

**United Nations Global Compact Advanced Communication on Progress
September 2015**

UN Global Compact – Communication of Progress

Letter from the chairperson

Our overall strategic direction is aligned with the Strategic Intent Statement determined by the shareholder. This includes the strategic objectives of security and reliability of supply of electricity, business and financial sustainability, reduction of our carbon footprint and environmental impact, alignment with Government's strategic initiatives and driving industrialisation, transformation of the economy and the procurement landscape.

The practice of keeping the lights on at all costs by delaying critical maintenance, other essential refurbishment and replacement of generating equipment has caused an escalation in breakdowns of our Generation plant. A short-term Generation recovery strategy has been developed to reduce unplanned maintenance to below 7 000MW (or approximately 16%) by 2015/16 and to less than 4 000MW (approximately 8.8%) by 2021/22. This drive towards predictability and sustainability aims to achieve plant availability of 80% by 2021/22.

The delay in delivering on the new build programme has placed additional pressure on the ageing generating plant at a time when there is little spare capacity to do maintenance. Medupi is only expected to be fully operational by 2019, with six units providing total additional capacity of 4 764MW. The six units at Kusile will provide an extra 4 800MW but they are expected to be fully operational only by 2021. The four units of 1 332MW at Ingula Pumped Storage Scheme are anticipated to be fully operational only by 2017.

NERSA's third multi-year price determination of an 8% annual tariff increase has resulted in significant pressure on our liquidity and going concern status. We have implemented the Business Productivity Programme (BPP) with the aim of delivering cost savings of R61.9 billion over the MYPD 3 period. Furthermore, we have submitted an application for a revenue adjustment to the value of R38 billion to NERSA relating to the first year of the MYPD 3 period (2013/14); this is currently under review. If approved, the outcome of this application is expected to impact the electricity price commencing in 2016/17.

A further application was made to NERSA, for the selective reopening of the MYPD 3 decision for the 2015/16 to 2017/18 period. The selective reopener application covers the recovery of costs for OCGTs of R32.9 billion and R19.9 billion for the Short-Term Power Purchase Programme (STPPP), as well as the liquidation of the R8.1 billion equity return which was postponed during MYPD 2.

We are facing further challenges, most of which relate to environmental matters, which have the potential to severely impact our future operational sustainability. In February 2015 the Department of Environmental Affairs issued its decision on our Minimum Emission Standards postponement application, which allows our stations to continue operating. However, the decision is contingent upon us executing an emissions reduction programme by 2025 that will significantly increase the cost of our emissions retrofit programme, to approximately R134 billion.

Moreover, the new emissions abatement technology required to meet the minimum emission standards at our existing coal-fired power stations requires additional water resources which are currently not available. The trade-offs between meeting the air quality standards with our country's limited and scarce water resources and the need for us to reduce water consumption require alignment between different Government departments, or a feasible plan to achieve both objectives of emissions reduction and water conservation. We are in talks with the Departments of Environmental Affairs and Public Enterprises as well as other stakeholders to find a balanced solution between the need for cleaner power and the need for security of supply.

The South African coal sector requires substantial investment and recapitalisation to meet anticipated domestic and export requirements, as current capacity is insufficient to meet growing demand. We are contractually required to fund the recapitalisation of the cost-plus mines; failure to recapitalise the mines will result in reduced coal production from these collieries, leading to higher costs incurred in purchasing the required coal from other third party suppliers. Given our current financial constraints, no capital has yet been allocated for the required recapitalisation.

The management of the electricity and related challenges requires cooperation between a number of Government departments and Eskom, therefore Cabinet created an Inter-Ministerial War Room. The War Room identified a number of short-term constraints and policy challenges where Government support is required to facilitate progress. These include a predictable electricity price path that migrates to cost-reflectivity, the anticipated equity injection by the shareholder of about R23 billion, declaring coal a strategic resource and regulating the volume and pricing thereof, our role in future generation projects, demand management options, solutions to arrear municipal debt and the ability to grow the business.

In order to achieve energy security in South Africa, we need an energy sector which supplies enough electricity at prices that cover the cost of supply, yet remains affordable. To put the electricity sector on the path to sustainability, as South Africa we need to add additional generating capacity, ensure the financial sustainability of Eskom and other industry players, and obtain clarity on the long-term end-state of the sector.

The Integrated Energy Plan (IEP) is fundamental to our long-term planning as it is a multi-faceted policy with multiple objectives which describes the recommended energy roadmap of South Africa. It is important for our planning to understand where we fit in. We understand that the Department of Energy plans to submit the final updated IEP, which will replace the IRP 2010 currently in effect, to Cabinet for promulgation by the end of 2015. We welcome this move, given that the decisions around and implementation of the allocation of future generating plant is already behind, irrespective of whether we are included in the plans or not.

A predictable electricity price path migrating to cost reflectivity is of utmost importance to our future financial sustainability. DoE is expected to submit the price path to Cabinet for approval by the end of this calendar year. It is important to note that a substantial increase in the price of electricity will be required to restore our financial sustainability and strengthen our financial position.

Our strategy is aimed at addressing the constraints and uncertainties we currently face without compromising our long-term operational and financial sustainability focus, in order to stabilise the business and to re-energise for longer term sustainability and growth. The five-year business renewal journey will lead the company through these stages. Our Turnaround Strategy falls within this framework and focuses on the “business unusual” initiatives that will drive distress recovery and stabilisation.

As part of the stabilisation phase, we will refocus on revenue protection and ensure that revenues due are collected timeously. We also need to create space of at least 3 000MW for required maintenance to recover the health of the Generation fleet.

After the stabilisation phase, we will focus on re-energising and growing the business. As part of the re-energisation phase, the emphasis will be on moving from financial and operational recovery to financial and operational sustainability. In order to position the organisation for growth, six strategic shifts are required to reposition our business model, among which are diversifying our fuel mix, gaining access to new resources and adapting to different pathways towards cost-reflective prices.

The Board commissioned an independent enquiry into current technical, commercial and structural issues within the company. The enquiry is progressing and is expected to be finalised within three months.

On behalf of the shareholder and the Board, I would like to thank the previous Chairman, Mr Zola Tsotsi, the interim Chief Executive, Mr Collin Matjila, the former Chief Executive, Mr Tshediso Matona and the previous Board members for their contribution and dedication. I would further like to welcome the new Board members who will be guiding Eskom during the exciting journey ahead.

The Board also thanks Exco for its continued vigilance and determination in confronting the challenges currently facing Eskom.

We extend a note of appreciation to the new shareholder representative, the Honourable Minister Lynne Brown, who is supporting and guiding Eskom on the path to sustainable growth.

The Board is dedicated to fulfilling our mandate. We are committed to working with Government and other stakeholders towards a sustainable electricity industry which assists in growing the economy and improving the lives of our people.

Dr Ben Ngubane

Acting Chairman

Chief executive's report

The year to 31 March 2015 was an unusually challenging year, in which the financial and operational health of the business deteriorated. We struggled to meet the electricity demand and often had to utilise expensive supply-side options, such as the open-cycle gas turbine (OCGT) plant to balance supply and demand. At times we had to resort to rotational load shedding in order to protect the system and also, more recently, to create space for critical maintenance. Our cash reserves declined due to large amounts spent on diesel for the OCGTs as well as a significant increase in arrear municipal and residential customer debt, particularly Soweto. Added to that, two ratings agencies reduced our credit rating to sub-investment grade. The new build projects remain behind schedule, partly due to poor contractor performance and strike action.

We have also seen a number of changes in our governance structures. A new Minister of Public Enterprises was appointed, after which she made a number of changes to the Board. We saw three people in the role of Chief Executive, the Chairman resigned and there were several changes to Exco.

The Board commissioned an enquiry to investigate the liquidity, Generation performance, diesel and coal supply challenges as well as the new build delays and overruns, which led to the suspension of two executive Board members and two members of Exco for the period of the enquiry.

Despite this, it was not all doom and gloom. Although later than planned, the first synchronisation of Medupi Unit 6 took place on 2 March 2015, with full power of 794MW achieved on 26 May 2015, while the 100MW Sere Wind Farm, our first utility-scale renewable energy project, was placed in commercial operation on 31 March 2015.

The Government financial support package is an important and welcome intervention, although we still face an immediate and complex combination of significant and interrelated problems, the consequence of which is visibly manifesting in the form of regular rotational load shedding. The urgent resolution of our problems is essential to prevent the development of a protracted crisis for both Eskom and the country.

In this regard, additional power stations and transmission power lines are being built to meet South Africa's rising demand for electricity and to diversify our energy sources, as well as replace

existing assets. In 2005, we embarked on a capacity expansion programme, the largest in our history, which will increase generation capacity by 17 384MW, transmission lines by 9 756km and substation capacity by 42 470MVA. From inception to 31 March 2015, a large amount of construction work has been completed, adding 6 237MW of generation capacity, 5 816km of transmission lines and 29 655MVA of substation capacity.

During November 2014, we developed a Turnaround Strategy to arrest the operational and financial decline and stabilise the business. Furthermore, in December 2014 an Inter-Governmental Task Team developed a five-point plan to address power system constraints and assist us in finding solutions to our current challenges. The Turnaround Strategy incorporates the initiatives from the Inter- Governmental Task Team and Exco Strategic Indaba and focuses on four key areas, namely financial sustainability, operational sustainability, revenue and customer sustainability and sustainable asset creation.

Operating challenges

The delay in delivering on the new build programme has created additional pressure on the ageing fleet of power stations to perform at a time when most are due for major refurbishment. Plant availability (EAF) has decreased from 85.21% to 73.73% over the last five years. As a result of the tightness of the system, the opportunity for maintenance has reduced. Almost two-thirds of the current base-load power stations are past their midlife, requiring longer maintenance outages and extended restoration time. With more plant requiring major refurbishment, we do not have an adequate operating margin, or generation capacity in reserve, to make up the shortfall when units are taken out of service for maintenance. As a result, generating units that should be maintained are worked harder and longer as there is no reserve to allow them to be taken offline. Running the plant in this manner means there is a high risk of plant breakdowns or unplanned outages, as well as operating with sustained partial load losses, which we have seen happen over the past year, although we have seen an improvement during the last three months of the year, indicating that our recovery strategy is working.

We have communicated for an extended period that the national power system is constrained and vulnerable due to the lack of available generation capacity. Therefore, in order to balance and protect the power system, we have to apply demand management practices, which include both supply-side and demand-side options. Supply-side options include utilising the OCGTs, the pumped storage schemes, infeeds from IPPs, as well as international power imports. Demand-

side options rely on the support of customers, including interruptible load agreements with large customers, as well as load curtailment by key industrial customers and energy efficiency efforts by other customers. When sufficient demand savings are not realised, then we resort to controlled, rotational load shedding and load curtailment.

To counter the current constrained power supply, a short-term Generation recovery strategy has been put in place. Key engineering personnel have been dispatched to sites that needed assistance to expedite the return of the generation units out of service; station recovery teams and additional specialised contractor resources have been mobilised to work around the clock to repair and return units to service, with the key objective of bringing the units back online as quickly as possible and to arrest the negative trend of unplanned outages.

