



**United Nations Global Compact Advanced Communication on Progress
September 2014**

Letter from the chairperson

In the two decades since South Africa achieved its freedom, our country has made enormous progress. Eskom has played a central role in this transformation. Between 1994 and 2014, our generating fleet capacity has been expanded from 37 636MW to 41 995MW, and our power lines have increased from 238 964km to 359 337km. Over the same period, the proportion of households with access to electricity has risen from 44% to 85%¹. Since the inception of the capacity expansion programme in 2005, a total of 8 930 individuals have participated in skills development and a significant number of jobs have been created through these mega projects

There is a need for energy security in South Africa to support the country's much anticipated economic growth in the future. Eskom is committed to its purpose to provide sustainable electricity solutions to grow the economy and improve the quality of life of all South Africans. In the years ahead, the current capacity expansion programme will, once completed, result in a more secure national power supply that can meet the country's needs.

South Africa is now experiencing the consequences of deferring planning and investment decisions in years gone by. In order to keep the lights on, Eskom has had to run its generating plant at significantly higher load factors, which continues to have a negative impact on the overall plant performance and the health of the plant. Even as new capacity enables Eskom to bridge the gap, careful management of existing resources is required to ensure that we do not push our ageing plant beyond sustainable limits. Over the past year, Eskom has worked extremely hard to keep the lights on and, apart from 14 hours in March 2014, we have done so successfully. We recognise that load shedding has serious economic and social impacts and are working tirelessly to avoid this, keeping in mind that our mandate is to ensure the integrity of South Africa's power system. All of our resources – human, technical and financial – are geared towards ensuring that electricity generation, transmission and distribution remain secure and sustainable over the long term. Eskom resorts to load shedding only when not doing so could lead to a longer, more damaging shutdown of the entire system.

The electricity tariff approved by the National Energy Regulator of South Africa in 2013 resulted in lower revenue than Eskom has applied for which has serious consequences for our business and future sustainability. We have launched the business productivity programme which aims to reduce cost, increase productivity and enhance efficiencies, but the revenue shortfall cannot be

addressed through cost savings and efficiencies alone. We continue to engage our stakeholders in this regard, but cost-reflective tariffs remain a requirement.

It remains critical for us to balance the short-term priority of security of supply with long-term operational and financial sustainability and this entails difficult trade-offs to be made, amongst others:

- Given the tight reserve margin, we have operated the more expensive diesel-fuelled open-cycle gas turbine (OCGT) stations far above previous load factors to ensure a continuous supply of electricity. In light of our revenue outlook, this situation is not sustainable
- Eskom's Generation sustainability strategy will improve plant health and reliability in the long term, but the need for maintenance should be balanced with the current power system and financial constraints
- Ensuring that the older coal-fired stations meet the strict atmospheric emission standards is a challenge. Should our older plant persistently exceed the legal limits for atmospheric emissions, the board may have to consider using the plant at reduced capacity, which would place even greater pressure on security of supply and possibly have a negative financial impact

These are difficult trade-offs that not only Eskom, but the country, should consider.

Integrated decision-making at a policy level is needed to ensure that the country looks beyond the end of the current capacity expansion programme. This involves planning for new power stations in a timely manner, including the diversification of energy sources, building and strengthening the distribution and transmission networks, addressing environmental concerns, securing an adequate, affordable supply of primary energy as well as moving towards cost-reflective tariffs.

Clarity on new power stations beyond Kusile is required for all participants in the electricity sector. Nearly two-thirds of Eskom's power stations are beyond the midpoint of their expected lifespans. While we have not yet been allocated any new base-load capacity after Kusile, we are exploring diversification of our energy sources to complement our generating fleet in future, thus ensuring security of supply to the country. This includes the development of a gas strategy, which entails the conversion to combined-cycle gas turbines in the short term and upstream gas activities in the long term. These decisions are not Eskom's and we are confident that, working with the shareholder, these questions will be addressed comprehensively during the period ahead.



On behalf of the shareholder and the board, I would like to thank Mr Brian Dames, Eskom's former chief executive, who stepped down at the end of the reporting period. Brian spent 27 years with Eskom and brought both skill and dedication to his position. The position of chief executive has been filled by Eskom board member, Mr Collin Matjila, on an interim basis until a permanent replacement is identified. We welcome Ms Tsholofelo Molefe, formerly the group executive: Group Customer Services, as our new finance director.

The board thanks the executive management committee for their vigilance and determination in confronting the challenges facing Eskom. We have a highly competent management team in place. We recognise, however, that the vacancies at senior level needs to be addressed. This will be one of the first priorities of the incoming chief executive, who may also want to shape the management structure. A note of appreciation is owed to our former shareholder representative, the Honourable Minister Malusi Gigaba and the Department of Public Enterprises, who have supported and guided Eskom on the path to sustainable growth. Eskom's board and management have been fortunate to have an active and accessible shareholder representative who enabled us to understand government's thinking on key issues. The overall strategic direction of Eskom is aligned to the Department of Public Enterprises' vision statement "To drive investment, productivity and transformation in its portfolio of state-owned companies, their customers and suppliers so as to unlock growth, drive industrialisation, create jobs and develop skills."

This report covers a period when a democratic South Africa bid farewell to its founding president, Nelson Mandela, who was an inspiration to all of humanity. As he once said, "After climbing a great hill, one only finds that there are many more hills to climb." This is precisely the situation facing Eskom. We are dedicated to fulfilling our mandate, but the board will not allow Eskom to commit itself beyond its means. It is critical for Eskom to ensure a balance between security of supply, financial and operational sustainability and environmental compliance and to responsibly manage the trade-offs that are required.

Drawing inspiration from former President Mandela, we will successfully confront the challenges we face in the years ahead.

Zola Tsotsi

Chairperson

Chief executive's report

Eskom's going-concern status will continue to be a key focus for the coming year as the revenue shortfall created by the MYPD 3 decision cannot be solved through cost savings and efficiencies alone – cost-reflective tariffs remain a requirement. Eskom has to balance short-term priorities with long-term sustainability requirements.

Over the next several years, South Africa's electricity shortage will be alleviated as new power stations begin feeding power into the grid, providing improved security of supply to businesses and households. We still have some way to go before this vision becomes a reality. This integrated report reflects the complex challenges we face in re-orienting our business while ensuring a stable supply of electricity. Eskom is doing what needs to be done. We have outlined a four-year strategy premised on our eight strategic objectives to build a sustainable future, based on the following seven sustainability elements:

- Sustainable asset creation
- Financial sustainability
- Operational sustainability
- Building a sustainable skills base
- Environmental sustainability
- Transformation and social sustainability
- Building a solid reputation

During 2014/15, our primary focus will be on the first three elements – asset creation, financial and operational sustainability – where the material challenges to the business are most immediate. Safety will remain an overarching priority. The power system will remain constrained until units from the capacity expansion programme come online. During this time, all South Africans have a role to play in using energy efficiently and reducing demand on the system, particularly during peak hours. This report reviews our performance in terms of the eight strategic objectives. It shows where we have made progress, where we are lagging behind and what we are doing to ensure that our business continues to support economic and social development in South Africa and the region.

Eskom remains committed to its aspiration of sustainable development as demonstrated in our continued support, as an active signatory, for the United Nations Global Compact. Eskom is a UNGC LEAD company which means that we are seen as a leader in the sustainability field. As part of this commitment Eskom successfully piloted a UNGC LEAD board programme which is focused on driving the sustainability agenda through the boards of companies.



Eskom continues to confront a challenging set of financial and operational circumstances. In this context we remember the words of late former president Nelson Mandela: “It always seems impossible until it’s done.” All of our efforts are aimed at ensuring an uninterrupted supply of electricity to the nation without compromising the financial well-being of the company. Working with the shareholder – who has been very supportive – and with cooperation of all South Africans in using electricity efficiently, we will successfully meet these challenges.

I would like to acknowledge the contributions of Mr Brian Dames, who served as our chief executive until the close of 2013/14. We thank Brian for his contributions to this organisation over nearly three decades. The executive committee also bid farewell to Mr Bhabhalazi Bulunga, group executive: Human Resources and Mr Kannan Lakmeharan (divisional executive for the Office of the Chief Executive) and group executive: Technology and Commercial (acting) during the year.

A sincere word of thanks to Ms Caroline Henry, who acted as chief financial officer after the resignation of the former finance director, Mr Paul O’Flaherty, to whom we bid farewell in July 2013. Caroline drew on her extensive experience as the Eskom Treasurer to ensure a seamless transition. Congratulations to Ms Tsholofelo Molefe, who has been appointed as our new finance director. I know she will apply herself to her new role with the same dedication and acuity that helped transform Group Customer Services into the efficient, effective division it is today.

Above all, I thank our 46 919 employees, whose talent, skill and commitment will make all the difference as we build the bridge to a sustainable future. We have a clear strategy in place – now we must execute.

