Eskom

Integrated report

31 March 2015

Contents

Navigation icons

The following navigation icons are used throughout this report to link material matters, risks, key performance indicators and performance to sustainability dimensions and strategy:


Safety and security


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


Refers to supplementary information available in a fact sheet


Shows where additional information can be found in this report

Indicates that more information is available on our website

A list of abbreviations and glossary of terms are available at the back of this report

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Throughout this integrated report, performance against target is indicated as follows:

- Actual performance met or exceeded target
- Actual performance almost met target
- Actual performance did not meet target

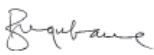
About this report

This integrated report aligns with best practice in integrated reporting. It includes the principles of integrated reporting contained in the International Integrated Reporting Framework (the International <IR> Framework), published by the International Integrated Reporting Council (IIRC) in December 2013, and takes into account other guidelines published in this regard.

Board responsibility and approval

The Board, assisted by the Audit and Risk Committee and the Social, Ethics and Sustainability Committee, is ultimately responsible for the integrity and completeness of the integrated report and any supplementary information. The Board has applied its collective mind to the preparation and presentation of the integrated report and has concluded that it is presented in accordance with the International <IR> Framework.

The Board approved the 2015 integrated report, together with the annual financial statements and supplementary information, taking into consideration the completeness of the material items it deals with and the reliability of information presented, in line with the combined assurance process followed, on 28 May 2015:



Dr Ben Ngubane
Acting Chairman

Ms Chwayita Mabude
Chairman: Audit and Risk Committee

Ms Venete Klein
Chairman: Social, Ethics and Sustainability Committee

Our integrated reporting journey

We actively participated in the IIRC's Pilot Programme since its inception in 2011. Although the Pilot Programme came to an end during 2014, we remain committed to integrated reporting and continue on the journey to improving both our integrated reporting, guided by best practice, and integrated thinking. External and internal reviews of our 2014 integrated report identified a number of ways in which it could be improved, which we have considered when compiling this report.

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.

In an effort to reduce our environmental footprint, this report has been printed on Camelot Offset Cartridge paper, which is FSC™ certified. We have also challenged ourselves to reduce the length of our report.

Basis of preparation

This report seeks to provide a transparent and balanced appraisal of our value creation story, considering both qualitative and quantitative matters that are material to our operations and strategic objectives, and which may influence the decision-making of our stakeholders. Matters important to stakeholders are determined through extensive consultation with and consideration of the concerns raised by our stakeholders, taking account of our strategic objectives, assessment of risk and the way in which our value chain operates. Material matters are those that are both of high concern to stakeholders and which could have a significant impact on our ability to create value.

*For more information on our stakeholder engagement process and the determination of material matters, refer to pages **22** to **23***

This is our primary report to stakeholders, and although it is aimed at providers of financial capital, it provides information of interest to all stakeholders. In prior years, we produced both an integrated report and a supplementary and divisional report. This year, in an attempt to produce a more concise and relevant report, we have produced only one report, which seeks to address mainly material matters, both positive and negative.

Although some stakeholders may require information on topics not classified as material matters, a wide range of targeted communications are employed to address those needs. Moreover, information considered material or otherwise pertinent, previously contained in the supplementary and divisional report, has been addressed either in this integrated report or the accompanying fact sheets.

The content is further guided by legal and regulatory requirements, such as the Companies Act, 2008 and the King Code on Corporate Governance in South Africa (King III), as well as global best practice, not least of which the International <IR> Framework. We are assessing the requirements of the new GRI G4 guidelines. We aim to report in accordance with GRI G4: Core in our 2016 integrated report.

Reporting boundary and frameworks

This integrated report reviews our economic, technical, social and environmental performance for the year from 1 April 2014 to 31 March 2015, with two years' comparative information as well as short- and medium-term future targets presented. Material events up to the date of approval have been included. It follows our 2014 integrated report, as well as an interim integrated report for the period 1 April to 30 September 2014, issued in December 2014.

This report examines our performance in relation to the sustainability dimensions which underpin our strategy, taking into account our operating environment, our long-term goals, the risks that might prevent us from achieving those goals and the measures put in place to mitigate those risks. We believe that the information presented is comparable to that of prior years, with no significant restatements, unless otherwise indicated.

*Refer to our business model on pages **8** and **9** for more detail on our operations*

As our integrated report includes only condensed annual financial statements, it should be read in conjunction with our full set of annual financial statements for a comprehensive overview of our performance. Unless otherwise stated, the information in this report refers to the business of Eskom Holdings SOC Ltd, which operates in South Africa, excluding its major subsidiaries.

*Our group structure and information on our subsidiaries are provided on page **13***

Assurance approach

Our combined assurance model recognises three lines of defence, namely review by management, supplemented by internal and external assurance in order to optimise governance oversight, risk management and control. The Audit and Risk Committee and the Board rely on combined assurance in forming their view of the adequacy of our risk management and internal controls.

We have applied a combined assurance approach in the preparation of this report. Although the report as a whole has not been externally assured, those sustainability KPIs contained in the shareholder compact and reported on in this report were subject to external assurance, and have received either reasonable or limited assurance. These are marked with an "RA" or "LA" in the statistical tables.

*The independent sustainability assurance report, with an indication of the KPIs which have been assured, can be found on pages **119** to **121***

Forward-looking statements

Certain statements in this report regarding Eskom's business operations may constitute forward-looking statements. These include all statements other than statements of historical fact, including those regarding the financial position, business strategy, management plans and objectives for future operations. Forward-looking statements can be identified by words such as "believes", "estimates", "anticipates", "expects", "intends", "may", "will", "plans", "outlook" and other words of similar meaning in connection with a discussion of future operating or financial performance.

Forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised, and as such, are not intended to be a guarantee of future results, but constitute our current expectations based on reasonable assumptions. Actual results could differ materially from those projected in any forward-looking statements due to various events, risks, uncertainties and other factors. Eskom neither intends to nor assumes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Request for feedback

We welcome your feedback on the usefulness of this report and ways in which we could improve our report in future, to ensure that it continues to provide relevant information. Please send any suggestions to IRfeedback@eskom.co.za

Our suite of reports

Our 2015 suite of reports comprises the following, all of which are available online:

Integrated report and fact sheets

The integrated report, which provides an overview of our performance, is prepared in accordance with the IIRC's International <IR> Framework, and subjected to combined assurance, with those KPIs included in the shareholder compact being externally assured. In addition, a number of fact sheets provide pertinent information to interested stakeholders; these can be downloaded from our website, together with the integrated report

Annual financial statements

The group and company financial statements of Eskom Holdings SOC Ltd have been prepared in accordance with International Financial Reporting Standards as well as the requirements of the Public Finance Management Act, 1999 and Companies Act, 2008, and audited by our independent auditors, SizweNtsalubaGobodo Inc. whose unmodified audit opinion can be found on pages 13 to 15 of the annual financial statements

Foundation report

The Eskom Development Foundation NPC (the Foundation) is responsible for the coordination and execution of our corporate social investment strategy in support of our business imperatives. This report details the operations and activities of the Foundation for the 2014/15 year

Eskom Factor report

The Eskom Factor is a collective term explaining our footprint in South Africa, which was quantified through a comprehensive assessment of our economic, social and environmental impact on the country, both positive and negative, within the financial year ended 31 March 2011. The report is due to be updated in 2017 to represent a five-year assessment

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Our business

Our mandate, vision and values

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 was incorporated in accordance with the Eskom Conversion Act, 2001 and continues to exist as a state-owned company (SOC) as defined in the Companies Act, 2008. As an SOC, Eskom's purpose is to deliver on the strategic intent mandated by Government and detailed in our Memorandum of Incorporation.

Mandate

Our mandate is to provide electricity in an efficient and sustainable manner, including its generation, transmission, distribution and sales. Eskom is a critical and strategic contributor to Government's goal of ensuring security of electricity supply to the country as well as economic growth and prosperity.

Purpose

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.

Vision

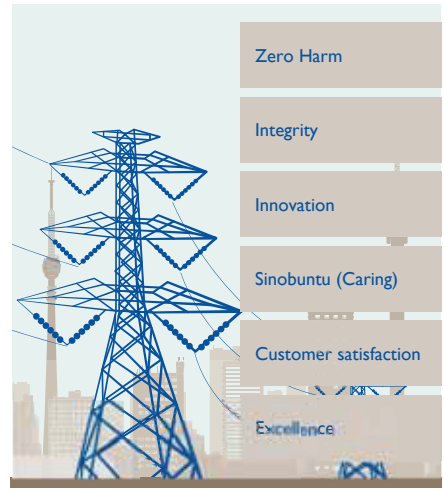
Our vision statement is "Sustainable power for a better future". The Corporate Plan sets out activities aimed at protecting the present so as to have sufficient options for the future.

Mission

Eskom's mission is to provide sustainable electricity solutions to assist the economy to grow and to improve the quality of life of people in South Africa and the region.

Values

The following values underpin our vision, and guide us in our everyday activities and how we do business:



Our strategy: Stabilise, re-energise, grow

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

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.

Sustainability dimensions

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.

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.

	Six capitals					
Sustainability dimensions	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.

Nature of our business and customer base

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.

Further information on power station capacities, power lines and substation capacities, is provided as fact sheets

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.

The number of customers, together with sales volumes and values, are provided in a fact sheet

Our business model

PRIMARY ENERGY

INPUTS

- **121.67Mt** Coal purchased
- **1 178.6Mℓ** Liquid fuel burnt
- **313 078Mℓ** Water used

