one

Last year, we reported that we had completed 383 lifestyle audits on executives and senior managers. Of these, 34 high-risk cases were handed over to the Special Investigating Unit (SIU) for further investigation, with the following progress achieved by year end:

- 8 cases referred back to Eskom for disciplinary action (including one resignation after referral)
- 7 employees referred during the investigation
- 5 cases still under investigation by the SIU
- 1 employee dismissed
- 7 no adverse findings

The SIU will continue its investigation into cases involving criminal conduct and, where appropriate, institute civil proceedings to recover losses incurred by Eskom, even where implicated individuals have resigned from Eskom.

Phase two

In November 2020, data analytics was conducted on all employees below executive and senior management level, revealing that approximately 3000 employees, or 8.6% of the target group, had not declared business-related interests or applied for consequence management in their private work, despite being active shareholders and directors according to records from the Companies and Intellectual Property Commission (CIPC) and other databases. Disciplinary processes have been conducted, with approximately 88% of matters concluded by year end.

In response to these findings, we have upgraded our conflict of interest declaration system to link directly to various databases such as the CIPC and Eskom’s vendor management system, to proactively identify unethical conduct. The upgrade was implemented from 1 April 2021, and ensures that conflicts of interest are identified immediately and escalated to the Ethics Office and management for remedial action.

Where sufficient evidence implicates employees, we will continue to take appropriate action to ensure that employees maintain the highest ethical standards in the performance of their duties.

Data analytics has also been conducted on 73 corporate representatives and corporate professionals at executive level who were not included in the first phase of the lifestyle audits. Seven high-risk cases were identified. Details of these individuals constitute an independent service provider has been appointed, to determine the extent to which disciplinary action or legal proceedings is required. Lifestyle audits will also be extended to include all newly appointed executives.

The implementation of the Protection of Personal Information Act, 2013, effective from 1 July 2021, has a material impact on the scope of our work, a legal opinion is being sought before it commences.

Ethics, fraud and consequence management

We are making good progress with the implementation of the Fraud Risk Management Plan, to maximise fraud prevention and enhance good corporate governance practices. The Anti-Fraud and Corruption Integration Committee monitors the implementation of this plan and ensures integration between forensic, legal, ethics, industrial relations and supplier review functions, with progress reported to Exco and the Audit and Risk Committee (ARC) on a regular basis.

During the year, our fraud prevention and whistle-blowing policies were reviewed to ensure our zero-tolerance approach to fraud, strengthen our whistle-blowing processes and ensure compliance with changes to relevant legislation. Furthermore, a whistle-blowing procedure has been developed to provide step-by-step guidance to report incidents of unethical behaviour through DPRE’s whistle-blowing channels.

Ethics and fraud awareness programmes have been enhanced and remain mandatory for all employees. To complement these, a confidential hotline was also established to report incidents of unethical behaviour through an independent, confidential hotline. As an additional measure, we also encourage reporting through DPRE’s whistle-blowing channels.
**PROGRESS ON GOVERNANCE CLEAN-UP continued**

**Forensic investigations**

- 798 incidents reported through whistle-blowing channels
- 105 new cases registered for investigation
- 46 forensic investigations concluded
- 10 fraud
- 17 corruption
- 19 irregularities
- 80 employees recommended for disciplinary action
- 2,733 cases at investigation year end, relating to current and prior years

**Sanctions**

- 174 disciplinary cases
- 155 cases completed
- 21 cases still in progress
- 74 employees resigned during disciplinary processes
- 18 employees dismissed due to fraud and corruption
- 86 cases recommended for criminal prosecution
- 72 SAPS cases registered
- 14 cases being registered

In addition to the 46 forensic investigations concluded during the year, a further 77 cases were closed following a comprehensive review of all active cases. Seventeen of these cases were referred to management by A&F as the issues relate to matters that management has the authority to deal with. The remaining cases were closed following a preliminary investigation, where there was insufficient information to support the allegations or where allegations were considered unfounded.

Our forensic investigations have revealed similar themes to previous years, with instances of undeclared conflicts of interest, failure to obtain permission to perform private work, leaking of confidential information as well as general procurement irregularities. Non-compliance with Eskom’s policies and procedures remains the most prevalent root cause.

Reporting and investigation of these and other matters continue, with appropriate disciplinary processes being instituted. A&F has recommended control enhancements in affected areas to prevent recurrence. Cases are registered with the South African Police Service (SAPS) where allegations of fraud and corruption are confirmed.

As reported previously, we have re-established the Supplier Review Committee to ensure appropriate disciplinary action is taken against suppliers where non-compliance with procurement and supply chain management procedures has been identified. However, progress remains slow due to a backlog of cases. In December 2020, the Group Chief Executive (GCE) issued an anti-fraud communication to all employees, which affirmed the responsibility of each employee to prevent fraud, corruption and irregularities in the workplace.

**Major investigations**

External investigations into major cases of suspected fraud and corruption involving former employees, directors and suppliers continue. These are discussed in more detail below. We continue to provide the necessary support to law enforcement authorities to investigate any concerns and violations of the law. Wherever possible, we seek recovery of financial losses using criminal and civil processes.

We issue media statements to the public and report progress on these and other matters to the Standing Committee on Public Accounts (SCOPA) on a regular basis.

It is important to note that criminal convictions and recovery of financial losses are dependent on successful prosecution by law enforcement agencies and the justice system. Regrettably, this remains a lengthy process, resulting in slow progress on various matters.

**Investigations into former Board members and executives**

Two former senior employees, Mr Frans Hlakudi and Mr Abram Masango, were arrested in December 2019 and appeared in court on corruption-related charges involving Tubular Construction Projects (Pty) Ltd. In May 2021, the High Court issued an order in terms of the Prevention of Organised Crime Act, 1998, which allowed the National Prosecuting Authority to freeze R1.4 billion in assets relating to the defendants.

We are also pursuing civil recovery of approximately R3.8 billion relating to a prepayment to Tegeta Exploration and Resources (Pty) Ltd. The defendants include seven former executives and directors, as well as the former Minister of Mineral Resources, Mr Mothibedi Zwane, brothers Ajay, Atul and Rajesh (Tony) Gupta, and Mr Salim Essa.

In light of several notices and interlocutory applications filed by the defendants, Eskom’s attorneys have requested that the matter be placed under case management. A judge has been appointed.

**Financial recoveries from suppliers**

**Background**

Eskom has a business rescue plan that has been adopted. Due to financial constraints, the full amount is not recoverable. Eskom is expected to receive approximately R147 million over a five-year period.

**Progress**

- Impulse Coal Mine (Pty) Ltd
  - Eskom submitted a total claim of R5.6 billion, including penalties, due to breach of the coal supply agreement. This was subsequently reduced to R1.8 billion after an arbitration ruling.
  - Tegeta Exploration and Resources (Pty) Ltd
  - Eskom submitted a claim of R359 million for post-business rescue penalties for failure to supply coal from the Brakfontein Colliery.
  - Trillian Management Consulting (Pty) Ltd
  - As reported previously, Eskom instigated liquidation proceedings against Trillian to recover approximately R395 million in unlawful payments on the pretext of it being a supplier development and localisation partner to McKinsey. The High Court ordered Trillian to repay Eskom in October 2019; however, no amount has been received to date.

- DeltaOne Consulting (Pty) Ltd
  - As reported previously, Eskom instigated liquidation proceedings against DeltaOne to recover R227 million arising from a contract awarded irregularly, in the absence of an open and competitive tender process.

- PW South Africa
  - Eskom is pursuing recovery of approximately R108 million in unlawful payments through a risk-based contract intended to realise savings on capital projects.

- Impulse International (Pty) Ltd
  - As reported previously, Impulse International has instigated legal proceedings against Eskom for damages of approximately R83 million due to termination of contracts which Eskom deemed unlawful.

- Econ Oil and Energy (Pty) Ltd
  - In December 2020, an external forensic investigation identified possible overcharging of approximately R1.2 billion by Econ Oil from 2012 to 2017.
  - In addition, we disposed the validity of the contract for the supply of fuel oil from Econ Oil due to corruption and manipulation of tender processes.

- Trillian Management Consulting (Pty) Ltd
  - In February 2021, the Supplier Review Committee temporarily suspended Econ Oil from its supplier database for six months. If Econ Oil cannot provide any evidence to support a case for reconsideration, it will be debarred for 10 years and National Treasury will be notified to blacklist Econ Oil from contracting with other organs of state.

- Contractor overpayments
  - Eskom and the SIU are reviewing contractual claims and potential overpayments to a number of contractors involved in the construction of Medupi and Kusile Power Stations, particularly where it is suspected that these overpayments may have been colluded between Eskom employees and contractors.

- ABB South Africa (Pty) Ltd
  - ABB made a voluntary disclosure in respect of overpayments relating to the Kusile project.

**In April 2021, ABB repaid approximately R156 million. We are working with the SIU to set aside another contract that was irregularly awarded to ABB.**
**Improvements to address irregular expenditure**

Eskom has received a qualified audit opinion for the previous four financial years. The auditors have again qualified their opinion, as they could not rely on the completeness of information relating to irregular expenditure in the 2021 annual financial statements.

In terms of National Treasury Instructions No. 02 and 03 of 2019/2020, Eskom’s centralised Loss Control Department has been established and the recruitment processes have been concluded. We have revised our PFMA reporting procedures to ensure that all assessments of and investigations into occurrences of irregular expenditure and fruitless and wasteful expenditure will be performed by this department from 1 April 2021. In conjunction, training and awareness on expenditure will be performed by this department from 03 of 2019/2020, Eskom’s centralised Loss Control Department to investigate procurement- and PFMA-related issues identified through reviews, complaints and whistle-blowing mechanisms.

**Disclosure of irregular expenditure in terms of the PFMA and the basis on which the audit opinion was qualified** set out in note 52 in the consolidated annual financial statements and the independent audit report on which the audit opinion was qualified are being implemented and are mandatory for all the revised PFMA reporting procedures and guidelines 1 April 2021. In conjunction, training and awareness on expenditure will be performed by this department from 03 of 2019/2020, Eskom’s centralised Loss Control Department to investigate procurement- and PFMA-related issues identified through reviews, complaints and whistle-blowing mechanisms.

**Monitoring of internal condonation processes as well as condonations submitted to National Treasury**

In addition, we reviewed all contract modification applications that were not approved by National Treasury to identify any potential deviations and irregularities that might occur, and to introduce interventions to prevent recurrence. Consequence management and condonations relating to procurement transactions form part of our PFMA reporting.

Regrettably, progress in obtaining condonations from National Treasury has been slow for a number of years. We are working with DPE and National Treasury to ring-fence historical irregular expenditure to minimise the continued impact on our annual financial statements, which demonstrates National Treasury’s commitment to prioritise the close-out of outstanding irregular expenditure requiring their approval. At 31 March 2021, the closing balance of irregular expenditure stands at over R37 billion. Towards the end of the year, we received notice of condonation of 292 transactions valued at R9.5 billion, with further condonations expected in the coming financial year.

**Improvements to commercial governance processes**

The focus for this year has been the development and implementation of a procurement roadmap to improve procurement processes and contract management by:

- Reducing the number of cancellations of published tenders
- Improving compliance with implementation of procurement plans
- Enhancing contract performance and project budget monitoring
- Reducing the number of contract modifications exceeding thresholds

**Consequence management and condonations**

The procurement roadmap was submitted to National Treasury and DPE in September 2020, in accordance with the conditions of the Special Appropriation Act, 2019. Feedback is reported on a regular basis.

The cancellation of published tenders now has to be approved by the delegated authority that approved the procurement strategy, leading to a reduction in the number of tender cancellations. We monitor contracts expiring within three to twelve months to ensure that there is adequate preparation for new contracts in divisional procurement plans. Procurement plans for the coming financial year were finalised in March 2021.

Reporting on contract performance covers a range of contract events including claims, compensation events, deviations, insurance events and delays. We have also enhanced the scrutiny of contract modification applications prior to approval.

**Reportable irregularities raised by the external auditors**

In terms of section 45 of the Auditing Profession Act, 2005, the external auditors are required to report any reportable irregularities (RIs) to the Independent Regulatory Board for Auditors (IRBA), and only then report the matter to Eskom, affording management an opportunity to respond to and/or rectify the matter.

Details of RIs reported, as well as the action taken and status of the respective matters, are discussed in note 33 in the consolidated annual financial statements.
Our governance framework provides the roadmap for achieving our strategic priorities within legislative, regulatory and policy requirements. Clear accountability for decision-making is assigned through our delegation of authority (DoA) and materiality frameworks, which guide the referral of matters to divisional boards, executive committees and the Board, and from there to DPE and National Treasury, if required.

Governance of the group and the responsibility for promoting good corporate citizenship is vested in the Board, and supported by several committees. The powers of the Board and our shareholder are defined in Eskom’s Memorandum of Incorporation (MOI). With the exception of the GCE and the Chief Financial Officer (CFO), the Board is composed entirely of independent non-executive directors.

Eskom is established by the GCE and is accountable for executing the strategy set out by the Board, as well as exercising executive control over day-to-day operations.

Executive Management Committee

Transmitting a culture of integrity and transparency

Eskom’s functional and legal separation is discussed under “Our strategic context” from page 37.

Divisional boards

- Generation
- Transmission
- Distribution

The Board should govern risk in a way that supports Eskom in setting and achieving its strategic objectives

- Principle 11

- The Board should govern ethics in a way that supports the establishment of an ethical culture

- Principle 2

- Our overall King IVTM assessment and focus areas

- Refer to pages 19 to 21 of our 2020 integrated report for more detailed information on the application of the King IV™ principles

- Progress on implementing classroom training for contractors and high-risk business areas has been hindered by national lockdown restrictions. Recruitment processes are being finalised to address the lack of resources in the Ethics Office. The Ethics Office is also supplemented by independent, external services where required.

- Various interventions are under way to identify and address weaknesses in the governance of ethics, particularly in respect of consequence management and inadequate implementation of ethics policies that place Eskom at risk.

- Refer to “Feedback on Board activities – Board evaluation” from page 25 for further information.

- While the introduction of key risk indicators has enhanced risk management and reporting, greater accountability is required to effectively treat Priority 1 risks. An analysis of Priority 1 risks was conducted towards the end of the financial year. Based on the findings, initiatives will be implemented to ensure the development of more robust and effective treatment plans to address the root causes of these risks.

- The Board’s access to guidance and development will be delivered through a continuing education programme, which will include training needs identified by individual directors, Eskom-specific training, updates on legislation and regulations relating to the Board’s fiduciary duties as well as governance best practice.

- Principle 10

- The Board should ensure the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities

- Regrettably, the lack of succession planning for non-executive directors remains a concern. The development of a succession plan for directors is the responsibility of the shareholder. This has been brought to DPE’s attention, along with the request for the shareholder to fill the vacancies on the Board.

- Principle 9

- The Board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, supports continued improvements in its performance and effectiveness

- The Board has conducted a self-assessment in respect of its performance for the 2020 financial year and identified areas of concern to be addressed through its Board improvement plan. An independent board evaluation will be conducted for the 2021 financial year.

- Principle 1

- The Board should lead ethically and effectively

- Refer to “Feedback on Board activities – Board evaluation” from page 25 for further information.

- Divisonal boards for Generation, Transmission and Distribution were established in March 2020 to enhance internal governance structures and accountability, as the first step to functional separation. The divisional boards do not constitute a board of directors in accordance with the Companies Act, 2008, but function as operational boards, until the planned legal separation of Eskom is concluded.

- Refer to pages 10 to 13 for the composition of the Board and Executive activities from page 25.

- Eskom’s mandate is based on the shareholder’s Strategic Intent Statement. Our annual performance is measured against the shareholder compact.

- Executive Management Committee

- Audit and Risk

- Investment and Finance

- People and Governance

- Social, Ethics and Sustainability

- Strategy
Due to different remuneration practices across our bargaining unit, managerial level and executive employee categories, Eskom has not developed an organisation-wide remuneration policy. Work is under way to ensure alignment of the executive remuneration policy with DPE’s guidelines.

Governance functional areas

The Board sets the policy and direction for governance functional areas to support the organisation in achieving its strategic objectives. The Board has delegated responsibility for the oversight of remuneration to the People and Governance Committee (PGC).

Governance of technology and information

Effective management of technology and information is seen as critical to enhance intellectual capital. The responsibility for managing this has been delegated to Exco, with Exco’s Information and Technology Committee ensuring alignment between information technology and operational technology.

ARC considers quarterly reports, which provide assurance on the security and availability of Eskom’s operational technology and information and technology systems of control, as well as assessments on the adequacy and effectiveness of governance, risk management, compliance and controls relating to technology and information.

Information technology

Although King IV™ recommends that board evaluations be conducted every second year, we conduct a board evaluation annually in line with DPE’s SOC Board Evaluation Framework.

As reported previously, the independent Board evaluation for the 2019 financial year led to the development of a Board improvement plan to address areas of concern. In June 2020, the Board conducted a self-assessment for the 2020 financial year through an evaluation tool developed by the Office of the Company Secretary. One of the objectives of the assessment was to measure the progress in implementing the Board improvement plan, as well as to enable the Board to identify any other areas of concern. Based on the findings of the 2020 self-assessment, we have compiled a feedback report and submitted this to the shareholder.

The 2020 self-assessment covered the same themes as the 2019 evaluation. The average scores (out of 4) achieved across each area are as follows:

- 2.50 Board composition
- 3.20 Board responsibilities
- 3.71 Ethical leadership
- 1.87 Board meetings
- 2.50 Board committees
- 3.71 Sustainability
- 2.80 Relationship with management
- 3.38 Stakeholder engagement

Below 1: Requires significant attention or intervention
2 – 3: Average to satisfactory performance
4: Excellent performance with minimal improvements needed

While the Board is satisfied that its composition is appropriately balanced in accordance with King IV™ principles, the Board has highlighted the ongoing vacancies to the shareholder. Furthermore, the Board notes the lack of succession planning and lack of representation of persons with disabilities.

Group Company Secretary

The Group Company Secretary plays an important role in the governance and administration of the organisation, and is vital to the efficient and effective functioning of the Board through support and guidance to directors. Mr Mlwazi Manjingolo was appointed as Group Company Secretary from 1 July 2020.

Board evaluation

Although King IV™ recommends that board evaluations be conducted every second year, we conduct a board evaluation annually in line with DPE’s SOC Board Evaluation Framework.

The 2020 self-assessment covered the same themes as the 2019 evaluation. The average scores (out of 4) achieved across each area are as follows:

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Below 1: Requires significant attention or intervention
2 – 3: Average to satisfactory performance
4: Excellent performance with minimal improvements needed

A request to appoint additional non-executive directors to strengthen the Board has been submitted to the shareholder for consideration.
Board responsibilities
The directors collectively understand their roles and responsibilities, with the Chair and the MD and CEO. The Board is satisfied with their level of oversight and its independence, with directors feeling empowered to make decisions in the best interest of Eskom. Due to the board’s change, the performance evaluation of the newly appointed GCE had not yet been conducted. Board training was the lowest scoring aspect in this area, with implementation of a Board training plan cited as a main reason.

P&G and the Board have approved a continuing education programme for the Board. The Office of the Company Secretary has standardised the processes of reviewing the programme for implementation in the coming year.

Ethical leadership
The Board is satisfied that it sets the direction for ethical behaviour within the organisation in accordance with King IV. The Board continues to affirm a zero tolerance towards unethical behaviour, however, the lack of consistent consequence management and poor implementation of ethics policies were highlighted as weaknesses.

An ethics risk assessment is planned for the coming year, to identify high-risk areas and inform the review of Eskom’s ethics strategies and policies. Consequence management as well as ethics training and awareness are particular areas of focus.

Sustainability
The Board is satisfied that it sets the tone on matters related to diversity, inclusion and transformation. The Board is comfortable with its oversight of safety, health, quality, environmental and financial sustainability. However, the Board concluded that reporting on certain areas can be improved and that reliance is placed on executive management to implement relevant policies in accordance with the DoA.

Relationship with management
The Board understands its responsibility for oversight and is satisfied that it holds executive management accountable for performance. The Board is generally dissatisfied with the lack of succession planning for executive management, scoring this aspect the lowest in this area, but acknowledges that leadership changes have made this challenging.

Succession planning for executive management is an area of focus, with the process managed through an executive talent board. As mentioned previously, Exco has approved two accelerated development programmes to support succession planning for executive positions.

Stakeholder engagement
The Board is satisfied that it has identified all key stakeholders, their significance and role. The Board is further satisfied that the direction for reporting to enable stakeholders to make informed decisions. Stakeholder expectations are understood and met, however, the Board recognises that stakeholders’ views and expectations continue to change based on Eskom’s performance and reputation. The Board concluded that the GCE maintains strong stakeholder relationships to answer the strategic objectives of Eskom.

Board meetings
The Board is generally dissatisfied with the quality and lateness of submissions, scoring this aspect the lowest in this area. Although meetings of the Board and its committees are scheduled annually in advance, special meetings may be convened when required to address pressing issues.

The Office of the Company Secretary has standardised requirements for submissions to the Board and its committees. No submission is accepted without approval from the relevant executive sponsor. The Board has tasked executive management with establishing improved mechanisms to verify information and monitor implementation of submission standards.

Board committees
The Board appoints members to its committees by considering the necessary skills, experience and diversity required. The exception is ARC, as the shareholder is responsible for appointing members in terms of our MOI. The Board acknowledges that ARC has to be strengthened with appropriate qualifications and skills in finance and assurance.

A request was submitted for the shareholder’s consideration to address this shortcoming.

Sustainability
The Board is satisfied that it sets the tone on matters related to diversity, inclusion and transformation. The Board is comfortable with its oversight of safety, health, quality, environmental and financial sustainability. However, the Board concluded that reporting on certain areas can be improved and that reliance is placed on executive management to implement relevant policies in accordance with the DoA.

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The Board appoints members to its committees by considering the necessary skills, experience and diversity required. The exception is ARC, as the shareholder is responsible for appointing members in terms of our MOI and the Companies Act, 2008.

The Board concluded that vacancies need to be addressed in order for its committees to be adequately constituted. Furthermore, the Board acknowledges that ARC has to be strengthened with appropriate qualifications and skills in finance and assurance. A request was submitted for the shareholder’s consideration to address this shortcoming.

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The Board concluded that vacancies need to be addressed in order for its committees to be adequately constituted. Furthermore, the Board acknowledges that ARC has to be strengthened with appropriate qualifications and skills in finance and assurance. A request was submitted for the shareholder’s consideration to address this shortcoming.
The statutory functions of an audit committee set out in the Companies Act, 2008, include:

- **Purpose**
  - Law, governance, risk management, nuclear science and technology.
  - To serve as the statutory audit committee for Eskom’s annual financial statements.

- **Number of meetings**
  - Thirteen meetings were held during the year.

- **Membership (at year end)**
  - Three independent non-executive directors:
    - Dr Pulane Molokwane (chairman), Dr Rod Crompton and Prof. Thapelo Mongalo.

  - Collectively, members have qualifications or experience in commerce and industry, economics, public sector law, governance, risk management, nuclear science and environmental engineering.

- **Future focus areas**
  - Focus areas for the coming year include:
    - Sustaining key functions relating to financial reporting and Eskom’s status as a going concern, in particular efforts to improve the income statement and strengthen the balance sheet.
    - Reviewing the effectiveness of risk and compliance management as well as internal financial and other controls, together with the adequacy of consequence management, to ensure that contraventions are appropriately addressed.
    - Governing information and technology risk, specifically related to Eskom’s planned legal separation.
    - Monitoring the implementation of combined assurance, in particular the cooperation and coordination between the internal audit function and the external auditors.
    - Collaborating with the Auditor-General on external auditor succession planning.
    - Overseeing the operations of Eskom’s subsidiaries.

- **Conclusion**
  - The committee fulfilled all its statutory duties in terms of the Public Finance Management Act, 1999, and section 94(7)(f) of the Companies Act, 2008. The committee has adopted an appropriate formal terms of reference, has regulated its affairs in compliance with its terms of reference and is satisfied that it has discharged its responsibilities contained therein.

- **Chairman**
  - Dr Pulane Molokwane

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**ASSURANCE AND CONTROLS**

The Board, through ARC, is responsible for setting the direction for assurance, risk management, controls and compliance of Eskom’s annual financial statements and integrated report. ARC provides independent oversight of these functions.

- **The Assurance and Forensic Department (A&F)**, our independent internal audit function, reports directly to ARC. A&F’s annual audit plan is approved by ARC, and includes risk-based audit and resource plans to adequately address the complexity of risks facing Eskom.

- **Methode of assurance**
  - An annual audit plan is prepared by ARC, and includes risk-based audit and resource plans to adequately address the complexity of risks facing Eskom.

- **Future focus areas**
  - Focus areas for the coming year include:
    - Sustaining key functions relating to financial reporting and Eskom’s status as a going concern, in particular efforts to improve the income statement and strengthen the balance sheet.
    - Reviewing the effectiveness of risk and compliance management as well as internal financial and other controls, together with the adequacy of consequence management, to ensure that contraventions are appropriately addressed.
    - Governing information and technology risk, specifically related to Eskom’s planned legal separation.
    - Monitoring the implementation of combined assurance, in particular the cooperation and coordination between the internal audit function and the external auditors.
    - Collaborating with the Auditor-General on external auditor succession planning.
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- **Chairman**
  - Dr Pulane Molokwane

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**GOVERNANCE**

- **Governing Body**
  - The composition of the Board and Arc.

**RISK MANAGEMENT**

- **Risk Management**
  - The design of the system of risk management is adequate, although the system of controls relating to compliance is partially effective.

**INTERNAL CONTROLS**

- **Internal Controls**
  - The system of internal financial controls is adequate and forms a reasonable basis for the preparation of Eskom’s financial statements.

**FINANCIAL CONTROLS**

- **Financial Controls**
  - The system of financial controls is adequate and forms a reasonable basis for the preparation of Eskom’s financial statements.

**SUPERVISION**

- **Supervision**
  - The Board, through ARC, is responsible for setting the direction for assurance, risk management, controls and compliance of Eskom’s annual financial statements and integrated report.
Number of meetings
Twelve meetings were held during the year.

Membership (at year end)
Three independent non-executive directors:
Ms Nelisiwe Magubane (chairman), Dr Banoritile Makhubela and Ms Busisiwe Mavuso

Collectively, members have qualifications or experience in commerce and industry, accounting, energy, public sector, chemistry and engineering.

Purpose
The committee’s responsibilities include:
• Oversight of investment strategies, capital and borrowing programmes, and financial budgets
• Approval of business cases for new ventures, capital investments and projects
• Monitoring the concept, design and execution of major capital projects
• Oversight of Eskom’s treasury function

Key activities during the year
The committee considered the following and, where required, recommended matters for approval or noting by the Board:
• Submission to NEB of the RCA balance application for the 2020 financial year
• Selection of the preferred bidder for the disposal of Eskom Finance Company SOC Ltd
• Quarterly Treasury reports and the progress on Eskom’s borrowing programme, outlined in the Corporate Plan
• The status of Eskom’s capital investment plan and associated risks arising from capital constraints in the 2021 and 2022 financial years

The committee considered management’s response to addressing Eskom’s capital structure, debt management and financial sustainability through the turnaround plan

Future focus areas
Focus areas for the coming year include:
• Supervising financial plans and business cases, as well as setting criteria and guidelines for capital investments and projects for Eskom and its subsidiaries
• Considering standard tariff plans, structures and rates, including the annual tariff review based on MYTPD and related regulatory applications
• Reviewing conditions and pricing for the sale of electricity through agreements longer than three years
• Evaluating conditions and pricing of power purchase agreements longer than three years, where DMRE has executed the procurement process

Conclusion
The committee has adopted an appropriate formal terms of reference, has regulated its affairs in compliance with its terms of reference and is satisfied that it has discharged its responsibilities contained therein.

Ms Nelisiwe Magubane
Chairman
Investment and Finance Committee

REPORT BY THE PEOPLE AND GOVERNANCE COMMITTEE
FOR THE YEAR ENDED 31 MARCH 2021

Number of meetings
Four meetings were held during the year.

Membership (at year end)
Three independent non-executive directors:
Prof. Tshepo Mongalo (chairman), Prof. Malegapuru Makgoba and Ms Busisiwe Mavuso

Collectively, members have qualifications or experience in commerce and industry, accounting, law and governance, public sector and medicine.

Purpose
The committee’s responsibilities include:
• Ensuring a fit-for-purpose future skills strategy
• Finalising Eskom’s remuneration policy in line with DPE’s guidelines, after feedback is received from DPE
• Improving governance and accountability of line divisions through separate delegation of authority frameworks
• Ensuring a fit-for-purpose future skills strategy through Eskom’s skills audit

Key activities during the year
The committee considered the following and, where required, recommended matters for approval or noting by the Board:
• Progress on human resources cost curtailment initiatives and headcount reduction, including implementation of voluntary separation packages
• Human resources plans, including critical vacancies and recruitment, learner management, employment equity, industrial relations and employee engagement
• Quarterly human resources performance reports and the annual review of remuneration and employment conditions

Conclusion
The committee has adopted an appropriate formal terms of reference, has regulated its affairs in compliance with its terms of reference and is satisfied that it has discharged its responsibilities contained therein. The committee has complied with all relevant legal and regulatory requirements pertaining to remuneration of employees across the organisation, and further notes that no deviations from Eskom’s remuneration philosophy were observed during the year.

Prof. Tshepo Mongalo
Chairman
People and Governance Committee
REMUNERATION AND BENEFITS

Our approach to remuneration
PGC assists the Board in its oversight of key human resources strategies and policies, and is mandated to oversee remuneration in Eskom in a fair, responsible and transparent manner. We strive to ensure that remuneration practices support Eskom’s strategic objectives and encourage value creation and advance Eskom’s long-term sustainability by:
- Adopting the principles of King IV™ for the remuneration of directors and executives
- Implementing DPE’s guidelines on remuneration and incentives for SOCs
- Ensuring that the remuneration and incentive philosophy is aligned to the shareholder compact, and that it drives individual and organisational performance

Our remuneration policy has been submitted to DPE. The aim is to ensure adherence to DPE’s guidelines for the remuneration of executives, prescribed officers and non-executive directors. The policy will be finalised based on DPE’s feedback.

Remuneration philosophy for directors and executives

Executives
We aim to attract and retain executive management in a competitive market on a fair and equitable basis, and strive to reward performance that exceeds expectations in a competitive market on a fair and equitable basis, and strive to reward performance that exceeds expectations and supports the achievement of organisational objectives. Executive remuneration is designed to demonstrate a clear relationship between performance and remuneration, comprises the following:

Variable remuneration
Variable remuneration is linked to the achievement of individual and organisational performance objectives, subject to defined gatekeepers. Short-term incentives relate to a single financial year, whereas long-term incentives cover a three-year period.

Refer to pages 74 to 75 of our 2019 integrated report for an explanation of how short- and long-term incentives are structured.

PGC is solely responsible for determining executive remuneration, rewards and other benefits and conducts an annual review of executive packages, guided by external benchmarking. Executives are not involved in the approval process. PGC maintains the right to adjust, withhold or veto any remuneration.

In line with the conditions of the Special Appropriation Act, 2019, no increases and no incentives were awarded to executives during the 2021 financial year. Furthermore, no incentives have been paid to executives since 2018.

Non-executive directors
Non-executive directors receive a fixed monthly fee and are reimbursed for expenses incurred in fulfilling their duties. Remuneration is determined in line with DPE’s guidelines, and is benchmarked against large JSE-listed companies as well as companies similar in size to Eskom. PGC submits proposals on non-executive remuneration to the Board, which considers and makes recommendations to the shareholder for approval.

Total remuneration for directors and group executives
Remuneration is fixed and includes compulsory benefits such as medical aid, pension, group life and death benefits, as well as allowances for motor vehicle expenses and personal security. Any increase in the guaranteed amount is recommended by PGC, subject to approval by the shareholder.

Number of meetings
Four meetings were held during the year.

Membership (at year end)
Three independent non-executive directors:
Dr Banothisile Makhubela (chairman), Prof Malegapuru Makgoba and Dr Pulane Molokwane

Collectively, members have qualifications or experience in industry, public sector, nuclear science, environmental engineering, chemistry and medicine.

Purpose
The committee’s responsibilities include:
- The statutory functions of a social and ethics committee as set out in the Companies Act, 2008
- Oversight of social and economic development; good corporate citizenship; environmental, climate change, health and safety programmes; and the sustainability audit
- Supervision of nuclear policies, strategies and guidelines, as well as nuclear safety in terms of regulatory requirements and international best practice
- Serving as the statutory social and ethics committee for Eskom’s wholly owned subsidiaries

Key activities during the year
The committee considered the following and, where required, recommended matters for approval or noting by the Board:
- Progress, challenges and mitigating measures relating to operational performance and sustainability
- Feedback from management on occupational health and safety, corporate social investment and electrification, stakeholder engagement and transformation
- Nuclear oversight and management of associated risks
- Eskom’s ethics report, including management of ethics

To address the prior year’s focus areas:
- The committee assessed performance against the five focus areas of the turnaround plan, the Generation recovery plan and the Transmission sustainability improvement plan
- The committee considered environmental performance and related contraventions and non-compliance notices

Future focus areas
Focus areas for the coming year include:
- Monitoring both employee and public health and safety aspects of Eskom’s response to COVID-19
- Considering improvements to the ethics management strategy, policies and procedures
- Ensuring continued compliance with Regulation 43 of the Companies Act, 2008

Conclusion
The committee has adopted an appropriate formal terms of reference, has regulated its affairs in compliance with its terms of reference and is satisfied that it has discharged its responsibilities contained therein. Furthermore, the committee fulfilled all its statutory duties as set out in Regulation 43 of the Companies Act, 2008.

Dr Banothisile Makhubela
Chairman
Social, Ethics and Sustainability Committee

REPORT BY THE SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE
FOR THE YEAR ENDED 31 MARCH 2021
An ethical organisation attracts and retains talented employees and gains the trust of investors, suppliers, customers, the community and other stakeholders. An organisation that strives for sustainable development can achieve this only with a strong ethical foundation.

In accordance with King IV™, the Board is responsible for the governance of ethics and, through SES, establishes an ethical culture and provides oversight of ethics strategies and policies.

Our Code of Ethics, known as “The Way”, sets the standard for ethical behaviour across all areas of the organisation. It reflects our commitment to the highest standards of governance, ethics and integrity. “The Way” guides the way in which the Board and employees interact with each other as well as with the shareholder, customers, suppliers, the environment, the public and other stakeholders.

Adherence to the “The Way” is not optional, it is the way we do business in Eskom. It provides direction and guides us on the path we need to take as we walk together into the future. This path is defined by six core values, which form the foundation of our values-driven organisation.

- Zero Harm means protecting the Eskom Way
- Integrity means acting the Eskom Way
- Innovation means thinking the Eskom Way
- Sinobuntu means caring the Eskom Way
- Customer satisfaction means serving the Eskom Way
- Excellence means working the Eskom Way

SES has delegated the responsibility for the implementation and management of ethics to Exco. Our dedicated Ethics Office is responsible for developing ethics policies and procedures, such as our Code of Ethics, conflict of interest policy and declaration of interest procedure, and monitoring the effectiveness of their implementation. The Ethics Office facilitates ethics training and provides guidance on ethical issues in the workplace. Any allegations of ethics that may involve fraud and corruption are referred to A&F for further investigation.

Our conflict of interest policy complements our Code of Ethics by setting out the obligations of directors and employees in dealing with ethical issues such as potential conflicts of interest, private work, relationships with suppliers as well as receiving or offering business courtesies.

No official or employee is allowed to do business with Eskom while being employed by Eskom or its subsidiaries. To our knowledge, there are no conflicts of interest as a result of any director doing business with Eskom.

Our declaration of interest procedure ensures that directors and employees across all occupational levels complete an annual declaration of interest, irrespective of whether a conflict exists, or as soon as circumstances that may affect their declaration change. Where a conflict exists, it must be declared and managed in line with ethics policies and procedures. Any interests declared by directors and Exco members in meetings are minuted for the record.