Collin Matjila

Interim chief executive



Introduction to Eskom's Advanced Communication on Progress

Eskom is South Africa's primary electricity supplier and is wholly owned by the South African government. In total, it generates and distributes about 95% of electricity used in South Africa and about 40% of electricity used on the continent. Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers. It also sells electricity to about 800 municipalities, which in turn redistribute it to businesses and households within their areas. It also purchases electricity from independent power producers (IPPs) in terms of various agreement schemes as well as electricity generating facilities beyond the country's borders.

Eskom sold 217 903GWh of electricity to about 800 municipalities in bulk, 3 000 industrial customers, 1 000 mining customers, 50 000 commercial customers and 84 000 agricultural customers in 2013/14. It also supplied electricity to more than 5.1 million residential customers. The figure for residential users includes prepaid customers.

Eskom was one of the first signatories to the United Nations Global Compact (UNGC) in 1999 and is committed to its principles. Eskom reports on its progress in complying with the UNGC principles on an annual basis. Eskom is also a UNGC LEAD company, recognised for leadership in the sustainability field. In addition, Eskom has also actively participated in other key UN initiatives, namely the CEO Water Mandate, Caring for Climate as well as the Sustainable Energy for All initiative.

This COP report is an excerpt of the relevant areas from Eskom's larger Integrated Report for the financial year 2013/2014 which is also available online at http://www.eskom.co.za/OurCompany/Investors/IntegratedReports/Pages/Annual_Statements.aspx). Integrated reporting brings greater cohesion and efficiency to the reporting process. It encourages integrated thinking to break down internal silos and reduce duplication in content, so improving the quality of information available to key stakeholders.

An integrated report focuses on value creation over the short, medium and long term. It uses the "six capitals" in the framework as a guide to ensure that a company considers all resources and how they interact with each other. The integrated report should indicate how the company's value creation process is impacted by the company's internal and external environment. This report focuses on qualitative and quantitative items that are material to Eskom's operations and strategic objectives. The question of what is "material" has been determined by the board and executive management through extensive consultation within Eskom as well as with Eskom's

stakeholders, while taking into consideration Eskom's strategic objectives, risk assessments and the way in which its value chain operates (refer to page 51 of the Integrated Report for more information regarding the determination of material items).

Eskom's Integrated Report Steering Committee guides the company in compiling the Integrated report and ensures alignment with other reporting processes. The Finance Director chairs this committee and reports on the process to the Executive Management Committee.

The 2013/14 integrated report aligns with best practices in Integrated Reporting. It includes the principles of integrated reporting contained in the International Integrated Reporting Framework, published by the International Integrated Reporting Council (IIRC) in December 2013, and takes into account other guidelines published in this regard.

Implementing the ten principles

Criterion 1: The COP describes mainstreaming into corporate functions and business units

Corporate citizenship and sustainability

Eskom's overall strategic direction is aligned to the Department of Public Enterprises' (shareholder representative) vision statement "To drive investment, productivity and transformation in its portfolio of state-owned companies, their customers and suppliers so as to unlock growth, drive industrialisation, create jobs and develop skills."

Sustainability

The Eskom environment is dynamic, posing challenges, threats and opportunities. To guide Eskom in achieving the strategic objectives and deliver on its mandate, Eskom has developed a response plan to ensure sustainability along seven distinct dimensions. In pursuing these dimensions, safety will continue to be the foundation for all Eskom's operations and is key to Eskom's performance.

The principles of the response plan are as follows:

- Capital investment will prioritise capacity expansion projects, generation sustainability, environmental compliance, transmission strengthening and compliance, customer

connections, asset maintenance, asset replacement and refurbishment and the connection of independent power producers, based on the available capital budget over the five-year MYPD 3 period. (The MYPD is the multi year pricing determination which is submitted to the National Electricity Regulator for approval).

- Eskom will pursue the Generation sustainability strategy which focuses on plant, people and processes
- Alternative funding options, including government support will be pursued
- The regulatory clearing account adjustment (RCA) will be pursued
- Focus on skills building, transformation and environmental sustainability will continue
- Eskom's business model must be adapted and re-engineered

The Sustainability division's mandate is to deliver effective and innovative solutions and decision support to enable sustainable business performance and greater stakeholder confidence, which will contribute to the transformation of Eskom and South Africa. The division is responsible for facilitating the delivery of the strategic objectives based on the principles outlined in this response plan in order to ensure sustainability of the business.

Various functions exist in the division which include ensuring a safe workplace for staff, and conducting research and testing to support cost-effective, climate-friendly and innovative approaches to energy provision, espousing the value of sustainable development, while being responsive to global pressures. The division also facilitates the deployment and upscaling of renewable energy technologies in Eskom as a way to protect the environment and reduce Eskom's carbon footprint.

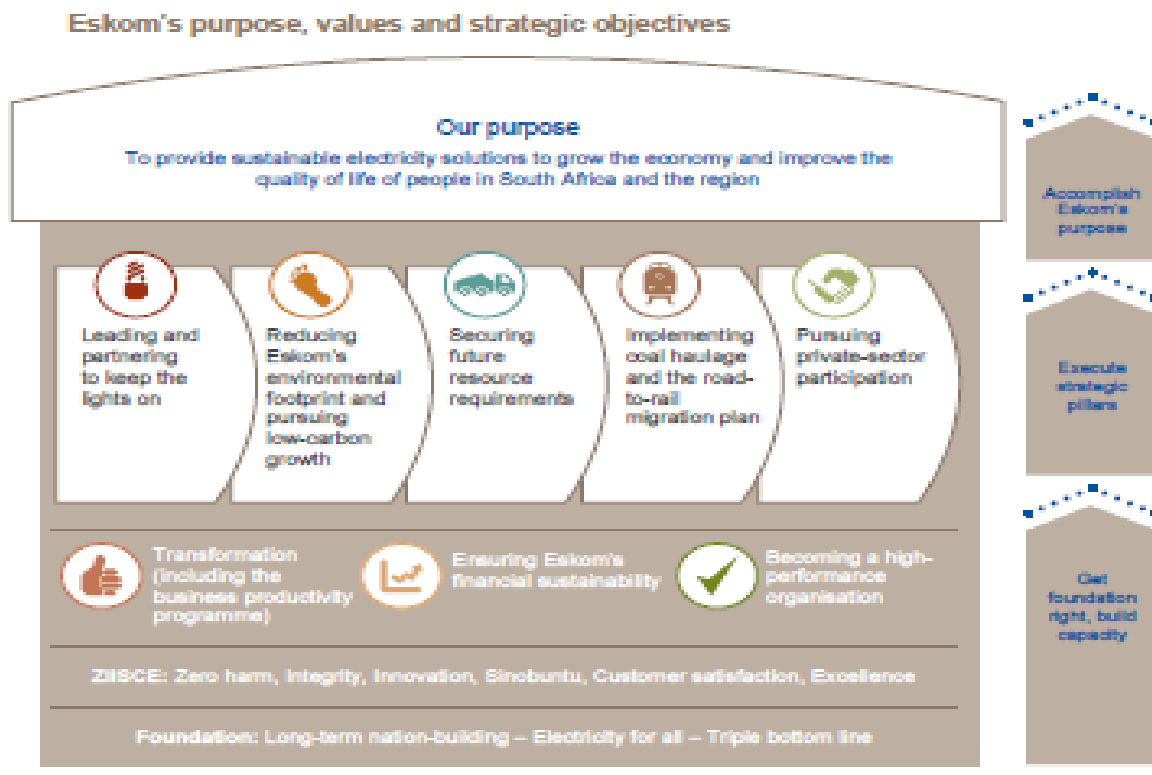
Other responsibilities include implementing the quality value chain and maintaining Eskom's international profile, relationships and interfaces.

Criterion 2: The COP describes value chain implementation

Purpose, values and strategic objectives

Eskom's annual corporate plan outlines the strategic and operational direction of Eskom and captures the necessary financial, operational and resource plans to support this direction. As such, it becomes an engagement document for discussion with Eskom's stakeholders. The latest plan covers the four-year period from 1 April 2014 to 31 March 2018 and the focus is on Eskom's response plan to its changing environment.

Eskom’s strategic direction is encapsulated in its purpose statement, eight strategic objectives, and values. The strategic objectives are aligned to the material items, as outlined in the material items and risks table on pages 58 – 62 of the integrated report.



For further details on each of Eskom’s objectives please refer to the integrated report available at http://www.eskom.co.za/OurCompany/Investors/IntegratedReports/Pages/Annual_Statements.aspx

To measure and review progress against its strategic objectives, Eskom’s corporate plan allocated a set of key performance indicators to each of these strategic objectives. The corporate plan is revised annually. The aspirational targets for 2017/18 used in this report are those that were submitted to the shareholder and National Treasury in February 2014. Eskom’s purpose, values and strategic objectives have been consistent in both the 2013/14 and 2014/15 corporate plans.

