Powering growth ... sustainably
THE YEAR IN REVIEW

**EAF dropped to 62.02%**

Loadshedding 65 days

**Network performance improved**

New build
- 1 unit commissioned
- 1 unit synchronised

Emissions performance improved

International support for Just Energy Transition
- Lost-time injury rate worsened to 0.24

Employee and contractor fatalities 6

Headcount down by 2 328

Net loss before tax improved to R15.8 billion

Arrear municipal debt rose to R44.8 billion

Government support R31.7 billion

Legal separation process continues

ABOUT THIS REPORT

Board responsibility and approval

Eskom’s Board is accountable for the integrity and completeness of the integrated report and any supplementary information. It is assisted in this regard by the Audit and Risk Committee and the Social, Ethics and Sustainability Committee. As noted on page 10, the new Board was appointed six months after the 2022 financial year end. As such, the new Board has had to familiarise itself with the results and matters dealt with in this report, and sign off on Eskom’s year-end reporting on behalf of the previous Board.

The Board has considered the integrated report and concluded that it is presented in accordance with the Integrated Reporting Framework. Based on the reliability of information presented and the completeness of material items discussed, and given the combined assurance process followed, the Board approved the 2022 integrated report and supplementary information on 16 December 2022.

As South Africa’s national electricity utility, Eskom’s mandate is to ensure a stable electricity supply in an efficient manner, to contribute to lowering the cost of doing business and enable economic growth. As such, we have a significant impact on the economy and the lives of South Africans. We serve a wide range of stakeholders, such as our shareholder, investors, employees, customers, suppliers, regulators, civil society and Government.

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

Our value creation model is set out on page 4 to 5.

Approach to presentation

This integrated report reviews our financial, operational, environmental, social and governance performance for the financial year from 1 April 2021 to 31 March 2022, as well as the future outlook. Unless otherwise stated, both financial and non-financial performance data in this report relates to the 2022 financial year. Significant events occurring to the date of approval have been covered.

The report covers the group performance of Eskom Holdings SOC Ltd (Eskom) and its major operating subsidiaries, unless otherwise stated. Unless noted otherwise, information presented is comparable to that of prior years. The integrated report should be read in conjunction with the group annual financial statements, for a complete overview of financial performance.

Eskom’s group annual financial statements are available at www.eskom.co.za/investor/integrated-results. Restatements due to prior period errors are dealt with in note 48.

Our integrated report is based on the guiding principles and content elements contained in the revised Integrated Reporting Framework, issued in January 2021. 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, such as recommendations by the Task Force on Climate-related Financial Disclosures (TCFD).

This is our primary report to stakeholders aimed predominantly at providers of financial capital, although the report seeks to provide information to a wide range of stakeholders. We strive to provide a balanced, transparent and complete account of our performance, by focusing on matters material to our ability to create or dilute value. We also consider qualitative and quantitative matters material to our operations and strategic objectives, as well as strategic risks and opportunities and our operating context.

Through our short-term turnaround objectives, our use of and impact on the six capitals are connected to our strategy, material matters, organisational and strategic risks, key performance indicators (KPIs) 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.

We are embedding a holistic approach to decision-making in ensuring security of electricity supply. It is applied by management, executives and the Board, such as when the various capitals and trade-offs between them are continually considered. An example of such trade-offs is the use of costly diesel turbines to ensure stability of the grid and provide security of supply to customers, at the expense of financial capital. Similarly, running generation plant above emission limits to ensure security of supply, at the expense of natural capital. Another example would be the headcount reduction to manage employee benefit costs, at the expense of skills available to the business.
Preparation process
Our Chief Financial Officer, Mr Calib Cassim CA(I), oversees the preparation and presentation of the integrated report and supplementary information. A dedicated team from the Group Finance Division produces the integrated report, by collaborating with representatives from all areas of the business to source the information presented in the report. The content relies heavily on our strategic Corporate Plan, as well as information contained in a quarterly report to our shareholder, all of which are approved by Eskom’s Board prior to submission to the Department of Public Enterprises.

The content is further guided by the material matters determined during the preparation process. Content is reviewed by subject matter experts from the business, as well as Exco, the Audit and Risk Committee, and the Social, Ethics and Sustainability Committee. In approving the integrated report, the Board assumes ultimate accountability for the content, completeness and reliability of the report.

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 Exco and the Board, and included in the quarterly shareholder report.

Assurance approach to improve credibility
The Audit and Risk Committee and the Board rely on a combined assurance approach to assess the adequacy of internal controls and risk management processes. The consolidated annual financial statements have been audited by the group’s independent auditors, Deloitte & Touche, who issued a qualified opinion relating to information 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 have emphasised a number of matters in their report, including a material uncertainty relating to Eskom’s ability to continue as a going concern. However, this does not affect their opinion.

The independent auditors report is incorporated in the annual financial statements.

The Assurance and Forensic Department provided reasonable assurance limited to certain aspects of the report. The group’s external auditors provided assurance on selected KPIs, while the Assurance and Forensic Department provided reasonable assurance limited to certain aspects of the report.

Our suite of reports
Our 2022 suite of reports comprise:

Integrated report and supplementary information
The integrated report is prepared in accordance with the Integrated Reporting Framework. It considers our value creation model, strategy, risks and opportunities, performance and outlook, as well as governance of these areas. Supplementary information of interest to a variety of stakeholders is available at the back of the report. The external auditors provided reasonable assurance on selected KPIs, while the Assurance and Forensic Department provided reasonable assurance limited to certain aspects of the report.

Annual financial statements
The consolidated annual financial statements of Eskom Holdings SOC Ltd have been prepared in accordance with IFRS as well as the requirements of the Companies Act, 2008 and the PFMA, 1999, and have been audited by our independent auditors, Deloitte & Touche.

Sustainability report
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), and 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 imprecise and/or incorrect 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 or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Future performance plans and/or strategies referred to in this integrated report have not been reviewed or reported on by the independent auditors.
VALUE CREATION MODEL

MANDATE

To supply stable electricity in an efficient and sustainable manner, to contribute to lowering the cost of doing business in South Africa and enable economic growth.

INPUTS

Finance
- R35.8 billion Funding secured
- R31.7 billion Government support

Infrastructure
- 47 145MW Nominal power station capacity
- 6 B31MW IPP capacity
- 404 818km Power lines and cables

Environment
- 110.3Mt Coal burnt
- 283 610Mt Net raw water used

People
- 42 749 Employees (as at 31 March 2021)
- R855 million Training spend

Society and relationships
- R7.5 million CSI committed spend
- R2.1 billion DMRE electrification funding

Know-how
- Institutional knowledge
- 12 research Grand Challenges

R&D
- 4.7 billion spending

Turnaround objectives

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

Note that a selection of significant inputs and outcomes are shown in the business model.

OUTPUTS

Finance
- R71.4 billion Debt and interest repaid
- R246.5 billion Revenue
- R52.4 billion EBITDA
- R44.8 billion Municipal arrear debt

Infrastructure
- 794MW New capacity from Medupi Unit 6
- 180.5km Transmission lines installed
- 1 065MVA Transmission transformer capacity installed
- R30.2 billion Capital expenditure

Environment
- 65 Environmental legal contraventions
- 2.34mg/m^3SO Relative particulate emissions
- 1.45kg/kW/hSO Specific water consumption

People
- 40 421 Employees at year end
- 0.24 Lost-time injury rate
- 6 Employee and contractor fatalities
- R33 billion Employee benefit expense

Society and relationships
- 785 085 CSI beneficiaries
- 97 947 Electrification connections
- 65 days Loadshedding

Know-how
- Tacit knowledge lost due to VSPs

Note that a selection of significant inputs and outcomes are shown in the business model.

Key performance indicators

- 198 281GWh Electricity sales to distributors and industrial, commercial, international, residential and other customers
- 32.90Mt Ash produced
- 66.65t Particulate emissions
- 207.2Mt CO₂ emitted

Values

Z
- Zero Harm

I
- Integrity
- Innovation

Sinobuntu
- Customer satisfaction

Excellence

Cardiac care
- 27 000 patients

Total patients
- 80 000

Sustainable development

- 2030 Sustainable Development Goals
- NDP Development Goals

Summarised information

- 404 818km Power lines and cables
- 794MW New capacity from Medupi Unit 6
- 6 B31MW IPP capacity
- R855 million Training spend

Note that all elements of supply and demand are shown.
Our operations

Eskom’s business

The foundation of our business is the generation, transmission, distribution and sale of electricity, supported by the construction of new power stations and network infrastructure. Our core divisions – Generation, Transmission and Distribution – rely on corporate support functions to operate effectively. Our subsidiary Eskom Roof Industries performs turbine and transformer repairs and provides specialised construction and transport services, in support of the electricity business, while other subsidiaries also provide strategic support services.

Eskom is one of the few remaining vertically integrated utilities. We are connected to the Southern African Power Pool through an interconnected grid, which supports grid stability. We rely on neighbouring countries to maintain sufficient and reliable transmission grids in their countries. To facilitate the transmission of electricity throughout the Southern African Development Community (SADC) region.

Using inputs from the natural environment – coal, nuclear fuel and diesel, as well as water and wind – we generate more than 90% of the energy supplied to a wide range of customers in South Africa and the region. Our System Operator has to maintain the frequency of the power system at 50Hz to balance electricity supply and demand in real time.

Our new build programme caters for South Africa’s future energy demand by building new power stations and strengthening our transmission grid. However, additional base-load generation capacity of 4 000MW–6 000MW is required urgently, to ensure sufficient capacity to support South Africa’s power system, and Eskom’s efforts to maintain our existing power stations.

The final unit of Medupi Power Station achieved commercial operation on 31 July 2021, while a further unit at Kusile Power Station was synchronised to the grid on 23 December 2021. Defects on new units at Medupi and Kusile are being addressed, to improve the reliability and availability of the units.

Detailed information on our power stations, power lines and substation capacities is available on page 150 to 151.

We play a significant developmental role in support of the National Development Plan 2030 (NDP), by supporting job creation, economic and skills development, B-BBEE, transformation and other national initiatives. We also support several of the United Nations’ Sustainable Development Goals (SDGs).

Supply and demand of electricity

Electricity is supplied by Eskom’s power stations, IPPs and cross-border suppliers to local and export customers, through our transmission and distribution networks. Eskom generated 205 688GWh for the year, from the following primary energy sources:

<table>
<thead>
<tr>
<th>Source</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal-fired stations</td>
<td>184 568</td>
<td>183 553</td>
<td>194 357</td>
</tr>
<tr>
<td>Nuclear power</td>
<td>12 355</td>
<td>9 703</td>
<td>13 252</td>
</tr>
<tr>
<td>Pumped storage stations</td>
<td>4 742</td>
<td>6 795</td>
<td>5 060</td>
</tr>
<tr>
<td>Hydro stations</td>
<td>1 943</td>
<td>1 387</td>
<td>688</td>
</tr>
<tr>
<td>Open-cycle gas turbines (OCGTs)</td>
<td>1 826</td>
<td>1 457</td>
<td>1 328</td>
</tr>
<tr>
<td>Wind</td>
<td>623</td>
<td>305</td>
<td>283</td>
</tr>
</tbody>
</table>

Eskom generated 205 688GWh for the year, from the following primary energy sources:

- Coal-fired stations
- Nuclear power
- Pumped storage stations
- Hydro stations
- Open-cycle gas turbines (OCGTs)
- Wind
- Eskom generation
- Pumping by pumped storage stations
- Net sent out by Eskom
- Independent power producers
- Imports
- Wheeling
- Energy available for distribution

The following diagram indicates the countries from which we import and those to which we export, with Mozambique being by far the most significant trading partner.

Natural capital in the form of non-renewable or scarce primary energy sources such as coal, water, nuclear fuel and diesel is consumed to generate electricity. The generation process produces waste in the form of ash, gaseous and particulate emissions, contaminated water and nuclear waste, also eroding natural capital. Through the increased use of renewable energy, we aim to transition to a cleaner energy mix to reduce our impact on the environment. Although we strive to mitigate our impact on the natural environment, our transmission and distribution networks also have a negative impact on bird life in some cases.

Human capital includes the knowledge base. Human capital is enhanced through the productivity of the workforce and preserving our supplier relationships. How we define the six capitals

How we define the six capitals

Resources comprising all six capitals set out in the International <IR> Framework are used as inputs in our business. The creation of value in one area frequently leads to the erosion of value in another, given the inevitable trade-offs. We have to ensure that our business remains sustainable across all the capitals.

We interpret each of the capitals is explained below, with detail provided in the sections dealing with each of the capitals.

Financial capital

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 Government guaranteed. Lenders and bondholders earn a return in the form of interest. Our shareholder does not receive any dividends at this time.

Manufactured capital consists of our power stations and our transmission and distribution networks. Our manufactured capital base is enhanced by the commissioning of new power station units and power lines, as well as through maintenance and capital refurbishment of existing plant. The process of generating, transmitting and distributing electricity erodes that base.

Natural capital in the form of non-renewable or scarce primary energy sources such as coal, water, nuclear fuel and diesel is consumed to generate electricity. The generation process produces waste in the form of ash, gaseous and particulate emissions, contaminated water and nuclear waste, also eroding natural capital. Through the increased use of renewable energy, we aim to transition to a cleaner energy mix to reduce our impact on the environment. Although we strive to mitigate our impact on the natural environment, our transmission and distribution networks also have a negative impact on bird life in some cases.

Human capital covers our employees and contractors, and their competencies, capabilities and experience. We continue to focus on improving the racial, gender and disability equity of our employee base. Given the significance of employee benefit costs to our cost base, we continue to pursue a reduction in our headcount, mainly through natural attrition, while still maintaining the productivity of the workforce and preserving our knowledge base. Human capital is enhanced through training and skills development, although these efforts remain constrained by our financial situation.

Social and relationship capital considers interactions with customers, suppliers, communities and the public in general. We contribute to society by enabling economic growth through the supply of electricity, electrifying new households in our licensed areas of supply; supporting Government’s priorities of 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. We acknowledge that our power stations and...
to some extent, our networks, 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 are critical to our ability to create value.

Intangible capital includes technology, which comprises telecommunications, information, and operational technology; organisational knowledge, systems, policies and procedures; as well as research and innovation to industrialise future technologies and improve current operations.

Selected inputs and outputs to the value creation process are highlighted in the model from page 4.

Only major subsidiaries are shown.

The National Energy Regulator of South Africa (NERSA) regulates the industry under the National Energy Regulatory Act, 2004 and the Electricity Regulation Act, 2006, by providing licences, regulatory rules, codes and guidelines. NERSA also determines our revenue allocation in accordance with the Electricity Pricing Policy (EPP). The National Nuclear Regulator (NNR) provides oversight of our nuclear power station, Koeberg, by ensuring that it complies with nuclear safety standards to protect individuals, society and the environment against radiological hazards linked to the use of nuclear technology.

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.

The Department of Public Enterprises is our shareholder ministry and sets our mandate, which 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 are also subject to oversight or regulation by several other Government departments, Parliamentary committees and regulators.

Our structure and regulation

Electricity supply industry

The electricity supply industry in South Africa consists of the generation, transmission, distribution and sale of electricity, together with the import and export thereof. Most of the base-load and peaking capacity is owned and operated by Eskom, with IPPs supplementing capacity, largely in the form of wind and solar PV power, as well as peaking capacity supplied by gas turbines.

Capacity added and energy supplied by IPPs are discussed from page 98.

Our strategic context

- 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
- Preferential Procurement Policy Framework Act, 2000
- Promotion of Access to Information Act, 2000

Group overview

Eskom Holdings SOC Ltd houses our electricity business and holds investments in subsidiaries. The Eskom group comprises the operating companies with its subsidiaries and joint ventures. Under our business separation project, as mandated by DPE’s Roadmap for Eskom in a Reformed Electricity Supply Industry released in 2019, a new subsidiary to house the Transmission business was established during the year – the National Transmission Company South Africa SOC Ltd (NTCSA). However, the company is not yet operational, given policy and regulatory dependencies that are lagging behind schedule. Under the process, the Generation and Distribution businesses will also be separated in the coming years.

Progress on the business separation project is discussed in “Our strategic context – Our strategy and turnaround plan” on page 40.

Our head office is based in Johannesburg, with operations across South Africa and administrative offices in most major centres. Our local subsidiaries provide strategic services to Eskom and our employees, and we have a subsidiary based in Uganda.

Significant subsidiaries are discussed below.

Subsidiaries of Eskom

Eskom Enterprises SOC Ltd (EE) is an investment holding company. An overview of its subsidiaries is set out below.

Eskom enters into partnerships with a number of South African, regional, and global companies and other business entities, and Ndlovu is a non-profit company under section 21 of the Companies Act, 2008. Ndlovu’s board has task force mandate and is concerned to preserve the intellectual property created during operation.

EBITDA and other financial information

R million

<table>
<thead>
<tr>
<th>Eskom group</th>
<th>EE group</th>
<th>Escap</th>
<th>EFC</th>
<th>Foundation</th>
<th>Eliminations and other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>246 520</td>
<td>10 656</td>
<td>4 180</td>
<td>566</td>
<td>(15 410)</td>
<td>202 066</td>
</tr>
<tr>
<td>EBITDA</td>
<td>50 598</td>
<td>449</td>
<td>475</td>
<td>180</td>
<td>672</td>
<td>54 819</td>
</tr>
<tr>
<td>Net (loss)/profit after tax</td>
<td>4 (332)</td>
<td>57</td>
<td>1 032</td>
<td>138</td>
<td>715</td>
<td>(12 338)</td>
</tr>
<tr>
<td>Total assets</td>
<td>784 568</td>
<td>7 289</td>
<td>24 067</td>
<td>8 312</td>
<td>59</td>
<td>(22 605)</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>569 377</td>
<td>2 637</td>
<td>12 890</td>
<td>6 728</td>
<td>62</td>
<td>(25 451)</td>
</tr>
<tr>
<td>Capital expenditure1</td>
<td>28 528</td>
<td>261</td>
<td>-</td>
<td>-</td>
<td>(245)</td>
<td>31 528</td>
</tr>
</tbody>
</table>

1. EBITDA excludes fair value adjustments on financial instruments and embedded derivatives.
2. The company and group figures include DIME funded capital expenditure of R2.1 billion, but exclude capitalised borrowing costs.

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

The Board comprised of eight directors at year end, including six independent non-executive directors and two executive directors. This was well below the full composition of 15 directors allowed in terms of Eskom’s Memorandum of Incorporation (MOI). The Board had concluded, through its independent board evaluation, that it was insufficiently constituted and lacked critical skills and experience based on the size and nature of Eskom, as well as the complexity of the operational and financial challenges that the organisation is facing.

The Board had requested the shareholder to appoint additional independent non-executive directors on several occasions, in line with the skills, experience and diversity needs identified by its People and Governance Committee. In particular, the Board had identified that its Audit and Risk Committee lacked appropriate finance and assurance skills and experience and that its Investment and Finance Committee (IFC) was not adequately capacitated. Furthermore, the chairperson of IFC resigned in August 2021.

The shareholder conducted a review of the Board and announced a reconstituted and restructured Board on 30 September 2022. The shareholder appointed 12 new independent non-executive directors with a broad range of experience and the necessary expertise and skills to provide stability and strategic direction to Eskom. Dr Rod Crompton, Mr André de Ruyter and Mr Calib Cassim remained from the previous Board. The new Board is now fully constituted with 13 directors, including 13 independent non-executive directors and two executive directors, thereby enhancing oversight of and strategic direction to Eskom.

The new Board commenced its tenure on 1 October 2022. The Board has reviewed its structure and recommended the establishment of a Business Operations Performance Committee to provide oversight of Eskom’s technical performance, operational challenges and risks relating to the production of electricity, in particular performance against shareholder compact targets such as the energy availability factor. The Board Strategy Committee’s mandate has been expanded to include governance matters and has been renamed to the Governance and Strategy Committee. The People and Governance Committee has changed to the Human Capital and Remuneration Committee.

The composition of the previous Board at 31 March 2022 as well as the new Board at 1 October 2022 are shown below. The composition of the previous Board at 31 March 2022 as well as the key activities and focus areas of the Board and its committees are reported on behalf of the previous Board for the year ended 31 March 2022.

BOARD OF DIRECTORS AT 31 MARCH 2022

Prof. Malegapuru Magona (69)  
Interim Chairman

Dr Banorhile Makhubela (57)  
Independent non-executive director

Mr André de Ruyter (54)  
Group Chief Executive

Ms Busisiwe Mavuso (43)  
Independent non-executive director

Mr Calib Cassim (50)  
Chief Financial Officer

Dr Pulane Molokwane (45)  
Independent non-executive director

Dr Rod Crompton (69)  
Independent non-executive director

Prof. Tshepo Mongalo (48)  
Independent non-executive director

Ms Busiwe Mavuso resigned on 27 September 2022. The terms of Prof. Malegapuru Magona, Prof. Tshepo Mongalo, Dr Banorhile Makhubela and Dr Pulane Molokwane ended on 30 September 2022.

Refer to page 138 to 141 for full details of the Board and meeting attendance for the year ended 31 March 2022.

Membership of Board committees

- Audit and Risk Committee
- Investment and Finance Committee
- People and Governance Committee (now Human Capital and Remuneration Committee)

Denotes chairmanship of a committee

- Social, Ethics and Sustainability Committee
- Board Strategy Committee (now Governance and Strategy Committee)
- Business Operations Performance Committee (now Board committee)

BOARD OF DIRECTORS AT 1 OCTOBER 2022

Mr Mpho Makhwana (52)  
Chairman

former non-executive director of Eskom from 2002 to 2011, including acting as Chairman and CEO

Mr André de Ruyter (54)  
Group Chief Executive

Served as Group Chief Executive since January 2020

Mr Calib Cassim (50)  
Chief Financial Officer

Served as Chief Financial Officer since July 2017

Dr Rod Crompton (69)  
Independent non-executive director

Served on the Board since January 2018. Experience in energy, chemicals, economic regulation and industrial policy

Ms Fathima Gany (47)  
Independent non-executive director

Finance professional, registered as a Chartered Accountant (SA)

Mr Lwazi Gogwana (47)  
Independent non-executive director

Engineer with experience in manufacturing, construction, financial services, logistics, energy and government services

Mr Clive le Roux (70)  
Independent non-executive director

Engineer, previously served as Chief Nuclear Officer and power station manager at Matimba and Koebeg

Ms Ayanda Mafuleka (42)  
Independent non-executive director

Finance professional, registered as a Chartered Accountant (SA)

Ms Thandi Duminy (52)  
Independent non-executive director

Engineer with experience in information and communication technology (ICT) and corporate governance

Ms Bisiwe Mavuso (43)  
Independent non-executive director

Finance professional, registered as a Chartered Accountant (SA)

Ms Tepo Dikele (50)  
Independent non-executive director

Engineer with experience in ICT research and innovation, data science and analytics, strategy and digital transformation

Ms Tryphosa Ramano (50)  
Independent non-executive director

Finance professional, registered as a Chartered Accountant (SA)

Dr Buseka Nkomo (68)  
Independent non-executive director

Engineer with experience in sustainable development, energy management and climate change strategy

Mr Mteto Nyati (57)  
Independent non-executive director

Former trade unionist; previously served as general secretary of the Congress of South African Trade Unions (COSATU)

Mr Lesego Ramapelo (52)  
Independent non-executive director

former board member; previously served as CEO of Nedbank

Ms Thandi Duminy (52)  
Independent non-executive director

Engineer, previously served as Group Chief Executive since January 2020

Mr Mteto Nyati (57)  
Independent non-executive director

Engineer with experience in sustainable development, energy management and climate change strategy

Mr Lesego Ramapelo (52)  
Independent non-executive director

former board member; previously served as CEO of Nedbank

Mr Bheki Makhubu (54)  
Independent non-executive director

former board member; previously served as the CEO of The Nation

Mr Bheki Ntsalintshali (68)  
Independent non-executive director

former trade unionist; previously served as general secretary of the Congress of South African Trade Unions (COSATU)

Ms Ayanda Mafuleka (42)  
Independent non-executive director

Finance professional, registered as a Chartered Accountant (SA)

Ms Thandi Duminy (52)  
Independent non-executive director

Engineer with experience in information and communication technology (ICT) and corporate governance

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Finance professional, registered as a Chartered Accountant (SA)

Ms Bisiwe Mavuso (43)  
Independent non-executive director

Finance professional, registered as a Chartered Accountant (SA)

Ms Tryphosa Ramano (50)  
Independent non-executive director

Finance professional, registered as a Chartered Accountant (SA)

Dr Buseka Nkomo (68)  
Independent non-executive director

Engineer with experience in ICT research and innovation, data science and analytics, strategy and digital transformation

Ms Thandi Duminy (52)  
Independent non-executive director

Engineer, previously served as Chief Nuclear Officer and power station manager at Matimba and Koebeg

Ms Ayanda Mafuleka (42)  
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Ms Ayanda Mafuleka (42)  
Independent non-executive director

Finance professional, registered as a Chartered Accountant (SA)
EXECUTIVE MANAGEMENT COMMITTEE
AT 31 MARCH 2022

Mr André de Ruyter (54)
Group Chief Executive
Appointed to Exco in January 2020
2 years in Eskom
LLB (Unisa)
MBA (Nyenrode University)

Ms Nthato Minyuku (43)
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)

Mr Calib Cassim (50)
Chief Financial Officer
Appointed to Exco in July 2017
20 years in Eskom
Chartered Accountant (SA)
Master of Business Leadership (Unisa)

Ms Elsie Pule (54)
Group Executive: Human Resources
Appointed to Exco in November 2014
24 years in Eskom
BA (Hons) Psychology (University of Pretoria)
MSc Business Engineering (Warwick University)

Mr Jainthee Sankar (50)
Chief Procurement Officer
Appointed to Exco in March 2021
28 years in Eskom
B Com (Hons) Business (Unisa)
MBA Sustainable Business (University of Southern Queensland)
Master of Project Management (University of Southern Queensland)

Ms Faith Burn (53)
Chief Information Officer
Appointed to Exco in May 2020
1 year in Eskom
MSc Mathematics (University of Johannesburg)
Master of Business Leadership (Unisa)

Ms Mel Govender (40)
Group Executive: Legal and Compliance
Appointed to Exco in October 2021
<1 year in Eskom
LLB (University of KwaZulu-Natal)

Ages are shown at 31 March 2022

Science, engineering
and technology
Commerce and industry
Legal, governance and risk management
Finance, accounting and economics
Social and human sciences

Skills

40–49 33%
50–59 56%
60–69 11%
70–79 11%
80–89 56%
90–99 56%

10–20 11%
21–30 33%
31–40 33%
41–50 56%
51–60 11%
61–70 66%
71–80 100%

<10 56%
11–20 56%
21–30 33%
31–40 33%
41–50 56%
51–60 11%
61–70 66%
71–80 100%

Male 4
Female 5
ACI 7
White 2

Gender diversity
Racial diversity

Qualifications listed are not exhaustive. Refer to pages 137 and 140 for full details of Exco members’ qualifications and active directorships.
The Collins dictionary’s word of the year for 2022 is *permacrisis*, signifying an extended period of instability and insecurity. As we present the results for the 2022 financial year to the market, the state of affairs that we found at Eskom seem to resonate with a state of permacrisis.

The integrated report and annual financial statements are presented by a new Board of Directors 85 days after assuming their term. As one of its first tasks, the Board had to consider the delayed publication of the 2022 annual financial statements and the challenges faced during the process of generation contracts. Eskom had to consider the delayed publication of the 2022 annual financial statements, with daily loadshedding set to continue at least in the short to medium term. Financial performance is similarly constrained, with profitability negatively affected by a lack of cost-reflective tariffs, the high cost associated with the use of diesel turbines to supplement electricity supply during times of generation contractndeficiencies. Eskom’s operating expenditure in arrear municipal debt, and unsustainably high levels of debt servicing costs.

The Board’s mandate

It is against this backdrop that the shareholder announced the appointment of 12 new Board members from 1 October 2022. The Board, which is now fully constituted with 15 directors, assumed its mandate and chose to create a step change in how Eskom is led, injecting new ethos of corporate governance by an engaged board that will seek to provide active strategic, technical and financial leadership towards the ultimate stability and transformation-class performance of Eskom. We embrace the mantra introduced by our Group Chief Executive Mr André de Ruyter of MEGA: Make Eskom Great Again!

The new Board members and I welcome this challenge as an opportunity to put shoulder to wheel, as a call to all of us to make our fair-share contribution to MEGA, and in turn, the recovery and stability of our country. The new non-executive directors are Ms Fatima Gany, Mr Lwazi Gqwana, Mr Claire le Roux, Ms Ayanda Mafuleka, Mr Leslie Mkhabela, Dr Tsakani Mthombeni, Mr Bheki Ntshalintshali, Mr Mteto Nyati, Ms Fathima Gany, Mr Lwazi Goqwana, Mr Clive le Roux, Ms Tryphosa Ramano, Dr Busisiwe Vilakazi and Dr Claudelle von Eck. The new Board has a broad range of experience as well as the necessary skills and expertise to provide stability and strategic direction to Eskom.

The shareholder has tasked us with repositioning Eskom to play a key role in the evolving energy landscape and further, to deal with Eskom’s immediate loadshedding issues, procurement challenges, the elimination of corruption and, most importantly, delivering on Eskom’s mandate of ensuring reliable electricity supply in the medium to long term. In short, our job is to focus on the technical, commercial and financial aspects of the business, to get the organisation back on its feet and restore its reputation. Staff morale and the skills shortage will also require attention.

As a Board, we assumed office in the middle of the financial year. At the end of the year, we will agree on what has been achieved and what has not, and set new targets for the 2024 financial year. Given our pressing mandate, we will proceed with a sense of urgency, while using this initial period to deepen and strengthen our understanding of Eskom, to improve our ability to achieve our mandate.

To lay a solid foundation, we reviewed the structure of the board committees. We proposed establishing a Business Operations Performance Committee (BOPC) to provide oversight of Eskom’s operations, in particular, performance against energy availability factor (EAF) targets. Its job is to engage with the operations, to unpack and unchallenged a whole host of the technical assumptions in the business. The committee will go into the belly of the organisation, as it were, to drive the turnaround plan. Together, each of the Board of Directors and the committee will undertake a thorough review of its area to get a handle on the state of the business.

One of our top priorities is to reduce Eskom’s drain on the public purse, together with dealing with irregular expenditure and Eskom’s unsustainably high debt. Furthermore, we are mindful of the need to have robust consequence management in Eskom, and to improve operations so that Eskom finds a way out of being a drain on the fiscal normal and on the economy, both through its need for Government support and the impact of unprecedented levels of loadshedding.

As I’ve said before, we strive to be an engaged board that seeks to perpetuate Eskom’s ethical culture as Eskom within the purview of sound corporate governance that doesn’t blur the lines between executive management and board oversight, we intend to be actively engaged in supporting the executive team in resolving whatever challenges exist.

The electricity crisis

Eskom has insufficient reliable generation capacity to power a post-COVID-19 economic recovery in the medium term. Availability of the generation fleet continues to deteriorate, with the coal fleet being highly unreliable after years of inadequate maintenance and refurbishment, compounded by running the plant at levels significantly above the international norm considering the age of the fleet. The new power stations, Medupi and Kusile, have not delivered on expectations due to critical shortcomings in project planning, design and execution, a direct consequence of the delay in the decision to commence building. The 2019 Integrated Resource Plan identified a supply gap over the next three years, based on assumptions regarding plant availability at levels well above those being achieved, although at higher levels of demand than being experienced; it did not cater adequately for the risk of deteriorating plant availability nor the delay in adding capacity from independent power producers (IPPs) to the grid.

The electricity crisis is hugely damaging: the inadequately reliable and unpredictable electricity supply has affected the South African economy’s ability to grow. In the wake of the COVID-19 pandemic, it is imperative that the electricity supply industry supports and even creates opportunities for economic recovery. This means increasing Eskom’s generation capacity by the Department of Mineral Resources and Energy has begun, current interventions will not address loadshedding in the medium-term system constraints.

In July 2022 President Cyril Ramaphosa announced measures to address the country’s long-running electricity crisis, including the formation of a National Energy Crisis Committee. In collaboration with the relevant government departments, agencies and other stakeholders, Eskom has made some progress on the implementation of these measures, with interventions under way to procure additional capacity. Discussions addressing legal and regulatory constraints to allow capacity to come online in an integrated manner are advancing quite well.

The BOPC has tabled a Generation recovery plan to the Board to restore EAF to 70% by 31 March 2023. Embedded in this recovery plan is ensuring that loadshedding is ameliorated in the short term, with EAF stabilising at 65% by 31 March 2023 and by 31 March 2024. This complex plan is being reviewed in consultation with key stakeholders in our country; a sense of urgency is central to this plan as we marshal key players on whom success depends. A public announcement on the generation recovery plan was made in January 2023, as soon as all key players have signed off and committed to it.

As Eskom moves away from its reliance on coal, it will shift its focus to the implementation of the Just Energy Transition. It intends to continue playing a leading role by facilitating the connection of renewable energy through and will seek to procure renewable energy, and by participating in building renewable energy, as the country transitions towards a low-carbon future.

The Group Chief Executive will expand on these matters in his report.

Eskom’s financial challenges

As I alluded to earlier, financial performance is constrained by various factors, such as a lack of cost-reflective tariffs, the high cost associated with the use of diesel turbines, escalating arrear municipal debt and unsustainably high levels of debt servicing costs.

The market has been calling for detail on Government’s plans for economic recovery. While the procurement of new renewable energy is an opportunity to put shoulder to wheel, we intend to be actively engaged in supporting the executive team in resolving whatever challenges exist. We are confident that this new Board has the expertise to provide stability and strategic direction to Eskom. As one of its first tasks, the Board had to consider the delayed publication of the 2022 annual financial statements and the challenges faced during the process of generation contracts. As the country transitions towards a low-carbon future, Eskom’s generation capacity will increase from 41,000 MW to 70,000 MW in the medium to long-term. The Group Chief Executive will expand on these matters in his report.

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MESSAGE FROM THE CHAIRMAN
continued

Budget Speech in February 2023, together with the conditions attached to the support, which are expected to deal with cost management, and to improve the financial performance of Eskom. The money will be used for various purposes, including the payment of dividends and the reduction of debt. It is expected that this support will allow Eskom to continue providing electricity to its customers.

Regarding liquidity, the use of open-cycle gas turbines (OCGTs) is a particular concern for Eskom. In the 2023 financial year, Eskom budgeted to spend R1.0 billion on its own OCGTs. An additional R3.5 billion for OCGTs was approved, which must be funded from savings elsewhere in the business. Towards the end of 2022, Eskom already spent R1.3 billion on OCGTs, largely to cover the gap left by renewable IPP capacity not coming online as expected, coupled with deteriorating generating plant performance. Consequently, to preserve Eskom’s liquidity, management placed a cap on the diesel use for the remainder of the year. This cap translates to Eskom having to implement at least stage 2 loadshedding on a constant basis for the remainder of the financial year. If no cap was in place, Eskom would need to spend about R34 billion in total on its own OCGTs for the 2023 financial year.

Eskom is not in a financial position to carry the burden of extensive use of OCGTs, which are more expensive to run than a part of their gas-fired fleet. The 2023 financial budget includes an allocation of R1.3 billion for the OCGTs, which will be used for maintenance and spares.

The CFO covers our financial performance for the year in his report. How would you describe the past year?

First off, I have to acknowledge that 2022 was a tremendously difficult year for Eskom. Our generation plant performance reached record-low levels, and we saw the worst loadshedding in Eskom’s history. On the financial side, the challenges continued – lower-than-expected tariffs and vast amounts of money spent on burning diesel to keep the lights on, meant that funds available to maintain our generation plant were constrained. And of course, if you can’t produce the megawatts, you can’t sell them, so loadshedding also has a knock-on effect on our revenue.

The CFO covers our financial performance for the year in his report. As he points out, we have to maintain a delicate balance between sufficient levels of liquidity and spending on operations recovery to turn around generation plant performance, as well as utilising diesel turbines to limit the level of loadshedding given the poor generation plant performance. On top of that, we must invest in our plant to ensure environmental compliance, and also to add capacity to the system – both in terms of megawatts on the grid and our transmission and distribution networks, that get those megawatts to the customer. Using our limited resources effectively really is a balancing act.

That said, we have seen some recovery in sales volume from the low base in 2021 following the COVID-19 pandemic, and there were many areas of the business that performed well – construction at Medupi Power Station, which commenced in May 2007, was completed when the last unit achieved commercial operation on 31 July 2021. Unfortunately, that achievement was marred by the generator explosion at Medupi Unit 4 mere days later, on 8 August 2021. Losing a unit like that puts us well on the way to one stage of loadshedding.

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As I keep pointing out, we are dealing with an unpredictable and unreliable system, which are fully cognisant of the fact that the lack of capacity is inhibiting economic growth and employment opportunities. The GCOC discusses the poor plant performance and the reasons for it in his report.

You often speak of the electricity crisis. What is Eskom doing to end it?

Let me start by touching on the reasons for the electricity crisis. The underlying cause of the deterioration in the performance of the generation fleet is the lack of a sufficient reserve margin, aggravated by the onset of age-related equipment failures and, to some extent, the need for better planning and execution of the very complicated major maintenance work. The seven-year delay from 1998 in the decision to build new capacity coincides with the start of the deterioration in the existing fleet’s reliability. The lack of capacity requires existing power stations to operate at very high load factors, which constrains the ability to perform the requisite major maintenance work. Excessively high load factors also lead to deteriorating plant reliability over time. Other factors that have contributed to the crisis are unrealistic timelines on the delivery of megaprojects such as Medupi and Kusile, deteriorating coal quality, deferring maintenance to keep the lights on: delays in adding IPP capacity against DMRE’s Integrated Resource Plan 2019; and funding constraints on major equipment replacement and output.

While we will do all we can to improve the performance of our coal-fired generation fleet, the deep maintenance needs require lengthy planned outages. Many power stations are also reaching the end of their lives and performance will continue to deteriorate as they approach their shutdown dates. We cannot resolve the energy constraint challenges without the support of all key stakeholders.

Another factor in the crisis is the risk of shutdown of several of our power stations due to environmental compliance issues. Instead of spending R33 billion on retrofitting old power stations to meet Minimum Emission Standards, we propose that emissions reductions could better be achieved by closing down old coal-fired power stations and spending the capital on adding urgently needed new capacity through renewables, low-carbon technology deployment programmes and storage to grid for the growth of renewable energy and IPPs.

We’re in the present situation because of past decisions, but we need to spend more time talking about the future. The electricity sector is not an end in itself, rather than an inhibitor, of economic growth. Opportunities have to be unlocked for the electricity sector to create sustainable growth. The Green Economy Fund through investment in locally manufactured and assembled generation and grid infrastructure. A programme of sustainable electricity infrastructure development is urgently needed. We need to look long since been campaigning on a number of areas where interventions are required to bring new capacity online.
Tell us about progress against the turnaround plan
I’ve explained before that our turnaround plan focuses on operations recovery, improving the income statement, strengthening the balance sheet, driving business separation and transforming our people and processes. This means that the new position Eskom has to deliver value within the broader national efforts to drive reform in the electricity supply industry, through the execution of DPE’s repowering programme.

Regarding operations recovery, we are making progress, but we still have a long way to go. The correction of new build defects is showing good results, but the focus on addressing load losses – both full and partial – are not yet yielding the results we had hoped for. The operational performance, as well as transmission and distribution infrastructure, are good signs. However, with the wave of 19 billion year-on-year – that’s almost as much as we spent on diesel for the year. We could see that money coming in, it would make a big difference to our position. Unfortunately, there are many more players, and our fragmented strategy is not delivering results.

Another thing we will be using to deal with all these challenges, these have so far proven ineffective because of factors outside the control of management. The room is Eskom’s unsustainably high debt burden. We are working to court to challenge NERSA’s decisions, and we keep winning, with the courts overturning or revisiting the legal basis for on-peak tariffs.

The best way to deal with inventory management and capital optimisation. One of the issues that affect both liquidity and profit is the escalations in payments and the impairment of our receivables. We are working to reduce the write-offs and improve our cash flow. Our operational performance has improved, but water performance is still well outside our tolerance levels. One of the biggest causes for concern is the water issue. We have structured a second water issue, which is one of the root causes of the poor plant availability performance that we are seeing now. Lastly, adding additional external capacity is also lagging.

The CFO notes, liquidity is one of our biggest short-term challenges, which threatens both financial and operational stability. It is critical that we deliver on the turnaround plan to ensure that we address the myriad challenges we face.

Tell us more about the people and culture area of the turnaround plan
The aim of this aspect of the turnaround plan is to drive change and support the overarching goal of three legally separated subsidiaries under Eskom Holdings, in line with DPE’s Roadmap. We are working towards fit-for-purpose organisational structures to ensure optimal business models that are responsive to the changing energy landscape.

To this end, we have established our 1:6:10 culture transformation programme, which is a key enabler of delivering a high-performance culture – thereby driving our turnaround performance. We have also introduced the fit-for-purpose organisational structures to ensure optimal business models that are responsive to the changing energy landscape.

The balance sheet side, we’re working on initiatives to deal with inventory management and capital optimisation. We’re also prioritising the disposal of non-core assets. The broad-based service delivery improvements are making a difference, but we still have a long way to go.

We have been building a scale of plant. In total, 370MW of renewable energy – including wind and solar – and battery storage, is planned to be deployed. A microgrid assembly and infrastructure is being set up in the disused Komati workshops. The Komati Training Facility, for which we received R48 million in grant funding from the Global Energy Alliance for People and Planet, was opened in partnership with the South African Renewable Energy Technology Centre (SARECET) to facilitate the skilling of Eskom workers and the local community in the Komati area.

Tell us about operations recovery
Despite those successes, the legal separation of Transmission experienced delays in several critical external decisions and key dependencies. These include delays in NTCSA’s decision to create a transmission company and a protected lender consent process. We continue to work with Government – DPE, DMRE and National Treasury – and NERSA to put in place the pipelines for the operationalisation of NTCSA and the implementation of the asset transfer agreement, towards commencement of trade around April 2023, subject to the dependencies I mentioned.

Both Distribution and Generation have now started their journey towards full legal separation, with project management offices being established, roadmaps developed and legal due diligence in progress. However, the way forward for a viable and cost-effective separation of Eskom’s distribution assets depends on existing legislation or new founding legislation – this affects the legal separation of the Generation business. As with Transmission, Generation business separations depend on lender consent, as well as numerous other legislative, regulatory and policy changes.

Our revised plans target readiness for Distribution operationalisation by December 2023 and commencement of trade by April 2024. Legal separation of Generation is targeted in 2025. We have to accept that these dates are subject to external dependencies, which may negatively affect the timelines even further. The decentralised operating model has also not been properly established as intended. It is important for the legal separation that the financial and regulatory framework model must work, with controllership at the right level.

Who are we and how do we create value
Our strategic context is the transformation of the Eskom Group. We are committed to creating value by delivering reliable and affordable electricity, reducing dependence on carbon-intensive energy sources, and investing in renewable energy technologies and infrastructure. Our vision is to be a sustainable, resilient, and customer-centric energy company.

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we need to do as much as we can to act responsibly and get more capacity on supply constraints.

We’ve long said that Eskom improving its performance is not enough to solve the problem we’re facing – we need additional capacity to add 1 000MW to the grid, and this cannot be provided by Eskom.

Notably, Eskom has recently signed land leases for around 6 000ha for the purpose of generating electricity from renewable technologies either for Eskom’s consumption or for sale with tangible access to an estimated 2 000MW of additional private sector investment. Through the Standard Offer programme, Eskom is in the process of securing 1 000MW of new capacity from existing generators, which will be purchased under these contracts. The Emergency Generation programme of 600MW has received conditional PFMA approval from National Treasury, with other approvals pending. So we are making progress on adding capacity to the grid.

On the finance side, we are essentially faced with four main challenges: the lack of cost-reflective tariffs constrains our revenue, which then limits our ability to spend on improving plant performance. The poor plant performance again drives the excessive use of expensive diesel turbines, which saps our income statement. Together with that, escalating arrear municipal debt is severely limiting our liquidity, as is the unsustainable levels of debt servicing costs. If we can fix those four areas – tariffs, diesel use, arrear debt and debt levels – Eskom could be on a sound financial footing again.

In the medium term, we need to find a solution to the challenge of compliance with Minimum Emission Standards. We are gratified that the DFFE Minister has started a consultative process in response to our appeal, and we’ve had an opportunity to share an introduction to the Standard Offer programme. We’ve also put in place a consultative process in response to our appeal, and we hope to see more arrests.

We are thankful for the support and understanding of our shareholder, Minister Pravin Gordhan. He recently said, “the facts have been put to the nation in a very transparent way, that Eskom is in a perilous state, that state capture did do immense damage, that we do have a shortage of electricity to the extent of 4 000MW, and until we provide that source of megawatts through renewables and possibly through other mechanisms provided for in the IRP, we are going to continue to be in difficulty.”

What were some of the challenges over the past year?

First and foremost, we need to address the delayed publication of the annual financial statements for the 2022 financial year. We experienced delays in appointing the external auditors, and extensive audit procedures were required to evaluate significant areas of judgement and estimates in the prior period. This was exacerbated by the time taken to resolve several key audit matters, some of which required the use of external experts; we require expert technical skills and improved finance business partnering to address these matters more timely in the future.

The auditors also identified numerous findings and control deficiencies emanating from the lack of compliance with well-documented policies and procedures and general financial record-keeping and reporting controls. Despite these shortcomings, the system of internal financial controls and compensating measures provide a reasonable basis for the preparation of Eskom’s financial statements.

Eskom once again received a qualified audit opinion relating to information disclosed under the PPFA, with a material uncertainty regarding Eskom’s status as a going concern. For the qualification, the financial statements are fairly presented in terms of IFRS.

The financial results for the year ended 31 March 2021 were subject to various restatements arising from the external audit. The most significant adjustment affecting profitability related to net fair value losses recognised on hedging instruments. Altogether, the loss before tax for 2021 increased by R8.3 billion due to these restatements. The statement of financial position was mostly affected by the reclassification of a portion of coal inventory from current to non-current assets. This impacted the current ratio, which was revised downwards from 1.27 to 0.95 in 2021.

What were the main reasons for the year-on-year improvement in the net loss?

To start, it is important to acknowledge that much of the improvement relates to us beginning the year on an abnormally low base, as financial performance in the previous financial year was significantly hampered by COVID-19. The unprecedented reduction in energy demand we experienced during the stricter levels of the national lockdown negatively affected sales volumes and revenue. As I mentioned, the prior year restatements also contributed to the low base.