All members of the Board and Exco have completed their declarations. Any identified conflicts are managed appropriately. A&F reviews directors’ declarations on an annual basis and conducts proactive compliance reviews and probity checks for procurement transactions over R500 million tabled for approval at relevant Exco, divisional and Board committees.

During the year, we upgraded our declaration system to link directly to various databases, such as the CIPC and Eskom’s vendor management system, to identify questionable conduct proactively. Any director, employee or supplier who is found to have contravened the stipulated policies, procedures or DoA will be subjected to disciplinary processes.

We will be undertaking an independent ethics risk assessment in the coming financial year. The intent is to survey internal and external stakeholders to determine potential ethics opportunities and unethical behaviours and practices that place Eskom at risk. The Ethics Institute will be conducting the assessment to ensure independence and confidentiality.

In accordance with King IV™, the assessment will inform our thinking around ethics management interventions. We will develop an ethics risk register to better manage ethics-related risks, and review our ethics management strategy, policies and procedures. The assessment will also determine high-risk areas and enable us to develop suitable responses to ensure a greater focus on consequence management, and further improve the rollout of ethics training and awareness. Ethics and PMMA training is now mandatory for all employees on an annual basis.

We are committed to the fight against fraud, corruption, irregularities and other forms of economic crime. We subscribe to the Organisation for Economic Co-operation and Development’s (OECD) principles on anti-corruption. As a signatory to the United Nations Global Compact and the World Economic Forum’s Partnership Against Corruption initiative, we adopt a zero tolerance approach to fraud, corruption and irregularities, irrespective of whether they are committed inside or outside the organisation.

An independent, confidential whistle-blowing hotline enables all stakeholders to report unlawful or irregular conduct in good faith.

Separation of Eskom’s core and non-core commercial activities and potential levers to improve liquidity
Separation of Eskom’s commercial and non-commercial activities
The proposal to move towards a cost-reflective tariff over time, in accordance with Government policy
Special pricing agreement beneficiary categories, resolving that management consider how to treat negotiated pricing agreements (NPAs) in the move towards cost-reflectivity
The Just Energy Transition transaction, as well as proposals for power plant repurposing and repowering ageing coal-fired power stations
The organisational culture plan and Eskom’s future of work business case

To address the prior year’s focus areas:

- The committee evaluated progress on Eskom’s strategy review and the Corporate Plan for the 2022 to 2024 financial years
- The committee assessed the role of the Turnaround Management Office and feedback on the five focus areas of the turnaround plan, in particular Eskom’s functional and legal separation
- The committee considered proposed amendments to legislation, regulations, licences, methodologies and Grid Codes

Future focus areas

Focus areas for the coming year include:

- Overseeing interactions with Government on the legal separation of Eskom, as well as the implementation of associated directives, roadmaps and policies
- Providing direction and making recommendations given the new market structure
- Considering Eskom’s long-term strategy review
- Overseeing the Just Energy Transition
- Overseeing turnaround plan initiatives, in particular Eskom’s legal separation and efforts to address financial sustainability
- Considering organisational change and culture management
- Demarcating and separating Eskom’s commercial and non-commercial activities

Conclusion

The committee has adopted an appropriate formal terms of reference, has regulated its affairs in compliance with its terms of reference and is satisfied that it has discharged its responsibilities contained therein.

Dr Rod Crompton
Chairman
Board Strategy Committee
EXCO AND DIVISIONAL BOARDS

Executive Management Committee
Exco is established by the GCE and is accountable for executing the strategy of the Board, as well as exercising executive control over day-to-day operations. Exco is supported by various subcommittees in the execution of its duties.

Refer to “Our governance framework” on page 22 for the subcommittees

The shareholder appoints the GCE, although the Board identifies, nominates and evaluates potential candidates. The CFO is appointed by the Board, subject to shareholder approval, whereas group executives are recommended by the GCE and appointed by PGC. Both the GCE and CFO are appointed on five-year contracts, with an option to renew. All other executives are full-time employees, unless otherwise noted below.

Changes in executive leadership
The following changes took place during the year:
- Ms Faith Burn was appointed as Chief Information Officer from 15 May 2020
- Mr Richard Vaughan was appointed as General Manager: Treasury from 15 May 2020
- Mr Vuyolwethu Tuku was appointed as Group Executive: Transformation Management Office on a fixed-term contract from 1 July 2020
- Mr Bheki Nkumalo, previously Group Executive: Generation, was appointed as Group Executive: Group Capital from 1 September 2020
- Mr Phillip Dukashe was appointed as Group Executive: Generation from 1 April 2021, after acting in the position since 1 February 2021. Previously, Mr Rhulani Matshuba acted in the position from 1 September 2020
- Ms Nthato Minyuku was appointed as Group Executive: Government and Regulatory Affairs from 15 October 2020
- Ms Nida Gafoor was appointed as General Manager: Audit and Forensic from 16 November 2020
- Mr Bartlett Hewu, acting Group Executive: Legal and Compliance, was placed on suspension on 11 December 2020. His fixed-term contract was terminated on 31 January 2021. Ms Nerina Otto was appointed to act in the position.
- Mr Solomon Tshitangano, Chief Procurement Officer, was placed on suspension on 22 February 2021. Following a disciplinary hearing, he was dismissed with immediate effect on 28 May 2021. Ms Jainthree Sankar was appointed to act in the position

After year end, Mr Sandle Siyaya was appointed as General Manager: Primary Energy from 1 May 2021.

Refer to pages 12 and 13 for the Exco composition, with information on skills and years in service, as well as racial, gender and age diversity

Divisional boards
Divisional boards were established in March 2020 as the first step towards functional separation. We have made good progress in separating the functioning of the three divisions, to drive separate accountability for each division and improve business performance. In addition, the relinking of employees from various corporate functions to the divisions has been concluded. This has capacitated the divisions to function relatively independently while still aligning with and implementing the overall Eskom strategy.

The group executives for Generation, Transmission and Distribution serve as divisional managing directors for their respective divisions.

Mr Phillip Dukashe
Group Executive: Generation

Mr Segomoco Scheppers
Group Executive: Transmission

Mr Monde Bala
Group Executive: Distribution

Membership of the divisional boards includes the GCE, CFO, COO, Group Executive: Human Resources and Chief Information Officer, as well as senior management representation from divisional finance, human resources and operations functions.

The divisional boards report to Exco on a regular basis to ensure that common challenges that have an impact beyond the division are addressed by Exco, and that decision-making and implementation are aligned with the overall Eskom strategy. The divisional boards can make recommendations to Exco and the Eskom Board on matters requiring their approval.

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Chief Executive's Review

What stood out for you over the past year?
Eskom is facing unprecedented challenges in an environment where uncertainty and disruption is the new norm. Operating as we do in a highly regulated market that is undergoing fundamental reform in the context of South Africa’s energy security, decarbonisation and transformation agendas, we have to contend with structural implications for our business and the industry as a whole.

On top of that, declining global and local economic conditions have been exacerbated by the effects of the COVID-19 pandemic, with the negative impact on large businesses and SMMEs alike persisting. These conditions are likely to hamper economic growth and have a persistent impact on Eskom’s revenue collection.

Eskom’s poor financial and operational performance in turn negatively affects vital national priorities such as economic growth, job creation and efforts to combat poverty, and remains a major risk to the South African economy. At the same time, we have been struggling to secure cost-reflective tariff increases, and this is unlikely to improve in the near future. That said, the taxpayer cannot continue to subsidise the electricity consumer by way of equity injections by Government. Ultimately, recovering efficient cost from the user of electricity is the only sustainable way of enabling Eskom to be financially viable, but also of rewarding private investors in new generation capacity.

The slowdown of the economy amid the COVID-19 pandemic led to an unprecedented decline in sales during the year. Sales were 6.7% lower than the previous year, with the biggest impact felt in the first half of the year. Due to many sectors of the economy returning to operation, the impact on sales in the second half of the year was less severe. During the level 5 lockdown to the end of April 2020, the daily peak demand on the power system reduced by between 7 500MW and 11 000MW, as lockdown restrictions and depressed economic conditions led to a reduction in average demand for electricity. We used the opportunity presented by the lower demand to perform much-needed maintenance at our power stations.

The initiatives that are beginning to emerge from our ongoing strategy review will be pursued over the short, medium and long term. This will ensure that timely and appropriate strategic decisions are taken to capitalise on opportunities that will improve our sustainability and resilience, and also benefit the South African electricity industry.

Consequently, our turnaround plan remains the key enabler that must be successfully delivered so that we can pursue a trajectory towards a sustainable, low-carbon future. However, unless the tariffs are corrected in line with MYPD methodology, our ability to execute these strategies will be compromised.

You mentioned the strategy is under review. Can you elaborate?
We are reviewing our long-term strategy to take account of changes in the operating environment, thereby leveraging our infrastructure and capabilities by focusing on a return to operational and financial sustainability. As I’ve mentioned on a few occasions, the trends of decarbonisation, decentralisation, digitalisation and democratisation are shaping the electricity sector of the future.

We have developed a new set of strategic objectives, informed by industry trends and the key initiatives necessary to turn around the business. This will provide the foundation to facilitate the development of a future electricity sector that is competitive and enabled by modern power system technologies, as South Africa strives to achieve net zero emissions by 2050.

We continue to focus on the five focus areas of the turnaround plan, which are shorter term steps in a much longer journey. I’ll return to progress against the plan a little later.

Our long-term strategy positions Eskom as an enabler of the Just Energy Transition, or JET, as well as a key role player in executing the latest Integrated Resource Plan. Eskom was the first business in South Africa to establish a JET Office dedicated to this strategic imperative, evidence of our commitment to decarbonising in a socially and economically just manner. JET will act as a pivot point to enable the strategy to deliver growth. We will rewire and repurpose power stations, and build on the success of our Renewable Business Unit.

JET will see us transitioning to a cleaner and greener energy future, while enabling new job opportunities for people displaced by the replacement of coal by cleaner technologies, as well as the continued socio-economic development of communities and settlements established around our power stations. In a nutshell, it’s about a transition towards a low-carbon, climate-resilient economy and society in a way that does not impede socio-economic development, while still creating sustainable jobs.

Eskom intends to be a key enabler of South Africa’s transition towards an economically inclusive and lower carbon future. Ultimately, we want to make a vital contribution to economic growth, job creation, socio-economic development and the creation of a stable, equitable and cohesive South Africa.

Has progress against the turnaround plan met your expectations?
Our turnaround plan focuses on operations recovery, improving the income statement, strengthening the balance sheet, driving business separation and transforming our people and culture. If we execute the turnaround plan successfully, and the business separation project in particular, Eskom will be well positioned to deliver value within the broader national efforts to drive reform in the electricity supply industry, through the execution of DPE’s Roadmap.

In most areas, we are making good progress, although certain areas give me some cause for concern. On operations recovery, addressing load losses and fixing new build defects are taking longer than we had expected. We can also improve on performance against the reliability maintenance recovery programme. Moreover, progress on environmental performance, particularly at Kendal Power Station, is not yet satisfactory. The high utilisation of the older coal-fired power stations remains significantly above international norms, and will have negative long-term technical consequences.

On the income statement, some areas are on track, such as initiatives to reduce headcount, procurement savings and actions to improve the tariff trajectory, but other areas are lagging behind, such as divisional efficiency savings and some primary energy initiatives. And of course, municipal and Soweto area debt continues to escalate, which also had a significant effect on the balance sheet.

The people and culture area is performing well, with external stakeholder relations and employee communications ensuring alignment, despite constraints imposed by COVID-19. We also completed the relinking of staff as part of the business separation and achieved people efficiencies, but we need to continue driving a high-performance culture. To this end, enhanced accountability is key.

Restoring stakeholder trust in Eskom is critical to our future success. By improving the way we engage with stakeholders, and in respond to stakeholder interests and needs, we aim to promote energy security in the long term.

Is the legal separation going according to plan, particularly the Transmission entity?
Last year, we established divisional boards for Generation, Transmission and Distribution to enhance internal governance structures and accountability, as a first step to functional separation. Divisionalisation was achieved as planned by March 2020.

Functional separation was targeted by March 2021. Major milestones were completed on time, but by year end, service level agreements and IT changes still had to be finalised. All the necessary documentation was completed and signed by 7 June 2021, thereby completing functional separation of the three line divisions. I am very satisfied with our progress to date.

Our focus has now shifted to legal separation. An accelerated base plan allows for the legal separation of Transmission by December 2021, with Generation and Distribution by December 2022.

A key dependency is the approval by bondholders and financial instrument holders of any unbundling of Eskom. However, based on engagements with investors, they question the ability of the business separation to bring about financial sustainability for the company. We will continue to engage all our lenders to obtain their support.

Additionally, approved trading arrangements must be in place by 31 December 2021, otherwise the Transmission entity cannot operate. Dependencies also include licence transfers and applications, policy and regulatory reforms, as well as legal and financial dependencies.

Tariff structures need to be modernised to reflect wholesale prices, network costs and other services. In addition, NERSA has to approve mechanisms for how the Transmission entity will purchase energy from Generation and IPPs. Tariff levels must be aligned to the NERSA revenue determination. Furthermore, guidance is awaited from DMPRE regarding licensing and internal market operations of the Transmission entity.

As you can see, there are a number of critical external and regulatory decisions and dependencies at play. Furthermore, the achievement of legal separation is largely dependent on Government playing a proactive and supportive role.

A number of dependencies are lagging behind, putting the finalisation of separation of the Transmission entity by 31 December 2021 at significant risk. However, our intention remains to comply with the timelines set out in the DPE Roadmap, despite the obstacles encountered.
give us an overview of the financial and operational performance of the business. The results for the year demonstrate an incremental improvement in certain operational metrics, although significant financial challenges remain predominantly related to tariffs not being cost-reflective, coupled with liquidity challenges and an unsustainably high debt burden. As I mentioned earlier, the effects of the COVID-19 pandemic had an undeniable impact on our bottom line, due to a significant reduction of sales, which was not offset by an associated reduction in primary energy and operating costs, although the increase was contained within inflation. The recent tariff determination by NERSA will positively contribute to the journey towards financial sustainability.

Performance of the generating plant, together with environmental performance, remain disappointing, despite improvements in certain areas. Nevertheless, our transmission and distribution networks continue to perform well, and we are making satisfactory progress on the new build programme, both in terms of delivering new units and correcting defects.

Generating plant and network performance, progress on the new build programme and environmental performance are covered in the Chief Financial Officer’s report from page 38.

Tell us more about the people and culture area of the turnaround plan

The value of a productive partnership between Eskom, our people and our trade unions cannot be emphasised enough. Employee benefit costs remain the second largest component of operating costs, at about 19% of operating expenditure. To contain operating costs, a significant reduction in employee benefit costs over time to contain costs and build a more sustainable organisation. This will contribute to saving lives, not only for Eskom employees and their families, but also for the country.

Looking ahead, what are Eskom’s greatest challenges?

Approximately 10 000MW of Eskom’s base-load capacity has to be decommissioned in the next decade, which will create additional strain on the system and the need for new generating capacity. Cleaner technologies, including significant renewable capacity, has to be brought online to the grid created by both the decommissioning of stations and future demand. This has to be supported by a significant expansion of the transmission grid, which will also contribute to stimulating economic activity and job creation.

We welcome DMRE’s amendment of the Electricity Regulation Act to allow generation of up to 100MW without a licence from NERSA. Over time, this progressive step will greatly assist in the effort to provide reliable and sufficient electricity for the economy while creating space for Eskom to conduct much-needed repairs on infrastructure, although it will understandably have a negative impact on sales.

As we continue to implement the reliability maintenance recovery programme, many generating units are taken offline for planned maintenance, leaving the power system constrained. We believe this is a worthy short-term trade-off towards long-term operational sustainability. Consequently, customer-funded capacity alongside the contribution by IPPs will address the immediate supply/demand gap and reduce the risk of loadshedding over time.

These changes, together with our own efforts to repurpose and repower ageing power stations, will serve to reduce the country’s electricity supply gap. However, we require a solution to our debt burden and a cost-reflective tariff structure to enable us to assess the extent to which we can participate in remediating the country’s capacity constraints.

While it may be tempting to demand that only the developed world should decarbonise, and allow South Africa to fuel its growth with coal, the reality is starkly different. Our economic activity is 25% more carbon-intensive than China on a per capita basis, and double the global average. South Africa emits roughly half the total carbon emissions of the African continent, and Eskom emits about 44% of the country’s total carbon emissions. We simply cannot ignore our carbon footprint.

International finance and climate action circles have a dual focus on diverting from fossil fuel-based and increasing funding for renewables. In addition, the world is penalising heavy carbon emitters. If a European proposal is adopted, levies could be imposed on imports in carbon-intensive sectors, such as steel from countries with lower environmental standards than the EU. Therefore, JET is required to attract funding to support the gradual shift from fossil fuel-based to cleaner power generation, while managing the impact on the livelihoods of communities dependent on our operations. Pivoting to green energy will create a competitive advantage for South African exports, whereas persisting with coal will lead to another era of isolation and punitive trade measures.

To make our ageing power stations compliant with emission standards, we must spend more than R300 billion. Taking into account that we simply do not have the money and that this exercise will not add any generation capacity, and will consume significantly more water, this is quite a difficult balancing act. However, non-compliance would have very a significant impact on capacity availability, with 18GW at risk immediately, increasing to 32GW by 2025, significantly increasing the risk of loadshedding. Therefore, we can use the funds required to comply with minimum emissions standards to build low- and non-carbon generating plant instead.

We are engaging with key stakeholders to negotiate a Just Energy Transition Transaction to fundamentally reorganise our balance sheet based on a green commitment. Such a transaction is expected to facilitate the refinancing of existing facilities on a concessional basis for a longer period, providing a level of relief for our debt service requirements and cost of funding. Despite green shoots emerging with the phased easing of lockdown restrictions, continued uncertainty around COVID-19, particularly in the event of further lockdowns, is expected to continue threatening future sales volumes, production cost and customers’ ability to pay. Demand is not expected to recover to pre-COVID-19 levels in the short to medium term, due to the long-lasting impact of the economic recession experienced in 2020.

Any last thoughts?

Our turnaround plan remains the key enabler for Eskom’s transition towards a sustainable, low-carbon future. However, unless the tariff methodology is properly applied and the tariff trajectory improves, our ability to execute these strategies will be compromised. Nevertheless, we remain committed to addressing the current electricity supply crisis and our financial challenges in a manner that supports the growth and development of our economy and our society, without a detrimental impact on our economy.

As the great Nelson Mandela once said, “You have a limited time to stay on earth. You must try to use that period for the purposes that will give your country into what you desire it to be: a democratic, non-racial, non-sexist country. And that is a great task.”

Today, we also have a tremendous task ahead of us, to transition Eskom and the country to a cleaner and greener future, not only for the good of South Africa, but also for the world, in order to mitigate the existential threat posed by climate change. Each one of us has a valuable contribution to make, but we require the support of all our stakeholders to successfully implement our turnaround plan and thereby, ensuring a sustainable electricity supply industry to power South Africa into the future.
### OUR GROUP PERFORMANCE

Our shareholder outlines the strategic objectives for Eskom in the Strategic Intent Statement. KPIs are aligned to these strategic objectives and the key focus areas of our turnaround plan, with performance across our top 10 KPIs for 2021 set out below.

#### Financial performance

- **Improve our income statement and strengthen our balance sheet.**
- **EBITDA margin, %**
  - 2019: 16.06
  - 2020: 18.46
  - 2021: 17.18

#### Generation operations

- **Improve reliability of the Generation fleet and reduce loadshedding.**
- **EAF, %**
  - 2019: 64.19
  - 2020: 66.44

#### Debt service cover ratio

- **0.30** (2020: 0.55)

#### Debt equity ratio

- **2.03** (2020: 2.45)

#### Environmental impact

- **Reduce air pollution**
  - **Particulate emissions, kg/MWh SO2**
    - 2020: 0.381
    - 2021: 0.47

#### Specific water usage

- **1.42** (2020: 1.42)

#### Health and safety

- **Support a culture of Zero Harm**
- **LTI R**
  - 2020: 0.22
  - 2021: 0.30

### Turnaround objectives

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

### Other metrics

Above are some of the KPIs used to measure our overall performance. We also make use of other metrics to monitor performance across our business, which are highlighted throughout the report and in the supplementary information from page 128.

### Our Strategy and Turnaround Plan

#### Strategic context

Declining global and local economic conditions are exacerbated by the effects of the COVID-19 pandemic, which continues to affect large businesses and SMMEs negatively. These conditions are likely to increase National Treasury’s shortfall in revenue collection. Eskom’s poor financial and operational performance contributes to the country’s challenges and remains a major risk to the South African economy. At the same time, we have been struggling to obtain cost-reflective tariff increases, and this is unlikely to change in the future. However, the taxpayer cannot continue to subsidise the electricity consumer through equity injections by Government.

The high-level impact of the COVID-19 pandemic and the associated national lockdown was discussed in “Impact of COVID-19” on page 242. Changes that are beginning to emerge from the ongoing strategy review will be pursued over the short, medium and long term. This will ensure that timely and appropriate strategic decisions are made to catalyse opportunities that will improve our sustainability and resilience, and also benefit the South African electricity industry. Consequently, our turnaround plan remains the key enabler that must be successfully delivered so that we can pursue a trajectory towards a sustainable, low-carbon future. However, unless the tariff methodology is properly applied, it will be challenging to execute these strategies will be compromised.

We continue to be guided by some critical documents and strategies which set out the shareholder’s broad approach, policies and expectations, including:

- The National Development Plan 2030, which depends on a reliable, efficient and competitive energy sector, which will be environmentally sustainable and expand access for consumers of electricity
- The Roadmap for Eskom in a Reformed Electricity Supply Industry released by DPE in October 2019 (DPE’s Roadmap)
- The legislative framework provided by the National Energy Act, 2008 and supporting legislation
- The Integrated Energy Plan and Integrated Resource Plan 2019 (IRP 2019), setting out the most recent view of the growth and future direction of the energy sector

During the process of creating value, we have an impact on the SDGs set out by the United Nations in its 2030 Agenda for Sustainable Development.

Our activities directly affect the following SDGs:

- **Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all**
- **Goal 12: Ensure sustainable consumption and production patterns**
- **Goal 13: Take urgent action to combat climate change and its impacts**

Furthermore, through our business activities, transformation initiatives and our CSI initiatives, we also contribute to, or have to consider, the following SDGs:

- **Goal 3: Ensure healthy lives and promote well-being for all at all ages**
- **Goal 5: Achieve gender equality and empower all women and girls**
- **Goal 6: Ensure availability and sustainable management of water and sanitation for all**
- **Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all**
- **Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation**
- **Goal 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss**

More information on SDGs is contained in the sustainability report, which is available online.
Strategy overview
Our immediate priority is to address Eskom’s financial and operational challenges to stabilise the business to create a sound platform to leverage capabilities, and to pursue a growth trajectory that supports national strategic imperatives such as the Economic Reconstruction and Recovery Plan and the Just Energy Transition (JET).

Strategic objectives
Our long-term strategy and integrated long-term plan are under review to take into account changes in the operating environment. A new set of strategic objectives have been developed, informed by industry trends and the key initiatives necessary to turn around the business.

In the short to medium term, we are focusing on the five focus areas of the turnaround plan. We have also set a number of long-term objectives. Lastly, JET will act as a pivot point to enable the short- and long-term strategy to enable growth.

Digitisation
Digitisation and digitalisation have become more prevalent, to incorporate and coordinate distributed generation efficiently and improve the overall efficiency of the grid and operations. The industry is experiencing an increase in digital electricity infrastructure investment and declining costs for grid technologies. New data, generated globally, will lead to new ideas and has huge value creation potential.

Democratisation
Future energy systems will incorporate many customer technologies through decentralised generation and decentralised ownership. Artificial intelligence, blockchain, the Internet of Things and advanced analytics start-ups are disrupting the status quo and are driving innovation in this space.

Eskom's base-load capacity will be decommissioned in the next decade, resulting in additional strain on the system and the need for new generating capacity. Cleaner technologies, including significant renewable capacity, has to be brought online to fill the gap created by both the decommissioning of stations and future demand. This has to be supported by a significant expansion of the transmission grid, which will also contribute to stimulating economic activity and job creation.

There is the dual focus of divestment from fossil fuels and increased funding for renewables in international finance and climate action circles. Therefore, the ability to attract funding as part of JET is required to support the gradual shift from fossil fuel-based to cleaner power generation, while managing the impact on the livelihoods of communities dependent on our operations.

Just Energy Transition (JET)
JET is a key lever to unlock the potential for local area control. Approximately 10 000MW of Eskom’s base-load capacity will be decommissioned in the next decade, resulting in additional strain on the system and the need for new generating capacity. Cleaner technologies, including significant renewable capacity, has to be brought online to fill the gap created by both the decommissioning of stations and future demand. This has to be supported by a significant expansion of the transmission grid, which will also contribute to stimulating economic activity and job creation.

There is the dual focus of divestment from fossil fuels and increased funding for renewables in international finance and climate action circles. Therefore, the ability to attract funding as part of JET is required to support the gradual shift from fossil fuel-based to cleaner power generation, while managing the impact on the livelihoods of communities dependent on our operations.

Short- to medium-term strategy
Over the past few years, we have focused on cleaning up governance issues, containing costs and re-energising the business in order to set a firm foundation for growth. At the same time, there has been a concerted effort to strengthen the financial position through demand stimulation, cost containment and efficiencies, limiting capital expenditure – which has had a negative effect on executing our strategies and longer-term plant sustainability – as well as striving to achieve a cost-reflective price of electricity. The equity injection from Government, which commenced in the 2020 financial year, is aimed at addressing liquidity challenges, although it does not support long-term financial sustainability. Regrettably, the impact of the COVID-19 pandemic and the associated national lockdown has had a severe impact on our business, particularly on sales volumes.

Our turnaround plan factors in recommendations by the Presidential Task Team and the Ministerial Review Task Team, specifically towards achieving operational stability. The short- to medium-term strategy follows a phased approach, which will lead to the emergence of a new, viable Eskom. It is underpinned by three pillars, which aim to stabilise, optimise and grow the business. All three pillars will be actioned in tandem to ensure that short-term opportunities are leveraged and risks are managed effectively.

Our turnaround plan focuses on operations recovery, improving the income statement, strengthening the balance sheet, driving business separation and transforming our people and culture. The successful execution of the turnaround plan, and the business separation project in particular, will result in an Eskom that is agile and well positioned to deliver value within the broader national efforts to drive reform in the electricity supply industry, through the execution of DPE’s Roadmap.

Long-term strategy
The long-term strategy positions Eskom as an enabler of the Just Energy Transition and a key role player in executing the IRP. We intend to remain a critical player in the electricity sector and make a vital contribution to economic growth, job creation, socio-economic development and the creation of a stable, equitable and cohesive South Africa.

Just Energy Transition
JET is about leveraging the opportunities presented by the transition towards a cleaner and greener energy future, while enabling the creation of new job opportunities for those displaced by the replacement of coal by these cleaner technologies. Therefore, it means a transition towards a low-carbon, climate-resilient economy and society in a manner that does not impede socio-economic development, but results in an increase in sustainable jobs. It is not a sudden shift in economic activity, but occurs in a phased manner over time.

By following a JET pathway, it will be possible to simultaneously spur economic growth, create sustainable jobs and put emissions into structural decline, as opposed to an electricity supply that is seen to compromise economic growth. Eskom is a key enabler of South Africa’s transition towards an economically inclusive and lower carbon future.

The JET vision is net zero emissions by 2050, with an increase in sustainable jobs.

The JET Office has been established to drive this vision. JET is a key lever to unlock the potential for local manufacturing and industrialisation, which includes meeting the demand for electric vehicles. The JET social impact will be addressed by retraining staff in the required skills.
OUR STRATEGY AND TURNAROUND PLAN continued

The purpose of the JET strategy is to provide a consolidated view of the approach that Eskom should take to transition from coal-fired power to more sustainable, lower-emission energy sources which support base-load demand. The strategic objectives are to:

- Accelerate the repurposing and repowering of power stations
- Fast-track execution of renewable energy through partnership funding models, as well as through our own build and power purchase agreements
- Drive research and innovation into technological solutions, including storage options and the hydrogen economy, thereby increasing adaptive capacity.

JET focuses on transitioning efforts over a 30-year time horizon between 2020 and 2050. The aspirational goals for 2030, 2040 and 2050 will be further refined by ongoing systems modelling that will aid in defining future energy net zero pathways and an appropriate energy mix. This systems modelling is overlaid by grid planning and financial modelling to ensure that we develop a robust, operable plan. Collaboration with research bodies aligned to our future mix will enable the identification of jobs that Eskom could contribute to developing, whether directly, indirectly or induced.

The first five years of the transition are deemed to be the most critical to enable sustainable success and to establish our position in both Eskom’s and the country’s Just Energy Transition.

Responding to climate change

We have to transition from a coal-based to a lower carbon and more climate-resilient company. As we embark on this transition, we are implementing other mitigation and adaptation measures to reduce our climate change impacts.

Mitigation refers to all activities undertaken to reduce greenhouse gas emissions (GHGs), and mainly includes the use of lower carbon-emitting technologies, such as renewables and nuclear and the promotion of energy-efficient technologies and activities. Adaptation to climate change seeks to reduce the vulnerability of systems to the effects of short- to long-term changes in climate. The response includes adapting to the weather change impacts, climate variability and long-term climate change impacts, thus allowing systems to build adaptive capacity and long-term resilience, such as investing in drought- or flood-resilient technologies.

The production of electricity from a coal-fired power station results in just over 1 ton of CO2 for every MWh produced. There is no commercially viable retrofit technology available to capture and store CO2 from our large coal-fired power stations. Therefore, the reduction in future GHG emissions from South Africa’s electricity sector is projected to come from the gradual phasing out of existing coal-fired power stations. Thereafter, the reduction in future GHG emissions can be achieved through globally connecting countries to enable new, lower carbon facilities such as wind and solar plant combined with gas and battery storage. This change in the future electricity generation mix of the country is detailed in the IRP 2019.

As the energy mix transitions, we are undertaking a number of activities to support this process:

- Investigating the opportunity to repurpose coal-fired electricity generation facilities for lower carbon electricity production, grid support and/or community development
- As the counterparty to DMRE’s Renewable Energy Independent Power Producer (RE-IPP) Programme
- Construction and operation of our own renewable energy sources
- Investigating new opportunities for demand-side management, combined with ongoing operation of existing measures
- Technology demonstration projects in off-grid and battery storage systems
- Ongoing research into new renewable energy, storage and grid stabilisation technologies, as well as technologies that improve the environmental performance of coal-fired electricity generation, including future opportunities for biomass co-firing and carbon capture, utilisation and storage
- Expanding the transmission grid to connect utility-scale renewable energy projects from around the country
- Expansion of the distribution grid to accommodate the connection of mini-grid systems
- Studies to enable the deployment of gas and/or hydrogen infrastructure to support the electricity grid as the supply mix transitions
- Promotion of market models that accommodate demand-side management, self-generation and IPPs
- Ongoing promotion and deployment of smart metering systems
- Engaging with NERSA on tariff structures that send accurate price signals to all market participants to drive the optimal mix and use of electricity

Progress against the turnaround plan

Our turnaround plan focuses on five key areas, namely:

- Operations recovery
- Improving the income statement
- Strengthening the balance sheet
- Driving business separation
- Transforming our people and culture

Progress on key areas

On operations recovery, there is some cause for concern. Fixing new build defects, as well as addressing partial and full load losses are taking longer than we had expected. Performance on the reliability maintenance recovery programme can be improved. Furthermore, progress on environmental performance, particularly at Kendall Power Station, is not satisfactory. Of concern is the high utilisation of the older coal-fired power stations significantly above international norms, thereby exacerbating the challenges.

Regarding improving the income statement, certain areas are on track, such as initiatives to reduce headcount, procurement savings and initiatives to improve the tariff trajectory, while other areas are lagging behind, such as divisional efficiency savings and some primary energy initiatives. Municipal and Soweto arrear debt continues to escalate due to little progress on intergovernmental interventions.

Regarding the strengthening of the balance sheet, some areas are also lagging behind expectations, such as management of obsolete stock and disposal of non-core assets, as well as optimisation of capital expenditure. Regrettably, the sale of EFC to the preferred bidder was not approved by DPE.

The progress on the legal separation of the Transmission entity is lagging behind, with legal and regulatory amendments and setup of the new entity behind schedule.

Refer to “Progress on business separation” on the next page for further information.
Regarding people and culture, external stakeholder relations and communication with employees performed well during the COVID-19 restrictions. We completed the relinking of staff as part of the business separation and achieved people efficiencies, but we need to continue driving a high-performance culture.

### Progress on business separation

DPE’s Roadmap sets out timelines for the restructuring of Eskom from a vertically integrated utility to an unbundled state with three wholly owned separate legal entities in the form of Transmission, Generation and Distribution as follows:

- Divisionalisation by March 2020
- Functional separation by March 2021
- Legal separation of the Transmission entity by December 2021
- Legal separation of the Generation and Distribution entities by December 2022

We have approached the implementation of DPE’s Roadmap in a phased manner to ensure organisational stability during the transition. By and large, our timelines are aligned to those in the Roadmap.

Divisionalisation was achieved by March 2020, with functional separation having been targeted by March 2021. Major milestones towards the completion of functional separation having been completed, with only service level agreements and IT changes still to be finalised at 31 March 2021. Functional separation of the three line divisions was completed by 7 June 2021, with all the necessary documentation completed and signed.

An accelerated base plan was developed to allow for the legal separation of Transmission by December 2021, with Generation and Distribution by December 2022. Given the completion of functional separation, the focus has shifted to the legal separation phase.

We have commissioned a due diligence exercise to support the implementation of DPE’s Roadmap. Following the due diligence exercise, several interdependencies need to be considered:

- The Eskom Amendment Act, 2001 and Electricity Regulation Act, 2006 need to be amended to grant the Transmission entity the same access to land entitlements currently vested in Eskom.
- Eskom faces unprecedented business challenges in a context where disruption is the new norm. We operate in a highly regulated market that is undergoing fundamental reform in the context of South Africa’s energy security, decarbonisation and transformation agendas, all of which have implications for our approach to stakeholder engagement. The Government and Regulatory Affairs Division (GRAD) is responsible for inclusive relationship management – with Government, various regulators, as well as domestic and international stakeholders – as well as effective communication, image and brand building.

Through SES, the Board provides oversight of the effectiveness of stakeholder engagement, and delegates the management of stakeholder relationships to Exco. Various functions within Eskom are responsible for engagements with different stakeholder groups, under the oversight of Exco.

Restoring stakeholder trust in Eskom is critical to our future success. By improving the way we engage with stakeholders and seeking to understand and respond to stakeholder interests and needs – including trade-offs and opportunities – we aim to promote energy security in the long term.

### Our interaction with stakeholders

We depend on strong and productive relationships with stakeholders – Government, the financial sector, business, labour and consumers – to deliver value. However, public opinion remains very low, despite a marked improvement since the previous year.

As a state-owned entity, the requirements of the South African Government are paramount to what we do. The Government acts as our shareholder through DPE, setting the mandate on which we must deliver, with other departments setting policy within legislative frameworks or providing oversight of our operations. Alignment with DPE and other Government departments is key to facilitating the best possible future for Eskom, and ultimately the country, through the implementation of DPE’s Roadmap.
Our stakeholder engagement strategy
Partnerships present an opportunity for Eskom to address priority issues in collaboration with strategic stakeholders such as policymakers, regulators, industry associations, communities, social partners and the international community.

Sufficient levels of advocacy and clear communication with stakeholders are necessary to educate them on the challenges and conflicting priorities we face, as well as the trade-offs required to respond effectively to those challenges. It also gives us insight into what matters to our stakeholders.

We require the support of all our stakeholders to succeed in implementing our turnaround plan, and thereby, ensuring a sustainable electricity supply industry to power South Africa into the future.

Issues raised by stakeholders
Matters of importance to our stakeholders often have a direct impact on our ability to create value and to execute our strategic objectives. As such, these matters are considered in our strategic planning, and are considered in the determination of material matters.

