

CONFIDENTIAL

Summary SD&L discussion results

This memorandum summarizes the outcome of negotiation between Eskom and McKinsey & Company in respect of the Master Service Agreement.

It's structured into the following chapters:

- Top talent programme contribution to SD&L
- Development of McKinsey's ownership structure over the course of the programme
- Share of professional fees to BBBEE companies
- Development philosophy management consulting partner
- Development philosophy other partners
- Quantified opportunity for other partners (external to Eskom)

This memorandum represents the current status of the negotiation as presented in the respective documentation and parts of the MSA tracker. We are happy to take further guidance from Eskom and incorporate changes as they are resulting from the ongoing negotiations.

The negotiation status as presented in this document is subject to further approval and potential refinement by McKinsey's relevant governance committees.

Top talent programme contribution to SD&L

Eskom and McKinsey aligned that the basis for this programme would be the further development of Eskom's Top Engineer programme that is currently a joint initiative between Eskom and McKinsey. The results of this negotiation are summarised in a separate memorandum.

With respect to the SD&L contribution Eskom requested McKinsey to quantify the value of the Top Engineers programme to Eskom. Together with Eskom's SD&L representatives, the total value of the Top Engineers Programme was estimated to be approx. R 1.3 bn. This includes McKinsey supporting Cohort 1 and 2 and building Cohort 3 during the contract period of 3 years. In total 150 Top Engineers are resulting from that programme, which is roughly the size of McKinsey's entire Johannesburg office.

Development of McKinsey's ownership structure over the course of the programme

McKinsey is a proud contributor to the transformation of South Africa. In this context McKinsey during the past years has transformed into a B-BBEE Level 1 contributor. In this context the ownership structure of McKinsey has been transformed. McKinsey today is 26.0% black owned of which 10.0% are dedicated to Black Women Ownership (BWO).

McKinsey is a global partnership with approx. 1.600 partners who own McKinsey and thus determine the ownership structure of the entity. McKinsey intends to further develop the share of black partners in South Africa and therefore places a particular emphasis on the share of junior partners that it puts into the pipeline.

As per the current status there are 15 junior partners in the Johannesburg office of which 11 junior partners are previously disadvantaged individuals (PDIs). Out of these 11 PDIs 5 are black junior partners. And out of these 5 black junior partners, 3 junior partners are black females. We would therefore expect the number of black partners who own a share in the global McKinsey partnership go up over time.

Share of professional fees to BBEE companies

McKinsey has a proven track record of developing self-sustaining management consultancies by sharing parts of its professional fees with them and providing training and development in manifold forms. Especially in the context of Eskom McKinsey developed Letsema, one of South Africa's first black-owned management consulting firms (established in 1995), to develop into a self-standing entity. Letsema grew since 2005 with a 40% p.a. and by now has more than 60 consultants. While McKinsey contributed over the lifetime of Letsema 20 to 66% of its annual revenue Letsema is since 2013 completely self-sustaining and serves Eskom as a self-standing consulting firm with an own supplier number and completely independent from McKinsey

McKinsey's skill development contribution will be centred around the Top Engineers programme. On top of the Top Engineers programme McKinsey shall aspire to outsource up to 50% of the contract value to other parties. McKinsey's intention is to select small black owned consultancies wherever possible for this subcontracting. The actual share will be subject to the availability to appropriately skilled and resourced potential partners that are willing to enter into a performance contract with McKinsey that mirrors McKinsey's agreement with Eskom and therefore distributes the contract risk fairly between McKinsey and its partners. The share of outsourcing can vary by work stream and over time. The subcontractor fees are going to be performance based by the same mechanism as specified in the Master Service Agreement McKinsey reserves the right to pick the sub-contractors

and to exchange sub-contractors in case of non-performance. The BBBEE credentials of the sub-contractors will be made accessible to Eskom upon request.