Year-on-year, revenue grew by 20.7% due to a 15.06% tariff increase, together with a 3.4% recovery in sales volumes. Almost every sector saw an improvement, with the industrial, mining and rail sectors in particular benefiting from the recovery of global commodity markets.

The recovery in demand necessitated higher electricity production – with the focus on Generation, we utilised OCGTs to minimise load shedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs to minimise loadshedding. Despite the prohibitive cost, we utilise OCGTs...
CHIEF FINANCIAL OFFICER’S REPORT continued

Altogether, EBITDA improved to R32.4 billion (2021: R32.6 billion) and the EBITDA margin strengthened to 21.25% (2021: 15.96%), with the biggest contributor being the growth in revenue. Regrettably, the EBITDA margin remains below the aspirational level of 35% due to a lack of cost-reflective tariffs as well as the financial pressures arising from poor operational performance.

Net finance costs grew by 6.2% largely due to lower capitalisation and a loan to the business as the new build programme nears completion. We also experienced a higher average cost of borrowing given the prevailing risk-averse market sentiment. Depreciation increased by 20.4% mainly due to additional Medupi and Kusile units achieving commercial operation.

Even though we recorded a loss before tax of R15.8 billion, we managed to achieve year-on-year improvement of R17.3 billion against restated results. Unfortunately, a return to profitability remains hindered by poor operational performance, lack of cost-reflective tariffs, high debt service costs and non-payment by some customers.

To further illustrate the enormity of these challenges, net revenue not recognised due to non-collectability from municipalities and residential customers amounted to R7.7 billion for the year. Again, Eskom has been able to recover the net revenue not recognised and contain OCGTs to budgeted levels, we would’ve been able to record a profit for the year.

Tell us more about the financial areas of the turnaround plan

The turnaround plan aims to place us on a more financially sustainable footing by improving the income statement and strengthening the balance sheet. We’re focusing on several areas in this regard.

We continue to receive the necessary equity support from Government, with R31.7 billion received during the 2022 financial year, and a further R48 billion committed until 2026. These funds are restricted for debt servicing, and therefore, only assist us in addressing short-term liquidity requirements.

The gross debt and securities balance stood at R356.3 billion at year-end (2021: R401.8 billion), while total debt servicing requirements resulted in a cash outflow of R1.4 billion for the year. Key gearing and solvency ratios improved due to favourable EBITDA performance and the Government support received, although these ratios remain well below acceptable levels. As an example, the net debt/EBITDA ratio stood at 7.43 times at year end (2021: 12.29), but we are reduced to 4% less than 4 times to improve financial sustainability. The reality is that cash generated from operations is simply inadequate to support our highly leveraged capital structure. This shortfall can only be corrected through a combination of deleveraging the balance sheet and obtaining cost-reflective tariffs.

In this regard, we welcome the announcement of a prospective debt relief solution by the Minister of Finance in the recent Medium-Term Budget Policy Statement. Government is considering relief of between one-third and two-thirds of our debt balance, or around R310 billion to R260 billion, which will lead to a direct improvement in Eskom’s liquidity by reducing debt servicing requirements.

We’re also working towards migration to a cost-reflective tariff path through regulatory revenue applications. If the tariff challenge is not resolved, further Government support will be required to bridge the gap between costs and the revenue allowed by NERSA. While I am confident about the outcomes of our court review applications, with many favourable judgments received so far, these legal processes do take time. Similarly, these amounts can only be recovered through future decisions, meaning that Eskom has to carry the cost of NERSA’s incorrect decisions for the time being.

One notable highlight is that we’ve received further clarity from the High Court on the timing of the recovery of the remaining R59.9 billion owed to us from the High Court judgment. The High Court ruled that Eskom’s application for the recovery of the debt must be dealt with as an urgent matter. The court restrained the parties from proceeding with the recovery processes, which we believe is a positive development.

Regrettably, we’ve achieved limited success in managing arrears municipal debt, which continues to escalate to unacceptable levels, increasing by 24.6% to R44.8 billion at year end. We’ve pursued a multipronged strategy aimed at recovering the amounts owed, although progress has been slow on key intervention and remedial interventions. It’s important to note that the regulatory uncertainty associated with the lack of a clear, cost-reflective tariff path, as well as inadequate progress in addressing arrears municipal debt.

We’re conducting bilateral engagements with various lenders, with an additional R15 billion in allowable debt being the growth in revenue. Regrettably, our savings efforts are being hampered by fuel price fluctuations to minimise operational and financial risks in the 2023 financial year. Regrettably, halfway through the year, we’ve already fully utilised these funds as we’ve had to place increased reliance on OCGTs to avoid or minimise loadshedding; this situation is expected to continue until South Africa’s generation capacity shortages are alleviated. We’ve placed a cap on diesel use for the remainder of the 2023 financial year, to preserve Eskom’s liquidity and meet our medium-term operating, capital and debt servicing commitments.

The lack of a clear, cost-reflective tariff path and uncertainty around application of the regulatory methodology poses a risk to Eskom’s financial sustainability and hinder development of financial strategies over the medium term. The 9.61% tariff increase awarded by NERSA for 2023 falls far below the 20.5% we had applied for. We’ve communicated to NERSA in its treatment of the regulatory asset base; we were successful in having this decision set aside by the High Court, although no retrospective adjustment has been granted for 2023. A number of NERSA determinations and court review applications are still pending, most notably, NERSA’s decision for 2024 and 2025 of our MYPP 5 revenue applications.

Government has committed R2.1 billion of equity support for 2023, a portion of which has been received to date. The conditions attached to the support for the 2023 year were finalised in October 2022 – we remain compliant with these to ensure that the necessary funds are made available when required.

Government is finalising details of the prospective debt relief solution, including the quantum thereof, the relevant debt instruments, among other considerations. Further detail will be communicated by the Minister of Finance in the National Budget Speech in February 2023, together with the conditions attached to the relief, which are expected to deal with cost management, municipal and household arrear debt, and tariff pricing. We look forward to collaborating closely with Government to develop the specifics of the strategic reorganisation and strengthening of the balance sheet, and will engage with investors and other stakeholders at the appropriate time.

Non-payment of municipal debt remains a systemic challenge to the entire electricity sector. We will continue to deliver on our municipal debt management strategy and work closely with the Eskom Political Task Team to arrest the growth in arrear debt, although further political intervention is required to address the culture of non-payment. As I mentioned, it is anticipated that further measures will be announced by Government in the 2023 Budget Speech.

We will continue to engage transparently with lenders as the legal separation process unfolds. Furthermore, we look forward to exploring further funding opportunities to deliver on South Africa’s Just Energy Transition Investment Plan, which was shared by the President ahead of COP27.

It is critical that Eskom is placed on a more sustainable footing going forward, not only operationally, but also operationally. Key to our success will be partnering with Government, investors and other key stakeholders to deliver on the turnaround plan.

Talk to us about the outlook for the coming year

Depressed economic conditions and generation supply constraints will continue to adversely impact financial performance. The Russian invasion of Ukraine has threatened the sustainability of the global energy sector, in terms of both the cost and availability of fuel oil and diesel. We ring-fenced additional funds for the management of fuel price fluctuations to minimise operational and financial risks in the 2023 financial year. Regrettably, halfway through the year, we’re already fully utilised these funds as we’ve had to place increased reliance on OCGTs to avoid or minimise loadshedding; this situation
CHIEF OPERATING OFFICER’S COMMENTARY

How would you characterise performance in the 2022 financial year?

As in the previous financial year, our operating divisions delivered varied performance. We experienced record low levels of generation plant availability, which resulted in capacity constraints that led to unprecedented levels of loadshedding, with 65 days of loadshedding during the 2022 financial year. To avoid or minimise loadshedding, we had to continue utilising expensive turbines, at a combined cost of R14.7 billion for Eskom and IPP-owned OCGTs.

In contrast, our networks business continued to deliver strong sustainable performance, and the new build programme delivered some successes.

Are you satisfied with the plant performance?

Plant availability across the generation fleet declined for the fourth consecutive year to 62.02% for the year under review. The performance of the coal-fired plant in particular is deeply disappointing and really concerning. The decline in plant availability is driven by a significant increase in unplanned losses, due to both breakdowns and partial load losses. Planned maintenance was slightly lower than the previous year, to compensate for the high levels of unplanned losses and hampered by the late release of funding.

Contributing to the low generation plant availability is the fact that Medupi Unit 4 is out of service until at least August 2024, following the explosion of the generator in August 2021. More positively, the Camden ash dam facility was completed, with the station now able to run all units.

We had also experienced high coal demand from more expensive power stations due to generation performance challenges. Coal quality also remains a problem, with poor coal quality contributing to partial load losses and ultimately, the need to implement loadshedding. We also encountered instances of coal tampering, such as contractors mixing lower quality coal with higher quality coal to meet volume targets, we investigate and act accordingly.

Overall coal stock days remained healthy, even though two stations had stock levels below minimum at year end. Rain readiness plans have generally held up well against summer rainfall, and actions continue to improve the plans for the coming rainy season.

The reliability of the transmission system improved, with system minutes <1 performing significantly better year-on-year. On the distribution side, customers are experiencing fewer supply interruptions, improved outage duration and faster restoration of supply (excluding the impact of loadshedding). Through Transmission sustainability improvement measures and DNOs’ network development plans, we have placed in place to invest in our networks, to ensure that they continue to sustainably deliver at expected levels.

Of concern is the continued high levels of energy losses from theft and illegal connections, putting additional strain on the already constrained system. We have found that when people don’t pay for electricity, they tend to waste it. We’re also seeing persistent high levels of network asset vandalism, equipment theft and overloaded networks due to illegal connections, all of which lead to increased breakdowns, higher maintenance cost and higher levels of safety risk to employees and the general public. As the CFO pointed out, the unsustainably high levels of arrear municipal debt remain a tremendous cause for concern, as does the negative effect thereof on the availability of cash.

What is behind the generation challenges?

I believe that the respect you show your plant is the same respect your plant shows you. We are now seeing the consequences of many years of mistrusting our plant, in an effort to keep the lights on at all costs. We must remember that, excluding our two new stations, our coal-fired fleet is on average 43 years old. Furthermore, since about 2002, we’ve been running our plant above design parameters at an energy utilisation factor at unheard of levels – above 80% for our coal-fired fleet – to create “virtual” capacity. When you expect old, poorly maintained plant to perform continuously at exceptionally high levels, eventually something’s got to give, and that’s what we’ve been seeing since about 2012/13.

There are several root causes to the capacity shortage we’re experiencing. One is the delay in adding new capacity to the system, due to delays in both investment approvals from Government, and in bringing new capacity online due to build challenges. The other is the fact that we had to keep deferring scheduled maintenance and much-needed midlife refurbishment to keep the lights on, leading to further deterioration in the state of existing plant. The only way to fix this is to have adequate space or system capacity to perform maintenance, and of course you need the funds to do that. But we still have a significant number of years, funding remains a tremendous challenge. Until new capacity at least 4 000MW to 6 000MW is brought online, and we have sufficient funds to properly plan maintenance and procure long-lead spares two years in advance as we need to do to execute maintenance effectively, plant performance cannot be expected to improve.

How is the new build programme progressing?

As we reported before, the final unit at Medupi Power Station was placed in commercial operation on 31 July 2021, thereby completing construction activities on the 4 744MW project. At Kusile, Unit 4 was synchronised to the national grid on 23 December 2021, delivering 800MW, and achieved commercial operation on 31 May 2022.

Kusile Unit 5 was making good progress towards first synchronisation scheduled for June 2023, but the gas air heater caught fire on 17 September 2022, resulting in all commissioning activities being discontinued. Early indications are that this incident may delay the schedule by up to a year.

On the correction of new build defects, we are making good progress, with performance at Medupi improving by an average of 145MW per unit due to the interventions, and all units now capable of reaching full load. We have successfully completed the rollout of the major boiler plant defects solutions agreed in 2020 with the contractor for Medupi and Kusile units that required outages. The rollout to the Medupi mills during normal mill rebuilds is projected to be completed by October 2023. Also at Medupi, the gas air heater, pulse jet fabric filter and boiler plant modifications by the boiler contractor have been implemented on all six units, except for the long-lead milling modifications on all units and the Unit 6 duct erosion modifications. At Kusile, boiler plant modifications have been completed on Units 1 to 4, while modifications on Units 5 and 6 will be rolled out during construction before commercial operation.

Our battery energy storage project is progressing well. Contracts for the first phase of 800MW were awarded for the first three packages, situated at Skapsible, Gongola, Blaasdorp, Paksehewel, Graafwater and Hex. Construction on Gongola and Blaasdorp started in September and October 2022. The procurement plan for the fourth package (Mekhouk and Rietfontein) has been submitted for World Bank approval. The latest forecast for construction completion of Phase 1 is June 2023. Phase 2 of 400MW is in development.

Tell us about the environmental performance

Particulate emissions performance has improved due to focused maintenance of generating plant under the Generation recovery plan. Our coal-fired stations operate in general compliance to emission limits set in terms of their atmospheric emission licences, however, when there is production pressure and plant failures, units have to operate above the limit. We also saw a decline in particulate emission performance from June to August 2022 primarily due to the unlawful strike action, which led to damage of electrostatic precipitators used to reduce emissions. Since September, there has been a recovery and particulate emissions performance has improved.
CHIEF OPERATING OFFICER’S COMMENTARY  continued

We applied for postponement against the Minimum Emission Standards (MES) to the Department of Forestry, Fisheries and the Environment (DFFE) during August 2020. In November 2021, DFFE returned their decision – the seven stations to be shut down by 2030 received approval, while another five stations had their requests refused; four stations received partial approval. Full compliance with the MES would mean a cost of over R310 billion or the loss of around 30 000MW by April 2025. This is simply unaffordable to Eskom and the South African economy, both financially and in terms of generation capacity. While we are committed to improvement and the reduction of Eskom’s impact on the environment, it is clear that an affordable path to a greener future is critical. We submitted an appeal for those stations with unfavourable decisions in December 2021, asking the Minister of DFFE to consider our motivation for a balanced and sustainable way forward. The Minister has indicated that she would undertake a consultative process on the MES appeals and would establish a participative panel. While the consultative process is under way, the appeal process is on hold.

Kendal’s emissions have reduced significantly since the implementation of an emission recovery plan late in 2019. Our action plan to return Kendal’s units to compliance was approved by DFFE in August 2020 – we report on progress to the authorities on a monthly basis. The criminal case against Eskom relating to Kendal’s particulate emissions, opened in 2019, has been postponed on several occasions; the next court date is February 2023.

Water performance remains very disappointing, with specific water usage and loss of electricity deteriorating year-on-year. Previous poor water management practices together with ageing plant, and poor technical performance of coal-fired stations remain a risk and continue to lead to the unlawful release of water at several power stations. We have plant in place to resolve this across the fleet of coal-fired power stations.

What are your key focus areas for the coming year?

Let me start by acknowledging that generation performance has continued to deteriorate in the 2023 financial year, with plant availability falling to below 60%. Combined with the shortfall in capacity from renewable IPPs when compared to the 2019 Integrated Resource Plan, this has resulted in 175 days of loadshedding, the worst ever in a single financial year: Delays in concluding the Risk Mitigation IPP Procurement Programme will continue contributing to future capacity constraints.

Other than the capacity shortfall from renewable IPPs and our own poor generation performance, we have exhausted the funding for diesel, with R13.3 billion spent on Eskom-owned OCGTs alone to the end of October 2022. Let me be very clear: we do not have any more money to spend on diesel. As a result, loadshedding is required at never-before-seen levels to protect the integrity of the system. This is not a policy decision, but a financial reality because of decisions of the past that we must deal with now. We were even forced to implement stage 6 loadshedding since year end – on several days in July 2022 during unlawful and unprotected strike action which crippled Eskom’s operations, and again during September 2022, with periods of exceptionally high levels of unplanned load losses.

Generation leadership is focusing on 10 key areas to drive a holistic improvement in generation performance. These include dealing with skills and experience gaps, addressing fraud and corruption; ensuring compliance with policies and procedures and creating adequate funding to execute reliability maintenance, partly through aggressive cost cutting. We are increasing planned maintenance within the restrictions that would face and working on improving coal quality. Maintenance is being prioritised at our top six stations – Duvha, Kendal, Kusile, Majuba, Matla and Tutuka – both philosophy and reliability-based maintenance, together with catching up on backlog outcomes. However, sufficient attention and focus is required at those stations performing poorly to ensure sustained performance.

We are preparing for an almost seven-month outage on Koeberg Unit 1 starting in December 2022, which includes the replacement of the steam generators. Furthermore, we have to address the collapse of the flue duct of Kusile Unit 1, which has also affected Units 2 and 3, thereby removing around 2 400MW from the grid and worsening capacity constraints. Indications are that it could take up to six months to repair the duct, with all three units expected to be out for the entire duration.

One of our biggest challenges is skills – we are working on appointing plant managers, ramping up training and development, and engaging experienced external experts. We also need adequate and appropriate coaching and mentoring for our power station general managers and station leadership. The skills audit will highlight those gaps we need to work on. We developed a crowdsourcing digital platform to attract a talent pool of highly skilled and experienced candidates. Twenty-five individuals have been selected as part of the first intake. In total, we have shortlisted 153 candidates of the 238 in the database. Our 11:6:10 culture transformation programme is another key enabler for delivering a high-performance ethical culture.

The skills challenge is not limited to Generation; other areas have similar competence and proficiency challenges, and we must address those effectively. We are people are our most important asset, and we must provide the necessary and required investment.

We deeply regret the disastrous impact we have on the economy and the lives of South Africans when we implement loadshedding, but it is unavoidable until more capacity comes online. However, our teams are doing their best to return plant to service. We need to shift from firefighting to substantive fixing of underlying problems, to best to return plant to service. We need to shift from implementing targeted firefights to substantive fixing of underlying problems, to ensure that we drive a sustainable improvement in plant performance.

I want to thank all those Guardians doing their best on a daily basis to keep the lights on for South Africa – your sacrifice does not go unnoticed. Eskom was once a world-class utility – with grit and determination, we can turn around this ship if we work together to improve the lives of 61 million South Africans every single day.

Jan Oberholzer
Group Chief Executive Officer

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 2022 set out below.

Financial performance

- Improve our income statement and strengthen our balance sheet
- Improve our financial performance through revenue certainty, cost optimisation and efficiency

Debt service cover ratio

- Improve our ability to meet our debt servicing obligations through sufficient cash from operations

Debt equity ratio

- Strengthen our balance sheet and limit growth in debt securities and borrowings

Environmental impact

- Improve our environmental performance and climate change

Particulate emissions, kg/MWhSO₂

- Reduce the ash (particulates) emitted from coal-fired power stations, per unit of energy sent out

Specific water usage, kwh/m³

- Reduce the amount of water consumed by all power stations, per unit of energy sent out

Health and safety

- Improve the safety culture of Zero Harm

LTIR

- Reduce employees lost time rate (LTIR) for the group (including occupational diseases)

Other metrics

Above are some of the KPIs used to measure our overall performance. We also make use of a number of other metrics to monitor performance across our business, which are highlighted throughout the report and in the supplementary information from page 142.

Generation operations

- Improve reliability of the Generation fleet and reduce loadshedding

SAIDI, hours

- Reduce system minutes lost due to interruptions

Turnaround objectives

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

Network performance

- Refurbish our Transmission and Distribution networks

System minutes lost

- Reduce system minutes lost due to interruptions

SADHI, hours

- Reduce the average interruption duration experienced by customers

Supplementary information

- Financial review
- Operating performance
- Governance, leadership and ethics
- Our strategic context
- Who we are and how we create value

Who we are and how we create value

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Graph legend

- Target
- Performance improved
- Actual (target met)
- Performance stable
- Actual (target not met)
- Performance declined

Year-on-year performance

- Performance improved
- Performance stable
- Performance declined
Mandate, vision and mission

In terms of the mandate set by DPE, our key role is to assist in lowering the cost of doing business in South Africa, enabling economic growth and providing stability of electricity supply through providing electricity in an efficient and sustainable manner.

Our vision is “Sustainable power for a better future”, meaning that we aim to promote sustainability in the electricity supply industry from a technological, environmental, social and cost perspective.

Our mission is threefold:

• Turn around the existing business and restructure our operational and financial sustainability
• Create a sustainable Eskom that drives economic growth through the provision of reliable and efficient electricity and ancillary services in a manner that adds value for all South Africans
• Create a positive social impact in South Africa by driving shared growth through sustainable electricity solutions

Eskom’s role in supporting the sustainability of the future electricity supply industry (ESI) remains pivotal. Notwithstanding policy reforms that are reshaping the industry, our historical role and the magnitude of our vertically integrated operations require the organisation to leverage electricity assets to navigate the path to adequate capacity that will enable an effective and efficient future ESI. Regrettably, our contribution in supporting the journey to a sustainable future ESI is not unfolding as envisaged. The Eskom fleet is not performing as planned, resulting in an energy capacity deficit, with loadshedding and load curtailment being required to protect the system. Remediating the need for debilitating loadshedding remains a top priority, and the Generation Division remains resolute to improve plant performance and reliability.

The nature of the electricity crisis

The performance of our power stations should be viewed in the context of our mandate, the supply capacity shortage leading to a constrained power system, the age of our plant, as well as funding and space available for maintenance.

The decision to build Medupi, Kusile and the Ingula pumped storage scheme had to be made by not later than 1999 to meet increased demand by 2007. However, Eskom did not obtain approval to embark on the process to establish the next new base-load capacity, as Government’s strategy at the time was to restructure the electricity supply industry, which included encouraging competition and the introduction of independent power producers. We only received Government’s decision allowing Eskom to embark on the build programme late in 2004, with approval of the first new base-load capacity investment in December 2005, resulting in the new capacity not being available when required. The delay in the decision also resulted in limited up-front planning and development work for the construction of Medupi and Kusile, resulting in build timelines being compressed.

Our financial constraints also have their origins in the build programme. We raised debt with the primary purpose of supporting the new build programme, which commenced in the 2006 financial year to address impending generation and transmission capacity constraints. At the time, the determination of borrowing requirements assumed cost-reflective tariffs in the future (including a reasonable and market-related return on assets), limited delays in the new build programme, prudent financial oversight, as well as sufficient economic growth to stimulate the desired demand for electricity. Those assumptions have either not materialised or have greatly underperformed (for example, through significant build delays or procurement processes seeing inflated costs), leading to a significant shortfall between Eskom’s revenue and expenditure, requiring higher levels of debt than previously envisaged to fund the annual revenue shortfall and the new build programme, ultimately leading to a deteriorating financial position.

On the operations side, lack of sufficient capacity requires existing power stations to operate at very high load factors, which constrains our ability to perform the requisite major maintenance, refurbishment and retrofits work, aggravated by the onset of age-related equipment failures. Excessively high load factors further lead to increased unplanned breakdowns and deteriorating plant reliability.

Other factors that have contributed to the current situation are: a deterioration in the quality of coal; the reality of “keeping the lights on” constrained the space available for maintenance, causing a deferral of plant and equipment maintenance and the use of expensive diesel to ensure security of supply; poor performance of contractors during the build programme and outages leading to rework; and funding constraints to execute major equipment replacements.

We also acknowledge the need for better planning and execution of the very complicated major maintenance, refurbishment and retrofit work.

We have insufficient reliable generation capacity to power a post-COVID-19 economic recovery in the medium-term. Availability of our generation fleet has continued to deteriorate, with the coal fleet being highly unreliable after years of inadequate maintenance and refurbishment and running the plant at levels significantly above the international norm given the age of the fleet. Consequently, generation capacity availability changes by more than 4 000MW week-on-week. Medupi and Kusile, themselves a response to the looming electricity crisis in 2004, have not delivered on expectations due to critical shortcomings in project planning, design and execution, a direct
consequence of the delay in the decision to commence building. In 2019, the updated Integrated Resource Plan (IRP 2019) identified a supply gap over the next three years, based on assumptions regarding plant availability at levels well above those through or even at higher levels of demand than being experienced. However, capacity planning in the IRP 2019 did not cater adequately for the risk of deteriorating plant availability.

The electricity crisis is hugely damaging for the economy: the inadequate, unreliable and unpredictable electricity supply has had an impact on the ability of the country’s economy to grow. Load shedding and load curtailment of large customers over the past year resulted in energy not supplied estimated at 1 605GWh, or just over 0.7% of total energy demand for the year. In the wake of the COVID-19 pandemic, it is imperative that we do all that we can as the electricity supply industry to support economic recovery.

While the procurement of new capacity has begun, current interventions will not address the short- to medium-term system constraints. DMRE’s IPP Office initiated the procurement of 2 000MW of new, dispatchable generation capacity in August 2020. This capacity, identified as a risk mitigation requirement in the IRP 2019, was expected to come online by June 2022, but legal challenges will delay the data by which the capacity will be online. The procurement of a further 11 813MW of capacity (per the second determination of 2020) began in 2021 with around 2 600MW under bid window 3 of the RE-IPP Programme. Nevertheless, the procurement of this capacity is unlikely to deliver significantly within the next two years. This capacity is insufficient, uncertain and too late to address the expected gap adequately.

As a result, the short- to medium-term outlook remains uncertain and indicates a significant gap between supply and demand. There is considerable uncertainty regarding the anticipated demand growth, the demand forecast and the delivery of new utility-scale generation capacity, giving rise to a potential capacity gap of between 4 000 MW to 10 000 MW by 2026, with a resultant energy gap of up to 1.7TWh.

In the longer term, the IRP also envisaged that 11 000MW of old coal-fired power stations would be retired by 2030, given an assumption of plant availability (EAF) of 75%. Failure to meet legislative national air quality standards is creating further pressure to close non-compliant power stations, given the significant cost implications of meeting these requirements.

The underlying uncertainty presents a risk of frequent loadshedding that will manifest if not addressed proactively.

Pivoting towards a sustainable electricity supply industry

We cannot keep “kicking the can down the road”; we need to pivot to a sustainable future. Over the past two decades, various decisions to address constraints have reflected short-term crisis thinking. Infrastructure included deferred maintenance to keep the lights on, extending the life of old power stations, and imposing unrealistic timelines on the delivery of new megaprojects such as Kusile and Medupi.

On the other hand, other decisions have spoken to a more sustainable future. Notably, DMRE’s IPP Office concluded the procurement of around 7 000MW of renewable energy from independent power producers, of which 6 831MW was in commercial operation. The second of the three determination programmes is aligned with a fundamental transition that is happening in the electricity sector globally. The transition is towards a green economy powered by least-cost renewable energy, combined with flexible resources and procurement from competitive independent producers. These build programmes do not rely on large build projects, but deliver capacity in a flexible, incremental manner.

The electricity sector should function as an enabler, rather than an inhibitor, of economic growth. Opportunities have to be unlocked for the electricity sector to create sustainable jobs by powering the economy and industrialisation in locally manufactured and assembled generation and grid infrastructure. This includes opening new avenues to trade and finance opportunities, which are fundamental to the transition to a zero-carbon economy.

A programme of sustainable electricity infrastructure development is urgently needed.

The move to a decarbonised energy sector will require a fundamentally transformed transmission grid to transport energy from the south to the north of the country. Based on the 2022 Transmission Development Plan (TDP), investment in the transmission grid of about R78 billion over the next 10 years to 2031 is required to enable new generation capacity, network reliability investments, load growth, refurbishment of existing infrastructure and more. The distribution grid requires capital investment of R42.6 billion over the next five years to support around 250 major customers and 6 000 customers that will be added to the grid over the five-year horizon, including renewable generators.

Funding remains a significant risk as essential projects required the deferral of much-needed maintenance. Many power stations are also reaching the end of their useful lives and performance will continue to deteriorate as they approach their shutdown dates between now and 2035. As the primary energy supplier in South Africa, challenges that affect Eskom have an impact on the electricity supply industry. However, there are certain aspects that adversely affect Eskom alone and which require external support and enablement.

While we will endeavour to address everything within our control, such as improving the reliability and predictability of our coal-fired fleet, deploying technologies to minimise both technical and non-technical energy losses, as well as strategically leveraging the Just Energy Transition, we cannot resolve the energy constraint challenges without the support of all key stakeholders.

Action is required in key areas such as funding new capacity, minimum emission standards, acquisition of land rights, the market structure which influences the bid window processes, IPP prices, tariff structure and trajectory, and unlocking the municipal debt conundrum. The areas which require urgent action are briefly described below.

1. **Avoid the potential crisis caused by the shutdown due to existing minimum emission standards of 16GW capacity immediately, and 30GW by 2025, by agreeing on a pathway for decarbonisation and reduction in all emissions, with significant savings in water usage.**

   A reduction in emissions through a retrofit programme of around R330 billion would take approximately 15 years to implement at coal-fired power stations. We propose that emissions reduction could better be achieved in that time by closing down old coal-fired power stations and spending the capital on adding urgently needed additional capacity through renewables, low-carbon technology and strengthening the national electricity grid to afford the growth of renewable energy and IPPs. This would create additional capacity to support our reliability maintenance programme.

2. **Improve the reliability and predictability of the coal-fired generation fleet to meet the growing electricity needs of the country.**

   To support the maintenance programme, funding has to be released timeously to ensure that contracts can be placed and spares ordered in advance, and this requires certainty on the tariff path. For there to be adequate space to conduct maintenance, additional capacity of 4 000MW to 6 000MW is required urgently, and this cannot be provided by Eskom. Increased capacity would reduce the need for loadshedding and create the opportunity for much-needed maintenance.

   The funding challenge requires either continued support from the fiscus or cost-reflective tariffs, or both.

3. **Leverage existing electricity assets to partner with the private sector and accelerate the connection of new generating capacity.**

   Innovative ways must be considered to add new generation capacity to the system, including leveraging Eskom assets to incentivise IPPs to expedite establishment of generation capacity. This includes access to land and proximity to grid connection points, enabling the development of renewable plants up to 100MW. Leasing Eskom land to IPPs supports faster deployment of additional capacity to support the system and mitigate loadshedding, and provides us with an additional revenue stream from the leasing of land and wheeling of power. Most importantly, it mitigates the impact of the constrained electricity system, while benefitting from the continued use of existing grid infrastructure.

4. **Leverage the Just Energy Transition (JET) strategy and the recent commitment to an international climate deal to enable the development of new generation, transmission and distribution capacity, through a pipeline of projects in these areas.**

   Repowering of older power stations in Mpumalanga with low-carbon-emitting technologies, such as renewables and gas with battery storage, while capitalising on existing grid infrastructure is key to continuing economic activity in the local areas.

   Declaring Mpumalanga a special economic zone to ensure a favourable business environment for investors and entrepreneurs will catalyse the creation of new businesses for component manufacturing, asset creation and maintenance in renewable technologies.
Transition from the bid window process to a competitive market as soon as possible

Previous delays in rolling out bid windows have not created the certainty and predictability required to enable investors to invest in manufacturing capacity and stimulate localisation in the long term. A competitive market outside the single buyer programme is considered complementary to the bid window procurement process, and would enhance the attractiveness for investors of the manufacturing of renewable energy components. This would increase sectoral investment and ultimately, reduce the burden on the state of providing guarantees to IPPs.

Migrating to a multi-buyer platform may allow for more appropriate risk allocation and reduce, if not eliminate, the requirement for a government guarantee*, just as would be the case for any other investor in any other industry. This would result in greater innovation in financing and construction, as investors would seek to devise other risk-mitigation strategies that are currently transferred to the National Treasury. Furthermore, IPPs could find alternative customers through wheeling, which would significantly diminish the perceived market risk.

Mitigate the risks associated with the development of a two-tier market and the Transmission System Operator (TSO) being saddled with long-term expensive power purchase agreements

Continuing with the single-buyer approach, with the future TSO required to act as the single buyer for future bid windows, without adequate governance of projects below 100MW would likely lead to a two-tier market – efficient IPPs could seek to conclude power purchase agreements (PPAs) with solvent buyers, such as metros, large industrial users and commercial customers. The TSO would be saddled with long-term PPA contracts with IPPs under existing bid windows, subject to annual tariff increases and take-or-pay commitments. Undoubtedly, creditworthy customers would defect to suppliers with more supply options and competitive pricing, while the TSO would be left with expensive suppliers and non-creditworthy buyers, such as defaulting municipalities.

Consequently, the TSO would likely be compelled to approach National Treasury within a five-year period to cover its revenue shortfall, thereby both perpetuating and exacerbating the current need for taxpayers to bail out Eskom.

Achieve more optimal pricing through a liberalised, appropriately governed electricity market

Further bid windows are likely to perpetuate inflated prices due to the need for Government to deliver on its social mandate requirements for local community participation, local content and supplier development, with contractually determined annual price increases adding to the burden. The same restrictions do not apply to embedded generators with capacity less than 100MW, who would also be subject to market pricing, which would create an even greater cost disparity between best-in-class embedded generators and successful tenderers under IPP Office bid windows.

Migrating from the IPP bid window process to an appropriately governed electricity market in line with the developments in the industry would be critical to manage the associated risks and shortcomings. Such an approach, facilitated by non-discriminatory access to the national grid, would lead to the required sectoral investments and economic developments, while reducing the burden on the state of providing guarantees to IPPs.

Accelerate the acquisition of servitudes, which is critical for rapid transmission network development

The acquisition of land and servitude rights over approximately 5 000km of land registered to private landowners and state-owned land is critical to implementing the TDP and Distribution’s expansion plan. A more effective expropriation process is crucial to accelerating successful delivery of grid projects.

Political intervention is needed to arrest the rising arrear municipal debt and culture of non-payment

Non-payment of municipal debt is a systemic challenge to the energy industry as a whole. Eskom’s multi-pronged strategy aimed at recovering arrear municipal debt has had little effect to date, and we require more aggressive political intervention to change the municipal non-payment culture, to assist municipalities in building skills and capabilities, and to hold them accountable for servicing their accounts. Furthermore, we are collaborating with National Treasury on structuring solutions to assist with the collection of arrear municipal debt and managing payment of municipalities’ current accounts.

This would enable us to arrest the growth in arrear municipal debt of around R8 billion per year to become financially sustainable. Arrear municipal debt amounted to R44.8 billion by 31 March 2022.

Energy theft arising from meter tampering and illegal connections as well as vandals and fraud are the primary sources of losses and remain a perennial problem. The scourge of energy theft and infrastructure vandalism is not abating. Socio-economic conditions and societal challenges require political and economic intervention to address the culture of non-payment.

Nevertheless, levers to protect the most vulnerable people in society against increasing costs, for example by reviewing the free basic electricity model, may reduce the number of illegal connections. A more robust vending system along with smart meters are being implemented to improve revenue protection.

Achieve cost-reflectivity in electricity tariffs with the appropriate structure

For Eskom and the electricity supply industry to be financially sustainable, to operate and maintain assets in a reliable state, and to meet the financial obligations related to existing and new infrastructure capacity, the tariffs must migrate to being cost-reflective. This would ensure a fair return on assets, and would lead to a self-reliant and sustainable ESI that is not dependent on Government support. However, this requires an immediate upward tariff adjustment of 20% or more.

Furthermore, to recover the costs of the imminent imposition of carbon taxes and the Risk Mitigation IPP Procurement bid window programme, a further 10% increase in the electricity price (above inflationary increases) would be required.

It should be noted that in a low electricity tariff environment, the customer will suffer the double burden of incurring its own much higher cost of backup and self-generation as well as higher tax rates and lack of government expenditure on those items for which tax revenue is normally used.

Restructure tariffs in anticipation of changing markets

Current tariff rates do not correctly reflect the separate divisional costs associated with energy, network and retail costs, although costs linked to allowed revenue are recovered on the whole. Tariffs need to be updated and modernised to reflect this changing environment and, in doing so, protect both customers and the electricity supply industry.

If we do not respond adequately in the short term, the electricity crisis will severely constrain economic recovery over the next five to 10 years, affecting the trajectory of our recovery in the medium to long term. If we are to regain our credibility as a sector and as an investor-friendly emerging economy, we must cater for the whole range of uncertainties. What is certain is that our current trajectory will continue to result in loadshedding, similar or worse than we have seen over the last few years.

Nevertheless, we have the opportunity to harness technical and funding solutions that have become available in the context of the global climate crisis. South Africa’s just transition deal struck at COP26 is testament to this, with Eskom’s Just Energy Transition plan at the heart of this ground-breaking transaction. It is premised on the fact that our country is endowed with abundant renewable resources, providing an opportunity to create the conditions under which a credible, green, reindustrialised electricity sector can help power our economic recovery.

We are also presented with opportunities to unlock related priorities such as job creation and reindustrialisation. In addition, we can repurpose and repower end-of-life stations to contribute to the capacity solutions, given the existing transmission infrastructure already in place.
At the end of July 2022, President Cyril Ramaphosa announced further reforms to address the long-running electricity crisis, including the formation of a National Energy Crisis Committee. We welcome the announcement by the President, and we are in full support of these measures, as they will go a long way towards easing the power generation constraints the country has been grappling with for some 14 years. The reforms will accelerate the end of loadshedding and will expand and grow the electricity generation industry in South Africa through structural changes.

We look forward to playing our part in the rapid and effective implementation of the President’s plan, and will partner with Government, regulators, labour and the private sector to bring an end to loadshedding. Although this will not happen overnight, the measures announced by the President will enable us to intensify maintenance efforts to drive improvements in plant availability.

Globally and locally, the energy sector is transforming, driven by fundamental shifts in policy, technology, as well as economic and environmental demands. The industry is evolving from a predictive, vertically integrated model that leverages economies of scale with centralised generation to a model that is driven by fundamental shifts in policy, technology, and ageing generation plant, older stations reaching the end of their life, a decrease in the capital expenditure budget, environmental non-compliance and the loss of core, critical and scarce skills.

A number of external factors also have an impact on our sustainability and therefore, shareholder and political support is critical. Policy shifts to enable Eskom to operate efficiently given the evolution of the industry, specifically around issues such as Eskom’s debt, arrear municipal debt, debt burden and high debt servicing costs. In addition, arrear debt by delinquent municipalities, an unsustainable level of borrowings, which should translate into key actions to navigate out of the current crisis towards a sustainable entity.

Furthermore, operational performance remains a major challenge, with loadshedding set to continue at least in the short to medium term. This is largely due to the unreliable and ageing generation plant, older stations reaching the end of their life, a decrease in the capital expenditure budget, environmental non-compliance and the loss of core, critical and scarce skills.

National Treasury decision-making and NERSA’s tariff determination, remain fundamental. Our financial and operational challenges have been exacerbated by volatile global and local economic conditions, affected over the past two years by the COVID-19 pandemic and the associated lockdowns, travel restrictions and a decline in tourism. Most recently, the Russian-Ukraine conflict continues to impact the sustainability of the global energy sector. We are already affected by rising fuel prices and declining fuel availability, which may pose significant challenges for Eskom and the country.

The “4Ds” namely decarbonisation, decentralisation, digitisation and democratisation are global trends influencing businesses
- Increased commitment to address environmental footprint towards climate neutrality goals
- Global trends show a shift away from large scale coal assets towards cleaner, decentralised systems underpinned by the advancements in renewable technology, data-driven businesses models and increased customer choice
- A constrained focus with growth further inhibited by COVID-19 may affect Government support and investment as funds are diverted to health and welfare
- High unemployment and poverty place greater limitations on Government’s support for increased tariffs
- Increased focus on addressing climate and environmental issues limiting the continued impact of the coal fleet on CO2 emissions and unacceptable particulate emissions

Given the dynamics in the local context, and a series of previous decisions, the industry evolution needs to align with the shifts in a way that will avert crisis
- A number of policy and regulatory decisions are at varying levels of implementation (e.g. NDP, IRP 2019, DPE’s Roadmap, amendment of acts applicable to Eskom) which further define Eskom’s parameters
- Eskom’s mandate and available resources define the scope of our possible solutions which should translate into key actions to navigate out of the current crisis towards a sustainable entity
- Financial challenges are driven by under-recovery of costs, inadequate tariffs, declining sales, escalating municipal debt and high level of borrowings
- Operating challenges such as maintenance constraints, unplanned outages, excessive diesel cost and loadshedding
- Environmental legal contraventions and the cost of addressing emissions compliance (around R330 billion)
Strategic direction
Our desired end state is an organisation that is able to contribute to provide electricity to meet growing demand and demonstrates positive environmental and socio-economic impacts, with a significantly reduced financial dependence on the South African Government. The introduction of renewable and other cleaner technologies, as well as the expected shutdown of around 20GW of nominal capacity at coal-fired power stations that reach their end of life between now and 2035, will require significant strengthening and expansion of transmission infrastructure, in line with the requirements of the Transmission Development Plan. Eskom needs to further position itself to respond to the changing environment through the introduction of technology for better efficiencies, the establishment of a Distribution System Operator to manage and coordinate distributed generation as a neutral facilitator of open markets, and active partnering to solve incapacity and non-payment challenges at municipalities.

While our longer term aspirations are driving towards new and improved infrastructure, operations and financial sustainability, the focus for the next two to three years is on executing the turnaround plan and legal separation, while positioning the organisation for the transition. The turnaround plan is aimed at addressing immediate operational and financial challenges to set the organisation on a sustainable path, by achieving the following:

• Reapplying Eskom’s business and operating models and establish an agile organisation to respond to rapid changes without disrupting daily services
• Committing to greater efficiencies across the organisation, reduce wasteful expenditure and optimise revenue
• Improving corporate governance and act against corruption and mismanagement
• Ensuring greater transparency in the governance of Eskom and its subsidiaries

While our focus is on delivering the outcomes of the turnaround plan, we will continue to drive the Just Energy Transition to serve as a pivotal point in Eskom’s future, enabling us to address many of our challenges in the short term, while ensuring long-term growth and sustainability. The JET will also assist in supporting national goals to decrease greenhouse gas emissions, promote job creation through reskilling and stimulate economic growth.

Industry trends
Our long-term strategy responds to major industry trends that are shaping the future of the electricity sector, which can be summarised around four key themes, namely decarbonisation, decentralisation, digitisation and democratisation.

Decarbonisation
The industry is experiencing huge shifts towards more carbon-efficient energy sources, resulting in global climate neutrality goals. This shift is driven by the continued reduction in renewable energy technology costs and more stringent environmental policies aligned to the Paris Agreement.

Decentralisation
Distributed energy gives rise to new roles and participants in the power market. The uptake of residential and commercial rooftop PV has increased significantly in South Africa, particularly in light of new regulations permitting consumers to generate their own electricity for self-consumption. Decentralisation will require utility operations to be decentralised for local area control.

Digitisation
Digitalisation and digitalisation have become more prevalent to incorporate and coordinate distributed generation efficiently and to improve the overall efficiency of the grid and operations across value chains. The industry is experiencing an increase in digital electricity infrastructure investment and decreasing 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. Consumer choice of electricity source and supply will broaden. Artificial intelligence, blockchain, the Internet of Things and advanced analytics start-ups are also disrupting the status quo and driving innovation in this space.

Just Energy Transition
Accelerate the repurposing and repowering of stations
Actively pursue a share of renewable energy allocation
Implement an integrated socio-economic strategy

Long-term objectives
Pursue financial and operational sustainability
Facilitate a future competitive energy industry
Modernise the power system
Strive for net zero emissions by 2050

Pursue financial and operational sustainability – for the current business
Our turnaround plan was refined in 2020 to address the challenges threatening structural, financial and operational sustainability. It focuses on five key areas that are the primary focus over the short to medium term:

• Operations recovery to ensure that we recover generation capacity and availability to enable system adequacy in the medium term in line with the Generation recovery plan. It includes strengthening transmission and distribution networks to support system reliability and the policy direction for the electricity industry
• Improve the income statement to ensure that we realise sustainable revenue through cost-reflective tariffs, as well as ensuring that the operating cost base is reduced to sustainable levels. This will be achieved through reductions in primary energy and procurement costs, and driving operational efficiencies
• Strengthen the balance sheet by improving profitability and optimising capital spend and, at the same time, reducing debt to acceptable levels
• People and culture transformation entails ensuring that our people are sufficiently enabled and supported to transform for Eskom to achieve a high-performance culture
• Functional and legal separation to support the restructuring of Eskom into three legally separated entities wholly owned by Eskom, in terms of DPE’s Roadmap for Eskom in a Reformed Electricity Supply Industry

Facilitate a competitive future energy industry – prepare for competition
Eskom will seek to deliver an Integrated Transmission System and Market Operator in line with DPE’s Roadmap, while pursuing new generation capacity based on the IRP 2019 and its revisions to enable the transition towards renewable energy. We strive to implement profitable business models underpinned by sound business principles for Generation, Transmission and Distribution to respond to the anticipated increase in competition.

The Transmission business will establish the appropriate market platforms to enable a liberalised electricity market. This will require strong alignment and facilitation of enabling policy and a regulatory framework for this future market, together with the establishment of smart and flexible tariff models.

The Distribution business will establish a Distribution System Operator and Energy Trader to support the Transmission System Operator to enable grid access to distributed energy resources; balance and manage the power system; and aggregate and coordinate prosumers onto the power system.

Progress on the key areas of the turnaround plan is discussed from page 40.
Modernise the power system – leverage technology
Significant investment is required in the expansion and modernisation of grid infrastructure to support the evolution of the electricity supply industry and the connection of additional large-scale and distributed generators, to derive value for all stakeholders. This is facilitated by interventions such as the development of smart grids and installation of smart meters to enable bidirectional metering.

We must embark on a digital transformation journey to improve our ability to respond to technological disruption and transition the business to utilising digital technology to enhance operations, improve business efficiency and drive customer-centricity. This objective will also deliver on the required transmission grid expansion and the increase in regional distribution grids and distributed generation, while rolling out new technology options to support the future business.

Strive for net zero emissions by 2050, with an increase in sustainable jobs – transition responsibly
Given the rapid development in renewable technology, more stringent environmental legislation and our ageing fleet, we will prioritise repurposing and repowering coal power stations as they are shut down in line with our commitment to achieving net zero emissions by 2050. This will be done while driving key enablers to expedite future utility-scale procurement programmes, mitigate negative socio-economic impacts by delivering on social and skills plans, promote local industrialisation and job creation, and focus on enhancements to improve environmental performance.

Just Energy Transition as a thrust to our strategy
Eskom’s long-term strategy positions itself as an enabler of a Just Energy Transition (JET) and a key role player in executing the IRP 2019. JET is about leveraging the opportunities presented by the transition to a cleaner and greener energy future, while creating new job opportunities for those displaced by the replacement of coal by cleaner technologies. 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.