Issues raised by different groups include the following:

<table>
<thead>
<tr>
<th>Stakeholder group</th>
<th>Issues raised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulators</td>
<td>Cost-reflective tariffs that include a fair return on assets; revenue management; cost curtailment initiatives; business separation; nuclear programme; legal compliance</td>
</tr>
<tr>
<td>Government</td>
<td>Performance against the shareholder compact; availability of supply; financial and operational sustainability; debt management; business separation; electrification and job creation; new build programmes; municipal debt; Just Energy Transition; IRP 2019; environmental compliance; financial management; Government support and guarantees; foreign borrowing limits; governance issues</td>
</tr>
<tr>
<td>Parliament</td>
<td>Accountability; corruption and consequence management; legal compliance; revenue management; municipal debt; irregular expenditure; extensions and deviations; availability of supply</td>
</tr>
<tr>
<td>Investors</td>
<td>Financial sustainability; business separation and management of loan agreements; credit rating; funding plans and debt levels; cash projections and liquidity; revenue management and tariff certainty; cost-curtailment initiatives; cleaner technology adoption; feedback on environmental, social and governance (ESG) topics</td>
</tr>
<tr>
<td>Customers</td>
<td>Quality and reliability of supply; electricity pricing; secure accounts; customer connections; electrification grants; service levels; impact of loadshedding</td>
</tr>
<tr>
<td>Business and industry</td>
<td>Social compact; availability of supply; affordable electricity and tariff certainty; forewarning of loadshedding; business separation; new sources of energy; cost management; business opportunities; illegal connections; governance issues</td>
</tr>
<tr>
<td>Employees and organised labour</td>
<td>Job security; employee benefits; impact of business separation on employees; governance issues; electricity pricing; business performance; strategic direction; leadership stability</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Governance issues; financial and operational performance; health and safety; skills development; supplier development; localisation and industrialisation; job creation; progress on the new build programmes and workforce demobilisation</td>
</tr>
<tr>
<td>Civil society</td>
<td>Responding to climate change; legal and environmental compliance; licence to operate; cost management; environmental management; community development</td>
</tr>
<tr>
<td>International institutions</td>
<td>Business separation; renewable energy; grid expansion into Africa; public-private partnerships to develop gas-to-power infrastructure; collaboration and investment opportunities</td>
</tr>
</tbody>
</table>

As indicated earlier, as an essential service, we were allowed to continue operating at full capacity even during level 5 of South Africa’s national lockdown. Therefore, we were able to ensure supply to our customers, with suppliers being allowed to continue their supply to us.

Furthermore, we did our utmost to ensure that our employees were safe while executing their duties.

Improving the quality of stakeholder relationships
We recognise the importance of re-building and strengthening confidence and trust in Eskom by implementing our turnaround plan and improving our performance, to ensure that we are able to deliver on our mandate and DPE’s Roadmap to transform the electricity industry. As part of that process, we need the continued support and commitment of our employees and all stakeholders as we transition towards a more desirable future for Eskom and the country. Improving the quality of our relationships with stakeholders will enable that process.

MATERIAL MATTERS

Material matters are those that affect our ability to create, preserve or erode value in the short, medium and long-term. Both positive and negative matters are given consideration.

Materiality determination process
We start with the identification of relevant matters based on their ability to affect our value creation process, by considering those matters reported in the prior year. Those matters are updated where needed based on a review of changes in the strategic and operating environment since the previous review.

We assess other factors as part of the review, such as topics discussed at Board level, the outcome of the risk management process and issues raised through various stakeholder platforms – investor relations, key customers, other customer surveys, matters raised by Parliament or oversight committees and the media, and more generally via the Stakeholder Relations Department.

We evaluate the impact of these matters on our value creation process by considering the effect of the matter, given the likelihood of the matter occurring and the magnitude of the consequences. Matters are prioritised based on their relative importance. Those deemed to be material matters are covered in some detail in this integrated report, while other matters are dealt with either at a high level in the report, or through other channels or platforms.

Current year material matters
The material matters reported in our previous integrated report remain applicable, although the level of importance may have changed. The material matters set out below are categorised according to our turnaround objectives, even though we reflect on the six capitals as part of the determination of material matters.

Compared to our previous report, safety has been removed as a material matter, but the topic is covered under operational stability. In view of the fundamental impact on our ability to create value, restoring trust has been covered separately, in the prior year it was covered under reputation and trust.

Financial sustainability comprises our financial results; the revenue outlook given the tariff trajectory and stagnant or declining sales volumes; cost curtailment initiatives; functioning of their trusts and escalating municipal debt. Operational stability covers both generation plant and network performance, and includes loadshedding, coal and water security, progress on the new build programme and safety performance.

The impact of the COVID-19 pandemic and the resulting national lockdown on our business and staff was summarised on page 2, with further detail being provided throughout the report.

Impact of COVID-19
Financial sustainability and going concern
Government support and debt structure
Operational stability
High-performance culture
Restoring trust
Governance clean-up and ethics
Environmental performance and compliance
Climate change and future energy mix
High-performance culture
Business separation progress
Enterprise risk management process
We have an established, integrated approach to managing risk and resilience at a corporate level, which is set out in the Integrated Risk Management Standard. This standard is applied across Eskom and its subsidiaries to manage all types of risks, including those affecting strategy. The Enterprise Risk and Resilience Policy, together with the Enterprise Risk and Resilience Management Plan and Risk Appetite and Tolerance Framework, constitute the key documents governing risk which are approved by the Board. This is aligned to the recommendations on good governance in King IV, which sets the oversight of resilience or business continuity as a board-level priority.

Risks are accountable for managing risk, which is achieved mainly in the management processes of divisions, subsidiaries and corporate functions, and is evident in decision-making processes and outcomes. All divisions are required to develop a Risk and Resilience Management Plan aligned to the division business plan. One integrated risk management information system is used for all organisational risk management information. The Board is ultimately responsible for the governance of risks and opportunities in Eskom. The responsibility to implement and execute effective risk and resilience management has been delegated to Exco in order to support the organisation in achieving its strategic objectives. Exco and its Risk and Sustainability Committee as well as ARC review the key priorities and deliverables in our Risk and Resilience Management Plan annually.

A risk maturity assessment identified areas for improvement related to ensuring organisational resilience and improving situational awareness amid Eskom’s unbundling. Risk appetite and tolerance
Risk appetite refers to the amount and type of risk an organisation is prepared to pursue or accept in achieving its objectives, while risk tolerance refers to an organisation’s readiness to take the risk after risk treatment. This risk appetite and tolerance process serves as an early warning mechanism when adverse risk trends reach unacceptable limits. This is done by developing management-approved key risk indicators (KRIs) for all major risks, in an effort to manage risks proactively. The Board sets Eskom’s risk appetite by approving risk appetite statements for the key risk categories, as required by King IV,

Enterprise resilience
Our ability to respond to major threats and disruptions, as well as compliance with the Electricity Supply Management Act, 2002 is addressed by the Enterprise Resilience Programme. The programme focuses on the ongoing development of resilience capabilities at site, divisional, provincial and national levels. We continuously review technical and non-technical vulnerabilities to prevent and recover from disaster incidents, in addition to undertaking regular tests and simulation exercises.

The programme also covers business continuity management, encompassing planning and preparation to ensure that the organisation can continue to operate in case of serious incidents or disasters, and is able to recover to an operational state within a reasonably short period.

Eskom’s Emergency Response Command Centre remains activated to coordinate the response to the COVID-19 pandemic. Furthermore, national disaster priority risks continue to be tabled at the Exco Operating Committee to ensure operational oversight.

At provincial level, business units have incorporated national disaster priorities into their resilience programmes and are developing plans in support of national disaster planning. A framework for electricity-related disaster planning has been adopted by the National Disaster Planning Technical Task Team, initiated through the National Disaster Management Centre (NDMC). A multisector national blackout simulation exercise was conducted on 18 March 2021, involving DMRE, SAPS and participants from various sectors including water, health, telecommunications and banking. The simulation was coordinated by the NDMC; engagements are under way to improve the country’s capability for blackout response.

Assessment of risk
The objective of managing risk is to ensure that we are able to formulate and execute our strategy effectively, to operate our business efficiently with minimum disruption, to proactively leverage opportunities as these arise, and to be able to respond rapidly and recover effectively from disruptions should these materialise. It is therefore important that risks that affect our objectives are identified, effectively managed and continuously monitored.

Emerging risks
Emerging risks are assessed on a regular basis, based on an environment of changes in our operating environment due to global and local developments and changes reported in the business. The identification of emerging risks is critical to ensure that risks are managed proactively. Emerging risks are tracked and reported on quarterly.

Disaster risks
Disaster risks inherent to our operations that would have a significant consequence should they materialise are classified as disaster risks. They have a relatively low likelihood of materialising and controls and are generally adequate, therefore they are usually managed through our resilience programmes that cater for disaster management and emergency preparedness.

National disaster priorities have been identified and recovered from disaster incidents, in addition to provincial and national levels. We continuously review Programme. The programme focuses on the ongoing as well as compliance with the Disaster Management Risk Appetite and Tolerance Framework, constitute the Integrated Risk Management Standard. This standard

The financial sustainability of Eskom being compromised due to declining sales, escalating arrear debt from non-paying customers, lack of cost-reflective tariffs and unsustainable levels of indebtedness

Strategic risks
Eskom can treat most risks, although the following are paramount for future success:

• The financial sustainability of Eskom being compromised due to declining sales, escalating arrear debt from non-paying customers, lack of cost-reflective tariffs and unsustainable levels of indebtedness

• Deterioration in operational performance due to loss of critical skills, poor generating plant performance and low quality of outage execution, coupled with running ageing generating plant at unacceptably high utilisation levels, coal-related challenges and capex being constrained as a result of liquidity pressure

• The inability to sustain and maintain transmission network reliability, coupled with intolerable levels of theft and vandalism to network equipment, overloading of networks caused by illegal connections leading to potential system constraints, the risk of a blackout and a decline in stakeholder confidence

• Loss of licence to operate due to poor environmental performance, leading to plant shutdown and/or litigation

• Critical applications and various IT platforms compromised due to attacks against network infrastructure and business systems, cyber-security shortfalls and instability leading to severe business disruptions

Risks affect Eskom on many levels, such as strategy, finance and operations, and ultimately, the execution against our turnaround objectives and achievement of shareholder compact KPIs.

Our risk landscape is being monitored, tracked and reported across several fronts approved by the Board, namely finance, operations, environment and climate change, people, information technology, stakeholder management as well as compliance and governance.

<table>
<thead>
<tr>
<th>Risk appetite statement per risk category, including summary of risks</th>
<th>Key risk indicators</th>
<th>High-level treatment options</th>
</tr>
</thead>
</table>
| Finance | High appetite to be profitable by increasing revenue, effective debt collection, operating at an efficient cost base and having a stable balance sheet | EBITDA, EBITDA margins, savings and restored capex speed | • Government equity support
• The Eskom Compact signed by labour, business and Government at Nedbank |
• Focus on revenue certainty, optimizing cost, de-risking and independent financial sustainability
• Weekly meetings with DPE and National Treasury, focusing on liquidity management
• Engagement with DPE and National Treasury on ways to address the debt burden
• Escalation of municipal arrear debt challenges to Government |
| Environment and climate change | No appetite for non-compliance with environmental legal requirements causing irreversible damage to the environment, as well as carbon emission reduction commitments in support of South Africa’s economy and the well-being of its people | Number of environmental contraventions | • Strategy development for emission projects is in place
• Strategy development for emission projects is in place
• Workshops set up on CSIs and socio-economic development policy to promote collaboration
• Just Energy Transition strategy |
RISKS AND OPPORTUNITIES continued

Organisational risks
Organisational risks affect the achievement of objectives and may influence the execution of divisional business plans. Risks are classified from Priority I risks at the highest level to Priority IV risks at the lowest, based on the quantification of risk in terms of consequence and likelihood in terms of our Risk Appetite and Tolerance Framework. Consequences consider the potential impact of a risk, ranging from financial and operational sustainability, sustainable asset creation, environment and climate change, legal and compliance, reputation, health and safety, and information management.

<table>
<thead>
<tr>
<th>Priority level risks at March 2021</th>
<th>Probability</th>
<th>Likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority I</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Priority II</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Priority III</td>
<td>12</td>
<td>5</td>
</tr>
<tr>
<td>Priority IV</td>
<td>6</td>
<td>3</td>
</tr>
</tbody>
</table>

A recent analysis of the Priority I risks has revealed the following:
- The number of Priority I risks has remained fairly constant over the past two years.
- The percentage of Priority I risks in the 6E category, representing those with the highest consequence and likelihood, has nearly doubled over the past two years. This indicates that the severity of the risk landscape is increasing, with nearly 32% of Priority I risks in the 6E category.
- Five of the risks from the 2020 financial year are still in the 6E category.
- Common cause analysis found that some of the primary causes are within our control.
- Treatment plans for 10 of the Priority I risks are not on track. This increases the likelihood of the risk materialising if not treated. These risks are discussed in detail at the Exco Risk and Sustainability Committee.

In order to bring our risk landscape within the risk appetite and tolerance levels, an “attacking the causes” initiative is under way to ensure alignment to primary controls and related tasks. A risk inquiry will be conducted on all risks in the 6E category for longer than six months. Treatment plans are being revised to ensure that they are focused, innovative, robust and achievable within specific timelines. Internal and external subject matter experts will be involved in developing treatment plans.

Identifying opportunities for growth
In the immediate to short term, we continue with investment to improve the health and sustainability of Eskom’s electricity assets, factoring in the management of risks that may arise over the short to medium term.

The identification and treatment of all risks is the responsibility of management. All Priority I and emerging risks are reported quarterly to Exco and the Board, which provide oversight as recommended by King IV®.

At 31 March 2021, we had 49 Priority I risks (2020: 44), which include strategic risks and those affecting achievement of the shareholder compact. The positions on the risk matrix are linked to our Risk Appetite and Tolerance Framework.
RISKS AND OPPORTUNITIES continued

Risks and opportunities associated with climate change
The global drive to address the devastating repercussions of climate change is well advanced, while many of our customers who will face similar pressures to reduce their carbon footprint are affected indirectly.

Access to funding as well as the export of goods and services by our customers are becoming increasingly restricted or imposed as emissions targets are set, and while many of our customers who will face similar pressures to reduce their carbon footprint are affected indirectly.

Sustainable tariff levels need to be balanced with addressing the affordability of such tariffs, as well as ensuring that the tariffs are set at an optimum level to ensure that local industry remains competitive in the global market. The impact that tariffs have on our customers is clearly illustrated by the erosion of the South African industrial base over the past decade, with sales decreasing from around 90TWh annually to the current level of about 70TWh, together with the spiralling arrear debt accumulation of municipalities and end-customers. A financially sustainable Eskom and electricity supply industry that encourages investment in the sector is required to enable and lead the transition to cleaner sources of energy.

The current landscape and favourable market conditions aimed at accelerating efforts to combat climate change present significant opportunities that can be leveraged to transform the various risks and challenges we face into opportunities.

The country has an immediate need for a substantial amount of additional generation capacity to meet demand. A number of the coal-fired stations are reaching their end of life, with a significant amount of capacity due to be decommissioned by 2030. The rapid decline in the cost of renewable technologies, along with abundant natural wind and solar resources, have made renewables an economically viable option to start filling the gap, with the benefit of shorter construction times.

A mix of the existing coal fleet combined with renewable options will ensure an optimal least-cost total power system that will ensure an affordable, reliable and stable power supply.

In order to achieve the objective of a transition to cleaner sources of power, the new capacity would have to be developed across the country. This will require significant investment in the transmission grid to integrate the system. This expansion will also take time and would need to be addressed as a matter of urgency.

We also face the challenge of a large unsustainable debt burden that has been characterised by an eroding investor base that is averse to lending to invest in coal, as well as high interest costs, shorter debt tenors and lower than required tariffs leading to reliance on the shareholder for support.

We are on a journey to return to financial sustainability, of which achieving cost-reflective tariffs is an integral component. The pursuit of the most optimal, least-cost future expansion pathway will ensure that this element of the cost base can be defended, and allow appropriate recovery of the costs in the revenue streams. This can contribute to help reset the relationship with NERSA and contain the rise in tariffs required to reach cost-reflective levels. The rise in tariffs will require a solution to address the affordability challenges for customers deemed to be vulnerable, of which inclusion of the least-cost options in the mix would assist in keeping the tariffs at the lowest possible levels.

Conclusion
The South African electricity industry is unique, and future actions will need to navigate a complex policy environment, aggravated by prevailing financial and operational constraints. However, South Africa has very little option other than to transform the electricity sector to bring it in line with the global electricity trends. The ultimate rewards for South Africa and Eskom will be energy security, economic growth and job creation, socio-economic transformation and upliftment, a low-carbon industry with reduced environmental impacts, as well as ultimate sustainability for Eskom, but avoiding the utility death spiral.

As we contemplate the future, we remain mindful of our fragile balance sheet. Therefore, we will not pursue any venture that may exacerbate the risk that already burdens the Sovereign. We acknowledge that we require continued support from the fiscus, electricity consumers and other key stakeholders, specifically employees, who are pivotal to our ongoing sustainability. It is fundamental that we proactively engage and collaborate with all role players to drive the reforms required to ensure a sustainable electricity industry that will serve as a vital platform to create a stable, equitable and cohesive South Africa.

The transition to cleaner sources of power is inevitable. The risks posed by climate change are known and can be transferred into economically viable and environmentally sustainable opportunities within the current landscape, while assisting us in dealing with the various challenges we face.

We are committed to fast-track the transition to cleaner sources of power in a responsible way that considers all aspects, including those of the coal-mining communities that will be affected by the transition. Careful analysis of all the trade-offs will be undertaken to manage security of supply and system stability, including the impacts on communities.

The South African electricity industry is unique, and future actions will need to navigate a complex policy environment, aggravated by prevailing financial and operational constraints. However, South Africa has very little option other than to transform the electricity sector to bring it in line with the global electricity trends. The ultimate rewards for South Africa and Eskom will be energy security, economic growth and job creation, socio-economic transformation and upliftment, a low-carbon industry with reduced environmental impacts, as well as ultimate sustainability for Eskom, but avoiding the utility death spiral.
CHIEF FINANCIAL OFFICER’S REPORT

What were some of the challenges and highlights over the past year?

Like many South African businesses, we have been navigating a very challenging operating environment, with growth hampered by capacity shortages and depressed economic conditions during the national lockdown. This had an adverse impact, not only on Eskom’s operations and finances, but also on the South African economy as a whole.

The impact was mostly felt through a decline in sales volumes, particularly in the first quarter, with the remainder of the year focused on recovering sales and controlling our cost base. Winter sales incentives offered to key industrial customers mitigated some of the impact.

Liquidity remains one of our biggest short-term challenges, threatening financial and operational stability. Access to cost-effective funding remains restricted, while an inadequate return on assets, high debt servicing and working capital requirements, as well as escalating municipal arrear debt further contribute to liquidity constraints. To manage this, we restricted organisational cash requirements through targeted savings on operating and capital expenditure, although it requires a delicate balance to maintain sufficient liquidity while supporting spend required to drive the operations recovery.

In the medium term, our unsustainable debt burden presents the biggest threat to our financial sustainability. We reduced the gross debt balance by R81.9 billion through debt servicing – only possible with support from Government – and fair value adjustments on foreign debt, driven by the strengthening of the Rand. This led to improvements in key gearing and solvency ratios, with the debt/equity ratio reducing to 2.03.

Eskom recorded a net loss after tax of R18.9 billion. Tell us more about the impact of COVID-19 on financial results

COVID-19 had a significant impact on Eskom’s financial results, largely due to the unprecedented reduction in energy demand we experienced during the earlier days of the national lockdown, which caused sales volumes to decline by 6.7%.

Revenue still grew by 2.4% as a result of an 8.76% tariff increase, although this was almost completely eroded by the decline in sales volumes. Sales deteriorated across every sector, with rail, international and industrial customers most severely affected by the slowdown of the economy and depressed commodity prices.

As I mentioned, the biggest impact was felt in the first quarter during level 5 of the lockdown, when movement was heavily restricted and only essential services, such as Eskom, were allowed to operate. By year end, sales recovered due to the phased easing of lockdown restrictions and the recovery of commodity markets.

The decline in demand also led to lower electricity production. Despite this, primary energy costs increased by 3.4% due to the use of more expensive OCGT and IPP production. Our own generation costs were contained due to a decline in coal and nuclear production, and a moderate increase in the average coal purchase cost per ton of 3.2%.

Despite a 7% increase granted to bargaining unit employees for the third and final year of the wage agreement, employee benefit costs remained stable due to no salary increases at managerial level and further headcount reduction. Other operating expenditure increased by 28.6% due to higher decommissioning provision costs, increased maintenance and other once-off costs. After adjusting for these, the normalised increase in operating expenses was 1.6%, well below inflation.

Altogether, these factors resulted in EBITDA declining to R32.8 billion, and the EBITDA margin weakening to 16.06%.

Finance costs remained stable due to the reduction in gross debt, offset by a higher average cost of borrowing. The strengthening of the Rand led to fair value gains, which counted for most of the improvement in the net loss compared to the prior year.
How was Eskom's funding affected?
Our three main liquidity sources are cash generated from operations, external borrowings and equity support from Government.
As I indicated, our financial results were negatively affected by a decline in sales coupled with an increase in primary energy costs despite lower volumes, which had a knock-on effect on our ability to generate sufficient cash flows – the reality is that cash generated from operations is simply inadequate to support an asset-intensive business with a highly leveraged capital structure such as ours. The debt service cover and cash interest cover ratios declined, as operating cash flows remain inadequate to fund even the interest owed, before considering capital repayment of debt and capital investments into our asset base. This shortfall can only be corrected through cost-reflective tariffs.
With respect to borrowings, we intended to raise R30.8 billion in funding in 2021, but this was later revised to R39 billion to improve liquidity. By year end, we secured funding of R18.9 billion, as a number of challenges prevented us from achieving our aspiration.
For instance, delays in receiving approval of Government guarantees meant that planned funding of around R17 billion had to be postponed to the 2022 financial year. Additionally, Moody’s and Fitch downgraded the Sovereign and Eskom’s credit ratings in November 2020 on the back of South Africa’s negative economic outlook. Our credit rating remains at sub-investment grade level, which limits our access to unguaranteed funding and increases the cost of borrowings.
Access to cost-effective funding in domestic and foreign markets remains restricted due to low investor confidence, exacerbated by risk-averse market sentiment driven by COVID-19, thereby necessitating Government guarantees. Despite some delays, National Treasury expressed its commitment to support Eskom’s applications for Government guarantees to maintain adequate liquidity to continue operating as a going concern.

Lastly, Government is providing support in the form of equity, with funds restricted for the settlement of debt and interest, which amounted to R1,007 billion for the year. We received R56 billion to address some of these requirements, and remain dependent on Government support, given the lack of cost-reflective tariffs.
Cash and cash equivalents declined to R4 billion. What are you doing to manage liquidity?
We are implementing various initiatives through the turnaround plan, to improve our income statement and strengthen our balance sheet by:
- Pursuing the migration to cost-reflective tariffs
- Delivering sustainable cost optimisation and efficiencies
- Pursuing all available avenues to recover amounts due to Eskom
- Reducing our reliance on debt and containing debt service costs with Government’s assistance
- Exploring opportunities for the disposal of non-core assets

To address the inadequate tariff, we submitted court review applications to challenge NERSA’s recent revenue and RCA determinations. Judgments have been favourable, although legal processes are slow and subject to opposition and appeal by NERSA. Successful review outcomes resulted in the award of a tariff increase of 15.0% for the coming financial year, which will support our financial sustainability. Although a number of review applications are pending, we expect favourable outcomes as our applications adhere to the principles of prudent and efficient costs in line with the MTPID methodology. We also submitted proposals to NERSA for the restructuring of tariffs, to moderate the tariff structure based on the planned legal separation and more accurately reflect component costs.

To curtail costs, we are pursuing a number of initiatives to reduce our annual cost base by a cumulative R4.8 billion by 2023. We achieved combined savings of R3.07 billion so far, exceeding the cumulative target of R2.3 billion. The majority of savings come from optimising primary energy working capital, but this does not necessarily lead to an immediate improvement in the bottom line.
Despite our best efforts, limited success has been achieved in managing municipal arrear debt, which continued to escalate to unacceptably high levels, increasing by 26% to R3.53 billion at year end. Payment levels are showing early signs of improvement because of our municipal debt management strategy and ring-fencing arrear accounts, leading to lower interest charges. We continue to pursue existing debt management processes and enforce Eskom’s rights through legal action.
We are negotiating active partnering agreements with defaulting municipalities to assist them in their revenue collection efforts. We entered into our first agreement with Msunduzi Local Municipality in April 2021. Various initiatives are being explored to address the outstanding Soweto debt in a sustainable manner.
Unfortunately, the arrear debt challenge cannot be solved by Eskom alone – a structural solution is required, along with continued support and cooperation from Government and other stakeholders to address the root causes of the problem and resolve the challenges.

What is the outlook for the coming year?
COVID-19 will continue to have a negative impact on financial performance, as demand is unlikely to recover to pre-COVID-19 levels for the next five years. The impact on sales in 2022 is expected to be less severe, with a budgeted loss of R15.2 billion. We continue to monitor and assess the impact of the economic climate on sales volumes, cost of production and customers’ ability to pay, to better manage our response to these challenges. We will consider negotiated pricing agreements and other avenues to stimulate sales volumes where appropriate.

Unfortunately, profitability continues to be hindered by the lack of cost-reflective tariffs as well as deteriorating generating plant performance, driving the use of more expensive OCGT and IPP production to avoid or minimise loadshedding. The unsustainable debt burden has resulted in our interest bill being the second largest expense after primary energy. We have received favourable court judgments on a number of NERSA review applications, which, together with reducing our level of debt over the long term, is expected to improve our financial sustainability going forward.

The successful execution of the turnaround plan should enable Eskom to return to profitability by 2026, although this is dependent on fair regulatory returns. We believe that a move to cost-reflective tariffs is a necessary step to ensure Eskom’s financial sustainability, as well as the sustainability of the future generation, transmission and distribution entities. The recent 9% tariff determination by NERSA is certainly a positive first step.

CHIEF FINANCIAL OFFICER’S REPORT continued
The group and company financial results set out in the consolidated financial statements that follow have been extracted from the consolidated annual financial statements of Eskom Holdings SOC Ltd for the year ended 31 March 2021, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2008 and the PFMA, 1999.

The consolidated annual financial statements have been prepared under the supervision of the Chief Financial Officer, Mr Calib Cassim CA(SA), and were duly approved by the Board of Directors on 23 August 2021. The consolidated annual financial statements have been audited by the group’s independent auditors, SizweNtsalubaGobodo Grant Thornton Inc, in accordance with the Public Audit Act of South Africa, 2008, the General Notice issued in terms thereof and International Standards on Auditing. The independent auditors issued a qualified opinion relating to the completeness of irregular expenditure disclosed in note 52 in terms of the PFMA. Except for this qualification, the consolidated annual financial statements are fairly presented in terms of IFRS. Furthermore, the independent auditors reported a material uncertainty relating to Eskom’s ability to continue as a going concern. However, this does not affect their opinion.

Neither the future performance plans nor strategies referred to in the integrated report have been reviewed or reported on by the group’s independent auditors.

**Condensed group income statements**

**for the year ended 31 March 2021**

<table>
<thead>
<tr>
<th></th>
<th>2021 Rm</th>
<th>Restated 2020 Rm</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuing operations</td>
<td>204 326</td>
<td>199 668</td>
<td>2</td>
</tr>
<tr>
<td>Revenue</td>
<td>204 326</td>
<td>199 668</td>
<td>2</td>
</tr>
<tr>
<td>Other income</td>
<td>3 462</td>
<td>1 238</td>
<td>16</td>
</tr>
<tr>
<td>Primary energy</td>
<td>(115 903)</td>
<td>(122 119)</td>
<td>5</td>
</tr>
<tr>
<td>Employee benefit expense</td>
<td>(22 687)</td>
<td>(23 158)</td>
<td>2</td>
</tr>
<tr>
<td>Net impairment (loss)/reversal</td>
<td>(1 367)</td>
<td>61</td>
<td>1</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(24 018)</td>
<td>(18 674)</td>
<td>29</td>
</tr>
<tr>
<td>Profit before depreciation and amortisation expense</td>
<td>32 813</td>
<td>36 816</td>
<td>11</td>
</tr>
<tr>
<td>Depreciation and amortisation expense</td>
<td>(27 016)</td>
<td>(27 779)</td>
<td></td>
</tr>
<tr>
<td>Operating profit (EBIT)</td>
<td>5 797</td>
<td>9 037</td>
<td>36</td>
</tr>
<tr>
<td>Net fair value and foreign exchange gain/loss (EBITDA)</td>
<td>1 238</td>
<td>(6 924)</td>
<td>118</td>
</tr>
<tr>
<td>Net fair value and foreign exchange gain/loss (EBITDA)</td>
<td>1 238</td>
<td>(6 924)</td>
<td>118</td>
</tr>
<tr>
<td>Share of profit of equity-accounted investees</td>
<td>2 400</td>
<td>2 610</td>
<td></td>
</tr>
<tr>
<td>Profit before net finance cost</td>
<td>6 680</td>
<td>4 411</td>
<td>50</td>
</tr>
<tr>
<td>Net finance cost</td>
<td>(31 509)</td>
<td>(31 407)</td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>2 400</td>
<td>2 610</td>
<td></td>
</tr>
<tr>
<td>Finance cost</td>
<td>(33 909)</td>
<td>(34 017)</td>
<td></td>
</tr>
<tr>
<td>Share of profit of equity-accounted investees after tax</td>
<td>71</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>Loss before tax</td>
<td>5 824</td>
<td>6 164</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>(24 759)</td>
<td>(26 933)</td>
<td></td>
</tr>
<tr>
<td>Loss for the year</td>
<td>(19 934)</td>
<td>(20 749)</td>
<td>9</td>
</tr>
</tbody>
</table>

**Kwesimatalana:**

The statements of comprehensive income and statements of changes in equity are available in the consolidated annual financial statements.

### Condensed group statements of financial position

at 31 March 2021

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>Restated 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td>697 723</td>
<td>490 177</td>
</tr>
<tr>
<td>Property, plant and equipment and intangible assets</td>
<td>666 225</td>
<td>457 189</td>
</tr>
<tr>
<td>Future fuel supplies</td>
<td>4 414</td>
<td>4 295</td>
</tr>
<tr>
<td>Investments in equity-accounted investees and subsidiaries</td>
<td>420</td>
<td>397</td>
</tr>
<tr>
<td>Derivatives held for risk management</td>
<td>9 968</td>
<td>33 918</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>16 696</td>
<td>1 378</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td>83 925</td>
<td>116 404</td>
</tr>
<tr>
<td>Inventories</td>
<td>37 527</td>
<td>33 573</td>
</tr>
<tr>
<td>Loans receivable</td>
<td>310</td>
<td>27</td>
</tr>
<tr>
<td>Derivatives held for risk management</td>
<td>1 411</td>
<td>23 718</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>24 413</td>
<td>22 391</td>
</tr>
<tr>
<td>Insurance investments</td>
<td>14 456</td>
<td>11 981</td>
</tr>
<tr>
<td>Financial trading assets</td>
<td>—</td>
<td>152</td>
</tr>
<tr>
<td>Other current assets</td>
<td>1 822</td>
<td>1 572</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>4 041</td>
<td>22 990</td>
</tr>
<tr>
<td><strong>Assets held-for-sale</strong></td>
<td>—</td>
<td>6 042</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>781 648</td>
<td>823 223</td>
</tr>
</tbody>
</table>

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital and reserves</td>
<td>215 836</td>
<td>186 068</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>462 457</td>
<td>502 763</td>
</tr>
<tr>
<td>Debt securities and borrowings</td>
<td>358 852</td>
<td>408 151</td>
</tr>
<tr>
<td>Embedded derivatives</td>
<td>208</td>
<td>5</td>
</tr>
<tr>
<td>Derivatives held for risk management</td>
<td>3 562</td>
<td>1 020</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>347</td>
<td>3 757</td>
</tr>
<tr>
<td>Employee benefit obligations</td>
<td>15 414</td>
<td>13 530</td>
</tr>
<tr>
<td>Provisions</td>
<td>50 150</td>
<td>41 300</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>8 447</td>
<td>8 875</td>
</tr>
<tr>
<td>Contract liabilities and deferred income</td>
<td>23 943</td>
<td>22 577</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>3 534</td>
<td>2 766</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td>103 355</td>
<td>132 919</td>
</tr>
<tr>
<td>Debt securities and borrowings</td>
<td>46 974</td>
<td>75 531</td>
</tr>
<tr>
<td>Embedded derivatives</td>
<td>1 283</td>
<td>1 331</td>
</tr>
<tr>
<td>Derivatives held for risk management</td>
<td>4 856</td>
<td>1 399</td>
</tr>
<tr>
<td>Employee benefit obligations</td>
<td>3 732</td>
<td>3 293</td>
</tr>
<tr>
<td>Provisions</td>
<td>6 395</td>
<td>5 991</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>37 114</td>
<td>41 715</td>
</tr>
<tr>
<td>Payments received in advance</td>
<td>2 796</td>
<td>3 430</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>2 253</td>
<td>2 229</td>
</tr>
<tr>
<td><strong>Liabilities held-for-sale</strong></td>
<td>—</td>
<td>1 473</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>565 812</td>
<td>637 159</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>781 648</td>
<td>823 223</td>
</tr>
</tbody>
</table>

**Kwesimatalana:**

- **Increase in cash stocks, maintenance spare parts and consumables due to the Generation recovery plan**
- **The increase is largely attributable to municipalities and meters, as well as diesel rebates**
- **Refer to the consolidated group statement of cash flows on the next page**
- **Share capital of R56 billion issued in exchange for Government support, offset by the loss for the year**
- **Date of R65.6 billion repaid, offset by R15.8 billion debt raised**
- **Foreign-denominated borrowings declined due to the strengthening of the Rand, further reducing the gross balance**
- **Includes post-retirement medical aid benefits, as well as annual, occasional and service leave balances**
- **The majority of the balance relates to deferred income due to grants from DMRE’s electrification programmes**
- **The biggest contributor is the reduction of R8.9 billion in debt securities and borrowings**

**Notes to the accounts:**

- **Depreciation assets used in hedging activities declined due to the strengthening of the Rand**
<table>
<thead>
<tr>
<th>Category</th>
<th>2021 Rm</th>
<th>Restated 2020 Rm</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss before tax</td>
<td>(24 759)</td>
<td>(26 933)</td>
<td>8</td>
</tr>
<tr>
<td>Adjustment for non-cash items</td>
<td>67 009</td>
<td>48 164</td>
<td></td>
</tr>
<tr>
<td>Changes in working capital</td>
<td>(12 980)</td>
<td>(4 913)</td>
<td>164</td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td>30 070</td>
<td>36 338</td>
<td></td>
</tr>
<tr>
<td>Net cash flows from/(used in) derivatives</td>
<td>1 399</td>
<td>(81)</td>
<td></td>
</tr>
<tr>
<td>held for risk management</td>
<td>278</td>
<td>377</td>
<td></td>
</tr>
<tr>
<td>Finance income received</td>
<td>278</td>
<td>(60)</td>
<td></td>
</tr>
<tr>
<td>Finance cost paid</td>
<td>(1 047)</td>
<td>(367)</td>
<td></td>
</tr>
<tr>
<td>Income taxes paid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash from operating activities</td>
<td>30 658</td>
<td>36 207</td>
<td>15</td>
</tr>
</tbody>
</table>

| Cash flows used in investing activities      |         |                 |    |
| Disposals of property, plant and equipment   | 200     | 508             |    |
| and intangible assets                        |         |                 |    |
| Acquisitions of property, plant and equipment| (22 706)| (24 269)        | 6  |
| and intangible assets                        |         |                 |    |
| Acquisitions of future fuels supplies        | (1 559) | (1 263)         |    |
| Payments made in advance                     | (139)   | (2)             |    |
| Cash used in provisions                      | (885)   | (846)           |    |
| Net cash used in derivatives held for risk   | (1 049) | (120)           |    |
| management                                   |         |                 |    |
| Net acquisition of insurance investments     | (1 989) | (2 742)         |    |
| Net cash from loans receivable and           | 299     | 66              |    |
| finance lease receivables                    |         |                 |    |
| Dividends received                           | 95      | 105             |    |
| Finance income received                      |         |                 |    |
| Net cash used in investing activities        | (26 325)| (27 011)        | 3  |

| Cash flows (used in)/from financing activities|         |                 |    |
| Debt securities and borrowings raised        | 15 756  | 32 036          | 51 |
| Payments made in advance                     | (329)   | (642)           |    |
| Debt securities and borrowings repaid         | (63 586)| (31 511)        | 108|
| Share capital issued                         | 56 000  | 49 000          | 14 |
| Net cash from derivatives held for risk       | 7 059   | 1 643           |    |
| management                                   |         |                 |    |
| Net cash from financial trading assets       | 152     | 9               |    |
| Net cash used in finance lease liabilities    | (710)   | (456)           |    |
| and financial trading liabilities            |         |                 |    |
| Finance income received                      | 791     | 397             |    |
| Finance cost paid                            | (17 079)| (19 111)        | 5  |
| Taxes paid                                   | (78)    | (84)            |    |
| Net cash (used in)/financing activities      | (23 215)| 11 681          | 299|
| Net (decrease)/increase in cash and cash     | (18 882)| 25 877          | 190|
| equivalents                                  |         |                 |    |
| Cash and cash equivalents at the beginning of the year | 22 990 | 2 031 |
| Foreign currency translation                 | 12      | (22)            |    |
| Effect of movements in exchange rates on     | (159)   | 136             |    |
| cash held                                   |         |                 |    |
| Assets and liabilities held-for-sale         | 68      | (32)            |    |
| Net (decrease)/increase in cash and cash     | 164     | 164             |    |
| equivalents at the end of the year           | 4 041   | 22 990          | 83 |

- Inflow increased
- Inflow decreased
- Outflow decreased
- Outflow increased
We require financial capital in the form of debt or equity to fund our operations. Debt includes guaranteed and unguaranteed borrowings from external lenders. Equity should ideally be created through sustainable profits generated from sufficient revenue to cover our costs, or through support received from our shareholder.