In terms of our existing Generation Sustainability Strategy, our aim is to achieve 80% plant availability, 10% planned maintenance and 10% unplanned maintenance over the medium term. The adherence to regular scheduled maintenance is set to limit unplanned maintenance to below 7 500MW in summer and 5 500MW in winter. In the short to medium term, we need a buffer of between 3 000MW and 5 000MW of reserve generating capacity, obtained either through supply-side or demand-side options, to enable the maintenance backlog to be closed within three to five years and, at the same time, to avoid the need for load shedding into the future.

We are determined to clear the Generation maintenance backlog, created by the previous commitment to keep the lights on, to enable our plant performance to improve in the medium to long term. We are fully aware of the negative impact load shedding has on our customers and the economy, but we are now bearing the brunt of the earlier strategy of keeping the lights on at all costs. While load shedding is regrettable, we are committed to performing the necessary maintenance to improve the long-term health of our plant, even if this requires additional load shedding for some time.

Nonetheless, we continue to meet our mandate of supplying electricity – even when load shedding is implemented in stage 3, we are still able to supply approximately 90% of the electricity demand in South Africa at any given time. As we continue with our planned maintenance, albeit at lower levels compared to summer, and demand peaks in winter, there is

a very real possibility of load shedding during winter. The current deficit will remain until new generating capacity from all our new build projects is brought online.

The revenue gap resulting from the MYPD 3 tariff determination, the significant increase in primary energy costs and the high cost of running the OCGTs during periods of constrained capacity are putting pressure on our liquidity and compromising our financial sustainability. Furthermore, the arrear debt from municipalities and residential customers, specifically Soweto, increased significantly during the past year. We require a predictable electricity price path migrating to cost-reflectivity to enable planning to ensure long-term financial sustainability.

Operating performance

In memoriam

We extend our sincere and heartfelt condolences to the family, friends and colleagues of the three employees and seven contractors who lost their lives in the line of duty this year. We cannot tolerate even one death as a result of our operating activities, and we are working tirelessly to ensure the safety of all our people.

During the 2014/15 financial year, we focused on four core sustainability dimensions in support of our strategic objectives:

Operational sustainability

The performance of the generating plant is under serious pressure, especially as we try to focus on driving sustainability through the execution of normal planned maintenance, while also catering for short-duration corrective maintenance opportunities.

This is shown by the unplanned maintenance (UCLF) performance of 15.22% for the year ended March 2015 which deteriorated significantly from 12.61% in 2013/14. The higher UCLF percentage is an indication of the deteriorating plant health of our ageing power station fleet. The deterioration in UCLF further resulted in a decline in plant availability of 73.73% for the year to 31 March 2015 compared to 75.13% in the previous year.

We are implementing appropriate levels of planned maintenance in line with the Generation Sustainability Strategy to ensure long-term plant health, while remaining cognisant of current system constraints, compliance, safety and statutory requirements as well as the financial constraints. This has resulted in an improvement in unplanned maintenance and the number of UAGS trips over the last three months of the year, positively impacting plant availability.

Last year we reported an over-pressurisation incident on 30 March 2014 in the boiler of the 575MW Duvha Unit 3, which accounted for 1.37% UCLF in the current year. The incident investigation has been completed and a common cause report issued. The project team is finalising the way forward for the recovery process.

A coal storage silo at Majuba Power Station collapsed on 1 November 2014, contributing 0.26% UCLF. A short-term solution has been implemented with coal being fed through an elevated mobile boom feeder, which enabled the power station to run at full load on all six units during the morning and evening peak and at an average of 85% load during non-peak periods. A second elevated mobile boom feeder was installed at the end of March 2015 to further ramp up plant performance; the station was operating at 100% load at all times by the end of May 2015. The short-term solution is expected to be replaced by a more cost-effective interim coal handling system in September 2015.

Overall coal stock stood at 51 days as at 31 March 2015, against a target of 42 days. The coal rail performance achieved 12.59Mt against a target of 11.5Mt. Particulate emissions performance for the year was 0.37kg/MWhSO, worse than the target of 0.35kg/MWhSO, reflecting the impact of running the plant at unsustainable levels, while water performance of 1.38 \square /kWhSO for the year was better than the target of 1.39 \square /kWhSO, although it deteriorated compared to the prior year.

Excellent network performance was achieved with system minutes lost for events <1 minute measured at 2.85, against the target of less than 3.80. Investments made in our Distribution network continue to yield good performance, with the SAIDI and SAIFI technical measures exceeding target for the year to 31 March 2015. The SAIDI and the SAIFI performance measures have improved by more than 33% and 20% respectively over the last five years.

Actual OCGT production for the year was 3 709GWh compared to a target of 2 092GWh, while the average actual OCGT load factor amounted to 17.58% against a target of 9.91%, reflecting the extensive utilisation of OCGTs in order to balance supply and demand. We expect to continue using the OCGT fleet extensively, although this is subject to the availability of funding.

We purchased 6 022GWh from IPPs at a cost of R9.5 billion during the year. Capacity of 5 701MW has been contracted with IPPs as at 31 March 2015. Of this, 3 887MW relates to contracts under the Department of Energy's renewable energy programme. To date, a total of 1 795MW of renewable energy capacity has been connected and is providing power to the grid, with an average load factor of 30.85% for the year.

IPPs play an important role in ensuring security of supply at a time when our generating capacity is closely matched or exceeded by electricity demand, by providing space for maintenance and reducing the need for load shedding. IPPs also provide much needed renewable energy to our energy mix.

Demand savings of 171.5MW were substantially lower than the target of 246MW due to funding constraints. Given the current supply constraints, additional funding for IDM programmes was released towards the end of the year, the savings from which are expected to be realised over the next three financial years. The demand response programme has a combined certified capacity of 1 356MW available to the System Operator for its control and evening peak reduction requirements.

Revenue and customer sustainability

Municipal arrear debt increased from R2.6 billion at 31 March 2014 to R5 billion at 31 March 2015. We had numerous meetings with National and Provincial Treasury and the Department of Cooperative Governance and Traditional Affairs (CoGTA) on the increasing municipal debt.

In March 2015, we approved various load management interventions with respect to the top defaulting municipalities, to limit our financial risk exposure. We notified the top 20 defaulting municipalities in April 2015 of our intention to interrupt supply during morning and evening peak time, from 5 June 2015. The majority of the above defaulting municipalities have now signed agreements with us to settle their debt and we are in discussion with other municipalities.

Their supply will not be interrupted unless they fail to meet their payment agreements.

We make every effort to ensure that customers pay their accounts. We constantly monitor payments and are willing to enter into reasonable payment agreements that take into account defaulting customers' circumstances. Disconnection of electricity supply is a measure of last resort.

Residential debt, particularly Soweto, continues to escalate. Soweto payments received during the year amounted to R119 million, compared to billing for the same period of R730 million, creating a shortfall of R611 million, reflecting an average payment level of 16%.

The residential revenue management strategy, which includes Soweto, is driving energy protection and energy loss programmes such as Switch OVA!, and improving debt collection among small power users.

Two important steps are the installation of split metering and the conversion of the meters of non-paying credit metering customers to prepaid meters.

As at year end, a total of 4 209 customers of the targeted 18 000 households in Soweto have been switched to prepaid, although community protests are hampering our efforts.

The Eskom KeyCare index for customer satisfaction achieved a score of 108.7 for the year to 31 March 2015, reflecting our extensive interaction and interventions held with key industrial customers.

The performance of energy losses for both Transmission and Distribution continued to improve, with total energy losses at 8.79% for the year, better than the target of 9.65%.

Sustainable asset creation

Medupi achieved first synchronisation of Unit 6 on 2 March 2015. The completion and optimisation of Unit 6 is proceeding to plan, with full load achieved on 26 May 2015, and commercial operation expected during August 2015.

Until recently, labour instability was not the predominant risk on the project. Towards the end of March 2015, the labour situation escalated to a point where it may seriously impact the construction activities on the remainder of the units at Medupi.

The second unit of Medupi is expected to be synchronised in the first half of 2017 and all six units of 4 764MW are expected to be fully operational by 2019.

At Kusile, we signed a mutual termination agreement with Alstom regarding the C&I works, after which a contract was awarded to ABB to supply the C&I systems for all units at Kusile. This is considered to be an important step in mitigating one of the largest risks on the project. A number of important milestones on Unit 1 have been achieved over the past year. Good progress has also been made on civil works for all units, with the boilers of Units 1 to 5 in various stages of construction.

The first unit of Kusile is expected to be synchronised in the first half of 2017; the six units totalling 4 800MW are expected to be fully operational by 2021.

Limited progress was made at Ingula during the past year, due to the Section 54 work stoppage imposed following the fatal accident in October 2013. The date of the first synchronisation of Unit 3 has been revised to the second half of 2016, with the final unit anticipated to be in commercial operation by the first half of 2017, with the pumped storage scheme supplying a total of 1 332MW.

Sere Wind Farm, our first utility-scale renewable energy project with a generating capacity of 100MW, has been feeding power into the national grid since the first wind turbines were energised during October 2014. Sere was placed into commercial operation on 31 March 2015. The project was completed on time and within budget, with a safety record in line with our Zero Harm policy, and without any environmental legal contraventions or incidents of industrial action – truly a significant achievement!

A total of 318.6km of transmission lines were installed and 2 090MVA substation capacity was commissioned during the year.

Notable progress was made at the Majuba Rail project. The construction of the Vaal River Bridge is progressing well and only the last segment still needs to be constructed. The 88kV overhead power line bids, the last of the packages, have been received from the market; the evaluations have been completed and will be submitted to the lender funding the project. Commercial

operation of the first train at Majuba Rail is scheduled for the second half of 2017 and the project is expected to be completed within its estimate-to-completion of R4.2 billion.

Financial sustainability

Please refer to the Chief Financial Officer's report on pages 84 to 86 of the integrated report for the performance on financial sustainability and steps taken to improve liquidity

Future outlook

A Cabinet-appointed Inter-Ministerial War Room, comprising representatives from DPE, DoE, CoGTA, National Treasury, the Economic Development Department and Eskom, identified a five-point plan with regard to short-term constraints to aid our turnaround. Key outcomes of these interactions include the following initiatives:

- DoE issued a request for proposal regarding the proposed 2 500MW coal IPP; commissioning of the new capacity is expected by early 2019
- DoE also issued a request for information for demand management interventions
- A Memorandum of Understanding has been signed between Eskom, PetroSA, Strategic Fuel Fund and Transnet Ports Authority regarding the supply of diesel

Key initiatives in the short term include the sourcing of funding to support liquidity and diesel costs, reduction of UCLF through structured planned maintenance, operational efficiency to reduce unpredictable plant breakdowns, as well as reducing partial load losses and outage slips, addressing the technical skills capacity to perform maintenance and finalising the Majuba interim solution. Cogeneration contracts expiring at the end of March 2015 were renewed for another year, including 250MW from the Medium-Term Power Purchase Programme and another 870MW in IPP and municipally generated capacity. Lastly, we will focus on making use of integrated demand management options to reduce electricity demand.