Eskom has committed itself to addressing the strategic objectives of the National Development Plan and other related policies through its turnaround plan and Just Energy Transition Strategy, in accordance with which Eskom has a social compact with communities. The aim of the social compact is to ensure a fair and “just” transition when repurposing generation assets, to partner with local stakeholders when introducing greener energy technologies, and to deal with the challenges of unemployment, poverty, and inequality, including contributing towards inclusive growth and development, all towards a greener footprint in the country.

In support of Eskom’s 2035 Roadmap for a Just Energy Transition, the Generation business is positioning itself to become a profitable and sustainable business and a key player in the green energy market, with a focus on renewable energy production. We intend pursuing the Just Energy Transition and participating in the IRP 2019 for renewable and nuclear energy as well as gas, while focusing on a structured approach to the shutdown of the coal fleet.

Approximately 22GW of installed capacity of coal-fired power will be retired in the next 15 years in line with our focus on pursuing a Just Energy Transition. This will result in additional strain on the system and the need for new generating capacity. Based on a 50-year design life of coal-fired stations and our initiative to extend Koeberg’s life to 60 years, only six coal-fired and one nuclear power station will continue to run beyond 2035. Another four coal-fired power stations will be shut down by 2050. Two coal-fired stations may be shut down prior to the 50-year design life being realised.

Minimum Emission Standards require stations operating until 2030 to comply immediately with “existing plant” limits for NOx, SO2 and particulate emissions. Plants shutting down after 2030 must comply with new plant standards by 2035, and therefore, all plant must continue with required emission improvement retrofit projects. As discussed earlier, these requirements present significant financial and operational challenges.

To mitigate the impact associated with the shutdown of the coal-fired plant reaching end of life, and in response to the changes of the electricity supply industry towards a lower-carbon future, Generation will focus on priority JET-related capacity projects.

The first five years of the transition are deemed to be the most critical to enable the sustainable success of the Just transition of both Eskom and the country and to make a vital contribution to growth, job creation, socio-economic development, and the creation of a stable, equitable, and cohesive South Africa. Key focus areas in the immediate and short term include the repurposing and repowering of stations, ensuring alignment with government’s Just Energy Transition plans, actively pursuing renewable energy allocations, and implementing an integrated socio-economic strategy as discussed below.

Accelerate the repurposing and repowering of stations
This initiative is aimed at repurposing and repowering the power stations that will be shut down. To enable and optimise the just transition from coal to more carbon-efficient generation, solar PV, wind, battery storage, and gas are immediate technologies prioritised for repowering initiatives, with investigation of other technologies to be considered in the medium to longer term.

Align with national Just Energy Transition plans
In driving initiatives within Eskom, alignment with national Just Energy Transition plans is critical. Collaboration and integration with the various government ministries, as well as the Presidential Climate Commission, will be driven on all matters involving the transition, including targets, funding mechanisms, localisation, industrialisation and socio-economic impacts.

Actively pursue a share of renewable energy allocation
Accelerating the transition to renewable energy will improve the carbon profile of South African industries and will retain competitiveness. Renewables will be enabled through own build, partnerships, and PPAs. Potential for local manufacture, optimisation regarding established special economic zones (SEZs), and renewable energy development zones (REDZs) will be leveraged.

Implement an integrated socio-economic strategy
Some of the additional benefits of moving towards lower-carbon technologies are the potential to create new and exciting jobs and a greater preservation of biodiversity in South Africa. The increase in investment in cleaner technologies will open the door for social upliftment through job creation, the creation of demand along the supply chain, and the development of previously disadvantaged groups, including black- and women-owned companies, as well as promoting community-based ownership. The initial focus on real industrialisation in the Mpmalanga region will contribute to this.

Refer to “Our interaction with the environment – Just Energy Transition” from page 117 for further information.

Progress against the turnaround plan
The success of our turnaround plan relies on the commitment of the Board, senior management and all Eskom employees, together with support from the shareholder. Government and Eskom will align on injections of Government support and debt transfers and the timing thereof, and will also continue engaging on the implementation of Eskom’s legal separation to create three separate entities. We will collaborate with Government to create a future industry structure and clarify the role of Eskom and its subsidiaries.
Progress on key areas

Operations recovery

Generation initiatives encompassed in the Generation recovery plan aim to improve predictability and reliability of generation plant while fixing new build defects at Ingula, Medupi and Kusile. However, the initiatives are not bearing fruit yet, with deteriorating generation plant performance creating insufficient available capacity to meet the country’s electricity demand, resulting in the need to implement loadshedding to protect the system.

Transmission infrastructure has deteriorated to an extent that may pose a risk to energy availability, with high energy losses being a key concern. The Transmission network development plan is critical to strengthening and extending the network and reducing energy losses. Financial constraints are hampering Distribution from executing its mandate of building and maintaining distribution assets and servicing the customer. Distribution has identified initiatives to optimise distribution asset management and asset services, reduce non-technical losses and sustain revenue.

Improve the income statement

Several initiatives have been put in place to address tariff recovery. A tariff increase of 15.06% was granted for the 2022 financial year, which had a significant positive impact on Eskom’s profitability and liquidity. However, future revenue recovery is at risk given NERSA’s decision to allow a tariff increase of only 9.61% for the coming year, compared to 20% for which we applied. We are evaluating our options in this regard.

To improve revenue collection, the Distribution business developed a debt management strategy, with one of the key interventions being active partnering with municipal customers. Regrettably, only two municipalities have entered into active partnering agreements to date. We continue to apply a multi-stakeholder engagement approach using various intergovernmental platforms while implementing the other levers of the strategy, such as credit management, legal action and limiting of service. Furthermore, the City of Johannesburg Metro has expressed an interest in taking over the supply of electricity to Soweto and Sandton within its areas of jurisdiction; a memorandum of understanding has been signed. We will consult with all key stakeholders once the viability of the business case has been assessed. Similarly, discussions are ongoing with the City of Cape Town for the transfer of certain Eskom distribution areas to the metro.

We have achieved combined cost savings of R50.7 billion over the last three years, exceeding the target of R40.4 billion.

Strengthen the balance sheet

Several inventory optimisation interventions have been put in place to manage stock levels. In the medium to long term, we are implementing a warehouse modernisation project. The supplier payment cycle was identified as another lever to improve working capital.

To complete the structural reforms and legal separation, we require support from Government and regulators in the form of policy, legislative and regulatory amendments, such as:

- Dealing with implications to lenders and loan covenants given our debt challenges
- Staff transfers and consultations with organised labour
- The need for unbundled tariffs prior to separation, as well as policy and Government-approved market rules
- A legal framework for the restructuring process, and a regulatory framework and licensing requirements
- Solving Eskom’s financial viability

Transmission progress

We have established the National Transmission Company South Africa SOC Ltd (NTCSA) to house the transmission business. It is key to electricity market reform in South Africa, playing the roles of system operator (balancing supply and demand) and market operator. NTCSA is in a good position to operationalise legal separation, given stable operational performance with activities supporting legal separation.

DMRE has started the process to amend both the Electricity Regulation Act, 2006 and the Electricity Pricing Policy. Current timelines suggest that the amended legislation will come into effect in 2023. Until then, DPE is leading discussions on the possibility of introducing transitional arrangements to facilitate an earlier separation of the Transmission Division.

The legal separation of Transmission experienced delays in several critical external decisions and key dependencies, including protracted lender consent processes and delays in obtaining a transmission licence for NTCSA.

Where critical decisions are pending or delayed, we continue to work with Government – DPE, DMRE and National Treasury – and NERSA to put in place transitional arrangements for the operationalisation of NTCSA and the implementation of the asset transfer agreement.

Given these delays, revised plans indicate NTCSA commencement of trade around April 2023, subject to the dependencies mentioned above.

Distribution and Generation progress

Both divisions have started their journey towards legal separation, with the establishment of project management offices, development of roadmaps and the commencement of a legal due diligence.

The PFMA application for the establishment of a new distribution entity has been approved by DPE and National Treasury. The way forward for a preferred corporate structure depends on changes to existing legislation or new founding legislation – this affects the legal separation of the Generation business.

Similar to the separation of the Transmission business, the separation of the Distribution and Generation businesses depend on lender consent, as well as numerous other legislative, regulatory and policy changes. It has become apparent that given these dependencies, the timelines proposed in the Roadmap were optimistic.

Our revised plans target readiness for Distribution operationalisation by December 2023 and commencement of trade by April 2024. Legal separation of Generation is targeted in 2025. However, these dates are subject to external dependencies which may affect the timelines.

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STAKEHOLDER ENGAGEMENT

A poor corporate reputation undermines investor confidence, challenges profitability and liquidity, erodes business value and threatens commercial viability. Eskom has the responsibility to navigate both a shifting political economy and a complex government and regulatory environment in which our ability to influence decisions, impacts our business.

The ongoing electricity supply crisis has to be addressed in a manner that supports the growth and development of the economy and our society, by ensuring a sustainable organisation while limiting the detrimental impact on the economy. To do so, we depend on the support of stakeholders and the broader public, which constitutes our direct and indirect customers, to achieve success – stakeholder trust is a key factor in our future success. Therefore, we continue to explore ways to improve how we engage with stakeholders, thereby promoting energy security in the long term, by effectively responding to stakeholder needs.

The Board provides oversight of the effectiveness of stakeholder engagement through SES, and has delegated the management of stakeholder relationships to Exco. Under Exco’s oversight, various functions within Eskom are responsible for engaging with different stakeholder groups. The Government and Regulatory Affairs Division (GRAD) is responsible for managing relationships with Government, various regulators, as well as domestic and international stakeholders.

Our interaction with stakeholders

Strong and productive relationships with all stakeholders – Government, the financial sector, business, labour and customers – are needed to deliver value. Despite a marked improvement over the past two years, public sentiment towards Eskom remains poor.

We believe that transparent reporting to the shareholder, our stakeholders and the broader public (our direct and indirect customers) is key to restoring trust in Eskom. Advocacy and stakeholder engagement remain key enablers of our strategy and turnaround plan and, as such, our engagements with stakeholders are carefully planned in terms of the approach, scope and intended outcome.

Our stakeholder engagement plans are developed to address the challenges facing Eskom’s structural, financial and operational sustainability. Several strategic platforms were created during the year to engage on issues of Eskom’s legal separation, Just Energy Transition and repurposing of power stations. These meetings were used to clarify Eskom’s security of supply and decarbonisation value proposition, as well as the socio-economic contribution and trade-offs we have to balance. The success of our turnaround programme will rely both on our commitment and the support of our stakeholders to achieve a sustainable energy future for South Africa.

Stakeholder landscape

We operate in a broad and extensive stakeholder landscape with divergent and occasionally competing stakeholder needs and concerns. We have classified key stakeholder groups as authors, influencers, partners or enforcers. Stakeholder groups have been categorised based on their perceived influence on Eskom, and our impact on them.

As a state-owned entity, the requirements of the South African Government are vital to what we do. DPE acts as our shareholder, setting the mandate on which we must deliver, while other departments create policy within legislative frameworks or provide oversight of our operations. Alignment with DPE, DMME and other government departments is key to ensuring that we create a sustainable electricity supply industry through DPE’s Roadmap.

The Board is satisfied that it has identified all key stakeholders, their significance and roles. The relationship with Parliamentary committees has been identified as an area for improvement. GRAD is enhancing processes to ensure Eskom maintains strong relationships with all key stakeholders, in accordance with our stakeholder engagement strategy.

We must rebuild trust and strengthen confidence in Eskom by implementing our turnaround plan to ensure that we can deliver on our mandate and DPE’s Roadmap. As part of that process, we need the continued support and commitment, not only of our employees, but of all stakeholders as we transition towards a more desirable future for Eskom and the country. Improving the quality of our relationships with stakeholders will support that process.

Issues raised by stakeholders

Those issues that matter to our stakeholders often directly affect our ability to create value and to execute our strategic objectives. As such, we consider these factors in our strategic planning, as well as in the determination of material matters.

The Board, in collaboration with management and through our stakeholders, identifies the material matters we believe are directly relevant to our stakeholders and the broader public (our direct and indirect customers). The Board reviews the list of material matters each year and processes the following year’s report on material matters.

Material matters Issues raised Stakeholder groups

- Government support and debt structure
- Liquidity (short to medium term) and going concern
- Financial sustainability (long term)
- Operational stability
- Environmental performance
- Governance, compliance and ethics
- Adequate skills and high-performance culture
- Business separation progress

Just Energy Transition

Achieving Eskom’s Just Energy Transition objectives requires profound changes in market outcomes and social and regulatory relationships. We conducted various community roadshows, stakeholder engagements and workshops to engage with displaced workers and empower affected customers. COP26 was used to position the country as a preferred investment destination and secure funding for Eskom’s Just Energy Transition to cleaner energy.

Eskom’s legal separation

Various workstreams enable collaboration with stakeholders to support legal separation. We have responded to policymakers through advisory committees to address decision-making challenges. Trade union concerns and dealt with at the Eskom Restructuring Consultative Forum.

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<table>
<thead>
<tr>
<th>Stakeholders’ influence on Eskom</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners</td>
<td></td>
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<tr>
<td>Enforcers</td>
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<td>Authors</td>
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<tr>
<td>Influencers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eskom’s impact on stakeholders</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
</table>

Refer to “Our role in communities – Our reputation” on page 131 for additional information.
MATERIAL MATTERS

Material matters are those high-likelihood, high-consequence matters that affect our ability to create, preserve or erode enterprise value in the short, medium and long term. We consider both positive and negative matters, in the context of the six capitals and our turnaround objectives.

The financial matters cover our financial results; equity and debt funding raised; liquidity; the revenue outlook given the trajectory towards cost-reflective tariffs and stagnant or declining sales volumes; cost curtailment initiatives; and escalating arrear municipal debt. Operational stability, which requires sufficient liquidity, covers both generation plant and network performance as well as ensuring sufficient generation capacity through the new build programme and IPPs. It further considers coal and water security, as well as safety performance.

The impact of the COVID-19 pandemic is no longer treated as a separate material matter, as it has become part of business as usual. The material matters are relevant over the short, medium and long term, and if not managed properly, will have a negative impact on our ability to create value.

Our strategic risks, which are aligned to our turnaround objectives and indirectly to the material matters, are discussed from page 46.

INTEGRATING RISK AND RESILIENCE

Enterprise risk management process

We have an established, integrated approach to managing risk and resilience across Eskom and its subsidiaries. The Board is responsible for the governance and oversight of risk in line with King IV™, approving the risk appetite and tolerance levels of the organisation as well as the Enterprise Risk and Resilience Management Policy and Plan.

As management is considered the first line of defence when treating risk, the responsibility to implement and execute effective risk and resilience management has been delegated to Exco by the Board. Exco and its Risk and Sustainability Committee, together with ARC, review the key priorities and deliverables of our Risk and Resilience Management Plan annually and monitor the organisation’s risk management performance quarterly, in line with the Risk Appetite and Tolerance Framework.

Enterprise resilience

We ensure compliance with the Disaster Management Act, 2002 and manage our response to major threats and disruptions through our Enterprise Resilience Programme. Technical and non-technical vulnerabilities are continuously reviewed, with simulation exercises conducted regularly to ensure that the organisation can continue to operate and be able to recover within a reasonably short time in the event of serious incidents or disasters.

Disaster risks are classified as those inherent to our operations that, while having a relatively low likelihood of materialising and adequate controls, would have a significant consequence should they materialise. The following national disaster risks are managed through our Enterprise Resilience Programme, which caters for disaster management and emergency preparedness. Accountability for risk monitoring and response planning for each has been assigned to individual Exco members.

In November 2020, DPE published its Risk and Integrity Management Framework (RIMF), which is aimed at strengthening practices by SOCs in the areas of risk management, sustainability reporting, conflict of interest management, vetting of employees and general ethics management. We have begun implementing our plan to address the requirements of the RIMF and thereby enhance governance, risk monitoring and risk reporting.

We employ one integrated risk management information system for all organisational risk management information, with accountable owners assigned to each risk. Key risk indicators are in place for all risks, to ensure that they are managed proactively and to understand the rate and direction in which they are moving. Our integrated risk management process is outlined below.

COMMUNICATE AND CONSULT WITH STAKEHOLDERS

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Given the violent nature of the unrest, the safety and security of our people and assets were considered paramount. Non-essential work was deferred and employees and contractors were not dispatched to volatile areas without an integrated route risk assessment to prevent hijacking and other crimes while responding to faults. At the height of the violent unrest, Eskom was in constant communication with the National Joint Operational Centre to address security requirements, including the safe transportation of fuel. Contracted private security, SAPS and the South African National Defence Force were deployed to provide support at various Eskom sites in affected areas.

**Assessment of risk**

Integrating and effectively managing risk and resilience ensures that we are able to formulate and execute our strategy, operate our business with minimal disruption, proactively leverage opportunities as they arise, and respond to and recover from disruptions should they materialise. It is therefore important that risks that affect our strategic objectives are identified, managed effectively and monitored continuously.

**Strategic risks**

Treating the following long-term risks are paramount for Eskom’s future success:

- The financial sustainability of Eskom being compromised due to declining sales volumes, lack of cost-reflective tariffs, poor operational performance necessitating increased reliance on expensive OCGT’s to avoid or minimise loadshedding, escalating arrear debt from non-paying customers and high levels of borrowings
- Deterioration in generating plant performance, loss of and inability to attract critical skills, capacity constraints, and inability to sustain and maintain transmission network reliability, leading to potential system constraints, the risk of a national 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 being compromised due to attacks against network infrastructure and business systems, cyber-security shortfalls or instability leading to severe business disruptions

**Political instability materialised in July 2021 through waves of social unrest following the incarceration of former President Jacob Zuma. Infrastructure and service delivery were impacted, predominantly in the KwaZulu-Natal Province. Eskom’s disaster management plans were implemented and working groups conducted risk assessments and monitored risks relating to each area of our operations. Thankfully, no incidents were reported at Eskom sites. Nevertheless, prolonged periods of unrest could have created generation supply constraints due to the unreliability of generating plant.

**Risk appetite statement per risk category**

<table>
<thead>
<tr>
<th>Risk category</th>
<th>Risk summary</th>
<th>Financial sustainability (long term)</th>
<th>Government support &amp; debt structure</th>
<th>Liquidity (short to medium term) &amp; going concern</th>
<th>Operational stability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>High appetite to reduce Eskom’s loss to less than R5 billion by the end of the 2024 financial year by increasing revenues, operating at an efficient cost base, improving debt collection and stabilising the balance sheet. This will require support from Government and possible policy changes, where necessary</td>
<td>Review of standard tariff plans, structures and rates, as well as legal review of NEERDA decisions</td>
<td>Government support to bolster liquidity</td>
<td>The Eskom Compact signed by labour business and Government as NEDLAC</td>
<td>Eskom’s turnaround plan, including cost-cutting initiatives</td>
</tr>
<tr>
<td>Operations</td>
<td>High appetite to meet the country’s electricity demand and prevent a national blackout and protect the national grid using load reduction and loadshedding as control measures. This will be achieved by operating plant efficiently and safely through a well-planned and competent workforce, while limiting environmental harm and obtaining support from Government where required</td>
<td>Eskom’s liquidity in the short term and financial sustainability in the medium term are at risk due to a declining customer base, escalating arrear municipal debt, high levels of borrowings and debts servicing, unacceptable levels of fraud and corruption, as well as regulatory uncertainty and the lack of cost-reflective tariffs. These challenges may lead to compromised operations, an inability to maintain Eskom’s status as a going concern and failure to meet our mandates</td>
<td>Review of standard tariff plans, structures and rates, as well as legal review of NEERDA decisions</td>
<td>Eskom’s turnaround plan, including cost-cutting initiatives</td>
<td>Eskom’s turnaround plan, focused on improving reliability, reducing loadshedding and addressing design defects</td>
</tr>
<tr>
<td>Environment and climate change</td>
<td>High appetite to comply with environmental regulations and legislation, to prevent harm or damage to the environment and people living in communities close to Eskom’s plants</td>
<td>Poor environmental performance and non-compliance with environmental regulations and legislation could lead to the loss of Eskom’s licence to operate and plant shutdown. Contributing to this risk is the lack of disciplined execution of operations as well as a lack of adequate project management and funding to implement initiatives aimed at ensuring environmental compliance and the reduction of our environmental footprint</td>
<td>Review of standard tariff plans, structures and rates, as well as legal review of NEERDA decisions</td>
<td>Eskom’s turnaround plan, including cost-cutting initiatives</td>
<td>Eskom’s turnaround plan, focused on improving reliability, reducing loadshedding and addressing design defects</td>
</tr>
</tbody>
</table>

Refer to “Just Energy Transition as a thrust to our strategy” on page 38 and “Progress on business separation” from page 40 for further information.

**Risk**

- Failure to transform and transition from a coal-based power system to a low-carbon and climate-resilient company at an adequate rate, while complying with policies and regulations
- Legal separation delays caused by a lack of alignment with external stakeholders, leading to reputational damage and a decline in investor confidence

Our risk landscape is monitored, tracked and reported across seven risk categories which address these long-term risks. These include finance, operations, environment and climate change, people culture and safety, information technology, stakeholder management as well as governance and compliance.

In addition to these, we are committed to executing the legal separation of Transmission, Generation and Distribution in a phased manner, in line with DPE’s Roadmap, and to ensuring Eskom’s Just Energy Transition. These are critical for delivering on our long-term strategy, transforming the electricity supply industry and ensuring the sustainability of Eskom into the future.

Refer to “Just Energy Transition as a thrust to our strategy” on page 38 and “Progress on business separation” from page 40 for further information.

**Environment and climate change**

High appetite to comply with environmental regulations and legislation, to prevent harm or damage to the environment and people living in communities close to Eskom’s plants

High appetite to transition to a low-carbon and climate-resilient company, while addressing socio-economic imperatives and complying with policies and regulations

Poor environmental performance and non-compliance with environmental regulations and legislation could lead to the loss of Eskom’s licence to operate and plant shutdown. Contributing to this risk is the lack of disciplined execution of operations as well as a lack of adequate project management and funding to implement initiatives aimed at ensuring environmental compliance and the reduction of our environmental footprint.

Eskom’s failure to transform and transition from a coal-based power system to a low-carbon and climate-resilient company could lead to penalties from authorities and/or potential loss of Eskom’s social licence to operate. This is driven by a lack of alignment on the net zero pathway, coupled with no allocation by DMPRE of low-carbon technology to Eskom, which may lead to failure to determine an optimal combination of clean technologies to achieve emission reductions.

**Financial sustainability (long term)**

- Review of standard tariff plans, structures and rates, as well as legal review of NEERDA decisions
- Government support to bolster liquidity
- The Eskom Compact signed by labour business and Government as NEDLAC
- Eskom’s turnaround plan, including cost-cutting initiatives
- Weekly meetings with DPE and National Treasury focusing on liquidity management
- Engagement with DPE and National Treasury on ways to address the debt burden
- Municipal debt management strategy and escalation of armour municipal debt challenges to Government

**Related material matters**

- Review of standard tariff plans, structures and rates, as well as legal review of NEERDA decisions
- Government support to bolster liquidity
- The Eskom Compact signed by labour business and Government as NEDLAC
- Eskom’s turnaround plan, including cost-cutting initiatives
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page 40 for further information

Refer to “Just Energy Transition as a thrust to our strategy” on page 38 and “Progress on business separation” from page 40 for further information.
**Risk appetite statement per risk category**

**People culture and safety**
High appetite for a skilled workforce and a high-performance ethical culture
High appetite for zero harm among employees, contractors and members of the public by eliminating fatalities and reducing injuries. Furthermore, there is no appetite to negatively affect human health, both physical and mental.

**Information technology**
High appetite to proactively improve Eskom’s information technology direction, while enabling, empowering and creating innovative technology solutions for Eskom’s customers.

**Stakeholder management**
High appetite to enhance Eskom’s relationship with stakeholders, including the communities in which we operate, shareholders, government departments, other regulatory bodies and the general public, to achieve common values.

**Governance and compliance**
No appetite for any non-compliance with obligations which may cause harm to the organisation, including non-compliance with applicable regulations and legislation, as well as voluntary commitments. In addition, there is no appetite for unethical conduct, fraud, corruption or criminal behaviour in general.

**Operational risks**
Organisational risks are classified from Priority I risks at the highest level to Priority IV risks at the lowest, based on the magnitude of the consequence and likelihood of occurrence. All Priority I and emerging risks are reported quarterly to Exco and the Board, which provide oversight as recommended by King IV.

<table>
<thead>
<tr>
<th>Priority I level risks at March 2022</th>
<th>6</th>
<th>6</th>
<th>2</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Likelihood</td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>D</td>
</tr>
</tbody>
</table>

At 31 March 2022, we had 33 Priority I risks (2021: 49), which include strategic risks and those affecting achievement of the shareholder compact, with their corresponding positions on the risk matrix shown below in terms of our Risk Appetite and Tolerance Framework.

**Risk summary**
The loss and lack of skills is a root cause to many risks and will continue to impact Eskom’s sustainability. In addition, a breakdown in relationships with labour and management affects productivity and creates a harmful working environment, and in extreme cases, could affect our ability to supply electricity to customers. The health and safety of people are compromised by a failure to effectively implement occupational health and safety improvement initiatives.

**Operational stability**
- COVID-19 protocols and rollout of the employee vaccine programme
- Safety awareness and education programmes
- Staff engagement
- HR strategy implementation, including a skills audit
- Implementation of a hybrid work model
- Development of Eskom’s culture transformation programme to deliver a high-performance ethical culture

**Operational stability**
- Continued enhancement of security compliance on all applications, as well as collaboration between Group IT and application vendors
- Addressing critical supplier disputes
- Development of new key risk indicators to enhance risk monitoring
- Migration of Park dome centres replacement project

**Governance, support & data structure**
- Implementation of the stakeholder engagement plan, including continuous internal and external stakeholder engagement
- Various engagements with DPE and National Treasury
- Implementation of Eskom’s reputation strategy

**Governance, compliance & ethics**
- Addressing vacancies on the Board
- Implementation of the Fraud Prevention Plan
- Establishment of a dedicated task team to address the recommendations of the Judicial Commission of Inquiry into Allegations of State Capture (Zondo Commission)
- System improvements to enhance controls, management of conflicts of interest and compliance management
- Reviews and investigations by the Assurance and Forensic Department
- Establishment of the PMPA Loss Control Department to execute and report on PMPA compliance
- Implementation of the procurement roadmap to improve commercial governance processes
- Ethics risk assessment, as well as compulsory training on ethics, fraud awareness and PMPA requirements

We have achieved an improvement in the number of Priority I risks as a result of several risk management interventions implemented during the year. An “attacking the causes” initiative was introduced to address root causes and ensure alignment to risk controls. Furthermore, information captured in the risk management system was reviewed by divisional risk managers and independently reviewed by the Enterprise Risk Management Department. A number of findings were identified and shared with risk owners to address the shortcomings. Risk inquiries were also conducted on long outstanding Priority I risks to improve management accountability.

Regrettably, financial sustainability and liquidity risks continue to remain at the highest level of risk, namely 6E, and are a contributing factor to many other risks in the business. Treatment plans are monitored to ensure that they are achievable within specified timelines and to identify where escalation is required for risks that are outside of Eskom’s control.

Emerging risks
Emerging risks are assessed on a regular basis through scanning our environment and identifying changes in our operating environment due to global and local developments, as well as changes reported in the business. The identification of emerging risks is critical to ensure that these risks are managed proactively. As with existing organisational risks, emerging risks are tracked and reported quarterly to Exco and the Board.

The Russian invasion of Ukraine in February 2022 poses a significant emerging risk to Eskom and the broader energy sector. Eskom is likely to continue to be affected by supply chain disruptions, rising fuel prices and declining fuel availability, which will lead to increased costs amid an already constrained financial position and further generation supply constraints, thereby increasing the risk of loadshedding.

To mitigate this risk, our financial plan for the 2023 financial year has been adjusted to accommodate potential fuel price fluctuations. We will collaborate with suppliers and Government to ensure continued availability of critical resources.

Refer to “Our finances – Fuel price sensitivity” on page 78 for further information on the risk to fuel prices.

**Related material matters**
- Risk management
- Organisational risk
- Risk appetite
- Risk tolerance
- Risk appetite and tolerance framework
- Risk matrix
- Risk management 2022
- Risk management approach
- Risk management maturity
- Risk management process
- Risk governance
- Risk governance 2022
- Risk governance approach
- Risk governance strategy
- Risk governance maturity
- Risk governance process
- Risk management process
- Risk management process 2022
- Risk management processes
- Risk management processes 2022
- Risk management processes approach
- Risk management processes strategy
- Risk management processes maturity
- Risk management processes maturity
- Risk management processes process
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Executive management

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An essential component of our governance framework is ensuring clarity of roles between the shareholder, the Board and management of the Eskom group, to achieve our strategic priorities within the legislative, regulatory and policy environment in which we operate. Clear accountability for decision-making is assigned through our Delegation of Authority (DoA) and Significance and Materiality Frameworks (SMF), which guide the referral of matters from management to the Board, and from there to DPE and National Treasury, where required.

The Board, supported by several committees, is the focal point of our governance framework and promotes good corporate citizenship. The Board is also accountable to the shareholder for performance against financial, operational and other business expectations, and to the organisation for providing strategic direction and ensuring its sustainability and prosperity. The powers of the Board and the shareholder are defined in Eskom’s Memorandum of Incorporation (MOI). Apart from the Group Chief Executive (GCE) and the Chief Financial Officer (CFO), the Board is composed entirely of independent non-executive directors.

The Executive Management Committee (Exco) is accountable for exercising executive control over day-to-day operations to deliver on the strategy set out by the Board.

Refer to page 10 to 13 for the composition of the Board and Exco, including information on skills as well as racial, gender and age diversity.

Divisional boards for Generation, Transmission and Distribution were established to drive separate accountability for each division, as a transitional structure and a first step towards Eskom’s legal 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 legal separation is concluded.

Although the divisional boards function relatively independently, they report to Exco on a regular basis to ensure that decision-making is aligned with Eskom’s overall strategy.

Eskom’s legal separation will ultimately result in the formation of wholly-owned subsidiaries with independent boards for Transmission, Generation and Distribution, starting with National Transmission Company South Africa SOC Ltd. The boards of the wholly-owned subsidiaries will still be accountable to the Board of Eskom Holdings SOC Ltd, in line with good governance practices.
PROGRESS ON GOVERNANCE CLEAN-UP

Eskom has experienced corporate governance breaches in the past, particularly relating to allegations of state capture surrounding state-owned companies (SOCs) in South Africa. These matters have been reported on widely in the media and have been the subject of numerous investigations and inquiries, as discussed in previous integrated reports. Most notably, the Judicial Commission of Inquiry into Allegations of State Capture, led by Deputy Chief Justice Raymond Zondo, commenced in August 2018. The Zondo Commission published the first part of its report in early 2021 and concluded in 2022. Part IV Volume 1 and 3 and 4 were dedicated to allegations of state capture at Eskom, while Part I Volume 2 contained a limited number of recommendations related to Eskom. The Commission found serious cases of fraud and corruption perpetrated by former executives, former Board members, suppliers and their associates. Recommendations to address these findings include instituting criminal charges, removing and disciplining, and clawback and consequence management against employees and suppliers; pursuing director delinquency proceedings and civil recovery of financial losses suffered by Eskom; among others.

These recommendations are consistent with the Board’s plan to root out fraud and corruption, promote an ethical culture and address issues related to past corporate governance breaches, with the aim of restoring Eskom’s reputation as a trusted corporate citizen and improving its financial and operational sustainability.

Our response to these governance challenges centres on the following key areas:

- Conducting proactive lifestyle audits and reviews of conflicts of interest
- Enhancing ethics and anti-fraud frameworks, as well as consequence management
- Instituting disciplinary proceedings against employees and suppliers, as well as pursuing criminal and civil legal action where appropriate
- Establishing a dedicated task team to address the recommendations of the Zondo Commission
- Strengthening PFMA and commercial governance processes

These actions are part of a collective effort to improve trust and restore confidence. We continue to affirm a zero tolerance to fraud, corruption and other forms of economic crime or dishonest activity. Developments are discussed in further detail below, however, due to the sensitive nature of these matters, not all information can be disclosed in this report.

Lifestyle audits and conflicts of interest

In last year’s report, we noted that the lifestyle audits of 383 executives and senior managers had been concluded, with 24 high-risk cases handed over to the Special Investigating Unit (SIU) for investigation. Of these, one official was dismissed on unrelated charges. 17 cases were closed as a result of no adverse findings identified or resignations during the process, and five cases are still under investigation by the SIU. The remaining 11 cases were referred to Eskom for disciplinary action, with seven employees found guilty and subject to sanctions ranging from written warnings to suspensions.

Disciplinary processes continue to be conducted on the approximately 3 800 employees below executive and senior management level mentioned in last year’s report, who had not declared 2021 and concluded in 2022. Part IV Volume 1 and 3 and 4 were dedicated to allegations of state capture at Eskom, while Part I Volume 2 contained a limited number of recommendations related to Eskom. The Commission found serious cases of fraud and corruption perpetrated by former executives, former Board members, suppliers and their associates. Recommendations to address these findings include instituting criminal charges, removing and disciplining, and clawback and consequence management against employees and suppliers; pursuing director delinquency proceedings and civil recovery of financial losses suffered by Eskom; among others.

In response to these findings, we have enhanced our conflict of interest declaration system by linking directly to the Companies and Intellectual Property Commission (CIPC) database. The upgrade was implemented from 1 April 2021 to verify declarations made during the 2021 financial year. Exceptions that raise potential non-compliance with our conflict of interest policy are referred to the Assurance and Forensic Department (A&F), our internal audit and forensics function, for investigation.

Ethics, fraud and consequence management

The implementation of our Fraud Risk Prevention Plan is progressing well, with the aim of maximising fraud prevention and enhancing good corporate governance practices. The Anti-Fraud and Corruption Integrity Committee (AFICC) is monitoring implementation of the plan and ensuring integration between forensic, legal, ethics, industrial relations and supplier review functions. Progress is reported to the Esco and the Audit and Risk Committee (ARC) on a regular basis.

As part of this plan, executive management has tasked A&F with visiting each power station to identify possible fraud risks and opportunities for improved fraud detection and response activities. By 30 September 2022, visits have been conducted at 16 power stations. Four forensic cases relating to findings at Kendal and Tutuka Power Stations have been registered following these visits and the investigations are ongoing.

In addition, the AFICC is assessing our alignment to the goals and purpose of the Organisation for Economic Co-operation and Development’s (OECD) recommendations on anti-corruption, which will be used to identify further areas for improvement in the Fraud Risk Prevention Plan.

The Human Resources Division (HR) has revised its reference flagging procedures to include employees who resigned before disciplinary processes or investigations could be concluded. Previously, only employees who were dismissed were flagged. Individuals who have been flagged cannot be employed in Eskom for 10 years and cannot serve as an employee of a contractor or on Eskom boards.

The withholding of pension benefits and the recovery of losses or damages to Eskom from flagged employees are also outlined in the revised procedure.

Investigations and disciplinary action

All of our stakeholders are encouraged to report suspected incidents of unlawful or irregular conduct involving Eskom’s directors, employees or suppliers through our whistle-blowing channels. These channels are managed by an independent service provider to ensure the integrity and confidentiality of the process. All incidents are acknowledged within 24 hours and cases are registered for forensic investigation after conducting an initial assessment of the incident.

Refer to the inside back cover for the contact details of our whistle-blowing channels.

<table>
<thead>
<tr>
<th>FORENSIC INVESTIGATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 669 reports to A&amp;F through whistle-blowing channels</td>
</tr>
<tr>
<td>729 new cases registered for forensic investigations</td>
</tr>
<tr>
<td>253 forensic investigations concluded</td>
</tr>
<tr>
<td>192 cases under investigation at year end, relating to current and prior years</td>
</tr>
</tbody>
</table>

SANCTIONS

- 192 employees recommended for disciplinary action
- 69 suppliers recommended for review to the Supplier Review Committee
- 104 confirmed cases of fraud and corruption registered with the South African Police Services (SAPS)
- 5 cases on trial before the criminal courts

We are employing data analysis to aid in forensic investigations and identify suspicious transactions. Unfortunately, our investigations have revealed similar themes in 2021, with instances of undeclared conflicts of interest, failure to obtain permission to perform private work, improper contract management, and as general procurement irregularities continuing. Non-compliance with Eskom’s policies and procedures remains the most prevalent root cause of these issues. A&F has recommended control enhancements in affected areas to prevent recurrence, management actions to rectify identified control deficiencies are being monitored.

Regrettably, instituting appropriate disciplinary proceedings against employees and suppliers remains slow, resulting in a lack of consistent action in instances where evidence of criminality exists are referred to law enforcement agencies for criminal investigation, even if implicated individuals have resigned from Eskom. We also facilitate workshops on our procurement processes with law enforcement agencies to improve the turnaround time and quality of investigations into Eskom cases. Where appropriate, civil proceedings are instituted to recover losses suffered by Eskom. During the year, A&F introduced a process of non-litigation recovery in which financial losses are recovered during the course of a forensic investigation.

An Executive Security Steering Committee, chaired by the Group Chief Operating Officer (GCOO), has been established to address security risks relating to criminal activities, including the theft of copper, vandalism of infrastructure and sabotage incidents. Improvements in security measures are being implemented to manage these risks and reduce the number of incidents and associated losses through appropriate use of technology and the deployment of additional security.

Initiatives to improve the prevention of coal, diesel and fuel oil theft at Eskom’s power stations are also under way. These are critical commodities for Eskom and are frequently targeted by known criminal syndicates. In particular, coal deliveries by road are at risk of theft and coal-swapping for inferior quality coal. We have implemented additional control mechanisms such as tamper proof seals, and phased out free carrier agreement transporter contracts since December 2021. All coal supply agreements require suppliers to retain responsibility for and ownership of the coal until it is weighed at the power station. Coal supplies are also pre-certified by laboratories to ensure they adhere to contractual quality before being delivered.

Despite these interventions, investigations have discovered that in some cases these processes are deliberately bypassed through collusion by criminal elements. Our focus is on gathering intelligence on key role players within and external to Eskom, as well as the syndicated operations of the criminal networks. We are collaborating with law enforcement and other criminal justice agencies to address possible shortcomings which prevent successful investigations and prosecutions on these matters.

Major investigations

External investigations into major cases of suspected fraud and corruption involving former employees, directors and
The executive leadership of the NPA and Eskom have implicated suppliers, former employees, and former directors are adequately addressed. Where the recommendations enforcement agencies to ensure that the recommendations We are working with DPE, other SOCs and law enforcement authorities, including the SIU, the National Prosecuting Authority (NPA), the Directorate of Priority Crime Investigations (the Hawks) and SAPS in these and other matters.

Most notably, we are pursuing civil recovery of approximately R3.8 billion relating to a prepayment to Tegeta Exploration and Resources (Pty) Ltd. While limited progress has been achieved to date, we are encouraged by the arrests of Rajase and Moshaba in June 2022. Mr Brian Molefe and Mr Anoj Singh were arrested in August 2022 on fraud, corruption and money laundering charges relating to Transnet. Mr Mthathla Koko was arrested in October 2022 on similar charges relating to ABB and Impulsie International. The three former executives are also defendants in the Tegeta matter. Legal processes are ongoing in these matters.

We continue to provide the necessary support to law enforcement authorities, including the SIU, the National Prosecuting Authority (NPA), the Directorate of Prioritised Crime Investigations (the Hawks) and SAPS in these and other matters.

**Eskom’s response to the report of the Zondo Commission**

Eskom has established a dedicated task team to review the Zondo Commission report in order to address the recommendations of the Commission and ensure appropriate legal remedies are pursued. The Commission acknowledged the proactive steps taken by Eskom to eradicate state capture within the organisation, with significant matters dealt with by both Eskom and the SIU to date, which have resulted in the recovery of more than R2 billion. Eskom’s task team has developed an implementation plan, the latest version of which was submitted to the Presidency in October 2022. Key focus areas include civil recoveries; consequence management for implicated suppliers, former employees and former directors; an in-depth risk assessment; and the review of policies and procedures, specifically related to procurement and HR, to support the eradication of fraud and corruption. We are working with DPE, other SOCs and law enforcement agencies to ensure that the recommendations are adequately addressed. Where the recommendations are not within Eskom’s control, as in the case of criminal prosecution, we will continue to support law enforcement authorities to ensure the successful prosecution of implicated suppliers, former employees, former directors and associated perpetrators.

The executive leadership of the NPA and Eskom have committed to collaborating in their response to the serious crimes stemming from the Zondo Commission report. The NPA and Eskom’s forensic investigators and legal experts to support its efforts to ensure successful prosecution of alleged perpetrators of complex and high-profile cases. The NPA has also committed to increasing its collaboration with law enforcement authorities to focus on major crimes, such as cable theft and damage to essential infrastructure, which seriously threaten the operational sustainability of Eskom and other SOCs.

A summary of some of the key focus areas of our implementation plan are discussed below.

**Consequence management of delinquent employees**

Employees implicated in state capture were dismissed or resigned in early 2018. There are currently no outstanding disciplinary actions against individuals highlighted in the Zondo Commission report and no implicated individuals are currently employed by Eskom. We are reviewing our disciplinary procedures to ensure consequence management is dealt with more timely and appropriately.

**Criminal proceedings**

We are monitoring all criminal matters arising from the Zondo Commission report and have engaged with the NPA regarding progress on these matters. As mentioned, we are working with law enforcement agencies to bring these matters to court as soon as possible.

**Civil recoveries**

Several civil recovery proceedings have been launched by Eskom and the SIU. The SIU has sought to extend its mandate to include all matters raised in the Zondo Commission report. Our task team is monitoring civil recovery proceedings where legal progress remains slow.

**Director delinquency proceedings**

From a legal perspective, the most effective avenue to charge former directors and officials is through delinquency proceedings under the Companies Act, 2008. DPE is coordinating this process across all SOCs. Eskom has compiled detailed evidence relating to all implicated former directors and to in the delinquency proceedings.

**Reporting of former delinquent directors and officials to the relevant professional body**

The South African Institute of Chartered Accountants instituted disciplinary proceedings against Eskom’s former Chief Financial Officer, Mr Anoj Singh, and revoked his professional membership in August 2020. Similar proceedings are being considered for other implicated individuals and we are working with DPE and the Department of Justice on these matters.

**Blacklisting of suppliers**

We are investigating the option of placing a provisional block on new contracts for all implicated suppliers while awaiting the conclusion of governance processes to blacklist these suppliers. We are also reviewing our supplier disciplinary procedures and processes to allow more effective sanctions to take place more effectively going forward.

**Crime landscape risk assessment**

We are conducting a full assessment of Eskom’s crime risk management landscape together with an independent service provider, which will consider risks related to bribery and corruption, financial crime, physical asset crime, cybercrime, and money laundering. Once this assessment is concluded, a crime risk management programme will be embedded as part of Eskom’s standard operating procedures.

**Review of policies and procedures**

The task team has reviewed and considered improvements to key procurement and HR policies and procedures to improve the implementation of consequence management. These policies and procedures will be amended within the parameters of the law. We are also in the process of implementing automated systems, including price check tools, digitalisation of stock control and e-auction systems, to proactively address fraud- and corruption-related risks in the procurement of goods and services.

**Improvements to address PFMA and commercial governance processes**

Eskom has once again received a qualified opinion relating to PFMA information disclosed in the annual financial statements, as associated financial records were incomplete or accurately maintained in line with legislative requirements.

The Board is not satisfied that prior year qualification issues have been adequately addressed and considers this to be a significant focus area. Systems, controls, resources, policies and procedures as well as reporting structures will need to be enhanced to address this challenge.

**Finalisation of requirements in terms of the PFMA**

The requirement to finalise and report the PFMA in terms of the PFMA is set out in note 31 in the consolidated annual financial statements, while the basis on which the audit opinion was qualified is explained in the independent audit report.

At 31 March 2022, the closing balance of irregular expenditure amounted to R67.1 billion, the vast majority of which relates to prior year transgressions. The opening balance has been restated from R73.2 billion to R59.2 billion. The process of collecting information and reporting on irregular expenditure continues to be a focus area to reduce the occurrence of restatements in the future.

Routinely, the process of obtaining condonation from National Treasury has shown little progress for a number of years. Notice of condonation of 18 transactions valued at R57 million was received during the year. We are working with DPE and National Treasury to ring-fence historical irregular expenditure to minimise the continued impact on our annual financial statements.

The closing balance of fruitless and wasteful expenditure amounted to R5 billion at year end, of which only R2.6 million relates to the year under review. The 2021 closing balance was restated from R4.5 billion to R4.8 billion. The finalised report for the year to 31 March 2021 (2021: R2.5 billion) were reported during the year, of which the majority related to non-technical energy losses including electricity theft.

We have established a centralised Loss Control Programme to address its challenges with PFMA reporting, which includes assessing the effectiveness of the procurement compliance monitoring systems and other internal controls. A detailed audit recovery plan was developed in February 2022 and will be enhanced to address findings arising from the external audit.

Our Procurement and Supply Chain Management Department (P&SCM) has implemented several initiatives to reduce the occurrence of irregular expenditure and improve commercial governance processes through its procurement roadmap. In line with the conditions of the Special Appropriation Act, 2019, progress on the procurement roadmap is reported to National Treasury and DPE on a regular basis. The procurement roadmap aims to:

- Reduce the number of cancellations of published tenders
- Improve compliance with procurement plans
- Reduce the number of contract modifications, cancellations and deviations
- Enhance contract management and performance monitoring

Continuous reviews and monitoring are under way to limit the use of low-value procurement mechanisms and identify contracting opportunities in accordance with revised procurement procedures.

**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, and only then report the matter to Eskom, affording management an opportunity to respond to and/or rectify the matter.

A number of RIs were reported during previous financial years, despite good progress on closing out those matters within Eskom’s control, certain RIs cannot be closed out until external investigations and court cases are finalised.

Several RIs have been raised in respect of the audit of the 2022 financial year, some of which are a continuation of matters from previous financial years.

Details of the reportable irregularities, as well as the action taken and status of the respective matters, are discussed in note 52 in the consolidated annual financial statements.
Board and its Committees

Goverance of the group and responsibility for promoting good corporate governance is vested in the Board, supported by its committees and the Group Company Secretary.

Board composition and appointments
The shareholder approved the appointment of all directors in accordance with our MOI and nomination requirements outlined in Government’s Handbook for the Appointment of Persons to Boards of State-Owned Enterprises (SOCs). The shareholder is responsible for filling Board vacancies and for managing targets for racial, gender, age and disability diversity, as well as succession and planning for the Board. The People and Governance Committee (PGC) assists the shareholder by identifying and highlighting skills, experience and diversity needs of the Board, where required.