### Financial results of operations

The group recorded a net loss after tax of R18.9 billion for the year (2020: R20.8 billion, restated), and EBITDA of R32.8 billion (2020: R36.8 billion, restated). Our EBITDA margin decreased to 16.06% (2018: 18.46%, restated), despite receiving a tariff increase of 8.76%. This is due to a contraction in sales volumes, driven predominantly by a reduction in electricity demand amid the national lockdown in response to COVID-19 pandemic and, to a lesser extent, loadshedding and load curtailment required to alleviate supply constraints. Further contributing to the decline in EBITDA performance was the use of more expensive primary energy sources, despite a reduction in overall production, as well as growth in other operating expenditure.

#### Profitability and working capital

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target</th>
<th>Target</th>
<th>Actual</th>
<th>Actual</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2024</td>
<td>2021</td>
<td>2020</td>
<td>2021</td>
<td>2020</td>
</tr>
<tr>
<td>Company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity revenue per kWh (including environmental levy), c/kWh</td>
<td>158.66</td>
<td>126.35</td>
<td>109.79</td>
<td>111.04</td>
<td>101.86</td>
</tr>
<tr>
<td>Electricity operating costs, R/MMWh</td>
<td>1 221.07</td>
<td>1 005.43</td>
<td>908.05</td>
<td>905.32</td>
<td>803.00</td>
</tr>
<tr>
<td>Group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA, R million</td>
<td>68 053</td>
<td>45 177</td>
<td>32 813</td>
<td>32 813</td>
<td>36 816</td>
</tr>
<tr>
<td>EBITDA margin, %</td>
<td>4.24</td>
<td>3.17</td>
<td>2.09</td>
<td>2.09</td>
<td>1.70</td>
</tr>
<tr>
<td>Current ratio</td>
<td>0.98</td>
<td>1.33</td>
<td>1.40</td>
<td>1.27</td>
<td>1.09</td>
</tr>
<tr>
<td>Free funds from operations (FFO), R million</td>
<td>84 464</td>
<td>40 789</td>
<td>40 041</td>
<td>43 638</td>
<td>41 120</td>
</tr>
<tr>
<td>FFO after net interest paid, R million</td>
<td>49 589</td>
<td>20 079</td>
<td>18 863</td>
<td>23 522</td>
<td>20 872</td>
</tr>
</tbody>
</table>

While most financial performance ratios performed better than target and improved compared to the previous year, a number of challenges prevent us from achieving long-term financial sustainability.

#### Sales and revenue

Net electricity revenue for the group amounted to R202.6 billion (2020: R197.3 billion), an increase of 2.7% compared to the prior year. Excluded from this amount is pre-commissioning revenue of R4 billion relating to Medupi and Kusile capitalised during the year (2020: R5.7 billion).

#### Year-on-year decline in sales volumes

In the first quarter of the year, we experienced a year-on-year decline of 16.5% in sales volumes, largely due to the national lockdown implemented from 27 March 2020 in response to the outbreak of the COVID-19 pandemic. The overall decline in sales volumes experienced by year end was less severe, in part due to the phased easing of the national lockdown, the return to operations of many sectors and the recovery of commodity markets in the latter half of the year. In addition, relief was granted to eligible key industrial customers through the winter incentive programme, by offering reduced summer energy rates for a period of five weeks, to recover the production lost during the initial national lockdown. The incentive played a role in supporting sales volumes during the high winter tariff season.

Unfortunately, demand is not expected to recover to pre-COVID-19 levels in the short to medium term, due to the long-lasting impact of the economic recession. Our Corporate Plan reflects largely stagnant sales volumes of approximately 190TWh per year for at least the next five years.

We are working with Government on possible solutions to stimulate sales and assist vulnerable sectors in a sustainable manner, in support of industrial policy. We have received numerous applications for negotiated pricing agreements (NPAs); engagements are taking place regarding the market dynamics faced by these customers and sectors.

In terms of the regulatory framework, NERSA is required to approve all non-standard tariffs and NPA applications in terms of the NPA frameworks issued by DMRE. NERSA is in the process of developing regulatory rules to provide further guidance on the implementation of these frameworks. We have submitted a number of long-term NPA applications to NERSA to be adjudicated, subject to PFMA approval.

Expenditure on Eskom-owned OCGTs decreased to R4.1 billion, despite an increase in supply to 1 457GWh, mainly due to favourable diesel prices during the year (2020: R4.3 billion to produce 1 328GWh). The OCGT load factor increased to 6.90% (2020: 6.28%) to ensure system stability during periods of supply constraints.

IPP expenditure increased due to more extensive use of renewable IPPs during the year. The total expenditure on IPP OCGTs (excluding the lease accounting adjustment of R1.6 billion) amounted to R2.9 billion to produce 704GWh (2020: R1.3 billion to produce 711GWH), while R2.79 billion was spent on renewable IPPs to produce 12 821GWh (2020: R2.48 billion to produce 11 247GWh).
A comparison of the primary unit cost of the various generation categories is shown below:

<table>
<thead>
<tr>
<th>Unit cost, R/MMWh</th>
<th>2021</th>
<th>2020</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>421</td>
<td>397</td>
<td>6.0</td>
</tr>
<tr>
<td>Nuclear</td>
<td>329</td>
<td>329</td>
<td>100</td>
</tr>
<tr>
<td>Gas</td>
<td>278</td>
<td>231</td>
<td>(14.0)</td>
</tr>
<tr>
<td>ESKOM-owned OCGT1</td>
<td>278</td>
<td>231</td>
<td>(14.0)</td>
</tr>
<tr>
<td>IPPs</td>
<td>280</td>
<td>247</td>
<td>(12.9)</td>
</tr>
<tr>
<td>IPP OCGT</td>
<td>349</td>
<td>404</td>
<td>(14.6)</td>
</tr>
<tr>
<td>Renewable IPPs</td>
<td>218</td>
<td>220</td>
<td>(1.2)</td>
</tr>
<tr>
<td>International purchases1</td>
<td>567</td>
<td>550</td>
<td>3.1</td>
</tr>
</tbody>
</table>

1. Excludes pre-commissioning production of 7.35TWh from certain Medupi and Kusile units (2020: 7.71TWh).
2. The average cost is calculated on fuel and start-up costs only, excluding storage and demurrage costs.
3. Note that the cost of IPPs and international purchases are based on the full cost of operation, whereas the unit cost of ESKOM-owned generation is based on only primary energy cost. Given that IPP and international purchases are treated as a variable cost in ESKOM’s accounts, this treatment is considered appropriate.
4. The average cost is calculated on the net amount spent on energy, excluding capacity charges, and after the lease accounting adjustment.

The increase in the costs of production were largely due to inflationary and periodic contract increases across these sources. The decline in ESKOM-owned and IPP OCGT unit costs were as a result of favourable diesel price movements during the year.

Other operating costs


Despite outage deferrals and lower than budgeted spend in the first half of the year due to the national lockdown, Generation conducted extensive planned maintenance during the summer months. Maintenance spend in Transmission and Distribution was in line with the prior year due to resource constraints and the deferral of activities.

Net fair value gain on financial instruments and embedded derivatives

The group recorded a net fair value gain on financial instruments, excluding embedded derivatives, of R1.2 billion (2020: R6.9 billion net fair value loss), whereas a net fair value loss of R0.4 billion was recorded on embedded derivatives (2020: R2.3 billion net fair value gain).

Exchange rate movements had a significant impact on the fair value of financial instruments as well as embedded derivatives during the year. At the outset of the COVID-19 pandemic and the national lockdown in March 2020, the Rand weakened substantially following the downgrade of the Sovereign by credit rating agencies. However, the Rand has subsequently recovered and strengthened against major currencies during the 2021 financial year.

In July 2021, NERSA approved a 10-year NPA for the South32 Hillside aluminium smelter, effective from 1 August 2021, with a Rand-denominated tariff and escalation linked to the South African Producer Price Index. This decision comes at a time when the South African economy is stabilising, thus providing an opportunity for industrial growth and ensuring the continued availability of aluminium for the economy.

Net fair value gain on financial instruments and embedded derivatives

The group recorded a net fair value gain on financial instruments, excluding embedded derivatives, of R1.2 billion (2020: R6.9 billion net fair value loss), whereas a net fair value loss of R0.4 billion was recorded on embedded derivatives (2020: R2.3 billion net fair value gain).

The average cost of debt is based on a blend of fixed and floating rates, with 72% of our borrowings on fixed rates to hedge against interest rate exposures.

Compared to the prior year, net finance costs have remained stable at R3.1 billion due to an overall reduction in debt, offset by a higher average cost of borrowings and lower capitalisation of interest.

**Cost of Debt and Investment Return**

<table>
<thead>
<tr>
<th>Average cost of debt</th>
<th>% (2021: 9.68%)</th>
<th>(2020: 9.38%)</th>
<th>Average investment return</th>
<th>% (2021: 3.87%)</th>
<th>(2020: 6.81%)</th>
</tr>
</thead>
</table>

The group’s repairs and maintenance (before intergroup eliminations) for the year increased to R16.6 billion (2020: R14 billion), 18.7% higher than the prior year due to inflationary pressure and costs associated with delivering on the Generation recovery plan.

**Maintenance Spend per Division**

Generation R12.5 billion (2020: R9.9 billion) & 26% Transmission 30.7 billion (2020: 30.6 billion) & 33% Distribution 34.4 billion (2020: 34.3 billion) & 68%

**Net Finance Cost and Debt**

**Measurement and unit**

In 2021, Standard & Poor’s affirmed our local currency rating of B+ and our foreign currency rating of BBB- with a stable outlook. The downgrades reflect continued weaknesses in the South African economy and its ability to generate sufficient revenue and cash flow to meet its obligations.

Our gross debt securities and borrowings have decreased to R401.8 billion (2020: R437.7 billion), a reduction of R81.9 billion. We repaid debt of R63.6 billion and raised debt of R15.8 billion during the year, net of commercial paper. In addition, foreign borrowings were affected by the recent strengthening of the Rand against major currencies, leading to a further reduction in gross debt.

Altogether, we reduced net interest-bearing debt by R13.1 billion, after accounting for cash and exchange rate movements on net derivative assets.

All of our solvency ratios performed better than targets for the year, although they remain well below investment-grade levels. The improvement is largely attributable to the Government equity received, which supported our liquidity and helped us to reduce our debt balance during the year. Nevertheless, the cash interest cover ratio and debt service cover ratios declined compared to the prior year. Operating cash flows remain inadequate and are unable to fund even the interest component of our debt servicing requirements.

Due to our financial and operational challenges, the perceived risk of credit default has increased. We continually assess the potential for a breach of loan covenants and events of default and take proactive action to prevent their occurrence. Despite our challenges, no events of default have occurred to date.

The group recorded a net fair value gain on financial instruments, excluding embedded derivatives, of R1.2 billion (2020: R6.9 billion net fair value loss), whereas a net fair value loss of R0.4 billion was recorded on embedded derivatives (2020: R2.3 billion net fair value gain).

Exchange rate movements had a significant impact on the fair value of financial instruments as well as embedded derivatives during the year. At the outset of the COVID-19 pandemic and the national lockdown in March 2020, the Rand weakened substantially following the downgrade of the Sovereign by credit rating agencies. However, the Rand has subsequently recovered and strengthened against major currencies during the 2021 financial year.

In July 2021, NERSA approved a 10-year NPA for the South32 Hillside aluminium smelter, effective from 1 August 2021, with a Rand-denominated tariff and escalation linked to the South African Producer Price Index. This decision comes at a time when the South African economy is stabilising, thus providing an opportunity for industrial growth and ensuring the continued availability of aluminium for the economy.

Net finance cost and debt

<table>
<thead>
<tr>
<th>R billion</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities and borrowings</td>
<td>31.2</td>
<td>34.0</td>
</tr>
<tr>
<td>Derivatives held for risk management</td>
<td>6.6</td>
<td>6.9</td>
</tr>
<tr>
<td>Other</td>
<td>7.8</td>
<td>7.7</td>
</tr>
<tr>
<td>Gross finance cost</td>
<td>45.6</td>
<td>48.6</td>
</tr>
<tr>
<td>Finance income</td>
<td>(2.4)</td>
<td>(2.6)</td>
</tr>
<tr>
<td>Cost of borrowings capitalised to assets</td>
<td>(11.7)</td>
<td>(14.6)</td>
</tr>
<tr>
<td>Net finance cost</td>
<td>31.5</td>
<td>31.4</td>
</tr>
</tbody>
</table>
Our FINANCES continued

Funding activities and risks

Funding progress against the 2021 borrowing programme

<table>
<thead>
<tr>
<th>Potential sources, R billion</th>
<th>Adjusted target</th>
<th>Committed by year end</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2022</td>
<td>2023</td>
</tr>
<tr>
<td>Development finance institutions (DFIs)</td>
<td>11.8</td>
<td>9.3</td>
</tr>
<tr>
<td>Export credit agencies (ECAs)</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Domestic bonds and notes ≤ one year</td>
<td>5.4</td>
<td>5.4</td>
</tr>
<tr>
<td>Domestic bonds and notes ≤ one year</td>
<td>3.1</td>
<td>3.1</td>
</tr>
<tr>
<td>Derivative loans</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Private placement</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Syndicated loan</td>
<td>10.0</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>39.0</td>
<td>18.9</td>
</tr>
</tbody>
</table>

1. Planned funding, originally targeted for 2021, postponed to 2022.
2. The table includes the funding raised or signed and the debt raised figure in the statement of cash flows does not.
3. Committed sources include funding raised or signed facilities with milestones drawndown.

Our borrowing programme for 2021 was revised from R30.8 billion to R3.9 billion to accommodate additional funding initiatives to improve our liquidity. Despite that, we were only able to secure debt funding of R18.9 billion for the year (2020: R30.9 billion). Delays in receiving Government guarantees has meant that planned funding, including a private placement of USD500 million and a syndicated loan of R10 billion, have had to be postponed to the first half of the 2022 financial year. Nevertheless, we were still able to manage our year-end liquidity requirements through effective cost management and deferral of capital expenditure.

Despite depressed demand for bonds in the local market, we secured our target for the year. International market appetites was affected by Sovereign and Eskom credit risk, which has worsened because of the economic downturn and the impact of the COVID-19 lockdown.

The primary focus of our borrowing programme over the next five years is to continue to secure cost-effective funding and reduce our debt burden. Compared to the five-year period from 2021 to 2025, the borrowing programme to 2026 has decreased by R16.6 billion, reflecting our intention to limit growth in debt securities and borrowings as well as related debt service costs.

### Anticipated capital and interest cash flows (net of swaps) of the existing debt portfolio at 31 March 2021

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>60</td>
<td>10</td>
</tr>
<tr>
<td>2022</td>
<td>70</td>
<td>20</td>
</tr>
<tr>
<td>2023</td>
<td>80</td>
<td>30</td>
</tr>
<tr>
<td>2024</td>
<td>90</td>
<td>40</td>
</tr>
<tr>
<td>2025</td>
<td>100</td>
<td>50</td>
</tr>
<tr>
<td>2026</td>
<td>110</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>400</td>
<td>140</td>
</tr>
</tbody>
</table>

Our debt repayment profile remains pressured over both the short and long term, with debt repayments of R152 billion and interest payments of approximately R215 billion over the next five years to 31 March 2026. Total anticipated debt service costs for 2022 amount to R71.1 billion, significantly lower than the repayments of R102.7 billion during the current year.

### Managing liquidity

Liquidities remain one of our greatest challenges, limiting our ability to achieve financial and operational sustainability. As discussed previously, access to cost-effective funding remains restricted due to low investor confidence, saturated borrowing capacity and credit rating downgrades. The lack of cost-reflective tariffs and escalating municipal expenditure also contribute to our liquidity constraints.

Cash and cash equivalents have declined considerably, with an available balance of R4 billion at year end (2020: R23 billion). Liquidity was affected by the postponement of certain debt facilities as well as high debt servicing costs, coupled with inadequate cash from operations due to higher working capital requirements and poor profitability. We had to rely on Government support to maintain a positive cash balance at year end, with R36 billion received during the year (2020: R49 billion).

Liquidity and solvency risks continue to threaten Eskom’s ability to continue as a going concern. To improve liquidity, we have restricted organisational cash requirements through targeted savings on operating expenditure and by limiting capital expenditure. Improving our profitability and solvency ratios in a sustainable manner requires successful implementation of our turnaround objectives. The financial turnaround objectives include the following initiatives to support liquidity, each of which is discussed in more detail below.

### IMPROVE THE INCOME STATEMENT

- Pursue cost-reflective tariffs
- Achieve sustainable cost curtailment measures

### STRENGTHEN THE BALANCE SHEET

- Obtain Government support to reduce reliance on debt
- Manage arrear debt
- Dispose of non-core assets

Our strategic context

- Pursue cost-reflective tariffs
- Achieve sustainable cost curtailment measures

Government support

Government support remains a key enabler to reducing our debt balance and strengthening our balance sheet.

The 2021 National Budget confirmed Government’s continued support to Eskom’s balance sheet and restructuring, with R31.7 billion committed for the coming financial year. The full amount was received by July 2021 and we will rely on this support to meet liquidity requirements. Government has expressed its commitment to providing a further R21.9 billion and R21 billion in support for the 2023 and 2024 financial years.

Although Government support addresses short-term liquidity requirements, it does not adequately support long-term cost-reflective tariffs. The only way to achieve that remains through cost-reflective tariffs. Unless our tariff challenges are resolved, further Government support will be required to alleviate our debt burden.

Price applications to support revenue requirements

Improving our income statement through higher revenue remains a key focus, by growing sales volumes and migrating towards cost-reflective tariffs from NERSA. Despite applying for revenue based on prudent and efficient costs in accordance with the MYPD methodology, the revenue and RCA determinations made by NERSA over recent years have not enabled the migration towards cost-reflectivity as envisaged in the Electricity Pricing Policy.

As reported previously, we have lodged review applications with the High Court to challenge a number of recent revenue and RCA determinations. The basis of each of our review applications is that NERSA’s MYPD methodology has not been implemented rationally. Furthermore, recent decisions violate the requirement of the Electricity Regulation Act, 2006 that prices, charges, tariffs and revenues set by the regulator “must enable an efficient licensee to recover the full cost of its licensed activities, including a reasonable margin or return”.​
The table below provides an update on the review applications.

<table>
<thead>
<tr>
<th>Original application and decision</th>
<th>Outcome of review application</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RCA decisions for the 2015 to 2017 financial years (MYPD 3)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eskom application: R66.7 billion, NERSA decision: R32.7 billion</td>
<td>In February 2019, we submitted a High Court application to review the decision for years two to four of MYPD 3. The judgment in June 2020 set aside NERSA's decision and found that the failure to process the decisions within a reasonable time was inconsistent with the Constitution. It required NERSA to urgently reconsider its RCA balance decision.</td>
<td>In January 2021, NERSA awarded an additional amount of R7.1 billion in respect of the RCA. We reviewed the decision in May 2021. NERSA has not opposed this review.</td>
</tr>
<tr>
<td><strong>RCA decision for the 2018 financial year (MYPD 3)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eskom application: R21.6 billion, NERSA decision: R3.9 billion</td>
<td>In April 2020, we submitted the founding affidavit for the review of the decision.</td>
<td>NERSA served its opposing affidavit on 19 October 2020. A court date is awaited.</td>
</tr>
<tr>
<td>Eskom application: R220 billion, or effective increase of 19%</td>
<td>In June 2018, we lodged a review application to set aside this decision. Judgment was delivered in March 2020, and determined that the decision was procedurally unfair, irrational, unreasonable and unlawful. Eskom was allowed to submit a supplementary tariff application to NERSA to recover the costs had a lawful decision been made.</td>
<td>In July 2020, we submitted a supplementary tariff application of R5.4 billion to NERSA. In October 2020, NERSA published a consultation paper for stakeholder comment, followed by public hearings in November and December 2020. In January 2021, NERSA awarded an amount of R3.1 billion against the supplementary tariff application. We are taking the decision on review, in conjunction with the 2019 RCA decision discussed below.</td>
</tr>
<tr>
<td>Eskom application: R237.3 billion, NERSA decision: R1.3 billion</td>
<td>The reasons for the decision was published in October 2020. In January 2021, based on detailed analysis of the reasons for decision, the Board resolved to take the 2019 RCA decision on review. The review application also includes NERSA’s decision on the supplementary application for the 2019 financial year.</td>
<td>The founding affidavit was lodged in April 2021. NERSA has communicated its decision to oppose the review application, however, its opposing affidavit has not been submitted on time.</td>
</tr>
<tr>
<td><strong>Revenue decision for financial years 2020 to 2022 (MYPD 4)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eskom application: R220 billion for 2020, R253 billion for 2021, R295 billion for 2022 (effective annual increase of 15%)</td>
<td>In October 2019, we submitted an urgent application for interim relief of the incorrectly appropriated equity. A second application sought a review of the merits of deducing equity injections from allowable revenue, requesting the court to make a submission decision for the recovery of the R89 billion over three years, from the 2022 financial year onwards.</td>
<td>The judgment required Eskom to recover the R89 billion in a phased manner over a three-year period, starting in the 2022 financial year.</td>
</tr>
<tr>
<td>Eskom application: R204 billion for 2020, R222 billion for 2021, R233 billion for 2022 (standard tariff increases of 9.4%, 8.10% and 5.22%, respectively)</td>
<td>Judgment on the urgent application was issued in February 2020. Although not granted, the judge made it clear that the deduction of equity support from revenue violated the basic principles of accounting and concluded that the decision by NERSA is open for review.</td>
<td></td>
</tr>
<tr>
<td>The decision resulted in a shortfall of R120 billion over MYPD 4. In determining the allowable revenue, NERSA deducted the annual R23 billion Government support from the return on assets, resulting in a negative return on assets.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

We welcome the various judgments of the High Court. These successful review outcomes resulted in a tariff increase of 11.06% from 1 April 2021 for customers supplied directly by Eskom. Tariffs for municipal distributors increased by 17.80% from 1 July 2021. This tariff adjustment will contribute towards improving our financial sustainability. The tariff adjustment includes amounts awarded relating to the outcomes of the court review of the 2015 to 2017 RCA decisions and the supplementary tariff application for 2019, as well as the High Court judgment which granted a partial recovery of the incorrectly deducted R69 billion equity.

On 2 June 2021, we submitted our MYPD 5 revenue application to NERSA, for financial years 2022 to 2025. It is envisaged that NERSA will announce its revenue decision by December 2021, in time for the municipal budgeting process to commence, as required by National Treasury.

Based on the 2020 audited annual financial statements, we submitted an RCA application of R8.4 billion to NERSA on 11 December 2020. NERSA is analysing and consulting on the application in terms of its mandate, and envisages making a decision during the 2022 financial year. It is imperative that decisions are made timely to allow the recovery of efficient and prudent costs, on our path towards financial sustainability.

In August 2020, we submitted proposals for the restructuring of tariffs to NERSA – existing tariff structures no longer accurately reflect the component costs for energy, network and retail requirements, and need to be modernised to address prevailing circumstances and the planned legal separation.

The proposals were published for comment in November 2020 and a public hearing was held in February 2021. NERSA’s decision was expected ahead of the 2022 financial year, however, a second round of public consultation is planned. Therefore, the decision is only expected during the 2022 financial year, for implementation in the 2023 financial year. Once a decision is made, additional proposals will be submitted to NERSA to address other shortfalls of the existing tariff structure amid the planned restructuring of Eskom.

Refer to page 69 of our 2020 integrated report for a discussion of the proposed structural tariff changes.

The RCA balance for 2021 will be calculated in accordance with the MYPD methodology. An application will be submitted to NERSA after the publication of our 2021 annual financial statements.
Controlling expenditure to improve liquidity

Improving our income statement through sustainable cost curtailment and efficiencies is another focus area of our turnaround plan. We are targeting a reduction of R6.1 billion in our cost base by 2023, and we have already achieved combined savings of R30.7 billion in 2020 and 2021, exceeding the cumulative target of R20.3 billion so far.

For the 2021 financial year, we achieved savings of R14.4 billion against a target of R14.1 billion. Savings were measured against agreed baselines and achieved through various initiatives, with a significant portion attributable to primary energy, complemented by savings in employee benefit costs and other sundry expenses. Primary energy savings primarily relate to working capital, and do not necessarily lead to an immediate improvement in the income statement.

The Turnaround Management Office, supported by the Results Management Office, is responsible for tracking and monitoring the implementation of initiatives to ensure that they yield the required savings. Some initiatives are under way and will continue to deliver value going forward. We are identifying additional initiatives, with an increased focus on procurement, working capital and capital expenditure. In particular, procurement is an ongoing area of improvement to ensure that we derive optimal value from suppliers.

Managing arrear debt

Collection of the revenue owed to Eskom and recovery of arrear debt remain priorities to improve liquidity and strengthen our balance sheet.

Systemic challenges in South Africa, such as crime and social inequality, economic pressures on businesses as well as shifts to self-generation technology have led to declining electricity sales volumes over many years, coupled with persistent revenue recovery challenges. Unfortunately, these factors have been exacerbated by the impact of the COVID-19 lockdown, with a continued culture of non-payment in some sectors.

Key debt management indicators at 31 March 2021

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2021</th>
<th>Target 2022</th>
<th>Target 2023</th>
<th>Actual 2021</th>
<th>Actual 2020</th>
<th>Actual 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrear debt as % of revenue, %</td>
<td>8.89</td>
<td>8.91</td>
<td>8.94</td>
<td>9.20</td>
<td>9.24</td>
<td>8.50</td>
</tr>
<tr>
<td>Average debtors days (including Soweto and international), days</td>
<td>97.70</td>
<td>97.70</td>
<td>97.70</td>
<td>96.82</td>
<td>96.24</td>
<td>95.79</td>
</tr>
<tr>
<td>Debtors days – municipalities, average debtors days</td>
<td>149.20</td>
<td>149.20</td>
<td>149.20</td>
<td>149.20</td>
<td>149.20</td>
<td>149.20</td>
</tr>
<tr>
<td>Debtors days – large power top customers excluding disputes, average debtors days</td>
<td>15.60</td>
<td>15.60</td>
<td>15.60</td>
<td>15.60</td>
<td>15.60</td>
<td>15.60</td>
</tr>
<tr>
<td>Average larger power users debtors days (100GWh p.a.), average debtors days</td>
<td>17.47</td>
<td>17.47</td>
<td>17.47</td>
<td>17.47</td>
<td>17.47</td>
<td>17.47</td>
</tr>
<tr>
<td>Debtors days – small power users excluding Soweto, average debtors days</td>
<td>52.42</td>
<td>52.42</td>
<td>52.42</td>
<td>52.42</td>
<td>52.42</td>
<td>52.42</td>
</tr>
</tbody>
</table>

Payment levels excluding Soweto interest, %

1. Debtors days are based on amounts processed on our billing system, and are shown before accounting adjustments relating to non-collectability. Therefore, the amounts may not agree with those disclosed in the annual financial statements.

Average debtors days have worsened across municipal, Soweto and international customer categories compared to the prior year. In particular, arrear municipal debt has seen a significant increase, in conjunction with continued low payment levels in Soweto. Average municipal debtors days are unacceptably high at over 140 days, with the trend of non-payment worsening amid the effects of the COVID-19 lockdown.

Arrear municipal debt

Total arrear municipal debt has escalated to unsustainable high levels, amounting to R3.3 billion (including interest) at year end (2020: R28 billion). The top 20 defaulting municipalities account for 81% of total arrear municipal debt (2020: 81%), with over 38% owed by Free State municipalities. At year end, there were 47 municipalities with total arrear debt of more than R100 million each (2020: 45) – this has grown considerably during recent years, demonstrating the pervasive nature of the problem.

Invoiced municipal debt (including interest) and percentage of total debt in arrears at 31 March 2021, R billion

<table>
<thead>
<tr>
<th>Municipality, R million</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maluti-a-Phofung Local Municipality, Free State</td>
<td>3 719</td>
<td>3 223</td>
</tr>
<tr>
<td>Meyerton Local Municipality, Free State</td>
<td>2 714</td>
<td>1 792</td>
</tr>
<tr>
<td>Mogale City Local Municipality, Gauteng</td>
<td>2 318</td>
<td>1 148</td>
</tr>
<tr>
<td>Nkana Local Municipality, Free State</td>
<td>1 320</td>
<td>320</td>
</tr>
<tr>
<td>Limpopo Local Municipality, Limpopo</td>
<td>378</td>
<td>378</td>
</tr>
<tr>
<td>Thaba Chweu Local Municipality, Limpopo</td>
<td>549</td>
<td>549</td>
</tr>
</tbody>
</table>

The top 10 defaulting municipalities owed R24 billion in arrear debt (or 68% of total arrear municipal debt) at year end. The substantial growth in arrear amounts is clear.

Dealing with defaulting municipalities

Despite the negative effect of the COVID-19 lockdown, we have continued our efforts to address arrear municipal debt through our municipal debt management strategy. The objectives of our strategy include:

1. Debtor days are based on amounts processed on our billing system, and are shown before accounting adjustments relating to non-collectability. Therefore, the amounts may not agree with those disclosed in the annual financial statements.
During the year, we revised our debt collection process to align with the Intergovernmental Relations Framework Act, 2005, in compliance with the SCA judgment. This affects the time to collect and, in some instances, municipalities are frivolously declaring disputes to delay the collection process. In January 2021, we approached the Constitutional Court to appeal the ruling of the SCA. We await a court date.

We cannot solve our municipal debt challenges on our own – continued support and cooperation from Government is crucial to address the root causes of the problem. We are fully participating in the work of the Eskom Political Task Team and its Multi-disciplinary Revenue Committee (MdRC). Unfortunately, improvements from their initiatives are yet to be seen. The MdRC is focusing its efforts on dealing with the top 20 defaulting municipalities, to ensure interventions are in place to improve the payment levels of the most indebted municipalities.

In addition, we have developed a proposal for National Treasury to take over the municipal arrear debt, with the intention of reinforcing National Treasury’s financial oversight of affected municipalities. Discussions continue as we engage National Treasury on how to leverage their authority to ensure municipalities prioritise the settlement of the arrear amounts due to Eskom.

Residential arrear debt
While arrear municipal debt has grown rapidly over the past few years, Soweto arrear debt has increased at a slower rate. Nevertheless, small power users, particularly in Soweto, comprise tens of thousands of residential customers, presenting a much greater challenge to manage and collect individual outstanding amounts compared to the few hundred municipal customers. Average payment levels in Soweto remain low, at 20.6% for the year (2020: 20.7%).

Total invoiced Soweto debt has decreased to R7.5 billion (including interest) at year end (2020: R12.8 billion). Of this, only R536 million is deemed collectable and is reflected as trade receivables in our annual financial statements. The reduction in Soweto debt is mainly due to the write-off of prescribed debt of R5.3 billion and write-back of non-compliant “in duplum” interest of R3.3 billion.

During the year, the Board granted approval for management to engage with the City of Johannesburg for the proposed transfer of customers in Johannesburg to the Department of Human Settlements for R16 million during the year.

The Board approved an offer for the disposal of Eskom Finance Company SOC Ltd (EFC) in January 2021, with both parties agreeing to an effective date of 31 March 2021, subject to all approvals being obtained. However, the proceeds would only be received over a period of time. Regrettably, the sale of EFC to the preferred bidder was not approved by DPE.

Future focus areas
• Exploring avenues to stimulate sales volumes amid the COVID-19 pandemic and South Africa’s economic recession
• Maintaining strong relationships with investors to assist us in our transition towards a new energy future
• Engaging with lenders on the legal separation and management of existing debt
• Strengthening the balance sheet and reducing our reliance on debt to contain debt service costs
• Improving long-term financial sustainability and strengthening standalone credit ratings
• Actively monitoring cash flows in conjunction with National Treasury and DPE and delivering on the equity conditions to ensure timeous Government support
• Pursuing a cost-reflective tariff path to recover prudent and efficient costs as well as a fair return on assets
• Implementing sustainable cost curtailment initiatives to achieve cumulative savings of R61.8 billion by 2023
• Delivering on the municipal debt management strategy and pursuing active partnering with municipalities to improve revenue collection
• Leveraging our relationship with Government to achieve sustainable solutions to Eskom’s debt balance of R401.8 billion and the recovery of municipal and Soweto arrear debt

Disposal of non-core assets
We aim to raise more than R2 billion from the disposal of non-core immovable properties. As part of this strategy, we sold two high-rise office buildings in Kimberley and Johannesburg to the Department of Human Settlements for R16 million during the year.

The preferred bidder was not approved by DPE.

We await a court date.

We are committed to rebuilding Eskom to make it stronger, more stable and ready to grow towards a brighter future.
How would you sum up the past year?
Operational performance varied quite significantly between divisions. Generation’s operational and environmental performance was below expectations, necessitating loadshedding to protect the integrity of the electricity grid. The impact of COVID-19 on our business over the past year is undeniable, but we capitalised on the low demand during the initial lockdown period to do significantly more much-needed planned maintenance.

The transmission and distribution networks delivered improved and sustained performance on key reliability measures, and we continue to make steady progress on the new build programme.

Tell us about the performance of the plant
Let us be candid, the performance of generating plant was below par. Plant availability declined to below 65%, mainly due to higher levels of planned maintenance. However, there was a noticeable improvement in the level of unplanned outages, although a large portion of capacity of Camden Power Station was unavailable due to ash dam constraints.

Excluding the new build stations, the average age of the plant is around 40 years, and stations have not been maintained adequately over the past decade. This, together with utilisation levels higher than the norm, negatively affected plant sustainability.

The low plant availability resulted in us having to make extensive use of peaking capacity to meet demand during periods of poor base-load generation capacity to avoid or minimise loadshedding. We spent R7 billion utilising Eskom’s and IPP OCGTs to support the power system, which, given our financial position, is not sustainable. We regret the 47 days of loadshedding we had to implement during the year, given the cost to the economy and the disruption to customers.