POWER GENERATION

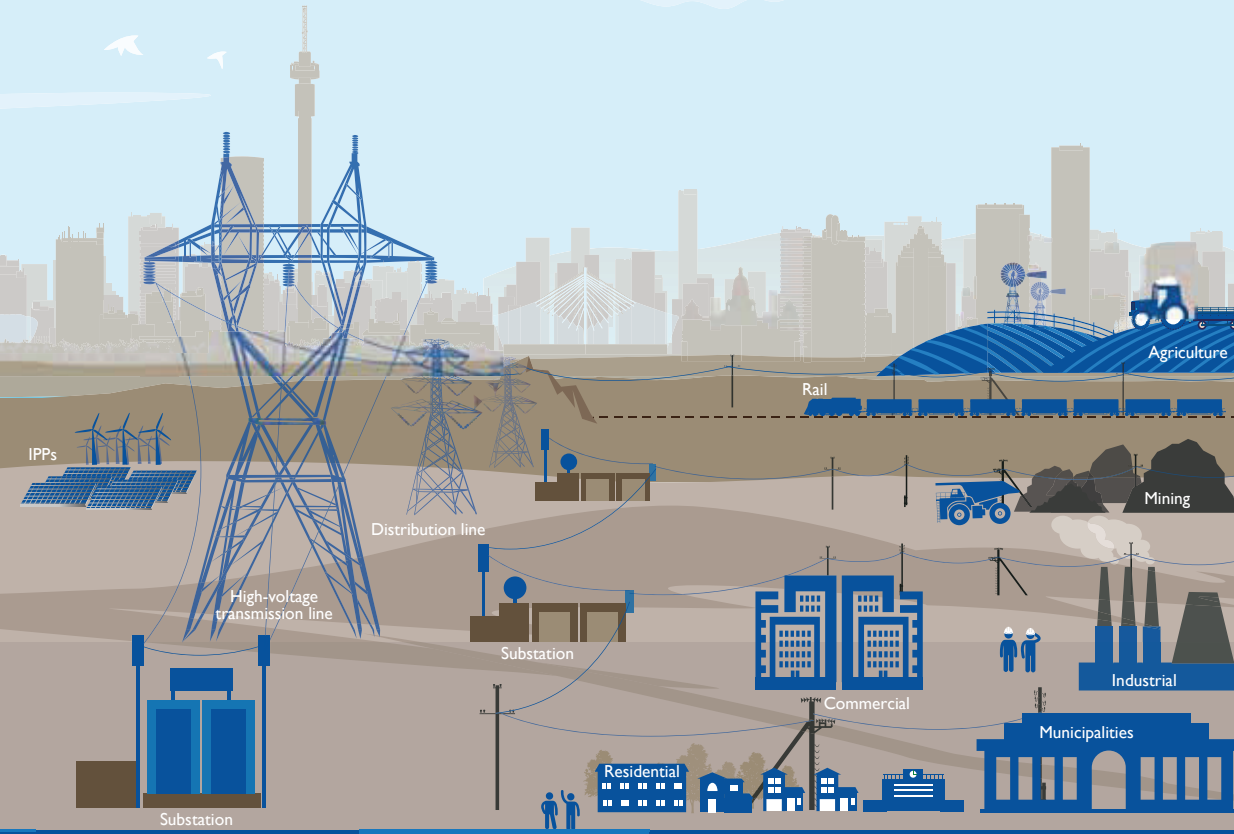
PROCESS

- **226 300GWh** Electricity generated
- Unplanned losses (UCLF) **15.22%**
- Energy availability (EAF) **73.73%**
- **34.4Mt** Ash produced
- **119.2Mt** Coal burnt
- **82.34kt** Particulate emissions

OUTCOMES

- **51 days** Coal stock
- **33.62%** Local sourcing in new build
- **88.89%** Procurement from B-BBEE compliant suppliers
- **6.61%** Procurement from black women-owned suppliers
- **0.33** LTIR
- **41 787** Eskom employees
- Learners – engineers (**1 315**), technicians (**826**), artisans (**1 752**)
- CSI committed spend **R115.5 million**
- **1 294** disabled employees
- Racial equity in senior management **61.58%**
- Gender equity in senior management **29.83%**

The IIRC's International <IR> Framework describes a company's business model as its "system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the organisation's strategic purposes and create value over the short, medium and long term". This system is affected by internal and external factors, which together make up the company's operating environment.



TRANSMISSION > **DISTRIBUTION** > **CUSTOMERS**

OUTPUTS

- **6 022GWh** IPP purchases
- **10 731GWh** Electricity imported
- **171.5MW** Demand savings
- **8.79%** Total energy losses

216 274GWh Total sales

42.1% Municipalities	**5.4%** Residential
24.7% Industrial	**4.5%** Commercial
13.8% Mining	**2.5%** Agriculture
5.6% International	**1.4%** Rail

- Cost of electricity **R610.43/MWh**
- Capital expenditure (excluding capitalised borrowing costs) **R54.4 billion**
- Electrification **159 853** households
- Interest cover **0.44**
- Debt/equity ratio **2.70**
- FFO as % of total debt **2.37%**

Our operating environment

The electricity supply industry in South Africa consists of the generation, transmission, distribution and sales, as well as the importing and exporting of electricity. Eskom is a key player in the industry, as we operate most of the base-load and peaking capacity. As noted earlier, we sell electricity to a variety of customers, including to municipalities, who distribute power to end users under licence.

IPPs have been invited to participate through a renewable energy programme run by the Department of Energy (DoE). Potential players were shortlisted and successful bidders have been contracted to supply energy into the national grid owned by Eskom. All grid planning is done by us, lines are constructed under specific licensing criteria and conform to a National Grid Code which is overseen and regulated by NERSA, South Africa's energy regulator.

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.

The electricity market is regulated by NERSA in terms of the National Energy Regulatory Act, 2004. NERSA issues licences, regulates all tariff increases, provides national grid codes, etc.

The National Nuclear Regulator (NNR) ensures that individuals, society and the environment are adequately protected against radiological hazards associated with the use of nuclear technology, and in our case, regulates Koeberg, our nuclear power station.

The Independent System Market Operator (ISMO) Bill was a proposal to restructure the existing market, with one dominant player within a regulated market managing the overall value chain of electricity generation, transmission and the bulk sale of electric power. A proposed independent system operator, with or without transmission assets being incorporated into the structure, was considered in terms of legislation, but the ISMO Bill has since been retracted. We support Government's proposal of drafting a new Electricity Bill, which will replace the ISMO Bill and will accommodate the entry of IPPs while allowing the System Operator to manage the current supply situation without extraneous distractions, thereby minimising potential interruptions to supply.

The Southern African Power Pool (SAPP) is made up of South Africa, Botswana, Lesotho, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe, connected through an integrated grid.

External factors influencing our business

Eskom is affected by a number of key external factors, which form the framework within which we operate. These factors are the shareholder mandate, the economic, social and environmental climate, the IRP 2010 and relevant legislation, regulations and policies.

Shareholder mandate

As mentioned earlier, our mandate is to provide electricity in an efficient and sustainable manner, including its generation, transmission, distribution and sales, while also supporting Government's developmental initiatives.

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.

Economic, social and environmental climate

The electricity that we produce is a major driver of the economy – about 2.2% of the country's gross domestic product can be attributed to the electricity, gas and water cluster. The pace at which the country's energy needs grow is linked to the pace at which the economy grows, and determines the pace at which generating capacity needs to expand to meet demand. Infrastructure capital investment has historically not kept up with economic growth, resulting in an electricity supply situation which is constrained in the short to medium term.

The global economic outlook remains uncertain, with a moderate slowdown in the US and China, and an improvement in the outlook and performance of the Euro area and Japan. Despite this, real economic activity in South Africa expanded at a faster pace than anticipated, with growth in real gross domestic product accelerating to 4.1% in the fourth quarter of 2014 due to a rebound in both the primary and secondary sectors, but falling to 2.1% in the first quarter of 2015. Looking ahead, the International Monetary Fund's view of South Africa's growth has been reduced to 2.1% in 2015 from 2.3% previously, and from 2.8% to 2.5% in 2016.