In the medium to long term, we will focus on bringing online new generating capacity to alleviate the constrained system and accommodate demand growth. Gas will not be able to provide additional capacity in the short term. The focus will be on accelerating the conversion of OCGTs

so as to run on both diesel and gas. Most of the supply-side interventions are likely to be realised over the medium to long term.

In conclusion, our priorities are to resolve the current Generation challenges and thereby reduce load shedding in the short term, increase efficiencies from our coal-fired plant in the medium term, and in the longer term, to reduce the reliance on coal and diversify our energy mix.

The challenges we face are immense, but not dissimilar to those faced by other developing and developed economies alike; I believe that we have many factors counting in our favour. I am convinced that with the right policy choices we can go a long way towards successfully addressing South Africa's triple challenges of structural unemployment, poverty and inequality.

Exco changes

Exco was impacted by a number of resignations and other movements. Refer to page 108 of the integrated report in "Our leadership and governance" for further information.

Ms Erica Johnson and Dr Steve Lennon left us after many years of service to Eskom. I would like to thank them both for their leadership and considerable contribution to Eskom's success over many years.

Above all, I would like to thank our Eskom Guardians, whose commitment and hard work saw us through a challenging year. I am confident that together we can return to financial and operational sustainability and rebuild an Eskom that our country can be proud of.

Brian Molefe

Acting Chief Executive

Introduction to Eskom's Advanced Communication on Progress

We operate as a vertically integrated company across a value chain that supplies electricity to both South Africa and the SADC region. Traditionally, as the main supplier of generation, transmission and distribution capacity, we supply to industrial, mining, commercial, agricultural

and residential customers in South Africa. We also supply to redistributors (municipalities and metros), who in turn redistribute electricity to businesses and households within their areas. We purchase electricity from local IPPs and electricity generating facilities beyond the country's borders, in terms of various agreement schemes. We acknowledge the country's need for electricity generation capacity from the private sector as soon as possible, in order to strengthen the system adequacy and meet the growing power demand, which is intrinsically linked to our ability to keep the lights on. We operate 23 power stations with a total nominal capacity of 42 090MW, comprising 35 721MW of coal-fired stations, 1 860MW of nuclear power, 2 409MW of gas-fired, 600MW hydro and 1 400MW pumped storage stations, as well as the recently commissioned 100MW Sere Wind Farm. The 3MW Klipheuwel Wind Farm was impaired during the year as it had reached the end of its useful life. Although Medupi Unit 6 has been synchronised to the grid, it has not yet been commissioned and therefore not included in the total. We maintain 368 331km of power lines and substations with a cumulative capacity of 239 490MVA.

We are also building new power stations and high-voltage power lines to meet South Africa's growing energy demand. This capacity expansion programme is expected to be completed in 2021. To ensure that we are able to meet demand and create the space for crucial infrastructure maintenance while new generating capacity is being built, we run a range of demand management and energy efficiency programmes.

During 2014/15, we sold 216 274GWh of electricity to 804 municipalities in bulk, as well as to 2 773 industrial, 1 034 mining, 50 613 commercial, 83 136 agricultural, 508 rail and 11 international customers, and to 5 338 723 residential customers, which includes prepaid customers.

We were one of the first signatories to the United Nations Global Compact (UNGC) in 1999 and are committed to its principles. We report on our 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 2014/2015 which is also available online at <http://www.eskom.co.za/IR2015/Documents/EskomIR2015single.pdf>. 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 International <IR> 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 its internal and external environment, together with the connectivity between strategy, governance, performance and future outlook, as well as the impact of the organisation's activities on the six capitals and the trade-offs that influence value creation over time.

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 23 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 2014/15 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

As set out by the Strategic Intent Statement issued by the Department of Public Enterprises (DPE) in April 2014, Eskom's key role is to provide electricity in an efficient and sustainable manner, including its generation, transmission and distribution, and within acceptable benchmark standards, thereby ensuring security of supply to assist in lowering the cost of doing business in South Africa and to enable economic growth.

In fulfilling our obligations, we acknowledge that we have a developmental role and will promote transformation, economic development and broad-based black economic empowerment through our activities. Furthermore, we may support relevant national initiatives as outlined in the New Growth Path, the National Development Plan (NDP) and other development documents.

Sustainability

As an asset intensive long-term business, we adopt a long-term planning view to influence the organisation's ongoing sustainability, which will support the long-term initiatives of the country, such as the NDP, over the next 20 years or more. Our overall strategic direction is aligned to the Strategic Intent Statement, determined by the shareholder, which has set the following five strategic objectives:

- Achieving and ensuring security and reliability of electricity supply
- Achieving and ensuring the business and financial sustainability of Eskom
- Reducing our carbon footprint and environmental impact by, among other actions, setting out and implementing a clear roadmap towards compliance with environmental legislation and pursuing low carbon-emitting opportunities
- Supporting and aligning with Government's strategic initiatives, such as facilitating the introduction of independent power producers (IPPs) and pursuing regional integration of the energy sector
- Driving industrialisation and transformation of the economy and the procurement landscape

Significant operational constraints and uncertainties face us in the short term. These are centred on the trade-offs between meeting the country's electricity demand while operating our Generation fleet in a sustainable manner, as well as meeting legal and regulatory requirements and remaining financially viable.

Our strategy, aimed at addressing these constraints and uncertainties without compromising our long-term sustainability focus, is to stabilise the business and thereafter re-energise for longer term sustainability and growth. The primary driver of the stabilisation phase is the successful implementation of our Turnaround Strategy, the success of which depends on solid governance,

focused stakeholder engagement, rigorous cash management, sustainable operations and targeted and implementable turnaround actions.

As part of the stabilisation phase, we will refocus on revenue protection and ensure that revenues due are collected timeously. We also need to create space of at least 3 000MW for maintenance to recover the health of the Generation fleet, through an aggressive pursuit of Integrated Demand Management (IDM) and demand response programmes, as well as other supply-side options such as cogeneration and short-term IPPs. Funding still remains a challenge and we need certainty on the path to a cost-reflective price of electricity.

After the stabilisation phase, we will focus on re-energising and growing the business. As part of the re-energisation phase, the focus will be on building staff morale to support the growing business, moving from financial and operational recovery to financial and operational sustainability, as well as building a solid reputation. We will focus on improving the overall performance of the energy value chain with effective cost management to create a platform for growth. Key in this stage is the creation of a clear industry roadmap. Customer retention is expected to become a key performance metric.

In order to position the organisation for growth, six strategic shifts have been identified in order to reposition our business model:

- Exploring new revenue sources to improve financial sustainability
- Upstream initiatives, such as diversifying our fuel mix and gaining access to new primary energy resources, as well as securing additional capacity and energy
- Downstream initiatives, by extending the value chain with energy service products to grow revenue
- Partnerships to enable growth and unlock performance bottlenecks where we are constrained by skills, policy, mandate or funding
- Technology to exploit opportunities and improve performance
- Adapting to different pathways towards a cost-reflective price

Criterion 2: The COP describes value chain implementation

Purpose, values and strategic objectives

Our annual Corporate Plan outlines our strategic and operational direction and captures the necessary financial, operational and resource plans to support this direction. The Corporate Plan therefore becomes an engagement document for discussion with our stakeholders. The latest approved plan spans the five-year period from 1 April 2015 to 31 March 2020 with a focus on our Turnaround Strategy, which supports the Cabinet-approved five-point plan and the nine-point plan outlined by the President in the February 2015 State of the Nation Address, to address the current electricity challenge.

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 23 – 30 of the integrated report.

Sustainability dimensions in support of our strategy

In order to give effect to our strategy and deliver on our mandate, we aim to ensure that the organisation is sustainable along eight distinct dimensions, which collectively aim to stabilise and sustain the business in the short, medium and long term.



The following sustainability dimensions underpin our operations:

- Financial sustainability strives to move the organisation towards a state where the rate of return on assets is equal to the cost of capital, and to ensure that Eskom remains a going concern, able to meet short-term liquidity requirements as well as service long-term debt and financial commitments
- Operational sustainability aims to deliver effective and efficient operation of all assets in the value chain throughout their lifespan. It is enabled by the Generation Sustainability

Strategy, as well as improving performance levels in Transmission, Distribution and Group Customer Services

- Revenue and customer sustainability pursues an optimised sales profile, which supports South Africa's economic growth, together with a focus on achieving value-added market growth and aptly serviced, loyal customers. The aim is to protect our revenue stream and achieve growth to secure an appropriate return on our infrastructure and other investments
- Sustainable asset creation seeks to ensure renewed focus on delivering all capital expansion
- projects on time, within budget and to the right quality, as well as managing contractor risks and cost increases through lessons learnt during the current build programme
- Environmental sustainability focuses on the linkages between environmental management and operational sustainability. It includes environmental impact assessments, as well as the management of air quality, land, biodiversity, water, waste (including nuclear waste) and ash. Environmental compliance is critical to ensure that we maintain our licence to operate, keep the lights on and meet our principle of "zero harm" to the environment. It also considers how we plan to reduce our greenhouse gas emissions and manage related financial penalties, as well as prepare for the impact of the inevitable changes to the climate on our infrastructure, thereby ensuring operational sustainability
- Building a sustainable skills base sees us endeavouring to recruit, develop and retain appropriately skilled, committed, engaged and accountable employees. We are committed to building a sustainable skills base, both internally and within the communities in which we operate
- Transformation and social sustainability supports economic development and transformation in South Africa and focuses on core development objectives, including the transformation of our workforce. It includes the activities of the Eskom Development
- Foundation
- Building a solid reputation aims to improve our current reputation and position the company as a key driver of economic growth

Safety and security will continue to be the foundation of all our operations and are central to our performance. The focus on safety and security provides clear direction to improve our occupational health and safety (OHS) and security performance, thereby ensuring our sustainability as well as reducing the likelihood of legal liability or production, financial and reputation risks.

The Turnaround Strategy will focus on the “Big Four” dimensions, namely the core areas of financial sustainability, operational sustainability, revenue and customer sustainability and sustainable asset creation, which are considered to be of strategic importance in the short to medium term, supported by enablers such as Human Resources and Stakeholder Engagement.

The remaining four dimensions are important in the medium to long term. This integrated report is structured along the sustainability dimensions, and will therefore focus on the “Big Four” core dimensions. Although strategies to move Eskom forward in all sustainability dimensions will be prioritised against resource availability and the capability of the organisation, with the resultant focus on the core dimensions, our vision remains a key foundation, in place for the longer term.

Our annual Corporate Plan gives effect to our medium-term strategic objectives, while the annual shareholder compact sets out annual key performance indicators in support of our mandate and strategic objectives. The Corporate Plan and shareholder compact are submitted to the Minister of Public Enterprises (the Minister) for approval before the start of each financial year.