The Generation recovery plan implemented to allow for fast-tracked improvement in generation performance and plant availability is delivering positive results. Noteworthy progress has been made in several areas, with others also showing good performance. We have also implemented the reliability maintenance recovery programme to provide intensified support to power stations during outages. We introduced a self-funded production bonus in the line divisions to reward employees for improved efficiency, operational productivity and production performance.

The Generation Group Executive was appointed, together with placement of power station general managers and critical appointments, bringing much-needed leadership stability.

Koeberg continues to operate well and within the required safety parameters, and at the lowest primary energy cost of our base-load stations. Activities under the long-term operation project to extend Koeberg’s life by another 20 years, which includes the replacement of six steam generators, are progressing in accordance with the baseline schedule. Extending the station’s operating life is an investment into sustainable and less carbon-intensive electricity generation infrastructure.

The average coal purchase price increase was contained well within target, with less coal procured under short- and medium-term contracts. Coal stock levels were stable over the past year, following the successful rebuilding of coal stock levels in previous years. No power station recorded stock below its individual minimum stockholding level at year end. Steps are being implemented to reduce coal-related load losses, including lowering stone contamination and working with mines to improve coal quality.

Transmission network performance achieved target, with system minute <1 performance improving significantly. However, the failure of ageing assets led to two major incidents.

The distribution network continues to perform well. Both the duration and frequency of interruptions improved, with a combination of maintenance, network improvement projects and micromanagement of restoration times yielding promising results. The load reduction initiative contributed positively to reducing equipment failure from overloading. However, we have observed a marked increase in electricity theft during the national lockdown period, despite a decline in demand. Losses increased predominantly on feeders serving prepaid customers, evidence of an increase in electricity theft. Escalating municipal debt levels remain an area requiring focused attention.

Are you satisfied with the progress on the new build programme?
Progress on the new build programme is very encouraging. As expected, two units at Kusile achieved commercial operation during the year, adding installed capacity of 1 398MW. However, construction of high-
CHIEF OPERATING OFFICER’S COMMENTARY

What do you intend focusing on over the coming year?

Generation’s commitment to prioritise reliability maintenance remains on track, evidenced by the highest planned maintenance in three years. The focus is on proper upfront planning to ensure we address plant issues, prevent outage slips and ensure that the plant performs reliably after outages. Proper outage planning takes two years, so it may take some time before we see a significant improvement. Other areas receiving the necessary priority are partial load losses, boiler tube leaks and coal quality improvement. However, funding availability poses a huge risk to the ability of stations to prepare properly for outages in the 2021 financial year.

Plans to improve plant reliability are dependent on outages, and we cannot continue to defer outages due to the constrained system. That said, frequent and sporadic plant unavailability across the fleet will continue until the reliability maintenance programme takes effect. Outages to address new build design defects as well as those to implement mid-life refurbishments at older stations also have to be accommodated. Going forward, we can expect some degree of loadshedding, but we will not compromise on planned maintenance.

We strive for operational excellence in our business operations and this entails going back to basics, by implementing the correct processes and behaviours that support a culture of excellence. Disciplined execution of our standard operating procedures is a priority.

We continue to focus on improving the sustainability of our network within capital budget constraints. The ageing infrastructure, however, introduces some short- and medium-term risks.

Improving emission performance, particularly at Kendal, remains a focus as part of the Generation recovery plan. Poor performing units are placed on outage, and investigations and repairs are under way. We are undertaking emission reduction projects to reduce particulate matter emissions, as well as sulphur and nitrogen oxides.

Despite the unsatisfactory Generation performance in the past year, we are optimistic as we look ahead and collectively build on the Transmission and Distribution performance improvements. Our focus remains committed to stabilising and optimising the business, and driving the operations recovery area of the turnaround plan to improve Eskom’s long-term sustainability. After all, excellence is the gradual outcome of striving to do better together.

Lastly and most importantly, I would like to express my heartfelt gratitude to the Operations crew for their commitment, individual contributions, tireless efforts and resilience despite a daunting and challenging year – they are the real heroes and heroines of our organisation and country, doing everything in their power to keep the lights burning and our economy prosperous.

Jan Oberholzer
Chief Operating Officer

Our Infrastructure

Challenges

• Managing coal quality within contracted specifications
• Lower output by renewable IPPs due to delays in commercial operation of projects, mainly as a result of the national lockdown
• Ageing network assets and reduced investment in network infrastructure negatively affecting network sustainability and available capacity
• The negative economic outlook and socio-economic challenges contributed to an increase in distribution non-technical losses, particularly due to electricity theft

Lowlights

• High unplanned load losses resulted in capacity constraints, leading to loadshedding on 47 days
• Utilisation of gas turbines remained high, at a combined cost of energy (Eskom and IPP-owned OCGTs) of R7 billion (R7.5 billion)
• High levels of asset vandalism, equipment theft and overloaded networks have led to increased breakdowns and maintenance costs. Limited returns on investment and an increased safety risk
• Certain large-scale emissions control projects are behind schedule, putting at risk the achievement of the 2019 Minimum Environmental Standards targets
Our infrastructure constitutes our manufactured capital. It consists of our generation fleet and transmission and distribution networks, supplemented by IPP capacity. It includes new power stations and high-voltage transmission lines being constructed under our new build programme, together with projects aimed at delivering customer and IPP refurbishing existing assets and ensuring environmental compliance.

We ensure security of electricity supply to the country through effective operation of our assets. The supply and demand of electricity is built in real time to ensure stability of the national grid.

Managing supply and demand
Role of the System Operator
To protect the interconnected power system, the System Operator balances electricity supply from power stations and demand from customers within a range, as close as possible to 50Hz in real time. The various defence systems to protect the network are tested regularly to maintain our ability to respond effectively to prevent a major system event, such as a regional or national blackout.

Eskom’s base-load customers are high load factor, large industrial customer operations that operate continuously, i.e. 24/7/365. Eskom has approximately 145 key industrial customer accounts and these high-volume customers contribute significantly to our revenue. Many of these customers, specifically the smelters, provide interruptibility or demand response, which is utilised by the System Operator to maintain grid stability. The peak demand response provided during constrained periods reduces the cost of open-cycle gas turbine (OCGT) usage and assists with limiting loadshedding to other customers. Base-load customers significantly contribute to both energy and network fixed costs, and their presence reduces the upward price pressure on all other customers. Large industrial operations sustain local economies with jobs and facilitates the growth of downstream beneficiation in the country.

System performance
We again had to make extensive use of peaking capacity in the form of pumped storage stations, as well as both Eskom- and IPP-owned OCGTs and, at times, hydro stations, to meet demand during periods of poor base-load generation availability, when high levels of planned and unplanned maintenance were being carried out. Despite the high cost of running OCGT stations, our purpose is to meet the country’s electricity demand norms – as evidenced in the high utilisation factor discussed below – to avoid or minimise loadshedding, which results in the high level of unplanned breakdowns.

Renevaible energy IPP generation continued to support the power system throughout the year, with wind generation in particular supporting the evening peaks. The highest wind generation over the past year was 2 114MW on 1 December 2020. The average load factor for wind generation over the peak week was 43.7% for the year. Wind generation production was curtailed on 15 occasions over the night minimum period, due to very low demand between 1:00 and 4:00.

During the summer months, wind generation output aligns well with the country’s demand profile, peaking in the evening and dropping to low levels overnight. In winter, wind generation tends to peak during a cold front in the Western Cape, but drops once the cold front moves northwards and demand increases in Gauteng, thereby creating a double blow to the system.

The implementation of a nationwide lockdown on 27 March 2020 to reduce the spread of COVID-19 resulted in a drastic reduction in demand. During the level 3 lockdown, the daily peak demand on the power system reduced by between 7 500MW and 11 000MW. The average demand reduction during level 5 was 5 800MW. During the level 4 lockdown period, the average demand reduction was 3 300MW. Since the beginning of the level 3 lockdown, the average reduction has been 1 000MW or less.

Loadshedding implemented during the year
Loadshedding was required on 47 days during the year (2020: 46 days) – 42 days up to stage 2, three days up to stage 3 and two days up to stage 4. Nine days of continuous loadshedding was implemented from 10 to 18 March 2021, the longest continuous loadshedding ever implemented.

In comparison, loadshedding was implemented for a total of 646 hours to shed 1 034GWh in 2020 (2020: 816 hours for 1 291GWh; 2019: 471 hours for 812GWh). The time in each stage is depicted below. Stage 6 loadshedding was implemented for the first time and only on 9 December 2019.

Loadshedding in each stage, hours

<table>
<thead>
<tr>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>2020</td>
<td>2021</td>
<td>2021</td>
<td></td>
</tr>
<tr>
<td>100</td>
<td>200</td>
<td>400</td>
<td>800</td>
<td>1 500</td>
</tr>
</tbody>
</table>

Loadshedding remains the last resort to maintain the supply/demand balance, or to protect the power system by ensuring sufficient reserve capacity to respond to significant unplanned breakdowns or disruptions to supply. Loadshedding is required mostly when diesel fuel levels at OCGT stations and/or water levels at pumped storage stations are low, coupled with times of particularly high levels of unplanned breakdowns of our generating plant.

Loadshedding remains the last resort to maintain the supply/demand balance, or to protect the power system by ensuring sufficient reserve capacity to respond to significant unplanned breakdowns or disruptions to supply. Loadshedding is required mostly when diesel fuel levels at OCGT stations and/or water levels at pumped storage stations are low, coupled with times of particularly high levels of unplanned breakdowns of our generating plant.

The cost of loadshedding
A study by Nova Economics on behalf of Eskom estimates that 1% loadshedding (as percentage of electricity sales) is associated with a 0.4% decrease in GDP growth. The cost of an entire day of loadshedding to the economy is estimated as:

- Stage 1 (or loadshedding 1 000MW): R235.5 million
- Stage 2 (2 000MW): R471.3 million
- Stage 3 (3 000MW): R706.7 million
- Stage 4 (4 000MW): R942.4 million

Estimates indicate that the energy-intensive primary and secondary industries, such as agriculture, utilities and manufacturing, are the worst affected by loadshedding. By contrast, the more service-oriented industries are less significantly affected. The agricultural sector seems to be the most adversely affected, because of its heavy reliance on electricity for irrigation and refrigeration purposes. Furthermore, the manufacturing sector is most affected in absolute terms.

The implementation of the 2021 Winter Plan commenced on 1 April 2021, running until 31 August 2021. Three scenarios of planned unavailability were considered for the plan, namely 11 000MW, 12 000MW and 13 000MW (with uncertainty of approximately 4 000MW due to volatility). For planned unavailability up to 12 000MW, no loadshedding would be required. At 13 000MW, the Winter Plan showed a possible 30 days of stage 1 loadshedding during the winter months. Regrettably, unplanned unavailability often exceeded this level, at times requiring load curtailment of large customers and loadshedding.

Technical performance
Plant availability of our generation fleet is measured by EAF, which continues to perform significantly below expectation. Plant availability has declined to below 65%, largely due to an increase in losses outside of a station’s control (PCLF) and more planned maintenance (PCLF) compared to the previous year, offset by a slight reduction in unplanned maintenance (UCLF).

Technical performance
Plant availability of our generation fleet is measured by EAF, which continues to perform significantly below expectation. Plant availability has declined to below 65%, largely due to an increase in losses outside of a station’s control (PCLF) and more planned maintenance (PCLF) compared to the previous year, offset by a slight reduction in unplanned maintenance (UCLF).

Ash dam capacity constraints at Camden Power Station contributed OCLF of 2.05% during the year. We have to operate the plant far outside acceptable norms – as evidenced in the high utilisation factor discussed below – to avoid or minimise loadshedding, which results in the high level of unplanned breakdowns.
The energy utilisation factor (EUF) for the entire generation fleet has declined slightly to 76.34% (2020: 78.98%). Persistent high EUF levels continue to place stress on units, ultimately affecting their reliability and leading to high levels of UCLF. The high average fleet EUF was largely due to coal-fired stations running at an average EUF of 92.32% (2019: 93.33%), with all 15 of the coal-fired units with an EUF greater than 80%. Considering the age of Eskom’s fleet, the actual EUF remains substantially above the international norm of around 75% over the long term, which will have negative long-term technical consequences.

The base plan for the year catered for 73 outages. Of these, 60 outages had been executed by year end, with 13 deferred. Furthermore, an additional 24 outages not catered for in the base plan had been completed. Consideration is given to system capacity constraints, plant risks and availability of spares and resources when scheduling outages.

Koeberg performance
Koeberg continues to operate well and within the required safety parameters, and at the lowest primary energy cost of our base-load stations. The refuelling outage on Unit 2 was delayed due to the national lockdown, with international travel ban restricting required resources. Due to the lower demand during the national lockdown, the unit was shut down on 4 April 2020, and was brought back to service on 13 July 2020. The unit was finally shut down for a refuelling and maintenance outage on 11 August 2020. It returned to service on 21 October 2020, loading up to full capacity within a week.

Generation recovery plan
The extended operation beyond the previously approved shutdown dates of power stations at the end of their economic life was considered in the updated plan. The use of operational units at these stations is being reviewed for extended use beyond 2023 or until sufficient new capacity comes online.

The national lockdown from 27 March 2020 resulted in a significant reduction in demand, which led to excess generation capacity. In order to optimise the excess capacity, we undertook higher short-term maintenance, particularly during levels 5 and 4 of the national lockdown, with some units being placed in cold reserve during that time.

We have implemented the reliability maintenance recovery programme to provide intensified support to power stations. It is a centre-led programme to ensure integration across the generation fleet, process management compliance, enhanced project controls for transparency, and risk escalation through a core team.

The ultimate aim is to improve outage performance to reduce the risk of loadshedding, thereby supporting South Africa’s economy. Nevertheless, the power system remains vulnerable and volatile, with the risk of loadshedding expected to be reduced significantly only after the reliability maintenance has been caught up.

We cannot continue to defer outages due to the constrained system. Outages to address the design defects at Medupi and Kusile as well as outages to implement major repair projects at older stations have to be accommodated, in addition to the required reliability outages at all stations.

Koeberg long-term operation and steam generator replacement projects
The long-term operation (LTO) project will extend the life of Koeberg Nuclear Power Station for an additional 20 years to 2045, in line with the IRP 2019 expectations for continued energy security beyond 2024. Compared to the cost of new build, the extension of Koeberg is economically viable and will secure 1 860MW for another 20 years. Extending the station’s operating life is an investment into sustainable and less carbon-intensive electricity generation infrastructure.

The LTO activities are progressing in accordance with the baseline schedule, except for the seismic hazard analysis, which has been delayed. An alternative approach is being developed to mitigate against the effect of the delays. The impact of the COVID-19 lockdown and the reduction in the budget for capital expenditure due to financial constraints had a negative impact on the progress of LTO activities. The risk is being addressed by optimising scope and engaging with the NNR.

The extension will include the replacement of Koeberg’s six steam generators, which have been in operation since 1984, during the next refuelling outage on each of the units. Once removed, the current steam generators will be stored on the Koeberg site, where they will be packaged and dismantled for final disposal at a national nuclear waste repository.

The three steam generators for Unit 1 have been delivered to Koeberg. Two of the three steam generators for Unit 2 are nearing completion of manufacturing and factory testing, and are scheduled for delivery during the last quarter of 2021. The third steam generator has been delayed due to a factory mishandling issue and is undergoing analysis of its future usability.

The readiness review during December 2020 for the Koeberg Unit 1 refuelling outage, it was concluded that the steam generator replacement (SGR) project posed a significant risk of a prolonged extension to the outage due to certain work packages and plans still being reviewed, and the existence of the original steam generator interim storage facility not being complete. The decision was made to delay installation of the steam generators to the next outage, as it had the least impact on the overall generation energy planning.

The revised plan is to install the steam generators during the respective outages in 2022.
OUR INFRASTRUCTURE continued

UCLF related to partial load losses for the 2021 year is better than the previous year, with an average reduction of 543 MW from the prior year. Just over 60% of partial load losses were recorded at Tutuka, Kriel, Medupi, Duva and Arnot. Master cooling tower refurbishments are still to be implemented at Tutuka, Kriel, Arnot, Duva and Mafa, but these projects have long lead times. The boiler tube failure rate 12-month moving indicator for commercial units has deteriorated slightly to 2.26 boiler tube failures per unit per year (2020: 2.13). This is more than double the aspiration level of one boiler tube failure per unit per year. Some 36% failures are due to the maintenance backlog caused by the deferral of planned philosophy outages, mainly due to system constraints.

Reduce maintenance outage due date slips and duration

At station level, Reliability Maintenance Recovery (RMR) Implementation Committees are gaining momentum. Engineering specialists have to sign off on outage scope during a scope freeze six months prior to each outage. Engineering specialists have to sign off on outage scope before are being onboarded.

The Group Executive: Generation was appointed on 1 April 2021. Furthermore, the three cluster manager positions – who focus on operational performance in an effort to improve the reliability of our ageing fleet – have been filled, and 125 new learners were appointed.

Maintain sufficient diesel stocks to enable the open-cycle gas turbines to perform for extended periods

Diesel tank levels remain healthy and were maintained well above the target of 50% to year end. Storage and supply capacity for OCGT diesel fuel has been increased to compensate for the high demand. During the early stages of the national lockdown, the possibility of the shutdown of refineries created a risk to diesel supply. To mitigate the risk, enabling contracts were put in place to ensure that urgent demand could be met.

Coal supply was largely unaffected by the national lockdown, as mines and logistic operators were allowed to operate and supply stations under the lockdown regulations. Nevertheless, the situation was monitored daily.

Coal-related load losses coincided with periods where our generating plant was also experiencing significant capacity constraints. Coal quality issues at Kriel and Mafa Power Stations account for almost 80% of coal-related UCLF. We are working with the mines in question and exploring other initiatives to address these issues.

Improve emissions performance

Despite some improvement over the past year, emissions performance is not yet at desired levels.

Use of open-cycle gas turbines

Poor generating plant performance led to extensive use of Eskom’s OCGTs during the year. The load factor for the year was 6.90% against a target of 1% (2020: 6.28%). The cost was lower than in the prior year, due to a lower average diesel price.

The two IPP-owned OCGTs also had to be used extensively, producing 704GWh (2020: 711GWh) at a cost of R4.5 billion (2020: R4.8 billion), which includes a fixed capacity charge of R1.6 billion (2020: R1.6 billion).

Refer to “Our interaction with the environment – Particulate and gaseous emissions” from page 99 for more information on emissions performance.

Energy supplied by IPPs

We procure renewable energy from IPPs under DMRE’s RE-IPP Programme, which is derived from ministerial determinations. Under existing bid windows, 8 500MW of renewable energy is expected to come online before 2025. Since inception of the RE-IPP Programme in 2011, a total of 86 IPP projects with a capacity of 6 490MW have been connected to the grid, although only 5 078MW is in operation (2020: 4 201MW).

Grid connection of Bid window 3.5, 4 and 4B projects and related national response. Nevertheless, the projects are progressing towards scheduled grid connection dates. Commencement of commercial operation of many of the Bid window 4 generators has been similarly delayed. This led to a reduction in the renewable energy available for purchase during the 2021 financial year.

Further procurement under the RE-IPP Programme has been initiated with the release of the Bid window 5 requests for proposals, calling for 1 600MW from wind and 1 000MW from photovoltaic projects. The closing date for bids is 4 August 2021.

Government’s Independent Power Producer Office has announced eight preferred IPPs from the Risk Mitigation IPP Procurement (RMIPPP) Programme. These projects will supply 1 846MW of dispatchable generation capacity. Under DMRE’s timelines, the first capacity from the programme is required before the end of December 2021.

We have applied to purchase energy under short-term IPP programmes. Regulatory approval for the contracts is pending, as NERSA declined cost recovery approval without a ministerial determination. There is a possibility of 300MW being procured and coming into operation during the 2021 financial year.

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2024</th>
<th>Target 2021</th>
<th>Target met?</th>
<th>Actual 2020</th>
<th>Actual 2021</th>
<th>Actual 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCGT production, GWh</td>
<td>633</td>
<td>211</td>
<td>211</td>
<td>1 457</td>
<td>1 328</td>
<td>1 202</td>
</tr>
<tr>
<td>OCGT diesel usage, R million/</td>
<td>2 812</td>
<td>867</td>
<td>1 250</td>
<td>4 075</td>
<td>4 303</td>
<td>5 768</td>
</tr>
</tbody>
</table>

1. The 2024 target is the cumulative target over the next three years.
2. The OCGT cost includes diesel and demurrage costs of R79 million (2020: R59 million; 2019: R51 million) incurred when not utilising the OCGTs.

Our interaction with the environment – Particulate and gaseous emissions

For the review period, Koeberg’s mean performance has deteriorated slightly, with improved performance in three of the 15 WANO performance indicators, countered by a deterioration in four of the indicators. Performance was affected negatively by the slip on the Unit 2 refuelling outage, and the forced shutdown of Unit 1 due to an increase in leakage on one of the steam generators.

The next routine WANO peer review of Koeberg was scheduled for December 2020. The cancellation of the project was approved by the Board’s Investment and Finance Committee. An amount of R1.3 billion was written off; relating to amounts incurred on the unit since the over-pressurisation incident.

Benchmarking Koeberg Nuclear Power Station

We are still affiliated to the World Association of Nuclear Operators (WANO) and the Institute of Nuclear Power Operations (INPO). South Africa remains a member of the International Atomic Energy Agency (IAEA). These affiliations facilitate defining standards, sharing best practice, conducting periodic safety reviews, training personnel, and benchmarking performance.

For the review period, Koeberg’s mean performance has deteriorated slightly, with improved performance in three of the 15 WANO performance indicators, countered by a deterioration in four of the indicators. Performance was affected negatively by the slip on the Unit 2 refuelling outage, and the forced shutdown of Unit 1 due to an increase in leakage on one of the steam generators.
Our infrastructure continued

Energy capacity and purchases
Available IPP capacity and energy procured under various IPP programmes for the year to 31 March 2021 are set out in the following table.

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2024</th>
<th>Target 2021</th>
<th>Target 2020</th>
<th>Target 2019</th>
<th>Actual 2021</th>
<th>Actual 2020</th>
<th>Actual 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total capacity, MW</td>
<td>15 210</td>
<td>8 336</td>
<td>6 356</td>
<td>4 700</td>
<td>6 083</td>
<td>5 206</td>
<td>4 981</td>
</tr>
<tr>
<td>Total energy purchases, GWh</td>
<td>81 063</td>
<td>20 263</td>
<td>14 994</td>
<td>9 046</td>
<td>13 525</td>
<td>11 958</td>
<td>11 344</td>
</tr>
<tr>
<td>Total spent on IPPs, R million</td>
<td>180 526</td>
<td>42 390</td>
<td>33 453</td>
<td>23 500</td>
<td>32 470</td>
<td>29 694</td>
<td>26 655</td>
</tr>
<tr>
<td>Lease accounting adjustment, R million</td>
<td>(9 375)</td>
<td>(2 054)</td>
<td>(1 631)</td>
<td>(1 631)</td>
<td>(1 631)</td>
<td>(1 703)</td>
<td>(1 703)</td>
</tr>
<tr>
<td>Total expenditure, R million</td>
<td>180 419</td>
<td>40 326</td>
<td>31 822</td>
<td>22 875</td>
<td>30 832</td>
<td>28 063</td>
<td>24 953</td>
</tr>
<tr>
<td>Weighted average cost, c/kWh</td>
<td>223</td>
<td>209</td>
<td>223</td>
<td>226</td>
<td>240</td>
<td>248</td>
<td>235</td>
</tr>
</tbody>
</table>

1. The 2024 target is the cumulative target over the next three years.
2. For accounting purposes, the capacity charges for the Avon and Ondela IPP gas peakers are treated as arrangements that contain a lease in terms of IFRS 16. Refer to note 2.8 in the annual financial statements for the related accounting policy.
3. The weighted average cost is calculated on the total amount spent on energy, before the IFRS 16 lease adjustment.

Utilisation of IPP OCGT peakers was in line with the prior year, aiding Eskom-owned OCGTs in ensuring system stability to minimise or avoid loadshedding during a shortage of plant capacity. The IPP OCGT peakers recorded an annual load factor of 8% (2020: 8.05%), against a target of 1%, while renewable IPPs attained an average load factor of 32.3% (2020: 32%).

During the year, 877MW of renewable IPP capacity was commissioned, against a target of 1 000MW. It comprised 415MW wind, 458MW solar photovoltaic (PV) and 4MW hydro energy. We expect 273MW of renewable capacity to be commissioned during the coming year.

IPP operational capacities by type at 31 March 2021, MW

<table>
<thead>
<tr>
<th>Description</th>
<th>Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wind</td>
<td>24 (8%)</td>
</tr>
<tr>
<td>Diesel</td>
<td>3 (1%)</td>
</tr>
<tr>
<td>Solar PV</td>
<td>2 (0%)</td>
</tr>
<tr>
<td>Concentrating solar power</td>
<td>3 (17%)</td>
</tr>
</tbody>
</table>

Cross-border sales and purchases of electricity
The aim of the Southern African Power Pool is to provide reliable and economical electricity supply to its members, nine of which are interconnected, with the remaining three countries targeting to be connected by 2022.

International sales and purchases

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2024</th>
<th>Target 2021</th>
<th>Target 2020</th>
<th>Target 2019</th>
<th>Actual 2021</th>
<th>Actual 2020</th>
<th>Actual 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>International sales</td>
<td>34 678</td>
<td>12 054</td>
<td>12 990</td>
<td>12 771</td>
<td>13 497</td>
<td>15 189</td>
<td>12 461</td>
</tr>
<tr>
<td>International purchases</td>
<td>25 395</td>
<td>8 457</td>
<td>8 457</td>
<td>8 457</td>
<td>8 812</td>
<td>8 568</td>
<td>7 355</td>
</tr>
<tr>
<td>Net sales</td>
<td>9 283</td>
<td>3 597</td>
<td>4 541</td>
<td>4 314</td>
<td>4 685</td>
<td>6 621</td>
<td>5 106</td>
</tr>
</tbody>
</table>

1. The 2024 target is the cumulative target over the next three years.
2. Prior year. The worst performing network feeders were 3% crucial feeders, system performance improved compared to the prior year. The worst performing network feeders were 3% crucial feeders, system performance improved compared to the prior year.

Sales volumes reduced year-on-year reduction due to loss of the contract to supply ZESCO (Zambia), which expired in February 2020, and Skorpion Zinc Mine (Namibia), which has been under care and maintenance since April 2020. The contract terminated in January 2021.

Purchase volumes have increased marginally year-on-year. The COVID-19 pandemic resulted in Hidroeléctrica de Cahora Bassa (HCB) having to put its maintenance plan on hold, due to contractors having to be repatriated to their countries of origin for the duration of the Mozambican lockdown. As a result, all five generators have been available since the second week of April 2020, thereby increasing available supply. Furthermore, security of supply was improved by extending the agreement with HCB for 150MWH for one year to September 2021.

Export growth strategy
Although our export growth strategy is aimed at maximising cross-border electricity sales through existing transmission infrastructure, and also by constructing additional transmission lines with the support of regional partners, it is severely hampered by generation constraints due to the poor performance of the coal-fired fleet. As a result, only non-firm new contracts can be concluded.

Network performance
Our network consists of transmission assets, which evacuate energy from our power stations, and our distribution network, which transmits electricity from the high-voltage transmission network and IPPs to customers, including municipalities and metros that manage their own distribution networks.

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2024</th>
<th>Target 2022</th>
<th>Target 2021</th>
<th>Target 2020</th>
<th>Actual 2021</th>
<th>Actual 2020</th>
<th>Actual 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of system minutes lost &lt;1 minute, number</td>
<td>3.3</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td>3.4</td>
<td>4.3</td>
<td>3.6</td>
</tr>
<tr>
<td>Number of major incidents &lt;1 minute, number</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>System average interrupt duration index (SAIDI), hours</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td>3.53</td>
<td>3.53</td>
<td>3.53</td>
<td>3.48</td>
<td>3.48</td>
<td>3.48</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>3.53</td>
<td>3.53</td>
<td>3.53</td>
<td>3.48</td>
<td>3.48</td>
<td>3.48</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>3.53</td>
<td>3.53</td>
<td>3.53</td>
<td>3.48</td>
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Compared to the prior year, system minute <1 performance has improved significantly. However, two major incidents occurred in July 2020, affecting smelter loads in KwaZulu-Natal and industrial loads in North West. Both incidents were due to the failure of aged assets, which includes substation plant and lines and hardware. Towards the latter part of the year, two large interruptions caused by protection failures at substations negatively affected system minutes performance.

Going forward, the focus will be on addressing the root causes relating to poor performing transmission lines. Furthermore, ongoing incidents of tower member and substation theft continue to pose risks for asset failures and transmission network availability. Proactive and effective risk management, intelligence gathering, stakeholder engagement as well as the deployment of new technologies are employed to combat these incidents.

Transmission's sustainability improvement plan
The five-year sustainability improvement plan was approved by the Board in April 2020. It included initiatives for the replacement of assets in poor condition; system expansion for growth and reliability, security upgrades and improvement actions for leading risk indicators.

The initiative for the replacement of ageing assets in poor condition includes a progressive annual investment increase over the medium term towards a desired sustainability level of replacing 2% of substation assets annually. The system expansion initiative is based on the delivery of projects as contained in the Transmission Development Plan, which includes requirements to enable the IRP 2019. This requires an estimated capital investment of R51 billion over the next five years to construct approximately 3160km of new lines and install 20000MVA of new transformer capacity. The implementation of the plan has been substantially affected by financial constraints, resulting in a capital budget shortfall of more than 50% over the five-year period. This translates to increased asset condition risks for operational sustainability and system expansion delays to enable the IRP 2019.

The integrated resource planning and contracting initiative focuses on enabling a learner pipeline, as well as gearing the procurement supply chain and execution capacity to the required level. The security enhancement initiative includes intruder and tampering detection technologies, surveillance and response solutions, as well as community and stakeholder engagement. The intent of improving leading indicators covers improvement in the number of line faults as well as in plant availability and human performance.
Despite the time to restore supply to customers performing better than target, concerns remain around the breakdown of connections that overload the network; theft and vandalism of electrical equipment; and challenges in restoring supply to deep rural customers and unsafe urban areas.

To address equipment theft and vandalism, we have initiated a technology-based security programme to mitigate equipment theft. To this end, we are establishing an internal security control centre; installing non-lethal jumpers, conductors and cables related to overloading caused by illegal current and bypassing of meters.

Energy losses and equipment theft
Overall energy losses on our networks have increased by 11.78% (2020: 9.89%), of which 10.11% relates to the distribution environment (2020: 8.79%), and 2.31% to transmission lines (2020: 2.22%). Transmission lines produce technical losses only, where some of the energy is lost in the form of heat as energy is transmitted.

Distribution losses are due to both technical and non-technical losses. We have observed a marked increase in electricity theft during the national lockdown period, despite a decline in demand. Energy losses amounted to 20.37TWh for the year (2020: 18.47TWh), with the increase in losses predominately arising on prepaid feeders, which is evidence of an increase in electricity theft.

Non-technical losses for the year are estimated at R2.319 million (2020: R1.977 million). These relate mainly to electricity theft through illegal connections, tampering and bypassing of electricity meters as well as the purchase of electricity tokens from unregistered or illegal vendors, but also includes meter reading and billing errors.

The percentage distribution energy losses has increased significantly since the prior year. Our ageing networks, which are often constrained and overloaded, further contribute to technical losses.

Curtailing energy losses due to a culture of non-payment, illegal connections, theft and fraud remains a concern. Interventions were put in place to better manage non-technical energy losses include:
- Audits were completed on 8,014 large customers, 12,714 small customers and 273,984 prepaid customers, with an estimated reduction of 428GWh in losses
- R14 million in fines were collected after disconnecting illegal connections and following up on incidents of meter tampering
- A model to create cooperative partnerships with communities is being explored as a possible solution to reduce non-technical energy losses

Interventions to investigate and better manage technical energy losses include the following:
- Reporting on high-voltage technical losses is in place, with estimation of medium-voltage technical losses in progress
- Modelling of IPP losses is in progress, to evaluate the impact of IPP operations on the distribution network
- A power factor correction study indicated that pursuing an overall customer power factor correction as a strategy would not improve distribution technical losses. A second phase is under way, to evaluate possible savings in technical losses
- The impact of voltage and phase imbalances are being evaluated to determine potential savings from a reduction in technical losses

Delivering capacity expansion
We embarked on a capacity expansion programme in 2005 to build new power stations and reinstate mothballed stations to increase installed generation capacity by 17 384MW, as well as increase high-voltage transmission power lines by 9 756km and transformer capacity by 42 470MVA to strengthen the transmission network. The programme is expected to be completed by 2025.

Since inception of the programme to 31 March 2021, installed generation capacity has increased by 13 936MW, transmission lines by 8 042km and transmission substation capacity by 38 440MVA.

Publication of this report is subject to the availability of the reliability of the synchronised units at Medupi and Kusile are steadily improving. This is a result of the continuous interventions taken in correcting major plant defects and improving operational efficiencies. Six units at Medupi and three units at Kusile contribute energy to the national grid.

The construction of high-voltage transmission lines was negatively affected by the COVID-19 lockdown restrictions, non-placement of major contracts and capital budget constraints, with the target for the year not being achieved. Nevertheless, more new transformer expansion than planned was commissioned.

Measure and unit

<table>
<thead>
<tr>
<th>Target 2024</th>
<th>Target 2022</th>
<th>Target 2021</th>
<th>Target most?</th>
<th>Actual 2021</th>
<th>Actual 2020</th>
<th>Actual 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generation capacity installed and commissioned (commercial operation), MW&lt;sup&gt;1&lt;/sup&gt;</td>
<td>2 394</td>
<td>796</td>
<td>1 594</td>
<td>1 590</td>
<td>1 580</td>
<td>-</td>
</tr>
<tr>
<td>Transmission lines installed, km&lt;sup&gt;1&lt;/sup&gt;</td>
<td>610.0</td>
<td>140.0</td>
<td>92.5</td>
<td>66.5</td>
<td>121.9</td>
<td>378.7</td>
</tr>
<tr>
<td>Transmission transformer capacity installed and commissioned, MVA&lt;sup&gt;1&lt;/sup&gt;</td>
<td>1 815</td>
<td>500</td>
<td>500</td>
<td>750</td>
<td>250</td>
<td>540</td>
</tr>
</tbody>
</table>

1. The 2024 target is the cumulative capacity to be commissioned and/or installed over the next three years.
OUR INFRASTRUCTURE continued

The last unit remaining at Medupi achieved COO on 31 July 2021. Delays in the completion of the dust handling plant (DHP) due to contractual matters and the COVID-19 pandemic all affected the schedule. Unit 1 is supporting the national grid, but has experienced some delays in conducting optimisation and capability tests. The 72-hour test run, Grid Code Compliance and capability tests were all completed in March 2021. The unit has also undergone some correction of major plant defects.

Construction of the DHP has been completed and is available to convey ash. The focus is on completing the remaining scope on the balance of plant (outside plant) including, but not limited to, the ash dump facility, ash silos, coal stockyards and building structures with their associated systems, to close out the project.

After limited construction activities in the early days of the national lockdown, construction and commissioning activities on Kusile Units 4 to 6 gradually resumed from May 2020, but have been affected by the DHPP commercial issues. A contract was placed with ERI to complete the DHP at Kusile, given that ERI completed the Medupi DHP after the previous contractor had entered business rescue. On Unit 4, the boiler chemical clean, first oil fire, first coal fire and boiler blow-through milestones were completed in February, April, June and July 2021 respectively. On Unit 5, the turbine on barreling and liquefied natural gas (LNG) flow were completed in June 2021, with tender evaluations completed. Phase 2 of the project consists of 640MWh at Distribution substations and is under development.

The Medupi and Kusile project performance

For the Medupi Power Station, the Plant Performance is as follows:

- Unit 6: Over 200 hours of sustained power generation.
- Unit 5: Over 100 hours of sustained power generation.
- Unit 4: Over 50 hours of sustained power generation.
- Unit 3: Over 150 hours of sustained power generation.
- Unit 2: Over 300 hours of sustained power generation.
- Unit 1: Over 250 hours of sustained power generation.