The lacklustre performance of the South African economy over the past year can be attributed to the adverse impact of the platinum mining labour strike and industrial action in the steel and engineering sector, combined with the impact of electricity supply interruptions, lower prices of key export commodities, subdued business and consumer confidence levels and flat global economic growth. On average, annual growth amounted to 2.4% in the five-year period from 2010 to 2014, compared to an average of 3.6% per year in the ten years prior to 2010.

An increase in labour action is one element of the social landscape which significantly affects our operations, as it impacts our customers, particularly in the mining industry, ultimately reducing their electricity usage and thereby our revenue. It also impacts our contractors and suppliers, particularly

those involved in building new power stations, and therefore has the potential to further delay the capacity expansion programme. Moreover, it raises concerns about contractor and employee safety.

Inflation of 5.4% is expected in 2015, although expectations for 2016 and 2017 are higher, with expectations ranging from 5.6% to 6.2% in 2016 and 5.3% to 6.3% in 2017.

The Rand appreciated against the Euro, despite having depreciated against the US dollar. The Rand exchange rate continues to be the main upside risk to the inflation outlook and remains highly vulnerable to the timing and pace of the US monetary policy normalisation, which is expected to put the currency under further pressure. Wage and salary increases in excess of inflation and productivity growth also pose an upside risk to inflation, with the possibility of further electricity price increases accentuating this risk.

The current adverse economic climate has the potential to further increase non-payment by customers, as well as illegal connections and theft of electricity and equipment, all of which have a technical and financial impact on our ability to ensure security of supply and remain sustainable.

Just as electricity generation inevitably affects the environment, the environment also has an effect on Eskom. Our operating licence depends on various legislative requirements, including keeping our water usage and atmospheric emissions within legislative requirements. Furthermore, severe changes to climatic conditions could have a significant impact on our infrastructure.

Integrated Resource Plan 2010-2030 (IRP 2010)

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

Legislation, regulations and policies

Eskom is 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.

Important legislation that influences our governance include the Electricity Regulation Act, 2006, Companies Act, 2008, Public Finance Management Act, 1999, Preferential Procurement Policy Framework Act, 2000, Promotion of Access to Information Act, 2000, Promotion of Administrative Justice Act, 2000, Occupational Health and Safety Act, 1993, and Employment Equity Act, 1998. The King Code on Corporate Governance in South Africa (King III), Protocol on Corporate Governance in the Public Sector and various international guidelines direct us regarding best practice in governance and reporting.

Our declaration in terms of Section 32 of PAIA is available as a fact sheet – the nature, volume and complexity of PAIA requests, together with the percentage of refusals, prevents comprehensive disclosure in the integrated report

Our internal operating environment

The internal cornerstones of our business are leadership and governance, our values, our policies, procedures and systems as well as technology.

Leadership and governance guided by our values

Eskom's Board is responsible for governing the company. The Executive Management Committee (Exco) and a broader Management Operations Committee (Manco Ops), which includes line and functional leaders, implement the decisions made at governance level on a day-to-day basis. There is a clear distinction of roles and responsibilities between the Board, Exco and Manco Ops. Exco provides overall guidance while Manco Ops focuses on monitoring performance and operations at a more operational level.

Our leadership and governance is underpinned by our values, which were discussed earlier in this section.

Policies, procedures and systems

Systems play an important role in Eskom, affecting every aspect of our operations, from safety to the efficiency of our power stations to the experience of our customers. Standardised processes, policies and procedures have been developed for all aspects of the business and are regularly updated to ensure good governance and implement efficiency improvements.

We use key performance indicators to measure business performance. These measures are documented and approved in terms of our Enterprise Performance Management process.

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.

Technology

Technology, which is a key enabler of our operations, includes telecommunications, information technology, research and innovation. We are constantly scanning the technology environment for new ways to improve our operations.

We run focused research programmes to improve our processes and technologies as well as reduce our impact on the environment. If research indicates that a technology is promising, we invest in a pilot project to investigate the feasibility of larger scale rollout. These technologies include new methods for generating electricity, such as the concentrated solar power (CSP) plant in Upington, and smart grid technology.

Our value chain

We are committed to providing and maintaining a safe, healthy working environment for all employees and contractors, and have made safety a key focus area within the company. Our value chain consists of core operations, supported by a number of support and strategic functions.

Core operations

Our core operations are the generation, transmission, distribution and sales of electricity. The primary energy resources that our power stations need to operate – coal, liquid fuels, uranium and water – must be sufficient, delivered on time at optimal cost, and be of the required quality.

Coal is procured in terms of long-term cost-plus contracts, long-term fixed-price contracts and medium- and short-term contracts. Cost-plus contracts are long-term agreements whereby a mine's coal reserves are dedicated to Eskom and coal is bought at a cost that covers the mine's full capital investment, its operating cost and a return on investment. The fixed-price mines produce both export-quality coal for sale on international markets and Eskom-quality coal, which is sold to us at the contracted price. Kusile will be the first of our power stations to use limestone in its flue gas desulphurisation plant.

Generating electricity requires a significant amount of water and also results in atmospheric emissions, ash and nuclear waste. We aim to minimise our impact on the environment by reducing atmospheric emissions and fresh-water usage by transitioning to a cleaner energy mix and continuing with research and development to explore improved energy technologies.

The people and companies we sell electricity to, both locally and beyond South Africa's borders, are our primary partners. The quality of these relationships is very important to us and is therefore constantly monitored and enhanced. Our customers are important partners in assisting us in ensuring security of supply by reducing their electricity demand. This is done through demand management and energy efficiency programmes such as the televised Power Alerts, IDM programme and 49M energy efficiency campaign.