Note that these key performance indicators and their targets mirror those set out in Eskom’s compact with the shareholder (see “Shareholder’s compact” on page 26). The performance on each indicator is discussed in “Performance on strategic objectives and future focus areas” on
















































page 83 and the full list of key performance indicators can be found on page 169 of the integrated report.

Link between Eskom strategic objectives and the “six capitals”

The capitals, as defined in the integrated reporting framework are “stocks of value” that are increased, decreased or transformed through the activities and outputs of a business.

For the purpose of the integrated reporting framework, the six capitals are categorised and described on page 46 of the integrated report.

The table below gives an indication of how the six capitals are impacted by Eskom’s strategic objectives. It is evident from this that Eskom’s strategic objectives are integrated and consider all aspects of its business and the value that it creates over time.

		Six capitals					
		Financial capital	Manufactured capital	Intellectual capital	Human capital	Social and relationship capital	Natural capital
Strategic objectives	Becoming a high-performance organisation 						
	Leading and partnering to keep the lights on 						
	Reducing Eskom’s environmental footprint and pursuing low-carbon growth 						
	Securing future resource requirements 						
	Implementing coal haulage and the road-to-rail migration plan 						
	Pursuing private-sector participation 						
	Transformation (including the business productivity programme) 						
	Ensuring financial sustainability 						

Eskom contractor academy

As part of Eskom’s contribution to skills development, job creation and sustainability, this programme’s curriculum covers business skills and finance, project management, people management, supply chain management, as well as safety, health, the environment and quality (SHEQ). It is aimed at equipping emerging contractors and suppliers (especially black women-owned and youth-owned companies) with the entrepreneurial, legislative, management, leadership and technical skills needed to run a business successfully.

During the period under review, 214 learners who successfully completed the contractor academy programme graduated.

Localisation, job creation and skills development through the capacity expansion programme

The capacity expansion programme, as one of the main drivers of industrialisation in the country, has contributed substantially to the shareholder's vision of transforming society by creating jobs and developing skills.

Since its inception, a total of 8 930 individuals have been trained for skills development against a target of 9 377. A total of 2 476 learners are currently being trained in various institutions throughout the country. As at 31 March 2014, there are a total of 25 181 jobs created through the mega projects in the capacity expansion programme. This is less than the previous year as the completion of work in certain areas has resulted in the demobilisation of workers. Eskom reviewed the learner numbers and decided to realign the learner pipeline from 14.5% of staff complement to a more sustainable level of 6% phased in over the next five years. The engineering and artisans target was not achieved as a result of this decision. The underperformance of the country's youth (SYDI) programme is due to a lack of funding. A learner hub was established to ensure centralised learner management, and manage the further development, placement or exit of learners.

Eskom has also partnered with higher learning and basic education institutions to promote access to quality education, particularly in the fields of maths and science, as part of its external development programme. Another example is Eskom's Academy of Learning (EAL) artisan operating and maintenance centre of excellence which chairs the initiative that champions the building of additional infrastructure and developing a curriculum at the further education and training college in Lephalale, and provides support through leadership and technical guidance. The first skills programme, accommodating 40 demobilised workers, started on 21 October 2013 and was completed on 13 December 2013. Successful candidates earned national credits. EAL's mandate is to close Eskom's competency gap by addressing, coordinating and integrating all learning needs of employees, as well as enhancing performance throughout Eskom, by focusing on business needs, and catering for all facets of the learning value chain and learning operations.

As an example, the EAL welding school of excellence is accredited by the International Institute of Welding. A total of 150 welding apprentices are in the learner pipeline and the first group of 50 will qualify in 2014. This initiative will help with the national shortage of welding skills. The early success of this initiative is evident, with positive feedback from potential employers and continuous improvement of learner capabilities. A total of 547 contracts worth R5.6 billion were

awarded through the capacity expansion programme during 2013/14. Of this, R3.1 billion (54.6% of the total contract value) was committed to local content. To date, R98.7 billion (65.3% of the total contracted value of R151.2 billion) has been committed to local content, of which R68.7 billion (69.5% of local committed expenditure) has been paid out.

In addition to Eskom's local expenditure, major suppliers on the capacity expansion programme committed to R1.4 billion to local development plans specific to their build contracts. These commitments are specific to the boiler, turbine and generator packages. These values are cumulative, from inception of the capacity expansion programme in 2005, up to 31 March 2014.

Overall procurement expenditure on B-BBEE

Initiatives to ensure B-BBEE (Broad based Black Economic Empowerment) compliance have brought about improvements in Eskom's transformation performance. The Eskom group's total measured procurement spend (including primary energy) amounted to R130 billion in 2013/14, of which R119.4 billion (91.8%) was attributable to B-BBEE compliant suppliers, exceeding the internal target of 75%. Strategies are being developed to improve procurement from black-owned businesses, with a particular focus on businesses owned by black women and black youth. Total measured procurement spend from black women- and black youth-owned both met or exceeded the target for the year.

Robust Human Rights Management Policies & Procedures

Criterion 3: The COP describes robust commitments, strategies or policies in the area of human rights

The South African Constitution contains a Bill of Rights (Chapter 2) which sets out all the rights of the people of South Africa. The Bill of Rights applies to all law, and binds the legislature, the executive, the judiciary and all organs of state. This is a link to the South African Constitution.

<http://www.gov.za/documents/constitution/1996/constitution.pdf>

Eskom is a state-owned company and is subject to numerous laws and regulations regarding its operations, including conditions relating to tariffs, expansion activities, and environmental compliance and regulatory and licence conditions. All these areas of legislation are required to be in line with the Constitution and the Bill of Rights. Eskom therefore, in complying with all applicable legislation, is adhering to the Bill of Rights. Eskom continues its transformation into a high-performance utility focused on quality customer service; safer, effective and efficient plant

operation through prudent plant maintenance; optimising key talent; and ensuring resilience measures are in place for major disruptive events. Further, the issues of equity are addressed in the section above.

Eskom focuses on the following to become a high-performance organisation:

- Safety
- Improving operations
- Being customer-centric
- Building strong skills
- Investing in appropriate technologies

Safety

Safety remains an overarching priority in the company's operations. Eskom is committed to ensuring the safety of its employees and contractors as well as the surrounding communities in the areas where it operates. Eskom's safety principle is that no operating condition or urgency of service justifies exposing anyone to negative risks arising out of Eskom's business or causing them injury or damage to the environment. This principle applies to all levels of the company, the public and the environment.

Criterion 4: The COP describes effective management systems to integrate the human rights principles

Focusing on safety

Safety is at the centre of our zero harm policy. Overall safety performance has been improving over the past three years but there are still concerns related to contractors. We are working with contractors to ensure that all safety requirements are met. Non-compliance is not tolerated. Safety will continue to be the foundation for all Eskom's operations and is key to Eskom's performance. Eskom's internal safety measures are having a positive effect, with its lost-time incidence rate decreasing to 0.31 in 2013/14, from 0.40 in 2012/13. The company's fatality count, however, remains high at five fatalities. The number of contractor fatalities was 18 during the 2013/14 period. As such, contractor management is one of Eskom's occupational hygiene and safety strategic elements. Given the strategic importance of contractors across Eskom, substantial efforts are required to introduce safe systems of work across the entire organisation to ensure continual safety performance improvement in Eskom's drive for zero harm. A contractor safety performance analysis was conducted between April 2012 and December 2013. Historical

workplace health and safety key performance indicators, covering contractor fatalities and lost-time incidents, were used as lag indicators to identify problem areas. The analysis highlighted motor vehicle accidents, falls from elevation, and “struck-by” incidents as the most common causes of incidents. The next step is to ensure that the contractor management strategy is aligned to address the areas identified.

Eskom’s “zero harm” drive continues. Safety initiatives to mitigate the risks faced by employees, contractors and members of the public include:

- Conducting safety audits of principal contractors every month as opposed to every six months
- Devising contractor-management plans with safety performance targets
- Improving procedures for reporting safety incidents and identifying root causes
- Detailing specifications for personal protective equipment
- Using simulators to train truck drivers in defensive and all-terrain driving
- Running campaigns to improve driver safety awareness

Health and wellness

Eskom’s integrated health and wellness programme promotes a safe and healthy working environment to ensure its employees are healthy, productive, resilient and engaged throughout their time at Eskom.

Occupational hygiene and safety

Eskom conducts its business with an underpinning safety principle that no operating condition, or urgency of service, justifies exposing anyone to negative risks arising out of Eskom’s business or cause them injury or damage to the environment. Safety remains at the centre of the zero harm policy. There has been improvement in safety performance, however, as mentioned above contractor safety remains a concern and measures have been put in the place to assist contractor to improve their safety systems.

Employment equity

Eskom has a rigorous transformation programme in place to ensure equity in the workplace. Eskom extended its employment equity plan, which was signed in 2010 and expired in March 2013, by one year to allow time to analyse the company’s internal transformation progress and develop a long-term employment equity plan. This was done in consultation with the Department of Labour and organised labour. However, the recruitment freeze and the consequential cap on

employee numbers has presented challenges in that it has resulted in the reduction of opportunities to improve on employment equity. However Eskom is committed to achieving the employment equity expectations and is reviewing various options. The primary focus will be on the occupational levels that are under-represented.