For the Kusile Power Station, the Plant Performance is as follows:

- Unit 6: Over 150 hours of sustained power generation.
- Unit 5: Over 200 hours of sustained power generation.
- Unit 4: Over 100 hours of sustained power generation.
- Unit 3: Over 50 hours of sustained power generation.
- Unit 2: Over 250 hours of sustained power generation.
- Unit 1: Over 150 hours of sustained power generation.

Correcting major design and construction defects at Medupi and Kusile Power Stations

Major defects tracked under the Generation recovery plan are defined as system or equipment defects that reduce, or have the potential to significantly reduce, the EAF of multiple units at the new build stations, and where the available contractual defect resolution remedies have not been effective.

The major defects at both Medupi and Kusile (unless otherwise indicated) are:

- Gas air heater mechanical performance, erosion and operational performance in terms of ash carry over and temperature stratification
- Furnace exit gas temperature resulting in excessive reheater spray water flow
- Milling plant defects
- Air and flue gas dust erosion

Another major defect at Medupi is control and instrumentation (C&I) repeated distributed control system card failures on Units 6, 5 and 4 as well as the balance of plant. A further major defect at Kusile is the western fill water treatment plant laboratory and demineralised water storage tanks.

Regarding the dust handling plant, ash silos and conditioning plant, the technical design analysis indicated that there are no design defects, but the quality of construction and materials problematic. This is being addressed as part of normal construction and contractual activities.

In April 2019, the total cost for fixing the major plant defects at Medupi and Kusile was estimated at R7.2 billion. The latest total estimated cost for the defects correction of all Medupi and Kusile units, based on the best available information, ranges between R5.6 billion and R7.2 billion. We have entered into a contractual consultation process with the boiler contractor to determine the liability for the necessary modifications to correct the defects. At the conclusion of the process, where Eskom is adjudicated not to be contractually liable, the plant defect correction costs will be fully recovered from the relevant contractors.

At this stage, the total boiler defect costs are being split equally between Eskom and the contractor at both Medupi and Kusile. A contractual process is under way, including contractual level discussions and possibly the Dispute Arbitration Board, to determine liability, where the liable party will be fully responsible for the related defect costs.

The forecast for the completion of the major defects correction of the Medupi and Kusile units with the contractual process, is November 2023. Further corrections which will be done in-house, with or without third-party involvement, is forecast for completion in 2025, depending on the outage availability of the units under Generation Division’s outage plan.

Other projects

Majuba Rail 68km dedicated railway

The project will ensure security of coal supply to Majuba Power Station through a 68km dedicated rail logistics solution, resulting in the achievement of positive economic, environmental and social benefits by switching the transportation of coal from road trucks to rail transportation. The project commenced in 2005 and has suffered numerous setbacks due to approval delays, as well as construction and commercial challenges.

Commercial operation is targeted for December 2021.

Battery energy storage systems

The distributed battery storage project is to be situated at remote sites with limited access to our distribution networks, but close to renewable IPP plant. Phase I of the project consists of 800MWh of distributed battery storage. DFFE granted environmental authorisation approvals for all but one of the phase I distribution sites located in the Western Cape, Eastern Cape and KwaZulu-Natal.

Approval was obtained from the World Bank to issue the bidding documents for the entire Phase 1 of the project to the market in March 2021. Tender enquiries closed in June 2021 and tender evaluations have commenced. Phase 2 of the project consists of 640MWh at Distribution substations and is in development.

Risks include schedule slippage beyond the end dates of the World Bank facilities; finalisation of the memorandum of understanding between Eskom funders; and DMRE and NERSA approval for the deviation from the current IPP and NERSA licence. With the delays experienced, the latest forecast for construction completion of Phase I is November 2022, which is beyond the end date of the World Bank facilities. There is an opportunity to extend the World Bank facility due to Eskom demonstrating commitment and good progress.

Medupi FGD retrofit

We remain committed to the construction of the Medupi flue gas desulphurisation (FGD) retrofit project, as confirmed in correspondence to the World Bank in June 2020. This is in line with the World Bank’s loan agreement. DFFE also emphasised in June 2020 that Eskom’s power stations must comply with regulations and applicable law. Compliance with environmental regulations for emissions control remains a key priority.

The Board approved the continuation of the Medupi FGD project in October 2020; the cost is estimated at R3.8 billion. Assessment of the request for information for a suitable FGD technology was concluded in January 2021. Our strategy is to avoid technology risk by allocating it to the private sector to select the technology solution. Endorsement and support of this strategy was granted in April 2021 by the Generation divisional board and the Investment and Finance Committee. Board approval was obtained at the end of June 2021.

In July 2021, the World Bank approved the extension of the FGD implementation deadline from 30 June 2025 to 30 June 2027. The key priorities are to complete the technology selection and resolve funding constraints before proceeding with any solution and commencing environmental approval activities.

Capital expenditure for the year was R8.5 billion lower than target, mainly across Group Capital and Distribution Divisions, due to the deferral of outages, resource constraints and a slowdown in activities as a result of the national lockdown. The constraints imposed on capital in response to the dramatic reduction in sales during the earlier stages of the national lockdown, as well as the delays in the funding programme, contributed to the lower expenditure. Furthermore, capital savings were targeted through our cost saving initiatives to offset the financial impact of lower sales volumes during the national lockdown.

Due to financial constraints, capex was reduced by 41% for the 2022 financial year, thereby limiting funds available for technical plan maintenance.

Medupi and Kusile project performance

Units have been synchronised to the grid and attained commercial status as follows:

- Unit 6: 794MW March 2015 August 2015
- Unit 1: 794MW December 2016 August 2017
- Unit 4: 800MW April 2019 March 2021
- Unit 3: 799MW April 2019 March 2021
- Unit 2: 794MW October 2018 November 2019
- Unit 5: 800MW June 2022 January 2023
- Unit 7: 800MW November 2022 May 2024

<table>
<thead>
<tr>
<th>Unit</th>
<th>Installed capacity</th>
<th>First synchronisation</th>
<th>Commercial operation</th>
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<tbody>
<tr>
<td>Unit 6</td>
<td>794MW</td>
<td>March 2015</td>
<td>August 2015</td>
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<td>Unit 5</td>
<td>794MW</td>
<td>September 2016</td>
<td>April 2017</td>
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<tr>
<td>Unit 4</td>
<td>794MW</td>
<td>May 2017</td>
<td>November 2017</td>
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<tr>
<td>Unit 3</td>
<td>794MW</td>
<td>April 2018</td>
<td>July 2019</td>
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<tr>
<td>Unit 2</td>
<td>794MW</td>
<td>October 2018</td>
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<td>November 2023</td>
<td>May 2024</td>
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1. Future dates are based on the PR6 schedule.
R&D projects
The mandate of our Research, Testing and Development (R&D) Department is to:
• Research, select and develop technologies that support our strategic objectives
• Create and apply knowledge to practical business challenges by demonstrating selected technologies, and develop new revenue streams
• Provide specialised technical consulting, testing and inspection services to support operational decision-making

Progress on high priority and flagship projects
Business model for technical development of black-owned suppliers and intellectual property management
Our focus is on business development of technical services that cannot be sustained in-house due to resource and financial constraints. We have partnered with the CSIR’s Enterprise Creation for Development for the development of entities to support Eskom, the South African electricity supply industry and other industries. We are targeting development of at least one sustainable business plan by the end of 2021.

Several online workshops were convened to explore business opportunities related to RT&D’s areas of expertise, including air quality monitoring, system dynamics, remotely piloted aircraft systems, eutectic freeze crystallisation, microgrid installation, remote temperature logging and biomonitoring.

High-voltage direct current (HVDC) test facility
No funding has been allocated to the project since 2020. As such, all work has been put on hold until further funding becomes available.

Discussions were held with the South African Bureau of Standards’ National Electrical Test Facility (SABS-NEITFA) to explore possible funding for the project, in accordance with the memorandum of cooperation between SABS and Eskom. The Transmission Division has expressed an interest in funding the completion of the facilities, with discussions under way.

Smart electricity platform
The project is aimed at developing a smart information platform to integrate customer-centric products, including air quality monitoring, system dynamics, remotely piloted aircraft systems, eutectic freeze crystallisation, microgrid installation, remote temperature logging and biomonitoring.

Microgrids and embedded generation
Successful demonstration of both the Ficksburg rural microgrid as well as the Lynedoch smart integration of embedded generation (SIEG) pilots have facilitated a change in Distribution Division’s strategy to deploy small-scale embedded generation and microgrids as future product offerings. The knowledge gained from early demonstration of these disruptive technologies has positioned Eskom to manage distributed generation technologies and deliver product offerings to meet the requirements of the future customer.

Komati repurposing
The Komati repurposing initiative entered the first phase of a three-phased approach in line with Generation’s repowering programme, after submission of an expression of interest to the market. The first phase seeks to demonstrate pre-commercialised energy storage solutions and conduct a feasibility study on how existing assets can be repurposed to maintain system inertia and frequency stability. Subsequent phases will focus on demonstrating emerging repowering technologies and socio-economic initiatives to support repowering.

Future focus areas
• Executing the business separation programme, focusing on legal, regulatory and policy issues
• Continuing to drive execution of the Generation recovery plan to improve plant performance over the medium to long term
• Successfully executing the Koebang steam generator replacement and LTO projects to extend the life of the station
• Concluding agreements with new IPP projects, specifically the Risk Mitigation Programme (announced by DME) and REIPP Bid window 5
• Supporting implementation of the Small-Scale Embedded Generation Framework, which was developed this year
• Reviewing the cross-border pricing strategy, and optimising and maintaining current cross-border contracts or extending agreements
• Facilitating skills transfer and development in the region
• Sustaining transmission system reliability and reducing line faults
• Prioritising capital investment for the strengthening and refurbishment of distribution networks as well as connecting new customers to the network
• Correcting all major plant defects at Medupi and Kusile by 2023, as part of the Generation recovery plan, to attain a technically acceptable level of new plant performance
• Completing the Medupi and Kusile projects within the revised Board-approved completion dates of the 2022 and 2025 financial years, respectively
• Driving completion of the battery storage (1 440MWh of storage capacity) and Medupi FGDC projects

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By and large, the impact of our activities on the environment is negative. To a large extent, we rely on the use of non-renewable or scarce resources such as coal, water, nuclear fuel and diesel to generate electricity. In addition, emissions from our power stations and waste generated in the form of ash and nuclear waste also have a detrimental impact on the environment, if not properly managed. We cannot deny that our activities destroy natural capital – both through the use of non-renewable natural resources, as well as producing emissions and waste – to deliver electricity to customers.

Nevertheless, we endeavour to limit the damage of our activities on the environment through our value of Zero Harm. Environmental compliance is critical to retaining our licence to operate and supporting the security of electricity supply to customers and the country as a whole.

Our aim is to reduce our environmental footprint on several fronts, for example through by reducing particulate emissions through a number of initiatives, using less water with less efficient units being taken out of service, and using dry-cooled technology in our newer stations, namely Matimba, Kendal, Medupi and Kusile. These new stations are being commissioned with fabric filter plants to reduce particulates, as well as new NOx technology to reduce NOx emissions. Kusile is being commissioned with FGD technology to reduce SO2. Medupi will be retrofitted with FGD technology.

Our current investment in renewable generating capacity is modest, with one wind facility, hydro stations and a number of small solar PV projects. We aim to drive the Just Energy Transition to introduce more renewable capacity, to reach our long-term objective of net zero emissions by 2050, with an increase in sustainable jobs.

Our top 10 coal suppliers are set out below. There are two new entrants to the list since last year.

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Contract type</th>
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</thead>
<tbody>
<tr>
<td>Exxaro Coal</td>
<td>Mix of cost-plus and fixed-price</td>
</tr>
<tr>
<td>Sante Coal</td>
<td>Cost-plus</td>
</tr>
<tr>
<td>South32</td>
<td>Mix of cost-plus and fixed-price</td>
</tr>
<tr>
<td>Glencore</td>
<td>Fixed-price</td>
</tr>
<tr>
<td>Universal Coal</td>
<td>Fixed-price</td>
</tr>
<tr>
<td>Mhambula Mining</td>
<td>Fixed-price</td>
</tr>
<tr>
<td>Wescoal</td>
<td>Fixed-price</td>
</tr>
<tr>
<td>Mwelase Mining (new)</td>
<td>Fixed-price</td>
</tr>
<tr>
<td>Into Africa Mining And</td>
<td>Fixed-price</td>
</tr>
<tr>
<td>Exploration (new)</td>
<td></td>
</tr>
</tbody>
</table>

In addition, emissions from our power stations and waste use of mainly non-renewable or scarce resources such as coal, water, nuclear fuel and diesel to generate electricity. In support of our long-term coal procurement strategy, we have issued requests for proposal (RFPs) to the market for supply to Arnot, Camden, Kriel, Matla and Tutuka, and in some cases, contracts have been awarded. Coal requirements have been largely secured for the next 18 to 24 months. Implementation of the long-term strategy is progressing and the shortfall, accounting for updates to both supply and demand, has been reduced to 0.75 billion tons of uncontracted coal to cover the life of all coal-fired power stations.

Coal supply strategy
Our coal strategy favours long-term dedicated coal contracts with coal delivered by conveyor, to ensure security of supply to our coal-fired stations and minimise coal transport by road. It includes investing in cost-plus mines to support contractual supply, to ensure optimal cost of coal and security of coal supply from dedicated coal resources.

The volumes of coal purchased and the value of the coal purchased for the year ended 31 March 2021 are as follows:

- Coal volumes
  - Cost-plus: 28%
  - Short-medium-term contracts: 22%
  - Fixed-price: 50%

- Value of coal purchased
  - Cost-plus: 26%
  - Short-medium-term contracts: 19%
  - Fixed-price: 55%

There has been a slight shift from short- to medium-term contracts to fixed-price contracts over the past year, which had a favourable impact on the cost of coal, as short- and medium-term coal tends to be more expensive. In support of our long-term coal procurement strategy, we have issued requests for proposal (RFPs) to the market for supply to Arnot, Camden, Kriel, Matla and Tutuka, and in some cases, contracts have been awarded. Coal requirements have been largely secured for the next 18 to 24 months. Implementation of the long-term strategy is progressing and the shortfall, accounting for updates to both supply and demand, has been reduced to 0.75 billion tons of uncontracted coal to cover the life of all coal-fired power stations.

Coal quality
Coal-related load losses for the year amounted to 0.71% (2020: 0.73%), and are due to factors such as poor quality coal or coal contaminated by stones. Matla and Kriel were the biggest contributors, accounting for 59% and 28% of coal-related load losses respectively. A number of steps are being implemented to reduce future coal-related load losses, including reducing contamination and working with mines to improve coal quality. Our long-term goal remains to determine coal quality at the point of delivery.

Investment in cost-plus mines
We will only consider recapitalisation for mines where long-term benefits can be demonstrated through increased volumes of acceptable quality coal, to limit the amount of coal required on expensive short- and medium-term contracts. The majority of cost-plus mines require significant investment or recapitalisation to increase production and/or maintain existing production. Until then, lower production is to be expected from these mines. We will consider financing the expansion at cost-plus mines to access remaining contracted reserves, to support contract extensions through increased production.

Negotiations on the extension of existing cost-plus agreements for Lethabo, Kendal, Kriel, Matla and Tutuka continue.

Securing our resource requirements
Our primary energy sources include coal, nuclear fuel, diesel, gas, limestone (used in FGDs) and water. These have to be sourced, procured and delivered to our power stations in the necessary amounts, at the required quality, at the right time and at optimal cost.

Secure our coal requirements
Going forward, investors will purse clean energy, with minimal funding for carbon technology, thereby signalling disinvestment in the South African coal industry by multinationals.

Securing our resource requirements
Investing in renewable capacity is modest, with one wind facility, hydro stations and a number of small solar PV projects. We aim to drive the Just Energy Transition to introduce more renewable capacity, to reach our long-term objective of net zero emissions by 2050, with an increase in sustainable jobs.
Furthermore, commercial delays between Eskom and Transnet Freight Rail (TFR) for rail siding operations delayed the recommissioning of rail operations to Tutuka. The rail safety regulator has delayed the start of a rail service to Amott. TFR is engaging the regulator to resolve and expedite approvals.

Regrettably, road logistics recorded eight public fatalities on its own contracts during 2020 (2019: 5). As a result, the project is likely to be delayed by another two years, with construction delayed due to COVID-19 travel restrictions. Other initiatives such as water conservation and water demand management have to be implemented by all sectors, including Eskom, to mitigate against future water security risks in the IVRS.

The Mokolo River System, which supplies raw water to Tromile and Medupi power stations, has also received good rainfall, resulting in the Mokolo Dam level increasing to 100.4% on 30 March 2021 (October 2020: 40%). As a result, the likelihood of water cutbacks to Eskom has reduced significantly, although the risk remains until the Mokolo Crocodile Water Augmentation Project to Eskom has reduced significantly, although the risk remains until the Mokolo Crocodile Water Augmentation Project is commissioned by 2026. Unofficially, Transnet Freight Rail (TFR) for rail siding operations has not yet received Eskom’s correspondence.

For a discussion of our water usage, refer to “Reducing water-consumption” on page 102 in this section.

The Department of Water and Sanitation (DWS) continues to experience severe budgetary, financial and resource constraints, affecting its ability to manage existing operations, maintenance and implementation of new bulk water infrastructure to ensure future water security to Eskom. A joint task team between DWS, Eskom and Sasol has been established to mitigate against these water supply risks and to escalate critical matters to the Director-General: DWS for support and intervention.

Mokolo Crocodile Water Augmentation Project (MCWAP) Phase 2

The water delivery phase from MCWAP Phase 2A has moved out to August 2026 (from October 2025 reported previously). Eskom signed the water supply agreement with DWS in January 2021. At this stage, the delay is unlikely to affect the FGD project, which is also delayed.

Securing our nuclear fuel requirements

Koeberg’s nuclear fuel demand can be met until 2025. In 2014 and again in 2019, we committed to retrofitting Koeberg’s nuclear fuel fabrication service to meet the new plant standards requiring all coal-fired power stations to implement emission reduction technologies, such as fabric filter plant (FFP), low NOx burners and FGD. Several of the particulate matter projects are under way, and will be completed by 2025 as required.

Reducing particulate and gaseous emissions

Burning coal to produce electricity produces four major pollutants in the form of emissions: particulate matter (PM), carbon dioxide (CO2), sulphur dioxide (SO2) and nitrogen oxides (NOx). The National Environmental Management: Air Quality Act, 2004 (NEMAQA) requires the installation of technology to reduce emissions.

Since the early 1980s, we have implemented pollution reduction technology, thereby reducing particulate matter emissions by more than 80%. We recorded the worst particulate emission performance in 20 years in 2019 and 2020, primarily because of challenges experienced at Kendal Power Station.

It is projected that our relative particulate matter emissions will be reduced by 51% by 2030, SO2 by 22% and NOx by 27%, compared to a 2020 baseline. The estimated reduction is based on units running at the allowable limit value and changes following an upgrade or retrofit, or unit shutdown, which could have a negative impact on plant availability. By 2039, Eskom’s relative particulate matter emissions are expected to be reduced by 70%, SO2 by 54% and NOx by 56%.

In July 2020, Minister Cresey of the Department of Forestry, Fisheries and the Environment (DFFE) provided approval for Eskom to operate stations under pre-1 April 2020 emission limits until decisions on our most recent MES applications are made. The extension allowed us to continue operating affected power stations legally. DFFE indicated in November 2020 that it aimed to complete its environmental impact assessment process.

Carbon dioxide (CO2), Mt

Sulphur dioxide (SO2), kt

Nitrogen oxides (NOx), as NO2, kt

Particulate emissions, kt

1. Relative particulate emissions values and specific water consumption include Medupi Units 3, 4, 5 and 6 as well as Kusile Unit 1 but exclude units synchronised but not yet in commercial operation. Units are only included one year after achieving commercial operation, therefore Kusile Units 2 and 3 as well as Medupi Unit 2 are still excluded.
2. Particulate emissions reported at certain coal-fired power stations, Kendal and Kriel specifically, exceeded the range of the station’s particulate emission monitors for periods during the year. This may have resulted in an understatement of particulate matter emissions.
3. No target is set for net raw water consumption or for emission volumes. Therefore, the target for these measures is shown as not applicable.
4. Specific cases of environmental legal contraventions incidents that are considered to be of very high significance in terms of its impact on the environment and/or on Eskom in that they have a material business impact and illustrate a significant failure of business systems, are recorded as incidents in terms of the OHD.
5. Our sulphur dioxide performance figures are calculated based on coal characteristics and power station design parameters using coal analysis and coal combustion test results. These figures include coal fired and gas turbine power stations, as well as oil, natural gas and diesel fired stations.
6. NOx and SO2 reported as NO2 and SO2 are calculated using average station-specific emission factors (which are measured intermittently) and tonnages of coal burnt.
Kendal emission challenges
Poor performance of the electrostatic precipitators (ESPs), the SO2 plant tripping as well as poor availability of the dust handling plant have contributed to the high levels of emissions at Kendal. The station has been implementing an emission recovery plan across all units since late 2019, which has led to a significant reduction in emissions and units operating in compliance, although emissions remain high compared to other stations.

The earlier repairs to Units 1 and 2 in terms of the recovery plan led to an improvement in the performance of these units. The station is implementing interim repairs on Units 2 and 3, and redoing the correlation tests. This has resulted in improvements in performance at Units 1, 2 and 3. Units 5 and 6 have completed outages to improve emissions performance.

A criminal case was opened in September 2019, relating to non-compliance with Kendal’s AEL between April 2015 and April 2019. Eskom appeared in the Witbank Magistrates Court on criminal charges in January 2021, and the matter was postponed to June 2021. If found guilty, Eskom could be fined a fine of up to R2.5 million. Subsequently, the hearing was postponed again to August 2021 at the request of the NPA.

In addition to the criminal case, an administrative process was initiated and a compliance notice issued in December 2019 in respect of continued AEL non-compliances. We appealed the notice. Minister Creecy responded that we could operate only one of the worst performing units at a time. Additionally, we had to provide plans to address the emission levels at the station. Accordingly, Unit 5 was put on extended outage, which was completed in June 2021.

In August 2020, DFFE approved our action plan for the return to compliance for Kendal’s units. The station is tracking the delivery of the plan, which is progressing well. Failure to comply with the plan is considered non-compliance with the directive, and could result in further censure.

Nevertheless, due to generation constraints, it was necessary to continue to operate the station even though the ESP damage and dust handling plant issues were not resolved on all units. Contrary to our initial understanding, DFFE has confirmed that it is an offence to operate any of the units in non-compliance with the AEL limits, notwithstanding the action plan.

We received a letter in March 2021, alleging further non-compliance at the station, leading to additional charges that may be included in the criminal case. We issued a response, and await further developments, which may include adding of further charges to the existing criminal case.

Offset programmes
In terms of the 2015 MES postponement application, we are required to implement an air quality offset programme to reduce particular matter emissions, to improve ambient air quality in communities adjacent to our power stations. Interventions include insulating homes with ceilings, switching households from coal to electricity and liquid petroleum gas, and addressing the burning of waste. Initial engagements with the KwaZamokuhle community took place during the year, and the initiatives were received positively by the community.

Despite progress during the 2021 financial year, there have been delays in contracting for the lead implementations at KwaZamokuhle and eZamokuhle, due to commercial delays in the contracts for stoves and heaters, and the national lockdown restrictions during the COVID-19 pandemic.

Gasemissions
SO2 emission limits
Exceedances of daily SO2 limits have been recorded by all coal-fired power stations on 279 days in total during the year (2020: 449). Of those exceedances, 160 occurred at Matimba, which is now operating under a monthly AEL limit rather than a daily limit. Medupi, which also operates on a monthly AEL limit, reported 86 exceedances on its units. The poor SO2 emissions performance at these stations is due to the generally higher sulphur content of Waterberg coal.

NO3 emission limits
Exceedances of allowed daily NO3 emissions have been recorded by all coal-fired power stations on 125 days in total during the year (2020: 409). Lethabo reported 65 exceedances during the year. The remainder of the exceedances were reported at Kendal and were generally due to monitoring issues.

Emission reduction projects
We remain at risk of not meeting commitments made in previous minimum emission postponement applications due to project delays and constraints on available funding. The consequences of non-compliance could be the withdrawal of licences to operate, DFFE not granting further postponements, or not meeting specific loan agreement conditions, such as the World Bank’s Medupi FGD loan conditions.

Various emission abatement technologies have been installed at our stations. These include electrostatic precipitators (ESPs) (at Duva, Kendal, Komati, Kriel, Lethabo, Matimba, Matla and Tutuka); SO2 flue gas conditioning plants to improve the efficacy of ESPs (at the stations mentioned before, except at Tutuka); fabric filter plant (at Arnolt, Camden, Duva, Groovek®, Hendrina, Kusile, Majuba and Medupi); boilers with low NOx design (at Kendal and Matimba); low NOx burners (at Camden, Kusile and Medupi); and flue gas desulphurisation (at Kusile).

We are undertaking the following emission reduction projects to reduce particulate matter emissions, as well as sulphur and nitrogen oxides:

• At Lethabo, a high-frequency power supply (HPFS) was installed on Unit 3. HPFS will be installed on other units, with the next one planned for the second half of the coming year. The commercial process for the ESP upgrades and refurbishment of the SO2 flue gas conditioning plant at Kriel is being prepared.
• Work on the NOx projects at Majuba, Matla and Tutuka is on hold pending a reassessment of the requirements for these projects in light of engagements with the authorities regarding the MES applications.
• The technology approach for the particulate matter reduction at Tutuka has been reassessed given funding constraints. Revised commercial documentation is being prepared.
• At Kriel, the HPFS, ESP and SO2 upgrades on the first unit will commence during the coming year.
Aging plant and long lead times to address some of the implementation of the water strategy has, to date, not led to reduction in water use and ensure compliance. Regrettably, comprehensive strategic water implementation and operation of units. A total of 668kt of ash was diverted from waste requiring a waste management licence, when extracted for beneficial use at our sites, provides additional opportunities for ash beneficiation – such as the use of ash in bricks, cement, soil amelioration, road construction and mine backfilling.

Since late April 2020, all eight Camden units (totalling 1.48MW nominal capacity) were shut down due to the safety risk resulting from ash dam capacity constraints. This contributed OCLF of 2.05% during the year. The current ash dam had reached its maximum height and poses a safety risk to personnel on site and neighbouring communities.

The units were brought back online between August and October 2020, with around three units running continuously until the new ash dam is due to be completed by the end of the 2023 financial year. In the meantime, the station will redirect a portion of the ashed volume to free up space that would allow limited operation of units. A total of 648kt of ash was diverted to a nearby mine as backfill material during the year.

Reducing water consumption
As a strategic water user, we are assured of water supply in the short to medium term. We are implementing comprehensive strategic water implementation and management plans at all coal-fired power stations to reduce water use and ensure compliance. Regrettably, implementation of the water strategy has, to date, not led to a reduction in water usage at coal-fired power stations.

Water temperature remains very disappointing. The poor performance is caused by poor technical performance of coal-fired stations, combined with ageing plant and long lead times to address some of the root causes of high water consumption and poor water management practices.

Specific water usage
Specific water use for the generation of electricity for the year is worse than target, but remained the same as the prior year.

We established the Generation Environmental Compliance Steering Committee (GECS) in June 2020 to focus on water management, including other environmental aspects. The committee is chaired by the Group Executive: Generation to monitor and track the implementation of water actions at power stations to reduce specific water usage and address the increase in water spillages that result in environmental legal contraventions. The GECS has increased the focus on water management and, although results are not yet visible, we expect to see improvements in due course if the focus remains.

Reducing environmental legal contraventions
A total of 80 environmental legal contravention incidents were recorded against a tolerance level of 18 (2020: 59). Of these, 68 were water-related incidents, nine related to air quality, two to waste and one related to regulations around environmental impact assessments. Generation Division was responsible for 78 of the incidents, and Group Capital Division for two.

Of the legal contraventions, seven were classified as OHD contraventions (as defined earlier) (2020: five), all of which were water-related. Six contraventions were recorded in Generation, while one was related to activities by Group Capital at Camden Power Station.

Subsequent to year end, performance relating to environmental legal contraventions has shown an improvement.

Provisions for environmental restoration and rehabilitation
We make provision for the following obligations:

- Decommissioning the nuclear plant, including rehabilitation of the associated land, as well as managing spent nuclear fuel assemblies and radioactive waste
- Decommissioning other generating plant and rehabilitation of the associated land
- Estimated cost of closure at the end of the life of cost-plus mines, together with pollution control and rehabilitation of the land, where a contractual or constructive obligation exists to pay the coal suppliers

We raised the following provisions relating to environmental rehabilitation and restoration:

<table>
<thead>
<tr>
<th>R million</th>
<th>Actual 2020</th>
<th>Actual 2020</th>
<th>Actual 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power station-related environmental restoration – nuclear plant</td>
<td>19 874</td>
<td>16 203</td>
<td>17 797</td>
</tr>
<tr>
<td>Power station-related environmental restoration – other power plant</td>
<td>15 270</td>
<td>11 932</td>
<td>14 460</td>
</tr>
<tr>
<td>Mine-related closure, pollution control and rehabilitation</td>
<td>15 858</td>
<td>14 291</td>
<td>13 906</td>
</tr>
<tr>
<td>Total environmental provisions</td>
<td>50 202</td>
<td>42 426</td>
<td>46 163</td>
</tr>
</tbody>
</table>

Refer to note 29 in the consolidated annual financial statements for more information on these provisions

Investing in renewable energy
Eskom’s Sere Wind Farm contributed 305GWh to the national grid during the year (2020: 283GWh), with an average load factor of 33.25% and an average availability factor of 94.48% (2020: 90.67% and 97.60% respectively).

The eight rooftop and ground-mounted PV sites in operation at our facilities sent out 3GWh during the year (2020: 3.8GWh).

We continue to purchase renewable energy from IPPs. Renewable energy sources include wind, solar power, biomass, landfill gas and small hydro technologies.

The results of the carbon footprint study for the 2020 calendar year, compared to the 2019 results, are presented in the table below:

GHG emissions by source, tCO₂e

<table>
<thead>
<tr>
<th>Source</th>
<th>Actual 2020</th>
<th>Actual 2020</th>
<th>Actual 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1</td>
<td>201 624 115 tCO₂e</td>
<td>212 012 425</td>
<td>201 624 115</td>
</tr>
</tbody>
</table>

1. As electricity generation is Eskom’s main activity, scope 2 indirect emissions are not considered.
2. Scope 3 indirect emissions are not considered.
3. As defined earlier.
4. As defined earlier.

The total GHG emissions for 2020 were 201 624 115tCO₂e, which is favourable compared to the 2019 figure. This indicates a decreased impact in Eskom’s overall carbon footprint because of lower electricity demand, and therefore production, due to the various lockdown measures implemented in response to the COVID-19 pandemic. The majority of these emissions were caused by the burning of fossil fuels at our power stations for the generation of electricity. Coal, diesel and kerosene consumption contributed over 99.8% of our GHG emissions.

Coal delivery to site
Use of employee vehicles
Air travel
Vehicle rental
Total

<table>
<thead>
<tr>
<th>Source</th>
<th>Actual 2020</th>
<th>Actual 2020</th>
<th>Actual 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>238 338</td>
<td>269 963</td>
<td>269 963</td>
<td></td>
</tr>
<tr>
<td>6 649</td>
<td>12 627</td>
<td>12 627</td>
<td></td>
</tr>
<tr>
<td>1 086</td>
<td>3 668</td>
<td>3 668</td>
<td></td>
</tr>
<tr>
<td>2 225</td>
<td>1 903</td>
<td>1 903</td>
<td></td>
</tr>
</tbody>
</table>

For capacity provided by renewable IPPs, refer from page 87

As reported last year, we received no allocation for renewable energy capacity under the IOPR 2019, effectively curtailing our own investment in renewable technology for the foreseeable future.

Responding to climate change
The purpose of South Africa’s proposed Climate Change Bill is to build an effective climate change response and ensure the long-term, just transition to a climate resilient and lower carbon economy and society. This is to be done within the context of sustainable development for South Africa.

Our carbon footprint
We conducted a carbon footprint study to calculate our annual carbon footprint for the 2020 calendar year. A carbon footprint estimates the total greenhouse gas (GHG) emissions (including scope 2 and 3) caused by an organisation, expressed in tons of carbon dioxide equivalent (tCO₂e). This provides insights into the sources and magnitude of our GHG emissions and allows us to improve the management of our GHG emissions.

The footprint was calculated in line with the globally recognised GHG Protocol: A Corporate Accounting and Reporting Standard. Since the calculation of our carbon footprint covers a different scope and may utilise different assumptions to the regulated reporting requirements, the results are not directly comparable.
Carbon mitigation mechanisms
The purpose of the Carbon Tax Act, 2019 (CTA) is to levy a carbon tax on GHG emissions, to encourage the market to reduce consumption of carbon-intensive products. The CTA came into effect on 1 June 2019. Eskom is not expected to have a carbon tax liability until January 2023 due to the rebates allowed in the CTA. After that, the liability is expected to be more than R1 billion per year, which would add 4–5% to the required year-on-year increase in the tariff, since carbon tax will be a pass-through cost in terms of the regulatory rules.

Task Force on Climate-Related Financial Disclosures
In the 2020 integrated report, we disclosed climate-related information aligned to the recommendations by the Task Force on Climate-Related Financial Disclosures (TCFD). This year, we disclose relevant climate-related information to build an improved understanding of our climate-related risks, opportunities and the associated financial impacts.

Governance
Board and executive oversight of climate change
The Board is responsible for examining and approving the integrated report, annual financial statements, Corporate Plan and corporate strategy, which incorporates strategic objectives to strive for net zero emissions by 2050, with an increase in sustainable jobs. The Board is supported by two board-level committees that govern all climate-related matters, namely the Social, Ethics and Sustainability Committee (SESC) and the Audit and Risk Management Committee (ARMC). These committees are regularly informed of climate-related risks and opportunities. These matters are discussed at scheduled Board committee meetings, following the approved governance processes. The proceedings at each meeting are guided by an agenda plan that is monitored and updated as it progresses from one meeting to the next. Priority I climate-related risks are monitored and tracked at Exco and Board levels.

Management’s role and responsibilities
The GCE is the highest management-level position responsible for relaying the main climate change decisions and guidelines set by the Board to the rest of the organisation. The GCE and the CFO serve as the interface between the Board and executive management. The GCE and Exco are responsible for approving, implementing and executing effective risk and resilience management of the climate change risks. Exco’s Risk and Sustainability Committee monitors, manages and informs the GCE and Exco on the progress made in addressing climate-related challenges.

Climate-related scenarios
Two scenarios were considered in the 2020 integrated report. The “soft decarbonisation” scenario was built on domestic policy considerations such as South Africa’s Nationally Determined Contribution (NDC) under the Paris Agreement and DMRE’s IRP 2019 plans. The “ambitious decarbonisation” scenario requires more ambitious action beyond what has been specified in the IRP 2019, with carbon neutrality envisaged by 2050. These scenarios were considered in order to understand how climate-related risks and opportunities may affect Eskom over time, and to test our strategy resilience to different futures. There are numerous other studies looking at aggressive decarbonisation scenarios such as the CSIR, University of Cape Town and Meridian. DFFE is also proposing an enhanced NDC.

Our system modelling team has been developing Eskom-specific scenarios, which are under discussion.

Risk management
Identification and assessment of risks
The Enterprise Risk and Resilience Department has established risk structures within each division, consisting of risk owners, risk coordinators and risk and resilience practitioners. The risk owners are accountable for the identification, assessment and management of risk, which is integrated in the management processes and is evident in decision-making processes and outcomes. Risks are classified from Priority I to Priority IV.

Risk management in Eskom
We apply an integrated approach to managing risks per the Integrated Risk Management Framework and Standard. Climate-related risks are managed by the CCSD Department, the line divisions – Generation, Transmission and Distribution – and the JET Office.