In terms of our MOI, the Board may consist of a maximum of 15 directors. The majority of the Board must be independent non-executive directors, and there must be at least two executive directors. Non-executive directors are appointed for a period of three years, reviewable at the annual general meeting, and may not serve more than three consecutive terms.

Ms Nelsile Magubane was appointed as an independent non-executive director and chairperson of the Investment and Finance Committee (IFC) with effect from 15 August 2021. Ms Busisiwe Mavuso was subsequently appointed as acting chairperson of the committee.

Consequently, the Board comprised only eight directors at year end, including six independent non-executive directors and two executive directors. The Board requested the shareholder to appoint additional non-executive directors, in line with the skills and diversity needs identified by PGC.

After year end, Ms Busisiwe Mavuso resigned as an independent non-executive director with effect from 27 September 2022.

On 30 September 2022, the shareholder announced the appointment of 12 new Board members with effect from 1 October 2022. The terms of Prof. Malegapuru Makgoba, Prof. Tshogo Mongalo, Dr Banothile Makhubela and Dr Pulane Molokoane ended on 30 September 2022 and were not renewed, while Dr Rod Crompton, the GCE and the CFO remained from the previous Board. The new Board is now fully constituted with 15 directors.

Refer to “Board restructuring” on pages 10 and 11 for the Board composition at year end and at 1 October 2022.

Mr André de Ruyter announced his resignation as Group Chief Executive on 14 December 2022. He will continue to serve in the position until 31 March 2023 to ensure continuity while a successor is recruited.

Board committees
The Board is supported by various committees, to which it delegates authority without diluting its own accountability. These committees exercise their authority in accordance with terms of reference approved by the Board, and define their composition, mandate, roles and responsibilities. The terms of reference of each committee are aligned to the DoA.

All Board committees are comprised of and chaired by independent non-executive directors. When required, the GCE, CFO, GCOO and senior management from various functional areas attend committee meetings as officials.

Board evaluation
Although King IV recommends that board evaluations be performed every second year, we conduct one annually in line with DEF’s SOC Board Evaluation Framework.

In July 2021, an external service provider conducted an independent board evaluation for the 2021 financial year. Based on the findings, a feedback report was submitted to the shareholder and the Board improvement plan was updated to monitor progress in addressing areas of concern.

The board evaluation covered the same themes as the Board’s self-assessment for the 2020 financial year, with each area discussed in further detail below. The average scores (out of 5) achieved across each area are shown below.

A follow-up board evaluation was conducted by an independent service provider in July 2022 to measure progress against the Board improvement plan during the 2022 financial year. The evaluation concluded that close to 60% of the recommendations in the Board improvement plan had been adequately addressed. The report was approved by the previous Board in September 2022 for consideration by the shareholder.

Board composition, skills and experience
The Board was dissatisfied with its size. The lack of a fully constituted Board led to skills and experience gaps which needed to be addressed, particularly in the areas of Grupo, finance, corporate finance, electrical engineering and large project management. Requests to appoint additional non-executive directors were submitted to the shareholder, to strengthen the Board and address its diversity needs. A fully constituted Board was appointed from 1 October 2022.

Board responsibilities
The Board’s involvement in operational matters limited its focus on oversight, strategic planning and emerging issues. The terms of reference and agendas for the Board and its committees are being structured to address strategic oversight matters more clearly.

The most recent review of the DoA focused on the mandate of IFC, to withdraw the Board’s involvement in the approval of procurement transactions. Work is under way to review the DoA and the SMR to adequately address the Board’s involvement in, and management’s responsibility for, other operational matters.

Vacancies in the Office of the Company Secretary are being filled to address capacity constraints. The Office of the Company Secretary is reviewing the Board’s continuing education programme to address its training needs; the Board attended a number of site visits and training interventions facilitated by the Institute of Directors in South Africa NPC during the year.

Ethical leadership
Although the Board affirmed a zero tolerance towards unethical behaviour, the lack of assurance regarding Eskom’s ethical culture and inconsistent application of consequence management were highlighted by the Board as areas for improvement.

An ethics risk assessment was conducted by The Ethics Institute to enhance Eskom’s ethics strategies and policies. Furthermore, Eskom’s culture transformation programme has been developed to deliver a high-performance ethical culture. Feedback on consequence management has been improved with the implementation of the Fraud Risk Prevention Plan and regular reporting to relevant Board committees.

Actions taken to address unethical behaviour are discussed in Progress on governance clean-up on page 52. The ethics risk assessment is discussed in more detail in “Ethics based on our values” on page 65.

Board meetings
The quality and latency of submissions to the Board and its committees, as well as the inordinate number of meetings, were highlighted as a concern. Board committee calendars have been reviewed to ensure meetings are scheduled annually in advance with an agenda plan to provide direction on matters to be covered at each meeting, although special meetings may be convened to address pressing issues.

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

The Board concluded that the appointment of additional non-executive directors was urgently required for its committees to be adequately constituted, in particular IFC following the resignation of its chairperson in August 2021. Furthermore, the Board acknowledged that ARC needed to be strengthened with appropriate skills and experience in finance and assurance.

As mentioned, the mandate of IFC has been revised to remove the Board’s involvement in the approval of procurement transactions and strategic oversight matters more clearly.

Sustainability
The Board was satisfied with its oversight of safety, health, quality, environmental, social and financial sustainability through its Social, Ethics and Sustainability Committee (SES). The committee reports to the Board on these matters on a quarterly basis. Management is considering improvements in reporting investors’ environmental and social sustainability requirements to JIC, to enhance decision-making.

Relationship with management
The Board understood its responsibility for oversight and to hold executive management accountable for performance. The performance of the GCE is required to be assessed and approved at PGC annually.

Succession planning for executive management is an area of focus, with the process managed through an executive talent board and the GCEO. Vacant executive positions have been filled, in line with PGC’s approval authority.

Stakeholder engagement
The Board was satisfied that it had identified all key stakeholders, their significance and role. The Board was further satisfied that it sets the direction for reporting to stakeholders, to enable informed decision-making. The relationship with Parliament of the Fraud Risk was identified as an area for improvement. The Government and Regulatory Affairs Division is enhancing processes to ensure Eskom satisfies its reporting requirements with all key stakeholders, in accordance with Eskom’s stakeholder engagement strategy.

For further information on stakeholder engagement, refer to “Our strategic context – Stakeholder engagement” on page 42.

Board Chairman
The Board was satisfied that the Interim Chairman provided overall leadership without limiting the principle of collective responsibility for Board decisions, was effective in executing his duties, and ensured that the Board maintained a strong relationship with the shareholder.

The Board had requested the shareholder to finalise the permanent appointment of the chairman. The term of the Interim Chairman, Prof. Malegapuru Makgoba, ended on 30 September 2022 and Mr Mpho Makwana was appointed as Chairman with effect from 1 October 2022.

The Board concluded that the appointment of additional non-executive directors was urgently required for its committees to be adequately constituted, in particular IFC following the resignation of its chairperson in August 2021.
REPORT BY THE BOARD
FOR THE YEAR ENDED 31 MARCH 2022

Number of meetings
Ten meetings were held during the year.

Membership
Refer to the Board composition at 31 March 2022 on page 10

Purpose
The Board fulfills the primary roles and responsibilities of a governing body outlined in King IV™ by:

• Setting the strategic direction of the organisation, and

• Governing body outlined in King IV™ by:

Purpose
Refer to the Board composition at 31 March 2022 on page 10

Ten meetings were held during the year.

REPORT BY THE AUDIT AND RISK
COMMITTEE
FOR THE YEAR ENDED 31 MARCH 2022

Number of meetings
Ten meetings were held during the year.

Membership (at year end)
Three independent non-executive directors:

Dr Pulane Molokwane (chairperson), Dr Rod Crompton and Prof. Tahapo Mongalo

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

Purpose
The committee’s roles and responsibilities include:

• The statutory functions of an audit committee set out in the Companies Act, 2008 and the PFMA, 1999, including oversight of internal and external audit functions, financial reporting, internal control systems, as well as risk and compliance management

• Oversight of risks and opportunities and governance of the control and technology

• Serving as the statutory audit committee for Eskom’s wholly-owned subsidiaries, with the exception of Escop, which has its own audit committee in terms of the Insurance Act, 2017

Key activities during the year
The committee considered the following and, where required, recommended matters for approval or noting by the Board:

Group annual financial statements, the integrated report and related documents for the 2021 financial year; as well as interim group financial statements for the 2022 financial year

Escalating arrear municipal debt and progress on initiatives under the municipal debt management strategy

Progress on digitalisation initiatives, IT licensing risks, as well as the withdrawal of software support services by Oracle

The AAF Charter and PFMA compliance management plan

The three-year rolling strategic audit plan, as well as progress on and amendments to the 2022 audit plan

The insurance plan and budget for the 2023 financial year

In addition, the committee monitored and considered reports on the following areas:

• Quarterly shareholder reports to the shareholder, covering Eskom’s financial, operational, environmental, social and governance performance as well as risks and opportunities

• Financial performance and liquidity, IT governance and performance; PFMA compliance; enterprise risk and resilience, including black-start capability and readiness; forensic and technical investigations; and feedback on new law, litigation and other significant matters

To address the prior year’s focus areas, the committee:

• Considered risks relating to financial reporting, the potential impairment of assets and Eskom’s status as a going concern for the 2021 annual financial statements

• Recommended the appointment of the external auditors and associated fees

Future focus areas
Focus areas for the coming year include:

• Considering liquidity risks, sustainability risks relating to financial reporting, Eskom’s status as a going concern, as well as efforts to improve the income statement and strengthen the balance sheet

• Reviewing the effectiveness of risk and compliance management and the internal control environment, together with consequence management, to ensure that contraventions are appropriately addressed

• Exercising ongoing oversight of information and technology management

• Monitoring of combined assurance, including overseeing the internal audit function and the external audit process

• Overseeing the preparation of the annual financial statements of Eskom and its subsidiaries

Conclusion
The committee adopted an appropriate formal terms of reference, regulated its affairs in compliance with its terms of reference and was satisfied that it had discharged its responsibilities contained therein. Furthermore, 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 Board acknowledged that the committee needed to be strengthened with appropriate financial skills.

Subsequent to year end
Following the appointment of the new Board, the committee has been strengthened with appropriate financial skills.

Ms Fatima Gany (chairperson), Dr Rod Crompton, Ms Ayanda Mafuleka, Mr Leslie Mbahela, Dr Busisiwe Vilakazi and Dr Claudelle von Eck

The committee considered the delayed publication of Eskom’s annual financial statements, the reportable irregularities raised by the external auditors and several key audit matters, including the restatement of prior period errors as well as findings and control deficiencies emanating from the lack of compliance with well-documented policies and procedures.

Refer to the report of the Audit and Risk Committee in the annual financial statements for further information.

The committee also assessed the ability of Eskom to continue to operate as a going concern in the foreseeable future and acknowledged that there are various dependencies and material uncertainties that might impact the going-concern assessment. The committee recommended to the Board that the adoption of the going-concern basis of accounting was appropriate with the commitment of support by Government.

Refer to note 3.2 in the annual financial statements for the going concern assessment.
ASSURANCE AND CONTROLS

The Board, through ARC, is responsible for setting the direction for assurance, risk management, controls, compliance and the governance of technology and information. ARC provides independent oversight of these functions. A&F, our internal audit and forensics function, reports directly to ARC to maintain its independence from executive management. ARC approves A&F’s Charter, as well as an annual risk-based audit plan and a resource plan to address the complexity of risks facing Eskom.

Combined assurance

We apply a combined assurance model that includes a combination of supervision, management and assurance across various functions, culminating in oversight by ARC and the Board. Collectively, these enable an effective control environment, provide reasonable assurance and support the integrity of information for decision-making and reporting to stakeholders.

GOVERNANCE

Governance requires improvement in respect of compliance with applicable laws and regulations

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

The design of internal controls is adequate, although application is partially effective. Control deficiencies were identified relating to contract management, supply chain management, plant management and operational technology procedures, among others.

FINANCIAL CONTROLS

The system of internal financial controls is adequate and provides a reasonable basis for the preparation of Eskom’s financial statements

ARC has concluded that the combined assurance model is adequate; however, monitoring and assessment of the execution of controls needs to be enhanced internally, to proactively address control deficiencies and prevent recurrence of findings. The compliance framework requires continued focus in its application, especially in terms of PFMA requirements and contract management. Consequence management needs to be improved to address non-compliance with well-documented policies, process control manuals and procedures. Furthermore, the need for additional resources and skills in the finance function and A&F were noted. Despite these shortcomings, the system of internal financial controls and compensating measures provide a reasonable basis for the preparation of Eskom’s financial statements.

REPORT BY THE INVESTMENT AND FINANCE COMMITTEE

FOR THE YEAR ENDED 31 MARCH 2022

Number of meetings

Ten meetings were held during the year.

Membership (at year end)

Two independent non-executive directors:

Ms Busisiwe Mavuso (acting chairperson) and Dr Banthabile Makhubela

Collectively, members’ qualifications or experience included commerce and industry, accounting, chemistry and the public sector.

Purpose

The committee’s responsibilities include:

• Oversight of financial budgets, capital and borrowing programmes, and procurement strategies
• Approval of business cases for new ventures, capital investments, projects and other commercial matters
• Monitoring the concept, design and execution phases 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 for or noting by the Board:

• Submission to NERSA of the regulatory clearing account (RCA) balance application for the 2021 financial year and the MYFD $5 revenue application for the 2023 to 2025 financial years
• The funding solution for Eskom Finance Company SOC Ltd given that the disposal has been placed on hold
• The strategic direction of the Medupi five gas desulphurisation (FGD) project to complete selection of the technology solution and resolve funding constraints before proceeding
• Progress on the Koeberg long-term operation (LTO) project
• The Transmission Development Plan for the 2022 to 2031 financial years
• Treasury reports and progress on the borrowing programme
• Investment monitoring reports and the status of the capital investment plan and associated risks

To address the prior year’s focus areas, the committee:

• Approved a short-term cross-border pricing strategy for negotiating power supply agreements with cross-border customers
• Evaluated power purchase agreements with preferred bidders through the Risk Mitigation IPP Procurement Programme

In addition, the committee considered and approved matters within its approval mandate, and considered and recommended those above its approval limits to Board.

These matters included various procurement strategies, capital investment approvals or revisions, as well as other commercial decisions.

Future focus areas

Focus areas for the coming year include:

• Monitoring the funding available for refurbishment and maintenance plans for the 2023 financial year
• Considering standard tariff plans, structures and rates, as well as regulatory applications and NERSA decisions
• Executing ongoing supervision of financial plans and business cases, as well as setting criteria and guidelines for capital investments

Conclusion

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

Subsequent to year end

Following the appointment of the new Board, the Investment and Finance Committee consists of five independent non-executive directors:

Ms Tryphosa Ramano (chairperson), Mr Lwazi Gogwana, Mr Clive Le Roux, Dr Tsakani Mthombeni and Mr Mteo Nyati

Refer to the report of the Audit and Risk Committee and the independent auditor’s report in the annual financial statements for further information.
**REPORT BY THE PEOPLE AND GOVERNANCE COMMITTEE**

**FOR THE YEAR ENDED 31 MARCH 2022**

**Number of meetings**
Four meetings were held during the year.

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

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

**Purpose**
The committee’s responsibilities include:
- Succession planning and nomination of executives
- Governing, public sector and medicine.
- Collectively, members’ qualifications or experience
- Prof. Malegapuru Makgoba and Ms Busisiwe Mavuso
- Prof. Tshepo Mongalo (chairperson),
- Ms Fathima Gany, Mr Clive le Roux, Mr Leslie Mkhabela,
- Dr Claudelle von Eck (chairperson), Ms Fathima Gany,
- Mr Clive le Roux, Mr Leslie Mkhabela, Mr Bhiki Nthalimsang and Mr Miete Nyati

**Future focus areas**
Focus areas for the coming year include:
- Monitoring leadership continuity
- Revising performance management principles for executives and senior management
- Overseeing the development of a fit-for-purpose future skills strategy, taking into consideration the outcome of Eskom’s skills audit
- Monitoring the implementation of Eskom’s culture transformation programme
- Finalising Eskom’s executive remuneration policy in line with DPE’s latest guidelines, subject to DPE’s feedback
- Monitoring the human capital impact and change management processes relating to Eskom’s turnaround plan and digitalisation initiatives

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

**Subsequent to year end**
The new Board has resolved to revise the committee’s mandate to transfer governance-related matters to the Board Strategy Committee Board and change the name of this committee to the Human Capital and Remuneration Committee.

The Human Capital and Remuneration Committee comprises six independent non-executive directors:
- Dr Claudelle von Eck (chairperson), Ms Fathima Gany, Mr Clive le Roux, Mr Leslie Mkhabela, Mr Bhiki Nthalimsang and Mr Miete Nyati

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**REMUNERATION AND BENEFITS**

**Our approach to remuneration**
PGE is mandated by the Board to provide oversight of key human resources policies in Eskom, including a remuneration philosophy which is fair, transparent, responsible and equitable. Our approach to remuneration is intended to support Eskom’s strategic objectives, encourage value creation and advance long-term sustainability through:
- Adoption of the King IV TM principles for the remuneration of directors and executives
- Implementation of DPE’s guidelines on remuneration and incentives for executives, prescribed officers and non-executive directors of SOCs
- Alignment with the shareholder compact, which sets clear targets and drives individual and organisational performance

We are engaging with DPE to ensure alignment of our remuneration policy for executives and non-executive directors with their 2023 guidelines. The policy will be updated and finalised in the coming year, based on DPE’s review of our proposal.

Remuneration of managerial and bargaining unit employees is discussed under “Our people – Remuneration and benefits” from page 123.

**Remuneration practices for directors and executives**

**Non-executive directors**
Non-executive directors receive a fixed monthly fee, guided by DPE, and are reimbursed for expenses incurred in fulfilling their duties. Where applicable, PGE submits proposals on non-executive remuneration to the Board, which considers and makes recommendations to the shareholder for approval, in line with DPE’s guidelines.

**Executives**
We aim to attract and retain executive management in a competitive market on a fair and equitable basis, and reward performance that supports the achievement of organisational objectives and exceeds expectations. PGE is responsible for determining executive remuneration, in line with DPE’s guidelines, and conducts an annual review of executive packages, based on external benchmarking. Executives are not involved in the approval process, and PGE maintains the right to adjust, withhold or veto any remuneration.

Executive remuneration is designed to demonstrate a clear relationship between performance and remuneration and is based on the principles below. The conditions of the Special Appropriation Act, 2019 have prohibited incentive payments to executives since the 2019 financial year as well as increases in executive guaranteed remuneration since the 2021 financial year. Given Eskom’s financial constraints, no incentives have been paid and no increases have been awarded to executives since the 2018 financial year.

**Guaranteed remuneration**
Guaranteed 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.

**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.

**Total remuneration for directors and group executives**

<table>
<thead>
<tr>
<th>Category, R 000</th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-executive directors</td>
<td>5 274</td>
<td>5 945</td>
</tr>
<tr>
<td>Executive directors</td>
<td>12 182</td>
<td>12 151</td>
</tr>
<tr>
<td>Other group executives</td>
<td>24 191</td>
<td>23 002</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>41 627</td>
<td>41 098</td>
</tr>
</tbody>
</table>

Refer to note 49 in the consolidated annual financial statements for detailed remuneration information as required by King IV TM.

Housing loans to executive directors and other group executives are disclosed in the consolidated annual financial statements. No loans have been made to non-executive directors.

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REPORT BY THE SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE
FOR THE YEAR ENDED 31 MARCH 2022

Number of meetings
Five meetings were held during the year.

Membership (at year end)
Three independent non-executive directors:
Prof. Malegapuru Makgoba (chairperson),
Mr. Malegapuru Makgoba and Dr Pulane Molokwane
Collectively, members’ qualifications or experience included 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 set out in the Companies Act, 2008
• Oversight of socio-economic development: good corporate citizenship, environmental, climate change, health and safety programmes; and the assurance of key performance indicators through the sustainability audit
• Supervision of nuclear strategies and policies, 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:
• Operational and environmental sustainability performance, including challenges and mitigating measures
• Human resources sustainability and compliance with labour and employment regulations, as well as occupational health and safety performance
• Progress on the capacity expansion programme
• Initiatives to improve Eskom’s B-BBEE rating and socio-economic transformation, including supplier development, localisation and industrialisation
• Corporate social investment, stakeholder engagement and customer relations
• Nuclear oversight, nuclear waste management and associated risks
• Ethics reports and progress on forensic and anti-corruption initiatives

To address the prior year’s focus areas, the committee:
• Monitored Eskom’s transformation and progress on the turnaround plan
• Reflected on compliance with the principles of the UN Global Compact and the OECD recommendations on anti-corruption
• Considered environmental performance, including contraventions and non-compliance notices, as well as risks relating to ash disposal facilities

Future focus areas
Focus areas for the coming year include:
• Executing ongoing supervision of stakeholder management and environmental sustainability matters
• Overseeing Eskom’s ethics review to improve the ethics management strategy and related policies and procedures
• Driving improved financial and operational sustainability through Eskom’s transformation

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

Subsequent to year end
Following the appointment of the new Board, the Social, Ethics and Sustainability Committee consists of eight independent non-executive directors:
Mr. Bheki Ntsalintshali (chairperson), Dr Rod Crompton,
Ms Festina Gany, Mr. Clay Le Roux, Mr Leslie Phakabelu,
Dr Tsakani Mthombeni, Dr Busisiwe Vilakazi and
Dr Claudelle von Eck

The Board, through its Social, Ethics and Sustainability Committee, is responsible for the governance of ethics in Eskom, by establishing an ethical culture and providing oversight of ethics strategies and policies in accordance with King IV.

Adherence to our Code of Ethics, known as the “The Way”, is not optional. It is the way we do business in Eskom, guiding the way in which the Board and employees interact with one another as well as with our shareholder, customers, suppliers, the public, other stakeholders and the environment.

“The Way” is defined by six core values, which form the foundation of our values-driven organization and reflect our commitment to the highest standards of governance and ethical behaviour:

- 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

We believe so strongly in the importance of these values that a values-driven culture is one of the cornerstones of the aspirational high-performance ethical culture outlined in Eskom’s culture transformation programme. The programme is a key enabler of our turnaround plan.

For further information on Eskom’s culture transformation programme, refer to “Our people – Organisational effectiveness” on page 125.

A dedicated Ethics Office is responsible for developing ethics policies and procedures and monitoring the effectiveness of their implementation. The Ethics Office also facilitates annual ethics training, which is mandatory for all employees, and provides guidance on ethical issues in the workplace. Any potential breaches of ethics that may involve fraud and corruption are referred to A&F for further investigation.

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

Directors and employees across all occupational levels are required to 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. Any interests declared by directors and Esko members in meetings are minuted for the record. A&F reviews directors’ declarations on an annual basis.

All members of the Board and Esko completed their declarations for the 2022 financial year and any identified conflicts are managed appropriately.

No Eskom 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 due to any director doing business with Eskom.

A&F facilitates proactive compliance reviews and probity checks for procurement transactions over R500 million for approval at relevant Exco, divisional and Board committees. Where these reviews find that the requirements of Eskom’s P&SCM procedures and the Preferential Procurement Policy Framework Act, 2000 have not been adhered to then the non-compliance is rectified.

Any director, employee or supplier who is found to have contravened ethics policies and procedures or the DoA will be subject to disciplinary processes.

As mentioned in last year’s report, we commissioned The Ethics Institute to perform an independent ethics risk assessment to determine potential ethics opportunities, as well as unethical behaviours and practices that place Eskom at risk. Management interviews and a company-wide survey were conducted to assess the current state of ethics in the organisation, as perceived by our employees. The assessment highlighted the maturity of ethics awareness in Eskom, although improvement is required in accountability, transparency and addressing the lack of trust. The results will be used to better manage ethics-related risks through an ethics risk register, and inform the review of our ethics management strategy. High-risk areas will be subject to greater focus for ethics training and consequence management.

We are committed to the fight against fraud, corruption, irregularities and other forms of economic crime. 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. We also subscribe to the OECD recommendations on anti-corruption.

We encourage all stakeholders to report unlawful or irregular conduct involving Eskom’s directors, employees or suppliers through an independent, confidential whistle-blowing hotline.

Refer to the inside back cover for the contact details of our toll-free whistle-blowing hotline.
REPORT BY THE BOARD STRATEGY COMMITTEE
FOR THE YEAR ENDED 31 MARCH 2022

Number of meetings
Five meetings were held during the year.

Membership (at year end)
Two independent non-executive directors:
Dr Rod Crompton (chairperson) and
Prof. Malegapuru Makgoba
Collectively, members' qualifications or experience included commerce and industry, economics, energy, medicine and the public sector.

Purpose
The committee’s responsibilities include:
• Oversight of Eskom’s response to and implementation of Government directives, roadmaps and policy documents relating to the restructuring of Eskom and the electricity supply industry.
• Making recommendations to the Board on Eskom’s long-term strategy, including the Just Energy Transition, legal separation and the transfer of assets, liabilities and resources.
• Interacting with Government and associated offices on these matters.

Key activities during the year
The committee considered the following and, where required, recommended matters for approval or noting by the Board:
• Progress on the establishment of an Independent Transmission System and Market Operator, as well as Distribution’s role in the future distribution industry.
• Eskom’s JET strategy and roadmap, and the international funding announced during COP26.
• Progress on Generation’s strategic repurposing and repowering of ageing coal-fired power stations and Transmission’s infrastructure expansion and grid planning projects, and associated funding.
• Electricity tariff optimisation and feedback on revised tariff structures submitted to NERSA based on an updated cost-to-serve model.
• Initiatives and levers to address the debt burden, together with the classification of debt, core assets and non-core assets and Eskom’s legal separation.
• Progress on digitalisation and leveraging of data to enable Eskom’s strategy and digital business transition.

To address the prior year’s focus areas, the committee:
• Monitored development of Eskom’s Integrated Long-Term Plan, 2035 Corporate Strategy and Corporate Plan for the 2023 to 2027 financial years.
• Requested feedback on the turnaround plan, in particular the legal separation of Transmission, Generation and Distribution as well as initiatives to address financial sustainability.
• Considered Eskom’s culture transformation programme and policy to address the future world of work.

Future focus areas
Focus areas for the coming year include:
• Shaping Eskom’s long-term strategy and the Just Energy Transition.
• Overseeing turnaround plan initiatives, in particular Eskom’s legal separation and efforts to improve the income statement and strengthen the balance sheet.
• Overseeing interactions with Government on the legal separation of Eskom, as well as the implementation of associated directives, roadmaps and policies.
• Providing direction and recommendations on the new market structure, including amendments to legislation, regulations, licences, methodologies and Grid Codes.
• Monitoring the organisational culture transformation.
• Determining appropriate separation of Eskom’s commercial and non-commercial activities.

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

Subsequent to year end
The new Board has resolved to revise the committee’s mandate to include governance-related matters and change the name of this committee to the Governance and Strategy Committee.

BUSINESS OPERATIONS PERFORMANCE COMMITTEE

In October 2022, the new Board recommended the establishment of a Business Operations Performance Committee to provide oversight of Eskom’s operational performance, including the assessment of performance against key targets. The establishment of the committee is subject to shareholder approval.

The committee was established subsequent to year end, therefore, no key activities or decisions are reported in respect of the year ended 31 March 2022.

The committee consists of eight independent non-executive directors:
Mr Mteto Nyati (chairperson), Dr Rod Crompton, Mr Lwazi Goqwana, Mr Clive le Roux, Ms Ayanda Mafuleka, Dr Tsakani Mthombeni, Ms Tryphosa Ramano, Dr Busisiwe Vilakazi

Purpose and future focus areas
The committee’s responsibilities and focus areas include:
• Providing oversight of:
  o Eskom’s technical performance and operational issues, including production, customer services and related policies and procedures, as well as safety, security, health, environmental and insurance matters which are not dealt with by the Social, Ethics and Sustainability Committee.
  o Coal, nuclear and renewable primary energy carriers.
  o The adequacy of electricity supply.
  o Progress against agreed shareholder compact and key Corporate Plan targets relating to the production of electricity, such as the energy availability factor.

• Reviewing:
  o Progress achieved through production and operational strategic initiatives.
  o Proposed changes to measures reported in the Operational Health Dashboard and operational reports, including relevant operational metrics.
  o Outcomes from major technical investigations and technical audits conducted by A&F.
  o Providing guidance on:
    o Production and operational risks, as well as the appropriateness of mitigation plans.
    o Stakeholder feedback and public communication plans.

The Governance and Strategy Committee comprises six independent non-executive directors:
Mr Mpho Makwana (chairperson), Ms Fatimah Gany, Mr Bheki Ntshalintshali, Mr Mteto Nyati, Ms Tryphosa Ramano and Dr Claudelle von Eck.

Who we are and how we create value
Our strategic context
Goverance, leadership and ethics
Financial review
Operating performance
Supplementary information
KING IV™ APPLICATION

King IV™ assessment and focus areas

Based on an assessment for the year ended 31 March 2022, our overall implementation of the King IV™ principles and practices remains partially effective. Although many of the required practices are in place and have been for many years, the Board acknowledged that not all of the King IV™ principles have been effectively adhered to.

Eskom’s King IV™ application register for the year ended 31 March 2022 is available online

This summary focuses on key governance developments during the year, as well as initiatives to address the King IV™ focus areas. Principles considered to be implemented effectively in previous reports continue to remain effective and are not highlighted below.

Principle 1 The Board should lead ethically and effectively

Principle 2 The Board should govern the ethics of Eskom in a way that supports the establishment of an ethical culture

Various initiatives are under way to improve the governance of ethics, particularly in respect of the implementation of ethics policies as well as consequence management. Ethics and PFMA training interventions to promote ethical behaviour are now mandatory for all employees on an annual basis. Furthermore, the Ethics Office has been capacitated through the appointment of additional resources.

Refer to “Progress on governance clean-up” from page 52 and “Ethics based on our values” on page 65 for further information on these initiatives.

Principle 7 The Board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively

The Board recognised the need to strengthen its membership with additional non-executive directors to ensure that its committees are adequately constituted. In particular, the Board recognised that ARC required members with appropriate skills and experience in finance and assurance and that IFC was not adequately capacitated.

On 30 September 2022, the shareholder announced the appointment of 12 new Board members, with effect from 1 October 2022. The Board is now fully constituted with 15 directors in terms of the MOI.

Principle 8 The Board should ensure that its arrangements for delegation within its own structures promote independent judgment, and assist with balance of power and the effective discharge of its duties

The conditions of the Special Appropriation Act, 2019, have, to some extent, limited the autonomy of the organisation in respect of decisions relating to annual increases and incentive bonuses.

Governing 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 risk, technology and information, compliance and assurance to ARC. The governance of technology and information as well as compliance are discussed in further detail below.

Key risks and opportunities facing the organisation are discussed in “Our strategic context – Integrating risk and resilience” from page 45. Our approach to combined assurance is discussed in “Assurance and controls” on page 60.

Governing technology and information

The responsibility for managing technology and information has been delegated to Exco, with Exco’s Information and Technology Committee ensuring alignment between operational technology (OT) and information technology (IT).

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

Information technology

Through ARC, the Board has adopted an IT Charter and policies to provide direction on how information technology is managed in the organisation to ensure the confidentiality, security, integrity and availability of information. Group IT has established strategic forums to oversee IT governance, compliance, assurance, risk and resilience, cloud and data management, IT investments, as well as cyber-security.

A roadmap has been developed to improve cyber-security for operational technology and information technology over the next five years. Furthermore, we are investigating the utilisation of data analytics and conducting research on blockchain and artificial intelligence technologies, in line with the shareholder’s expectations.

Operational technology

The Technical Governance Committee reports to Exco’s Operating Committee and is responsible for development of technical processes and standards, as well as effective management of operational technology throughout Eskom.

Compliance

The Board is accountable for compliance and governs this through the Compliance Charter and, with the assistance of ARC, oversees compliance throughout Eskom.
EXECUTIVE MANAGEMENT

Exco is established by the GCE and is supported by several subcommittees in the execution of its duties.

Refer to “Our governance framework” on page 51 for the Exco subcommittees.

Membership of Exco includes the GCE, CFO, GCOO and group executives responsible for various functional areas of the business. Both the GCE and CFO are appointed on five-year contracts; their terms end in January 2025 and December 2023 respectively, with an option to renew. All other executives are full-time employees, unless otherwise noted.

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.

The group executives for Generation, Transmission and Distribution serve as the divisional managing directors of their respective divisional boards and report directly to the GCOO.

Changes in executive leadership

The following changes took place during the year:

• Mr Philipp Dukashe was appointed as Group Executive: Generation from 1 April 2021, after acting in the position since 1 February 2021.
• Ms Mel Govender was appointed as Group Executive: Legal and Compliance from 1 October 2021.
• Ms Nerina Otto previously acted in the position.
• Ms Jainthree Sankar was appointed as Chief Procurement Officer from 1 March 2022, after acting in the position since 4 March 2021.

After year end, Mr Phillip Dukashe resigned with effect from 31 May 2022 and Mr Rhulani Mathabula was appointed to act as Group Executive: Generation. Mr Rhulani Mathabula subsequently resigned with effect from 30 November 2022. Mr Thomas Conradie is acting in the position while the recruitment process is under way.

Mr Bheki Nxumalo, previously Group Executive: Group Capital, was appointed as the Chief Executive Officer of Eskom Rotek Industries SOC Ltd with effect from 1 June 2022; the Group Capital Division now reports directly to the GCOO.

Mr Riedewaan Bakardien resigned as Chief Nuclear Officer with effect from 31 July 2022. Mr Keith Featherstone was appointed to act in the position.

Ms Mandy Rambharos, General Manager: Office of the Group Chief Executive, responsible for managing Eskom’s JET Office and driving our JET strategy, resigned with effect from 31 October 2022. Mr Vikesh Rajpaul was appointed in the position.

Mr André de Ruyter announced his resignation as Group Chief Executive on 14 December 2022. He will continue to serve in the position until 31 March 2023 to ensure continuity while a successor is recruited.
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 2022, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2008 and the PPMA, 1999.

The consolidated annual financial statements have been prepared under the supervision of the Chief Financial Officer, Mr Calib Cusim CA(SA), and were duly approved by the Board of Directors on 16 December 2022.

The consolidated annual financial statements have been audited by the group’s independent auditors, Deloitte & Touche, 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 information disclosed in note 51 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 have emphasised a number of matters in their report, including a material uncertainty relating to Eskom’s ability to continue as a going concern. However, this does not affect their opinion.

The consolidated annual financial statements, which detail the financial performance of the group and company, are available online.

The statements of financial position for the 2020 and 2021 financial years as well as the income statements and statements of comprehensive income for the 2021 financial year have been restated as a result of prior period errors identified during the external audit. All financial information presented in this report reflects the restated results where applicable.

Refer to note 48 in the consolidated annual financial statements for more information on the prior period restatements.

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.

The statements of comprehensive income and statements of changes in equity are available in the consolidated annual financial statements.
Condensed group statements of cash flows for the year ended 31 March 2022

<table>
<thead>
<tr>
<th>Description</th>
<th>2021 Restated Rm</th>
<th>2022 Rm</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss before tax</td>
<td>(15 772)</td>
<td>(33 097)</td>
<td>-</td>
</tr>
<tr>
<td>Adjustment for non-cash items</td>
<td>79 688</td>
<td>75 477</td>
<td>▼</td>
</tr>
<tr>
<td>Changes in working capital</td>
<td>(9 771)</td>
<td>(11 963)</td>
<td>- ▼</td>
</tr>
<tr>
<td><strong>Cash generated from operations</strong></td>
<td>54 145</td>
<td>30 407</td>
<td>-</td>
</tr>
<tr>
<td>Net cash (used)/generated from operating activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash (used)/generated from non-current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance income received</td>
<td>441</td>
<td>278</td>
<td>▼</td>
</tr>
<tr>
<td>Finance cost paid</td>
<td>(25)</td>
<td>(42)</td>
<td>▼</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(218)</td>
<td>(1 046)</td>
<td>▼</td>
</tr>
<tr>
<td><strong>Net cash from operating activities</strong></td>
<td>53 444</td>
<td>31 009</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cash flows used in investing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from disposal of property, plant and equipment and intangibles</td>
<td>331</td>
<td>208</td>
<td>▼</td>
</tr>
<tr>
<td>Acquisitions of property, plant and equipment and intangibles</td>
<td>(20 436)</td>
<td>(23 057)</td>
<td>▼</td>
</tr>
<tr>
<td>Acquisitions of future fuel supplies</td>
<td>(2 446)</td>
<td>(1 599)</td>
<td>▼</td>
</tr>
<tr>
<td>Net acquisitions of insurance investments</td>
<td>(2 461)</td>
<td>(1 989)</td>
<td>▼</td>
</tr>
<tr>
<td>Payments made in advance</td>
<td></td>
<td>(139)</td>
<td>▼</td>
</tr>
<tr>
<td>Cash used in provisions</td>
<td>(318)</td>
<td>(885)</td>
<td>▼</td>
</tr>
<tr>
<td>Net cash (used)/generated from derivatives held for risk management</td>
<td>170</td>
<td>(1 049)</td>
<td>▼</td>
</tr>
<tr>
<td>Net cash from loans receivable and finance lease receivables</td>
<td>212</td>
<td>299</td>
<td>▼</td>
</tr>
<tr>
<td>Dividends received</td>
<td>129</td>
<td>95</td>
<td>▼</td>
</tr>
<tr>
<td>Finance income received</td>
<td></td>
<td>(1 150)</td>
<td>▼</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(31 823)</td>
<td>(26 676)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cash flows used in financing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt securities and borrowings raised</td>
<td>33 266</td>
<td>15 754</td>
<td>-</td>
</tr>
<tr>
<td>Payments made in advance</td>
<td>(411)</td>
<td>(132)</td>
<td>▼</td>
</tr>
<tr>
<td>Debt securities and borrowings paid</td>
<td>(28 854)</td>
<td>(65 586)</td>
<td>▼</td>
</tr>
<tr>
<td>Share capital issued</td>
<td>31 493</td>
<td>36 020</td>
<td>▼</td>
</tr>
<tr>
<td>Net cash (used)/generated from derivatives held for risk management</td>
<td>(2 769)</td>
<td>7 859</td>
<td>▼</td>
</tr>
<tr>
<td>Net cash from financial trading assets</td>
<td></td>
<td>152</td>
<td>▼</td>
</tr>
<tr>
<td>Net cash used in lease liabilities and financial trading liabilities</td>
<td>(417)</td>
<td>(710)</td>
<td>▼</td>
</tr>
<tr>
<td>Finance income received</td>
<td>656</td>
<td>791</td>
<td>▼</td>
</tr>
<tr>
<td><strong>Finance cost paid</strong></td>
<td>1 014</td>
<td>(132)</td>
<td>▼</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>(22 990)</td>
<td>(21 257)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>(9 739)</td>
<td>(23 215)</td>
<td>▼</td>
</tr>
<tr>
<td><strong>Net increase/(decrease) in cash and cash equivalents</strong></td>
<td>11 882</td>
<td>(18 882)</td>
<td>▼</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>4 041</td>
<td>22 990</td>
<td>▼</td>
</tr>
<tr>
<td>Foreign currency translation</td>
<td>5</td>
<td>148</td>
<td>▼</td>
</tr>
<tr>
<td>Effect of movements in exchange rates on cash held</td>
<td>(43)</td>
<td>(185)</td>
<td>▼</td>
</tr>
<tr>
<td>Assets and liabilities held-for-sale</td>
<td></td>
<td>80</td>
<td>▼</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the year</strong></td>
<td>15 885</td>
<td>(4 041)</td>
<td>▼</td>
</tr>
</tbody>
</table>

Inflow increased ▼ Inflow decreased ▲ Outflow decreased ▼ Outflow increased ▲

**Highlights**
- Government support of R31.7 billion to strengthen the balance sheet and support going concern status, with R21.9 billion committed for the 2023 financial year.
- Tariff increases of 15.0% for the 2022 financial year and clarity on the recovery of the remaining R59 billion disallowed by NERSA, as a result of favourable court judgments.
- Eskom’s legal right to payment for services rendered to municipalities affirmed by Supreme Court of Appeal; a positive step towards arrear debt collection efforts.

**Challenges**
- Total primary energy cost up 14.7% due to increased use of more expensive OCGTs, write off of diesel rebates as well as higher production volumes from other generating sources.
- Operating cash flows remain insufficient to address high debt servicing requirements.
- Despite a gross debt reduction of R5.5 billion, net finance costs increased due to higher cost of borrowing and lower capitalisation of finance costs.
- Eskom remains reliant on Government support to service debt.

**Improvements**
- Sales volumes recovered by 3.4% as a result of higher electricity demand from many sectors.
- Revenue improved by 20.7% and EBITDA margin grew to 21.25% (2021: 15.96%), driven by favourable tariff increase and recovery in sales volume.
- Cash and cash equivalents increased to R15.9 billion at year end (2021: R14.4 billion).
- Solvency ratios improved due to favourable EBITDA performance and Government support, but remain below acceptable levels.
- Credit ratings affirmed by all three rating agencies, but concerns around operational and financial sustainability led to a Moody’s negative outlook at year end.

**Lowlights**
- Net loss after tax of R12.3 billion for the year, despite achieving an operating profit of R20.4 billion, largely due to unsustainable net finance costs.
- Continued escalation in arrear municipal debt to R44.8 billion (2021: R35.3 billion), coupled with poor payment levels and limited progress from Government interventions.

FINANCES
We make use of financial capital in the form of debt or equity to fund our operations. Debt includes both guaranteed and unguaranteed borrowings from external lenders. Equity should be created through sustainable growth 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 R12.3 billion for the year (2021: R25.5 billion), and EBITDA of R52.4 billion (2021: R32.6 billion). The EBITDA margin increased to 21.25% (2021: 15.6%), driven largely by a regulatory tariff increase of 15.06% for customers supplied directly by Eskom and an increase of 17.80% for municipal and metropolitan distributors. Further contributing to improved EBITDA performance was a recovery in sales volumes, resulting from higher electricity demand from many sectors due to the phased easing of COVID-19 lockdown restrictions and higher commodity prices. The improvement in revenue was offset by the use of more expensive primary energy sources, to alleviate generation supply constraints and avoid or minimise loadshedding, coupled with growth in other operating expenditure.

Profitability and working capital

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2021</th>
<th>Target 2021</th>
<th>Target 2022</th>
<th>Target 2022</th>
<th>Actual 2021</th>
<th>Actual 2021</th>
<th>Actual 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company</td>
<td>Electricity revenue per kWh (including environmental levy), c/kWh</td>
<td>127.32</td>
<td>101.04</td>
<td>101.86</td>
<td>127.32</td>
<td>101.04</td>
<td>101.86</td>
</tr>
<tr>
<td>Electricity operating costs, R/MinWh</td>
<td>1 256.11</td>
<td>1 121.44</td>
<td>1 008.17</td>
<td>990.31</td>
<td>1 006.36</td>
<td>990.01</td>
<td></td>
</tr>
<tr>
<td>Target 2021</td>
<td>1 256.11</td>
<td>1 121.44</td>
<td>1 008.17</td>
<td>990.31</td>
<td>1 006.36</td>
<td>990.01</td>
<td></td>
</tr>
<tr>
<td>Group</td>
<td>EBITDA, R million</td>
<td>82 805</td>
<td>51 929</td>
<td>45 113</td>
<td>52 374</td>
<td>52 360</td>
<td>52 816</td>
</tr>
<tr>
<td>EBITDA margin, %</td>
<td>26.89</td>
<td>19.70</td>
<td>19.82</td>
<td>21.25</td>
<td>15.7%</td>
<td>18.46</td>
<td></td>
</tr>
<tr>
<td>Current ratio</td>
<td>1.80</td>
<td>1.54</td>
<td>1.30</td>
<td>0.90</td>
<td>0.95</td>
<td>0.82</td>
<td></td>
</tr>
<tr>
<td>Free funds from operations (FFO), R million</td>
<td>94 573</td>
<td>59 600</td>
<td>52 992</td>
<td>43 215</td>
<td>42 972</td>
<td>41 120</td>
<td></td>
</tr>
<tr>
<td>FFO after net interest paid, R million</td>
<td>89 890</td>
<td>56 890</td>
<td>47 292</td>
<td>32 500</td>
<td>26 800</td>
<td>23 200</td>
<td></td>
</tr>
</tbody>
</table>

Although most financial ratios performed better than target and mostly improved compared to the previous year, Eskom’s standalone long-term financial sustainability remains dependent on the migration towards costs reflective tariffs, a solution to Eskom’s debt burden and recovery of arrear debt from delinquent municipalities. Resolving these challenges and strengthening Eskom’s financial position will take time.

Sales and revenue
Net electricity revenue for the group amounted to R240.4 billion (2021: R206.2 billion), an increase of 20.1% compared to the prior year. Excluded from this amount is pre-commissioning revenue of R1.1 billion relating to Medupi and Kusile capitalised during the year (2021: R4 billion).

Over the past decade, Eskom has been experiencing a declining sales trajectory, averaging around a 1% reduction in sales volumes per year. The 2021 financial year saw an unprecedented 6.7% decline in sales volumes due to the slowdown of the economy amid the COVID-19 lockdown. Sales volumes have partially recovered in the 2022 financial year, increasing by 3.4% to 198.3TWh (2021: 191.9TWh).

Primary energy
Primary energy costs (including coal, diesel and water) increased by 14.7% to R312.4 billion (2021: R275.5 billion), accounting for the majority of the growth in operating costs during the year. Growth in IPPs, coal and Eskom-owned OCGT costs were the major contributing factors as a result of increased production from these sources, combined with price escalations, particularly in diesel and fuel oil. Altogether, production volumes increased by 6.47TWh to meet the higher electricity demand experienced during the 2022 financial year. In addition, SARS has disallowed certain rebates relating to Eskom’s diesel use over several years and denied our appeal on the matter in October 2022. Due to uncertainty around the recovery of the rebates, the receivable of R3.6 billion at year end has been written off, with a corresponding increase in primary energy costs. We are pursuing the necessary legal processes to address this dispute.

Growth in sales volumes was achieved across almost every customer category, with the industrial, mining and rail sectors in particular benefiting from the recovery of global commodity markets. This led to improved profit margins, driven higher production by large mines and smelters as well as increased freight demand. Regrettably, the rail industry continues to experience cable theft and infrastructure vandalism, thereby hampering further growth. Residential prepayment was affected by lower consumption due to depressed economic conditions as well as theft through illegal connections and meter tampering.