To measure and review progress against its strategic objectives, our corporate plan allocated a set of key performance indicators to each of these strategic objectives. The corporate plan is revised annually. 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 “Performance against the Shareholder’s compact” on page 32). The performance on each indicator is discussed in “Operating performance” section which starts on page 45 and the “Financial review” section which starts on page 84.

Interaction with the six capitals



















The capitals, as defined in the International <IR> Framework, are resources or “stocks of value” on which businesses depend as inputs to their business model. The capitals are increased, decreased or transformed through an organisation’s business activities and outputs. For the purpose of the International <IR> Framework, the six capitals are categorised and described as follows:

- Financial capital: The pool of funds that is available to an organisation for use in the production of goods or the provision of services, which is obtained through financing or generated through operations or investments
- Manufactured capital: Manufactured physical objects (as distinct from natural physical objects) that are available to an organisation for use in the production of goods or the

provision of services. It is often created by other organisations, but includes assets manufactured by the reporting organisation, either for sale or retained for its own use

- Intellectual capital: Organisational, knowledge-based intangibles, including intellectual property and “organisational capital” such as tacit knowledge, systems, procedures and protocols
- Human capital: People’s competencies, capabilities and experience, as well as their motivations to innovate and improve processes, goods and services
- Social and relationship capital: The institutions and relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective wellbeing
- Natural capital: All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organisation

The table below depicts the link between the six capitals and our sustainability dimensions. From this, it is evident that our sustainability dimensions are integrated and incorporate all aspects of our business and the value that we create over time.

Sustainability dimensions	Six capitals					
	Financial	Manufactured	Intellectual	Human	Social and relationship	Natural
Financial sustainability						
Operational sustainability						
Revenue and customer sustainability						
Sustainable asset creation						
Environmental sustainability						
Building a sustainable skills base						
Transformation and social sustainability						
Building a solid reputation						
Safety and security						

We are confronted by significant challenges along all of the core sustainability dimensions. The dimensions are very closely integrated which means that any adverse shift in one dimension inadvertently influences another. This requires a concerted effort to balance competing priorities in an appropriate manner – the need to do maintenance, manage the financial constraints and ensure sustainability in the longer term. We cannot do this on our own and we rely on partnerships with all stakeholders, as well as various demand side management interventions to help us succeed.

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.

This year the Foundation produced a total of 156 graduates from the Contractor Academy.

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

To ensure a sustainable contribution to transformation, our contracts with key suppliers include targets for skills development and job creation. Our business has created 25 875 jobs as at 31 March 2015 through the capacity expansion programme at the Medupi, Kusile and Ingula new build sites and Power Delivery Projects.

A total of 2 390 contracts, worth R45.8 billion, were awarded Eskom-wide during this financial year. Approximately 25.13% of the contracted value was identified as committed to local content. Of the 2 390 contracts awarded, 465 contracts, worth R7.9 billion (2013/14: 547 contracts worth R5.6 billion), were awarded within the capacity expansion programme and of these, the local content committed amounted to R2.7 billion, representing 33.62% of the total contract value.

The below-target performance of local content contracted is largely attributable to the decrease in the number of contracts awarded with supplier development and localisation obligations, since the majority of the larger contracts were awarded during the early stages of the new build programme

Overall procurement expenditure on B-BBEE

The attributable spend targets are in line with the Codes of Good Practice, which prescribe a minimum of 50% for the first five years that the Codes are in effect. We have performed well in procuring from B-BBEE (Broad Based Black Empowered Enterprises) compliant and black-owned suppliers, including black women-owned suppliers.

Our total measured procurement spend (TMPS) was R136 billion for the financial year (2013/14: R133.5 billion), with a total attributable spend of R120.8 billion. The actual spend on B-BBEE compliant suppliers amounted to R99 billion. The procurement spend with B-BBEE compliant vendors, black-owned and black women-owned suppliers have exceeded targets for the 2014/15 financial year, although the performance on procurement spend with black youth-owned suppliers, suppliers owned by black people living with disabilities, qualifying small enterprises and exempted micro enterprises is below target. This below-target performance is attributed to the implementation of the Preferential Procurement Policy Framework Act, 2000 (PPPPFA), which places certain restrictions on the awarding of contracts and therefore limits the ability to achieve the targets. Moreover, the majority of contracts placed with BYO, BPLwD, QSE and EME suppliers have been of lower values.

Together with DPE and the Department of Trade and Industry (dti), we have set up the State-Owned Company's DPE Forum and hosted a boot camp to explore where we could collaborate with other SOCs in procuring identified commodities.

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. We are 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.

In fulfilling its obligations, we acknowledge that it has a developmental role and will promote transformation, economic development and broad based black economic empowerment through its activities. Furthermore, Eskom may support relevant national initiatives as outlined in the New Growth Path, the National Development Plan (NDP) and other development documents.

In addition, our overall strategic direction is aligned to the Strategic Intent Statement, determined by the shareholder, which has set one of its objectives as driving industrialisation and transformation of the economy and the procurement landscape.

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

The equity and transformation information presented above (BBB-EE) also applies here.

Focusing on safety

Safety is at the centre of our zero harm policy. Zero Harm means that no operating condition or urgency of service justifies exposing anyone to risk as a result of exposure to Eskom's business or causing them injury, or damage to the environment. Zero Harm is an Eskom committed value, and forms the foundation of all our operations. Zero Harm means sustaining a work environment which supports the health and safety of all people. It involves building strong relationships with contractors, the community and our supply chain, as well as enhancing the organisation in a sustainable way. The aspiration for Zero Harm goes beyond compliance.

Exco sets the direction for Zero Harm and is committed to caring for and protecting all people exposed to our operations, through the belief that any workplace injury or disease is preventable.

Looking back on 2014, a gradual improvement in safety performance is visible. The Ingula incident in October 2013 had a significant impact on the previous year's safety performance, although lessons learnt from the investigation have been embedded in the organisation. Following this tragic incident, the importance of Zero Harm, and the related impact on sustainable operations, is clearer than ever.

Plans to extend road safety campaigns have progressed well. A road safety week was hosted during the year, focusing on driver and pedestrian safety, vehicle roadworthiness and the adverse effects of texting whilst driving. A general decline in employee and contractor vehicle accident-related fatalities was seen over the past year.

Public fatalities, although reduced from 2013/14, remain a concern. Electrical contact from criminal activities (largely through illegal connections) and motor vehicle accidents remain the biggest causes of fatalities. We remain committed to the Public Safety Programme, which aims to eliminate public incidents and reduce public liability risks.

The progressive lost-time injury rate (LTIR), which is a proportional representation of the occurrence of lost-time injuries over the past 12 months per 200 000 working hours, has deteriorated slightly over the past year.

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

Our 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

We continue in our commitment to cultivating a balanced workforce that will support and further the organisation in the most efficient and effective manner. The Employment Equity Plan is being implemented, although the objectives of the plan have already been implemented in collaboration with the National Employment Equity and Skills Development Committee.

Employment equity performance for the year ended 31 March 2015

Employment equity performance for the year ended 31 March 2015

Measure and unit	Target 2019/20	Target 2015/16	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
Employment equity – disability, % ^{SC}	2.50	2.50	2.50	3.12	2.99	2.59	●
Racial equity in senior management, % black employees ^{SC}	88.90	63.00	60.00	61.58	59.50	58.30	●
Racial equity in professionals and middle management, % black employees ^{SC}	88.90	73.00	70.00	72.28	71.20	69.60	●
Gender equity in senior management, % female employees ^{SC}	45.70	32.00	31.00	29.83	28.90	28.20	●
Gender equity in professionals and middle management, % female employees ^{SC}	45.70	38.00	37.00	36.10	35.80	34.60	●

Robust Labour Management Policies & Procedures

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

We support and adhere 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

We comply with the relevant labour laws as set by the government. The majority of our workforce operates within the borders of South Africa. Our employee engagement model builds employee participation and involves employees and executives in conversations around strategy, performance and people. We have also built more productive and sustainable relationships with organised labour and continue to do so through a partnering model to guide these interactions. In addition, we have 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

Looking back on 2014

The Employment Equity Plan and targets for the one-year plan ending in March 2016 have been approved by the Chief Executive and trade unions consulted. Solidarity is the only trade union that has not endorsed the Employment Equity Plan.

The CSI impact study was completed and the Eskom Development Foundation NPC obtained a score of 73%, which reflects a high level of recognition and visible impact that our contributions have on the community. Going forward, we will use the results of the impact study to align our CSI strategy.

People with disabilities

The disability ratio has stabilised as the number of new employees with disabilities identified matched the number of disabled employees that terminated their employment. We have identified that not all our facilities can suitably accommodate people with disabilities. To address this, we established a disability charter to drive the initiative towards more disability-friendly facilities and have launched a disability drive, which includes an accessibility audit to ensure a disability-friendly environment. In addition, 60 employees with disabilities will be identified and put on an accelerated programme for promotion.

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

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. Although only three trade unions are currently recognised, based on the recognition thresholds contained in the Recognition Agreement, employees may belong to any registered trade union. Eskom and the three recognised trade unions have also signed an agency shop 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) Eskom's Recognition Agreement

Remuneration

Our approach to remuneration and benefits is designed to attract and retain skilled, high-performing employees. To achieve this, we apply the following remuneration principles:

- Business requirements determine our market positioning
- Maintain external competitiveness to attract and retain key skills, by providing market-related remuneration structures, benefits and conditions of service
- Follow a lead-lag market approach. The guaranteed package 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
- Remunerate employees in accordance with their job grade, and at least at the minimum of the applicable salary scale
- Ensure internal equity through defensible differentials in pay and benefits and resolving unjustifiable race- and gender-based income differentials when they arise

International and local benchmarks are considered in determining executive remuneration, to ensure that executive packages are aligned to those offered by companies of similar stature. We aim to remunerate in line with the median of the market to recruit and retain the best management team to lead the business. Cognisance must be taken of the responsibilities and risks that directors and executives bear, given their broad accountability.

Our employee engagement model aims to encourage employee participation and involve employees and executives in conversations around strategy, performance and people. Eskom has developed more productive, sustainable relationships with organised labour through a partnering model which guides our interactions. Eskom continues to further strengthen our relationship with the trade unions.

Remuneration structure

Our remuneration structure for bargaining unit employees, managerial level employees, non-executive directors and executive directors is set out below.

Bargaining unit

Bargaining unit employees (all those below middle management) receive a basic salary plus benefits. Major benefits include membership of the Eskom Pension and Provident Fund, medical aid, a 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 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 the People and Governance Committee.

Non-executive directors

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

Executive remuneration

The Chief Executive, Finance Director and Group Executives have permanent employment contracts based on our standard conditions of service. None of the executives have extended employment contracts or special termination benefits. No restraints of trade are in place.