Integration into Eskom’s overall risk management
Eskom’s Risk and Resilience Policy, together with the Enterprise Risk and Resilience Management Plan and our Risk Appetite and Tolerance Framework, comprise the key documents governing risk approved by the Board. This is aligned to the recommendations on good governance as contained in King IV, which introduced the oversight of resilience or business continuity as a board-level priority. All Priority I and emerging risks are reported to the Board, which provide oversight as recommended by King IV.

Metrics and targets
Eskom’s performance metrics include GHG emissions data and compliance.

We submit an annual GHG report to the DFFE based on the DFFE Technical Guidelines (for scope 1 emissions). These are based on the 2006 Intergovernmental Panel on Climate Change (IPCC) GHG Guidelines and 2019 IPCC Revisions.

Our climate change policy is intended to support South Africa to meet its nationally determined contribution, which requires the country’s GHG emissions to peak by 2022 at between 398Mt to 614Mt per year; plateau for up to a decade, and then decline in absolute terms thereafter. DFFE has proposed an enhanced ambition to the current target for stakeholder comment. We previously participated in DFFE’s voluntary carbon budget process from 2016 to 2020. We will continue to do so until the expected mandatory company-level carbon budgets are implemented under the proposed Climate Change Bill. We submitted our 2020 annual progress report for the previous Pollution Prevention Plan, as well as a subsequent Pollution Prevention Plan for 2021 to 2026 period.

Just Energy Transition
Our Just Energy Transition strategy was discussed under “Our strategy context – Our strategy and turnaround plan” from page 45.

Future focus areas
• Implementing the long-term coal strategy to ensure security of coal supply, at an optimal cost
• Pursuing the following high priority levers to support the strategy objectives:
  – Extending cost-plus contracts to match power stations’ lifespan and utilising the dedicated coal reserve for supply to other power stations. It includes reinvestment in cost-plus mines to enable contractual supply and more, thereby ensuring optimal cost of coal and security of coal supply from dedicated sources
  – Extending existing long-term fixed-price contracts for designated power stations, with the option to supply other power stations
  – Sourcing uncontracted coal for the remaining life of power stations through open tender
  – Striving to move coal as economically as possible, leaning towards a tied coyllier model delivering coal by conveyor, with rail and road transportation as less preferred alternatives
• Driving the operations recovery initiative of the turnaround plan, and agreeing on the emissions compliance strategy to maintain Eskom’s licence to operate, specifically relating to emissions, waste and water
• Ensuring full compliance with MES regulations and limits as required by DFFE. However, this could necessitate expenditure of approximately R300 billion, which is not affordable, coupled with significant effects on available capacity, both in the short term and beyond 2025. A total of 18GW could be affected immediately, increasing to 32GW by 2025 – this could lead to a significant increase in loadshedding
• Improving operational practices at power stations to reduce water and decrease emissions, thereby improving legal compliance
• Addressing non-compliance and shortcomings to achieve full compliance with licences and permits
• Increasing volumes of ash beneficiated at power stations
• Leading the Just Energy Transition by using generating plant approaching the end of life, through repurposing and repowering as alternatives to full decommissioning of power station sites. Thereafter, JET will be used as the key enabler to set the course for a Generation of the future
Our people are key to successfully delivering on our mandate and executing our strategic objectives. To achieve this, we need to recruit and retain a skilled workforce and adequately reward our people for their contribution.

Our values are aimed at driving a culture of performance and accountability. Our desired organisational culture is supported by effective employee engagement, our employee value proposition, consequence management and accountability.

We have to develop and source leadership and other critical and scarce skills, by developing and training our people, maintaining a diversified learner pipeline and enabling advancement opportunities. We ensure that we have skilled people in the appropriate positions through periodic skills audits; adequately rewarding employee efforts through employee value proposition initiatives; and keeping our finger on the pulse of employee sentiment through targeted employee engagement.

We remain dedicated to our value of Zero Harm to promote safety excellence in all areas, by providing a safe working environment for employees and contractors that supports strict occupational hygiene, mitigates safety risks and is free of incidents. We are further committed to protecting members of the public from exposure to the hazards of our operations and infrastructure, by implementing initiatives to educate the public on the safe use of electricity.

Our workforce

The group headcount stood at 42 749 at year end and (2020: 44 772), including permanent staff and fixed-term contractors, consisting of 36 124 Eskom employees and 6 625 ERI employees (2020: 37 765 and 7 007 respectively). Of these, approximately 84% were covered by collective bargaining agreements.

We have reduced our headcount over recent years, mainly through natural attrition and voluntary separation packages at managerial level. Our ability to fill vacancies is limited by financial constraints and headcount targets. However, the moratorium may be relaxed for core, critical and scarce skills, by developing and training our people.

To reduce headcount further, Exco approved another round of voluntary separation packages (VSPs) for Eskom’s managerial employees in November 2020. The process was open to employees in non-core and non-critical roles, to minimise the impact of separation on critical operations, maintenance and outages, or regulated positions. Employees aged between 60 and 62 were also eligible, regardless of being core or critical. Staff were required to exit Eskom by 28 February 2021.

A total of 188 applications were received, of which 94 were approved. Of those, 74 offers were accepted, at a cost of R112 million. This was in addition to the 185 exits as part of the first round of VSPs, at a cost of R286 million.

Our staff turnover rate during the past year was approximately 4.8%, with the movement in our headcount shown below.

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headcount at 1 April</td>
<td>44 772</td>
<td>46 665</td>
</tr>
<tr>
<td>Add: Appointments</td>
<td>157</td>
<td>524</td>
</tr>
<tr>
<td>Less: Resignations</td>
<td>(670)</td>
<td>(1 188)</td>
</tr>
<tr>
<td>Retirements</td>
<td>(814)</td>
<td>(940)</td>
</tr>
<tr>
<td>Deaths in service</td>
<td>(116)</td>
<td>(165)</td>
</tr>
<tr>
<td>Dismissals</td>
<td>(96)</td>
<td>(127)</td>
</tr>
<tr>
<td>Absconded</td>
<td>(10)</td>
<td>(18)</td>
</tr>
<tr>
<td>Separation packages</td>
<td>(259)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>(9)</td>
<td>29</td>
</tr>
<tr>
<td>Headcount at 31 March</td>
<td>42 749</td>
<td>44 772</td>
</tr>
</tbody>
</table>

1. VSPs announced during 2020 became effective on 1 April 2020, therefore related staff movements are included in the turnover analysis for 2021. A total of 185 employees exited during the first round, and 74 during the second round.

After primary energy costs, employee benefit costs remain the second largest component of operating costs before depreciation, interest and fair value adjustments, constituting about 19% of operating costs. Consequently, we require a significant reduction in employee benefit costs to contain our costs and build a more sustainable organisation.

To discuss employee benefit costs, refer to ‘Our finances – Other operating costs’ on page 68

Natural attrition and managing overtime remain key levers to achieving a reduction in employee benefit costs. Nevertheless, opportunities to reduce overtime have been limited, due to the high levels of unplanned maintenance over the past year requiring extensive maintenance work and repairs.

The composition of our employee benefit costs is set out in note 35 of the consolidated annual financial statements.
The breakdown of our workforce at 31 March based on age is shown below. About three-quarters of employees (including direct support staff) are involved in the generation, transmission and distribution of electricity to customers, with the remainder employed in the new build programme, corporate support functions, our subsidiary ERI, which supports the electricity business. About 2 000 support staff have been relinked to line divisions in preparation for the business separation process.

Building and retaining strong skills
Our skills development programme supports the National Development Plan 2030 (NDP), which aims to eliminate poverty and reduce inequality over the next decade. In support of the NDP, we continue to recruit learners and manage a learner pipeline to address the requirements of the business and those of Government, as articulated in our shareholder compact.

We are focusing our efforts on managing talent in a sustainable manner and ensuring that our existing workforce is adequately supported in their developmental needs, thereby retaining critical skills using a targeted employee value proposition. Commitment to skills development is evident in the result that we have the required skills for the organisation’s needs, especially considering the continuing financial constraints.

Learning and development
Internal and external training interventions provide learning and development opportunities for our people. Training expenditure of R820 million incurred during the past year constituted 2.58% of gross employee benefit costs (2020: R1.1 billion amounting to 3.67%). Training expenditure was curtailed due to our current financial challenges and the effects of the national lockdown.

We support further study programmes where employees seek to obtain qualifications related to their line of work or of benefit to the organisation. This enables building skills for future sourcing pools and the expansion of leadership potential within our workforce. A total of 303 employees are enrolled at various academic institutions to obtain qualifications related to Eskom’s line of work (2020: 182). Around 54% of those enrolled are women. There is a moratorium on supporting new-masters and doctoral studies due to financial constraints; employees on existing programmes continue to receive support.

Remuneration and benefits
Our aim is to attract and retain skilled, high-performing employees. To remain competitive, we provide market-related remuneration structures, benefits and conditions of service, within the guidelines set by the shareholder.

Guaranteed package
Managerial employees receive a guaranteed package, including benefits such as medical aid, pension, dread disease cover, group life and death benefits. In line with the conditions of the Special Appropriation Act, 2019 attached to the Government support to Eskom, no increases were awarded to managerial employees during the 2021 financial year.

Bargaining unit employees receive a basic salary, which includes a thirteenth cheque (referred to as an annual bonus) as well as other benefits, such as pension, medical aid, death benefits, and a housing, cell phone and car allowances (subject to qualifying criteria). Basic salaries and conditions of service are negotiated through the collective bargaining process, with any resulting increases awarded in July each year. These annual increases are approved by Exco and ratified by the PGC. Based on the 2018 negotiations, bargaining unit employees received a 7% increase during the 2021 financial year.

The second phase of adjustments relating to unjustifiable race- and gender-based income differentials, due to be implemented in 2019, remains pending, due to prevailing financial constraints. No income differential adjustments implemented in 2019, remains pending, due to prevailing financial constraints. We are conducting salary negotiations for bargaining unit employees with NUM, NUMSA and Solidarity through the Central Bargaining Forum. Eskom offered a 1.5% increase in basic salary, dependent on efficiencies and savings being realised from certain elements of employee benefits where there are excesses, such as overtime, travel and transfer benefits. Changes to certain conditions of service are also proposed.

Two of the trade unions demanded a 15% increase in basic salary and variations to other conditions of service, including other benefits, while the third demanded 9.5%. After negotiations deadlocked, Eskom referred the matter to the Commission for Conciliation, Mediation and Arbitration (CCMA) for mediation, but the CCMA has issued a non-resolution certificate. The trade unions have referred the matter for arbitration.

We have decided to implement our final 1.5% basic increase and changes to the conditions of service offer with effect from 1 July 2021. This decision has been formally communicated to the three recognised trade unions. This will enable management to better protect jobs at Eskom, address and manage the risk to our sustainability, thereby allowing Eskom to play the critical role of supplying electricity to the South African economy and in the public interest.

Performance bonuses
Given the operating loss for the 2021 financial year, no short-term incentive bonus is payable to employees. Furthermore, no performance bonuses have been paid since 2018.

Furthermore, under the conditions of the Special Appropriation Act, 2019, no incentive bonus may be paid to non-unionised employees relating to the 2021 financial year. Line divisions have implemented a production bonus scheme to reward qualifying employees for improved productivity which result in a financial benefit to Eskom. An amount of R129 million was awarded during the year, with 59% going towards Distribution staff, 38% to Generation, 1% to Transmission and 2% to ERI employees.

For information on the racial and gender breakdown of our workforce, refer to “Improving internal transformation” on page 111.

Operations performance

Executive remuneration is discussed under “Governance, leadership and ethics – Remuneration and benefits” on page 32.
Organisational effectiveness

Our Organisational Effectiveness Centre of Excellence focuses on supporting and enabling the HR strategy and People Plan by building relationships with Eskom Guardians, and driving pride, passion and a sense of belonging and connectedness to the business, while developing agility and resilience to cope with ongoing ambiguity, instability and change. Three multidimensional and integrated areas are intended to drive a desired culture of performance. These are employee engagement, our employee value proposition as well as organisational culture and change management.

Employee engagement initiatives are in place to create a harmonious workplace, increase employee engagement levels and to help employees feel a sense of connection and alignment to the business and one another, thereby rebuilding employees’ moral and creating a common vision as enablers towards driving a high-performance culture. Given the COVID-19 pandemic, associated initiatives had to be adapted to accommodate the ‘new normal’, by leveraging digital and virtual technology. We launched an internal digital publication, The Guardian, which features key strategic business updates and inspiring stories from across the business; celebrates and recognises employees who have achieved excellence; and promotes leadership visibility. Furthermore, the Advice for André engagement platform and mobile app was developed and designed in-house. The response has been overwhelmingly positive, with employees engaging with the GCE and sharing their innovative ideas on how to improve Eskom. The Eskom EVP National Lockdown Programme was launched at the start of the COVID-19 pandemic. It provides employees with access to useful psychosocial resources, tips and activities to benefit the employees and their families during the lockdown.

Eskom has embarked on one of its most ambitious and possibly most challenging transformation journeys. Appropriate and effective culture transformation and change management strategies are critical in supporting DPE’s Roadmap and our turnaround plan. The Eskom change management strategy and customised initiatives have been implemented across all key Eskom-wide strategic projects. The Organisational Culture and Change Management Programme was designed to capacitate employees and empower leaders with knowledge, change management skills and practical tools in order to drive the desired culture. The uptake of this programme has been extremely successful, with over 12,700 employees registered and actively utilising the platform.

Health and wellness

The health and wellness of our people is important to us. We seek to improve work attendance and productivity as well as the health and well-being of every employee, through the prevention of occupational diseases and injuries, early detection of occupational and lifestyle diseases (such as hypertension, diabetes and HIV), medical surveillance and fitness-for-duty assessments, as well as other wellness programmes.

Levels of sick leave within the organisation have shown a significant decline since the prior year, which is mainly associated with employees working from home. The sick absenteeism frequency rate (SAFR) – measuring the number of absences due to illness per employee over a 12-month rolling period – of 0.94% (2020: 2.33%) is well within the target of 2.94%. The gross sick absenteeism rate (GSAR) – reflecting the days lost due to illness as a percentage of total potential workdays – of 1.43% (2020: 2.88%) remains well within the target of 3.50%. All employees with high SAFR and GSAR rates are referred to Eskom clinics for fitness-for-duty assessments and managed accordingly.

The future of work

New ways of work are emerging in response to the pandemic. The emergence of COVID-19 put pressure on organisations to come to terms with progress brought about by the fourth industrial revolution (4IR). Eskom, like many other organisations, was compelled to adapt its operating model when faced with the undeniable impact of the pandemic on the structure of work. COVID-19 had an impact on traditional models, which were premised on frequent face-to-face engagements between employer and employee, manager and employee, or teams. In the wake of national lockdowns to curb the spread of the pandemic being implemented by governments around the globe, companies had no choice but to adapt.

We implemented new work strategies, with 70% of the workforce initially working remotely. The pressures created by the crisis required Eskom to support the national strategies put in place to curb the spread of COVID-19 and thereby, rethink how we operate. During this period of isolation, organisations learned valuable lessons, some of which were positive, such as increased productivity in some instances and reducing operating costs. Nevertheless, there were also negative effects, like employees feeling isolated.

Based on feedback from a survey of employees, HR has developed a business case to design new working models and take advantage of benefits brought about by remote working. Exco approved the business case in November 2020; implementation is under way.

Industrial relations

The value of a productive partnership between Eskom, our union and our trade unions cannot be underestimated enough. We promote sound and fair labour practices and deal with grievances, disciplinary action, disputes and suspensions appropriately. A grievance dealt with quickly has less of a negative effect on employees morale and will enhance labour stability.

In total, 74% of grievances were resolved against a target of 70%. About 92% of disciplinary actions resulted in sanctions, against a target of 90%. This indicates that employees are not being subjected to unwarranted disciplinary measures. The three most common acts of misconduct related to failing to comply with operating procedures, making a false statement or performing private work without consent.

At year end, 31 employees had been on suspension with pay for a period longer than 90 days, mainly due to prolonged investigations and disciplinary processes (2020: 27). Follow-ups are done to ensure that investigations and disciplinary processes are expedited.

The dispute lodged with the CCMA regarding the decision to award no increases to senior management for 2019 remains unresolved, with a date for arbitration still awaited.

Improving internal transformation

One of the key initiatives through which meaningful transformation can be realised is employment equity. We continue to make progress in ensuring equitable representation of the workforce at all occupational levels, to truly reflect the demographics of the country.

Our group and company employment equity performance at senior management level, as well as at professional and middle management levels, is set out in the statistical tables from page 152.

Racial equity at senior management and at middle management/professionally qualified levels has shown significant improvement over the past year, while also achieving the target set by the shareholder. Gender equity at senior management and at middle management/professionally qualified levels has shown some improvement since the prior year, although targets have not been achieved.

The disability target for the year was not met. Proportional representation of persons living with disabilities remains a concern, as they are well represented at lower occupational levels, but not across all levels.

The achievement of transformation targets are hindered by our ongoing financial challenges.
Focus on safety

Our operations are subject to legal, regulatory and licence conditions surrounding occupational health, safety and environmental compliance. We use the lost-time injury rate (LTIR) to assess our safety performance, together with the number of fatalities among employees and contractors. LTIR is a proportional representation of the occurrence of lost-time injuries per 200 000 working hours over a 12-month period. The LTIR target reflected in the table below indicates our tolerance level. In accordance with our value of Zero Harm, the target is zero.

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2014</th>
<th>Target 2021</th>
<th>Target met&lt;sup&gt;9&lt;/sup&gt;</th>
<th>Actual 2021</th>
<th>Actual 2020</th>
<th>Actual 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fatalities (employee and contractors), number</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>10</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Facilities (public), number</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>18</td>
<td>17</td>
<td>22</td>
</tr>
<tr>
<td>Lost-time injury rate, index (including occupational diseases) – group&lt;sup&gt;10&lt;/sup&gt;</td>
<td>0.30</td>
<td>0.30</td>
<td>0.32</td>
<td>0.22</td>
<td>0.30</td>
<td>0.31</td>
</tr>
</tbody>
</table>

Despite our commitment to safety and focus on Zero Harm, we recorded two employee fatalities (2020: none) and eight contractor fatalities during the year (2020: nine). The causes of all fatalities are shown below.

**IN MEMORIAM**

We extend our heartfelt condolences to the families, friends and colleagues of the following people who lost their lives in service to Eskom and our customers:

**Employees**
- Sonwabo Benjamin Rengqe
- Brenden William Thomas

**Contractors**
- Lufolo Baleni
- Xolani Kasile
- Dhipungaw Twaboy Letanta
- Thupane Reuben Lentsalo
- Nelson Muntoowakhaya Magqibelo
- Busisani Sinenhlanhla Mxwelo
- Mawenkosi Njobeni
- Bongani Patrick Radebe

A total of 11 occupational disease incidents have been confirmed for the group for the year under review (2020: 19). As in the past, these relate mainly to noise-induced hearing loss incidents, which account for more than 60% of cases. It should be noted that, due to the COVID-19 pandemic, audiometry medical surveillance and fitness-for-duty screening tests followed a risk-based approach. Due to this approach and the number of employees working from home, fewer audiometric tests were conducted during the 2021 financial year.

Similar to the causes of fatalities, the main reasons for lost-time incidents are falls from heights or from the same level; motor vehicle accidents; slips, trips and falls; and incidents related to being struck by or caught between objects.

**Future focus areas**

- Implementing the 2019 People Plan in the following areas: driving a culture of performance and accountability; building critical capabilities; increasing employee productivity; managing employee benefit costs; and aligning shareholder targets to ensure financial sustainability.
- Supporting the Eskom turnaround plan, partly by supporting Transmission to achieve legal separation, with particular focus on people and culture transformation.
- Focusing on Eskom’s management of COVID-19, including the rollout of the workplace COVID-19 vaccination programme at a number of sites.
- Continuing to safeguard the lives of employees and contractors as they perform work in our communities.

In addition to ensuring compliance with statutory requirements, we continue to pursue safety initiatives and manage our activities to reduce the number of fatalities and injuries. These include training and awareness interventions, proactive safety assessments and active management of areas requiring improvement.

Regrettably, there has been a noticeable increase in physical threats to our employees and contractors working in high-density areas, particularly due to community unrest when removing illegal connections and implementing load reduction. We condemn violent behaviour against our people as they are acting in the interest of public safety when executing their duties.

Eskom and its subsidiaries, contractors and suppliers have successfully implemented measures to ensure compliance with COVID-19 requirements on health and safety in the workplace issued by the Department of Employment and Labour. We ensure accountability and responsibility for adherence to the regulations, to protect employees and contractors from transmission of the disease.

At 17 August 2021, Eskom had recorded 6 980 positive COVID-19 cases (including 43 reinfections), comprising 5 775 employees and 1 205 contractors, with 6 140 recoveries. Sadly, 128 employees and 17 contractors have succumbed to the disease. All affected employees and their families are offered psychosocial support. Initially, more confirmed cases were being recorded in the Western Cape, with Koeberg Nuclear Power Station being the epicentre. However, a rise in cases has been seen in Mpumalanga, Gauteng, Limpopo, KwaZulu-Natal and the Eastern Cape.

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Public fatalities and public safety programmes are discussed under “Our role in communities – Public safety” on page 117.

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Our role in communities considers the communities in which we operate, our relationships with customers, suppliers and the public in general, as well as the beneficiaries of our electrification efforts and CSI activities.

Eskom plays a critical role in South Africa’s skills development, economic empowerment and transformation efforts. We strive to be a customer-centric organisation that delivers world-class customer service. In addition, we add value to the lives of ordinary South Africans through our commercial mandate as well as our developmental responsibilities, such as electrification and job creation.

We understand the significant impact that our communities and stakeholder relationships have on our business, and acknowledge that the level of trust in our organisation has eroded in the past decade, thereby damaging our reputation. Nevertheless, as we are operating in a highly regulated market that is undergoing fundamental reform in the context of South Africa’s energy security, decarbonisation and transformation agendas, we are presented with an opportunity to reset our stakeholder engagement capabilities and rebuild trust in Eskom.

To this end, we aim to gather the support of and collaborate with communities and stakeholders to contribute to Eskom reaching its strategic destination for the benefit of the country as a whole. We are deeply committed to addressing South Africa’s electricity supply crisis in a manner that supports the growth and development of our economy and the transformation of society.

Our reputation
A company’s reputation affects its social licence to operate, its ability to attract and retain skills, its access to customers, the extent to which customers will prefer its products and services, and whether stakeholders are willing to support or advocate on behalf of the company.

Eskom’s reputation affects its ability to operate, its social licence to operate, its ability to attract and retain skills, its access to customers, the extent to which customers will prefer its products and services, and whether stakeholders are willing to support or advocate on behalf of the company.

Customer service performance
We measure customer satisfaction through a range of statistical perception and interaction-based customer surveys, conducted by independent research organisations. This helps us to better understand the needs of our customers and respond accordingly, with the aim of delivering customer satisfaction and ultimately stimulating sales and improving revenue collection.

Key Customer Delight has improved over the year, with large customers valuing the personalised service received from key customer executives. Unreliability of supply (including loadshedding, load curtailment and unplanned outages) remains the main complaint of key customers.

Key Customer Delight measures perception among residential, small- and medium-sized customers.

CustomerCare measures customer satisfaction following interaction with our customer service channels.

The information can be accessed at www.eskom.co.za/dataportal.
Performance is in line with prior years, with some customers’ satisfaction affected by slow resolution of supply interruptions, inaccuracies and late billing, and delayed responses to queries.

Our contribution to supplier development
Our contribution to nation building is a critical social transformation and reputational driver. We aim to deliver sustainable supplier development, localisation and industrialisation by leveraging our procurement spend to deliver on both Eskom’s and Government’s policies and transformation strategy. Work is under way to implement supplier development programmes agreed with the shareholder, and to address the root causes of Eskom’s poor B-BBEE recognition level. Our target is to achieve a level 4 B-BBEE score within three years. Total measured procurement spend (TPMS) for the group on all active contracts amounted to R155.6 billion for the year, of which 64.51% was spent with B-BBEE compliant suppliers (2020: R154.2 billion, and 65.97%). Procurement spend with black youth-owned and black women-owned suppliers improved to 3.46% (2020: 2.65%) and 12.24% (2020: 10.10%) of TPMS respectively, exceeding their targets of 2% and 12%.

Regrettably, procurement spend targets in the remaining categories were not met due to previously compliant suppliers not renewing their B-BBEE certificates, as well as IPP contracts concluded in terms of DMRE’s RE-IPP Programme, which were negotiated by DMRE.

Maximising our socio-economic contribution
If IPP expenditure were excluded from TPMS, preferential procurement from B-BBEE compliant suppliers would have improved to approximately 77%, exceeding the target of 75%. Engagements with DMRE and the Department of Trade, Industry and Competition are intended to discuss the appropriate classification of IPP expenditure.

ESKOM-WIDE
In 2021, we awarded 1 299 contracts worth R102.5 billion
Local content of R67.7 billion

NEW BUILD
In 2021, we awarded 83 contracts worth R6.9 billion
Local content of R3.9 billion
Since inception of the new build programme, we have awarded contracts worth R227 billion (2020: R226.7 billion)
Local content of R169.5 billion (2020: R165.6 billion)

The group and company procurement equity performance is set out in the non-technical statistical tables from page 152.

The #MamaKnowsBest campaign was launched in August 2020 as part of Eskom’s Electricity Safety Month, to educate the public and reduce electricity-related injuries and fatalities. Our collaboration with schools, to educate children on the dangers of electricity through various campaigns and competitions, remains effective.

Future focus areas
• Restoring our reputation and the public’s confidence and trust in Eskom
• Repositioning Eskom through stakeholder engagement and shaping the debate around policy and regulatory decisions
• Driving change and the success of Eskom’s turnaround plan through the recently launched Eskom Rising campaign
• Improving customer satisfaction, given the negative impact of unreliable supply on customers
• Increasing procurement spend with under-represented supplier categories
• Delivering transformation outcomes through supplier development programmes
• Maintaining support for our electrification and CSI activities
• Continuing campaigns to educate the public on electricity safety and the hazards of illegal activities

The 1.04 billion is the cumulative target over the next three years.

Electrification
Our most direct socio-economic contribution is through the rollout of DMRE’s electrification programmes, which connects previously disadvantaged households and farm dwellers houses in our licensed areas of supply. Regrettably, DMRE reduced the funding for the 2021 programme by R1 billion, leading to a corresponding reduction in the target for the year. We did well to deliver these connections despite numerous challenges during the national lockdown over the past year. Since 1991, we have connected approximately 5.8 million households.

Corporate social investment
The Eskom Development Foundation NPC (the Foundation) is a wholly owned subsidiary of Eskom and is responsible for our CSI initiatives and improving the quality of life of the communities in which we operate. Initiatives focus on enterprise and rural infrastructure development, skills development, education, social upliftment, health, philanthropy and welfare, through well-established national programmes.

The Foundation approved 78 projects, grants and donations to the value of R674 million during the year, assisting 802 635 beneficiaries. Unfortunately, COVID-19 restrictions and financial constraints affected our ability to execute a large number of planned CSI initiatives. The Foundation is focusing its efforts on optimising the value, impact and sustainability of its programmes given the prevailing funding constraints. Despite the challenges facing us, our flagship projects and initiatives (including the Eskom Business Investment Competition, the Eskom Expo for Young Scientists and the Simama Ranta programme) continue to deliver a demonstrable impact.

Skills development through our new build projects
A total of 13 480 contractor employees were employed at the Medupi and Kusile new build sites and on large transmission projects at 31 March 2021 (2020: 13 318). Demobilisation continues as various packages in the new build projects are concluded. The primary focus of our demobilisation efforts are to ensure that there has been appropriate upskilling of affected workers and that job losses are mitigated in towns and local communities surrounding these projects.

Public safety
We are strongly committed to Zero Harm to employees, contractors and the public. To this end, we conduct nationwide public safety awareness campaigns to educate the public on how to use electricity safely and correctly, by raising awareness about the hazards of illegal connections, overloading misuse of electricity plugs and purchasing prepaid electricity from ghost vendors. Sadly, there were 20 public fatalities during the year (2020: 17), with 14 being the result of electrical contact.

In July 2020, we launched a new campaign on energy losses to educate customers about the implementation of load reduction in high-density areas, to protect overloaded infrastructure from repeated failure and explosions as a result of illegal activities. Regrettably, there has been a noticeable increase in physical threats to our employees and contractors working in these areas, particularly due to community unrest when removing illegal connections and implementing load reduction. We condemn violent behaviour against our people as they are acting in the interest of public safety when executing their duties.

Public safety campaigns specifically encourage the public to report low-hanging power lines, meter tampering and vandalism to electrical infrastructure in their communities.
We aim to make Eskom stronger, more efficient and ready to grow towards a brighter future for all.
GLOSSARY OF TERMS continued

Kilowatt-hour (kWh) Basic unit of electric energy equal to one kilowatt of power supplied to or taken from an electric circuit steadily for one hour

Load Amount of electric power delivered or required on a system at any specific point

Load curtailing Typically, larger industrial customers reduce their demand by a specified percentage for the duration of a power system emergency. Due to the nature of their business, these customers require two hours' notification before they can reduce demand

Load management Activities to influence the level and shape of demand for electricity so that demand conforms to the present supply situation, long-term objectives and constraints

Load shedding Scheduled and controlled power cuts that result in available capacity between all customers when demand is greater than supply in order to avoid blackouts. Distribution or municipal control rooms open breakers and interrupt load according to predefined schedules

Lost-time injury (LTI) A work injury which keeps out of and in the course of employment and which renders the injured employee or contractor unable to perform his/her regular work on one or more full calendar days or shifts other than the day or shift on which the injury occurred. It includes occupational diseases and fatalities

Lost-time injury rate (LTIR) Proportional representation of the occurrence of lost-time injuries over 12 months per 200 000 working hours

Major incident An interruption with a severity ≥1 system minute

Maximum demand Highest demand of load carried a specified period

Non-technical losses Energy losses due to electricity theft through illegal connections, tampering and bypassing of electricity meters as well as the purchase of electricity tokens from unregistered or illegal vendors. It includes meter reading and billing errors

Occupational disease/illness Any confirmed disease/illness arising out of, and in the course of, an employee's employment, that is listed in Schedule 3 of the Compensation for Occupational Injuries and Diseases (COID) Act, 1993, or any other condition as determined by an occupational practitioner

Off-peak Period of relatively low system demand

Open-cycle gas turbine (OCGT) Liquid fuel turbine power station that forms part of peak-load plant and runs on kerosene or diesel. Designed to operate in periods of peak demand

Outage Period in which a generating unit, transmission line or other facility is out of service

Peak demand Maximum power used in a given period, traditionally between 7:00 and 10:00 as well as 18:00 to 20:00 in summer; and 6:00 to 9:00 as well as 17:00 to 19:00 in winter

Peak loading plant Gas turbines, hydroelectric or a pumped storage scheme used during periods of peak demand

Primary energy Energy in natural resources, e.g. coal, diesel, uranium, sunlight, wind and water

Pumped-storage scheme A lower and an upper reservoir with a power station/pumping plant between the two. During off-peak periods the reversible pumps/turbines use electricity to pump water from the lower to the upper reservoir. During periods of peak demand, water runs back into the lower reservoir through the turbines, generating electricity

Reserve margin Difference between net system capability and the system's maximum load requirements (peak-load or peak demand)

Return on assets EBIT divided by the regulated asset base, which is the sum of property, plant and equipment, trade and other receivables, inventory and future fuel, less trade and other payables and deferred income

System minuses Global benchmark for measuring the severity of interruptions to customers. One system minute is equivalent to the loss of the entire system for one minute at annual peak. A major interruption is an interruption with a severity ≥1 system minute

Technical losses Naturally occurring losses that depend on the power systems used

Unit capability factor (UCF) Measure of availability of a generating unit, indicating how well it is operated and maintained

Unplanned capability loss factor (UCLF) Energy losses due to outages are considered unplanned when a power station unit has to be taken out of service and it is not scheduled at least four weeks in advance

Used nuclear fuel Nuclear fuel irradiated in and permanently removed from a nuclear reactor. Used nuclear fuel is stored on site in used fuel pools or storage casks

Watt The watt is the International System of Units' (SI) standard unit of power. It specifies the rate at which electrical energy is dissipated (energy per unit of time)
LEADERSHIP QUALIFICATIONS AND DIRECTORSHIPS continued

Board of Directors continued at 31 March 2021

DR PULANE (PE) MOLOKWANE (44) Independent non-executive director
Appointed to Board in June 2017
Qualifications
B Sc Physics and Chemistry (University of North West)
Postgraduate Diploma in Applied Radiation Science and Technology (University of North West)
M Sc Applied Radiation Science and Technology (University of North West)
Ph D Chemical Technology – Environmental Engineering (University of Pretoria)
Pr Sci Nat (South African Council of Natural Scientific Professions)
Skills
Science, engineering and technology
Directoryships
Wild Senna Investments (Pty) Ltd
Jafram Projects (Pty) Ltd
Eskom Rotek Industries SOC Ltd

Executive Management Committee at 31 March 2021

MR ANDRE (AM) DE RUYTER (53)
Group Chief Executive
Appointed to Exco in January 2020
1 year in Eskom
Qualifications
BA English and Psychology (University of Pretoria)
B Civil Law (University of Pretoria)
LLB (Unisa)
MBA (Nyenrode University)
Skills
Commerce and industry
Legal, governance and risk management
Finance, accounting and economics
Directorships
Schulder Property Investments (Pty) Ltd
Tshimba cc

MR CALIB (C) CASSIM (49)
Chief Financial Officer
Appointed to Exco in July 2017
19 years in Eskom
Qualifications
B Com (University of Natal)
B Accounting Sciences (Unisa)
Chartered Accountant (SA)
MBA Sustainable Business (University of Southern Queensland)
Skills
Commerce and industry
Finance, accounting and economics
Directorships
Escop SOC Ltd
Eskom Enterprises SOC Ltd
Eskom Finance Company SOC Ltd

MR JAN (JA) OEBERHLZER (62)
Chief Operating Officer
Appointed to Exco in July 2019
28 years in Eskom (including from 1983 to 2008)
Qualifications
B Sc Electrical Engineering (University of Pretoria)
Master of Business Leadership (Unisa)
Executive Program (University of Michigan)
Skills
Science, engineering and technology
Commerce and industry
Directorships
Eskom Enterprises SOC Ltd
Eskom Rotek Industries SOC Ltd
Jafrah Projects (Pty) Ltd
Wild Senna Investments (Pty) Ltd

MS FAITH (FS) BURN (52)
Chief Information Officer
Appointed to Exco in May 2010
1 year in Eskom
Qualifications
B Sc Mathematics and Computer Science (University of Johannesburg)
B Sc (Hons) Mathematics (University of Johannesburg)
M Sc Mathematics (University of Johannesburg)
Master of Business Leadership (Unisa)
Certified Internal Auditor (CIA)
Skills
Science, engineering and technology
Legal, governance and risk management
Directorships
Hlahlamela International Ministry NPC
Kingdom Consultant Center NPC
South African National Blood Services NPC (SANBS)

MS NTHATO (N) MINYUKU (42)
Group Executive: Government and Regulatory Affairs
Appointed to Exco in October 2020
<1 year in Eskom
Qualifications
B Arch Architectural Studies (University of Witwatersrand)
Master of City Planning and Urban Design (University of Cape Town)
Leadership in Context (GBS)
Skills
Science, engineering and technology
Commerce and industry
Legal, governance and risk management
Social and human sciences
Directorships
South African Maritime Safety Authority

MS NERINA (N) OTTO (49)
Acting Group Executive: Legal and Compliance
Appointed to Exco in December 2020
23 years in Eskom
Qualifications
BA Legal Studies and Political Science (University of Natal)
LLB (University of Natal)
Master of Law (University of Johannesburg)
Skills
Legal, governance and risk management
Directorships
None

MS ELsie (EM) PULE (53)
Group Executive: Human Resources
Appointed to Exco in November 2014
23 years in Eskom
Qualifications
BA Social Work (University of the North)
BA (Hons) Psychology (University of Pretoria)
M Sc Business Engineering (Warwick University)
Skills
Social and human sciences
Directorships
Eskom Finance Company SOC Ltd
Eskom Rotek Industries SOC Ltd

MS JAINTHREE (J) SANKAR (49)
Acting Chief Procurement Officer
Appointed to Exco in March 2021
27 years in Eskom
Qualifications
B Com (Unisa)
B (Hons) Business (Unisa)
National Diploma in Electrical Engineering (Durban University of Technology)
MBA Sustainable Business (University of Southern Queensland)
Skills
Science, engineering and technology
Commerce and industry
Social and human sciences
Directorships
None

MR VUYOLWETHU (V) TUKU (45)
Group Executive: Transformation
Management Office
Appointed to Exco in July 2020
<1 year in Eskom
Qualifications
B Sc Electrical Engineering (University of Cape Town)
Skills
Science, engineering and technology
Commerce and industry
Finance, accounting and economics
Directorships
Genuss Strategy Partners

Ages are shown at 31 March 2021.
Only active directorships are reflected.