Due to the long-lasting impact of the economic recession, as well as shifts to self-generation technology, demand is not expected to recover to pre-COVID-19 levels in the short to medium term. Our Corporate Plan reflects a gradual decline in sales volumes from around 194TWh to 190TWh over the next five years.

We are engaging with customers on the market dynamics of their sectors and collaborating with Government to assist vulnerable sectors in a sustainable manner. A number of applications have been received for short- and long-term negotiated pricing agreements (NPAs); these are being adjudicated by NERSA in terms of the requirements of DME’s NPA framework.

Operating costs
Operating expenses, R billion

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses</td>
<td>220.5</td>
<td>230.5</td>
<td>240.5</td>
<td>250.5</td>
<td>260.5</td>
</tr>
</tbody>
</table>

The following graph sets out the breakdown of primary energy costs, net of pre-commissioning and capitalised and lease accounting adjustments. The contribution of the particular source to primary energy costs and total TWh energy produced is provided in brackets.

Primary energy breakdown

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal and other generation</th>
<th>Nuclear generation</th>
<th>IPPs</th>
<th>OCGT generation</th>
<th>Environmental levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>R73.1 billion (76%)</td>
<td>R19.7 billion (23%)</td>
<td>R10 billion (11%)</td>
<td>R10.0 billion (11%)</td>
<td>R7.7 billion (8%)</td>
</tr>
<tr>
<td>2021</td>
<td>R71.7 billion (78%)</td>
<td>R15.0 billion (17%)</td>
<td>R10 billion (11%)</td>
<td>R9.5 billion (11%)</td>
<td>R7.0 billion (7%)</td>
</tr>
<tr>
<td>2020</td>
<td>R70.1 billion (74%)</td>
<td>R13.6 billion (15%)</td>
<td>R8.5 billion (9%)</td>
<td>R8.5 billion (9%)</td>
<td>R6.7 billion (8%)</td>
</tr>
</tbody>
</table>

Our own generation costs increased by 16.5% to R84.4 billion (2021: R71.5 billion), excluding the environmental levy. Total coal-fired generation costs, excluding the environmental levy, increased by 8.7% to R73.6 billion (2021: R67.7 billion). Production volumes from commissioned coal-fired stations increased by 3%, while the increase in the average coal purchase cost per ton was contained to just 2.1%.

Expenditure on Eskom-owned OCGTs increased by 14.6% to R10 billion largely due to the write-off of the diesel rebate receivable, coupled with higher diesel prices and a 25.3% increase in production to 1.826GWh (2021: R4.1 billion to produce 1.675GWh). The OCGT load factor increased to 8.7% (2021: 6.5%) to ensure system stability during periods of supply constraints.

IPPs expenditure grew by 14.2% due to more extensive use of IPP OCGTs and higher production from renewable IPPs, coupled with higher diesel prices. The total expenditure on IPP OCGTs (after the lease accounting adjustment of R1.5 billion) amounted to R4.6 billion to produce 896GWh (2021: R2.9 billion to produce 704GWh), while R30.6 billion was spent on renewable IPPs to produce 15.073GWh (2021: R2.79 billion to produce 12.821GWh).
A comparison of the primary energy unit cost of the various generation categories is shown below:

<table>
<thead>
<tr>
<th>Unit cost, R/MWh</th>
<th>2022</th>
<th>2021</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>440</td>
<td>419</td>
<td>5.6 ▲</td>
</tr>
<tr>
<td>Nuclear</td>
<td>99</td>
<td>105</td>
<td>5.3 ▼</td>
</tr>
<tr>
<td>Eskom-owned OCGTs</td>
<td>4 708</td>
<td>2 955</td>
<td>19.3 ▲</td>
</tr>
<tr>
<td>IPP1</td>
<td>2 204</td>
<td>1 280</td>
<td>3.3 ▲</td>
</tr>
<tr>
<td>IPP OCGTs²</td>
<td>4 574</td>
<td>3 578</td>
<td>27.6 ▲</td>
</tr>
<tr>
<td>Renewable IPPs</td>
<td>2 627</td>
<td>2 178</td>
<td>6.9 ▲</td>
</tr>
<tr>
<td>International purchases³</td>
<td>625</td>
<td>546</td>
<td>10.3 ▲</td>
</tr>
</tbody>
</table>

1. Excludes pre-commissioning of 1 (M/kWh) from certain Medupi and Kusile units (2021: 5.735/kWh).
2. The average cost is calculated on fuel and start-up costs only, excluding storage and demurrage costs. For comparability, the calculation is shown gross of rebates as a result of the write-off of the R3.6 billion diesel rebate receivable in 2022.
3. Note that the unit costs of IPPs and international purchases are based on the full cost of operation, whereas the unit cost of Eskom-owned generation is based only on the primary energy cost. Given that IPPs 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 coal and international purchases unit costs was largely due to inflationary and periodic contractual increases. Renewable IPP unit costs continued to decline as suppliers in the latter R6-IPP bid windows, with lower contracted rates, are connected to the grid and contribute an increasingly higher proportion of production. Nuclear unit costs declined due to higher production at Koeberg Power Station. The unsustainable increases in Eskom-owned and IPP OCGT unit costs were driven by unfavourable diesel price movements during the year.

Other operating costs

The number of employees (including fixed-term contractors) declined by 5.4% to 40 421 at year end (2021: 42 749) due to natural attrition. Net employee benefit costs for the year amounted to R33 billion, after capitalising costs to qualifying assets (2021: R32.9 billion).

Despite the reduction in headcount, employee costs have remained relatively stable. This is largely a result of lower capitalisation of costs, containing salary increases to affordable levels and an adjustment to pension benefits based on classification as a defined benefit fund. Overall costs remained stable at R2.1 billion (2021: R2.1 billion) due to exceptionally high levels of unplanned maintenance required during the year. Contract labour costs and other staff-related costs, such as training and travel, were well contained.

Other operating expenditure increased by 18.9% to R28.8 billion (2021: R24.2 billion), largely due to a 9.5% increase in repairs and maintenance, coupled with certain cost-of-ownership items. These include R1.1 billion relating to the write-off of assets damaged in the explosion at Medupi Unit 4 and R2.7 billion relating to a provision raised for a compensation event claim at Koeberg Power Station.

Fuel price sensitivity

Poor generating plant performance has led to increased reliance on Eskom-owned and IPP OCGTs to alleviate supply constraints and avoid or minimise load shedding. However, OCGTs are an expensive source of generation and particularly susceptible to fuel price fluctuations. The wholesale diesel purchase price, before rebates, reached a high of R18.87/M for the financial year in March 2022 and averaged R15.70/M over the course of the financial year (2021: average of R12.12/M), leading to above-inflation growth in primary energy costs.

The Russian invasion of Ukraine in February 2022 has had a detrimental impact on the sustainability of the global energy sector. We have been affected by rising fuel prices and declining fuel availability, leading to increased costs. Diesel and fuel oil, required to ensure security of supply and to return units to service after maintenance, are expected to rise to unsustainable levels.

Our financial plan for the 2022 financial year assumed an increase in diesel prices to around R21.57/M, before rebates, with the impact on our primary energy costs shown below. We have considered the knock-on effect to the coal value chain, including the transport of coal to power stations by road, as well as fuel oil start-up costs for coal-fired power stations.

Impact on budget costs, R million

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diesel and fuel oil</td>
<td>2 700</td>
<td>1 250</td>
</tr>
<tr>
<td>Eskom-owned OCGTs</td>
<td>1 050</td>
<td>1 050</td>
</tr>
<tr>
<td>IPP OCGTs</td>
<td>3 578</td>
<td>3 578</td>
</tr>
<tr>
<td>Renewable IPPs</td>
<td>2 178</td>
<td>2 178</td>
</tr>
<tr>
<td>International purchases</td>
<td>546</td>
<td>546</td>
</tr>
<tr>
<td>Coal usage</td>
<td>3 578</td>
<td>3 578</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7 973</td>
<td>3 250</td>
</tr>
</tbody>
</table>

Therefore, budgeted primary energy costs for the 2023 financial year were increased by a further R6.8 billion, or 4.8%, from the original budget as a direct result of fuel price increases. This amount was ring-fenced for the management of fuel price fluctuations to minimise operational and financial risks; it has been consumed by the fuel price adjustments experienced during the 2023 financial year so far.

The group’s expenditure on repairs and maintenance (before intergroup eliminations and excluding associated labour costs and capitalised maintenance) increased to R19.1 billion (2021: R17.4 billion).

**MAINTENANCE SPEND**

**Generating plant R4.7 billion**

- Generating plant R4.7 billion (2021: R4.4 billion)
- Transmission network R0.8 billion (2021: R0.7 billion)
- Distribution network R3.6 billion (2021: R3.4 billion)

Extensive planned maintenance was required on generating plant to address performance challenges and defects in line with the Generation recovery plan, while significantly higher levels of unplanned maintenance was needed to address several critical plant issues. In addition, the availability of resources to conduct maintenance improved during the year with easing of lockdown restrictions.

The impairment of financial assets amounted to R589 million (2021: R91 million reversal) relating mainly to trade and other receivables. The impairment of other assets amounted to R0.8 billion (2021: R1.9 billion) due to the continuation of an inventory clean-up exercise to address shortcomings in the internal controls relating to consumables management.

Depreciation and amortisation

Depreciation and amortisation expense increased by 20.4% to R32 billion (2021: R26.6 billion), largely due to the commissioning of additional generating units through the new build programme. Kusile Units 2 and 3 and commercial operation on 29 October 2021, and 29 March 2021 respectively. Medupi Unit 1 achieved commercial operation on 31 July 2021.

Net fair value movements on financial instruments and embedded derivatives

The group recorded a net fair value loss on financial instruments, excluding embedded derivatives, of R4.7 billion (2021: R7.7 billion), mainly due to fair value movements on derivative hedging instruments arising from credit risk adjustments and the strengthening of the Rand against major currencies. This was partially offset by a gain on translation of foreign borrowings due to the strengthening of the Rand.

**YEAR END EXCHANGE RATES**

<table>
<thead>
<tr>
<th>EUR/ZAR</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.19</td>
<td>16.12</td>
<td></td>
</tr>
<tr>
<td>USD/ZAR</td>
<td>14.59</td>
<td>14.75</td>
</tr>
</tbody>
</table>

A net fair value gain of R1.6 billion was recorded on embedded derivatives (2021: R0.4 billion net fair value loss), linked mostly to the increase in aluminium prices during the year.

Gross finance costs have declined slightly due to an overall reduction in debt, partially offset by a higher average cost of borrowings. Net finance costs have increased to R33.1 billion largely as a result of lower capitalisation of interest. As the new build programme nears completion and new units are transferred to commercial operation, lower borrowing costs are capitalised to the related asset base, negatively affecting profitability.

**COST OF DEBT AND INVESTMENT RETURN**

Average cost of debt 10.02% (2021: 9.66%)

Average investment return 3.92% (2021: 3.87%)

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

<table>
<thead>
<tr>
<th>R billion</th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities and borrowings</td>
<td>396.3</td>
<td>401.8</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>(15.9)</td>
<td>(4.0)</td>
</tr>
<tr>
<td>Net derivatives held for risk management</td>
<td>1.5</td>
<td>(4.3)</td>
</tr>
<tr>
<td><strong>Total net interest-bearing debt</strong></td>
<td>380.9</td>
<td>393.5</td>
</tr>
</tbody>
</table>

1. In the table above, assets are reflected as negative amounts.

Our gross debt securities and borrowings have decreased by R5.5 billion to R396.3 billion (2021: R401.8 billion). We repaid debt of R38.9 billion and raised R13.1 billion during the year, net of commercial paper. Furthermore, foreign borrowings were affected by exchange rate movements. Altogether, we reduced net interest-bearing debt by R1.6 billion, or 3%, after accounting for growth in cash as well as exchange rate movements on net derivatives.
All solvency ratios, except cash interest cover, performed better than target and improved significantly year-on-year, although they remain well below investment-grade levels.

The positive performance is largely attributable to improved EBITDA performance, together with Government equity support which helped us to reduce our debt balance during the year. Despite this improvement, operating cash flows remain inadequate to fund our debt servicing requirements.

Credit ratings

Summary of Eskom’s credit ratings

<table>
<thead>
<tr>
<th>Rating</th>
<th>Standard &amp; Poor’s</th>
<th>Moody’s</th>
<th>Fitch: local currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign currency</td>
<td>CCC+</td>
<td>caal</td>
<td>n/s</td>
</tr>
<tr>
<td>Local currency</td>
<td>CCC-</td>
<td>caal</td>
<td>B</td>
</tr>
<tr>
<td>Standalone</td>
<td>ccc</td>
<td>caal</td>
<td>ccc</td>
</tr>
<tr>
<td>Outlook</td>
<td>Stable</td>
<td>Positive</td>
<td>Stable</td>
</tr>
<tr>
<td>Last rating action</td>
<td>Affirmed 31 Oct 2022</td>
<td>Affirmed 31 Oct 2022</td>
<td>Affirmed 27 Sep 2022</td>
</tr>
</tbody>
</table>

The primary focus of our borrowing programme over the next five years is to continue to secure cost-effective funding, while not exceeding a gross debt balance of R400 billion, by borrowing less than we repay annually. This remains the only approach within our control to deleverage our balance sheet. Continued Government support is necessary to provide debt relief and liquidity support while awaiting implementation of Government’s debt relief solution.

We had planned to secure borrowings of R44.5 billion during the 2023 financial year; however, due to increased operational challenges and capital requirements, the adjusted borrowing programme includes raising around R58 billion in 2023. The borrowing programme for the coming financial year includes the issuance of a private international bond. In addition to Government guarantees, the market has indicated that a commitment to sustainability targets may be required for any new issuance.

During the year, Standard & Poor’s and Fitch affirmed our previous credit ratings in November and December 2021 respectively. Standard & Poor’s maintained their negative outlook, while Fitch revised its outlook from negative to stable, in line with its improved outlook for the Sovereign.

Subsequent to year end, Moody’s affirmed our previous credit ratings with a negative outlook in April 2022, expressing its concern about Eskom’s debt burden, arrear municipal debt, operational challenges and loadshedding, as well as long-term uncertainty around electricity tariffs. In September 2022, Fitch once again affirmed our credit ratings with a stable outlook.

Moody’s revised its outlook from negative to positive in October 2022 and Standard & Poor’s revised its outlook from negative to stable in November 2022 on the back of the announcement of a prospective debt relief solution for Eskom by the Minister of Finance in the Medium-Term Budget Policy Statement (MTBPS). The debt relief is expected to address between one-third and two-thirds of Eskom’s debt balance.

Our ratings remain at sub-investment grade level, which affects our ability to access unguaranteed funding. Successful implementation of our turnaround plan and maintaining a positive outlook for the South African economy remain critical for improving our credit ratings.

Funding activities and risks

Funding progress against the 2022 borrowing programme

<table>
<thead>
<tr>
<th>Potential sources, R billion</th>
<th>Aspirational funding</th>
<th>Committed by year end</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development finance institutions (DFIs)</td>
<td>7.9</td>
<td>6.3</td>
</tr>
<tr>
<td>Export credit agencies (ECAs)</td>
<td>0.7</td>
<td>0.4</td>
</tr>
<tr>
<td>Domestic bonds and notes</td>
<td>8.5</td>
<td>7.1</td>
</tr>
<tr>
<td>Commercial paper</td>
<td>2.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Private placement</td>
<td>7.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Syndicated loan 1</td>
<td>10.3</td>
<td>14.4</td>
</tr>
<tr>
<td>International bond</td>
<td>7.0</td>
<td>–</td>
</tr>
<tr>
<td>Derivative loans</td>
<td>1.0</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>42.3</td>
<td>35.8</td>
</tr>
</tbody>
</table>

1. Planned funding, originally targeted for 2021, postponed to 2022.
2. The table above includes the rollover of commercial paper, whereas the debt raised figure in the statement of cash flows does not.
3. Committed sources include funding raised or signed facilities with milestone drawdowns.

Our borrowing programme for 2022 was revised from a target of R35.5 billion to an aspirational funding level of R42.9 billion to accommodate the postponement of the private placement and syndicated loan from the previous financial year. We exceeded the target for the year by securing funding of R35.8 billion (2021: R18.9 billion).

A $500 million Euro bond was issued through a private placement during the second quarter of the year. The syndicated loan was executed in two phases, with disbursement in October 2021 and March 2022. Refinancing of the syndicated loan was concluded in the 2023 financial year. The planned issuance of a public international bond in November 2021 was cancelled due to delays in the Government bond programme. We considered a private placement in the international bond market as a substitute, but did not proceed due to the negative interest rate environment at the time.
Government's continued support to our balance sheet and restructuring was confirmed in the 2022 National Budget, with R21.9 billion committed for the coming financial year. The Minister of Finance announced a total of around R88 billion support to be made available until 2026, which was later confirmed in the MTBPS on 26 October 2022. We will rely on these equity injections to meet future liquidity requirements.

The conditions of the Special Appropriation Act, 2019 attached to the support for 2023 were finalised in October 2022 and relate to various financial, operational, governance and restructuring matters. We remain compliant with the conditions to ensure that Government support is made available when required.

Managing liquidity

Liquidity remains a key challenge, limiting our ability to achieve financial and operational sustainability. High debt servicing costs, lack of cost-reflective tariffs, escalating arrear municipal debt and poor generating plant performance contribute to our liquidity constraints and threaten Eskom’s ability to continue as a going concern.

To improve liquidity, we restricted organisational cash requirements by limiting capital expenditure and achieving targeted savings on operating expenditure. Improving our profitability and solvency ratios in a sustainable manner requires successful implementation of our financial turnaround objectives, 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

Plan Government support

Reduce reliance on debt

Manage arrear debt

Dispose of non-core assets

Cash and cash equivalents improved considerably during the year, with an available balance of R15.9 billion at year end (2021: R4 billion). We relied heavily on Government support to maintain a positive cash balance, with an available balance of R15.9 billion at year end (2021: R4.6 billion).

Our debt repayment profile remains pressured over both the short and long term, with debt repayments of R176.9 billion and interest payments of R118.9 billion over the next five years to March 2027. Total debt service costs for 2023 are expected to amount to R79.5 billion (2022: R71.4 billion).

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To improve liquidity, we restricted organisational cash requirements by limiting capital expenditure and achieving targeted savings on operating expenditure. Improving our profitability and solvency ratios in a sustainable manner requires successful implementation of our financial turnaround objectives, each of which is discussed in more detail below.

Government support

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

As reported previously, we have lodged several review applications with the courts to challenge recent NERSA determinations. The legal processes related to the recovery of an estimated R103 billion still need to be finalised by the courts.

Revenue and RCA decisions for the 2019 financial year – R10 billion

In January 2021, NERSA awarded Eskom R1.3 billion out of the R5.4 billion supplementary tariff application. In response to NERSA’s 2019 RCA decision, a review application was lodged in April 2021, which also covers NERSA’s decision on the supplementary application. NERSA has opposed this review and the legal process is under way.

Revenue decision for financial years 2020 to 2022 (MYPD 4) – R9.5 billion

In February 2021, the High Court delivered a judgment reducing to the R9.5 billion Government support incorrectly deducted by NERSA in its revenue decision for MYPD 4, allowing Eskom to recover R10 billion during the 2022 financial year. NERSA lodged its appeal with the Supreme Court of Appeal (SCA) in June 2021.

In June 2022, the SCA issued an order on the timing of the recovery of the remaining R5.9 billion which requires NERSA to include an additional R5 billion in allowable revenue per year in the 2024 to 2026 financial years, and R14 billion in the 2027 financial year.

Revenue decision for financial years 2023 to 2025 (MYPD 5)

We submitted our MYPD 5 revenue application to NERSA in June 2021. In September 2021, NERSA rejected the application on the basis that the MYPD methodology was no longer valid and that it intended to develop a revised pricing methodology. We submitted an urgent High Court review, requiring NERSA to urgently process the revenue application for at least one year, as required by law.

Our debt repayment profile remains pressured over both the short and long term, with debt repayments of R176.9 billion and interest payments of R118.9 billion over the next five years to March 2027. Total debt service costs for 2023 are expected to amount to R79.5 billion (2022: R71.4 billion).

Managing liquidity

Liquidity remains a key challenge, limiting our ability to achieve financial and operational sustainability. High debt servicing costs, lack of cost-reflective tariffs, escalating arrear municipal debt and poor generating plant performance contribute to our liquidity constraints and threaten Eskom’s ability to continue as a going concern.

To improve liquidity, we restricted organisational cash requirements by limiting capital expenditure and achieving targeted savings on operating expenditure. Improving our profitability and solvency ratios in a sustainable manner requires successful implementation of our financial turnaround objectives, each of which is discussed in more detail below.

Government support

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

As reported previously, we have lodged several review applications with the courts to challenge recent NERSA determinations. The legal processes related to the recovery of an estimated R103 billion still need to be finalised by the courts.

Revenue and RCA decisions for the 2019 financial year – R10 billion

In January 2021, NERSA awarded Eskom R1.3 billion out of the R5.4 billion supplementary tariff application. In response to NERSA’s 2019 RCA decision, a review application was lodged in April 2021, which also covers NERSA’s decision on the supplementary application. NERSA has opposed this review and the legal process is under way.

Revenue decision for financial years 2020 to 2022 (MYPD 4) – R9.5 billion

In February 2021, the High Court delivered a judgment reducing to the R9.5 billion Government support incorrectly deducted by NERSA in its revenue decision for MYPD 4, allowing Eskom to recover R10 billion during the 2022 financial year. NERSA lodged its appeal with the Supreme Court of Appeal (SCA) in June 2021.

In June 2022, the SCA issued an order on the timing of the recovery of the remaining R5.9 billion which requires NERSA to include an additional R5 billion in allowable revenue per year in the 2024 to 2026 financial years, and R14 billion in the 2027 financial year.

Revenue decision for financial years 2023 to 2025 (MYPD 5)

We submitted our MYPD 5 revenue application to NERSA in June 2021. In September 2021, NERSA rejected the application on the basis that the MYPD methodology was no longer valid and that it intended to develop a revised pricing methodology. We submitted an urgent High Court review, requiring NERSA to urgently process the revenue application for at least one year, as required by law.

The High Court ordered NERSA to process the revenue application for the 2023 financial year by 24 December 2022, based on the existing MYPD methodology. NERSA published our revenue application for both the 2024 and 2025 financial years for stakeholder consultation, with public hearings held in September 2022. The revenue application equates to an average tariff increase of 32.02% for 2024 and 9.74% for 2025. We await NERSA’s decision, which will be dependent on the RAB valuation mentioned above.

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 Eskom’s planned legal separation.

NERSA’s decision was expected during the 2022 financial year, for implementation in the 2023 financial year. However, NERSA did not consider these proposals on the basis of a revised pricing methodology being developed. We have submitted additional proposals to address other shortfalls of the existing tariff structure amid the planned restructuring of Eskom and the electricity supply industry. Key among these is the introduction of a generation capacity charge to address the recovery of fixed generation costs. NERSA is required to process the application for implementation in the 2024 financial year.

Other pending decisions

RCA decision for the 2020 financial year (MYPD 4)

In December 2020, we submitted an RCA application of R8.4 billion for the 2020 financial year. In December 2021, NERSA approved R3.5 billion to be recovered from standard tariff customers, local special pricing arrangement customers and international customers. The reasons for decision was published on 10 February 2022. A decision on the timing of the implementation of the RCA is awaited.
RCA decision for the 2021 financial year (MYPD 4)

Based on the 2021 audited annual financial statements, we submitted an RCA application of R1.07 billion to NERSA in November 2021. NERSA has not yet issued its decision. Had cost-reflective tariffs applied for the 2022 financial year, this would have translated to a tariff of 152.60c/kWh, or US $5.45/kWh (assuming an exchange rate of R16.60), which would still qualify as one of the lowest non-subsidised average prices in the world based on global benchmarks included in our MYPD 5 revenue application. IPP contracts, which are negotiated by DMRE, remain our largest uncontrollable cost, as well as the cost with the largest year-on-year increase. Given the planned growth of the RE-IPP Programme and the impact of the RNP/IPPP Programme, IPP costs are expected to constitute a large percentage of our total costs for the foreseeable future. However, this is subject to the commissioning of new IPP capacity as planned. In the 2022 financial year, IPP costs accounted for 27% of primary energy costs but only 7% of total electricity produced. We were awarded a standard tariff increase of 9.61% for the 2023 financial year. The estimated costs in our revenue application are approximately 20% higher than the revenue allowed by NERSA, which may lead to a revenue shortfall of around R5.5 billion for the coming year. The tariff increase, excluding the RCA, amounts to only 3.49%, which is well below inflation and will be consumed by the expected increase in IPP costs, leaving insufficient revenue to address our controllable costs and provide a fair return on capital. The lack of cost-reflective tariffs has been an ongoing challenge since 2006 and one of the main reasons for our financial challenges, requiring increased reliance on debt to fund the annual revenue shortfall. This, together with our new build programme, has led to our gross debt securities and borrowings balance escalating from R29 billion in 2005 to R396.3 billion by 2022. We have achieved some progress in closing the gap towards cost-reflective tariffs in recent years by challenging NERSA’s decisions through judicial review. However, court processes remain slow and even favourable judgments take some time to lead to higher tariff levels. We continue our efforts to ensure a migration to cost-reflective tariffs through our revenue applications, as well as court review applications where required. Our three-year MYPD 5 application proposed gradual corrections to the tariff towards cost-reflectivity, as opposed to a single large adjustment, to lessen the impact on consumers.

RCA decision for the 2022 financial year (MYPD 4)

The RCA for 2022 was calculated in accordance with the existing MYPD methodology, based on the audited financial results for the year. It is imperative that decisions are made timely to allow the recovery of efficient and prudent costs, on our path towards financial sustainability.

Recovering the costs of generating, transmitting and distributing electricity

Our three main activities are the generation, transmission and distribution of electricity, which are separately licensed by NERSA and subject to their economic regulation. The component costs of these activities are recovered through allowable revenue determined by NERSA. These include both controllable costs, such as primary energy, maintenance and employee benefit costs associated with our power stations and network, as well as uncontrollable costs, such as electricity purchased from IPPs and environmental levies due. The revenue determination is also intended to address capital servicing costs, including depreciation on assets and the cost of debt and equity. The graph below provides a breakdown of these costs and the average price per unit of electricity sold for the past two years, as well as the coming financial year.

Cost breakdown and average price per year, c/kWh

In order to be financially sustainable, we require cost-reflective tariffs, where the revenue determined by NERSA is sufficient to cover the prudent and efficient costs that we incur. To achieve this, the average tariff for the 2022 financial year would have had to increase by approximately 19%; instead, the increase awarded resulted in a revenue shortfall of around R48 billion for the year.

In the 2023 financial year, we achieved savings of R20.1 billion against a target of R20.1 billion, with the majority attributable to primary energy cost optimisation, and, to a lesser extent, a reduction in targeted employee benefit costs and other sundry expenses. Initiatives for other income and capital expenditure optimisation further contributed to performance. Primary energy savings relate mostly to working capital, and do not necessarily lead to an immediate improvement in the income statement. Regrettably, savings have been partially offset by an overspend in fuel oil and OCOTs.

Controlling expenditure to improve liquidity

Another focus as part of our turnaround plan is improving our income statement through sustainable cost curtailment and improving efficiency of capital expenditure. We are targeting a reduction of R4.8 billion in our cost base by 2023. We have already achieved combined savings and other income of R50.7 billion over the last three years, thereby exceeding the cumulative target of R4.6 billion so far. For the 2022 financial year, we achieved savings of R20 billion against a target of R20.1 billion, with the majority attributable to primary energy cost optimisation, and, to a lesser extent, a reduction in targeted employee benefit costs and other sundry expenses. Initiatives for other income and capital expenditure optimisation further contributed to performance. Primary energy savings relate mostly to working capital, and do not necessarily lead to an immediate improvement in the income statement. Regrettably, savings have been partially offset by an overspend in fuel oil and OCOTs.

Key debt management indicators at 31 March 2022

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2015</th>
<th>Target 2019</th>
<th>Target 2022</th>
<th>Target met?</th>
<th>Actual 2021</th>
<th>Actual 2022</th>
<th>Actual 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrear debt as % of revenue, %</td>
<td>2.65</td>
<td>3.54</td>
<td>3.74</td>
<td>3.34</td>
<td>3.24</td>
<td>3.69</td>
<td></td>
</tr>
<tr>
<td>Average debtors days (including Sovauto and international)</td>
<td>n/a</td>
<td>86.16</td>
<td>89.18</td>
<td>88.44</td>
<td>101.92</td>
<td>90.01</td>
<td></td>
</tr>
<tr>
<td>Debtors days – municipalities, average debtors days</td>
<td>n/a</td>
<td>157.23</td>
<td>141.18</td>
<td>149.43</td>
<td>140.46</td>
<td>116.05</td>
<td></td>
</tr>
<tr>
<td>Debtors days – large power top customers excluding disposals, average debtors days</td>
<td>n/a</td>
<td>15.04</td>
<td>15.84</td>
<td>14.43</td>
<td>15.01</td>
<td>14.60</td>
<td></td>
</tr>
<tr>
<td>Other large power user debtors days (including Sovauto and international)</td>
<td>n/a</td>
<td>17.47</td>
<td>17.46</td>
<td>17.54</td>
<td>17.50</td>
<td>16.98</td>
<td></td>
</tr>
<tr>
<td>Debtors days – small power users excluding Sovauto, average debtors days</td>
<td>n/a</td>
<td>47.50</td>
<td>52.45</td>
<td>47.70</td>
<td>50.07</td>
<td>44.09</td>
<td></td>
</tr>
<tr>
<td>Payment levels excluding Sovauto interest, %</td>
<td>95.70</td>
<td>95.70</td>
<td>95.70</td>
<td>95.97</td>
<td>96.82</td>
<td>96.24</td>
<td></td>
</tr>
</tbody>
</table>

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. No targets have been approved for the 2025 financial year and are therefore shown as not applicable.

Average debtors days have worsened across municipal and large power user customers compared to the prior year. In particular, arrear municipal debt has seen a significant increase of 5% and declining payment trends. Average municipal debtors days are unacceptably high at nearly 150 days.

For details of debtors by category, including impairment and carrying values, refer to notes 5.1.1 and 20 in the consolidated annual financial statements.

Arrear municipal debt

Total arrear municipal debt has continued to escalate to unsustainably high levels, amounting to R44.8 billion (including interest) at year end (2021: R33.3 billion). The top 20 delinquent municipalities accounted for 80% of total arrear municipal debt, with over 35% of the total owed by Free State municipalities. At year end, there were 53 municipalities with total arrear debt of more than R100 million each (2021: 47), as the problem continues to worsen.

To ensure that savings are both achievable and sustainable, divisions have developed strategies to reduce costs, with roadmaps in place. The Turnaround Management Office is monitoring the implementation of initiatives. Procurement is in an ongoing area of improvement and interventions have been put in place to ensure that we derive optimal value from suppliers – these include price check tools, checklists and standardised rates.

Managing arrear debt

Systemic challenges in South Africa, such as crime, social inequality and economic pressures, have led to persistent revenue recovery challenges and a continued culture of non-payment in some sectors. Collection of the revenue owed to us and the recovery of arrear debt from delinquent municipalities remain priorities to improve liquidity and strengthen our balance sheet.

Invoiced municipal debt (including interest) and percentage of total debt in arrears at 31 March 2022, R billion

<table>
<thead>
<tr>
<th>Year</th>
<th>Total municipal debt</th>
<th>Total arrear municipal debt</th>
<th>Percentage of total arrear municipal debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>164.9</td>
<td>44.8</td>
<td>27%</td>
</tr>
<tr>
<td>2019</td>
<td>174.2</td>
<td>46.4</td>
<td>26%</td>
</tr>
<tr>
<td>2020</td>
<td>184.6</td>
<td>53.2</td>
<td>29%</td>
</tr>
<tr>
<td>2021</td>
<td>194.8</td>
<td>53.3</td>
<td>28%</td>
</tr>
<tr>
<td>2022</td>
<td>204.5</td>
<td>56.6</td>
<td>27%</td>
</tr>
</tbody>
</table>

CAGR: Compounded Annual Growth Rate

In order for us to continue to achieve progress and provide a fair return on capital, we require cost-reflective tariffs, where the revenue determined by NERSA is sufficient to cover the prudent and efficient costs that we incur. To achieve this, the average tariff for the 2022 financial year would have had to increase by approximately 19%; instead, the increase awarded resulted in a revenue shortfall of around R48 billion for the year.
To achieve these, we continue to enhance existing revenue and debt management processes, enforce Eskom’s rights through legal action and expedite Government interventions. We employ a multi-stakeholder engagement approach through various intergovernmental platforms.

We have established a project management office to drive the implementation of our active partnering model, which aims to assist defaulting municipalities in their revenue collection efforts and improve municipal service delivery. Despite efforts to engage with municipalities, only two active partnering agreements are in place, with Phumelenwa and Msunduzi Local Municipalities. An active partnering agreement with Raymond Mhlaba Local Municipality is being renegotiated after coming to an end.

Maluti-a-Phofung Local Municipality, our largest defaulter at year end, has resolved to enter into a distribution agency agreement with Eskom. The municipality has submitted a council resolution supporting the agreement; however, the agreement is still to be concluded.

In July 2022, the High Court granted Eskom the right to attach the bank accounts of the City of Matlosana Local Municipality after the municipality failed to adhere to previous court orders. The municipality is challenging the court ruling and we are opposing the matter.

While we believe that favourable court rulings go a long way in enforcing Eskom’s legal right to payment, we simply cannot solve our municipal debt challenges on our own, given the extent thereof. We continue to participate fully in the work of the Eskom Political Task Team and its Multi-disciplinary Revenue Committee (MfRC). Unfortunately, progress has been slow; continued support from Government is critical to addressing the root causes of the problem.

The National Treasury proposal, mentioned in last year’s report, to assist municipalities in crisis and deal with the arrear debt challenges, is still being reviewed and influenced due to the complexity of the issues. We continue to engage with National Treasury on reinforcing financial oversight of affected municipalities and ensuring municipalities prioritise the settlement of the arrear amounts due to Eskom. It is anticipated that further measures will be announced by the Minister of Finance in the National Budget Speech in February 2023, as part of the conditions of Eskom’s prospective debt relief solution.

Residential arrear debt

Total invoiced Soweto debt has decreased to R4.6 billion (including interest) at year end (2021: R7.5 billion). The reduction in Soweto debt is mainly due to prescribed debt written off and reversal of “in duplum” interest. While average payment levels in Soweto remain low at 25.1%, there has been some improvement since the prior year (2021: 20.6%).

Exploratory engagements are under way for the proposed transfer of customers to City Power from Eskom’s licensed areas of supply, including Soweto and Sandton. A memorandum of understanding has been signed with the City of Johannesburg. Once the viability of the business case has been assessed, we will consult with all key stakeholders. Similar discussions are under way with the City of Cape Town regarding certain Eskom areas of supply.

International arrear debt

Only EDFM of Mozambique remains in arrears, with R24.9 million outstanding as at year end, of which R8.8 is overdue. In June 2022, we submitted a settlement offer on the disputed amount of R350 million, which EDFM declined. The mediation process is still under way.

Dealing with delinquent municipalities

We have continued our efforts to address arrear municipal debt through our municipal debt management strategy. The objectives of our strategy include:

- Current account management
  - Stop defaulting and enforce payment of current amounts
- Arrear debt management
  - Reduce and/or eliminate overdue debt
- Future debt management
  - Prevent future defaulting through pre-emptive action
We only have one world

Zero Harm means taking care of the environment - it looks after you every day.

Be aware. Take care.

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

Our infrastructure constitutes our manufactured capital. It consists of our generation fleet and transmission and distribution networks, supplemented by IPP and cross-border import capacity. It further 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 connections, refurbishing existing assets and ensuring environmental compliance.

Managing supply and demand
Role of the System Operator
The System Operator has to manage dispatchable generation capacity to balance electricity supply from power stations and demand from customers in real time, by maintaining the system frequency within a dead band of 49.85Hz to 50.15Hz so that generators and other motors connected to the power system continue to operate within design specifications. Furthermore, dispatchable capacity has to be taken off or placed on load to compensate for variations in energy supplied by non-dispatchable capacity in the form of renewable generation. In addition, the System Operator can make use of interruptible load to assist in managing the system frequency – if the frequency is too low, it could cause a cascading trip of generating units, with the ultimate risk of national blackout, and if the frequency is too high, it risks damage to any electrical equipment connected to the electricity supply.

In South Africa, peak demand periods occur in the early morning from 6:00 to 9:00 and in the evening from 17:00 to 21:00, particularly in winter. The high evening peak is generally driven by consumption by residential consumers. As a last resort, loadshedding is implemented 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. This typically happens during periods of high levels of unplanned generation unavailability, coupled with low diesel fuel levels at OCGT stations and/or low water levels at pumped storage stations.

To maintain our ability to respond effectively to prevent a major system event, such as a regional or national blackout, the various defence systems to protect the network are tested regularly. Lessons learnt from past events are implemented to reinforce the resilience of the system to unforeseen events.

Managing peaking capacity and emergency reserves
Our peaking capacity includes three pumped storage power stations with nominal capacity of 2 724MW and four Eskom and IPP-owned OCGT stations with a combined capacity of 3 072MW connected to the national power system. The generators at these power stations can start up and shut down within minutes, as opposed to coal-fired power stations that require many hours to days to start up. These power stations were designed and built to generate for short periods at peak demand times and do not have a continuous supply of fuel to power them.

In the case of pumped storage stations, water is pumped from a lower reservoir through turbines to an upper reservoir at the top of a mountain during low demand periods – overnight and weekends – and then released through the same turbines to generate power during times of high demand. The cycle of pumping and releasing water is optimised over a one-week cycle where the upper reservoir is filled by Monday morning, ready to generate for the week ahead.

In the case of OCGTs, all but one of the stations receive their diesel by road tanker. Loading, transporting, and offloading the diesel to power these generators is a slow process. When these generators operate at maximum output continuously, they consume fuel faster than it can be delivered. Extremely high diesel consumption requires diesel being bought on the international market and shipped to the various depots for further distribution. As generation capacity from coal-fired power stations has become more constrained, the peaking stations have had to generate for longer periods to supplement the shortfall. Because of the constraints around the fuel for these power stations, they are treated as emergency reserves and dispatched sparingly during off-peak periods to contain the stage of loadshedding. The combined peaking capacity of 5 794MW equates to an additional six stages of loadshedding being required were it not available.

Challenges
- Medupi Unit 4 experienced a generator explosion, resulting in 720MW not being available to the grid until August 2024
- Delays in concluding the Risk Mitigation IPP Procurement Programme, further contributing to capacity constraints
- Energy losses due to a culture of non-payment, illegal connections, theft and fraud remain high
- High levels of network asset vandalism, equipment theft and overloaded networks leading to increased breakdowns, higher maintenance cost and higher levels of risk to employees
- Customers experienced higher levels of responsiveness, fewer supply interruptions, improved outage duration and faster restoration of supply
- Matimba boiler 5 achieved 3 064 days on 31 March 2022 (more than eight years) since the last boiler tube failure, setting a new record
- Transmission system reliability improved, with system minutes <1 performing well within target
- 25% high generating plant unavailability resulting in capacity constraints, leading to 65 days of loadshedding during the year
- Continued high utilisation of expensive gas turbines due to poor plant performance, at a combined cost of energy (Eskom and IPP-owned OCGTs) of R14.7 billion (2021: R7 billion)
- Transmission line fault performance deteriorated slightly, mainly due to adverse environmental factors
- High levels of network asset vandalism, equipment theft and overloaded networks leading to increased breakdowns, higher maintenance cost and higher levels of risk to employees
- Some generation coal and emissions control projects experiencing construction and commercial challenges resulting in delays, risking achievement of the 2019 Minimum Emission Standards targets

Highlights
- Medupi commercialised the last of six generation units
- Customers experienced higher levels of responsiveness, fewer supply interruptions, improved outage duration and faster restoration of supply
- Matimba boiler 5 achieved 3 064 days on 31 March 2022 (more than eight years) since the last boiler tube failure, setting a new record
- Improvements
- Completion of the Camden ash dam solution, with the station now able to run all units
- Boiler modifications on all six Medupi and two Kusile units showing results, with an average recovery of 145MW per unit
- The Board approved a short-term cross-border pricing strategy to 2023
- Stable labour relations and stakeholder management in the new build megaprojects
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- The Board approved a short-term cross-border pricing strategy to 2023
- Stable labour relations and stakeholder management in the new build megaprojects
System performance During the past year, Eskom’s generation plant availability reached the lowest levels ever, largely due to unprecedented levels of unplanned unavailability. On average, around 13 000MW was not available for generation at unplanned unavailability of 27.75%, and close to 5 000MW unavailable due to planned maintenance, leaving around 30 000MW capacity available for generation.

As a result, we had to make extensive use of both Eskom- and IPP-owned OCGTs to meet demand during periods of poor base-load generation availability.

Operational, system performance and environmental data can be accessed on our Data Portal at www.eskom.co.za/dataportal/.

Eskom-owned and IPP OCGTs supplied a total of 2.725GWh during the year (2021: 2.161GWh) at a cost of R14.7 billion (2021: R7 billion). Given the debilitating cost of loadshedding to the country, we utilise these stations within our financial constraints, despite the prohibitive cost. If OCGTs were utilised only at targeted levels, Eskom could generate a net profit.

To support the stability of the power system, create space for maintenance and reduce the need for loadshedding, additional dispatchable capacity of 4 000MW–6 000MW is required immediately. At an assumed average load factor of 30%, it would require renewable capacity of 13 000MW–20 000MW. The delay in bringing capacity online under DMRE’s Risk Mitigation IPP Procurement Programme serves to exacerbate the problem.

Supply was aided by record levels of hydro generation due to the good rains experienced during the summer rainfall season, with hydro generation of 1 943GWh for the year almost 1 000GWh more than the average for the preceding nine years (2021: 1 387GWh). To put this into context, the 600MW supplied by hydro generation on an almost continuous basis during winter provides a key additional source of dispatchable generation.

During the past year, Eskom’s generation plant availability reached the lowest levels ever, largely due to unprecedented levels of unplanned unavailability. On average, around 13 000MW was not available for generation at unplanned unavailability of 27.75%, and close to 5 000MW unavailable due to planned maintenance, leaving around 30 000MW capacity available for generation. As a result, we had to make extensive use of both Eskom- and IPP-owned OCGTs to meet demand during periods of poor base-load generation availability.

Contribution by renewable energy

During summer, 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 as cold fronts traverse the Western and Eastern Cape, but drops once the cold front moves northwards and demand in Gauteng increases due to the colder temperatures, thereby creating a double blow to the system. Renewable energy makes a significant contribution to both peak demand and annual contracted energy demand, increasing to 6.75% in the 2022 financial year.

Loadshedding and load curtailment over the past four years

The 2021 Winter Plan covered the period from 1 April to 31 August 2021. Three scenarios of unplanned unavailability were considered for the plan, namely 11 000MW, 12 000MW and 13 000MW (with uncertainty of approximately 4 000MW due to volatility). At unplanned unavailability of 13 000MW, the Winter Plan showed a possible eight days of stage 1 loadshedding. However, for the entire Winter Plan period, a total of 21 days of loadshedding were required due to higher than anticipated levels of unplanned unavailability.

The 2021/22 Summer Plan commenced on 1 September 2021 and ran until 31 March 2022. Again, three scenarios of unplanned unavailability were considered, namely 12 000MW, 13 000MW and 14 000MW. The plan indicated 40 possible days of stage 2 loadshedding at 13 000MW, with a possible 94 days of stage 3 loadshedding at 14 000MW. Unplanned unavailability exceeded 14 000MW for 39.7% of the time during the summer period, leading to 44 days of loadshedding, which, although significant, was lower than anticipated in the Summer Plan, due to higher than targeted use of emergency reserves.

Generation performance

We operate 30 base-load, mid-merit, peaking and renewable power stations, with a total nominal capacity of 47 145MW to meet the country’s electricity demand by providing electricity at a reasonable price. The median age of our coal-fired stations is around 40 years. The last unit at Medupi, Unit 1, achieved commercial operation on 31 July 2021. No further Kusile units achieved commercial operation during the financial year.

Detailed information on the installed and nominal capacity of each of our power stations, as well as IPP capacity, is set out on page 150 to 151.

Technical performance

We use EAF (energy availability factor) to measure the availability of our generation fleet, which continues to perform significantly below expectation. Plant availability deteriorated even further year-on-year, largely due to a significant increase in unplanned losses due to breakdowns or partial unavailability of stations (UCLF), offset by lower levels of losses outside of a station’s control (OCLF) and less planned maintenance (PCLF) due to the late release of funding and to compensate for higher unplanned losses. Together, UCLF and OCLF constitute unplanned unavailability of our generation fleet.

Due to the capacity constraints, EAF is not expected to improve noticeably over the short to medium term, as time is needed to execute reliability maintenance.

System forecast and loadshedding implemented during the year

Loadshedding was required on 65 days during the year (2021: 47 days) – eight days up to stage 1; 43 days up to stage 2; four days up to stage 3; and 10 days up to stage 4. Loadshedding and load curtailment of large customers were implemented for 1 011 hours over the past year (2021: 670 hours), reducing supply by an estimated 2.705GWh, equating to 0.71% of total energy demand for the year (2021: 2.161GWh).

System performance

During the past year, Eskom’s generation plant availability reached the lowest levels ever, largely due to unprecedented levels of unplanned unavailability. On average, around 13 000MW was not available for generation at unplanned unavailability of 27.75%, and close to 5 000MW unavailable due to planned maintenance, leaving around 30 000MW capacity available for generation. As a result, we had to make extensive use of both Eskom- and IPP-owned OCGTs to meet demand during periods of poor base-load generation availability.

Contribution by renewable energy

During summer, 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 as cold fronts traverse the Western and Eastern Cape, but drops once the cold front moves northwards and demand in Gauteng increases due to the colder temperatures, thereby creating a double blow to the system. Renewable energy makes a significant contribution to both peak demand and annual contracted energy demand, increasing to 6.75% in the 2022 financial year.

Loadshedding and load curtailment over the past four years

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The 2021/22 Summer Plan commenced on 1 September 2021 and ran until 31 March 2022. Again, three scenarios of unplanned unavailability were considered, namely 12 000MW, 13 000MW and 14 000MW. The plan indicated 40 possible days of stage 2 loadshedding at 13 000MW, with a possible 94 days of stage 3 loadshedding at 14 000MW. Unplanned unavailability exceeded 14 000MW for 39.7% of the time during the summer period, leading to 44 days of loadshedding, which, although significant, was lower than anticipated in the Summer Plan, due to higher than targeted use of emergency reserves.