The employment contracts of executive directors and members of Exco are subject to a six months' notice period. Other executives have to serve one month's notice in terms of our

standard conditions of service. The Board approves the remuneration of the Finance Director and Group Executives. The Chief Executive's remuneration is approved by the shareholder. Our remuneration strategy is aligned with the DPE Remuneration Guidelines, and the balance between fixed and variable remuneration (short- and long-term incentives) is reviewed annually. Executive remuneration is based on the organisation's performance, as assessed through performance on key indicators, as well as the individual's contribution to that performance, including the executive's level of skill and experience. It consists of a basic salary augmented by short- and long-term incentives.

The remuneration of Exco members consists of the following:

- A guaranteed amount, consisting of a fixed cash portion and compulsory benefits, such as medical aid, life cover and pension. This is reviewed annually
- Short-term incentives, consisting of rewards for achieving predetermined performance objectives and targets, linked to the shareholder compact, set by the Chief Executive and approved by the People and Governance Committee. It is calculated as a percentage of pensionable earnings
- Long-term incentives, designed to attract, retain and reward Exco members for achieving organisational objectives set by the shareholder over a period of three years. In addition to the performance conditions, it is dependent on the individual remaining in our employment throughout the vesting period.

In terms of their performance contracts, only 18% of executives' performance rating is based on individual performance; Eskom's collective performance accounts for the remaining 82% and is based on a loss-score if on-target performance based on the shareholder compact is not met.

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 workforce as at March 2015.

Employment equity performance for the year ended 31 March 2015

Measure and unit	Target 2019/20	Target 2015/16	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
Employment equity – disability, % ^{SC}	2.50	2.50	2.50	3.12	2.99	2.59	●
Racial equity in senior management, % black employees ^{SC}	88.90	63.00	60.00	61.58	59.50	58.30	●
Racial equity in professionals and middle management, % black employees ^{SC}	88.90	73.00	70.00	72.28	71.20	69.60	●
Gender equity in senior management, % female employees ^{SC}	45.70	32.00	31.00	29.83	28.90	28.20	●
Gender equity in professionals and middle management, % female employees ^{SC}	45.70	38.00	37.00	36.10	35.80	34.60	●

People with disabilities

The disability ratio has stabilised as the number of new employees with disabilities identified matched the number of disabled employees that terminated their employment. We have identified that not all our facilities can suitably accommodate people with disabilities. To address this, we established a disability charter to drive the initiative towards more disability-friendly facilities and have launched a disability drive, which includes an accessibility audit to ensure a disability-friendly environment. In addition, 60 employees with disabilities will be identified and put on an accelerated programme for promotion.

Robust Environmental Management Policies & Procedures

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

Reducing Eskom environmental footprint

Our overall environmental performance is assessed in terms of relative particulate emissions, specific water consumption or water usage by all commissioned power stations, as well as the number of environmental legal contraventions. Relative emissions entail the measurement of emissions intensity, which is the amount of emissions per unit of output.

Environmental performance for the year ended 31 March 2015

Environmental performance for the year ended 31 March 2015

Measure and unit	Target 2019/20	Target 2015/16	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
Relative particulate emissions, kg/MWh sent out ^{SC, 1}	0.30	0.35	0.35	0.37	0.35	0.35	●
Specific water consumption, l/kWh sent out ^{SC}	1.34	1.39	1.39	1.38	1.35	1.42	●
Environmental legal contraventions in terms of the Operational Health Dashboard, number ²	0	0	0	1	2	2	●

1. The volume of water consumed per unit of generated power from commissioned power stations.

2. In defined circumstances where the management of a legal contravention indicates specific management issues or failings, it is recorded on the Eskom Operational Health Dashboard.

Provisions for environmental restoration and rehabilitation

Provision is made for the estimated decommissioning cost of nuclear plant, including the rehabilitation of the land, as well as for the management of nuclear fuel assemblies and radioactive waste. Provision is also made for the decommissioning of other generating plant and the rehabilitation of the associated land.

Where a constructive or contractual obligation exists to pay coal suppliers, provision is made for the estimated cost of closure at the end of the life of the mine, together with pollution control and rehabilitation of the land.

The following provisions for environmental restoration and rehabilitation have been raised at year end:

R million	Actual 2014/15	Actual 2013/14	Actual 2012/13
Power station-related environmental restoration – nuclear plant	10 982	9 331	7 177
Power station-related environmental restoration – other power plant	7 705	6 942	6 762
Mine-related closure, pollution control and rehabilitation	5 465	4 366	4 309

Refer to note 28 in the annual financial statements for more information

Reducing particulate and gaseous emissions

Particulate emissions performance for the year was 0.37kg/MWhSO, which is worse than both the target and last year's performance of 0.35kg/MWhSO, primarily due to slow progress in the installation or maintenance of the necessary emissions control measures at high emitting stations. The necessary work can only be performed when the station is offline for a sufficient period of time, allowing the work to be done. Only six of our 13 coal-fired stations achieved their emissions targets in 2014/15.

An ash incident occurred at Lethabo Power Station in November 2014, due to a breakdown in the ash handling process, resulting in a build-up of ash which damaged the electrostatic precipitators, leading to significantly higher emissions during the second half of the year. In contrast, Majuba Power Station reported excellent emissions performance, as its fabric filter bags are exceptional barriers to emissions. However, Majuba had very low load factors after the coal silo incident in November 2014. As a result, other higher emitting stations contributed proportionately more to the mix and thereby negatively impacted the overall emissions performance.

Minimum Emission Standards

In February 2015, the Department of Environmental Affairs (DEA) issued their decision on our Minimum Emission Standards postponement application. The decision allows power stations to continue operating from 1 April 2015 when the standards came into effect, but is contingent on the following:

- We must execute an emissions reduction programme at nine power stations, involving flue gas desulphurisation retrofits at Kusile, Medupi and Kendal Power Stations, fabric filter plant retrofits at Grootvlei, Tutuka, Kriel, Matla and Duvha Power Stations, and low-NOx burner retrofits at Majuba, Matla and Tutuka Power Stations, all to be completed by 2025. The additional requirements will increase the cost of our emissions retrofit programme to approximately R134 billion, previously estimated at R72 billion
- We are required to implement air quality offsets for all Highveld power stations and submit a plan in this regard to DEA by 31 March 2016

There is a high risk that execution of the retrofit plan will be delayed due to prevailing financial constraints, lengthy procurement processes and delays in designs for Tutuka and Kriel Power Stations. Installation of the retrofits requires outages of 120 to 150 days per unit, which will only be available if the operating margin is significantly higher by 2018. The requirements remain an onerous challenge for us to meet. If we fail to execute as planned, we will be non-compliant with emission licences, an offence that could result in our licence to operate being revoked.

NEMA Section 30 performance

The Atmospheric Emission Licences state that power stations can continue operating legally even if emissions are high, provided they report the incident in terms of Section 30 of the National Environmental Management Act, 1998 (NEMA), which came into effect in April 2014. NEMA requires an investigation of reported incidents, whereby authorities can visit the site to check whether the incident has been adequately addressed. They can also issue a directive if they are not satisfied. There were 42 such incidents reported in the twelve months to 31 March 2015, all of which have been investigated and reported according to the legislated process.

Ashing facilities

Several power stations are reaching the limits of their current ashing areas. Majuba, Kendal, Kriel and Camden are the power stations most impacted in the short term. Additional land in the vicinity of the respective power stations is required for new ashing facilities to ensure continued operation of the power stations in the longer term. Engagements with mining companies and the Department of Mineral Resources (DMR) to address risks relating to the availability of land for the extension of ashing facilities at the affected stations are ongoing.

Furthermore, the nature of operations of the dry ash stations (i.e. Kendal, Majuba and Tutuka) renders them non-compliant to the National Environmental Management: Waste Act, 2008 as their ashing facilities continuously progress into virgin land without being lined. While work to resolve the issues and submit the required licence applications is ongoing, the limitation of land for ashing purposes and the availability of funding to implement ashing projects are significant risks to security of supply, since a power station cannot continue operating without an ashing facility.

Kendal and Majuba Power Stations have submitted environmental impact assessments and water-use licence applications for extension of their ashing facilities. As part of the applications, these stations have requested transitional arrangements permitting them to continue ashing while preparation for lining is underway. However, they are at risk if the proposed transitional arrangements are not agreed to by DEA and DWS.

Reducing water consumption

Water performance of 1.38l/kWhSO for the year was better than the target of 1.39l/kWhSO, but worse than the performance of 1.35l/kWhSO in the prior year. Water performance has been negatively affected by excessive water leaks on systems and an increased number of unit trips,

which require additional water during start-up. Opportunities for improvement in water use are limited in the current constrained electricity supply environment; we have to wait for units to be taken out of service for maintenance to repair these leaks.

Collieries decanting mine-affected water

The Kilbarchan Colliery, a closed-down colliery owned by a subsidiary of Eskom, is currently decanting mine affected water. We have commenced development of an interim water treatment project and immediate interventions are in the process of being authorised

Eskom's drive for cleaner air

Our efforts to improve air quality focused on reducing emissions of particulates or ash. The relative particulate emissions from coal-fired power stations have reduced by more than 90% over the last 35 years.

DEA has legislated national Minimum Emission Standards which came into effect in April 2015, with more stringent limits to be implemented in 2020. These limits pertain to particulates, sulphur dioxide and nitrogen oxides and take into account emissions reductions that can be achieved by employing best available technology. The 2020 limits require upgrades to our power stations estimated at approximately R134 billion and require outages of 120 to 150 days per unit for 93 units, as well as a 20% increase in water consumption, negatively impacting both operational performance and environmental performance in terms of water usage. Given our current financial and capacity constraints and the fact that there are currently no new or unallocated water resources in Mpumalanga, it is simply not feasible to fully comply with the emission standards by 2020. However, non-compliance comes at the risk of criminal prosecution and our licence to operate being revoked.

Our approach to cleaner air is to focus our emissions reduction efforts on the newer and/or higher emitting power stations, and to request leniency for the smaller, older power stations. While the newer stations possess more efficient abatement technology, their capacities are also larger, with higher emissions in terms of tonnages. In addition, they have a longer remaining life, so it makes more sense to invest in them as the benefits are expected over a longer period. A five-year postponement of the emission standards for selected limits was granted by DEA in February 2015. The first upgrade – a fabric filter plant retrofit to reduce ash emissions – will commence at Grootvlei Power Station by June 2015.

Our emissions reduction retrofits will be complemented by the rollout of air quality offsets, which aim to reduce the burning of coal and wood in low income settlements in the vicinity of our power stations. Studies have shown that domestic burning is by far the largest cause of air quality-related health problems in South Africa, both because it occurs in people's homes where it is directly inhaled, and because the temperature inversions at night trap the pollution at the surface.

We are conducting a pilot study in KwaZamokuhle, near Hendrina in Mpumalanga, where the effectiveness of the offsets will be tested on 120 households. The interventions include the installation of better thermal insulation, replacement of coal burning stoves with more efficient, low-emission stoves, provision of an LPG heater and an electricity subsidy. It is anticipated that the offsets will achieve a much greater improvement in air quality, and thereby improve people's quality of life, at a fraction of the cost of the emissions reduction programmes at our power stations.