Employee relations

Eskom's employee engagement model builds employee participation and involves employees and executives in conversations around strategy, performance and people. Eskom has also built more productive and sustainable relationships with organised labour and continues to do so through a partnering model to guide these interactions. In addition, Eskom has embarked on a process to further strengthen the relationships with the trade unions, utilising the services of an external facilitator. After a lengthy wage dispute, Eskom and its recognised trade unions referred the wage dispute to the CCMA (Commission for Conciliation, Mediation and Arbitration) for resolution. A final decision, for the most part in favour of Eskom, was delivered in January 2014. The decision was only effective for the financial year 2013/14, backdated to 1 July 2013.

Even though Eskom has been declared an essential service, which prohibits employees from engaging in industrial action, employees at some Eskom sites have embarked on various forms of unprotected industrial action.

Criterion 5: The COP describes effective monitoring and evaluation mechanisms of human rights integration

Human resources sustainability

Human resources (HR) is responsible for measuring and monitoring critical factors relating to the sustainability of Eskom's human resources. A human resources sustainability index is used to measure the following key aspects: employee satisfaction, employee competence, and employee health and wellness. The measurements and criteria are reviewed annually to make sure they stay applicable.

Safety performance

Eskom's safety performance is assessed in terms of the number of fatalities among employees and contractors for the year, and its lost-time incidence rate. The lost-time incidence rate is a proportional representation of the occurrence of lost-time injuries over 12 months per 200 000 working hours. These are measured and reported against set targets.

Improving internal transformation

Eskom's internal transformation performance is measured in terms of the key performance areas shown in the following table.

Key performance indicators for internal transformation¹

Employment equity – Group	Target 2017/18	Target 2013/14	Actual 2013/14	Actual 2012/13	Actual 2011/12	Targets achieved?
People with disability, %	2.50	3.00	2.77	2.43	2.36	⊗
Racial equity in senior management, % of black employees	74.0	61.0	59.3	58.4	53.9	⊗
Racial equity in professionals and middle management, % of black employees	79.0	71.0	70.6	69.0	65.7	⊖
Gender equity in senior management, % of female employees	38.0	30.0	28.8	28.5	24.3	⊗
Gender equity in professionals and middle management, % of female employees	42.0	36.0	34.9	34.0	32.4	⊗

1. Group numbers are shown, except where those numbers are not available, in which case company numbers are presented.

Robust Labour Management Policies & Procedures

Criterion 6: The COP describes robust commitments, strategies or policies in the area of labour

Eskom supports and adheres to the labour standards outlined in the UN Global Compact. With specific reference to the effective abolition of child labour, Eskom undertakes: not to employ any person in contravention of the relevant provisions of the Basic Conditions of Employment Act, and the South African Constitution, insofar as they relate to prohibiting the employment of children.

Employee relations

Eskom complies with the relevant labour laws as set by the government. The majority of Eskom's workforce operates within the borders of South Africa. Eskom's employee engagement model builds employee participation and involves employees and executives in conversations around strategy, performance and people. Eskom has also built more productive and sustainable relationships with organised labour and continues to do so through a partnering model to guide these interactions. In addition, Eskom has embarked on a process to further strengthen the relationships with the trade unions, utilising the services of an external facilitator. Labour issues are also covered in the section above.

Employment equity

Eskom has a rigorous transformation programme in place to ensure equity in the workplace. Eskom extended its employment equity plan, which was signed in 2010 and expired in March 2013, by one year to allow time to analyse the company's internal transformation progress and develop a long-term employment equity plan. This was done in consultation with the Department of Labour and organised labour.

People with disabilities

As per the Employment Equity Act (1998), Eskom continues to strive for fair representation of people with disabilities. The Eskom group currently has 1 305^{RA} (2013: 1 137^{RA} [company currently has 1 283^{RA} (2013: 1 126^{RA})] employees with recognised disabilities. (RA – reasonable assurance given by external auditors).

The proportion of people with disabilities is 2.77%, slightly below the 3% target but above the government's target of 2% for the public services. Eskom has identified that not all its facilities can accommodate people with disabilities. To address this, Eskom has drafted a disability charter to ensure that facilities become more accessible.

Criterion 7: The COP describes effective management systems to integrate the labour principles

Eskom's Recognition Agreement

Eskom's Recognition Agreement with the three recognised trade unions, NUM, NUMSA and Solidarity, recognises the right of employees to organise, to associate and to bargain collectively (refer to 1.1 Introduction & Preamble). Although only three trade unions are currently recognised, based on the recognition thresholds contained in the Recognition Agreement (section 2.1), employees may belong to any registered trade union. Eskom and the three recognised trade unions have also signed an agency shop agreement (Annexure 5 of the Recognition Agreement), whereby any employee who is not a member of one of the recognised unions, is obliged to pay a monthly agency fee, which fee is proportionally allocated to each of the three unions, on the basis of their relative membership. Such an agency shop arrangement is provided for in the Labour Relations Act (section 25)

Remuneration

Eskom's approach to remuneration and benefits is designed to attract and retain skilled, high performing employees. To achieve this, Eskom pursues the following remuneration principles:

- Business requirements determine market positioning
- Provide market-related remuneration structures, benefits and conditions of service
- Maintain external competitiveness to attract and retain key skills
- Ensure internal equity through defensible differentials in pay and benefits
- Remunerate employees in accordance with their job grade, and at least at the minimum of the applicable salary scale
- Follow a lead-lag market approach. The Eskom salary/guaranteed packages will typically be leading the market just after the annual increases have been implemented and lagging the market two to three months before the next increases are due

Eskom is committed to resolving unjustifiable race- and gender-based income differentials by reinforcing its remuneration management principles. This involved ensuring that all qualifying employees are moved to the 50th percentile for their job description. An income differential exercise was implemented in November 2013 and the resulting salary adjustments were made.

Bargaining unit

Bargaining-unit employees (all those below middle management) receive a basic salary plus benefits. Major benefits include membership of the pension and provident fund, a medical aid, housing allowance and an annual bonus (thirteenth cheque). Basic salaries and conditions of service are reviewed annually through a collective bargaining process. Bargaining-unit employees also participate in an annual short-term incentive scheme.

Managerial level

Managerial-level employees are remunerated on a cost-to-company/package basis. The package includes pensionable earnings, compulsory benefits and a residual cash component. Managerial employees also participate in an annual short-term incentive scheme, consisting of rewards for achieving objectives set by the chief executive and approved by a board committee.

Non-executive directors

Non-executive directors' fees are paid as a fixed monthly fee, decided in accordance with the shareholder's approval. Non-executive directors are reimbursed for company-related expenses.

Executive remuneration

The chief executive, finance director and group executives have permanent employment contracts based on Eskom's standard conditions of service. Executive remuneration is based on the organisation's performance, as assessed through performance on key indicators, and the individual's contribution to that performance. It consists of a basic salary augmented by short- and long-term incentives. The balance between fixed and variable remuneration (short- and long-term incentives) is reviewed annually. International and local benchmarks are considered in determining remuneration. The remuneration strategy is aligned with shareholder guidelines. The board approves the remuneration of the finance director and group executives. The chief executive's remuneration is approved by the shareholder. Factors taken into account include the executive's level of skill and experience, his/her contribution to organisational performance, and the group's business results.

The remuneration of executive management committee (Exco) members consists of the following:

- A total guaranteed amount, consisting of a fixed cash portion and compulsory benefits. This is reviewed annually
- Short-term incentives, consisting of rewards for achieving objectives set by the chief executive and approved by a board committee (refer to the key performance indicators on page 170 of the integrated report)
- Long-term incentives, consisting of rewards for achieving objectives set by the shareholder (refer page 170 of the integrated report)

In terms of their performance contracts, only 20% of executives' performance rating is based on individual performance; the remaining 80% is based on Eskom's collective performance. Cognisance must be taken of the responsibilities and risks that directors and executives carry, given their broad accountability.

Criterion 8: The COP describes effective monitoring and evaluation mechanisms of labour principles - integration

These areas of integration are also discussed in sections above.

The following table details the employee profile in terms of gender and race for Eskom's senior management of the Eskom company workforce as at March 2014.

Eskom company employee profile for the top two occupational levels:

Key performance indicators for internal transformation¹

Employment equity – Group	Target 2017/18	Target 2013/14	Actual 2013/14	Actual 2012/13	Actual 2011/12	Targets achieved?
People with disability, %	2.50	3.00	2.77	2.43	2.36	⊗
Racial equity in senior management, % of black employees	74.0	61.0	59.3	58.4	53.9	⊗
Racial equity in professionals and middle management, % of black employees	79.0	71.0	70.8	69.0	65.7	⊖
Gender equity in senior management, % of female employees	38.0	30.0	28.8	28.5	24.3	⊗
Gender equity in professionals and middle management, % of female employees	42.0	36.0	34.9	34.0	32.4	⊗

1. Group numbers are shown, except where those numbers are not available, in which case company numbers are presented.

Percentage of Eskom employees with disabilities

The proportion of people with disabilities is 2.77%, slightly below the 3% target but above the government's target of 2% for the public services. Eskom has identified that not all its facilities can accommodate people with disabilities. To address this, Eskom has drafted a disability charter to ensure that facilities become more accessible.