Strong partnerships with Government, suppliers and contractors are vital in meeting current and future electricity needs. This group includes various Government departments, coal mines, water authorities, IPPs, fellow members of the Southern African Power Pool, Original Equipment Manufacturers (OEMs) and contractors working on the capacity expansion programme. We have also established partnerships with other state-owned entities such as Transnet, Alexkor, PetroSA and Broadband Infraco to capitalise on our complementary strengths, thereby enhancing the economic contribution of state-owned entities.

Our regional development strategy involved creating the Southern African Energy Unit, through which we import electricity from Lesotho, Mozambique and Namibia, and sell electricity to Botswana, Lesotho, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe, on either firm or unfirm agreements.

*Refer to "Operational sustainability – Cross border sales and purchases of electricity" on page **56** for more information on firm and unfirm agreements*

Capacity expansion programme

We are busy with a capacity expansion programme to expand our generation and transmission capacity. This programme, which will increase our generating capacity by 17 384MW by 2021, includes building two coal-fired and one pumped storage power stations, a wind facility, which was completed this year, as well as a concentrated solar thermal station. It also involves strengthening and substantially extending the Transmission grid.

Finance

Our funding model consists of equity, in the form of both investment by the shareholder or retained earnings, and debt funding, with strong Government support. Our credit rating is affected by our own financial position as well as the credit rating of the Sovereign.

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.

Workforce

Our operations are supported by a highly skilled workforce that executes our core operations and provides supporting business services such as human resources management, information technology services, procurement, research, etc.

We have a rigorous transformation programme in place to ensure equity in the workplace, and have put in place skills development programmes to train engineers, technicians and artisans to meet our future need for skilled workers. Our employees receive required training on an ongoing basis.

Procurement

We have a centre-led procurement and supply chain process. We use our procurement partnerships to stimulate black economic empowerment, particularly among black women and black youth, in line with our supplier development and localisation aspirations.

Corporate social investment and development

The Eskom Development Foundation NPC (the Foundation) administers our corporate social investment activities. We are leveraging the capacity expansion programme to reduce unemployment, improve the country's skills pool, stimulate the local economy and increase economic equity by supporting broad-based black economic empowerment (B-BBEE).

We have been implementing DoE's Integrated National Electrification Programme in our licensed areas of supply since April 2001. Since commencement in 1991, we have electrified more than 4.6 million households within our supply areas.

Eskom's energy wheel

The energy wheel, or energy flow diagram, shows the volume of electricity that flowed from local and international power stations and IPPs to Eskom's distribution and export points during the past two years, including the losses incurred in reaching customers.

The energy flow diagram is available as a fact sheet

Legal and operating structure

Legal structure

Our head office is based in Johannesburg, but we have operations across South Africa. We also maintain a small office in London, primarily for quality control of the equipment being manufactured for the capacity expansion programme. Our group is structured as follows:

The Eskom group consists of the Eskom business and a number of operating subsidiaries, including:

Eskom Enterprises SOC Ltd group

Through the Rotek and Roshcon businesses, Eskom Enterprises (EE) provides lifecycle support, plant maintenance and support for the capacity expansion programme to Eskom's line divisions. During the financial year, EE sold its operating assets to Eskom, and now functions as an investment holding company. EE also has a subsidiary in Uganda; it has an interest in an electricity operating and maintenance concession.

Eskom Energie Manantali s.a (EEM), a subsidiary of EE, used to operate an operating and maintenance concession with Société de Gestion de l'Energie de Manantali (SOGEM). As reported at 31 March 2014, exit options were being pursued and as a result, EEM was classified as a discontinued operation in our 2014 financial statements. Subsequently, agreement was reached between EEM and SOGEM for the sale of assets and mutual discharge from the operating and maintenance concession. The liquidation of EEM was registered on 24 February 2015.

Eskom Finance Company SOC Ltd (EFC)

EFC was established in 1990 primarily to enable Eskom's employees to have access to home loan finance whilst optimising home ownership costs for both Eskom and its employees. We are in the process of finding an appropriate disposal solution for this subsidiary at the request of the shareholder. It has not been classified as a discontinued operation in our financial statements, as it currently does not meet the requirements of International Financial Reporting Standards (IFRS).

Escap SOC Ltd

Eskom's wholly-owned insurance captive company manages and insures the business risk of Eskom and our subsidiaries, excluding nuclear and aviation liabilities.

Eskom Development Foundation NPC

The Foundation is a wholly-owned non-profit company that manages our corporate social investment in support of our transformation objective.

Eskom Pension and Provident Fund

The Eskom Pension and Provident Fund (EPPF) is a defined benefit pension fund that is registered as a self-administered pension fund in terms of the Pension Funds Act, 1956 and approved as a pension fund in terms of the Income Tax Act, 1962. The EPPF is the second largest pension fund in the country in terms of assets, with a market value of over R112 billion as at 30 June 2014. It provides retirement, withdrawal and disability benefits to its members, as well as death benefits for its in-service members, pensioners and deferred pensioners, which are paid to their qualifying beneficiaries. As at 30 June 2014, the EPPF had 45 377 in-service members and 35 491 pensioners.

The EPPF is an independent legal entity, governed by a Board of Trustees, and is not part of the Eskom group. However, as the EPPF plays a key role in creating value for Eskom's employees, both current and retired, it has been included here.

Operating structure

Eskom's operating structure, shown below, comprises line functions that operate the business, service functions that service the operations and strategic functions that develop the enterprise. Members of Exco are assigned to take accountability for each of the areas.