Reducing environmental legal contraventions

One Operational Health Dashboard contravention was declared against Distribution Division for the cutting of a tree without the required licence in the uMkhanyakunde Municipality in northern KwaZulu-Natal.

The number of environmental legal contraventions decreased to 18, against 34 in 2013/14. There were eight water-related contraventions (pipeline leaks, spills and sewerage spills), three cases of tree cutting without the necessary approvals, three cases of failure to obtain or comply with other required authorisations, two ash spillages, one non-compliance with waste legislation and one case of exceeding particulate emissions limits.

The improvement in legal contraventions compared to the previous year is a result of increased efforts to ensure compliance, as well as changes in legislation with regard to atmospheric emissions contraventions resulting in fewer contraventions.

Reducing our carbon footprint

Climate Change Strategy

We continue to promote a culture that recognises sustainable development in all activities. Our Climate Change Strategy is now in place and is founded on the following six pillars:

- Diversification of the Generation mix to lower carbon-emitting technologies
- Energy efficiency measures to reduce demand, as well as 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

We have been invited to present this strategy at international meetings and have participated in discussions to prepare business views on the issue. We have obtained approval for our COP 21 Strategy activities, which ensures that we are prepared to influence the COP 21 climate change negotiations in December 2015.

We also continued our work with the following business organisations concerned with sustainable development:

- World Business Council for Sustainable Development (WBCSD), which develops medium-term business solutions to ensure a sustainable planet by 2050
- Global Sustainable Electricity Partnership, through which we hosted two workshops with the Southern African Power Pool on financing electrification

We are participating in the DEA-led process to determine carbon budgets (or greenhouse gas emission limits) and looking at a possible phased approach for implementation. We are continuing discussions with National Treasury regarding the carbon tax proposed for implementation in June 2016.

Investing in renewable energy

We continue to complement our commitment to environmental sustainability and reduce our carbon footprint with purchases of renewable energy from IPPs. Renewable energy sources include wind, solar power, biomass, landfill gas and small hydro technologies.

The 100MW Sere Wind Farm has been completed and is now in commercial operation. The concentrated solar plant (CSP) project has advanced with the four bids received having been evaluated in January 2015.

While the revised World Bank procurement process has caused some delays, the plant is expected to be in commercial operation in the 2017/18 financial year.

Other programmes include:

- Completion of the basic engineering work for a ground-mounted PV project with an installed capacity of approximately 8MW at Grootvlei Power Station in June 2015
- Finalising the Public-Private Partnerships (PPP) model to take the solar augmentation project at four power stations through the definition and execution phases
- A new business model for the Renewables Business has been proposed, which will assist us in participating in the current DoE RE-IPP programme, through the formation of an Eskom Renewables Company (RENCO)
- Expanding the RENCO mandate to include small-scale embedded generation, small-scale renewables and a net metering market

Future focus areas

- Execution of local air pollutant emissions reduction retrofit programmes
- Implementation of the Exco-approved strategies to reduce our emissions, water and environmental footprint
- Development and implementation of an air quality offset plan for all Highveld power stations as required in terms of the response to the Minimum Emission Standards postponement application
- Developing an Eskom view of technology choices, with the aim of influencing and aligning to the future IRP allocation of lower carbon-emitting technologies
- Determining a carbon budget (emissions limit) appropriate for Eskom in the medium to long term, with the aim of contributing to the Government process in a positive way
-

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

We achieved ISO 9001:2008 certification on 31 March 2013. During subsequent surveillance audits, the certification bodies did not identify any significant findings or risks that would lead to us losing our certification. We have further implemented ISO 14001:2004, OHSAS 18001:2007, ISO 31000:2009 and AA1000 in specific divisions or business units within Eskom, to regulate environmental management, occupational health and safety, risk management and stakeholder engagement respectively.

Partnerships

We have established an Eskom-NGO forum with the intention of creating a platform for dialogue between Eskom and members of the environmental NGO community.

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

We are subject to numerous laws and regulations regarding our operations, including conditions relating to tariffs, expansion activities, environmental compliance as well as regulatory and licence conditions, such as water usage and atmospheric emissions licences that govern our operations. Current licensing conditions place stringent limits on plant emissions to reduce the country's current and future environmental footprint.

Environmental compliance, in terms of air quality, land, biodiversity, water, waste (including nuclear waste) and ash management, impacts operational sustainability. It is critical to maintaining our licence to operate, thereby ensuring security of supply. It also underpins our principle of Zero Harm to the environment, while operating under complex and evolving environmental requirements.

Looking back on 2014 work continued for certification by the Department of Water and Sanitation (DWS) in terms of its Blue Drop and Green Drop programmes, aimed at promoting environmental and human health in respect of drinking water and sewerage plant management. Five stations have been audited by DWS and the results from these audits are awaited. The planned certification date of March 2016 may be, delayed based on DWS's certification plan.

We have further implemented ISO14001:2004 in specific divisions or business units within Eskom, to regulate environmental management.

As part of Integrated Demand Management, we aim to improve the internal energy efficiency of our facilities by undertaking energy audits and implementing efficiency programmes that focus on lighting, heating, ventilation and air-conditioning.

Robust Anti-Corruption Management Policies & Procedures

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

Corporate governance

Our corporate governance focuses on effective ethical leadership to integrate strategy, governance and sustainability. We take our 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

Our 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.

Risk management and internal controls

The Board, through the Audit and Risk Committee, ensures that there is an effective risk management process in place and that internal controls are effective and adequately reported

on for auditing and regulatory purposes. The combined assurance model provides the Audit and Risk Committee with an overview of significant risks, as well as the effectiveness of critical controls. Assurance and Forensic performs bi-annual assessments on the design, implementation and effectiveness of the risk management process, IT controls as well as internal financial and operational controls. The outcome of the assessments, based on the results of audit work planned and completed by both internal and external assurance providers, concluded the following:

The Audit and Risk Committee has concluded, based on the information and explanations given by management and the Assurance and Forensic Department, as well as through discussions with the external auditors, that the system and process of risk management and compliance are adequate and that the internal accounting controls are adequate to ensure that the financial records can be relied on for the preparation of financial statements.

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

Ethical business conduct

The Board and Exco recognise the need to integrate strategy, governance and sustainability. As a signatory to the United Nations Global Compact LEAD initiative, which includes a clause related to anti-corruption behaviour, as well as to the World Economic Forum's Partnership Against Corruption initiative, Eskom strives to embed these ethical principles.

Our Code of Ethics, titled "The Way", outlines our ethical culture and provides guidance on the expected behaviour of each and every director and employee. Policies regarding managing conflicts of interest and governing the declaration of interests assist directors and employees to avoid situations where they have, or are perceived to have a direct or indirect interest that conflicts with the company's interests. Directors declare all conflicts of interest and these are adequately raised in meetings and minuted for the record. Employees are required to perform a declaration of interest annually, or as soon as their circumstances change.

The Board ensures that the Ethics Management Programme is effectively implemented, and receives quarterly ethics status reports on the ethical culture and any associated issues.

We have adopted a zero tolerance approach to fraud, corruption and other forms of economic crime or dishonest activity. We aim to reduce these incidents by:

- Continuously fostering ethical standards and raising ethics awareness in the organisation through training, reporting and through the Ethics Advisory Service Helpdesk
- Encouraging whistle-blowing through mechanisms such as the fraud and corruption hotline
- Conducting forensic investigations and taking corrective action where applicable

Taking Action in Support of Broader UN Goals and Issues

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

We aim to transform society through our supplier localisation drive, as well as corporate social investment in community education, health and developmental projects. Our most direct contribution to transformation is through the rollout of Government's electrification programme.

Corporate social investment

The Foundation carries out our corporate social investment mandate to promote transformation and social sustainability. The Foundation focuses on initiatives to develop small and medium enterprises, education, health, food security, community development, energy and the environment. During this financial year, our CSI activities have impacted 323 882 beneficiaries, with a committed spend of R115.5 million. However, financial constraints have resulted in the Foundation having to reprioritise and defer pipelined initiatives.

The Foundation successfully completed five further education and training (FET) college projects, including Sekhukhune FET in Limpopo, Majuba FET and Mnambithi FET in KwaZulu-Natal, West Coast FET in Western Cape and Ekurhuleni West FET in Gauteng, as well as seven rural development projects, which include Ambadzifhele Primary School, Rekhutjiti Secondary School, Pitsi Primary School and Thabanapitsi Primary School, all in Limpopo, Nthebe Primary School and Wisani Community Centre in Mpumalanga and Macingwane High School in KwaZulu-Natal. Work done includes the construction of administration blocks, additional classrooms, walkways and ablutions for boys and girls, external works, the supply of water pumps and Jojo tanks, as well as wiring and electrical connection of classrooms.

The Mpumalanga Operating Unit launched the Kusile mobile health bus on 13 March 2015, which will continue to provide health support to local residents.

This year the Foundation produced a total of 156 graduates from the Contractor Academy and impacted 44 100 learners and teachers with its maths and science programmes. In addition, DPE

and the Foundation launched the Zikode and Harding Telematics Programme on 14 March 2015, as part of an ongoing commitment to addressing the challenges of education and poverty in South Africa.

The telematics system, owned by the University of Stellenbosch, provides a satellite-based interactive platform for learners to access education support in various subjects such as maths and science with the aim of improving their performance. The programme aims to support learners from disadvantaged and underperforming schools across the country.

Electrification

In partnership with DoE, we have connected more than 4.6 million households to the Distribution network since 1991. Although DoE funds the connections, we carry the ongoing operational costs and receive revenue for electricity sold.

The National Census of 2011/12 identified 3.4 million South Africans who were still without electricity; the majority are found in the Limpopo, Eastern Cape and KwaZulu-Natal provinces. In order to achieve the United Nations' Millennium Development Goal of universal access to electricity by 2025, DoE has accelerated the Universal Access Programme.

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. As a consequence, we did not achieve the targeted number of national electrification connections, because of the significant infrastructure investment required in these provinces. We successfully completed 5 620 self-funded electrification connections as well as 1 080 farm dweller connections, not included above.

Due to capital restrictions for the 2015/16 year, the number of electrifications which we can fund ourselves will be limited.

Electrification of grid schools and clinics

The Department of Basic Education continues to fund the electrification of schools. However, the DoE household electrification programme electrifies schools that are found within villages with 20Amp supplies.

With a capital outlay of R29 million, 44 schools were electrified for the first time. The main reason for not electrifying all 57 targeted schools during the current year was the delayed signing of contracts with relevant departments.

Universal access to electricity for identified clinics was achieved previously, therefore there is no target for the electrification of clinics in the current year. The focus in future will be the electrification of new clinics and connecting them to the grid as quickly as possible.

Criterion 16: The COP describes strategic social investments and philanthropy

Please refer to the information presented above.

Criterion 17: The COP describes advocacy and public policy engagement

Integrated Resource Plan 2010-2030 (IRP 2010)

The Integrated Resource Plan 2010-2030 (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, DoE issued a draft update of the IRP for public comment. This draft reflects the effect of the sustained lower than anticipated economic growth on projected electricity demand as well as changes in the committed build programme. Public comment on the update has been gathered. DoE is now consulting with other Government departments and is expected to submit the approved updated plan to Cabinet for promulgation by the end of 2015.