Robust Environmental Management Policies & Procedures

Criterion 9: The COP describes robust commitments, strategies or policies in the area of environmental stewardship

Environmental performance

Environmental compliance remains a priority in our operations. During the reporting period we spent R3 billion on improving the generating fleet's environmental performance. During the year the water usage improved relative to the previous year while the particulate-emissions performance remained the same. We also met the internal targets for both indicators. Despite these measures, there is the risk that our older coal-fired stations will not be able to consistently meet the limits set by new atmospheric emission licences, which came into effect in April 2014 and the minimum emission standards which come into effect in 2015. Should this risk materialise, the resulting legal consequence, penalties and significant financial impact may make it unsustainable to continue running these ageing stations at full capacity, which would have implications in terms of our ability to meet demand and do maintenance on the rest of the fleet. We are committed to environmental sustainability but believe that a balanced approach is necessary to ensure environmental sustainability whilst supporting economic growth and access to affordable electricity.

Eskom is engaging with local authorities to align the new atmospheric emission licences with the capability of installed technology and considering the current operating conditions. To address the risk related to complying with the minimum emission standards we have applied for a five-year extension on the new licence terms for some of our generating plant. This will give us the time to retrofit emissions-filtering technologies to the plant to ensure that we will be able to reliably abide by the new licence terms. We remain committed to working with the authorities to limit the negative effects on public health and so maximise our positive impact on society. In the case of the Kriel power station, Eskom's request to increase the particulate-emissions limit and to allow a grace period for when emissions exceed the limit of the new licence has been denied. Every effort will be made to comply with the conditions of the licence. The new limit does not allow the station to continuously operate at its full rated power and will require load losses.

We also invest in renewable energy indirectly by purchasing electricity from independent power producers (IPPs) that use wind, solar power, biomass, landfill gas and small hydro technologies to generate power.

Critical for Eskom at this point is ensuring a balance between security of supply, financial sustainability and environmental compliance and to responsibly manage the trade-offs that are required. Eskom will continue to implement the compliance programme to achieve full compliance to environmental requirements, specifically: atmospheric emission licences, waste management permits, water use licences, environmental authorisations and biodiversity related permits

Water

Eskom aims to minimise its impact on the environment by reducing atmospheric emissions and fresh-water usage by transitioning to a cleaner energy mix, considering different technologies and continuing with research and development to develop improved energy technologies. Eskom has formed water management task teams to reduce freshwater consumption and legal contraventions relating to water use. Eskom met its target for specific water usage, reporting 1.35L/kWh sent out against a target of 1.39L/kWh sent out. The improvement on the previous year's performance of 1.42L/kWh sent out can be attributed mainly to an increase in the proportion of energy generated by the dry-cooled stations during the year. Increased opportunities for maintenance, implementation of initiatives identified by the water management task teams, good rains and the increased recovery of water compared to previous year also contributed to the improvement. Several projects are underway to ensure that our new coal-fired power stations have sufficient water resources when they begin operating. The first phase of the

Mokolo Crocodile water augmentation project reached the 10.3km mark during the year, increasing the water supply to the area by 37% and transporting enough water to supply four of the six Medupi units

The United Nations Global Compact's CEO Water Mandate is a unique public-private initiative designed to help companies develop, implement and disclose water-sustainability policies and practices. As a signatory to the compact, Eskom is committed to the CEO Water Mandate principles.

Air quality

Eskom aims to reduce particulate and gaseous emissions to minimise its impact on human health and comply with regulated emission standards. Particulate emission performance was marginally better than the target and remained consistent with 2012/13, indicating that maintenance measures and technological advances are starting to yield environmental benefits. Power stations with fabric filter plant continue to sustain low emission levels. However, challenges are experienced with emissions at many of the stations with electrostatic precipitators. This is due to a range of factors, including capacity constraints and the limited space available for maintenance. At some stations a decline in the coal quality and the high load factors together result in overburdened dust handling plant.

Eskom remains committed to reducing emissions to minimise the effect of its operations in terms of health and the environment, and to comply with regulated emission standards. Eskom has completed maintenance at several stations to improve emissions performance. Given the constrained power system situation, there may not be enough planned outages for Eskom to rollout similar maintenance across the entire fleet before new national emissions standards come into effect in 2015. The programme to retrofit fabric filter plant on at least five power stations in the existing fleet continues, with the possible completion of the first unit at Grootvlei power station expected in 2016. The issues new atmospheric emission licences are discussed above.

Biodiversity

Eskom aims to comply with environmental legislation and is constantly striving to put in place mitigation measures to ensure that its activities do not negatively affect biodiversity. Eskom has a number of complementary strategic partnerships with wildlife organisations in place. The long-

standing Eskom Endangered Wildlife Trust partnership focuses on managing and monitoring wildlife interactions.

Waste management

In accordance with part 7 of the National Environmental Management: Waste Act, Eskom has commenced with the voluntary implementation of Industrial Waste Management Plans which focus on the efficient recycling, reuse and recovery of all Eskom waste streams. The Industry Waste Management Plans will be completed for Generation first before being consolidated across all Eskom business Units. Commercialisation of Ash: Eskom continues to work with the industry and the South African Coal Ash Association to pursue commercial opportunities associated with the utilisation of ash aimed at increasing the quantities of ash which is diverted from landfill, this not only reduces the environmental impact but also provides opportunities for business development.

Climate change and renewable energy

Climate change strategy

South Africa's response to climate change is guided by the National Climate Change Response policy, which was approved by Cabinet in November 2011. The policy is founded on the principles of sustainable growth and development of the country. Policy process will also guide South Africa's input to the international negotiations in terms of what the country can and cannot do with regards to mitigation. This policy process has been driven by an intergovernmental committee led by the Department of Environmental Affairs in partnership with all stakeholders, including Eskom. Eskom has been focusing on reviewing its Climate Change strategy in line with the government's policy implementation process and international discussions. Eskom aspires to a more diverse energy mix, with the objective of reducing relative emissions until 2025 and subsequently reducing absolute emissions. Eskom has also prioritised adaptation to the impacts of climate change as this has major implications for the security of supply. Eskom aims to foster a company culture that considers sustainable development in all activities.

Eskom's adaptation strategy is in the process of being implemented throughout the business. The strategy, which details how Eskom will respond to and prepare for the impacts of climate change, is industry leading. Eskom has been invited to international meetings to present this strategy and has participated in discussions to prepare business views on the issue.

Eskom's executive management committee approved a socio-economic development policy and strategy which supports Eskom's drive for sustainable socio-economic growth through the provision of electricity.

Eskom continued working with the government on developing carbon budgets, adaptation and mitigation plans for climate change, protocols for measuring and evaluating carbon emissions, and procedures for reporting on greenhouse gases. It actively supported the government delegation to the COP 19 conference and is developing a strategy for COP 21.

Renewable energy projects

Eskom remains committed to reducing its carbon footprint and helping the country transition to a cleaner energy mix by pursuing low-carbon sources of generation capacity. It also aims to facilitate the development of renewable energy production into a robust subsector of the emerging power industry through its support for the government's RE-IPP programme. South Africa is rich in natural resources, including wind, sun and ocean energies that could, if efficiently harnessed, help meet the country's electricity needs while reducing its absolute and relative carbon emissions. Eskom's two key renewable energy projects, namely the Sere wind farm and the concentrated solar thermal power station near Upington, are progressing.

- Construction of Sere is well underway – the first wind turbine was erected on 2 December 2013.
- By the end of the year, 10 of the 46 planned turbines had been installed, and foundations for a further 22 turbines had been laid. The 100MW wind farm will be fully commissioned in the 2014/15 financial year, saving approximately 230 000 tons of carbon emissions per year
- With regards to the concentrated solar thermal power station co-financing loans have been signed. Six suppliers have applied to prequalify for the project, due to be commissioned in 2017. The Upington plant will save an estimated 450 000 tons of carbon dioxide emissions when it is commissioned
- Photovoltaic solar-panel arrays are being installed at Eskom office buildings and power stations to offset internal electricity usage. The photovoltaic project (project Illanga) is expected to add 150MW by 2017/18.

Renewable energy from independent power producers

Eskom facilitates investment into renewable energy generation by purchasing power from IPPs that use wind, solar power, biomass, landfill gas and small hydro technologies to generate

electricity, in accordance with the Department of Energy's renewable energy IPP (RE-IPP) procurement programme. Eskom is responsible for ensuring that these IPPs are connected to the national grid and that it purchases a target amount of electricity from them. Please see pages 143 to 145 of the integrated report for more detail.