Generation performance

We operate 30 base-load, mid-merit, peaking and renewable power stations, with a total nominal capacity of 47 145MW to meet the country’s electricity demand by providing electricity at a reasonable price. The median age of our coal-fired stations is around 40 years. The last unit at Medupi, Unit 1, achieved commercial operation on 31 July 2021. No further Kusile units achieved commercial operation during the financial year.

Detailed information on the installed and nominal capacity of each of our power stations, as well as IPP capacity, is set out on page 150 to 151.

Technical performance

We use EAF (energy availability factor) to measure the availability of our generation fleet, which continues to perform significantly below expectation. Plant availability deteriorated even further year-on-year, largely due to a significant increase in unplanned losses due to breakdowns or partial unavailability of stations (UCLF), offset by lower levels of losses outside of a station’s control (OCLF) and less planned maintenance (PCLF) due to the late release of funding and to compensate for higher unplanned losses. Together, UCLF and OCLF constitute unplanned unavailability of our generation fleet.

Due to the capacity constraints, EAF is not expected to improve noticeably over the short to medium term, as time is needed to execute reliability maintenance.

System forecast and loadshedding implemented during the year

Loadshedding was required on 65 days during the year (2021: 47 days) – eight days up to stage 1; 43 days up to stage 2; four days up to stage 3; and 10 days up to stage 4. Loadshedding and load curtailment of large customers were implemented for 1 011 hours over the past year (2021: 670 hours), reducing supply by an estimated 2.705GWh, equating to 0.71% of total energy demand for the year (2021: 2.161GWh).
Nuclear power plants produce no greenhouse gas emissions during operation, and over the course of its lifecycle, nuclear produces about the same amount of carbon dioxide-equivalent emissions per unit of electricity as wind, and one-third of the emissions per unit of electricity when compared to solar.

As part of our internal process, a team of nuclear professionals from eight countries from the International Atomic Energy Agency (IAEA) carried out a review during March 2022 of the safety aspects of Koeberg's LTO, including preparedness, organisation, and programmes for safe operation.

The IAEA expert team reported good progress on the work to extend the life of the plant, and provided recommendations and suggestions to further enhance the preparations for LTO safety. The IAEA team also identified Koeberg good practices and learning points that will be shared with the nuclear industry globally. Koeberg management is committed to implementing the recommendations and requested the IAEA to schedule a follow-up mission during 2024.

Koeberg Nuclear Power Station continues to operate within the required safety parameters, despite two trips on Unit 1 during the year, and also has the lowest primary energy cost of our base-load stations. It is subject to bi-annual safety reviews by the Nuclear Safety Review Board (NSRB), comprising experienced senior nuclear executives from various countries. The NSRB conducts an independent review of all aspects of Koeberg's operations, with particular emphasis on the staff's ability to ensure the safe operation of the station and the protection of the staff, public and the environment. It further provides recommendations on priorities and areas for improvement based on member expertise.

At the end of March 2022, Koeberg Unit 1 had been online for 155 days since returning to service on 27 October 2021. The unit tripped from the grid on 30 August 2021 due to a reactor scram (emergency shutdown of a nuclear reactor) that occurred when one of the three primary pump motors tripped due to a faulty relay. Prior to that, it had been online for 75 days, after returning to service on 15 April 2021 following its last refuelling and maintenance outage. Troubleshooting and repairs were completed promptly and safely, and the unit was returned to service on 3 September 2021. The unit also tripped from the grid on 24 October 2021 due to the loss of speed on a steam feedwater pump following a statutory overspeed test. The cause of the speed loss was fully resolved on 3 November 2021.

When Koeberg Unit 2 shut down on 18 January 2022 for the start of a scheduled outage, it had been online for 276 days, since returning from the previous outage on 3 January 2022. The unit was returned to service on 25 September 2022 with NNR approval.

The RPvW was replaced during the outage and the unit returned to service on 7 August 2022, but was manually shut down on 19 August 2022 due to a slowing control rod associated with the RPvW replacement. After returning to service six days later, the unit was automatically shut down again on 3 September 2022 when one of the control rods slipped during a further scheduled test, resulting in an automatic reactor scram and grid shutdown. Following extensive troubleshooting with the OEM, the unit returned to service on 25 September 2022 with NNR approval. The unit remains stable.

In this context, Eskom would have to compromise significantly on the transaction economics for the disposal to take place, through either (i) a significant discount on the book value of assets or (ii) a higher than cost-reflective power purchase agreement price. Unless there was a huge increase in tariff, both options would end up worsening Eskom's already distressed financial situation. Furthermore, while selling power plants with built-in long-term liability relief, it would not resolve Eskom's financial viability.
Generation recovery plan

The Generation recovery plan, which aims to address critical pain points to allow for fast-tracked improvement in generation performance and plant availability, continues to deliver results. Progress has been made in many areas, as discussed below. Full and partial load losses, as well as outage performance, are areas of concern.

The Generation leadership team have further identified seven strategic initiatives. Senior leaders within Generation have been allocated to drive the execution, with overall feedback and accountability at the Generation Operational Excellence Steering Committee, chaired by the Group Executive: Generation. The focus areas are:

- People and skills
- Training and competency development
- Technical excellence
- Station rhythm
- Supply chain management
- Focus on the future
- Contractor management

Reduce the incidence of trips and full load losses to improve reliability of coal-fired power stations

Due to their contribution to poor system performance and the associated cost of restarting units to supply load to the grid, improving trips performance remains a key focus area. The Generation fleet recorded 697 UAGS trips for the year, an average of 58 trips per month, a significant deterioration compared to the previous year (2021: 527).

The main contributors to unplanned trips were turbine, boiler and feedwater areas of plant. Performance was affected by a backlog of capability testing across several power stations due to unit load restrictions, maintenance defects and units operating outside their design envelope. Slow progress on addressing design deficiencies also contributed to the number of trips.

Full load losses for commercial units showed an increase against the prior year, to an average of 6 718MW per month (2021: 4 811MW, restated). UCLF on official units remains high, with UCLF (full and partial losses) due to outage slips increasing to 3.99% (2021: 2.43%).

Decrease partial load losses and boiler tube leaks that prevent units from operating at full capacity

UCLF related to partial load losses deteriorated significantly, with partial load losses on average 742MW higher than the prior year. Partial load losses contributed approximately 42% to total UCLF for the year, with Kendal, Tutuka, Majuba, Arnot and Kriel the major contributors.

Unplanned partial load losses were a result of delays in procuring critical spares from OEMs, slippage in planned target dates to clear the maintenance backlog to restore plant redundancy and post-outage load losses which had to be gradually cleared over time. Orders for spares placed during the year are expected to arrive in the 2023 financial year; this should result in a gradual improvement in UCLF. Plans to improve permanent partial load losses remain dependent on outcomes.

The boiler tube failure rate (failure per unit per year) increased slightly to 2.44 for official units (2021: 2.31), contributing 1.39% to overall UCLF. The RMR will look at improving the quality and accuracy of outage scope by developing a feedback approach, focusing on units that undergo general overhauls, mini overhauls and interim repairs.

Due date performance is calculated for units that were on outage for more than 21 days and for reliability outages longer than 14 days. For the year, only 50.94% of outages met their due dates (2021: 40.38%), significantly below the target of 80%.

Accelerate the return to service of units on long-term forced outages

Following the expiration of the generator in August 2021, Medupi Unit 4 will be out of service for an extended period. The duration of the repairs will depend on the extent of the damage and the long-leads components to be replaced. The projected return-to-service date for the unit is August 2024, and the insurance loss is estimated at around R3.34 billion, which covers replacement and repair of the damage.

Reduce maintenance outage due date slips and duration

The Reliability Maintenance Recovery (RMR) Programme seeks to empower power stations to achieve outage excellence (prior to, during and after outages) as the single greatest opportunity to improve plant performance at the best possible cost.

Continued efforts are directed towards improving outage readiness, with central RMR team resources providing direction on best practice and being deployed to aid in enhancing outage planning and overall readiness at stations. This has resulted in the improvement of most major assessment categories of outage readiness indicators. Some deterioration has however been seen in T–01 reviews (those performed one month prior to an outage), which comprised scheduling and site preparation challenges.

The release of outage funding had a significant impact on the readiness of planned outages, as most outages take 18–24 months to plan, and remains one of the main risks for the coming financial year. A funding shortfall of R2.3 billion has already been reported, although efforts are directed towards prioritisation of outage and budget reduction exercises.

A key measure to track outage effectiveness is post-outage UCLF, which is measured up to 60 days after a unit synchronises to the grid after maintenance. Post-outage UCLF deteriorated to 29.74% (2021: 21.23%), contributing 33.9% to overall UCLF. The RMR will look at improving the quality and accuracy of outage scope by developing a feedback approach, focusing on units that undergo general overhauls, mini overhauls and interim repairs.

Address major design and construction defects at new stations

Major defects on the new plant at Medupi and Kusile are tracked under the Generation recovery plan. These 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.

Progress on correcting design and construction defects for Medupi and Kusile is set out from page 104.

Maintain coal stockpiles at power stations

At year end, two power stations had stock below their individual minimum stockholding level (2021: none). Based on the budgeted standard daily burn, coal stock days (excluding Medupi) have reduced to 42 days (2021: 50 days), but remain higher than the target.

Coal-related load losses contributed to capacity constraints at our coal-fired stations, with coal-related OCLF of 0.64% for the year (2021: 0.66%). Matla and Kriel Power Stations remained the biggest contributors, accounting for around 90% of coal-related OCLF. We continue to collaborate with the relevant mines to address these issues.

Refer to “Our interaction with the environment – Securing our coal requirements” from page 108 for more information on coal performance.

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

Diesel tank levels remain healthy overall and were maintained well above the target of 60% during the year, although constraints occasionally developed during periods of persistent high demand. However, diesel usage remained far too high given our financial constraints.

Improve emissions performance

Despite a noticeable improvement in emissions performance over the past year, it is not yet at desired levels and continues receiving management attention. By March 2022, eight units were operating in non-compliance with average monthly emission limits (2021: five units), placing 4 766MW at risk of being shut down by the authorities (2021: 2 949MW).

Refer to “Our interaction with the environment – Particulate and gaseous emissions” from page 111 for more information on emissions performance.
Use of open-cycle gas turbines
Due to the deteriorating performance of the coal-fired generation fleet, Eskom’s open-cycle gas turbines (OCGTs) had to be utilised extensively during the year, with production increasing 25% year-on-year. The load factor for the year was 8.7% (2021: 6.9%), against a target of 1% or 211GWh. The average unit production cost increased in line with the increase in the diesel price.

Further procurement under the RE-IPP Programme has progressed, with preferred bidders for bid window 5 being announced on 28 October 2021, after bids closed on 4 August 2021. Twenty-five projects totalling 2 583MW were identified, comprising 1 608MW wind and 975MW solar PV. Legal and financial close are expected to be staggered during the latter part of 2022 once the projects achieve financial close. RE-IPP bid window 6, originally intended for 2 600MW, was extended to include an additional 1 600MW. Bids for the extended bid window closed on 3 October 2022.

DMRE’s IPP Office announced 11 preferred bidders from the Risk Mitigation IPP Procurement (RMIPPP) Programme for a total of 1 994MW of dispatchable generation capacity. The anticipated financial close by 31 March 2022 was not met due to the need to close out residual technical issues between DMRE, the bidders and Eskom. Power purchase agreements with three projects were concluded on 2 June 2022. The delays on the various IPP programmes continue to add pressure on the need to continue running our plant, some beyond their original shutdown dates.

The RE-IPP bid window 6 projects, as well as the RMIPPPP and non-DMRE projects (the so-called “100MW reform” projects) are all self-build projects as it relates to network connections, with the bidders being responsible for paying quotation fees to Eskom; presenting designs for our approval; the environmental impact assessment; as well as procurement and construction; together with commissioning timelines. Although we collaborate with the IPPs, we are not in control of all activities.

We applied to purchase energy under short-term IPP programmes. However, due to the delay in receiving regulatory approval from NERSA, Board IFC terminated projects aimed at procuring 100MW during the 2022 financial year.

Energy capacity and purchases
IPP capacity available and the actual energy procured under various IPP programmes for the year to 31 March 2022 is set out in the following table.

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2021</th>
<th>Target 2022</th>
<th>Target 2023</th>
<th>Target 2024</th>
<th>Target 2025</th>
<th>Actual 2021</th>
<th>Actual 2022</th>
<th>Actual 2023</th>
<th>Actual 2024</th>
<th>Actual 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total capacity, MW</td>
<td>14 978</td>
<td>9 144</td>
<td>8 336</td>
<td>6 831</td>
<td>6 085</td>
<td>5 206</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total energy purchases, GWh</td>
<td>90 050</td>
<td>88 222</td>
<td>82 888</td>
<td>70 194</td>
<td>61 732</td>
<td>58 427</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total expenditure, R million</td>
<td>171 067</td>
<td>122 621</td>
<td>114 823</td>
<td>103 476</td>
<td>100 943</td>
<td>99 278</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted average cost, c/kWh</td>
<td>3 209</td>
<td>3 063</td>
<td>2 905</td>
<td>2 776</td>
<td>2 663</td>
<td>2 548</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leasing accounting adjustment, R million</td>
<td>2 054</td>
<td>1 638</td>
<td>1 631</td>
<td>1 629</td>
<td>1 624</td>
<td>1 616</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. The 2023 target is the cumulative target over the next three years.
2. For accounting purposes, the capacity charges for the Avon and Dedza 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. For future targets, the assumption is that the RMIPPPP projects will be treated on the same basis.
3. The weighted average cost is calculated on the total amount spent on energy before the IFRS 16 lease adjustment.

As noted earlier, the utilisation of IPP OCGT peakers was around 28% higher than the prior year, contributing to system stability to minimise or avoid loadshedding during periods of generation capacity constraints. The IPP OCGT peakers recorded an annual load factor of 10.2% (2021: 8.1%) against the contractual minimum obligation of 1%; renewable IPPs recorded an average load factor of 29.8% (2021: 32.3%).

IPP capacity of 748MW of renewable energy was commissioned during the year, against a target of 1 003MW for the RE-IPP Programme and a total target of 2 263MW including other expected programmes (2021: 877MW). It consisted of 668MW wind, 53MW solar PV and 235MW biomass-based energy. We expect 580MW of renewable capacity to be commissioned during the coming year.

Utilisation of the two IPP-owned OCGTs also increased during the year, producing 899GWh (2021: 704GWh) due to the deteriorating performance of the coal-fired generation fleet. Eskom’s open-cycle gas turbines (OCGTs) had to be utilised extensively during the year, with production increasing 25% year-on-year. The load factor for the year was 8.7% (2021: 6.9%), against a target of 1% or 211GWh. The average unit production cost increased in line with the increase in the diesel price.

Further procurement under the RE-IPP Programme has progressed, with preferred bidders for bid window 5 being announced on 28 October 2021, after bids closed on 4 August 2021. Twenty-five projects totalling 2 583MW were identified, comprising 1 608MW wind and 975MW solar PV. Legal and financial close are expected to be staggered during the latter part of 2022 once the projects achieve financial close. RE-IPP bid window 6, originally intended for 2 600MW, was extended to include an additional 1 600MW. Bids for the extended bid window closed on 3 October 2022.

DMRE’s IPP Office announced 11 preferred bidders from the Risk Mitigation IPP Procurement (RMIPPP) Programme for a total of 1 994MW of dispatchable generation capacity. The anticipated financial close by 31 March 2022 was not met due to the need to close out residual technical issues between DMRE, the bidders and Eskom. Power purchase agreements with three projects were concluded on 2 June 2022. The delays on the various IPP programmes continue to add pressure on the need to continue running our plant, some beyond their original shutdown dates.

The RE-IPP bid window 6 projects, as well as the RMIPPPP and non-DMRE projects (the so-called “100MW reform” projects) are all self-build projects as it relates to network connections, with the bidders being responsible for paying quotation fees to Eskom; presenting designs for our approval; the environmental impact assessment; as well as procurement and construction; together with commissioning timelines. Although we collaborate with the IPPs, we are not in control of all activities.

We applied to purchase energy under short-term IPP programmes. However, due to the delay in receiving regulatory approval from NERSA, Board IFC terminated projects aimed at procuring 100MW during the 2022 financial year.
Power station land to be made available for renewable energy developments

To encourage and enable investment in renewable energy generation infrastructure and give impetus to collaborative efforts to resolve South Africa’s electricity crisis, we issued a request for proposal in April 2022 to lease up to 4 000 hectares of Eskom land in Mpumalanga Province to IPPs for the addition of new renewable generation capacity to the grid. The lease will be for a minimum period of 20 years. Eskom will provide connection to the nearest network connection point. In terms of the scheme, the land will remain the property of Eskom for the duration of the lease.

The commercial process is based on auctioning suitable land at or near power stations for the development of renewable electricity generation sites, to remove a significant barrier to investment, given the proximity to existing transmission infrastructure. The evaluation process will favour quick delivery of critically needed additional generation capacity to the constrained power system as soon as possible, thereby increasing the ability to perform maintenance, as well as reducing load-shedding and the usage of OCGTs. It is estimated that this programme could add further generation capacity of up to 4 000MW to the national grid over the next few years.

The maximum amount of electricity generation capacity per project will be capped at 100MW to make use of the recently promulgated upper limit for embedded and own generation in terms of the amendment to Schedule 2 of the Electricity Regulation Act, 2006 (ERA), gazetted by DMRé in August 2021. The amendment allows generators to wheel electricity through the transmission grid, subject to wheeling charges and connection agreements with the relevant transmission or distribution licences holders.

This initiative is intended to allow investors accelerated access to our existing grid, and to enable investment in renewable energy next to our coal-fired power stations, to demonstrate our commitment to be part of the Just Energy Transition. Investors will be able to enter into power supply agreements with Eskom or bilateral agreements with customers, on terms that they agree, while Eskom will provide the transmission infrastructure to evacuate the electricity. This arrangement is a precursor of the electricity market that is enabled by the legally separated transmission company.

We launched a competitive bidding process for this land in April 2022 and received 18 firm bids. This has the potential to add a further 1 800MW in the short term, with additional capacity as more land is made available.

Lease agreements with four IPP investors for land parcels around Majuba and Tutuka Power Stations were signed in October 2022.

Given that Eskom is not the buyer of electricity for these projects, there is an added benefit in the sense that there is no requirement for National Treasury guarantees to underpin these agreements, therefore they present no risk to or potential burden on the South African taxpayer.

Cross-border sales and purchases of electricity

The Southern African Power Pool aims to provide reliable and economical electricity supply to its 12 member countries, nine of which are interconnected, by coordinating the planning and operation of the electric power system among member utilities.

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2023</th>
<th>Target 2022</th>
<th>Target met?</th>
<th>Actual 2023</th>
<th>Actual 2022</th>
<th>Actual 2021</th>
<th>Actual 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>International sales</td>
<td>32 454</td>
<td>31 319</td>
<td>12 146</td>
<td>12 298</td>
<td>13 495</td>
<td>15 189</td>
<td></td>
</tr>
<tr>
<td>International purchases</td>
<td>26 057</td>
<td>8 678</td>
<td>8 457</td>
<td>8 500</td>
<td>8 812</td>
<td>8 560</td>
<td></td>
</tr>
<tr>
<td>Net sales</td>
<td>6 397</td>
<td>2 541</td>
<td>3 641</td>
<td>4 798</td>
<td>4 685</td>
<td>6 621</td>
<td></td>
</tr>
</tbody>
</table>

1. The 2025 target is the cumulative target over the next three years.

International sales volumes decreased 1.5% year-on-year, due to international customers entering into bilateral agreements with other regional partners to supplement their requirements, following Eskom’s load curtailment and suspension of contracts implemented during loadshedding. Higher sales to ZETDC of Zimbabwe and NamPower of Namibia resulted in volumes exceeding the target. International purchase volumes for the year were lower than target, decreasing 3.5% year-on-year. This was mainly due to the HCB additional energy contract for 150MW expiring in September 2021, reducing the amount of power delivered to Eskom. The additional power is now allocated to Electricidade de Mocambique (EDM), the Mozambican utility.

Export growth strategy

The Board has approved a short-term cross-border pricing strategy effective from 1 April 2022 until March 2025 for all agreements to be renewed or renegotiated during this period. The purpose is to conclude profitable cross-border power supply agreements based on our cost to supply. Agreements have been concluded with NamPower and ZETDC.
Energy losses and equipment theft
Transmission lines experience technical losses only, with energy lost as heat when energy is transmitted. Distribution losses are due to both technical and non-technical losses, arising from electricity theft, illegal connections, tampering and bypassing of electricity meters, as well as the purchase of electricity tokens from unregistered or illegal vendors. Non-technical losses also include meter reading and billing errors.

Energy losses on our networks have reduced to 11.43% overall (2021: 11.78%), with 9.62% relating to the distribution environment (2021: 10.11%) and 2.31% to transmission lines (2021: 2.31%). Distribution energy losses amounted to 19.8TWh for the year (2021: 20.2TWh), signifying a reduction in non-technical losses due to our continued interventions. The cost of non-technical losses for the year is estimated at R2.91 million (2021: R2.31 million).

To limit non-technical energy losses, we continue to implement interventions, such as performing meter audits on all customer categories and carrying out meter refurbishments, as well as rolling out smart meters and replacing the online vending system. We identify areas associated with high energy losses, to investigate and disrupt illegal energy consumption; these actions are expected to improve revenue collection. The load reduction initiative continues to contribute positively to reducing equipment failures due to overloading caused by illegal connections and by-passing of meters.

Our ageing networks, which are often constrained and overloaded, contribute to technical losses. To better manage technical losses, the impact of voltage and phase imbalances have been evaluated to determine network areas where potential reductions in technical losses may be achieved by investigating and correcting imbalances, among other initiatives.

Ongoing theft of tower members and substations equipment continues to pose risks for asset failures and network availability, as well as a significant safety risk to employees and contractors. External socio-economic conditions continue to drive theft and vandalism of network equipment, with conductor theft constituting the highest number of incidents. The focus remains on proactive and effective risk management, intelligence gathering, stakeholder engagements, arrest and successful prosecution as well as the deployment of new technologies to help combat these incidents.

The Eskom–SAPS Priority Committee is making positive strides in investigating and responding to crime incidents, community protests and business disruptions that negatively impact on Eskom’s operations. As an example, an organised crime task team uncovered a syndicate dealing in stolen Eskom transformers in the Heidelberg area in Gauteng. A ghost vending syndicate operating from Gauteng was disrupted; several syndicate members were arrested and are now facing trial. Various other successful in uncovering syndicates dealing in stolen conductor have also been achieved.

Loses due to conductor theft, cabling and related equipment amounted to R3.16 million for the year (2021: R1.39 million), involving 3,226 incidents (2021: 3,765 incidents). To combat these losses, we continue to collaborate with other SOCs that are affected similarly, industry role players, the South African Police Service and the National Prosecuting Authority. These actions resulted in 245 arrests (2021: 111).

**Delivering capacity expansion**

Our capacity expansion programme, which commenced in 2005 and is expected to be completed by the 2028 financial year, aimed to build new power stations and restate mothballed stations to re-lease installed generation capacity by 17.384MW, as well as increase high-voltage transmission power lines by 9,756km and transformer capacity by 42,470MV to strengthen the transmission network.

Since inception of the programme to 31 March 2022, installed generation capacity has increased by 14.730MW, transmission lines by 8,222km and transmission substation capacity by 395,654VA.

Excluding capitalised borrowing costs, the Medupi project has cost R125.4 billion to date (2021: R120.6 billion), while expenditure recovered in the latter half of the year, including deferred costs, totalled R17.1 billion, which includes the FGD plant being installed during construction.

**Capital expenditure for the year was R5 billion higher than target and R6 billion higher than the prior year, which was funded by cash from additional revenue. Generation expenditure recovered in the latter half of the year, with additional funding allocated for critical outages and project-specific long lead-time items. Furthermore, there was additional capital expenditure in the new build environment, as well as spend on future fuel projects which were deferred from the previous financial year.**

**Medupi and Kusile project performance**

At Medupi, the focus is on completion of the remaining scope on the balance of plant (outside plant), including but not limited to the ash dump facility, coal stockyards and building structures with their associated systems. Furthermore, the focus is on resolving the contractual challenges and remaining claims to ensure proper project close-out. Project completion is targeted for November 2023.

At Kusile, the focus remains on commercial operation of Unit 4, as well as the remaining units under construction. We are fitting wet FGD technology to the Kusile plant as an atmospheric emission abatement technology to remove oxides of sulphur, in line with current international practice, to ensure compliance with air quality standards, making it more environmentally responsible.

Kusile Unit 4 was synchronised to the national grid on 23 December 2021. The unit successfully achieved full load on 11 January 2022, less than three weeks later. This milestone means the unit will be able to contribute its full capacity of 800MW intermittently to the national grid, based on the commissioning schedule. The unit’s 72-hour full load test run commenced on 26 March and was successfully achieved on 28 March 2022, with an average of 799MW load generated over the 72-hour period. The 30-day reliability run commenced on 28 March and was completed on 28 April 2022.

**The targets for transmission lines installed and transformer capacity installed and commissioned for the year under review were exceeded.**

**Group funded capital expenditure (excluding capitalised borrowing costs) per division**

<table>
<thead>
<tr>
<th>Division</th>
<th>Target 2022</th>
<th>Target 2023</th>
<th>Target 2021</th>
<th>Actual 2022</th>
<th>Actual 2021</th>
<th>Actual 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generation capacity installed and commissioned (commercial operation), MW(1)</td>
<td>2,400</td>
<td>800</td>
<td>794</td>
<td>794</td>
<td>1,598</td>
<td>1,588</td>
</tr>
<tr>
<td>Transmission lines installed, km(2)</td>
<td>826.0</td>
<td>140.0</td>
<td>140.0</td>
<td>180.5</td>
<td>65.6</td>
<td>127.9</td>
</tr>
<tr>
<td>Transmission transformer capacity installed and commissioned, MVA(1)</td>
<td>2,815</td>
<td>500</td>
<td>500</td>
<td>1,045</td>
<td>750</td>
<td>750</td>
</tr>
</tbody>
</table>

1. The 2021 target is the cumulative capacity to be commissioned and/or installed over the next three years.

2. Capital expenditure includes additions to property, plant and equipment, intangible assets and future fuel, but excludes strategy, opaque, construction stock and capitalised borrowing costs. Figures noted above are based on internal reporting, and do not necessarily align to the IFRS movement on property, plant and equipment as disclosed in the annual financial statements.

3. The 2025 target is the cumulative capital expenditure targeted over the next three years.
Correcting major design and construction defects

At Medupi and Kusile, we continue to track the following major defects at both Medupi and Kusile (unless otherwise indicated):

- Pulveriser jet fabric filter plant poor performance due to inadequate pulsing system and flue gas flow entry
- Gas air heater mechanical performance, erosion and operational performance in terms of ash carry over and outlet temperature escalation
- Furnace exit gas temperature resulting in excessive reheater spray water flow and low-load and transient instability
- Milling plant defects
- Air and flue gas ducting erosion

Another major defect at Kusile is a Western fill water storage tank, which has failed. Another major defect at Kusile is the fuel storage tank, which is not capable of reaching full load. Rollout of the mill-long lead items commenced during standard planned rebuild outages (10 000 hours) in February 2022.

A commercial agreement was recently signed for the low-load and transient operations solution at Medupi, and the contract—design and procurement of components is progressing well. Rollout of the low-load and transient solution will commence during available planned outages after March 2023 to December 2024, depending on outage availability.

At Kusile, boiler plant modifications have been completed on Units 1 to 4. Modifications on Units 5 and 6 are being rolled out during construction before commercial operation. The focus at Kusile is to reduce the flue gas volume and temperature since the low-load and transient instability is not as prevalent as at Medupi and to assist the FGD plant. Modifications implemented have extended the fabric filter bag life at Medupi from 9 to 18 months, and the first fully modified mill at Medupi has run to 11 500 hours before rebuidling without any major issues, an indication that the modifications are successful in reducing the milling plant–associated load losses. The modifications have contributed to improving the availability and reliability of the synchronised units at Medupi and Kusile.

We are also working with the main contractor, original equipment manufacturers and third-party contractors to further improve the performance of the milling plant, gas air heater plant and fabric filter plant. The development of a solution to improve the gas air heater sealing system and performance is well advanced. Technical discussions and development of further enhancements on the milling and fabric filter plant have started.

The latest total estimated cost for the defects correction of all Medupi and Kusile units, based on the best available information, ranges from R5.6 billion to 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. We have spent R238 million on the boiler plant defects at Medupi and Kusile, which was funded from operating expenditure.

Other projects

- Dedicated railway for rolling coal to Majuba Power Station
- The Majuba Power Station coal tippler facility has been commissioned after the fire incident and is scaling up deliveries, with two trains delivering 8 400 tons each day (the equivalent of 247 road truckloads), to gradually increase to six trains per day. On the coal tippler, the heating, ventilation and air-conditioning as well as dust suppression system works have been completed. The yard rail lines as well as civil and rail sidetrack rehabilitation works are all complete.
- The tender for the rectification of the vandalised overhead traction equipment was cancelled due to supplier unresponsiveness. The scope was revised to include the repairs of vandalised infrastructure and a revised strategy compiled to be issued to the market. The contract for the yard optimisation work was awarded in April 2022. Equipment and materials have been delivered to site and excavations for cable trench are in progress.
- Due to delays caused by infrastructure vandalism, the commercial operation date of the project has been revised to May 2024, pending IFC approval, from the original target date of December 2022.
- 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. Tender evaluations for Phase 1 of 800MWh of the battery storage project were completed in December 2021 and bid evaluation reports submitted to the World Bank for evaluation and approval. In December 2021, unconditional without objection approval was received from the World Bank. A World Bank supervision mission, which included a site visit to Komati, was successfully completed during February 2022. Furthermore, the World Bank loan facility was extended to June 2023, due to Eskom demonstrating commitment and good progress towards project execution.
- The NERSA board approved the concurrence with the Section 34 determination in February 2022, and the NERSA licences for Phase 1 were obtained at the end of September 2022. In May and June 2022, Phase 1 contracts were awarded for Package 1 (Skaypville), Package 2 (Pongola and Elandskop) and Package 3 (Palisadeshoe, Graaffwater and Henx). Construction on Pongola and Elandskop began in September and October 2022. The procurement plan for Package 4 (Mahlkoum and Rietfontein) was submitted for World Bank without-objection approval.
- The latest forecast for construction completion of Phase 1 is June 2023. Phase 2 of the project consists of 640MWh at Distribution substations and is in development. PMMA documentation is being prepared for submission to DPE, prior to applications for DMRE determination and a NERSA licence.

Medupi FGD retrofit

Given the risks associated with the chosen strategy of being technology agnostic, the market will be approached using a single-stage procurement strategy with an option of wet FGD. The contracting strategy of a single Engineering, Procurement and Construction (EPC) contract remains the same as previously approved. This strategy allows for technology and project execution risk allocation or transfer to the EPC contractor. The revised project strategy and business case has been completed and will be submitted to IFC.

In July 2021, the World Bank approved the extension of the FGD implementation deadline from 30 June 2023 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.

An existing environmental impact assessment (EIA) and water-use licence (WUL) is in place for wet FGD. However, if a different FGD technology is chosen, a new BIA process and WUL would be required. A process has been initiated to acquire environmental specialists to perform sensitivity studies on available land that could be used for waste disposal. Our Land Management Department has provided detailed information on available land for consideration for FGD waste disposal. Furthermore, the water supply tie-in to ensure the water supply from Thabazimbi to Medupi by the Molokwane Crocodile Water Augmentation Project (MCWAP) is being finalised.

The updated wet FGD technical specification is being developed. Furthermore, the updated contract and procurement strategies incorporating the main option of wet FGD are in the process of being developed. Eskom Treasury continues to engage with funders to provide project updates.

PMMA pre-notification documents have been signed off and submitted to DPE. Development of the technical tender evaluation strategy has been completed and signed off. The request for proposal documentation is being developed, to be issued to the market from November 2022 to March 2023, with contract award being targeted for the 2024 financial year. As such, there is a risk of the 2025 atmospheric emission licence compliance deadline not being postponed by the authorities. The postponement application decision is under appeal.
RT&D projects
During the year, the Research, Testing & Development (RT&D) Department repositioned itself in line with the new Eskom operating model. The revised strategy of RT&D focuses on operational recovery of the three line divisions in the short term. In the medium term, the strategy seeks to assist the business in the transitioning away from coal, and in the long term, to assist the business in being a leading clean and green energy company to enable competitiveness, sustainability, profitability and new growth areas.

Progress on some of our high priority projects is set out below.

**HVDC test facility**
The scope of the work for the high-voltage direct current (HVDC) test facility was revisited to achieve value realisation for the business while considering Eskom’s financial position. Due to a lack of funding, the project remains on hold.

**Smart electricity platform**
The project is aimed at developing a smart information technology and operational technology platform to integrate customer-centric products, including eMobility, distributed energy resources, energy storage, smart metering and other emerging technologies.

Limited availability of resources from the Council for Scientific and Industrial Research (CSIR) as well as internal IT resources negatively affected project timelines. However, the functional specification, the first release of the digital platform and a research report was completed and approved.

**Microgrids and embedded generation**
Three containerised microgrids have been delivered at Komati Power Station and RT&D’s site in Rosherville, Gauteng. These are smart rural microgrids with battery, PV and inverter technology for the supply and storage of electricity. The work is being integrated with the Komati repurposing initiatives to commission a microgrid assembly line on site.

**Remotely Piloted Aircraft System (RPAS)**
The project aims to roll out the use of RPAS for power line inspection. A proof of concept was done to determine technical and economic feasibility, and the impact on transmission line failures and the resilience of transmission and distribution lines, and a business case was developed for Transmission. At the moment, 12 RPAS are able to conduct inspections equivalent to that of one helicopter. The units are used for sinkhole monitoring where ground-based patrols cannot easily obtain access, as well as for fault finding and conductor inspection.

Future focus areas
• Executing the first repurposing programme in Generation, Transmission and Distribution, focusing on legal, regulatory and policy issues
• Pursuing additional dispatchable generation capacity of 4 000MW-6 000MW to support the stability of the power system, create space for reliability maintenance and reduce the need for loadshading
• Continuing to drive execution of the Generation recovery plan to improve plant performance over the medium to long term, including addressing the skills shortage
• Successfully executing the Koeberg steam generator replacement and LTD projects to extend the life of the station
• Ensuring improved environmental performance, with specific focus on water use, emissions and environmental legal contraventions
• Engaging with DFFE on the MES decision, which puts 16 000MW at immediate risk, although Eskom’s appeal will result in a consultative process
• Using generating plant approaching end-of-life to lead the Just Energy Transition (JET) to position Eskom for a cleaner future, using repurposing and repowering as an alternative 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
• Connecting RE-IPP bid windows 3.5, 4 and 4B projects, as well as finalising the RMPPPP Programme and RE-IPP bid window 5 procurement
• Increasing exports and growing revenue and profitability by retaining and increasing profitable electricity exports to neighbouring countries
• Sustaining transmission system reliability and reducing line faults, while executing the Transmission Development Plan and Transmission sustainability improvement initiatives
• Prioritising capital investment to modernise and strengthen the distribution network for the connection of IPPs and set up collector stations for the exchange of power

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• Installing smart meters for all new customer connections and converting existing small power meters to smart meters, to enable customers to better manage consumption, as well as replacing the online vending system to support the business in reducing energy losses
• Effectively correcting all major plant defects at Medupi and Kusile, as part of the Generation recovery plan, to enable technically acceptable new plant performance
• Completing the Medupi and Kusile projects within the revised Board-approved completion dates of the 2024 and 2028 financial years, respectively
• Effectively executing Generation emission-control and technical plan projects
• Driving completion of the battery storage and Medupi FGDR projects

Who we are and how we create value

| Operating performance | Financial review | Governance, leadership and ethics | Our strategic context | Who we are and how we create value |

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• Driving completion of the battery storage and Medupi FGDR projects
The volumes and value of coal purchased over the past year were made up as follows:

<table>
<thead>
<tr>
<th>Coal volumes</th>
<th>Value of coal purchased</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal purchased</td>
<td>Coal burnt</td>
</tr>
<tr>
<td>Mt</td>
<td>Mt</td>
</tr>
<tr>
<td>108.70</td>
<td>110.30</td>
</tr>
<tr>
<td>109.96</td>
<td>119.25</td>
</tr>
<tr>
<td>109.96</td>
<td>119.25</td>
</tr>
<tr>
<td>13.6</td>
<td>19.6</td>
</tr>
</tbody>
</table>

The shift from more expensive short- and medium-term contracts to cost-plus and long-term fixed-price contracts continued over the past year, which had a favourable impact on the cost of coal. This resulted in the year-on-year increase in the average cost per ton of coal being limited to 2.1% (2021: 3.0%), which is markedly down from 16.3% experienced two years ago.

Under our long-term coal procurement strategy, we issued requests for proposal (RFPs) to the market for supply to Arnot, Camden, Kriel, Matla and Tutuka, and in some cases, contracts were awarded. Implementation of the long-term strategy is progressing, with coal contracts largely secured for the next 18 to 24 months. The shortfall, considering updates to both supply and demand, has been reduced to 0.65 billion tons of uncontracted coal to cover the life of all coal-fired power stations.

The increase in the average coal purchase price was contained well below the target and inflation, due to the continued move away from supply under short- and medium-term contracts, coupled with our cost savings initiatives. Coal stock levels have reduced slightly, but have been largely stable over the past year.

Majuba and Grootehuis had stock below their individual station minimum stockholding levels at year-end (2021: none), due to higher coal burn than planned, combined with lower than anticipated rail deliveries, as well as the effects of higher than expected rainfall in the region in the last quarter of the year. Overall coal stock days remained higher than target due to more coal than needed being delivered to Medupi, Kusile and Lethabo. Coal requirements at Medupi and Kusile have been affected by delays in the commissioning of units, despite receiving coal in terms of take-or-pay coal supply contracts. The low quality of coal supplied to Lethabo makes it unsuitable for use by any other station, and there is no financial benefit to reducing production by the coal-plus mine supplying Lethabo.

Initiatives such as verification sampling have resulted in improved coal-plus and medium-term suppliers. We continue to collaborate with suppliers on steps to reduce future coal-related load losses, including reducing contamination and working with tied collieries to address coal quality challenges. Our long-term goal remains to determine coal quality at the point of delivery.

Investment in cost-plus mines
Most 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. However, we will only consider recapitalising mines where long-term benefits can be demonstrated through increased volumes of acceptable quality coal, thereby limiting the amount of coal required on expensive short- and medium-term contracts, which is often also transported by road. We will consider financing the expansion at cost-plus mines to access remaining contracted reserves, to support contract extensions through increased volumes.

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

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Contract type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exxaro Coal</td>
<td>Mix of cost-plus and fixed-price</td>
</tr>
<tr>
<td>Sero Coal</td>
<td>Mix of cost-plus and fixed-price</td>
</tr>
<tr>
<td>Glencore</td>
<td>Fixed-price</td>
</tr>
<tr>
<td>Limpopo Coal</td>
<td>Fixed-price</td>
</tr>
<tr>
<td>Msyelo</td>
<td>Fixed-price</td>
</tr>
<tr>
<td>African Exploration Mining and Finance Corporation (new)</td>
<td>Fixed-price</td>
</tr>
<tr>
<td>Wesscoal</td>
<td>Fixed-price</td>
</tr>
<tr>
<td>Meawale Mining</td>
<td>Fixed-price</td>
</tr>
<tr>
<td>Medusa Coal/Northern Coal (new)</td>
<td>Fixed-price</td>
</tr>
<tr>
<td>HCl Coal (new)</td>
<td>Fixed-price</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Contract type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universal Coal</td>
<td>Mixed of cost-plus and fixed-price</td>
</tr>
<tr>
<td>Tshepo Coal</td>
<td>Fixed-price</td>
</tr>
<tr>
<td>Molela Coal</td>
<td>Fixed-price</td>
</tr>
<tr>
<td>Marksworld Coal</td>
<td>Fixed-price</td>
</tr>
<tr>
<td>Exxaro Coal</td>
<td>Mixed of cost-plus and fixed-price</td>
</tr>
</tbody>
</table>

Coal quality
Coal-related load losses for the year amounted to 0.64% OCLF (2021: 0.71%), and were due to factors such as poor quality coal from cost-plus mines or coal contaminated by stones, combined with heavy rainfall in the Mpumalanga region during the final quarter of the year. Matla and Kriel remained the biggest contributors, accounting for 62% and 29% of coal-related load losses respectively.

Technical performance

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2021</th>
<th>Target 2023</th>
<th>Target 2022</th>
<th>Target met?</th>
<th>Actual 2021</th>
<th>Actual 2022</th>
<th>Actual 2023</th>
<th>Actual 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal burn, Mt</td>
<td>n/a</td>
<td>110.30</td>
<td>104.57</td>
<td>n/a</td>
<td>104.97</td>
<td>104.86</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal purchased, Mt</td>
<td>102.60</td>
<td>108.70</td>
<td>108.70</td>
<td>n/a</td>
<td>109.25</td>
<td>109.92</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal purchase /Mt, % increase</td>
<td>11.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>2.3</td>
<td>3.0</td>
<td>16.3</td>
<td></td>
</tr>
<tr>
<td>Coal stock days</td>
<td>79</td>
<td>76</td>
<td>82</td>
<td>81</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Normalised coal stock days, budgeted standard daily burn</td>
<td>n/a</td>
<td>31</td>
<td>31</td>
<td>31</td>
<td>42</td>
<td>50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road-to-rail migration (additional tonnage transported on rail, Mt)</td>
<td>19.9</td>
<td>4.7</td>
<td>5.5</td>
<td>2.5</td>
<td>3.5</td>
<td>7.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. The current year coal burn figure excludes 81 Mt burnt during the commissioning of Medupi Unit 1 and Kusile Unit 4 (2021: 339Mt for pre-commissioning burn).
2. Normalised coal stock days exclude coal at Medupi.
3. Future targets shown as n/a are dependent on system requirements.
4. The road-to-rail target indicates the amount of coal to be transported by rail for the year. The 2025 road-to-rail target is the cumulative target over the next three years.

For the average coal purchase price was contained well below the target and inflation, due to the continued move away from supply under short- and medium-term contracts, coupled with our cost savings initiatives. Coal stock levels have reduced slightly, but have been largely stable over the past year.

Majuba and Grootehuis had stock below their individual station minimum stockholding levels at year-end (2021: none), due to higher coal burn than planned, combined with lower than anticipated rail deliveries, as well as the effects of higher than expected rainfall in the region in the last quarter of the year. Overall coal stock
Implementing coal haulage and the road-to-rail migration plan

Three power stations are partially supplied with coal on rail, namely Grooveville, Majuba and Tutuka. Rail operations to Arnot Power Station are planned to start in the first quarter of the coming financial year. Less coal was transported by rail mainly due to the continued unavailability of the rail offloading facility at Majuba Power Station, following a fire incident in December 2019. Rail operations at Majuba resumed in October 2021 but remain limited. Furthermore, rail operations are negatively affected by cable theft, vandalism of rail infrastructure and availability of operational resources including locomotives. Eskom Security Services are engaging with Transnet Freight Rail on opportunities to cooperate to reduce the instances of cable theft.

Regrettably, coal haulage by road resulted in 20 public fatalities during the year (2021: eight), as well as three contractor fatalities (2021: six). Given the impact of our coal haulage operations on road safety and road conditions, we continue to promote road safety and participate in road safety awareness campaigns with the Mpumalanga government.

Securing our water requirements

Water security risks relating to Eskom’s existing needs Eskom’s assurance of water supply is not at risk in the short to medium term due to our status as a strategic user. However, 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 the implementation of new bulk water infrastructure to ensure future water security to Eskom. Business continuity plans are in place at Eskom facilities and sites to cater for possible water restrictions by municipalities and water boards.

The Integrated Vaal River System (IVRS) storage stood at 100.8% at 28 March 2022 (23 March 2021: 91.7%). Although the IVRS level has remained high due to good rainfall in the catchment areas, the IVRS is likely to remain in deficit until Phase 2 of the Leartsho Highlands Water Project is commissioned by 2026. Unofficially, 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 are required to mitigate against future water security risks in the IVRS.

The Mokolo River System, which supplies raw water to Matimba and Medupi Power Stations, has also received good rainfall, resulting in the Mokolo Dam level increasing to 100.8% at year end (2021: 100.4%). As a result, the likelihood of water curtailments to Eskom has reduced significantly, although the risk remains until the Mokolo Crocodile Water Augmentation Project Phase 2A is commissioned. Matimba and Medupi will continue to minimise their water usage and reuse water where possible. For a discussion of our water usage, refer to “Reducing water consumption” on page 114 in this section.

Supplying future water needs

The Mokolo Crocodile Water Augmentation Project (MCWAP) by the Trans Caledon Tunnel Authority aims to augment water supply to Lephalale, as well as to Matimba and Medupi and Exxaro’s Grootegeluk mine. The earliest water delivery data from MCWAP Phase 2A has moved out to October 2028 (from August 2026 reported previously) due to delays in securing project funding and subsequent procurement delays. Funding is expected to be secured by 31 March 2022. At this stage, the delay is not expected to affect the Medupi FGD project, which is also delayed.

Securing our nuclear fuel requirements

Existing contracts for the supply of nuclear fuel fabrication services and the delivery of fabricated nuclear fuel are sufficient to meet Koeberg’s nuclear fuel demand until 2023. We have entered into contracts until 2028 for the supply of enriched uranium product, which is used in nuclear fuel fabrication.

For further information on nuclear fuel balances, refer to note 10 on future fuel supplies and note 13 on inventories in the consolidated annual financial statements.
OUR INTERACTION WITH THE ENVIRONMENT continued

We developed a new KPI this year for inclusion in the 2023 shareholder compact to track AEL compliance in terms of (i) average emission limit compliance; (ii) NEMA section 30 submissions; (iii) emission monitor status; (iv) general AEL compliance. We have assessed our overall AEL compliance at power stations at 89%. Efforts are under way to significantly improve this in the 2023 financial year.

At year end, eight coal-fired units were operating in non-compliance with average monthly emissions limits (2021: five units), placing €764MW at risk of censure or closure by the authorities (2021: €949MW).