Government is in the process of allocating generating capacity to power producers, based on the IRP 2010 requirements. The number of megawatts required and technology allocated to Eskom will substantially influence our expansion plans after the completion of Kusile, especially if that allocation includes nuclear power. No Cabinet decision has yet been taken regarding new nuclear power stations, although Government is developing strategies for the envisaged new nuclear build programme.

MYPD 3 price determination

We periodically apply to NERSA through multi-year price determinations for our revenue requirement to sustainably operate our business; the resultant revenue is determined by NERSA. The third revenue application, MYPD 3, is currently in effect and covers the five-year period from 1 April 2013 to 31 March 2018. We have embarked on the Business Productivity Programme (BPP) – one of a number of initiatives to address the R225 billion revenue shortfall created by the MYPD 3 determination – to introduce cost reductions, increase productivity and improve operational efficiencies.

Update on revenue applications submitted to NERSA

The Regulatory Clearing Account (RCA) is a monitoring mechanism which tracks the actual revenue and cost results compared to the determination from the MYPD decision. Certain regulatory rules are applied to determine whether the RCA computation is in favour of Eskom, resulting in amounts due to Eskom, or in favour of the consumer, with amounts that must in effect be paid back to the customer. The RCA mechanism results in a time lag between when costs are incurred, to when the revenue inflows occur, currently in the region of two years.

The first application for a revenue adjustment through the RCA mechanism for the MYPD 2 period (2012/13) was finalised. The outcome, a R7.8 billion revenue adjustment in our favour, resulted in an average increase of 4.69% in addition to the original determination of 8%, bringing the total price increase for the year to 12.69%, effective from 1 April 2015.

In relation to the first year of the MYPD 3 period (2013/14), we have submitted an application for a revenue adjustment to NERSA which is currently under review. If approved, the outcome of this application is expected to impact the electricity price commencing in 2016/17.

A further application was made to NERSA, for the selective reopening of the MYPD 3 decision for the 2015/16 to 2017/18 period. The selective reopener application covers the recovery of cost of OCGTs of R32.5 billion and R17.5 billion for the Short-Term Power Purchase Programme (STPPP) over this period. This application, if approved, will result in a further price increase of 9.5%, together with a 2.51% increase through the 2c/kWh environmental levy increase, bringing the total increase to 24.7% for 2015/16. The increase in the environmental levy has not yet been promulgated; the latest indications are that it may not be promulgated this year.

On 13 May 2015, NERSA announced that it will conduct a public consultation process for the selective reopener relating to the cost of OCGTs and STPPP, indicating that the decision will be announced on 29 June 2015.

Criterion 18: The COP describes partnerships and collective action

We continued to partner with various associations nationally and internationally to work together on a number of sustainable development initiatives. These include the National Business Initiative, the World Business Council for Sustainable Development, Caring for Climate Initiative, and the International Chamber of Commerce. Regionally we participate 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.

Eskom supports collective action through engaging with collective action forums as well – such as collective bargaining, labour unions and trade unions.

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

Effective corporate governance is essentially about ethical leadership. Especially during this turnaround period, effectively integrating sustainability concerns with decision-making is of paramount importance.

Executive authority over the company is vested in the Minister of Public Enterprises, the Honourable Ms Lynne Brown, MP.

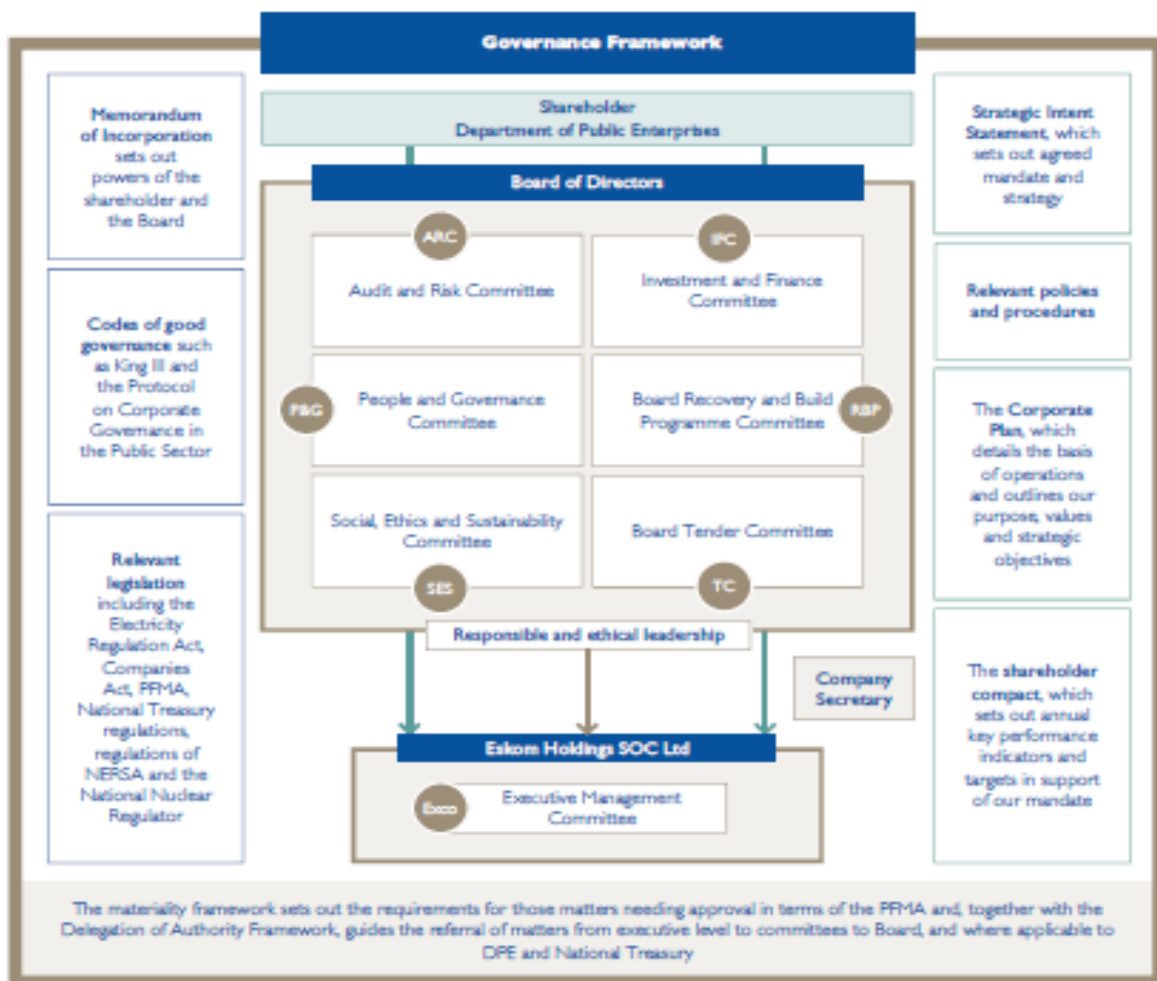
The non-executive directors, including the chairman of the board, and the chief executive are appointed by the shareholder. The finance director is appointed by the board after approval of the candidate by the shareholder. The chairperson and chief executive is not the same person. The board is responsible for the strategic direction of the company and monitoring the company's progress against the business strategy. The board also drives our goal to be a good corporate citizen and is assisted by our 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 of Directors (the Board) guides the strategic direction of the group, and monitors progress in executing the business strategy. The Board ensures that the utility and its subsidiaries comply with the requirements of the Companies Act and PFMA, as well as National Treasury regulations, together with any other legislative requirements and documents within the ambit of the Governance Framework.

The Governance Framework, which regulates the relationship with the shareholder and guides the way we do business, is depicted below:



One of the essential components of the Governance Framework is the clarity of roles between the shareholder, the Board and the management of Eskom, as provided by the Strategic Intent Statement and the shareholder compact with the company.

The effectiveness of the Board is improved through the use of six Board subcommittees to which it delegates authority without diluting its own accountability. The Board appoints members to the various committees, with due consideration of the necessary skills and experience required by members of the different committees.

All Board committees are chaired by an independent non-executive director and consist of a majority of independent non-executive directors, who exercise their authority in accordance with Board-approved terms of reference; these are reviewed each year and define their composition, role, responsibilities and authority. These terms of reference are aligned with the Delegation of Authority Framework, legislative requirements and best practice.

Deliberations of the committees do not reduce the individual and collective responsibilities of directors regarding their fiduciary duties and responsibilities. Directors are required to exercise due care and judgement in accordance with their statutory obligations

Executive remuneration

The Chief Executive, Finance Director and Group Executives have permanent employment contracts based on our standard conditions of service. None of the executives have extended employment contracts or special termination benefits. No restraints of trade are in place.

The employment contracts of executive directors and members of Exco are subject to a six months' notice period. Other executives have to serve one month's notice in terms of our standard conditions of service.

The Board approves the remuneration of the Finance Director and Group Executives. The Chief Executive's remuneration is approved by the shareholder. Our remuneration strategy is aligned with the DPE Remuneration Guidelines, and the balance between fixed and variable remuneration (short- and long-term incentives) is reviewed annually.

Executive remuneration is based on the organisation's performance, as assessed through performance on key indicators, as well as the individual's contribution to that performance, including the executive's level of skill and experience. It consists of a basic salary augmented by short- and long-term incentives.

Criterion 20: The COP describes Board adoption and oversight

Corporate governance

Governance of the group and the responsibility for driving good corporate citizenship is vested in a unitary board, which is supported by several Board committees and the Company Secretary.

The Board, through its committees, provides the company's strategic direction, while the Chief Executive, assisted by the Executive Management Committee (Exco) and its subcommittees, is accountable to the Board for implementing the strategy.

Executive Management and other board committees

Please refer to the information provided above.

Executive structure and board committees

Please refer to the information provided above.

Induction and orientation of directors

A director on-boarding plan is in place, which comprises a formal induction and site visits for all directors.

The reconstitution of the Board resulted in the appointment of nine new directors in December 2014. Following their appointment to the Board and its various committees, a comprehensive induction programme was undertaken over a period of two days. The induction covered the following:

- The Governance Framework, including the Delegation of Authority
- Overview of legislation, regulations and compliance requirements
- Eskom's business, in terms of strategic direction, operational overview and safety
- Strategies around stakeholder engagement, IT governance, risk management and combined assurance

Continuous training and updates on the abovementioned items, as well as other relevant matters, are provided on a regular basis to ensure that all directors remain informed. Time is set aside at each scheduled Board meeting to address the training needs of the Board or individual directors, and to brief directors on any new legislation or regulations which may be applicable.

Executive Management Committee

Exco is established by the Chief Executive and assists him in guiding the overall direction of the business and exercising executive control in managing day-to-day operations.

Refer to pages 40 and 41 of the integrated report for the profiles of the Exco members and their areas of responsibility.