Criterion 10: The COP describes effective management systems to integrate the environmental principles

ISO 14001 environmental management system standard certification

Eskom aims to comply with all legal requirements and has initiated several activities over the past three years to address shortcomings. These include internal peer reviews, training and development and the implementation of ISO 14001 certification. Eskom aims to obtain ISO 14001 (environmental management) certification for all its power stations.

Programmes are being implemented to achieve full compliance with atmospheric emission licences, waste-management permits, water-use licences, environmental authorisations and biodiversity-related permits.

Water, waster, biodiversity and air quality issues are discussed above

Partnerships

Eskom has established an Eskom-NGO forum with the intention of creating a platform for dialogue between Eskom and members of the environmental NGO community. In the reporting year three engagements were held and there was good progress on the sharing of information, specifically on water-related issues.

Criterion 11: The COP describes effective monitoring and evaluation mechanisms for environmental stewardship

Compliance – legal contraventions

The number of legal contraventions has decreased from 48^{RA} in 2012/13 to 32^{RA} in 2013/14. Of the contraventions, 13 were water related (water leaks and spills, sewerage spills and ash line leaks) and 10 were for exceeding of particulate emission limits at power stations, the remaining

contraventions were related to vegetation management, environmental EIA non-compliance and oil spills. Eskom has initiated training and awareness initiatives to ensure that employees and contractors are made aware of environmental risks.

Two environmental legal contraventions in terms of the operational health dashboard have been identified in the year, matching the 2012/13 figure. The first contravention is associated with the failure of Hendrina power station to effectively and timeously manage water-related legal contraventions that took place between October 2012 and October 2013. This is being addressed by the power station. The other contravention was due to Eskom constructing the Ruigtevallei- Dreunberg 132kV line on an incorrect servitude option that was not approved in the environmental authorisation.

Reducing Eskom's environmental footprint

Provisions for environmental measures (R million)

Provisions for environmental measures (R million)

	Actual 2013/14	Actual 2012/13	Actual 2011/12
Power station-related environmental restoration – nuclear plant	9 331	7 177	5 428
Power station-related environmental restoration – other power plant	6 942	6 762	4 731
Mine-related closure, pollution control and rehabilitation	4 366	4 309	2 476

Refer to note 28 of the 2014 annual financial statements at www.eskom.co.za/IR2014/01.html

Key performance areas for reducing Eskom's environmental footprint

Key performance areas for reducing Eskom's environmental footprint

Indicator and unit	Target 2017/18	Target 2013/14	Actual 2013/14	Actual 2012/13	Actual 2011/12	Target achieved?
Relative particulate emissions, kg/MWh sent out	0.29	0.38	0.35	0.35	0.31	✓
Specific water consumption, L/kWh sent out ¹	1.21	1.39	1.35	1.42	1.34	✓
Environmental legal contraventions in terms of the operational health dashboard ²	0	0	2	2 ³	5	✗

- The volume of water consumed per unit of generated power from commissioned power stations.
- Under certain conditions, contraventions of environmental legislation are classified in terms of the Eskom operational health dashboard Index. These include instances where censure was received from authorities, non-reporting to authorities as may be legally required, non-reporting in Eskom, a repeat legal contravention, or when the contravention was not addressed adequately.
- Increased from previously reported figure (1) due to an additional legal contravention that was identified during the year for activities associated with the underground coal gasification (UCG) project, in October 2012.

Reducing particulate and gaseous emissions (as also discussed above)

Eskom aims to reduce particulate and gaseous emissions to minimise its impact on human health and comply with regulated emission standards. Particulate emission performance was marginally better than the target and remained consistent with 2012/13, indicating that maintenance measures and technological advances are starting to yield environmental benefits. Eskom's strategy is to reduce particulate and gaseous emissions to minimise the impact of its operations on human health and comply with regulated emission standards. Power stations with fabric filter plant continue to sustain low emission levels. However, challenges are experienced with emissions at many of the stations with electrostatic precipitators. This is due to a range of factors, including capacity constraints and the limited space available for maintenance. At some stations a decline in the coal quality and the high load factors together result in overburdened dust handling plant.

Reducing water consumption (also discussed above)

Eskom aims to minimise its impact on the environment by reducing atmospheric emissions and fresh-water usage by transitioning to a cleaner energy mix, considering different technologies and continuing with research and development to develop improved energy technologies. Eskom has formed water management task teams to reduce freshwater consumption and legal contraventions relating to water use. Eskom met its target for specific water usage, reporting 1.35L/kWh sent out against a target of 1.39L/kWh sent out. The improvement on the previous year's performance of 1.42L/kWh sent out can be attributed mainly to an increase in the proportion of energy generated by the dry-cooled stations during the year. Increased opportunities for maintenance, implementation of initiatives identified by the water management task teams, good rains and the increased recovery of water compared to previous year also contributed to the improvement.

Reducing environmental legal contraventions

The number of legal contraventions has decreased from 48^{RA} in 2012/13 to 32^{RA} in 2013/14. Of the contraventions, 13 were water related (water leaks and spills, sewerage spills and ash line leaks) and 10 were for exceeding of particulate emission limits at power stations, the remaining contraventions were related to vegetation management, environmental EIA non-compliance and oil spills. Eskom has initiated training and awareness initiatives to ensure that employees and contractors are made aware of environmental risks.

Reducing Eskom's carbon footprint

Climate change strategy

The company's climate change strategy is based on six pillars:

- **Diversification** of the generation mix to lower carbon-emitting technologies
- **Energy-efficiency** measures to reduce demand, greenhouse gases and other emissions
- **Adaptation** to the negative impacts of climate change
- **Innovation** through research, demonstration and development
- **Investment** through carbon market mechanisms
- **Progress** through advocacy, partnerships and collaboration

South Africa's response to climate change is guided by the National Climate Change Response policy, which was approved by Cabinet in November 2011. The National Climate Change Response aims to promote sustainable growth and development. Its policies will guide South Africa's contribution to international negotiations regarding what it can and cannot do regarding mitigation. The policy was drafted by the Department of Environmental Affairs in partnership with Eskom and other stakeholders.

Investing in renewable energy (see also above)

South Africa is rich in natural resources, including wind, sun and ocean energies, that could, if efficiently harnessed, help meet the country's electricity needs while reducing its absolute and relative carbon emissions.

Eskom's two key renewable energy projects, namely the Sere wind farm and the concentrated solar thermal power station near Upington, are progressing.

- Construction of **Sere** is well underway – the first wind turbine was erected on 2 December 2013.
- By the end of the year, 10 of the 46 planned turbines had been installed, and foundations for a further 22 turbines had been laid. The 100MW wind farm will be fully commissioned in the 2014/15 financial year, saving approximately 230 000 tons of carbon emissions per year
- The **concentrated solar thermal power station** has received exemption from PPPFA conditions and co-financing loans have been signed. Six suppliers have applied to prequalify for the project, due to be commissioned in 2017. The Upington plant will save an estimated 450 000 tons of carbon dioxide emissions when it is commissioned
- Photovoltaic solar-panel arrays are being installed at Eskom office buildings and power stations to offset internal electricity usage. The photovoltaic project (project Illanga) is expected to add 150MW by 2017/18.

Future focus areas for reducing Eskom's environmental footprint and pursuing low-carbon growth

Eskom will continue to implement the compliance programme to achieve full compliance to environmental requirements, specifically: atmospheric emission licences, waste management permits, water use licences, environmental authorisations and biodiversity related permits

- The minimum emission standards are effective from 2015. Eskom is unable to meet the emissions standards at all sites within the required timelines, and has submitted an application for a five-year postponement for some power stations in terms of section 6 of the Listed
- Activities and Associated Minimum Emission Standards
- Continue to work towards Blue drop (water treatment) and Green drop (sewerage works) certification by March 2016
- Completion and commissioning of Sere wind farm project in the 2014/15 financial year

Robust Anti-Corruption Management Policies & Procedures

Criterion 12: The COP describes robust commitments, strategies or policies in the area of anti-corruption

Corporate governance

Eskom's corporate governance focuses on effective ethical leadership to integrate strategy, governance and sustainability. Eskom takes its strategic direction from its board of directors. The chief executive and the Executive Management committee are accountable to the board and are responsible for putting the board's decisions into effect. The chief executive and the Executive Management committee also oversee the company's day-to-day operations. Eskom is a signatory to the United Nations Global Compact, which includes an anti-corruption clause, as well as the World Economic Forum's Partnership against Corruption Initiative.

Criterion 13: The COP describes effective management systems to integrate the anti-corruption principle

Eskom's operations are governed by numerous laws, legislation and codes including the Companies Act (2008), the Public Finance Management Act (1999), the Preferential Procurement Policy Framework Act (2000), the Promotion of Access to Information Act and the Promotion of Administrative Justice Act (2000). King III, the Protocol on Corporate Governance in the Public Sector, and various international guidelines guide Eskom regarding best practice in governance and reporting. The Assurance and Forensic department provides independent and

objective assurance, consulting and investigative services to improve Eskom's operations. It does so in collaboration with the Special Investigating Unit.