Line functions	Service functions	Strategic functions
Generation	Group Finance	Group Sustainability
Transmission	Human Resources	Strategy and Risk Management
Distribution	Group Commercial	Group IT
Group Customer Services	Group Technology	Corporate Affairs
Group Capital		Regulation and Legal

*For Exco profiles and portfolios, refer to pages **40** and **41***

Materiality and contribution to financial performance

As mentioned above, the Eskom group consists of the Eskom business and a number of operating subsidiaries. Each of the companies contributes to the financial performance and position as follows:

R million	Eskom company	EE group	Escap	EFC	Foundation	Eliminations and other	Eskom group
Revenue	147 691	8 162	1 780	783	–	(10 725)	**147 691**
Operating profit	8 885	555	279	155	(1)	(727)	**9 146**
Net profit after tax	2 796	769	510	122	–	(579)	**3 618**
Total assets	557 768	6 517	9 852	8 955	88	(20 296)	**562 884**
Total liabilities	441 728	2 322	8 421	8 261	88	(20 183)	**440 637**
Capital expenditure	54 427	439	–	–	–	(1 789)	**53 077**

As can be seen from the information above, the Eskom business is by far the most significant to the performance of the group. Therefore, in the interests of materiality and conciseness, the balance of this integrated report, when discussing key performance indicators and operating performance, will focus on Eskom Holdings SOC Ltd, unless information about the subsidiaries is relevant to understanding Eskom's performance. As noted earlier, the main function of our subsidiaries is to support our business operations as well as our employees.

Our strategy

Chairman's statement

Dr Ben Ngubane
Acting Chairman

Stabilise, re-energise, grow

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

Board of Directors

at 28 May 2015

Dr Ben Ngubane (73)

Acting Chairman

Independent non-executive

Ben, former Minister of Arts, Culture, Science and Technology and also ambassador to Japan, has vast experience in the health sector, both local and international. He has served on the Boards of various child and community-based organisations, as well as on the board of the South African Broadcasting Corporation.

Ben was appointed as acting Chairman of the Board on 30 March 2015, until a permanent replacement is found.

Ms Nazia Carrim (34)

Independent non-executive

Nazia is an admitted attorney, conveyancer and notary, with a strong focus on business. She heads up her own legal practice and also serves as a Commissioner at the CCMA.

Mr Zethembe Khoza (57)

Independent non-executive

Zethembe, the former head of Customer Services at Telkom, heads up his own investment company, specialising in consulting, civil construction work and building maintenance. He is experienced in infrastructure planning and commercialisation. Zethembe acted as Chief Executive from 12 March to 17 April 2015.

Ms Venete Klein (56)

Independent non-executive

Venete is a chartered director, and the Chairman of the Institute of Directors of Southern Africa. She heads up her own management consultancy firm. She has completed numerous senior executive programmes at top business schools both locally and internationally, and holds various directorships.

Mr Romeo Kumalo (43)

Independent non-executive

Romeo, the current CEO of Vodacom International, is an accomplished executive, with over 20 years' experience in the information and communications technology industry. He is a commercial strategy expert, with a proven track record of building successful teams and turning around underperforming businesses.

ARC Audit and Risk Committee

IFC Investment and Finance Committee

P&G People and Governance Committee

RBP Board Recovery and Build Programme Committee

SES Social, Ethics and Sustainability Committee

TC Board Tender Committee

Denotes chairmanship of a committee

ARC P&G TC RBP SES TC ARC RBP SES IFC

Ms Chwayita Mabude (45)

Independent non-executive

Chwayita is a practising accountant with a background in financial management. She has served on the Eskom Board since June 2011, and also serves on the board of the Airports Company South Africa.

Dr Pat Naidoo (55)

Independent non-executive

Pat is a registered professional engineer, a specialist consultant and an Adjunct Professor of Power Engineering at the Durban University of Technology. He has three decades of experience in the electricity industry, with both Eskom and the Southern African Power Pool. He serves on the Council of the South African Institute of Electrical Engineers and is a member of the executive committee of the Institute of Electrical and Electronics Engineers South Africa and Cigre SA.

Ms Viroshini Naidoo (42)

Independent non-executive

Viroshini joins the Board as an admitted attorney with High Court right of appearance and over nine years' experience in private practice as well as corporate legal counsel roles with Telkom and Mpact Limited.

Mr Mark Pamensky (42)

Independent non-executive

Mark is a chartered accountant with experience in effecting turnaround strategies. He serves as the Group Chief Operations Officer of Blue Label Telecoms Limited.

Further information, such as the qualifications and significant directorships of Board members, are provided as a fact sheet

The acting Chief Executive and acting Chief Financial Officer are not members of the Board.

Ms Mariam Cassim and Mr Giovanni Leonardi were appointed to the Board on 25 May 2015. As a result of these appointments, the constitution of the Board subcommittees will be revised.

The former Chief Executive, Mr Tshediso Matona, has resigned effective 31 May 2015.

Ages shown are as at 28 May 2015.

Key Board activities

The Board of Directors is responsible for the strategic direction of the company. At its breakaway held at the beginning of the 2014/15 financial year, the Board decided that security of supply could no longer be maintained at all costs, and that we cannot compromise on compliance and sustainability in terms of people, plant, safety, the environment and financial sustainability. Our going concern status would not be compromised in support of operational sustainability or balancing supply and demand.

As in the prior year, balancing security of supply and ensuring our financial sustainability were two of the most material items the Board had to deal with this year. In addition, the Board also applied its mind to the following significant matters during the year under review:

- Real challenges faced by the electricity supply industry which are partly due to delays in policy decisions, as well as delays in obtaining the go-ahead for major projects, together with an acknowledgement that we face challenges that cannot always be reconciled and that trade-offs are necessary
- Agreement that the strategy of keeping the lights on adversely impacted financial and operational sustainability, resulting in an urgent need to perform adequate maintenance in order to protect long-term plant health. This led to the approval of the Generation recovery strategy, which covers both immediate actions and those required over the medium term, with an emphasis on the fact that we will not sacrifice our plant in order to ensure short-term security of supply
- Alternatives to manage declining coal qualities, which manifests through coal-related partial load losses, including options such as short-term purchasing of higher specification coal, using washing plants at collieries, modification of coal handling plant, Generation plant design adaptations as well as changes in our maintenance and operations philosophy
- Approval of OCGT expenditure beyond the original budget for the year to 31 March 2015, with an instruction that the amount should be tightly controlled and be applied only to ensure stability of the power system, coupled with consideration of opportunities for procuring diesel in bulk at lower prices
- Gas strategy, including the exploration of local and cross-border gas opportunities, as well as the funding mechanism, with approval of amounts for exploratory studies
- Requirement for a protocol to manage peak demand in a predictable manner
- Negative impact of escalating arrear municipal and residential debt on liquidity and financial sustainability, with consideration of alternative options for collecting arrear municipal debt, such as payment of the debt by National Treasury using the municipalities' equity share
- Approved the application of Selective Load Curtailment, which authorises the suspension, reduction or termination of supply to selected customers or groups of customers as a viable option to manage supply constraints. The Board further approved dealing with non-paying municipalities in an assertive manner, for instance through application of load shifting and load interruptability
- Approved the implementation of a number of measures to manage the arrear municipal debt (refer "Revenue and customer sustainability – Revenue and debtor management" for more detail) as well as the disconnection of all non-paying municipalities in accordance with Eskom's revenue management procedure
- Review of progress on the new build programme, and consideration of an alternative control and instrumentation (C&I) supplier at Kusile
- Progress on the disposal of EFC, and consideration of alternative options for disposal
- Decision that no risk should be taken on unfunded projects, as the business could not afford to proceed with unfunded mandates
- Confirmed that the intention of the BPP programme was to strengthen the balance sheet and improve long-term sustainability by doing more with less
- No short-term incentive bonuses were to be paid to executive management during the 2013/14 and 2014/15 financial years, given the company's performance
- Circumstances surrounding the reportable irregularity reported in the interim financial statements and actions to address the matter
- Consideration of risk management and enterprise risks
- Consideration of candidates for the position of Chief Executive
- Approval of the following matters:
  - Integrated report and annual financial statements, as well as the interim integrated report and interim financial statements
  - The five-year Corporate Plan, which, among other matters, sets out our strategy
  - Appointment of the external auditors and the Company Secretary
  - Ethics policies and associated procedures
  - Terms of reference of subcommittees

In addition to the items mentioned above, the Board, through its subcommittees, considered a host of other matters. Refer to pages ***106*** *to* ***108*** *in "Our leadership and governance" for further information on the activities of the Board committees*

During March 2015, the Board commissioned an independent enquiry into current technical, commercial and structural issues within the company. As part of the process, the following executives were suspended to ensure that the process is as transparent and uninhibited as possible:

- Mr Tshediso Matona, Chief Executive
- Ms Tsholofelo Molefe, Finance Director
- Mr Dan Marokane, Group Executive: Group Capital
- Mr Matshela Koko, Group Executive: Group Technology and Commercial

On 30 March 2015, the Chairman of the Board, Mr Zola Tsotsi, resigned and the Board elected Dr Ben Ngubane as acting Chairman, a decision which was approved by the Minister.

On 17 April 2015 it was announced that the Board had appointed an external service provider to lead the independent enquiry, and that the terms of reference had been finalised. The enquiry is expected to be finalised within three months and will consider the following issues:

- Liquidity position and cash flow challenges
- Poor performance of Generation plant
- Escalation of primary energy costs relating to coal and diesel
- New build delays and overruns

After the suspension of the executives, Mr Zethembe Khoza, a non-executive director, was appointed as acting Chief Executive, Ms Nonkululeko Veleti as acting Chief Financial Officer, Mr Abram Masango as acting Group Executive: Group Capital and Mr Edwin Mabelane as acting Group Executive: Group Technology and Commercial. However, the Minister announced the appointment of Mr Brian Molefe (Chief Executive of Transnet SOC Ltd) as full-time acting Chief Executive from 20 April 2015, after which Mr Khoza would return to membership of the Board. Given Zethembe's brief tenure as part-time acting Chief Executive, his independence is considered not to have been substantially affected.

See glossary of terms for the definition of an independent non-executive director

On 18 May 2015, Mr Tshediso Matona and Eskom reached a mutual agreement to part ways on an amicable basis. No misconduct or wrongdoing is alleged against Tshediso, who believes that the agreement is in the best interests of Eskom, to allow the Board to pursue its plans for the company under the current leadership. The independent enquiry initiated by the Board into the state of affairs at Eskom will continue as planned. The separation is by no means an anticipation of the outcome of the enquiry, which is aimed at enabling the organisation to deal with the current challenges.

One of the turbine masts at the 100MW Sere Wind Farm, our first utility-scale renewable energy project, which was placed into commercial operation on 31 March 2015

Stakeholder engagement and material matters

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 regularly engage the following stakeholders:

Government Parliament Regulators	Lenders Analysts Investors	Employees Organised labour	Public Media	Suppliers Contractors
	Customers Organised business Industry	Civil society Environmental organisations		

We engage these stakeholders in the following ways:

• One-on-one meetings and teleconferencing • Interviews • Presentations and Q&A • Training interventions • Collective bargaining • Partnerships with key stakeholders • Industry task teams • Development programmes • Reports to stakeholders • Special publications and articles • Social media • Eskom website • Media briefings • Site visits • Public hearings • Roadshows • Open days • Workshops • Employee engagements • Conferences and forums • Wellness campaigns

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.

*Refer to pages **58** to **59** under "Revenue and customer sustainability" for the nature and quality of relationships with our customers*

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.