Group Executives are appointed by the Board and are full-time employees of Eskom, subject to our conditions of service.

Exco members' qualifications, significant directorships and appointment dates are available as a fact sheet.

Exco held 27 meetings during the year.

Changes in Executive Management committee composition in 2014/15

Exco underwent numerous changes over the past year. Following the departure of Mr Brian Dames, our former Chief Executive, at the end of March 2014, Mr Collin Matjila, a non-executive director, acted in the role while the recruitment process was underway to ensure continuity and an adequate handover. The Minister announced the appointment of Mr Tshediso Matona, former Director-General of DPE, as Chief Executive with effect from 1 October 2014.

The following executives resigned during the year:

- Mr Kannan Lakmeharan, acting Group Executive: Group Technology and Commercial, resigned with effect from 30 April 2014
- Ms Erica Johnson, Group Executive: Enterprise Division and acting Group Executive: Group Customer Services, resigned with effect from 31 October 2014
- Dr Steve Lennon, Group Executive: Sustainability, resigned effective 31 March 2015

After his appointment, Tshediso made the following appointments:

- Mr Dan Marokane was appointed Group Executive: Group Capital in November 2014
- Ms Elsie Pule was appointed acting Group Executive: Human Resources in November 2014
- Mr Matshela Koko was appointed Group Executive: Group Technology and Commercial in December 2014, after acting in this role from May 2014

At the same time, the portfolios of the following executives were reshuffled:

- Mr Thava Govender, former Group Executive: Generation was moved to the role of Group Executive: Transmission and Group Customer Services in November 2014

- Mr Mongezi Ntsokolo, former Group Executive: Transmission and acting Group Executive: Human Resources, was moved to the role of Group Executive: Generation in November 2014

Following the commissioning of the independent enquiry on 12 March 2015 and the suspension of four executives, the following acting appointments were made to ensure business stability and continuity:

- Mr Zethembe Khoza, as acting Chief Executive
- Ms Nonkululeko Velezi, as acting Chief Financial Officer
- Mr Abram Masango, as acting Group Executive: Group Capital
- Mr Edwin Mabelane, as acting Group Executive: Group Technology and Commercial

As a result of these changes, and in order to ensure stability and continuity of operations, the following changes were made to the portfolios of the remaining Exco members:

- Sustainability was assigned to Mr Thava Govender, in addition to Transmission
- Ms Ayanda Noah, Group Executive: Distribution was assigned Group Customer Services, with the exception of Grid Access Unit, Integrated Demand Management and Key Industrial Customers, which remained with Thava as part of Transmission

Refer to page 14 of the integrated report for the operating structure of the company

The shareholder and Board have reiterated that filling executive vacancies remains a priority. The secondment of Mr Brian Molefe from Transnet to Eskom as full-time acting Chief Executive has brought stability to the executive leadership.

Criterion 21: The COP describes stakeholder engagement

We strive to create a corporate culture that fosters collective responsibility and shared accountability for stakeholder engagement, in order to manage risk and reputation, with the key objective of building strong relationships. The Board has delegated the management of stakeholder relationships to Exco, with oversight by the Social, Ethics and Sustainability Committee.

We operate within a complex stakeholder landscape, consisting of multi-faceted stakeholder groups with differing needs and objectives. Our approach to stakeholder relations is guided by the principles of the King Report on Corporate Governance (King III), to ensure that the relationship between Eskom and our stakeholders is managed ethically and in compliance with relevant legislation and best practice.

Our interaction with stakeholders

Engagement with stakeholders is a two-way street, and occurs on a consistent basis through various platforms. Engagements are carefully planned in terms of scope, the intended outcome of the interaction and the engagement approach. Some business units, such as Treasury, have direct access to their respective stakeholder groups and consistently engage with stakeholders as part of their daily activities. Similarly, the Group Customer Services Division continually engages with key industrial customers, partly to contract demand reduction over critical hours, which assists in reducing load shedding over critical times.

The Stakeholder Relations Department sets the stakeholder engagement plan and reports progress to Exco on a regular basis. The management of stakeholder relationships follows an inclusive approach, whereby the legitimate needs and interests and material concerns of key stakeholders are identified and considered, and their expectations managed. This approach guides the development of a relationship which is based on a shared understanding of our business model and the impact thereof on the various stakeholder groups, whilst providing a platform for informed decision making in the best interests of all stakeholders, without compromising the future sustainability of Eskom.

All engagements are based on a commitment to adhere to the underlying principles of accountability, inclusivity, materiality, responsiveness, completeness, following due process and integrated reporting.

We strive to foster strong relationships with our stakeholders. The relationship with financial market stakeholders for example, is managed by our Treasury Department. Engagements with these stakeholders take place on a bilateral basis through meetings, teleconferences and video conferences as well as multi-lateral engagements. Meetings, such as local and international roadshows, are either requested by the stakeholder or proactively arranged by us. Engagements also take place through speaking opportunities at forums and events.

These engagements are aimed at ensuring that there is effective and transparent two-way communication with our stakeholders. We aim to provide investors with sufficient information about the business to make mutually beneficial investment decisions. These engagements assist in maintaining and growing relationships, thereby informing and building support for our investment case

Focus areas for future engagements

Although engagements have been variable over the last year, we are geared up to re-energise our relationship with all stakeholders and partnering with them to effect the Turnaround Plan.

The following plans have been put in place to aid this strategy:

- Focused stakeholder management in effecting the Turnaround Plan, which includes creating and maintaining the confidence of all stakeholders. The stakeholder plan is being developed as part of the broader Turnaround Plan
- Continuous engagement with stakeholders to identify sustainable solutions towards debt collection, including working with national and provincial stakeholders such as Cooperative Governance and Traditional Affairs and National Treasury, to manage the arrear debt and financial recovery process
- Partnering with stakeholders through a proactive and collaborative approach to contribute to national energy efficiency objectives
- Building resilient relationships with future resource providers, such as IPPs, to ensure a sustainable supply of electricity
- Intensifying engagements with Mozambican stakeholders to advance the gas strategy

Material stakeholder matters

Our integrated report aims to address the impact of stakeholder matters on our ability to create value, within the context of our sustainability dimensions and risk management strategies. Stakeholder matters – both qualitative and quantitative– are determined through extensive consultation with and consideration of concerns raised by stakeholders.

Material matters are those that are both of high concern to stakeholders and could have a significant impact on the business. Matters ranked as having a medium to high impact on Eskom have the potential to significantly affect the achievement of our strategic objectives and consequently, our ability to create value.

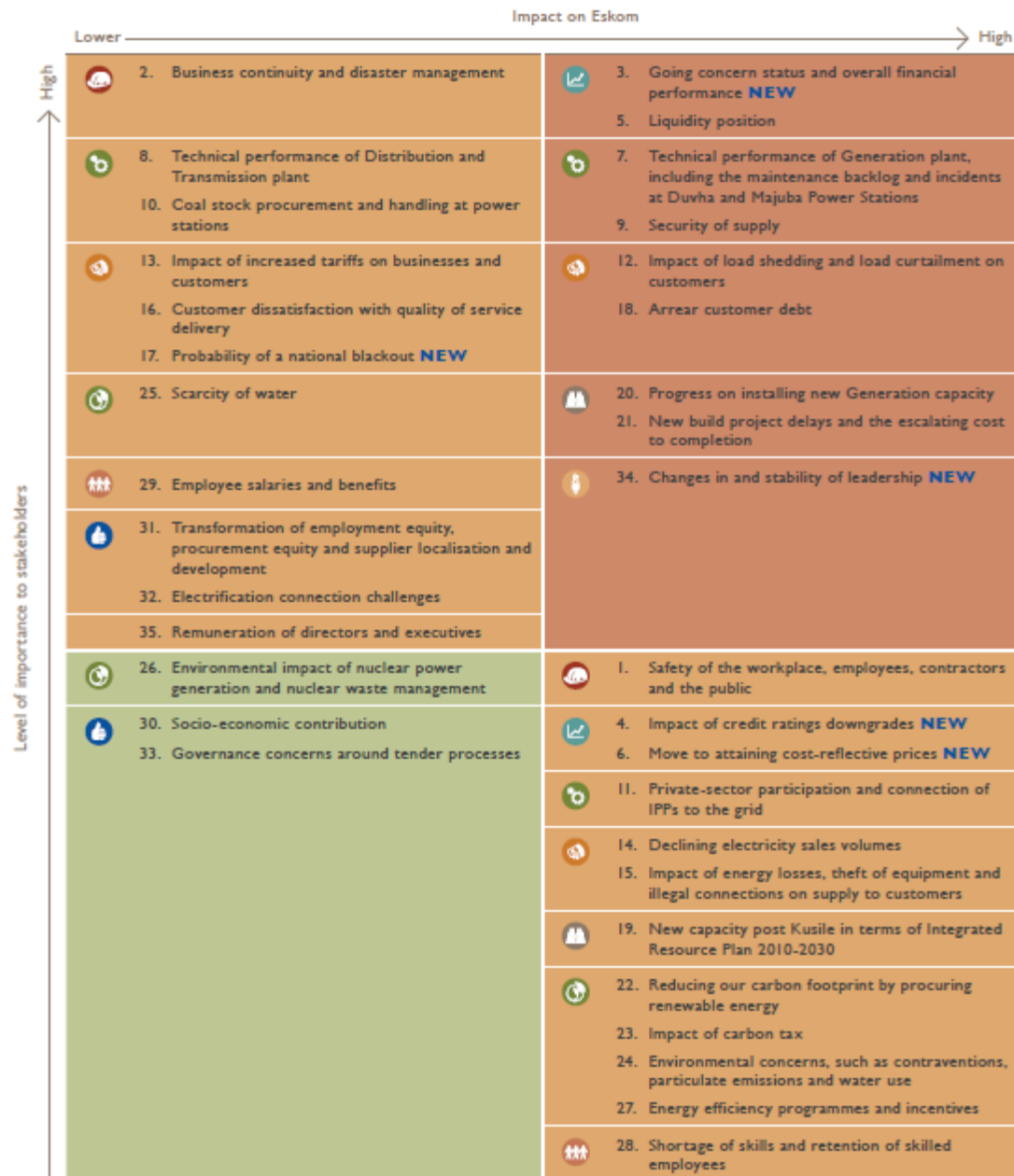
Overall, most of the material matters described in the 2014 integrated report remain relevant, although the level of importance to stakeholders or impact on Eskom may have changed. Some new issues have been raised, while other issues increased in their level of importance to all stakeholder groups over the last year.

Eskom's Integrated Report Steering Committee assessed and prioritised the concerns identified through the stakeholder engagement process. The stakeholder materiality matrix that follows depicts the relationship of the stakeholder matters to the impact on Eskom.

Although the material matters have been numbered, this is merely to facilitate cross-referencing and does not indicate the level of importance of an item.

Stakeholder materiality matrix

Stakeholder materiality matrix



The full list of stakeholder matters, grouped according to the sustainability dimensions and indicating which matters were raised by which stakeholders, is available as a fact sheet