Internal control

The board, through the audit and risk committee, ensures that internal controls are effective and adequately reported on for auditing and regulatory purposes. In line with King III, Eskom applies a combined assurance model to ensure coordinated assurance activities. This model gives the audit and risk committee an overview of significant risks, as well as the effectiveness of critical controls to mitigate these risks. The principles for the combined assurance model are embedded in the combined assurance framework. Eskom's internal audit function is managed by the Assurance and Forensics department which reports directly to the audit and risk committee.

Eskom has for the past few years been running the "Back2Basics" programme to standardise, simplify and optimise its internal processes and improve the overall control environment. This is managed by a cross-functional committee called the CARAT committee. Process control manuals, each containing a "risk and controls" matrix, have been prepared for all key processes. These manuals cover both financial and operational processes, including the processes to be followed to determine the key performance indicators for technical matters and operations. The process control manuals are updated regularly.

The Audit and Forensic department's risk-based plan for technical and financial reviews of internal control systems is approved by the audit and risk committee on an annual basis. Eskom keeps a database of all internal and external audit findings (financial and technical). The database is monitored on a monthly basis by management and Assurance and Forensics, and progress on resolving audit findings is reported to the audit and risk committee on a quarterly basis. Eskom also provides the Auditor-General of South Africa with a quarterly assessment on the control environment.

Criterion 14: The COP describes effective monitoring and evaluation mechanisms for the integration of anti-corruption

Ethical business conduct

Eskom's board is accountable to monitor the effective implementation of the group's ethics-management programme. The programme aims to assess Eskom's risks and opportunities relating to ethical business conduct, foster ethical standards and raise awareness regarding ethics through training, reporting and advice.

Eskom manages fraud and corruption by:

- Fostering ethical standards
- Raising awareness regarding ethics through training, reporting and providing advice through an ethics help desk
- Encouraging whistle-blowing through mechanisms such as a fraud and corruption hotline.
- Conducting forensic investigations

Taking Action in Support of Broader UN Goals and Issues

Criterion 15: The COP describes core business contributions to UN goals and issues

Eskom's objectives are not limited to commercial concerns. Its performance is also measured by the overall value it adds to the lives of the South African public. Eskom's developmental responsibilities range from building and maintaining power plants and networks to supplying households, schools and factories with electricity, to supporting local industries and stimulating skills and job creation. Eskom is also involved in creating a foundation on which South Africa can grow, helping to transform the lives of the large percentage of the population that lives in poverty. Eskom Development Foundation NPC (the Foundation) continues to implement Eskom's corporate social investment mandate to promote transformation and social sustainability. The Foundation focuses on initiatives to develop small- and medium-sized enterprises, education, health, food security, community development, energy and the environment. Year-to-date, the Foundation has approved the commitment of R132.9 million for corporate social investment (CSI), impacting 357 443 beneficiaries. An amount of R115.4 million was spent during the year.

Electrification

The National Census of 2011/12 identified 3.4 million South Africans who are without electricity. The majority of these people live in the Limpopo, Eastern Cape and KwaZulu-Natal provinces. In order to achieve the United Nation's millennium development goal of universal access to electricity by 2030, the DoE has accelerated the universal access programme. The DoE's integrated national electrification programme that commenced in 2013/14, increased its funding by 17%. At the same time, Eskom is pursuing construction efficiency opportunities in order to unlock savings to fund 50 000 extra connections per annum. The electrification programme is now being implemented in more remote areas where the construction of network infrastructure is more expensive due to the distances involved and, in some cases, the difficult terrain encountered. Eskom has in 2013/14, for the first time since year 2002, achieved electrification

of more than 200 000 household connections in a year. Electrification performed on behalf of, and funded by, municipalities has been excluded from the numbers reported above. Eskom has connected 2 879 municipal households in 2013/14 (2012/13: 3 801). The electrification of farm dwellers is also excluded from these numbers.

Electrification of grid schools and clinics

School electrification is funded by the Department of Basic Education. A total of 112 schools received electricity for the first time for a total capital outlay of R51 million. No clinics were identified for electrification during the year.

Indicator and unit	Actual 2013/14	Actual 2012/13	Actual 2011/12
Capital investment, R million	51	38	2
Total connections, number	112	142	19

Rural school development

One of the highlight of the Foundations's activities for the year was the successful completion of six further education and training (FET) college projects, and five rural development projects as listed as follows:

Rural development projects	FET colleges
Sthandimfundo High School	Cape Town
Tiyane Magoro Pre-school	Boland
Mqholweni Primary School	Vhembe
Nzimalwe cooperative	Sekhukhune
Phumalanga Primary School	Umgungundlovu
	Mnambithi

Criterion 16: The COP describes strategic social investments and philanthropy

Please also see information above

One of the highlight of the Foundation's activities for the year was the successful completion of six further education and training (FET) college projects.

Criterion 17: The COP describes advocacy and public policy engagement

Integrated Resource Plan 2010

The IRP 2010 sets out South Africa's long-term energy needs and discusses the generating capacity, technologies, timing and costs associated with meeting that need. In November 2013,

the Department of Energy (DoE) issued a draft update of the IRP for public comment. This reflects the effect of slowing economic growth on projected electricity demand as well as changes in the committed build programme. Public comment on the update has been gathered. The DoE is now consulting with other government departments and is expected to issue the approved updated plan in the second half of 2014. The government is in the process of allocating generating capacity to power producers, based on the IRP 2010 requirements. The number of MWs required and technology allocated to Eskom will substantially influence its expansion plans after the completion of Kusile, especially if that allocation includes nuclear power. No South African cabinet decision has yet been made regarding new nuclear power stations. The government's nuclear energy working groups and sub-working groups are developing strategies for the envisaged new nuclear build programme, including the supply of nuclear fuel. Eskom is participating in the sub-working groups.

MYPD 3 price determination

Eskom periodically has to apply to NERSA, an independent regulatory body, for the revenue it requires to sustainably operate its business. The application for revenue is in the form of a multi-year price determination (MYPD) and currently the third pricing application, MYPD 3, is in effect and covers the five-year period 2013/14 to 2017/18. The MYPD 3 determination has resulted in a revenue shortfall of R225 billion, which is exacerbated by lower local sales volumes, increasing pressure on Eskom's credit rating. Eskom implemented the business productivity programme (BPP) which focuses on the reduction of the cost base, increased productivity and revisions of the Eskom business model and strategy in order to close the revenue shortfall. Cash savings of between R50 billion and R60 billion are targeted over the MYPD 3 period.

Eskom's application

Eskom submitted a regulatory clearing account (RCA) application to NERSA for the MYPD 2 period during the last quarter of 2013 regarding the variances between costs and revenues assumed in MYPD 2 compared to the actual costs incurred and revenues received by Eskom. In terms of the regulatory rules, the regulator can increase future electricity tariffs to compensate Eskom for an under-recovery of revenue or it can reduce tariffs in the future if Eskom has over recovered revenue. The electricity sub-committee has made a recommendation on the RCA to the NERSA board and a decision is awaited in the first quarter of the new financial year. It is anticipated that this adjustment is likely to commence no later than 1 April 2015.

Criterion 18: The COP describes partnerships and collective action

Eskom continued to partner with various movements internationally. These include the World Business Council for Sustainable Development, The Global Sustainable Electricity Partnership, Caring for Climate Initiative, and the International Chamber of Commerce. Regionally Eskom participates in the Southern African Power Pool whose aim is to provide reliable and economical electricity supply to the consumers of each of the members the SAPP, consistent with the reasonable utilisation of natural resources and the effect on the environment.

Corporate Sustainability Governance and Leadership**Criterion 19: The COP describes CEO commitment and leadership**

Please see the CEO's letter on page 5 of the COP for the statement of support

Executive Management and other board committees

Eskom is a state-owned company answering to the Minister of Public Enterprises. Its strategic direction is guided by a unitary board (that is, a single board with both executive and non-executive directors). The non-executive directors, including the chairman of the board, and the chief executive are appointed by the shareholder. The finance director is appointed by the board after approval of the candidate by the shareholder. The chairperson and chief executive is not the same person. Eskom's board is responsible for the strategic direction of the company and monitoring the company's progress against the business strategy. The board also drives Eskom's goal to be a good corporate citizen and is assisted by Eskom's committees and subsidiaries in this regard. Board members have a diverse profile that includes the sciences, engineering, law, finance, auditing, enterprise risk management, business and accounting skills and expertise. The majority of the board is made up of independent non-executive directors.

Executive structure and board committees

The board's effectiveness is improved by the use of board sub-committees, to which it delegates authority without diluting its own accountability. Board committees consist of a majority of independent non-executive directors who exercise their authority in accordance with approved terms of reference, which are reviewed on an annual basis. These terms of reference define each committee's composition, role, responsibilities and authority, and are aligned with regulatory requirements and best-governance practices. The board provides the strategic

direction, while the chief executive, who is assisted by the executive management committee, is accountable to the board for implementing the strategy.