Development philosophy management consulting partner

In order to develop the new management consulting partners into a comparable success like Letsema McKinsey suggests to apply the following development philosophy:

- 2 weeks formal consulting training at McKinsey premises (e.g., Basic consulting readiness, Problem solving capability, Top down communication, Advanced analytics skill building, Visual design skill building)
- On the job training with experienced McKinsey consultants and highly qualified training staff
- Partnering on projects outside Eskom (e.g., Regiments at Transnet, Top Engineers at PetroSA, Letsema at SAA)
- Deployment of Top Talent at clients outside South Africa is considered, yet depending on the confirmation by outside clients
- Transfer of McKinsey infrastructure (e.g., McKinsey KNOW portal, McKinsey personnel processes, McKinsey feedback processes)
- Implementation of McKinsey mentorship programme
- Agreement on operational KPIs to be tracked and reported at the Steering Committee. These will include, but are not limited to:
 - The compilation and execution of human capital and talent management development processes for the Partner company and the Top Consultant Programme
 - The compilation and execution of a human capital selection process for the partner company for the Top Consultant Programme
 - Collaborative and consistent execution of a Top Consultants Programme human capital development process
 - Collaborative and consistent execution of the Top Consultant Programme talent management process
 - Partner personnel representation throughout all work packages and supporting structures (PMO, Top Engineers)
 - Partner personnel rotation across all work packages and supporting structures
 - Partner personnel representation across all roles (Analyst, Associate, Engagement Manager, Partner and Directors) defined in the Top Consultant Programme

- Partner personnel inclusion at all working & planning sessions, team building and alignment session and clients meetings
- Partner personnel inclusion in all deliverables

The operational KPIs will be achieved through the joint commitment of both McKinsey and the partner to treat all talent on the Top Consultant Programme as equal with the commitment that approaches will be consistent between both companies. The approach to talent management will reflect joint commitment to achieving delivery excellence for the Top Consultant Programme and the full extent of the mandate.

The selection of the management consulting partners will be fully aligned with Eskom. Besides Letsema McKinsey pre-confirmed Trillian Management Consulting (Pty) LTD, as black management consulting partners. McKinsey is happy to qualify additional partners and will seek Eskom's advice and guidance in this matter. For an instance black consultancies listed on the Eskom consultancy panel could be considered viable partners in this context

Development philosophy other partners

The selection of "none management consulting" partners will happen in strong alignment with Eskom; McKinsey will consult with Eskom in the selection of the partners (e.g., from Eskom's engineering panel). The development plan will be related to the development of the management consulting partners:

- We intend to include the "none management consulting" partners into the McKinsey formal training programs
- The "none management consulting" partners will receive "on the job" training by experienced McKinsey consultants
- We intend to extend our support beyond the context of the contract with Eskom and engage them also on further work at other clients (as done with top engineers or partner such as Regiments consulting, Letsema consulting or Company Advisor consulting)

Further development details shall be discussed between Eskom and McKinsey upon the conclusion of the contractual framework.

Quantified value of McKinsey's development philosophy

In addition to outsourcing up to 50% of the contract value to qualifying development partners, the estimated value of the development philosophy steps taken by McKinsey to develop black management consultancies and other black non-management-consulting partners is approximately R305 million over the three year contract term.

Deleted: The selection of the management consulting partners will be fully aligned with Eskom. Besides Letsema McKinsey pre-confirmed Regiments and Accompany Advisory as black management consulting partners. McKinsey is happy to qualify additional partners and will seek Eskom's advice and guidance in this matter. For an instance black consultancies listed on the Eskom consultancy panel could be considered viable partners in this context

Formatted: Font: 12 pt

Deleted: |

□ □ □

The position and offer reflected herein is subject to the approval and confirmation of, and by, the relevant McKinsey governance bodies. Nothing contained herein – especially Eskom's position on the outsourcing share – shall be binding on McKinsey until receipt of such confirmation and the conclusion of binding definitive agreements between Eskom and McKinsey

Formatted: Font: 12 pt

Deleted: |