Only active directorships are reflected.
Ages are shown at 31 March 2021.
Only active directorships are reflected.

Governance, leadership and ethics

Our strategic context

Financial review

Operating performance

Supplementary information

INTEGRATED REPORT | 31 MARCH 2021

ESKOM HOLDINGS SOC LTD | 125
ENVIRONMENTAL IMPLICATIONS OF USING OR SAVING ELECTRICITY

Factor 1

Figures are calculated based on total electricity sales by Eskom, which is based on the total available for distribution (including purchases), after excluding losses through Transmission and Distribution (technical losses), losses through theft (non-technical losses), our own internal use and wheeling. Thus to calculate CO₂ emissions, divide the quantity of CO₂ emitted by electricity sales:

\[ \frac{206.8 \text{Mt of CO}}{201 400 \text{GWh generated less 6 625 GWh own consumption}} = 1.06 \text{ tons per MWh} \]

Factor 2

Figures are calculated based on total electricity generated, which includes coal, nuclear, pumped storage, wind, hydro and gas turbines, but excludes the total consumed by Eskom. Thus the quantity of CO₂ emissions, divided by (electricity generated less Eskom’s electricity consumption):

\[ \frac{206.8 \text{Mt of CO}}{201 400 \text{GWh generated less 6 625 GWh own consumption}} = 1.06 \text{ tons per MWh} \]

Figures represent the 12-month period from 1 April 2020 to 31 March 2021.

### Table: Environmental Implications of Using or Saving Electricity

<table>
<thead>
<tr>
<th>Factor 1</th>
<th>Factor 2</th>
<th>If electricity consumption is measured in:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil use</td>
<td>0.55</td>
<td>0.54</td>
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<tr>
<td>Water use³</td>
<td>1.41</td>
<td>1.39</td>
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<tr>
<td>Ash produced</td>
<td>1.61</td>
<td>1.58</td>
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<tr>
<td>Particulate emissions¹</td>
<td>0.37</td>
<td>0.37</td>
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<tr>
<td>CO₂ emissions²</td>
<td>1.08</td>
<td>1.06</td>
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<tr>
<td>SO₂ emissions²</td>
<td>9.34</td>
<td>8.24</td>
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<tr>
<td>NOx emissions²</td>
<td>4.19</td>
<td>4.13</td>
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</table>

1. Volume of water used at all Eskom power stations.
2. Calculated figures based on coal characteristics and power station design parameters. Sulphur dioxide and carbon dioxide emissions are based on coal analysis and using coal burned tonnages. Figures include coal-fired and gas turbine power stations, as well as all oil consumed during power stations start-ups and, for carbon dioxide emissions, the underground coal gasification pilot plant.
3. NOx reported as NO₂ is calculated using average station-specific emission factors, which have been measured intermittently, and tonnages of coal burnt.

Multiply electricity consumption or saving by the relevant factor in the table above to determine the environmental implication.

### Example 1: Water consumption

Using Factor 1

Using Factor 2

Therefore 127 klitres of water used

Using Factor 1

Using Factor 2

Therefore 97 tons CO₂ emitted

Using Factor 1

Using Factor 2

Therefore 95.6 tons CO₂ emitted

For CDM-related Eskom grid emission factor information, please go to the following link: [www.eskom.co.za/OurCompany/SustainableDevelopment/Page/CDM_Calculations.aspx](http://www.eskom.co.za/OurCompany/SustainableDevelopment/Page/CDM_Calculations.aspx) or via the Eskom website: [Our Company > Sustainable Development > CDM calculations](http://www.eskom.co.za/OurCompany/SustainableDevelopment/Page/CDM_Calculations.aspx)
### Technical Statistics Continued

#### Measure and unit

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<tr>
<th>Year</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
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<tbody>
<tr>
<td>Coal stock, days</td>
<td>82</td>
<td>81</td>
<td>67</td>
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<tr>
<td>Roadside ash deposition (additional tonnage transported on rail), Mt</td>
<td>3.44</td>
<td>3.44</td>
<td>2.88</td>
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<td>Coal purchased, Mt</td>
<td>110.0</td>
<td>119.3</td>
<td>118.3</td>
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<tr>
<td>Coal burnt, Mt</td>
<td>104.9</td>
<td>108.6</td>
<td>113.8</td>
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<td>Average calorific value, MJ/kg</td>
<td>31.24</td>
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<td>Average sulphur content, %</td>
<td>0.56</td>
<td>0.56</td>
<td>0.56</td>
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<td>Overall thermal efficiency, %</td>
<td>46.8</td>
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<td>Unplanned automatic grid separations (UAGS trips), number</td>
<td>527.6</td>
<td>594.8</td>
<td>517.6</td>
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<td>Total energy losses, %</td>
<td>11.8</td>
<td>9.9</td>
<td>9.7</td>
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<td>Carbon dioxide (CO₂), Mt</td>
<td>71.3</td>
<td>79.0</td>
<td>77.8</td>
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### NON-TECHNICAL STATISTICS: GROUP

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<td>17.46</td>
<td>25.57</td>
<td>21.19</td>
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<td>16.54</td>
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<td>45 359RA</td>
<td>37 532RA</td>
<td>32 811RA</td>
<td>24 186RA</td>
<td>23 586RA</td>
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<td>33 183RA</td>
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<td>Cash interest cover, ratio</td>
<td>0.85**</td>
<td>0.94**</td>
<td>0.94</td>
<td>1.22</td>
<td>1.73</td>
<td>1.73</td>
<td>1.75</td>
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<td>3.84</td>
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<td>Debt service cover, ratio</td>
<td>0.30**</td>
<td>0.52**</td>
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<td>0.87</td>
<td>1.16</td>
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<td>Current ratio</td>
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<td>1.00</td>
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<td>0.83</td>
<td>0.68</td>
<td>0.71</td>
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<td>Gross debt/EBITDA, ratio</td>
<td>13.96</td>
<td>14.46</td>
<td>15.73</td>
<td>9.74</td>
<td>10.95</td>
<td>13.60</td>
<td>11.77</td>
<td>10.48</td>
<td>18.97</td>
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<td>Debt/equity (including long-term provisions), ratio</td>
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<td>2.42</td>
<td>3.17</td>
<td>2.58</td>
<td>2.51</td>
<td>2.45</td>
<td>2.50</td>
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<td>Gearing, %</td>
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<td>71</td>
<td>76</td>
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<td>Free funds from operations, R million</td>
<td>43 638</td>
<td>41 120</td>
<td>29 047</td>
<td>9 147</td>
<td>21 148</td>
<td>17 927</td>
<td>20 564</td>
<td>20 139</td>
<td>18 074</td>
<td>32 897</td>
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<td>Free funds from operations after net interest paid, R million</td>
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<td>41 120</td>
<td>29 047</td>
<td>9 147</td>
<td>21 148</td>
<td>17 927</td>
<td>20 564</td>
<td>20 139</td>
<td>18 074</td>
<td>32 897</td>
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<td>Headcount (including fixed-term contractors)</td>
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<td>44 772</td>
<td>46 665</td>
<td>48 628</td>
<td>47 978</td>
<td>46 491</td>
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<td>47 295</td>
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<td>Corporate social investment committed spend, R million</td>
<td>67.4RA</td>
<td>123.8RA</td>
<td>132.4RA</td>
<td>192.0RA</td>
<td>225.3RA</td>
<td>103.6RA</td>
<td>115.5RA</td>
<td>132.9RA</td>
<td>194.3RA</td>
<td>87.9RA</td>
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<td>Corporate social investment, number of beneficiaries</td>
<td>802 635</td>
<td>1 479 395</td>
<td>953 139</td>
<td>1 116 044</td>
<td>841 845</td>
<td>352 736</td>
<td>323 882</td>
<td>357 440RA</td>
<td>652 347RA</td>
<td>531 762</td>
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<td><strong>Procurement equity</strong></td>
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<td>B-BBEE attributable expenditure, R billion</td>
<td>100.4</td>
<td>101.7</td>
<td>84.5</td>
<td>102.3</td>
<td>127.7</td>
<td>125.0</td>
<td>116.0</td>
<td>119.4**</td>
<td>96.0**</td>
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<td>Black-owned expenditure, R billion</td>
<td>53.8</td>
<td>46.9</td>
<td>52.1</td>
<td>57.6</td>
<td>53.9</td>
<td>52.9</td>
<td>49.4</td>
<td>45.8**</td>
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<td>Black women-owned expenditure, R billion</td>
<td>19.0</td>
<td>15.6</td>
<td>18.8</td>
<td>20.9</td>
<td>19.4</td>
<td>30.8</td>
<td>9.3</td>
<td>9.8**</td>
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<td>Black youth-owned expenditure, R billion</td>
<td>5.4</td>
<td>4.1</td>
<td>3.5</td>
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<td>0.9</td>
<td>1.3**</td>
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<td>Procurement from B-BBEE compliant suppliers, %</td>
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<td>65.97</td>
<td>58.66</td>
<td>80.25</td>
<td>96.25</td>
<td>81.65</td>
<td>89.39</td>
<td>91.80**</td>
<td>82.10**</td>
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<td>Procurement from black-owned (BO) suppliers, %</td>
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<td>30.38</td>
<td>36.17</td>
<td>45.20</td>
<td>41.49</td>
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<td>Procurement from black women-owned (BWO) suppliers, %</td>
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<td>10.10</td>
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<td>16.41</td>
<td>14.92</td>
<td>19.30</td>
<td>6.49</td>
<td>7.50**</td>
<td>5.10**</td>
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<td>Procurement from black youth-owned (BYO) suppliers, %</td>
<td>3.46</td>
<td>2.65</td>
<td>2.41</td>
<td>3.05</td>
<td>1.82</td>
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<td>0.63</td>
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<td>Procurement spend with suppliers owned by black people living with disability (Bp’wD), % of TMPS</td>
<td>0.22</td>
<td>0.17</td>
<td>0.22</td>
<td>0.20</td>
<td>0.03</td>
<td>0.01</td>
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<td>Procurement spend with qualifying small enterprises (QSE), % of TMPS</td>
<td>4.29</td>
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<td>5.17</td>
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<td>8.91</td>
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<td>Procurement spend with exempted micro enterprises (EME), % of TMPS</td>
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<td>7.77</td>
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<td>10.22</td>
<td>11.24</td>
<td>5.89</td>
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<td><strong>Employment equity</strong></td>
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<td>Disabilities, number of employees</td>
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<td>1 348</td>
<td>1 416</td>
<td>1 441</td>
<td>1 396</td>
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<td>1 325</td>
<td>1 305**</td>
<td>1 139**</td>
<td>1 032**</td>
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<td>Employment equity – disability, %</td>
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<td>3.03</td>
<td>2.96</td>
<td>2.93</td>
<td>2.73</td>
<td>2.89</td>
<td>2.77**</td>
<td>2.49**</td>
<td>2.36**</td>
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<tr>
<td>Racial equity in senior management, % black employees</td>
<td>75.72</td>
<td>71.00</td>
<td>69.80</td>
<td>68.31</td>
<td>65.80</td>
<td>61.06</td>
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<td>59.30**</td>
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<td>Racial equity in professionals and middle management, % black employees</td>
<td>80.10</td>
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<td>71.68</td>
<td>71.77</td>
<td>70.60**</td>
<td>69.00</td>
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<td>Gender equity in senior management, % female employees</td>
<td>41.99</td>
<td>41.73</td>
<td>39.86</td>
<td>38.20</td>
<td>36.58</td>
<td>28.13</td>
<td>29.82</td>
<td>28.80**</td>
<td>28.50</td>
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<tr>
<td>Gender equity in professionals and middle management, % female employees</td>
<td>38.95</td>
<td>38.24</td>
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<td>34.90**</td>
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1. Ratios impacted by the restatements in the annual financial statements were restated where possible.
2. This measure was renamed to “Preferential procurement” in the shareholder compact from 2020.
3. RA Reasonable assurance provided by the independent assurance provider. Refer to pages 139 to 142 of the integrated report.
4. Q Qualified by the independent assurance provider.
NON-TECHNICAL STATISTICS: COMPANY

Measure and unit

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<th>2021</th>
<th>2020</th>
<th>2019</th>
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<td>Electricity revenue per kWh (including environmental levy), c/kWh</td>
<td>111.04 (101.86)</td>
<td>90.01 (83.60)</td>
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<td>Electricity operating costs, R/MWh</td>
<td>905.32 (803.00)</td>
<td>729.26 (628.00)</td>
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<td>EBITDA margin, %</td>
<td>15.58 (17.46)</td>
<td>16.27 (16.02)</td>
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<td>EBITDA, R million</td>
<td>31 836 (35 199)</td>
<td>29 168 (30 932)</td>
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<td>Cash interest cover, ratio</td>
<td>2.80 (0.90)</td>
<td>0.97 (1.64)</td>
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<td>Debt service cover, ratio</td>
<td>0.28 (0.49)</td>
<td>0.46 (1.37)</td>
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<td>Current ratio</td>
<td>1.27 (1.09)</td>
<td>0.99 (1.05)</td>
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<td>Procurement from black women-owned suppliers, %</td>
<td>4.49 (2.68)</td>
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<tr>
<td>Procurement from black-owned suppliers, %</td>
<td>4.00 (1.26)</td>
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<td>Total number of electrification connections, number</td>
<td>36 124 (37 765)</td>
<td>39 292 (41 940)</td>
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<td>Procurement from suppliers owned by black people living with disability (BPwD), % of TMPS</td>
<td>2.25 (1.18)</td>
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<td>Total number of employees</td>
<td>1 198 (1 265)</td>
<td>1 292 (1 263)</td>
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</table>

**Finance**

- **EBITDA margin, %**: 15.58 (17.46)
- **EBITDA, R million**: 31 836 (35 199)
- **Cash interest cover, ratio**: 2.80 (0.90)
- **Debt service cover, ratio**: 0.28 (0.49)
- **Current ratio**: 1.27 (1.09)
- **Procurement from black women-owned suppliers, %**: 4.49 (2.68)
- **Procurement from black-owned suppliers, %**: 4.00 (1.26)
- **Total number of electrification connections, number**: 36 124 (37 765)

**Procurement equity**

- **Procurement from black women-owned suppliers, %**: 4.49
- **Procurement from black-owned suppliers, %**: 4.00
- **Total number of employees**: 1 198

**Building skills**

- **Headcount (including fixed-term contractors)**: 36 124 (37 765)
- **Procurement from black women-owned suppliers, %**: 4.49
- **Procurement from black-owned suppliers, %**: 4.00
- **Total number of employees**: 1 198

**Socio-economic contribution**

- **Job creation on new build projects, number**: 13 480 (19 776)
## Power station capacities

### at 31 March 2021

The difference between installed and nominal capacity reflects auxiliary power consumption and reduced capacity caused by the age of the plant.

<table>
<thead>
<tr>
<th>Name of station</th>
<th>Location</th>
<th>Years commissioned, first to last unit</th>
<th>Number and installed capacity of generator sets</th>
<th>Total installed capacity MW</th>
<th>Total nominal capacity MW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beenoe/les stations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal-fired stations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arnot</td>
<td>Middelburg</td>
<td>Sep 1971 to Aug 1975</td>
<td>3x570</td>
<td>2200</td>
<td>2100</td>
</tr>
<tr>
<td>Camden¹</td>
<td>Ermelo</td>
<td>Mar 2005 to Jun 2008</td>
<td>3x200; 1x195; 1x190</td>
<td>1561</td>
<td>1481</td>
</tr>
<tr>
<td>Drunlk¹</td>
<td>Emalahleni</td>
<td>Aug 1980 to Feb 1984</td>
<td>5x600</td>
<td>3000</td>
<td>2875</td>
</tr>
<tr>
<td>Groote²</td>
<td>Balfour</td>
<td>Apr 2008 to Mar 2011</td>
<td>4x200; 1x190</td>
<td>1180</td>
<td>570</td>
</tr>
<tr>
<td>Hendries¹</td>
<td>Middelburg</td>
<td>May 1970 to Dec 1976</td>
<td>6x200; 1x190</td>
<td>1760</td>
<td>1335</td>
</tr>
<tr>
<td>Kanrel¹</td>
<td>Emalahleni</td>
<td>Oct 1988 to Dec 1992</td>
<td>6x688</td>
<td>4114</td>
<td>3840</td>
</tr>
<tr>
<td>Kemel¹</td>
<td>Middelburg</td>
<td>May 2009 to Oct 2013</td>
<td>4x100; 4x125; 4x190</td>
<td>990</td>
<td>114</td>
</tr>
<tr>
<td>Kriel</td>
<td>Bethul</td>
<td>May 1976 to Mar 1979</td>
<td>6x600</td>
<td>3000</td>
<td>2830</td>
</tr>
<tr>
<td>Komela²</td>
<td>Oepx</td>
<td>Aug 2017 to Mar 2021</td>
<td>3x799</td>
<td>2397</td>
<td>2160</td>
</tr>
<tr>
<td>Lethabo</td>
<td>Virwensing</td>
<td>Dec 1985 to Dec 1990</td>
<td>6x618</td>
<td>3708</td>
<td>3508</td>
</tr>
<tr>
<td>Msbquka²</td>
<td>Volkrust</td>
<td>Apr 1994 to Apr 2001</td>
<td>3x567; 3x713</td>
<td>4110</td>
<td>3843</td>
</tr>
<tr>
<td>Mzimba¹</td>
<td>Leghale</td>
<td>Dec 1987 to Oct 1991</td>
<td>6x665</td>
<td>3990</td>
<td>3490</td>
</tr>
<tr>
<td>Medbu</td>
<td>Bethul</td>
<td>Sep 1979 to Jul 1983</td>
<td>4x600</td>
<td>3600</td>
<td>3450</td>
</tr>
<tr>
<td>Medupi²</td>
<td>Leghale</td>
<td>Aug 2015 to Nov 2019</td>
<td>3x794</td>
<td>3970</td>
<td>3597</td>
</tr>
<tr>
<td>Tukula</td>
<td>Standerdon</td>
<td>Jun 1985 to Jun 1990</td>
<td>4x609</td>
<td>3645</td>
<td>3510</td>
</tr>
<tr>
<td>Nuclear (1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kooberg</td>
<td>Cape Town</td>
<td>Jul 1984 to Nov 1985</td>
<td>2x970</td>
<td>1940</td>
<td>1860</td>
</tr>
<tr>
<td>Peaking stations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gas/liquid fuel turbines (4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acacia</td>
<td>Cape Town</td>
<td>May 1976 to Jul 1976</td>
<td>3x57</td>
<td>2286</td>
<td>2190</td>
</tr>
<tr>
<td>Ankorelg</td>
<td>Akuaro</td>
<td>Mar 1977 to May 1979</td>
<td>4x693; 2x148</td>
<td>1356</td>
<td>1237</td>
</tr>
<tr>
<td>Gourkwa²</td>
<td>Mossel Bay</td>
<td>Jul 2007 to Nov 2008</td>
<td>5x149; 2x192</td>
<td>746</td>
<td>740</td>
</tr>
<tr>
<td>Port Rex²</td>
<td>East London</td>
<td>Sep 1976 to Oct 1976</td>
<td>3x57</td>
<td>171</td>
<td>171</td>
</tr>
<tr>
<td>Pumposed storage schemes (3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drakenberg</td>
<td>Burgerso</td>
<td>Jan 1961 to Apr 1982</td>
<td>4x250</td>
<td>1000</td>
<td>990</td>
</tr>
<tr>
<td>Ingel³</td>
<td>Ladysmith</td>
<td>Jan 2016 to Feb 2017</td>
<td>4x333</td>
<td>1332</td>
<td>1324</td>
</tr>
<tr>
<td>Patmore</td>
<td>Grabowe</td>
<td>Apr 1988 to May 1998</td>
<td>2x200</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>Hydroelectric stations (2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Garwp</td>
<td>Norvalspont</td>
<td>Sep 1971 to Mar 1976</td>
<td>4x90</td>
<td>360</td>
<td>360</td>
</tr>
<tr>
<td>Vanderkloof</td>
<td>Petrusville</td>
<td>Jan 1972 to Feb 1977</td>
<td>2x120</td>
<td>240</td>
<td>240</td>
</tr>
<tr>
<td>Total used for capacity management purposes</td>
<td></td>
<td></td>
<td></td>
<td>50 954</td>
<td>46 366</td>
</tr>
<tr>
<td>Renewable energy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wind energy (1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sere</td>
<td>Vredendael</td>
<td>May 2015</td>
<td>46x2.2</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Total capacity including renewable energy</td>
<td></td>
<td></td>
<td></td>
<td>51 054</td>
<td>46 466</td>
</tr>
<tr>
<td>Other hydroelectric stations (4)</td>
<td></td>
<td></td>
<td></td>
<td>61</td>
<td>-</td>
</tr>
<tr>
<td>Colley Wobbles</td>
<td>Mbtshawa River</td>
<td></td>
<td>3x4</td>
<td>42</td>
<td>-</td>
</tr>
<tr>
<td>First Falls</td>
<td>Umtrata River</td>
<td></td>
<td>2x3</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>Nkora</td>
<td>Nkora River</td>
<td></td>
<td>2x3; 1x1.3</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Second Falls</td>
<td>Umtrata River</td>
<td></td>
<td>2x5.5</td>
<td>11</td>
<td>-</td>
</tr>
<tr>
<td>Total Eskom power station capacities (39)</td>
<td></td>
<td></td>
<td></td>
<td>51 115</td>
<td>46 466</td>
</tr>
<tr>
<td>Available nominal capacity – Eskom-owned</td>
<td></td>
<td></td>
<td></td>
<td>90 90%</td>
<td></td>
</tr>
</tbody>
</table>
# Independent Sustainability Assurance Report

**Independent assurance provider’s reasonable assurance report on selected key performance indicators to the directors of Eskom**

**Introduction**

We have been engaged to perform an independent assurance engagement for Eskom Holdings SOC Ltd (Eskom) on selected key performance indicators (KPIs) reported in Eskom’s integrated report for the year ended 31 March 2021. Our engagement was conducted by a team with relevant experience in sustainability reporting.

**Subject matter**

We have been engaged to provide a reasonable assurance opinion on our report in the following selected KPIs, marked with ** in the statistical tables of the integrated report. The selected KPIs described below have been prepared in accordance with Eskom’s reporting criteria that are available on Eskom’s website, at www.eskom.co.za/OurCompany/SustainableDevelopment/Pages/Sustainable_Development.aspx

## Focus on safety

1. **Lost-time injury rate (LTR) (including occupational diseases)** Index Eskom group Occupational Health and Safety Act

## Improves operations

2. **Planned capability loss factor (PCLF)** % Generation Eskom’s measurement specification document

## Deliver capital expansion

3. **Energy availability factor (EAF)** % Generation Eskom’s measurement specification document

## Improve operations

4. **Unplanned partial load losses (UCLF PLL)** Average MW Generation Eskom’s measurement specification document

## Reduce environmental footprint in existing fleet

5. **Unplanned automatic grid separation (UAGS) trips** Number of trips Eskom’s measurement specification document

## Focus on safety

6. **Post-philosophy outage unplanned capability loss factor (UCLF)** % Generation Eskom’s measurement specification document

## Improve operations

7. **EAF and UCLF post-CO and official – Medupi Power Station** % Generation Eskom’s measurement specification document

## Deliver capital expansion

8. **EAF and UCLF post-CO and official – Kusile Power Station** % Generation Eskom’s measurement specification document

## Focus on safety

9. **Transmission technical energy losses savings** MW Eskom’s measurement specification document

## Deliver capital expansion

10. **Payment levels excluding Soweto interest** % Distribution Eskom’s measurement specification document

## Improve operations

11. **System average interruption duration index (SAIDI)** Hours Eskom’s measurement specification document

## Deliver capital expansion

12. **System average interruption frequency index (SAIFI)** Number Eskom’s measurement specification document

## Focus on safety

13. **Total electricity connections** Number Eskom’s measurement specification document

## Improve operations

14. **System minutes lost** Minutes Eskom’s measurement specification document

## Focus on safety

15. **Distribution total energy losses** % Distribution Eskom’s measurement specification document

## Improve operations

16. **Restoration time** % Distribution Eskom’s measurement specification document

## Improve operations

17. **Generation capacity installed and commissioned** MW Eskom’s measurement specification document

## Deliver capital expansion

18. **Transmission lines installed** Km Eskom’s measurement specification document

## Focus on safety

19. **Transmission transformer capacity installed and commissioned** MW Eskom’s measurement specification document

## Improve operations

20. **Reduce environmental footprint in existing fleet** Eskom’s measurement specification document

## Deliver capital expansion

21. **Relative particulate emissions** kg/MWh sent out Eskom’s measurement specification document

## Improve operations

22. **Specific water usage** (L/m³) Eskom’s measurement specification document

## Improve operations

23. **Carbon dioxide emissions** kg/Capita Eskom’s measurement specification document

## Focus on safety

24. **Primary energy optimisation** Eskom’s measurement specification document

## Focus on safety

25. **Coal stock days recovery** Days Eskom’s measurement specification document

---

### Electricity sales per customer category, GWh

<table>
<thead>
<tr>
<th>Category</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributors</td>
<td>6 720 159</td>
<td>6 716 201</td>
<td>6 497 372</td>
<td>6 258 616</td>
<td>5 976 557</td>
</tr>
<tr>
<td>Residential</td>
<td>804</td>
<td>805</td>
<td>800</td>
<td>800</td>
<td>802</td>
</tr>
<tr>
<td>Commercial</td>
<td>9 461</td>
<td>9 499</td>
<td>9 511</td>
<td>9 511</td>
<td>9 512</td>
</tr>
<tr>
<td>Mining</td>
<td>13 497</td>
<td>6 776</td>
<td>6 717</td>
<td>6 677</td>
<td>6 677</td>
</tr>
<tr>
<td>Agricultural</td>
<td>1 931</td>
<td>1 931</td>
<td>1 931</td>
<td>1 931</td>
<td>1 931</td>
</tr>
<tr>
<td>Rail</td>
<td>475</td>
<td>475</td>
<td>493</td>
<td>501</td>
<td>510</td>
</tr>
<tr>
<td>International</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
</tbody>
</table>

### Electricity revenue per customer category, R million

<table>
<thead>
<tr>
<th>Category</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributors</td>
<td>9 228</td>
<td>9 232</td>
<td>9 232</td>
<td>9 232</td>
<td>9 232</td>
</tr>
<tr>
<td>Residential</td>
<td>85 984</td>
<td>85 984</td>
<td>85 984</td>
<td>85 984</td>
<td>85 984</td>
</tr>
<tr>
<td>Commercial</td>
<td>10 461</td>
<td>10 469</td>
<td>10 471</td>
<td>10 471</td>
<td>10 471</td>
</tr>
<tr>
<td>Industrial</td>
<td>28 703</td>
<td>28 703</td>
<td>28 703</td>
<td>28 703</td>
<td>28 703</td>
</tr>
<tr>
<td>Mining</td>
<td>9 932</td>
<td>9 932</td>
<td>9 932</td>
<td>9 932</td>
<td>9 932</td>
</tr>
<tr>
<td>Agricultural</td>
<td>6 184</td>
<td>6 184</td>
<td>6 184</td>
<td>6 184</td>
<td>6 184</td>
</tr>
<tr>
<td>Rail</td>
<td>2 977</td>
<td>2 977</td>
<td>2 977</td>
<td>2 977</td>
<td>2 977</td>
</tr>
<tr>
<td>International</td>
<td>13 497</td>
<td>13 497</td>
<td>13 497</td>
<td>13 497</td>
<td>13 497</td>
</tr>
<tr>
<td>Gross electricity revenue</td>
<td>221 812</td>
<td>221 812</td>
<td>221 812</td>
<td>221 812</td>
<td>221 812</td>
</tr>
<tr>
<td>Less: Revenue capitalised</td>
<td>(5 991)</td>
<td>(5 681)</td>
<td>(5 393)</td>
<td>(3 393)</td>
<td>(777)</td>
</tr>
<tr>
<td>Less: Revenue not recognised</td>
<td>(12 113)</td>
<td>(10 900)</td>
<td>(9 194)</td>
<td>(6 345)</td>
<td>(3 196)</td>
</tr>
<tr>
<td>Add: Recognised on the cash basis</td>
<td>5 935</td>
<td>5 935</td>
<td>5 935</td>
<td>5 935</td>
<td>5 935</td>
</tr>
</tbody>
</table>

*Note: The selected KPIs described below have been prepared in accordance with Eskom’s reporting criteria that are available on Eskom’s website, at www.eskom.co.za/OurCompany/SustainableDevelopment/Pages/Sustainable_Development.aspx.*

---

**Governance, leadership and ethics**

Our strategic context

Financial review

Operating performance

Supplementary information

Who we are and how we create value

<table>
<thead>
<tr>
<th>Category</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid electricity and public lighting included under the residential category.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The short-term energy market consists of all the utilities in the southern African countries that form part of the Southern African Power Pool.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eskom is traded on a daily, weekly and monthly basis as there is no long-term bilateral contract.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue from the sale of electricity, while testing generating plant not yet commissioned, is capitalised to plant.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The principle of only recognising revenue if it is deemed collectable at the date of sale, as opposed to recognising the revenue and then impairing the customer debt when conditions change, has been applied since 2015. External revenue of R13 million was thus recognised at 31 March 2021.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under IFRS 15, certain supplies to distributors were recognised on the cash basis, due to uncertainty around collectability at the time of sale.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>Indicator</td>
<td>Unit of measure</td>
<td>Boundary</td>
<td>Reporting criteria</td>
<td></td>
</tr>
<tr>
<td>----</td>
<td>-----------</td>
<td>----------------</td>
<td>---------</td>
<td>--------------------</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>EBITDA</td>
<td>A million</td>
<td>Eskom group</td>
<td>Eskom’s measurement specification document</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Cash interest cover</td>
<td>Ratio</td>
<td>Eskom group</td>
<td></td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>Debt service cover</td>
<td>Ratio</td>
<td>Eskom group</td>
<td></td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>Disposal of Eskom Finance Company</td>
<td>A million</td>
<td>Eskom group</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Savings from turnaround initiatives</td>
<td>A million</td>
<td>Eskom group</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Socio-economic impact: human capital**

| 31 | Training spend as % of gross manpower costs | % | Eskom company | Eskom’s measurement specification document |
| 32 | Learner intake – Engineers in training (WIL) | Number | Eskom company | | |
| 33 | Learner intake – Technicians P1 and P2 (WIL) | Number | Eskom company | | |
| 34 | Learner intake – Plant operators | Number | Eskom company | | |
| 35 | Learner intake – Artisans (WIL) | Number | Eskom company | | |
| 36 | Bursaries – Engineers and technicians (Eskom) | Number | Eskom company | | |
| 37 | Disability equity in total workforce | % | Eskom company | | |
| 38 | Racial equity in senior management | % | Eskom company | | |
| 39 | Gender equity in senior management | % | Eskom company | | |
| 40 | Racial equity in professionals and middle management | % | Eskom company | | |
| 41 | Gender equity in professionals and middle management | % | Eskom company | | |

**Industrialisation and localisation**

| 42 | Local content cost | % | Eskom company | Eskom’s measurement specification document |
| 43 | Preferential procurement | % of total measured procurement spend | Eskom company | | |
| 44 | Competitive supplier development programme (CSDP) | % of total capital procurement spend | Eskom company | | |
| 45 | Enterprise and supplier development | A million | Eskom company | | |
| 46 | Research and development | % of NERSA-allocated spend | Eskom company | | |
| 47 | B-BBEE score level | Number | Eskom company | B-BBEE amended Code of Good Practice |

**Socio-economic impact: corporate social investment (CSI)**

| 48 | CSI committed spend | A million | Eskom company | Eskom’s measurement specification document |

**Legal separation**

| 49 | Business separation key milestones | Data | Eskom company | Eskom’s measurement specification document |

---

**Directors’ responsibilities**

The directors are responsible for the selection, preparation and presentation of the selected KPIs in accordance with Eskom’s reporting criteria. This responsibility includes the identification of stakeholders and stakeholder requirements, material issues, commitments with respect to sustainability performance and design, implementation and maintenance of internal controls relevant to the preparation of the integrated report that is free from material misstatement, whether due to fraud or error.

The directors are also responsible for determining the appropriateness of the measurement and reporting criteria in view of the intended users of the selected KPIs and for ensuring that those criteria are publicly available to the report users.

**Inherent limitations**

Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods used for determining, calculating, sampling and estimating such information. The absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques, which can result in materially different measurements and can impact comparability. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgements. The precision thereof may change over time. It is important to read the report in the context of the reporting criteria.

Further, because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal controls, there is an unavoidable risk that some, even material, misstatements may not be detected, even though the audit is properly planned and performed in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information.

Where the information relies on factors derived by independent third parties, our assurance work has not included an examination of the derivation of those factors and other third-party information.

**Our independence and quality control**

We have complied with the independence and all other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards).

**Qualified opinion**

In our opinion, and subject to the inherent limitations outlined elsewhere in this report, except for the effects of the matters described in the “Basis for qualified opinion” section of our report, the selected KPIs as set out in the “Subject matter” paragraph above for the year ended 31 March 2021 are prepared, in all material respects, in accordance with Eskom’s reporting criteria.

In making those risk assessments we considered internal controls relevant to Eskom’s preparation of the selected KPIs. A reasonable assurance engagement also includes:

- Evaluating the appropriateness of quantification methods, reporting policies and internal guidelines used and the reasonableness of estimates made by Eskom
- Assessing the suitability in the circumstances of Eskom’s use of the applicable reporting criteria as a basis for preparing the selected information
- Evaluating the overall presentation of the selected sustainability performance information

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Local content contracted

There were inadequate performance management systems to maintain records to enable reliable reporting on achievement of targets. Sufficient appropriate audit evidence could not be provided in some instances while, in other cases, the evidence provided did not agree to the recorded achievements. The reported achievement could not be confirmed by alternative means. Consequently, we were unable to determine whether any further adjustments were required to the reported achievement of 65.99%.

Relative particulate emissions

The reported achievement of 0.38kg/MWh sent out was understated. This was due to the particulate emission monitors operating beyond their effective range (maxing out). Emissions exceeding this limit could not be recorded. The particulate emission monitors had reached their limit for 9,149 hours out of a total of 379,124 hours, which constitutes 2.41% of the operational hours. We were unable to confirm the extent of the emissions for the time that the monitors were maxed out by alternative means. Consequently, we were unable to determine the extent of any adjustments that were required to the reported achievement.

Other matters

Our report includes the provision of reasonable assurance on selected KPIs, on which we were previously not required to provide assurance, as indicated in the table above. Hence, with regard to these KPIs, the current year information relating to prior reporting periods has not been subject to assurance procedures.

Website

The maintenance and integrity of the Eskom website is the responsibility of Eskom management. Our procedures did not involve consideration of these matters and accordingly, we accept no responsibility for any changes to either the information in the report or our independent reasonable assurance report that may have occurred since the initial date of its presentation on the Eskom website.

Restriction of liability

Our work has been undertaken to enable us to express a reasonable assurance opinion on the selected KPIs to the directors of Eskom in accordance with the terms of our engagement and for no other purpose. We do not accept or assume liability to any party other than Eskom for our work, for this report, or for the conclusion we have reached.

SizweNtsalubaGobodo Grant Thornton Inc

Registered auditors

Per BF Zwane
Chartered Accountant (SA)
Director
24 August 2021