Executive remuneration

The chief executive, finance director and group executives have permanent employment contracts based on Eskom's standard conditions of service. Executive remuneration is based on the organisation's performance, as assessed through performance on key indicators, and the individual's contribution to that performance. It consists of a basic salary augmented by short- and long-term incentives. The balance between fixed and variable remuneration (short- and long-term incentives) is reviewed annually. International and local benchmarks are considered in determining remuneration. The remuneration strategy is aligned with shareholder guidelines. The board approves the remuneration of the finance director and group executives. The chief executive's remuneration is approved by the shareholder. Factors taken into account include the executive's level of skill and experience, his/her contribution to organisational performance, and the group's business results.

Criterion 20: The COP describes Board adoption and oversight

Corporate governance

Eskom is a state-owned company answering to the Minister of Public Enterprises. Its strategic direction is guided by a unitary board (that is, a single board with both executive and non-executive directors). The non-executive directors, including the Chairman of the Board, and the Chief Executive are appointed by the shareholder. The Finance Director is appointed by the Board after approval of the candidate by the shareholder. The Chairperson and Chief Executive is not the same person. Eskom's board is responsible for the strategic direction of the company and monitoring the company's progress against the business strategy. The board also drives Eskom's goal to be a good corporate citizen and is assisted by Eskom's committees and subsidiaries in this regard. Board members have a diverse profile that includes the sciences, engineering, law, finance, auditing, enterprise risk management, business and accounting skills and expertise. The majority of the board is made up of independent non-executive directors.

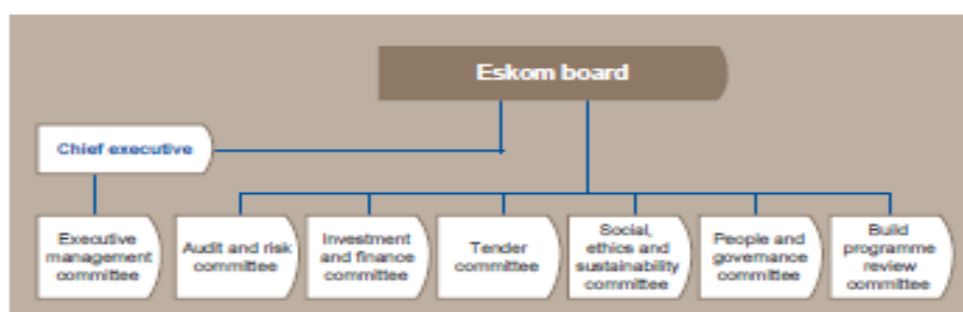
Executive Management and other board committees

The Board delegates authority to executive structures and board committees. A framework to facilitate this delegation without diluting the board's accountability is in place. Board committees

exercise their authority in accordance with approved terms of reference. The management of day-to-day operations is delegated to the chief executive. The Chief Executive is supported by the Executive Management committee and its subcommittees. Each board committee is governed by terms of reference that define their composition, role, responsibilities and authority. These terms of reference are aligned with regulatory requirements and best governance practices, and are reviewed each year. Board committees also adhere to board-approved policies. Board committees consist of a majority of independent non-executive directors.

Executive structure and board committees

The diagram below sets out Eskom's key governance structures:



The board held 11 meetings during the year. The board committees held the following number of meetings:

• Audit and risk committee	9
• Investment and finance committee	12
• Tender committee	12
• Social, ethics and sustainability committee	5
• People and governance committee	6
• Build programme review committee	10

Please see www.eskom.co.za/IR2014/08.html for more information on the committees and their activities throughout the year. For the report of the audit and risk committee, please refer to page 3 of the annual financial statements, which can be found at www.eskom.co.za/IR2014/01.html

Director induction and orientation

A comprehensive programme is in place to train and orientate new directors and external committee members on a continual basis.

Executive Management committee

The Executive Management Committee is established by the chief executive and assists the chief executive to guide the overall direction of the business and exercise executive control in managing day-to-day operations. The Executive Management Committee held 17 meetings during 2013/14. Refer to page 43 of the integrated report for Eskom's operational structure as well as the related executive management committee member responsible for each function. Other than the chief executive and finance director, who are executive directors, Eskom's group executives are appointed by the board. Group executives are full-time employees subject to Eskom's conditions of service. Please see www.eskom.co.za/IR2014/09.html for executive management committee members' qualifications, significant directorships and appointment dates.

Changes in Executive Management committee composition in 2013/14

Mr Paul O'Flaherty, who was also the Group Executive: Group Capital, resigned with effect from 10 July 2013 and Mr Dan Marokane (group executive: Technology and Commercial) was appointed to act as group executive: Group Capital. Mr Kannan Lakmeharan (divisional executive for Office of the Chief Executive) was appointed to act as group executive: Technology and Commercial. Mr Lakmeharan resigned with effect from 30 April 2014 and Mr Matshela Koko was appointed to act as group executive: Technology and Commercial until the permanent appointment has been concluded. Ms Erica Johnson, group executive for Enterprise Development has been acting as Group Executive: Group Customer Services from 20 January 2014 after Ms Tsholofelo Molefe vacated the position. Mr Bhabhalazi Bulunga, group executive: Human Resources went on early retirement on 31 January 2014. Mr Mongezi Ntsokolo, group executive: Transmission, was appointed acting group executive: Human Resources from 1 February 2014.

Filling of the executive vacancies will be one of the first priorities for the incoming chief executive.

Criterion 21: The COP describes stakeholder engagement

This integrated report focuses on qualitative and quantitative items that are material to Eskom's operations and strategic objectives. The question of what is "material" has been determined by the board and executive management through extensive consultation within Eskom as well as with Eskom's stakeholders, while taking into consideration Eskom's strategic objectives, risk assessments and the way in which its value chain operates. Material items are those that are both of high concern to stakeholders and have a significant impact on the business. Eskom analysed the following to determine its material items:

- Both formal and informal stakeholder feedback, including media coverage
- Parliamentary questions received and the questions and feedback from government portfolio committee engagements
- Reports submitted to the board and shareholder for discussion or approval
- Eskom's shareholder's compact, corporate plan, its long-term strategic objectives and key focus areas for 2013/14
- Eskom's key risks, as identified by its integrated risk management process
- Policies and initiatives relevant to Eskom's business
- Policy, legislation and regulation changes

New developments for 2014 will include a stakeholder management data tool and the bi-annual submission of an integrated stakeholder relations issues and engagement report to the Executive Management Committee and Board. The complete list of material items was analysed in terms of Eskom's strategic objectives and was tabled at Eskom's integrated report steering committee for consideration of the accuracy and completeness of the list. As part of Eskom's governance process, the following committees also reviewed the material items that were included in this integrated report for accuracy and completeness:

- Executive management committee
- Social, ethics and sustainability committee
- Audit and risk committee
- Board

Stakeholder materiality matrix

The issues that surfaced were aggregated and summarised into a materiality matrix, divided according to Eskom's strategic objectives. This matrix served as a framework for Eskom to identify the material items to be included in this report.

The material items in this report are those that:

- Have such relevance that they could substantively influence stakeholders' decisions
- Pose a significant risk or opportunity to business operations in the short, medium and long term
- May affect the achievement of strategic objectives and sustainability of value created through Eskom's activities

Stakeholder materiality matrix



The methods adopted by Eskom to interact with its stakeholders are stated in the following table:

Eskom's interaction with stakeholders

Stakeholders	Method of interaction
Government, parliament, national departments and regulators	One-on-one meetings; Presentations to parliamentary portfolio committees; Committee meetings; Eskom website; Reports; Annual general meeting; Industry associations and task teams; Site visits and public hearings; Monthly, quarterly and bi-annual meetings; Community and executive forums
Lenders, investors and customers	Roadshows; Meetings; Results presentations; Webcasts; Site visits; Eskom website; Teleconferences; Social media; Formal presentation website; Company announcements; Reports and quarterly forums
Suppliers and contractors	Roadshows; One-on-one meetings; Preferential procurement programmes; Open days; Contracts and service agreements; Workshops; Presentations; Training; Project steering committees
Eskom management, employees and organised labour	Provincial employee engagements; Collective bargaining practices; Pre- and post-interim and annual results; Regular meetings; Eskom website; Social media; Development programmes; Special publications and newspapers; Open dialogues, conferences and forums; Partnerships
Business groups, civil society and non-governmental organisations	Roadshows; Results presentations; Reports; Community forums; Stakeholder forums; Peer educators; Industry partnership; Wellness campaigns, HIV and Aids awareness; Skills development programmes; Advertising in local newspapers; Sponsorships; NGO Forum
Industry experts, analysts, academics and media	Industry associations and task teams; Forums and committees; Emails and Eskom website; Interviews; Roadshows; Results presentations; Quarterly briefings; Company reports; Articles

Please also refer to Eskom's Integrated report for further detail.