Minimum Emission Standards

Minimum Emission Standards (MES) for South Africa were published in 2013, and amended in 2018. They stipulate emission limits, which require Eskom to reduce gaseous emissions of sulphur dioxide and nitrogen oxides, as well as particulate matter. These aim to protect the environment by providing reasonable measures for the prevention of pollution and ecological degradation and to secure ecologically sustainable development, while promoting justifiable economic and social development.

In 2014 and again in 2019, we committed to retrofitting several power stations to reduce emissions under postponement applications granted by the then Department of Environmental Affairs. Full compliance with the new plant standards requires all coal-fired power stations to implement emission reduction technologies, such as fabric filter plant (FFP), low NOx burners and/or FGD.

We submitted postponement applications in terms of the MES to DFFE during August 2020, with additional submissions; (iii) emission monitor status; (iv) gaseous emission limits, which require Eskom to reduce gaseous emissions of sulphur dioxide and nitrogen oxides, as well as particulate matter. These aim to protect the environment by providing reasonable measures for the prevention of pollution and ecological degradation and to secure ecologically sustainable development, while promoting justifiable economic and social development.

We submitted an appeal to the authorities in December 2021. We submitted postponement applications in terms of section 3A of the National Environmental Management Act, 1998 and would establish a participative panel consisting of a consultative process on the MES appeals in terms of the MES process is complete.

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 legal indulgences, 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 Medupi, Kendal, Komati, Kriel, Lethabo, Matla, Mafuba, and Tutuka.
- SO2 flux gas conditioning plants to improve the efficacy of ESPs at the stations mentioned before, except at Tutuka.
- Fabric filter plant at Arnott, Camden, Duvha, Grootei, Hendrina, Kusile, Majuba, and Medupi.
- Boilers with low NOx design at Kendal and Matla.
- Low NOx burners at Camden, Kusile, and Medupi.
- Flue gas desulphurisation at Kusile.

In line with our commitments, we are undertaking additional emission reduction projects to reduce particulate matter emissions, as well as sulphur and nitrogen oxides.

Progress during the year includes:
- ESP refurbishments were completed at Kendal Units 5 and 6, and the refurbishment on the remaining four units have been scheduled.

During September 2022, Eskom had the opportunity to share its emission reduction projects with the panel. The Minister requested a recommendation from the panel by February 2023, including a public participation process. A decision on the MES and the issuing of the station AELs will follow after the MES process is complete.

Our strategy is to facilitate the development of a future electricity sector that is competitive and enabling for modern power systems technologies as South Africa strives to achieve net zero emissions by 2050. Our proposed Just Energy Transition (JET) is a pathway that would make it possible to simultaneously spur economic growth, create sustainable jobs and put emissions into structural decline, thereby ensuring electricity supply that does not compromise economic growth.

Emission reduction projects

We continue to drive the implementation of the previously committed MES projects. Good progress has been made on particulate matter (PM) projects, and it is foreseen that all of these projects will be completed by 2025. There is a risk that some Tutuka units with PM upgrades may be completed after the legal requirement of 31 March 2025, but work to minimise this risk is ongoing, and alternatives are also being considered.

We have been scheduled to partially approve.

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Kendal emission challenges

The station implemented 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 worse than target. In August 2020, DEFIE approved our action plan to return Kendal’s units to compliance. The station reports on progress monthly to the authorities as required. A criminal case was opened in September 2019, relating to non-compliance with Kendal’s atmospheric emission licence (AEL) between April 2015 and April 2019. If found guilty, Eskom could be issued a fine of up to R35 million. The key charges are:
- Emission of air pollutants at concentrations above emissions limits specified in the atmospheric emission licence (AEL)
- Failure to comply with the conditions or requirements of the AEL
- Committing an act likely to cause significant pollution of the environment

Eskom appeared in the Witbank Magistrates Court in June 2021, but the hearing was postponed again to August 2021 at the request of the National Prosecuting Authority (NPA). Eskom again appeared in court in August 2021, after which the matter was postponed to January 2022 to allow time for Eskom to prepare representations to the NPA. The matter was presented in January 2022 and was postponed to March 2022 for a pre-trail hearing and settlement negotiations. At that point, the magistrate postponed the matter to July 2022. Although Eskom appeared in court in July, the case was postponed again to October 2022. At that point, the case was postponed to February 2023.

Offset programmes

The air quality off-site programme aims to reduce particulate matter emissions and thereby improve ambient air quality in communities adjacent to our power stations, by insulating homes with ceilings, switching households from coal to electricity for cooking and hot water, and addressing the burning of waste. The programme, which is targeting KwaZamukule, Ezakomhle and Sharpville, is being established on commitments made to the authorities, mainly due to commercial delays and the lasting effects of the COVID-19 pandemic.

Phase 1 for the physical implementation of the stove swap and house thermal retrofits in KwaZamukule (close to Hendrina and Arnot Power Stations) is complete. A total of 250 houses have been retrofitted. The rollout of the programme in Ezakomhle has commenced.

Gaseous emissions

**NO\textsubscript{x} emission limits**

Non-compliance with allowed daily NO\textsubscript{x} emissions were recorded at coal-fired power stations on 66 days in total during the year (2021: 75). Of those, 38 were recorded at Lethabo due to combustion process issues which occur at the station at times, with the remainder recorded at Matla and Tutuka.

Ash facilities and ash utilisation

Ash produced from the combustion of coal by our power stations is the largest source of physical waste from our operations. Our power stations produced 32.92Mt of ash (2021: 30.84Mt), with Lethabo and Matimba the biggest contributors. Guidance is provided in six stations from terms in our ash utilisation strategy reduced slightly to 2.8% for the year (2021: 3.1%). And, is used in the manufacture of bricks, cement, soil amelioration, road construction and mine backfilling.

As noted earlier, the ash dam solution at Camden Power Station has been completed, with the station now ashing on the new ash dam. There have been no load losses due to ash dam constraints since December 2021.

Reducing water consumption

As a strategic user, we are assured of water supply in the short to medium term. Nevertheless, given the vast amounts of water we consume, we continue to implement comprehensive strategies in water conservation and management plans at all coal-fired power stations to reduce water use and ensure compliance. Disappointingly, implementing operational control of water strategy has not yet resulted in a reduction in water usage at coal-fired power stations.

Specific water usage

Water performance remains very disappointing. Specific water usage in the generation of electricity deteriorated compared to the prior year and performed worse than target. The deterioration is attributed to poor water management practices at power stations, including leaks and overflows at units; less recovery from on-site dams for reuse due to poor water quality, due to contamination with ash and oil; ashing with cooling water to control cooling water chemistry; as well as losses through discharge of polluted water into the environment, as the pollution control dams on these sites have more water flowing into the dams than can be contained.

Kendal and Tutuka released water into the environment for the entire financial year, resulting in increased raw water usage. Plans are in place to improve water performance across the power stations and stop continuous discharge at both Kendal and Tutuka. However, there has been slow progress in the implementation of the plans addressing the root causes of poor water performance. The release of water into the environment goes against Eskom’s intent to achieve zero liquid effluent discharge and to be compliant with legislation.

Apart from poor water management practices, the poor technical performance of coal-fired stations is another contributory factor, together with ageing plant. The increase in energy sent out across the fleet also affected the specific water usage.

More focus is still required at power stations to address the root causes of high inflows into dams and prevent contamination of surface water to improve water recovery and water management practices. Regrettably, focused monitoring of the effective implementation of water management action plans, both at power station level and by the Generation Environment Compliance Steering Committee, has not yet led to a significant decrease in such events when compared to the previous financial year.

Reducing environmental legal contaminations

A total of 65 environmental legal contaminations incidents were recorded against a tolerance level of 18 (2021: 81, restated), with the reasons indicated below. Generation was responsible for 58 of the incidents (2021: 78).

Investing in renewable energy

Eskom’s Sere Wind Farm contributed 253GWh to the national grid during the year (2021: 305GWh), with an average load factor of 27.54% and an average availability factor of 77.84% (2021: 33.25% and 94.48% respectively). We continue to purchase renewable energy from IPPs – sources include wind, solar power, biomass, landfill gas and small hydro technologies.

For capacity and energy supplied by renewable IPPs, refer to page 99.

Responding to climate change

Climate change represents another key challenge facing humanity, and a measurable global reality. The world is already experiencing increased temperatures and observing more frequent and severe weather events. If nothing is done, climate change will endanger the livelihoods of hundreds of millions of people around the world and impose increasing costs on society.

Meeting the goals set out in the Paris Agreement is a race against time. Whether we succeed or fail will depend on the speed with which we phase out coal-fired electricity production worldwide. According to the 2018 IPCC Report, coal-fired generation needs to be reduced by 78% by 2030 to keep the limit of achieving average global temperatures to within 1.5°C above pre-industrial levels within reach. However, the speed at which coal-fired production can be phased out in South Africa depends on the rate at which replacement generation capacity (renewable generation with battery storage) can be rolled out and on the financial, skills, regulatory and logistical support required to enable that. Otherwise, the country faces dire socio-economic consequences.
The Paris Agreement requires governments to put forward 2020 pledges that are sufficient to curb emissions to limits of warming. All countries who are signatories to the Paris Agreement, South Africa included, have submitted their own nationally determined contributions (NDCs) to the United Nations Framework Convention on Climate Change (UNFCCC).

South Africa’s response to climate change
South Africa is particularly vulnerable to climate change, given that local warming is approximately twice the global rate due to the country’s geographical location and socioeconomic state. South Africa is committed to achieving the goals of the Paris Agreement, keeping global warming well below 2°C above pre-industrial levels by 2050 and to pursue efforts to limit the temperature increase to 1.5°C. As part of Eskom’s Just Energy Transition (JET) strategy, Eskom has further committed to reach net zero emissions by 2050, while promoting net job creation.

South Africa’s first NDC included a target range between 398–510 Mt CO2e in 2030, and between 350–420 Mt CO2e in 2050, and “at least” $30/ton by 2050. As part of a “peak, plateau and decline” trajectory to 2050. In September 2021, South Africa submitted its updated NDC to the UNFCCC, indicating an updated target range between 398–510 Mt CO2e in 2025, and between 350–420 Mt CO2e in 2050. This conveys a significantly more ambitious mitigation target that allows South Africa to remain on a pathway well below 2°C, and to continue to strive for a 1.5°C pathway.

Climate change legislation and carbon budgets
South Africa’s proposed Climate Change Bill aims to mount an effective climate change response and ensure the long-term, just transition to a climate resilient and lower carbon economy and society, within the context of sustainable development. Cabinet approved the Climate Change Bill to be passed through Parliament. As part of the first phase, it is expected to prescribe mandatory carbon budgets from 1 January 2023 to 31 December 2027, as well as the methodology for allocating budgets. In the interim, companies are required to develop and implement Pollution Prevention Plans that cover a five-year period (from 2021 to 2026) and to report on their progress annually.

DFFE gazetted their intention to extend voluntary carbon budgets for 2021 and 2022, and have requested an allocation from DFFE.

Carbon tax
The Carbon Tax Act, 2019 (CTA) levies a carbon tax on greenhouse gas (GHG) emissions, to encourage the market to reduce consumption of carbon-intensive products and to shift the country onto a low carbon pathway.

National Treasury initially confirmed that the gazetted renewable energy premium applies to 31 December 2022. Subsequently, the National Budget Speech in February 2022 proposed that this be extended until 31 December 2025. It would lead to the first carbon tax liability to Eskom arising in the 2026 financial year, with the first cash payment expected the following year.

According to section 6(2) of the CTA, generators of greenhouse gases from free-plantation activities are allowed a deduction equal to the renewable energy premium incurred through RE-IPP purchases in the same tax period. It is an unintentional own national carbon tax legal separation of Transmission – the counterparty to RE-IPP purchases – that the remaining Generation business may no longer be able to claim that deduction. The potential financial risk is being monitored.

Climate funding
Eskom, as an Eskom team, led by the GCE, has actively engaged with foreign governments such as the United Kingdom, United States, Germany and France, as well as their lending institutions and multilateral banks who are keen on funding Eskom’s JET plans. Consequently, we developed the concept of a financing facility, referred to as the JET Finance. The GCE presented the JET facility to the Presidential Climate Commission and received support.

The concept is to enable and accelerate the Just Energy Transition from coal to other forms of electricity generation through a multi-tranche, multi-year facility, funded by a multi-lender syndicate, which would provide concessional funding to JET projects in South Africa on a “pay for performance” basis. The funds would be advanced as progress payments for different stages of various projects. Should project objectives not be achieved as agreed, or should agreed-upon milestones not be met, future releases of funding tranches may be withheld, and concessional interest rates may be increased.

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Our efforts to source financing for climate projects culminated in the South African Just Transition financing facility of $8.5 billion that was approved at COP26, coordinated by the Climate Investment Funds. This unprecedented partnership between the SA Government and the UK, US, EU, French and German governments has at its heart the Eskom JET Energy Transition Plan. The financing is to be used to fund new clean energy generation projects as well as transmission and distribution infrastructure, together with green hydrogen and electric vehicle projects. Other lenders are also showing interest in funding various Eskom JET projects, supporting our net zero emissions aspirations.

A technical team, under the auspices of the Presidency, has been set up to coordinate the South African funding deal. We are participating in the task team, which will work on the conditions of the loan, tenure, payback, interest rates, among other factors. A key enabler is the “just” element and socio-economic commitments are key to the deal being successful. To enable Government’s goals for the JET transaction, we have developed a prioritised list of projects and will advocate and make the case for the timely release of COP26 funding, based on our readiness to execute JET projects across Generation, Transmission and Distribution.

In the meantime, we are proceeding with bilateral engagements with various lenders for the funding of Eskom JET projects, which began prior to the COP26 announcement, and continue to cultivate projects that will qualify for funding under these agreements.

Just Energy Transition
As indicated before, we are committed to transitioning from coal to lower carbon technologies such as renewables, and will ensure that the transition occurs in a “just” manner, by not impeding socio-economic development, but rather increasing sustainable jobs. Grid strengthening in the Northern and Eastern Capricorn is a key enabler for the rollout of new renewable capacity in these areas. In addition, repurposing and repowering will allow for the optimisation of grid capacity in those regions. To this end, Generation has established a Clean Energy Department, to oversee the development, design, building and execution of clean energy projects. This department will also be responsible for setting up and managing investment in clean energy-related ventures or initiatives.

It is essential to ensure that those who are invested socially and economically in the coal value chain are not adversely affected. Consequently, we are collaborating with the Department of Trade, Industry and Competition (the dtic) and others to capitalise on the expected J3GW of renewable construction required in South Africa over the next decade by ensuring that appropriate industrial policy is in place to enable local manufacturing of renewable components. Policy and demand certainty will be crucial to attract investors to set up factories in South Africa, preferably in the coal heartland of Mpumalanga. Eskom’s key requirement to investors is that the investment in manufacturing capacity in South Africa forms part of a de-carbonisation-funding package.

We are conducting socio-economic impact assessment studies at 10 power stations. The aim is to identify impacts, risks and opportunities and to build societal and institutional trust through open and transparent consultations, upon which the commitment of all stakeholders will be built.

Selected technologies will be taken through multicriteria evaluation to indicate the preferred technology options. In 2021, the World Bank commissioned technical studies on retiring and repurposing four power stations, being Komati, Hendrina, Grooteveld and Caledon. The studies will inform the types of technologies that could be deployed at sites. Selected technologies will be taken through multicriteria evaluation to indicate the preferred technology options. This will support Eskom’s mitigation plan by identifying job-creating economic opportunities and localisation potential from the repowering and repurposing programme, in line with Eskom’s Just Energy Transition strategy.
A microgrid assembly and fabrication factory is being demonstration plant. An environmental impact assessment (aquaponics and raised bed agricultural solutions) We have begun installation of a 500kWp agrivoltaic capital as well as political capital in the local area. development, diversifying the local economic base and station to mitigate against indirect and induced effects that can be undertaken regionally, locally and at the power The Komati mitigation plan outlines potential projects Komati had an installed capacity of 990MW, and the last and subsequently returned to service by October 2013. Komati Power Station, located in Middelburg, Mpumalanga, repurposing of Komati Power Station. Discussion are under way for different envelopes of grant funding for feasibility studies of various JET projects. Concessionary financing discussions and project parades have been conducted with DFIs. The Industrial Development Corporation and Development Bank of Southern Africa are busy reviewing the project pipeline; appraisal missions are under way with the World Bank and Agence Française de Développement. In November 2022, the World Bank approved a concessional loan facility of $497 million for the repurposing of Komati Power Station. Pilot at Komati Power Station Komati Power Station, located in Middelburg, Mpumalanga, was initially commissioned between November 1961 and March 1966. The station was mothballed by 1990, and subsequently returned to service by October 2013. Komati had an installed capacity of 990MW, and the last coal-fired unit of 114MW was shut down in October 2022. The station will serve as the flagship site to demonstrate Eskom’s JET commitment to shift from coal dependency to producing power through renewable energy on existing Eskom land using existing infrastructure. The Komati mitigation plan outlines potential projects that can be undertaken regionally, locally and at the power station to mitigate against indirect and induced effects of the shutdown. The focus is on job creation, economic development, diversifying the local economic base and strengthening human capital, manufactured capital as well as political capital in the local area. We have begun installation of a 500kWp agrivoltaic (aquaponics and raised bed agricultural solutions) demonstration plant. An environmental impact assessment for a solar PV plant supported by battery storage is in progress. In total, 370MW of renewable energy, including wind, solar and battery storage, is planned to be deployed. A microgrid assembly and fabrication factory is being set up in the disused Komati workshops. The targeted production capacity is 45 contained microgrid per year. Skills requirements are being established for each of the interventions, with skills mapping in progress to facilitate internal and external training of local labour to actively participate. The Komati Training Facility is being established in partnership with the South African Renewable Energy Technology Centre (SARETEC) to facilitate the skilling of Eskom workers as well as the local community in the Komati area, to replace jobs lost in related industries such as coal mining. It is also envisaged to provide upstream skilling of workers at other power stations. Ash geopolymer manufacturing is to be established to produce concrete products, such as bricks and pavers, from ash that is in abundance in the area. Discussions are under way for different envelopes of grant funding for feasibility studies of various JET projects. Concessionary financing discussions and project parades have been conducted with DFIs. 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The following principles will be applied to mitigate the impact of power station shutdown on Komati’s workforce: • Transfers to other power stations • Reskilling and upskilling for deployment to repowered or repurposed units • Secondments to other critical projects or operations • Other levers such as voluntary separation packages • Secondments to other critical projects or operations • Transfers to other power stations • Reskilling and upskilling for deployment to repowered or repurposed units • Secondments to other critical projects or operations • Other levers such as voluntary separation packages
Risk management
The Enterprise Risk and Resilience Department has established risk structures within each division, consisting of risk owners, risk coordinators and risk and resilience practitioners. Risk owners are accountable for the identification, assessment and management of risk, which is integrated in management processes and evident in decision-making processes and outcomes. Risks are classified from Priority I to Priority IV. All Priority I and emerging risks are reported to Exco and the Board, which provides oversight as recommended by King IV™.

For further detail on risk management, refer to “Our strategic context – Integrating risk and resilience” from page 45.

Metrics and targets
Eskom’s performance metrics include GHG emissions data and compliance with legislation. Additional metrics include Eskom Factor 1 (total energy sold) and Eskom factor 2 (total energy generated).

Refer to “Information on the environmental implications of using or saving electricity” on page 153.

Internal carbon dioxide reviews
We conduct annual carbon dioxide reviews at all power stations. Due to COVID-19 lockdown restrictions, the last two reviews have been conducted on 30% of the coal-fired fleet. The purpose of these reviews is to improve the integrity of data which is used to calculate annual emissions. The reviews involve assessing the processes, systems and documentation (such as policies and procedures) and the ISO compliance self-assessment to ensure the value chain of data flow has the integrity to yield calculations with a high degree of accuracy.

GHG emissions
We submit an annual GHG report to DFFE based on their technical guidelines for scope 1 emissions. These are based on the 2006 Intergovernmental Panel on Climate Change (IPCC) GHG Guidelines and 2019 IPCC Refinements.

Our carbon footprint
A carbon footprint estimates the total 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 GHG emissions and allows us to improve the management thereof.

We calculated our annual carbon footprint for the 2021 calendar year, using the same methodology as the carbon footprint study conducted for 2020. 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.

The results of the carbon footprint study for the 2021 calendar year, compared to the 2020 results, are presented in the table below:

<table>
<thead>
<tr>
<th>GHG emissions by source, tCO₂e</th>
<th>2021 calendar year</th>
<th>2020 calendar year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statutory combustion</td>
<td>207 330 321</td>
<td>201 260 329</td>
</tr>
<tr>
<td>Eskom fleet</td>
<td>78 128</td>
<td>37 810</td>
</tr>
<tr>
<td>Scope 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity and heat purchased</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Scope 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal delivery to site</td>
<td>252 743</td>
<td>238 338</td>
</tr>
<tr>
<td>Use of employee vehicles</td>
<td>6 003</td>
<td>6 667</td>
</tr>
<tr>
<td>Air travel</td>
<td>927</td>
<td>1 008</td>
</tr>
<tr>
<td>Vehicle rental</td>
<td>1 216</td>
<td>2 225</td>
</tr>
<tr>
<td>Total</td>
<td>207 625 568</td>
<td>201 624 115</td>
</tr>
</tbody>
</table>

1. As electricity generation is Eskom’s main activity, scope 2 indirect emissions are in principle accounted for as scope 1 direct emissions under the GHG Protocol.
2. For coal, an Eskom-specific annual weighted average net calorific value of 5010 GJ/TJ (5010GJ/TJ) is used based on the actual measured value of 2021.
3. Due to different scopes and input assumptions, the results are not directly comparable with our CO₂ emissions reported in the table on page 144.

The total GHG emissions for 2021 were 207 625 568 tCO₂e, which is higher than 2020 due to the relaxation of various lockdown measures implemented in response to the COVID-19 pandemic, and the consequent increase in electricity generation to meet the higher demand. 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 is the second biggest source of GHG emissions. This mainly relates to the transportation of coal to power stations by third-party trucks. The third highest source of GHG emissions was Eskom’s fleet – this relates to fuel consumed by the corporate fleet and heavy trucks owned by Eskom, as well as Eskom’s helicopters and other vehicles used for power line maintenance and inspections. There was an increase in travel due to the lifting of the national COVID-19 travel restrictions.

Fugitive emissions, which relate to the incidental release or leak of SF6 gas due to the failure or malfunctioning of gas-insulated switchgear (GIS) and circuit breakers used in Transmission and Distribution, Reduced compared to the prior year.

CDP disclosure
Since 2009, we have voluntarily disclosed our climate change performance on the Carbon Disclosure Project (CDP), a global platform for investors, companies, cities, states and regions to manage their environmental impacts. As in prior years, we submitted a response in 2021 as well as in 2022.

CDP provides the global financial sector with the most complete source of self-reported corporate environmental data from more than 7 000 of the world’s largest companies, in a uniform and comparable manner that is fully aligned with the TCFD. It considers the impact on and management of climate change, water security and deforestation related issues. The information is scrutinised by investors, corporations and regulators in making informed decisions on investing in particular industries, sectors and countries.

Carbon-based market mechanisms
There are several carbon-based market mechanisms that operate globally to promote the scale-up of emissions reductions. This includes the Clean Development Mechanism (CDM), the Gold Standard Foundation, the Voluntary Carbon Standard, Joint Implementation and several others. The CDM is a carbon-offsetting mechanism that is well established nationally and internationally. Its objectives are firstly, to assist developing countries to meet their sustainable development agenda; and secondly, to assist developed countries to achieve their Kyoto Protocol emissions targets through a less costly approach by developing projects in the developing world.

Eskom has a programme and three registered projects under the CDM to implement the national energy efficient lighting programme, known as the compact fluorescent lamp (CFL) national rollout programme. The Sere wind energy facility in the Western Cape is also a registered CDM project. We continue to explore opportunities of registering more eligible projects under the CDM.

Future focus areas
• Continuing to implement the long-term coal strategy to ensure security of coal supply, at an optimal cost
• Pursuing the following high priority levers to support the objectives of the long-term coal strategy:
  o 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.
  o Extending existing long-term fixed-price contracts for designated power stations, with the option to supply other power stations
  o Sourcing uncompacted coal for the remaining life of power stations through open tender
  o Striving to move coal as economically as possible, leaning towards a coal colliery model delivering coal by conveyor, with rail and road transportation as less preferred alternatives
• Engaging with DFFE on the MES decision, which has significant implications for available capacity, putting 16 000MW at immediate risk, although Eskom’s subsequent appeal will result in a consultative process.
• Driving a combination of interventions, such as increased training and assurance reviews both at divisional and corporate level, focused on implementing requirements related to atmospheric emissions, incident management, water, waste and biodiversity to assist divisions in turning around the negative environmental performances, to achieve Zero Harm and to maintain Eskom’s licence to operate
• Addressing instances of non-compliance and shortcomings to ensure full compliance with licences and permits
• 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. The priorities are to fast-track the repowering project implementation at Komati Power Station, and to work with the Presidential Task Team to finalise the COP26 financing deal
Our People

Our people are critical to successfully achieving our mandate and strategic objectives. A high-performance, ethical culture is seen as a key enabler for driving our turnaround plan and our vision of powering growth sustainably. To deliver on this, effective employee engagement and performance management, as well as enhancing our employee value proposition, are necessary to improve employee productivity and morale.

We seek to recruit and retain a skilled workforce, as well as develop and source leadership and other critical and scarce skills, by identifying skills gaps, training our people, maintaining a diversified learner pipeline and enabling talent development opportunities.

We are committed to our value of Zero Harm by promoting safety excellence in all areas. We collaborate with organised labour, employees and contractors on initiatives that create a safe working environment and mitigates safety risks.

Our workforce

Group headcount stood at 40,421 at year end (2021: 42,749), including permanent staff and fixed-term contractors. We have achieved a notable reduction in our headcount over recent years, mainly through natural attrition and, to a lesser extent, voluntary separation packages, while prioritising the retention of critical workforce segments. Contributing most to the decline in the past year is a net reduction of 103 fixed-term contractors in Eskom Rotek Industries (ERI) due to contracts coming to an end.

Headcount is expected to remain mostly stable over the next five years, with a target of 40,381 by the 2027 financial year, as we aim to replenish skills lost through natural attrition.

Headcount at 31 March

<table>
<thead>
<tr>
<th>Year</th>
<th>Headcount at 31 March</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>40,421</td>
</tr>
<tr>
<td>2021</td>
<td>42,749</td>
</tr>
<tr>
<td>2020</td>
<td>45,000</td>
</tr>
<tr>
<td>2019</td>
<td>47,500</td>
</tr>
<tr>
<td>2018</td>
<td>50,000</td>
</tr>
</tbody>
</table>

Change in group headcount

<table>
<thead>
<tr>
<th>Year</th>
<th>Headcount at 31 March</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>40,421</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>42,749</td>
<td>-16.9%</td>
</tr>
<tr>
<td>2020</td>
<td>45,000</td>
<td>-5.4%</td>
</tr>
<tr>
<td>2019</td>
<td>47,500</td>
<td>-10.9%</td>
</tr>
<tr>
<td>2018</td>
<td>50,000</td>
<td>-11.7%</td>
</tr>
</tbody>
</table>

For a discussion of employee benefit costs, refer to note 34 of the consolidated annual financial statements.
OUR PEOPLE continued

The age and divisional breakdown of our workforce at year end is shown below.

![Age and Divisional Breakdown](image)

Over 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 programmes, corporate support functions and our subsidiary ERI, which supports the electricity business.

For information on the racial and gender breakdown of our workforce, refer to “Improving internal transformation” from page 127.

Building and retaining strong skills

Our skills development programme supports the national objectives of poverty reduction, economic transformation and job creation in terms of the National Skills Development Plan 2030. The recruitment of learners and the management of our learner pipeline aims to address the critical skills requirements of Eskom and the Government.

Retention and development of skills through targeted employee value proposition is essential to ensure that we have the required skills to meet the organisation’s needs, especially in light of operational challenges and financial constraints.

The changing world of work, just Energy Transition and evolving energy industry require the reskilling and upskilling of our workforce. In July 2021, we commenced with a skills audit to determine skills requirements, assess our current skills base, and identify future training and development needs.

The skills audit covers all technical roles across Generation, Transmission and Distribution. Unfortunately, progress has been slow due to low participation by employees; the audit has been extended into the 2023 financial year and is ongoing. The results of the skills audit will aid the development of a fit-for-purpose skills strategy that drives the development of future-fit career paths, redeployment strategies and training interventions.

Learner pipeline

Our learner pipeline constituted 1 238 learners at year end (2021: 1 465), including 1 219 technical and 19 non-technical learners. The learner pipeline represented 3.6% of company headcount, with artisans making up the majority.

Regrettably, external training opportunities remain limited due to financial challenges. In response to the COVID-19 pandemic, many training interventions have transitioned to online platforms which has also led to some cost savings. There has been increased uptake in further study programmes, with employees obtaining qualifications related to their line of work, thereby building skills and expanding the leadership potential within our workforce.

Remuneration and benefits

Our aim is to attract and retain skilled, high-performing employees and provide market-related remuneration, benefits and conditions of service, within the guidelines set by the shareholder.

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 attached to the Government support, no increases were awarded to managerial employees during the 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, as well as housing, cell phone and car allowances, subject to qualifying criteria. Around 83% of our workforce are covered by collective bargaining agreements with trade unions.

Regrettably, we could not come to an agreement with organised labour during the 2021 Central Bargaining Forum (CBF) negotiations and the matter was referred to the Commission for Conciliation, Mediation and Arbitration (CCMA) for arbitration. While awaiting the outcome of the arbitration, we implemented our final offer of a 1.5% basic increase for bargaining unit employees from 1 July 2021. In September 2022, the CCMA issued its arbitration award, ordering Eskom to provide an additional 1.5% increase, backdated to 1 July 2021. This amounts to a total increase of 3% for the period 1 July 2021 to 30 June 2022.

Executive remuneration is discussed under “Governance, leadership and ethics – Remuneration and benefits” on page 63

Given Eskom’s financial results, no performance bonuses have been paid to employees since 2018. Furthermore, it is a condition of the Government support that no incentive bonus is paid to managerial employees in the 2022 financial year.

As such, Eskom employees are prohibited from participating in industrial action. On 24 June 2022, we obtained an urgent interdict from the Labour Court.

Regrettably, the unlawful and unprotected industrial action led to the extension of the lockout beyond the 30-day period to allow for meaningful engagement, consultation and joint actions to address Eskom’s financial challenges. As such, Eskom employees are prohibited from participating in industrial action. We have since only experienced acts of harassment, sabotage, arson and violence, despite calls from both Eskom and trade union leadership to desist from such behaviour and return to work. This action resulted in severe generation supply constraints and led to implementation of stage 6 loadshedding from 26 June 2022.

Engagements were held between Eskom and trade union leadership, and an agreement was reached to return to the CBF negotiations on 1 July 2022. Eskom proposed a final settlement offer, with a 7% increase in basic salary, along with reinstatement of previous conditions of service. The trade unions accepted the offer on 5 July 2022, bringing an end to the damaging, disruptive and costly wage dispute.

Organisational effectiveness

We aim to drive organisational effectiveness and a sense of belonging and connectedness to our business by offering a rich employee value proposition (EVP), engaging with employees and fostering a high-performance ethical culture.

In response to the national lockdown, we expanded our EVP to include psychosocial resources and activities to help employees and their families adapt to new ways of work. Based on feedback from employees, we developed a business case to design new working models and take advantage of the benefits brought about by remote working. A hybrid work model was implemented in January 2022.
Our approach to developing a hybrid work model was focused on four key areas:

- **Strategy:** Design a world of work that aligns to and enables our strategic objectives
- **People:** Evolve people practices to enable flexibility and agility; improve safety, health and wellness; encourage innovation; and, ultimately, contribute to a high-performing workforce
- **Digital working environment:** Empower the workforce by maturing digital workplace capabilities leading to cost and waste reduction, information security and an improved user experience
- **Real estate and facilities:** Optimise our property portfolio and prepare the workplace for hybrid work

The adoption of a hybrid work model means that qualifying employees may apply to work remotely, with approval subject to operational requirements and the type of work performed. Hybrid workers are still required to work from an Eskom site periodically, as determined by their division. The hybrid work model aims to contribute to creating a high-performing workforce by enabling agility, innovation and efficiency.

In February 2022, we launched Eskom’s culture transformation programme as we embark on one of our most ambitious and challenging transformation journeys yet. Our 1:1:6:10 culture transformation programme is a key enabler for delivering a high-performance ethical culture to drive our turnaround plan and power growth sustainably through our legally separated businesses. Our cultural aspersion is supported by six cornerstone cultural changes which should be reflected in everything we do, including how employees interact with one another, and with our customers, suppliers, business partners, key stakeholders and the public.

Effective performance management practices are seen as increasingly important to enable our aspirational culture and improve employee morale. We are developing an integrated system of incentives and disincentives, linked to key performance indicators, to deliver on our high-performance ethical culture.

While levels of sick leave have increased with employees returning to the workplace, they remain well within our tolerance levels. All employees with high SAFR and GSAR rates are referred to Eskom clinics for fitness-for-duty assessments.

Our employee assistance programme (EAP) offers counselling and various other psychosocial support programmes. Mental health and stress-related problems, which have increased during the COVID-19 pandemic, are receiving attention through awareness and education programmes.

Since the start of the COVID-19 pandemic to 31 December 2021, Eskom has recorded 11 626 positive cases, comprising 9 535 employees and 2 091 contractors, with 11 435 recoveries. Sadly, 161 employees and 24 contractors have succumbed to the disease. All affected employees and their families are offered psychosocial support.

To support the national strategies put in place to curb the spread of COVID-19, we empowered employees with accurate information and made accredited vaccination facilities available at major Eskom sites. With the relaxation of South Africa’s lockdown measures in June 2021, our response to the COVID-19 pandemic has been integrated into normal business operations.

We promote sound and fair labour practices and aim to deal with grievances, suspensions, disciplinary action and disputes appropriately, to ensure a productive partnership between Eskom, our people and our trade unions.

Unfortunately, the achievement of transformation targets in some areas are hindered by attrition, limited recruitment opportunities and ongoing financial challenges.
Proportional representation of persons living with disabilities remains a concern, as they are well represented at lower occupational levels, but not across all levels. Group disability equity amounted to 2.94% against a target of 3.3% (based on the target in the White Paper on the Rights of Persons with Disabilities).

The overall gender ratio has improved to 66% male and 34% female employees (2021: 67% and 33%), although our aim is to achieve 50:50 representation by 2030. Gender equity in Exco has improved significantly, with five out of the nine Exco members being female. Learning and development programmes, ring-fencing of vacancies and initiatives under the Eskom Women Advancement Programme are key to improving our employment equity performance further.

Focus on safety

Our operations are subject to legal, regulatory and licence conditions surrounding occupational health, safety and environmental compliance. In addition to ensuring compliance with statutory requirements, we continue to pursue safety initiatives, such as training and awareness, safety assessments and contractor workshops, to address safety risks.

We use the lost-time injury rate (LTIR) to assess our safety performance, together with the number of fatalities among employees and contractors. Although our true target is zero in line with our value of Zero Harm, the LTIR target reflected in the table below indicates our tolerance level.

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2025</th>
<th>Target 2023</th>
<th>Target 2022</th>
<th>Target met?</th>
<th>Actual 2022</th>
<th>Actual 2021</th>
<th>Actual 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fatalities (employees and contractors), number</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>6</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>Fatalities (public), number</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>21</td>
<td>20</td>
<td>17</td>
</tr>
<tr>
<td>Lost-time injury rate, index (including occupational diseases)</td>
<td>0.30</td>
<td>0.30</td>
<td>0.30</td>
<td>–</td>
<td>0.24</td>
<td>0.22</td>
<td>0.30</td>
</tr>
</tbody>
</table>

Sadly, we recorded four employee fatalities (2021: three, restated) and two contractor fatalities (2021: eight) during the year, despite our commitment to safety. The causes of all fatalities are shown below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Cause of Fatality</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>Electrical contact</td>
</tr>
<tr>
<td>2021</td>
<td>Electrical contact</td>
</tr>
</tbody>
</table>

The main causes of lost-time incidents are falls from the same level, vehicle accidents, and incidents related to being struck by or caught between objects.

A total of 15 occupational disease incidents have been confirmed for the year (2021: 11). As in the past, these relate mainly to noise-induced hearing loss incidents, which account for more than 60% of cases.

Physical threats to our employees and contractors remain a concern, particularly due to community unrest during removal of illegal connections and when implementing load reduction. We condemn all violent behaviour against our people.

Public fatalities are discussed under “Our role in communities – Public safety” on page 133.

Future focus areas

- Driving a high-performance ethical culture through Eskom’s culture transformation programme
- Containing employee benefit costs, in particular overtime
- Implementing new talent development programmes to build and retain leadership skills and improve succession planning
- Concluding the skills audit and workforce planning to address operational skills shortages, particularly in Generation
- Reskilling and upskilling staff to enable the Just Energy Transition
- Developing Eskom’s diversity and inclusivity policy to expand our diversity goals beyond race, gender and disability
- Achieving racial, gender and disability equity targets and extending the reasonable accommodation of persons living with disabilities
- Continuing to safeguard the lives of employees and contractors as they perform their duties
- Adopting data analytics and digitisation to enhance employee productivity, reduce costs and improve decision-making
Social and relationship capital considers our impact on the communities in which we operate as well as our relationships with customers, suppliers, beneficiaries of our electrification and CSI programmes, and the public in general.

We understand the significant impact that communities and stakeholder relationships have on our business, and acknowledge that the level of trust in our organisation has dwindled over the past decade. We are striving to improve transparency and enhance our engagement with stakeholders as we transition to a Just Energy future.

Eskom adds value to the lives of ordinary South Africans through our commercial mandate to supply electricity as well as our developmental responsibilities, by delivering on South Africa’s economic empowerment, skills development and transformation efforts. We strive to be a customer-centric organisation that delivers world-class customer service, and we are committed to protecting members of the public from exposure to the hazards of our operations and infrastructure through education on the safe use of electricity.

**Our reputation**

We participate in an independent Reputation Pulse study which scores reputation along seven key drivers, including products and services, innovation, workplace, governance, citizenship, leadership as well as performance.

The latest study shows that our efforts in restoring trust are starting to bear fruit, leading to an improvement in our reputation since 2020. All reputation drivers are showing an upward trajectory, with Eskom’s leadership achieving the largest increase, followed by performance, governance and innovation.

A company’s reputation affects its social licence to operate, its ability to attract and retain skills, its access to customers and the support it receives from stakeholders. Therefore, rebuilding and strengthening the public’s confidence and trust in Eskom remains one of our key priorities through effective communication and inclusive relationship management.

To improve transparency, we have begun hosting regular media briefings on Eskom’s system challenges during periods of loadshedding, which have been well received. We continue to publish current operational, system performance and environmental data through the Eskom Data Portal on our website. Where applicable, historic and forecast data are also made available.

The Eskom Data Portal can be accessed at www.eskom.co.za/dataportal/
## OUR ROLE IN COMMUNITIES continued

### Customer service performance
Customer satisfaction is measured using a range of independent perception- and interaction-based customer surveys. These allow us to better understand and respond to the needs of our customers, which is critical for stimulating sales and improving revenue collection.

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2022</th>
<th>Target 2023</th>
<th>Target 2024</th>
<th>Target met?</th>
<th>Actual 2022</th>
<th>Actual 2023</th>
<th>Actual 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key Customer Delight, %</td>
<td>80.0</td>
<td>85.0</td>
<td>90.0</td>
<td></td>
<td>83.6</td>
<td>86.2</td>
<td>81.5</td>
</tr>
<tr>
<td>CustomerCare, index</td>
<td>8.0</td>
<td>8.2</td>
<td>8.5</td>
<td></td>
<td>8.9</td>
<td>8.4</td>
<td>8.5</td>
</tr>
</tbody>
</table>

Key Customer Delight, which measures the satisfaction of large industrial customers, continues to perform above target. Regrettably, poor generating plant performance is impacting reliability of supply, which remains a concern for key customers.

CustomerCare measures satisfaction following interaction with our contact centres. We have exceeded our target service levels and are pleased by the positive trend in customer perception and satisfaction.

During the year, we launched Alfred, our customer chatbot, and upgraded our telephony system to an interactive voice response system, to facilitate 24/7 service, minimise queues and reduce waiting times for customers.

Our contribution to supplier development
We aim to support sustainable supplier development, localisation and industrialisation by leveraging our

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2022</th>
<th>Target 2023</th>
<th>Target 2024</th>
<th>Target met?</th>
<th>Actual 2022</th>
<th>Actual 2023</th>
<th>Actual 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local content of R176.8 billion</td>
<td>5.9 million households.</td>
<td>75.89%</td>
<td>5.9 million households.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 negotiated by DPME. If IPP expenditure were excluded from TMPs, preferential procurement would have improved to approximately 92%, against a target of 75%. We are seeking to resolve the classification of IPP expenditure with DMRE and the Department of Trade, Industry and Competition given the planned growth of the RE-IPP Programme.

### Customerservice performance

#### Key Customer Delight, %
- 2022: 80.0
- 2023: 85.0
- 2024: 90.0

#### CustomerCare, index
- 2022: 8.0
- 2023: 8.2
- 2024: 8.5

#### Measure and unit

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2022</th>
<th>Target 2023</th>
<th>Target 2024</th>
<th>Target met?</th>
<th>Actual 2022</th>
<th>Actual 2023</th>
<th>Actual 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local content of R4.4 billion</td>
<td>5.9 million households.</td>
<td>75.89%</td>
<td>5.9 million households.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total measured procurement spend (TMPs) for the group on all active contracts amounted to R176.8 billion for the year, of which 75.89% was spent with B-BBEE compliant suppliers (2021: R155.6 billion, and 64.5%). Procurement spend with black-owned and black youth-owned suppliers improved to 47.08% (2021: 34.6%) and 5.40% (2021: 2.46%) of TMPs respectively, exceeding their targets of 40% and 2%. 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 negotiated by DPME. If IPP expenditure were excluded from TMPs, preferential procurement would have improved to approximately 92%, against a target of 75%. We are seeking to resolve the classification of IPP expenditure with DMRE and the Department of Trade, Industry and Competition given the planned growth of the RE-IPP Programme.

### Electriclization
Our most direct socio-economic contribution is the connection of previously disadvantaged households and farm dwelling houses in our licensed areas of supply through DMRE’s electrification programme. Reductions in allocated funding, together with challenges during the national lockdown, have led to a decline in new connections over the past two years. Since 1991, we have connected around 5.9 million households.

### Corporate social investment
The Eskom Development Foundation NPC (the Foundation), our wholly-owned subsidiary, is responsible for delivering CSI initiatives in communities in which we operate. Initiatives focus on improving quality of life through enterprise and rural infrastructure development, skills development, education, social upliftment, health, philanthropy and welfare programmes.

During the year, we approved 112 projects, grants and donations to the value of R75.1 million, assisting 785 085 beneficiaries. Unfortunately, COVID-19 restrictions and financial constraints continued to prevent us from executing all our planned initiatives.

The Foundation is focusing its efforts on optimising the value, impact and sustainability of its programmes giving prevalent funding constraints.

### Future focus areas
- Restoring our reputation and the public’s confidence and trust in Eskom
- Enhancing stakeholder engagement to bring visibility to strategic issues and thereby influence policy, legislative and regulatory reforms to enable Eskom’s strategic intent
- Enhancing the customer experience further by adapting to customer needs
- Improving delivery against our electrification and CSI programmes
- Increasing procurement spend and supplier development programmes with designated groups
- Engaging with communities, investors and Government on Eskom’s Just Energy Transition
- Continuing to raise awareness and educate the public on electricity safety and the hazards of illegal activities

With Komati Power Station’s last coal-fired unit having shut down in October 2022, the station offers a unique opportunity to pilot the repowering and repurposing of a power station on Eskom land using existing infrastructure. We have begun the installation of a microgrid assembly plant as well as an agrivoltaic plant, to demonstrate the simultaneous use of land for power generation and agriculture. An environmental impact assessment for a solar PV plant supported by battery storage is in progress. In total, 370MW of renewable energy – including wind and solar – and battery storage, is planned to be deployed.

### Public safety
We are strongly committed to Zero Harm, which includes safety of the public. Sadly, we recorded 21 public fatalities, excluding coal haulage incidents, during the year (2021: 20), with 17 due to electrical contact.

Various media platforms are used to educate the public on how to use electricity safely and correctly. We conduct nationwide public safety campaigns, raising awareness about the hazards of illegal connections, overloading electrical plugs and purchasing prepaid electricity from ghost vendors. Our safety campaigns also encourage the public to report low-hanging power lines, meter tampering and vandalism to electrical infrastructure in their communities.

### Maximising our socio-economic contribution

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2022</th>
<th>Target 2023</th>
<th>Target 2024</th>
<th>Target met?</th>
<th>Actual 2022</th>
<th>Actual 2023</th>
<th>Actual 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total electrification connections, number</td>
<td>312 835</td>
<td>101 899</td>
<td>99 724</td>
<td></td>
<td>97 947</td>
<td>106 649</td>
<td>163 413</td>
</tr>
<tr>
<td>Corporate social investment committed spend, R million</td>
<td>400.2</td>
<td>101.0</td>
<td>101.0</td>
<td></td>
<td>75.1</td>
<td>67.4</td>
<td>103 883</td>
</tr>
<tr>
<td>Corporate social investment, number of beneficiaries</td>
<td>2 325 000</td>
<td>750 000</td>
<td>750 000</td>
<td></td>
<td>785 085</td>
<td>802 635</td>
<td>1 47 395</td>
</tr>
</tbody>
</table>

1. The 2020 target is the cumulative target over the next three years.
SUPPLEMENTARY INFORMATION

WHAT YOU WILL FIND IN THIS SECTION

6

Abbreviations
Glossary of terms
Leadership qualifications and directorships
Board and Exco meeting attendance
Statistical tables: technical and non-technical information
Plant information
• Power station capacities
• Power lines and substations in service
Customer information, such as number of customers, electricity sales and revenue per customer category
Environmental implications of using or saving electricity
Independent sustainability assurance report
Contact details

ABBREVIATIONS

AEL Atmospheric emissions licence
ARC Audit and Risk Committee
BBEE Broad-based black economic empowerment
CAGR Compound annual growth rate
CCPA Council for Contractors, Mediation and Arbitration
CFO Chief financial officer
COGTA Department of Cooperative Governance and Traditional Affairs
CSA Coal supply agreement
CSI Corporate social investment
DFE Department of Forestry, Fisheries and the Environment
DFI Development finance institution
DWS Department of Water and Sanitation
DME Department of Mineral Resources and Energy
DVA Delegation of authority
DPE Department of Public Enterprises
EAF Energy availability factor (see glossary)
EBITDA Earnings before interest, taxation, depreciation and amortisation and fair value adjustments
ECA Export credit agency
ERI Eskom Rotek Industries SOC Ltd
ESP Electrostatic precipitator
ESU Energy utilisation factor (see glossary)
Exco Executive Management Committee
FPP Fabric filter plant
FGD Flue gas desulphurisation
GCE Group Chief Executive
GCOO Group Chief Operating Officer
GDP Gross domestic product
GE Group executive
GW Gigawatt = 1 000 megawatts
GWh Gigawatt-hour = 1 000MWh
IAE International Energy Agency
IEC Investment and Exco Committee
IFRS International Financial Reporting Standards
IP Independent power producer (see glossary)
IRP Integrated Resource Plan
IRIV King IV Report on Corporate Governance for South Africa, 2016
KE Kiloton = 1 000 tons
KPI Key performance indicator
kW Kilowatt = 1 000 watts
kWh Kilowatt-hour = 1 000 watt-hours
kWhSO Kilowatt-hour sent out
LPU Large power user
LTIR Lost-time injury rate (see glossary)
ME Megawatt = 1 million watts
MWh Megawatt-hour = 1 000MWh
MWhSO Megawatt-hour sent out
MTM Multi-year price determination
NERSA National Energy Regulator of South Africa
NRA National Nuclear Regulator
OGCT Open-cycle gas turbine (see glossary)
OFLF Other capability loss factor
OEM Original equipment manufacturer
OHS Occupational health and safety
PAAJ Promotion of Administrative Justice Act, 2000
PAJA Promotion of Administrative Justice Act, 2000
PAJA Planned capability loss factor
PFIA Public Finance Management Act, 1999
PGC People and Governance Committee
PPA Power purchase agreement
PV (Solar) photovoltaic
RCA Regulatory clearing account
RE-IPP Renewable energy independent power producer
RMIPP Risk Management Independent Power Producer Procurement Programme
SADC Southern African Development Community
SADIN System average interruption duration index
SAIFI System average interruption frequency index
SALGA South African Local Government Association
SAPP Southern African Power Pool
SARS South African Revenue Service
SCOA Standing Committee on Appropriations
SCOPA Standing Committee on Public Accounts
SES Social, Ethics and Sustainability Committee
SU Special Investigating Unit
SOC State-owned company
SPU Small power user
TWh Total measured procurement speed
UAGS Unplanned automatic grid separations
UCSFL Unplanned capability loss factor (see glossary)
WANO World Association of Nuclear Operators
GLOSSARY OF TERMS

Arrear debt as percentage of revenue  Gross arrear debt written off (relating to electricity receivables only) divided by gross electricity revenue multiplied by 100

Base-load plant Largely coal-fired and nuclear power stations, designed to operate continuously

Cash interest cover (ratio) Provides a view of the company’s ability to satisfy the interest burden on its borrowings by utilising cash generated from operating activities. It is calculated as net cash from operating activities divided by net interest paid (interest paid on financing activities less interest received from financing activities)

Current ratio (inventory plus the current portion of payments made in advance, trade and other receivables and taxation assets) divided by (the current portion of trade and other payables, payments received in advance, provisions, employee benefit obligations and taxation liabilities)

Daily peak Maximum amount of energy demanded by consumers in one day

Debt/equity including long-term provisions Not financial assets and liabilities plus non-current retirement benefit obligations and non-current provisions divided by total equity

Debt service cover (ratio) Cash generated from operations divided by (net interest paid from financing activities plus debt securities and borrowings repayments)

Disconnection To remove a facility (e.g. reactor) from service and other store it safely or demand it

Demand side management Planning, implementing and monitoring activities to encourage consumers to use electricity more efficiently, including both the timing and level of demand

EBITDA margin EBITDA as a percentage of revenue (excluding revenue not recognised due to uncollectability)

Electricity operating costs per MWh Electricity-related costs (primary energy costs, employee benefit costs plus net impairment loss and other operating expenses, less other income) divided by total electricity sales in GWh multiplied by 1 000

Electricity revenue per kWh Electricity revenue (including electricity revenue not recognised due to uncollectability) divided by total kWh sales multiplied by 100

Embedded derivative Financial instrument that causes cash flows that would otherwise be required by modifying a contract according to a specified variable such as currency

Energy availability factor (EAF) Measure of power station availability, taking account of energy losses not under the control of plant management and internal non-engineering constraints

Energy efficiency Programmes to reduce energy used by specific end-use devices and systems, typically without affecting services provided

Energy utilisation factor In 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

Facility A facility is an incident occurring at work, or arising out of or in connection with the activities of persons at work, or in connection with the use of plant or machinery, in which or in consequence of which, any person (an employee, contractor, or member of the public) dies, regardless of the time intervening between the injury and/or exposure to the cause and death. The data of the incident will reflect the data on which the incident occurred, irrespective of the date of death

Forced outage Shutdown of a generating unit, transmission line or other facility for emergency reasons or a condition in which general equipement is unavailable for load due to unanticipated breakdown

Free basic electricity Amount of electricity deemed sufficient to provide basic electricity services to a poor household (5 kWh per month)

Free funds from operations Cash generated from operations adjusted for working capital

Gross debt Debt securities and borrowings plus finance lease liabilities plus the after-tax effect of provisions and employee benefit obligations

Gross debt/EBITDA ratio Gross debt divided by earnings before interest, taxation, depreciation, amortisation and fair value adjustments

Independent non-executive director A director who:
• is not a full-time salaried employee of the company or its subsidiary
• is not a shareholder representative
• has not been employed by the company and is not a member of the immediate family of an individual who is or has been, in any of the past three financial years, employed by the company in any executive capacity
• is not a professional advisor to the company
• is not a significant supplier or customer of the company
• is not receiving remuneration contingent on the performance of the company

Independent power producer (IPP) Any entity, other than Eskom, that owns or operates, in whole or in part, one or more independent power generation facilities

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 curtailment 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 ensure 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

Last-time injury (LTI) A work injury which occurs out of and in the course of employment and which renders the injured employee or contractor unable to perform his/her regular/normal 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

Last-time injury rate (LTIAR) Proportional representation of the occurrence of last-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 within 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 readings and billing errors

Occupational diseases/illnesses Any confirmed diseases/illnesses arising out of, and in 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 medical practitioner

Off-peak Period of relatively low system demand

Open-cycle gas turbine (OOGT) Liquid fuel turbine power station that forms part of peak-load plants 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 capacity Generating equipment normally operated during one or more full calendar days or shifts other than the day or shift on which the injury occurred, irrespective of the date of death

Peak-load 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,阳光, 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 minutes 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 incident 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 (ULCF) Energy taken due to outages is 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

Board of Directors at 31 March 2022

Prof. Malegapuru (MW) Malogoba (69)  
Innocent Chairman  
Independent non-executive director  
Appointed to Board in December 2017

Qualifications  
BA English and Psychology (University of Pretoria)  
BA Accounting Sciences (Unisa)  
MBA (Nyenrode University)  
Skills  
Commerce and industry  
Finance, accounting and economics

Dr Red (R0B) Crompton (69)  
Independent non-executive director  
Appointed to Board in January 2018

Qualifications  
BA (University of Natal)  
Diploma in Higher Education (University of Natal)  
BA (Hons) (University of Natal)  
Ph D Humanities (University of Natal)  
Skills  
Commerce and industry  
Finance, accounting and economics

Dr Bantohile (BCE) Malubela (37)  
Independent non-executive director  
Appointed to Board in June 2017

Qualifications  
B Sc (University of Zululand)  
B Sc (Hons) Chemistry (University of Cape Town)  
M Sc Chemistry (University of Cape Town)  
Ph D Chemistry (University of Cape Town)  
Skills  
Science, engineering and technology

Ms Bosiwe (B) Maroos (43)  
Independent non-executive director  
Appointed to Board in January 2018

Qualifications  
B Com (University of Natal)  
Postgraduate Diploma in Management (GBS)  
Master of Business Leadership (Unisa)  
Association of Chartered Certified Accountants (ACCA)  
Skills  
Finance, accounting and economics

Mr Covid (C) Cassim (58)  
Chief Financial Officer  
Executive director  
Appointed to Board in July 2017

Qualifications  
B Com (University of Natal)  
B Accounting Sciences (Unisa)  
Chartered Accountant (SA)  
Master of Business Leadership (Unisa)  
Skills  
Commerce and industry  
Finance, accounting and economics

Mr André (AM) de Ruyter (54)  
Group Chief Executive  
Appointed to Exco in January 2020  
2 years 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

Ms Busisiwe (B) Mavuso (43)  
Independent non-executive director  
Appointed to Board in June 2017

Qualifications  
B Sc (University of Zululand)  
B Sc (Hons) Chemistry (University of Cape Town)  
M Sc Chemistry (University of Cape Town)  
Ph D Chemistry (University of Cape Town)  
Skills  
Science, engineering and technology

Dr Pulane (PE) Molokwane (45)  
Independent non-executive director  
Appointed to Board in December 2017

Qualifications  
B Sc Chemistry (University of Cape Town)  
M Sc Applied Radiation Science and Technology (University of North-West)  
Ph D Chemical Technology – Environmental Engineering (University of Pretoria)  
Skills  
Science, engineering and technology

Board of Directors continued at 31 March 2022

Dr Pulane (PE) Molokwane (45)  
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

Dr Rod (R0B) Crompton (69)  
Independent non-executive director  
Appointed to Board in January 2018

Qualifications  
BA (University of Natal)  
Diploma in Higher Education (University of Natal)  
BA (Hons) (University of Natal)  
Ph D Humanities (University of Natal)  
Skills  
Commerce and industry  
Finance, accounting and economics

Executive Management Committee at 31 March 2022

Mr André (AM) de Ruyter (54)  
Group Chief Executive  
Appointed to Exco in January 2020  
2 years 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  
National Transmission Company South Africa SOC Ltd

Mr Covid (C) Cassim (58)  
Chief Financial Officer  
Appointed to Exco in July 2017  
2 years in Eskom

Qualifications  
B Com (University of Natal)  
B Accounting Sciences (Unisa)  
Chartered Accountant (SA)  
Master of Business Leadership (Unisa)  
Skills  
Commerce and industry  
Finance, accounting and economics

Directorships  
Eskom Enterprise SOC Ltd  
Eskom Finance Company SOC Ltd  
National Transmission Company South Africa SOC Ltd

Mr Jan (JA) Oberholzer (63)  
Group Chief Operating Officer  
Appointed to Exco in July 2017  
29 years in Eskom (including from 1982 to 2008)

Qualifications  
B Sc Electrical Engineering (University of Pretoria)  
Master of Business Leadership (University)  
Executive Program (University of Michigan)  
Skills  
Finance, accounting and economics

Directorships  
Eskom Enterprise SOC Ltd  
Eskom Rotek Industries SOC Ltd  
Jafari Projects (Pty) Ltd  
Wild Senna Investments (Pty) Ltd

Ages are shown at 31 March 2022.  
Only active directorships are reflected.
LEADERSHIP QUALIFICATIONS AND DIRECTORSHIPS continued

Ms Faith (FS) Burn (53)
Chief Information Officer
Appointed to Exco in May 2020
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)
Chartered Internal Auditor (CIA)
Skills
Science, engineering and technology
Legal, governance and risk management
Directorioships
Genesis Strategy Partners
Harmonia International Ministry NPC
Kingdom Consultant Center NPC
South African National Blood Services NPC (SANBS)

Ms Elsie (EM) Pule (54)
Group Executive: Human Resources
Appointed to Exco in November 2014
24 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
Directorioships
Edison Press Company SOC Ltd
Eskom Rosek Industries SOC Ltd

Ms Jainthree (J) Sankar (59)
Chief Procurement Officer
Appointed to Exco in March 2021
28 years in Eskom
Qualifications
B Com (Unisa)
MBA Sustainable Business (University of Southern Queensland)
MBA (University of South Africa)
BA Social Work (University of the North)
BA (Hons) Psychology (University of Pretoria)
MBA (California State University)
National Diploma in Electrical Engineering (Durban University of Technology)
Skills
Science, engineering and technology
Commerce and industry
Social and human sciences
Directorioships
South African Maritime Safety Authority

Mr Vuyolwethu (V) Tuku (46)
Group Executive: Transformation Management Office
Appointed to Exco in July 2020
1 year in Eskom
Qualifications
B Sc Electrical Engineering (University of Cape Town)
MBA (University of Western Cape)
Skills
Science, engineering and technology
Commerce and industry
Finance, accounting and economics
Directorioships
Genesys Strategy Partners

Attendance at Board and committee meetings
for the year ended 31 March 2022

<table>
<thead>
<tr>
<th>Members</th>
<th>Board</th>
<th>Audit and Risk</th>
<th>Investment and Finance</th>
<th>People and Governance</th>
<th>Social, Ethics and Sustainability</th>
<th>Board Strategy Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of meetings</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>4</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Current directors

Non-executive directors

Prof. Mahapu Nkonyane (Chairman) | 10/10 | 4/4 | 4/5 | 5/5 |
Dr Relebohile | 9/10 | 9/10 | 4/5 |
Dr Bonitsohite Tshomba | 8/10 | 8/10 | 4/4 |
Ms Busisiwe Mavuso | 8/10 | 9/10 | 4/5 |
Dr Pulane Motlouwane | 10/10 | 10/10 | 4/5 |
Prof. Talko Mokgoro | 10/10 | 7/10 | 4/5 |

Executive directors

Mr André de Ruyter | 10/10 | <7/10* | <7/10* | <3/4 | <3/5 | <2/5 |
Mr Calib Cassim | 10/10 | <10/10* | <9/10* | <3/4 | <4/5 | <5/5 |

Previous directors

Ms Ntshepo Ngobeni | 4/5 | 5/5 | 2/3 |

Attendance as reflected above refers to directors who were members of that committee during the year to 31 March 2022 and reflects changes in committee composition during the year.
* denotes the chairmanship of the Board or committee at 31 March 2022.
<-> denotes meetings attended as an official.

Attendance at Exco meetings
for the year ended 31 March 2022

<table>
<thead>
<tr>
<th>Members</th>
<th>Divisional responsibility</th>
<th>Number of meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of meetings</td>
<td>16</td>
<td></td>
</tr>
</tbody>
</table>

Current executives

Mr André de Ruyter | Group Chief Executive | 14/16 |
Mr Calib Cassim | Chief Financial Officer | 16/16 |
Mr Jan Oerberber | Group Chief Operating Officer | 13/16 |
Ms Faith Burn | Chief Information Officer | 16/16 |
Ms Mel Govender | Group Executive: Legal and Compliance | 7/9 |
Ms Ntshepo Ngobeni | Group Executive: Government and Regulatory Affair | 14/16 |
Ms Elsie Pule | Group Executive: Human Resources | 15/16 |
Ms Jainthree Sankar | Chief Procurement Officer | 15/16 |
Mr Vuyolwethu Tuku | Group Executive: Transformation Management Office | 14/16 |

Previous executives

Ms Ntshiko Mnsi | Acting Group Executive: Legal and Compliance | 7/7 |

Ages are shown at 31 March 2022. Only active directorships are reflected.
### TECHNICAL STATISTICS

#### Measure and unit

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>2021</th>
<th>2022</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer statistics</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arrear debt as % of revenue, %</td>
<td>9.31</td>
<td>9.24</td>
<td>9.39</td>
</tr>
<tr>
<td>Debtors days – municipalities, average debtors days</td>
<td>149.6</td>
<td>140.7</td>
<td>116.1</td>
</tr>
<tr>
<td>Debtors days – large power top customers excluding disputes, average debtors days</td>
<td>15.6</td>
<td>15.0</td>
<td>14.6</td>
</tr>
<tr>
<td>Debtors days – large power users (&lt;100 GWh p.a.), average days</td>
<td>17.5</td>
<td>17.5</td>
<td>17.5</td>
</tr>
<tr>
<td>Debtors days – small power users (excluding Soweto), average debtors days</td>
<td>47.7</td>
<td>50.1</td>
<td>44.1</td>
</tr>
<tr>
<td>Key Customer Delight, %</td>
<td>85.0</td>
<td>86.2</td>
<td>81.5</td>
</tr>
<tr>
<td><strong>CustomerCare, index</strong></td>
<td>8.9</td>
<td>8.4</td>
<td>8.5</td>
</tr>
<tr>
<td><strong>Sales and revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total sales, GWh</td>
<td>199 281</td>
<td>201 169</td>
<td>205 635</td>
</tr>
<tr>
<td>(Reduction)/growth in GWh sales, %</td>
<td>3.4</td>
<td>(1.9)</td>
<td>(0.7)</td>
</tr>
<tr>
<td>Electricity revenue, R million</td>
<td>208 319</td>
<td>212 190</td>
<td>214 487</td>
</tr>
<tr>
<td>Power sent out by Eskom stations, GWh (net)</td>
<td>202 210</td>
<td>202 106</td>
<td>200 993</td>
</tr>
<tr>
<td>Wheeling, GWh</td>
<td>12 355</td>
<td>12 478</td>
<td>12 585</td>
</tr>
<tr>
<td>Nuclear power station, GWh (net)</td>
<td>9 903</td>
<td>10 344</td>
<td>10 781</td>
</tr>
<tr>
<td>Coal-fired stations, GWh (net)</td>
<td>243 387</td>
<td>241 517</td>
<td>242 645</td>
</tr>
<tr>
<td>Coal-fired stations, GWh (net)</td>
<td>243 387</td>
<td>241 517</td>
<td>242 645</td>
</tr>
<tr>
<td>Other capability loss factor (OCLF), %</td>
<td>2.40</td>
<td>3.51</td>
<td>1.58</td>
</tr>
<tr>
<td>Energy availability factor (EAF), %</td>
<td>86.2</td>
<td>64.19</td>
<td>66.46</td>
</tr>
<tr>
<td>Other capability loss factor (OCLF), %</td>
<td>62.82</td>
<td>10.23</td>
<td>8.92</td>
</tr>
<tr>
<td>Planned capability loss factor (PCLF), %</td>
<td>25.35</td>
<td>23.26</td>
<td>18.59</td>
</tr>
<tr>
<td>Unplanned availability loss factor (UCLF), %</td>
<td>2.40</td>
<td>2.40</td>
<td>1.58</td>
</tr>
<tr>
<td>Unit capacity factor (UCF), %</td>
<td>64.42</td>
<td>67.60</td>
<td>68.22</td>
</tr>
<tr>
<td>Generation load factor, %</td>
<td>49.5</td>
<td>49.5</td>
<td>52.6</td>
</tr>
<tr>
<td>CCotG load factor trend, %</td>
<td>8.7</td>
<td>6.9</td>
<td>6.3</td>
</tr>
<tr>
<td>Unplanned automatic grid separations (UAGS trips), number</td>
<td>697</td>
<td>527</td>
<td>594</td>
</tr>
<tr>
<td>Integrated Eskom system load factor (ELF), %</td>
<td>79.8</td>
<td>76.3</td>
<td>79.0</td>
</tr>
</tbody>
</table>

#### Key Customer Delight

- **Enhanced MaxiCare.**

#### Other capability loss factor (OCLF), %

- **6.** The employee LTIR includes occupational diseases and fatalities.

#### Other capability loss factor (OCLF), %

- **7.** Prior to 2014, only company numbers were reported. From 2020, only group numbers are reported.

#### Other capability loss factor (OCLF), %

- **8.** A Generation employee was diagnosed with an occupational disease and passed away in the 2021 financial year. Confirmation that the fatality was a result of an occupational disease was only received in the 2022 financial year. The figures for 2021 have been restated to include this fatality.

#### Other capability loss factor (OCLF), %

- **9.** Prior to 2014, only company numbers were reported. From 2020, only group numbers are reported.

#### Other capability loss factor (OCLF), %

- **10.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Other capability loss factor (OCLF), %

- **11.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Other capability loss factor (OCLF), %

- **12.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **13.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **14.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **15.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **16.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **17.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **18.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **19.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **20.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **21.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **22.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **23.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **24.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **25.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **26.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **27.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **28.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **29.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **30.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **31.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **32.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **33.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **34.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **35.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **36.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **37.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **38.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.

#### Energy availability factor (EAF), %

- **39.** Prior to 2019, wheeling was combined with the total imported for the Eskom system.
<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary energy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal stock, days</td>
<td>39.04</td>
<td>82</td>
<td>81</td>
</tr>
<tr>
<td>Road-to-rail migration (additional tonnage transported on rail), Mt</td>
<td>2.54</td>
<td>3.64</td>
<td>7.54</td>
</tr>
<tr>
<td>Coal purchased, Mt</td>
<td>108.7</td>
<td>110.0</td>
<td>119.3</td>
</tr>
<tr>
<td>Coal burnt, Mt</td>
<td>110.3</td>
<td>104.9</td>
<td>106.6</td>
</tr>
<tr>
<td>Average calorific value, MJ/kg</td>
<td>19.64</td>
<td>19.82</td>
<td>19.98</td>
</tr>
<tr>
<td>Average ash content, %</td>
<td>31.39</td>
<td>31.24</td>
<td>29.65</td>
</tr>
<tr>
<td>Average sulphur content, %</td>
<td>0.83</td>
<td>0.82</td>
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<td>Overall thermal efficiency, %</td>
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<td><strong>Net zero water consumption, Mℓ</strong></td>
<td>385.0</td>
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<td>Sulphur dioxide (SO₂), kt</td>
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<td><strong>System performance</strong></td>
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<td><strong>Water</strong></td>
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<td>Specific water consumption, ℓ/kWh sent out</td>
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<td><strong>Nuclear</strong></td>
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<td>Public individual radiation exposure due to effluents, mSv/yr</td>
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<td><strong>Low-level radioactive waste generated, number of elements discharged</strong></td>
<td>500.4</td>
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<td><strong>Legal contraventions</strong></td>
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<td>Environmental legal contraventions, number</td>
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<td>81</td>
<td>59</td>
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<tr>
<td>Environmental legal contraventions reported as a result of significant failure of business systems, number</td>
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### Notes:

1. Only power stations where all units have achieved commercial operation are included in the calculation. Therefore, Medupi and Kusile Power Stations are excluded from this KPI.
2. SAIDI and SAIFI are reported after allowing for exclusions defined in the National Regulated Standards adopted from 1 April 2018.
3. Calculated figures based on coal characteristics and power station design parameters based on coal analysis and using coal burnt tonnages. Figures include coal-fired and gas turbine power stations, as well as oil consumed during power station start-ups and for carbon dioxide emissions, includes the underground coal gasification pilot plant.
4. At power stations with unusually high particulate emission levels, such as Kriel Power Station, the monitors often exceed their maximum limits. In instances where these ranges are exceeded, particulate emissions will be reported at the maximum of the monitor range. From February 2019, it is possible that actual emissions exceeded reported emissions based on measurements.
5. NOx reported as NO₂ is calculated using average station-specific emission factors (which are measured intermittently) and tonnages of coal burnt.
6. The limit set by the National Nuclear Regulator is ≤ 0.25mSv.
7. The gross mass of a nuclear fuel element is approximately 650kg, with Uranium mass typically between 462kg and 464kg.
8. An incident at Tutuka Power Station which occurred in the 2021 financial year was finalised in the current year. The figure for 2021 has been restated.
9. Prior to 2022, referred to as “legal contraventions reported in terms of the Operational Health Dashboard”.
10. RA Reasonable assurance provided by the independent assurance provider. Refer to page 154 to 156 of the integrated report.
11. Qualified by the independent assurance provider.
NON-TECHNICAL STATISTICS:

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<td>0.85**</td>
<td>0.94**</td>
<td>0.94**</td>
<td>1.22</td>
<td>1.73</td>
<td>1.75</td>
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<td>Debt service cover, %</td>
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<td>0.30**</td>
<td>0.52**</td>
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<td>0.87</td>
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<td>9.74</td>
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<td>11.77</td>
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<td>2.11</td>
<td>1.65</td>
<td>2.00</td>
<td>1.84</td>
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<tr>
<td>Gearing, %</td>
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<td>0.30</td>
<td>0.52</td>
<td>0.76</td>
<td>0.72</td>
<td>0.68</td>
<td>0.71</td>
<td>0.85</td>
<td>1.08</td>
<td>0.65</td>
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Building skills

| Headcount (including fixed-term contractors) | 40 421 | 42 749 | 44 772 | 46 665 | 48 628 | 47 158 | 46 491 | 46 919 | 47 295 |

Transformation

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<th>Socio-economic contribution</th>
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<td>Corporate social investment committed spend, R million</td>
<td>75.1**</td>
<td>67.4**</td>
<td>123.8**</td>
<td>132.4**</td>
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<td>785 085</td>
<td>802 635</td>
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<td>1 116 044</td>
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<td>357 443</td>
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Procurement equity

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<th>B-BBEE attributable expenditure, R billion</th>
<th>134.2</th>
<th>100.4</th>
<th>101.7</th>
<th>86.5</th>
<th>102.3</th>
<th>127.7</th>
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<th>116.0</th>
<th>96.0**</th>
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<td>83.2</td>
<td>53.8</td>
<td>46.9</td>
<td>52.1</td>
<td>57.6</td>
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<td>52.9</td>
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<td>Black-owned expenditure, R billion</td>
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<td>0.9</td>
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<td>Procurement from B-BBEE compliants, %</td>
<td>75.89</td>
<td>64.51</td>
<td>65.97</td>
<td>58.66</td>
<td>80.25</td>
<td>98.25</td>
<td>81.65</td>
<td>89.39</td>
<td>91.80**</td>
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<td>Procurement from black-owned (RO) suppliers, %</td>
<td>47.68</td>
<td>34.60</td>
<td>30.39</td>
<td>36.17</td>
<td>43.20</td>
<td>41.49</td>
<td>33.61</td>
<td>34.91</td>
<td>39.35**</td>
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<tr>
<td>Procurement from black-owned (BBO) suppliers, %</td>
<td>9.26</td>
<td>12.10</td>
<td>14.10</td>
<td>13.07</td>
<td>16.41</td>
<td>14.92</td>
<td>19.30</td>
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<td>Procurement from black youth-owned (BYO) suppliers, %</td>
<td>5.40</td>
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<td>1.52</td>
<td>0.94</td>
<td>0.63</td>
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<td>Procurement spend with suppliers owned by black people living with disability (BPwD), % of TMPS</td>
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<td>0.12</td>
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<tr>
<td>Procurement spend with qualifying small enterprises (QSE), % of TMPS</td>
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<td>4.29</td>
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<td>Procurement spend with exempted micro enterprises (EME), % of TMPS</td>
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Employment equity

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<th>Disabili, number of employees</th>
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<th>1 252</th>
<th>1 348</th>
<th>1 416</th>
<th>1 441</th>
<th>1 396</th>
<th>1 311</th>
<th>1 325</th>
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<td>3.01</td>
<td>3.03</td>
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<td>2.93</td>
<td>2.73</td>
<td>2.89</td>
<td>2.77**</td>
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<tr>
<td>Racial equity in senior management, % black employees</td>
<td>76.67</td>
<td>71.72</td>
<td>71.00</td>
<td>69.80</td>
<td>68.31</td>
<td>65.80</td>
<td>61.04</td>
<td>61.70</td>
<td>58.35**</td>
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<tr>
<td>Racial equity in professionals and middle management, % black employees</td>
<td>81.68</td>
<td>80.10</td>
<td>78.04</td>
<td>76.22</td>
<td>75.27</td>
<td>73.50</td>
<td>71.68</td>
<td>71.77</td>
<td>70.40**</td>
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<td>Gender equity in senior management, % female employees</td>
<td>43.33</td>
<td>41.99</td>
<td>41.73</td>
<td>39.85</td>
<td>38.20</td>
<td>36.58</td>
<td>38.13</td>
<td>29.82</td>
<td>28.80**</td>
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<tr>
<td>Gender equity in professionals and middle management, % female employees</td>
<td>39.91</td>
<td>38.95</td>
<td>38.24</td>
<td>37.89</td>
<td>37.47</td>
<td>35.98</td>
<td>35.11</td>
<td>35.29</td>
<td>34.93**</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 154 to 156 of the integrated report.
4. Q Qualified by the independent assurance provider.
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<td>Procurement spend with qualified small enterprises (QSE), % of TMPS</td>
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</tbody>
</table>

1. Ratios impacted by the restatement in the annual financial statements were restated where possible.
2. The definition of learners was changed from 1 April 2018, to account for learners only once when they sign up, and not continuously for the duration of their contract.
3. The definition of learners was changed from 1 April 2018, to account for learners only once when they sign up, and not continuously for the duration of their contract.
4. The definition of learners was changed from 1 April 2018, to account for learners only once when they sign up, and not continuously for the duration of their contract.
5. This measure was renamed to “Preferential procurement” in the shareholder compact from 2020.
6. This measure was renamed to “Preferential procurement” in the shareholder compact from 2020.
7. This measure was renamed to “Preferential procurement” in the shareholder compact from 2020.
8. This measure was renamed to “Preferential procurement” in the shareholder compact from 2020.
9. This measure was renamed to “Preferential procurement” in the shareholder compact from 2020.
10. This measure was renamed to “Preferential procurement” in the shareholder compact from 2020.
11. This measure was renamed to “Preferential procurement” in the shareholder compact from 2020.
12. This measure was renamed to “Preferential procurement” in the shareholder compact from 2020.
**PLANT INFORMATION**

**Power station capacities**

at 31 March 2022

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>Number 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>Base-load stations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ariel</td>
<td>Middelburg</td>
<td>Sep 1971 to Aug 1975</td>
<td>6x370</td>
<td>2 220</td>
<td>2 100</td>
</tr>
<tr>
<td>Cemrewa</td>
<td>Middelburg</td>
<td>Mar 2005 to Jan 2008</td>
<td>3x200; 2x196; 2x195; 2x190; 2x185</td>
<td>1 561</td>
<td>1 481</td>
</tr>
<tr>
<td>Du刮n2</td>
<td>Emalahleni</td>
<td>Aug 1980 to Feb 1984</td>
<td>5x600</td>
<td>3 000</td>
<td>2 875</td>
</tr>
<tr>
<td>Grens2</td>
<td>Balfour</td>
<td>Apr 2008 to May 2011</td>
<td>4x200; 2x190</td>
<td>1 180</td>
<td>570</td>
</tr>
<tr>
<td>Hendrina2</td>
<td>Middelburg</td>
<td>May 1970 to Dec 1976</td>
<td>5x200; 1x195; 1x191; 1x190; 1x187</td>
<td>1 723</td>
<td>1 098</td>
</tr>
<tr>
<td>Komati1</td>
<td>Emalahleni</td>
<td>Oct 1988 to Dec 1992</td>
<td>6x686</td>
<td>4 116</td>
<td>3 840</td>
</tr>
<tr>
<td>Kriel</td>
<td>Bethal</td>
<td>May 1976 to Mar 1979</td>
<td>4x500</td>
<td>3 000</td>
<td>2 850</td>
</tr>
<tr>
<td>Kusile3</td>
<td>Ogiee</td>
<td>Aug 2017 to Mar 2021</td>
<td>3x799</td>
<td>2 397</td>
<td>2 160</td>
</tr>
<tr>
<td>Lethabo</td>
<td>Vereeniging</td>
<td>Dec 1985 to Dec 1990</td>
<td>6x418</td>
<td>3 708</td>
<td>3 558</td>
</tr>
<tr>
<td>Majuba</td>
<td>Vlokfontein</td>
<td>Apr 1996 to Apr 2001</td>
<td>3x657; 3x173</td>
<td>4 110</td>
<td>3 843</td>
</tr>
<tr>
<td>Magoa</td>
<td>Lapholoshe</td>
<td>Dec 1987 to Oct 1991</td>
<td>6x665</td>
<td>3 990</td>
<td>3 490</td>
</tr>
<tr>
<td>Moduplo</td>
<td>Bethal</td>
<td>Sep 1979 to Jul 1983</td>
<td>4x600</td>
<td>3 600</td>
<td>3 450</td>
</tr>
<tr>
<td>Nkana2</td>
<td>Lapholoshe</td>
<td>Aug 2015 to Jul 2021</td>
<td>6x794</td>
<td>4 764</td>
<td>4 317</td>
</tr>
<tr>
<td>Tutuka</td>
<td>Standerton</td>
<td>Jun 1985 to Jan 1990</td>
<td>6x609</td>
<td>3 454</td>
<td>3 510</td>
</tr>
</tbody>
</table>

**Coal-fired (15)**

<table>
<thead>
<tr>
<th>Name of station</th>
<th>Location</th>
<th>Number 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>Palmiet Grabouw</td>
<td>Apr 1988 to May 1988</td>
<td>2x200</td>
<td>400</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>Majuba</td>
<td>Volksrust Apr 1996 to Apr 2001</td>
<td>3x657; 3x173</td>
<td>4 110</td>
<td>3 843</td>
<td></td>
</tr>
<tr>
<td>Total used for capacity management purposes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total nominal capacity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Renewable energy**

- Wind
- Solar PV

**Pumped storage schemes (3)*

<table>
<thead>
<tr>
<th>Name of station</th>
<th>Location</th>
<th>Number 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>Drakensberg</td>
<td>Bergville</td>
<td>Jan 1980 to Apr 1982</td>
<td>4x230</td>
<td>1 000</td>
<td>1 000</td>
</tr>
<tr>
<td>Ingula</td>
<td>Ladysmith</td>
<td>Jan 2016 to Feb 2017</td>
<td>4x333</td>
<td>1 332</td>
<td>1 324</td>
</tr>
<tr>
<td>Palmet</td>
<td>Grabouw</td>
<td>Apr 1988 to May 1988</td>
<td>2x200</td>
<td>400</td>
<td>400</td>
</tr>
</tbody>
</table>

**Hydroelectric stations (2)**

<table>
<thead>
<tr>
<th>Name of station</th>
<th>Location</th>
<th>Number 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>Gariep</td>
<td>Northwes</td>
<td>Sep 1971 to Mar 1973</td>
<td>4x90</td>
<td>360</td>
<td>360</td>
</tr>
<tr>
<td>Vanderkloof</td>
<td>Prieska</td>
<td>Jan 1977 to Feb 1977</td>
<td>2x120</td>
<td>240</td>
<td>240</td>
</tr>
</tbody>
</table>

**Total used for capacity management purposes**

<table>
<thead>
<tr>
<th>Name of station</th>
<th>Location</th>
<th>Number 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>Total nominal capacity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Governance, leadership and ethics**

- Base of definition: transformers rated ≥30MVA and primary voltage ≥132kV.
- Under NRS048 part 6, 33kV lines were reclassified in 2019 from high to medium voltage. Prior year figures have not been restated.
- Transmission power line lengths are included as per distances from the Geographic Information System.
- Transmission power line lengths are included as per distances from the Geographic Information System.
CUSTOMER INFORMATION

<table>
<thead>
<tr>
<th>Category</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributors</td>
<td>779</td>
<td>804</td>
<td>805</td>
<td>800</td>
<td>800</td>
</tr>
<tr>
<td>Residential</td>
<td>6 833 928</td>
<td>6 720 150</td>
<td>6 577 905</td>
<td>6 358 533</td>
<td>6 120 122</td>
</tr>
<tr>
<td>Commercial</td>
<td>52 736</td>
<td>52 889</td>
<td>52 929</td>
<td>52 556</td>
<td>51 840</td>
</tr>
<tr>
<td>Industrial</td>
<td>2 601</td>
<td>2 649</td>
<td>2 684</td>
<td>2 705</td>
<td>2 703</td>
</tr>
<tr>
<td>Mining</td>
<td>936</td>
<td>945</td>
<td>961</td>
<td>981</td>
<td>993</td>
</tr>
<tr>
<td>Agricultural</td>
<td>77 692</td>
<td>79 115</td>
<td>80 451</td>
<td>81 303</td>
<td>81 638</td>
</tr>
<tr>
<td>Rail</td>
<td>477</td>
<td>475</td>
<td>475</td>
<td>493</td>
<td>501</td>
</tr>
<tr>
<td>International</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>6 989 164</td>
<td>6 857 029</td>
<td>6 716 301</td>
<td>6 497 372</td>
<td>6 258 616</td>
</tr>
</tbody>
</table>

Electricity sales per customer category, GWh

- Residential: 11 GWh
- Commercial: 2 128 GWh
- Agricultural: 28 030 GWh
- Mining: 9 696 GWh
- Rail: 477 GWh
- International: 11 GWh

International sales to countries in southern Africa, GWh

- Eswatini: 851 GWh
- Botswana: 713 GWh
- Lesotho: 341 GWh
- Mozambique: 8 215 GWh
- Namibia: 1 653 GWh
- Zambia: 6 GWh
- Zimbabwe: 1 456 GWh

Short-term energy market

- Domestic: 3 637 GWh
- International: 174 905 GWh

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:

207.2Mt of CO2 = 198 281GWh sales = 1.04 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):

207.2Mt of CO2 = (205 688GWh generated less 6 434GWh own consumption) = 1.04 tons per MWh

Figures represent the 12-month period from 1 April 2021 to 31 March 2022.
# INDEPENDENT SUSTAINABILITY ASSURANCE REPORT

**Independent reasonable assurance report to the directors of Eskom Holdings SOC Ltd**

**Introduction**

We have performed our reasonable assurance engagement for Eskom Holdings SOC Ltd (Eskom) in respect of selected key performance indicators (KPIs) for the year ended 31 March 2022.

**Subject matter**

The subject matter comprises the KPIs disclosed in accordance with management's basis of preparation, as prepared by the responsible party, during the year ended 31 March 2022.

The terms of management's basis of preparation comprise the criteria by which Eskom's compliance is to be evaluated for purposes of our reasonable assurance engagement.

The selected KPIs are as follows:

<table>
<thead>
<tr>
<th>No.</th>
<th>Key performance indicator</th>
<th>Unit of measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Lost-time injury rate (including occupational diseases, excluding third party at fault incidents and all passengers in commuting incidents)</td>
<td>Index</td>
</tr>
<tr>
<td>2.</td>
<td>Planned capability loss factor (PCLF)</td>
<td>%</td>
</tr>
<tr>
<td>3.</td>
<td>Energy availability factor (EAF)</td>
<td>%</td>
</tr>
<tr>
<td>4.</td>
<td>Unplanned partial load losses (UCLP PLL)</td>
<td>Average MW</td>
</tr>
<tr>
<td>5.</td>
<td>Unplanned automatic grid separations (UAGS) trips</td>
<td>Number of trips</td>
</tr>
<tr>
<td>6.</td>
<td>Post-philosophy outage unplanned capability loss factor (UCLF)</td>
<td>%</td>
</tr>
<tr>
<td>7.</td>
<td>EAF and UCLF post-CO and official – Medupi Power Station</td>
<td>%</td>
</tr>
<tr>
<td>8.</td>
<td>EAF and UCLF post-CO and official – Kusile Power Station</td>
<td>%</td>
</tr>
<tr>
<td>9.</td>
<td>System minutes lost &lt;1</td>
<td>Minutes</td>
</tr>
<tr>
<td>10.</td>
<td>Payment levels excluding Soweto interest</td>
<td>%</td>
</tr>
<tr>
<td>11.</td>
<td>Distribution total energy losses</td>
<td>%</td>
</tr>
<tr>
<td>12.</td>
<td>Total electrification connections</td>
<td>Number</td>
</tr>
<tr>
<td>13.</td>
<td>System average interruption duration index (SAIDI)</td>
<td>Hours</td>
</tr>
<tr>
<td>14.</td>
<td>System average interruption frequency index (SAIFI)</td>
<td>Number</td>
</tr>
<tr>
<td>15.</td>
<td>Restoration time</td>
<td>%</td>
</tr>
<tr>
<td>16.</td>
<td>Migration of coal delivery volume from road to rail</td>
<td>Mt</td>
</tr>
<tr>
<td>17.</td>
<td>Coal purchases Rand/ton % increase</td>
<td>%</td>
</tr>
<tr>
<td>18.</td>
<td>Coal stock days</td>
<td>Days</td>
</tr>
<tr>
<td>19.</td>
<td>Generation capacity installed and commissioned (commercial operation)</td>
<td>MW</td>
</tr>
<tr>
<td>20.</td>
<td>Transmission lines installed</td>
<td>km</td>
</tr>
<tr>
<td>21.</td>
<td>Transmission transformer capacity installed and commissioned</td>
<td>MVA</td>
</tr>
<tr>
<td>22.</td>
<td>Transmission, Distribution and Generation are functionally separated (functionally unbundled)</td>
<td>Date</td>
</tr>
</tbody>
</table>

## Focus on safety

Reduce environmental footprint in existing fleet

<table>
<thead>
<tr>
<th>No.</th>
<th>Key performance indicator</th>
<th>Unit of measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>23.</td>
<td>Training spend as % of gross manpower costs</td>
<td>%</td>
</tr>
<tr>
<td>24.</td>
<td>Learner intake – Engineers in training</td>
<td>Number</td>
</tr>
<tr>
<td>25.</td>
<td>Learner intake – Technicians (PT and PD)</td>
<td>Number</td>
</tr>
<tr>
<td>26.</td>
<td>Learner intake – Plant operators</td>
<td>Number</td>
</tr>
<tr>
<td>27.</td>
<td>Learner intake – Artisans</td>
<td>Number</td>
</tr>
<tr>
<td>28.</td>
<td>Disability equity in total workforce</td>
<td>%</td>
</tr>
<tr>
<td>29.</td>
<td>Racial equity in senior management</td>
<td>%</td>
</tr>
<tr>
<td>30.</td>
<td>Gender equity in senior management</td>
<td>%</td>
</tr>
<tr>
<td>31.</td>
<td>Racial equity in professionals and middle management</td>
<td>%</td>
</tr>
<tr>
<td>32.</td>
<td>Gender equity in professionals and middle management</td>
<td>%</td>
</tr>
</tbody>
</table>

Socio-economic impact: human capital

<table>
<thead>
<tr>
<th>No.</th>
<th>Key performance indicator</th>
<th>Unit of measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>33.</td>
<td>Relative particulate emissions</td>
<td>kg/MWh sent out</td>
</tr>
<tr>
<td>34.</td>
<td>Specific water usage</td>
<td>ℓ/kWh sent out</td>
</tr>
<tr>
<td>35.</td>
<td>Carbon dioxide emissions (CO₂)</td>
<td>Mt</td>
</tr>
<tr>
<td>36.</td>
<td>Carbon dioxide emissions (from fossil fuel generation)</td>
<td>kg/kWh sent out</td>
</tr>
</tbody>
</table>

Socio-economic impact: corporate social investment (CSI)

<table>
<thead>
<tr>
<th>No.</th>
<th>Key performance indicator</th>
<th>Unit of measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>37.</td>
<td>CSI committed spend</td>
<td>R million</td>
</tr>
</tbody>
</table>

Industrialisation and localisation

<table>
<thead>
<tr>
<th>No.</th>
<th>Key performance indicator</th>
<th>Unit of measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>38.</td>
<td>Research and development</td>
<td>%</td>
</tr>
<tr>
<td>39.</td>
<td>Preferential procurement</td>
<td>%</td>
</tr>
<tr>
<td>40.</td>
<td>Local content</td>
<td>%</td>
</tr>
<tr>
<td>41.</td>
<td>B-BBEE score level</td>
<td>Number</td>
</tr>
<tr>
<td>42.</td>
<td>Enterprise and supplier development</td>
<td>R billion</td>
</tr>
<tr>
<td>43.</td>
<td>National industrial participation programme</td>
<td>%</td>
</tr>
</tbody>
</table>

Ensure financial sustainability

<table>
<thead>
<tr>
<th>No.</th>
<th>Key performance indicator</th>
<th>Unit of measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>44.</td>
<td>EBITDA</td>
<td>R million</td>
</tr>
<tr>
<td>45.</td>
<td>Cash interest cover</td>
<td>Ratio</td>
</tr>
<tr>
<td>46.</td>
<td>Debt service cover</td>
<td>Ratio</td>
</tr>
<tr>
<td>47.</td>
<td>Savings from turnaround initiatives</td>
<td>R million</td>
</tr>
</tbody>
</table>
Directors’ responsibility

The directors, being the responsible party, and, where appropriate, those charged with governance, are responsible for the KPI information, in accordance with management’s basis of preparation.

The responsible party is responsible for:

• Ensuring that the KPI information is properly prepared and presented in accordance with management’s basis of preparation
• Confirming the measurement or evaluation of the underlying KPIs against the applicable criteria, including that all relevant matters are reflected in the KPI information
• Designing, establishing and maintaining internal controls to ensure that the KPI information is properly prepared and presented in accordance with management’s basis of preparation

Assurance practitioner’s responsibility

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historic Financial Information. This standard requires us to comply with ethical requirements and to plan and perform our reasonable assurance engagement with the aim of obtaining reasonable assurance regarding the KPIs of the engagement.

We shall not be responsible for reporting on any KPI events and transactions beyond the period covered by our reasonable assurance engagement.

Independence and other ethical requirements

We have complied with the independence and other ethical requirements of the Code of Professional Conduct for Registered Auditors issued by the Independent Regulatory Board for Auditors (IRBA Code), 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).

Deloitte & Touche applies the International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of work performed

We have performed our procedures on the KPI events and transactions of Eskom, as prepared by management in accordance with management’s basis of preparation for the year ended 31 March 2022.

Our evaluation included performing such procedures as we considered necessary, which included:

• Interviewing management and senior executives to obtain an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process for the KPIs
• Assessing the systems and processes to generate, collate, aggregate, validate and monitor the source data used to prepare the KPIs for disclosure in the reports
• Inspecting supporting documentation and performing analytical review procedures
• Evaluating whether the KPI disclosures are consistent with our overall knowledge and experience of sustainability processes

Our assurance engagement does not constitute an audit or review of any of the underlying information conducted in accordance with International Standards on Auditing or International Standards on Review Engagements and accordingly, we do not express an audit opinion or review conclusion.

We believe that our evidence obtained is sufficient and appropriate to provide a basis for our reasonable assurance conclusion.

Conclusion

In our opinion the KPIs are prepared, in all material respects, in accordance with management’s basis of preparation.

Deloitte & Touche

Registered Auditors
Per Mark Victor CA(SA)
Partner
16 December 2022
5 Magwa Crescent
Waterfall City, Waterfall
Private Bag X6, Gallo Manor, 2052
South Africa

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Per Mark Victor CA(SA)
Partner
16 December 2022
5 Magwa Crescent
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Private Bag X6, Gallo Manor, 2052
South Africa