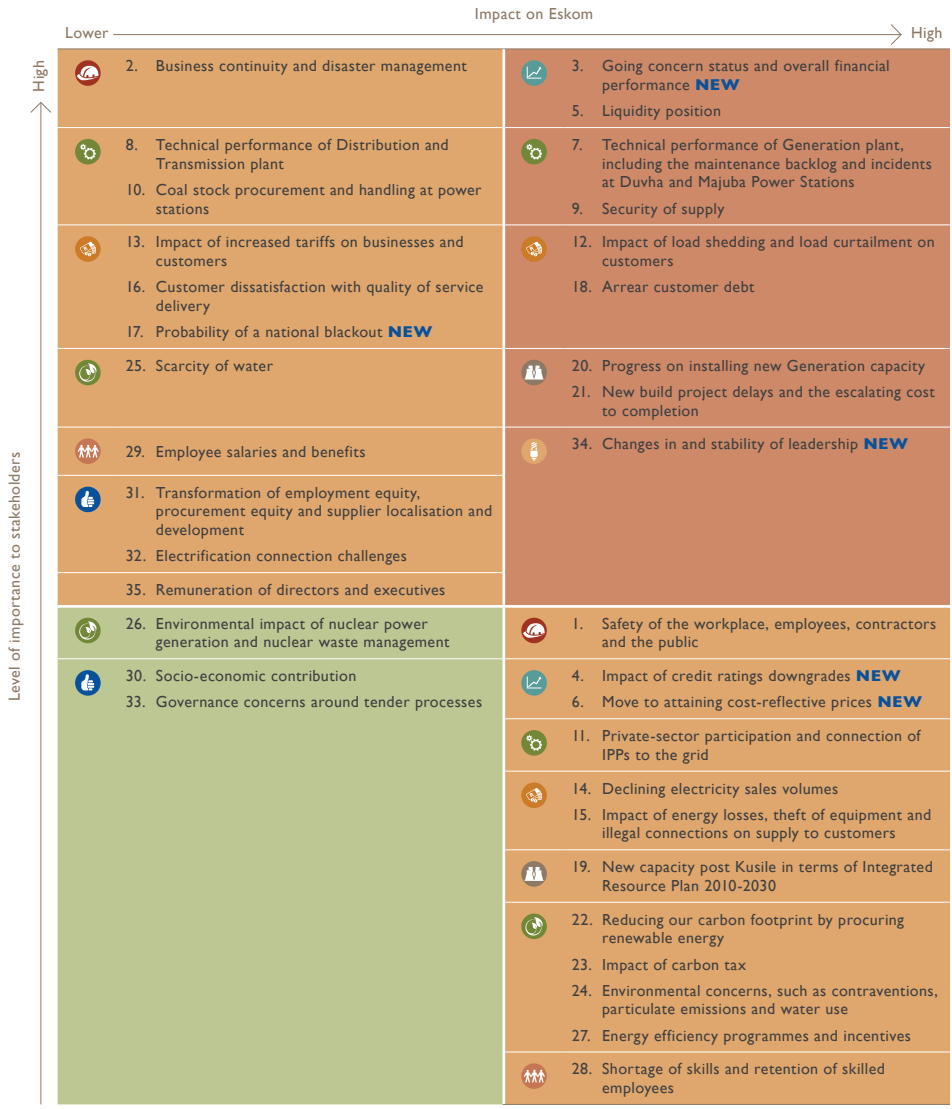
Eskom's Integrated Report Steering Committee assessed and prioritised the concerns identified through the stakeholder engagement process. The stakeholder materiality matrix that follows depicts the relationship of the stakeholder matters to the impact on Eskom.

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.

We engage with customers to educate them on energy efficiency, safety, free basic electricity, inclining block tariffs, buying of prepaid power through legal vendors, as well as the need for household budgeting to provide for electricity purchases

Stakeholder engagement and material matters
continued

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

While we consider all matters raised by stakeholders, not all of those have been addressed in this report. The following table sets out the material matters, found in the top right quadrant of the preceding stakeholder materiality matrix, together with the associated risks, which are discussed in the section that follows, and an indication of where in the integrated report the matter is discussed in more detail.

*The enterprise risks, with the associated risk rating and mitigating response, as well as the relevant key performance indicators are set out on pages **27** to **29***

Material matter	Associated risk	Reference in this report
Financial performance, liquidity and going concern In light of the NERSA MYPD 3 tariff determination of 8% coupled with the rising cost of energy production, the company's financial health, in terms of both long-term financial sustainability and the short-term liquidity position, has come under scrutiny. Stakeholders have engaged Eskom on concerns related to: • Going concern status and the liquidity position • Impact of the Government support package • Savings to be realised through the BPP programme • Increasing amounts spent on OCGTs and coal	Pressure on financial sustainability, liquidity and going concern	Financial sustainability Pages **93** to **101**
Technical performance of Generation plant This matter has become increasingly important to stakeholders, particularly given the Duvha Unit 3 incident, the collapse of the coal silo at Majuba and the backlog in planned maintenance, as it directly impacts security of supply.	Declining generating plant performance with inadequate space and funding for maintenance	Operational sustainability – Generation performance Page **49** to **52**
Security of supply Following consistent communication by Eskom, stakeholders have responded with robust engagement on this matter. The following topics, and how they affect our ability to stabilise the system, were of particular interest to stakeholder groups: • International sales and purchases of electricity • Use of OCGTs • Restrictions imposed by legislation, particularly as it relates to emissions limitations • IPP participation and connection	Declining generating plant performance with inadequate space and funding for maintenance Insufficient capital investment in network strengthening and refurbishment due to financial constraints Inadequate supplies of coal and liquid fuel, in terms of either volumes or quality, may impact the security of supply Connection of IPPs to the grid may be delayed by Eskom due to financial constraints, affecting the security of supply and resulting in deemed energy payments	Operational sustainability – Managing supply-and-demand constraints Page **54** to **57**
Arrear customer debt Stakeholders have expressed their concern at debt collection practices in place to address the escalating arrear customer debt, as well as the impact on our liquidity and financial sustainability.	Pressure on financial sustainability, liquidity and going concern Late and non-payment of outstanding debt by municipalities and Soweto contributing to cash flow constraints	Revenue and customer sustainability – Revenue and debtor management Page **60** to **62**
Impact of load shedding and load curtailment on customers During the latter part of the financial year, numerous engagements around load shedding events and the effect on all stakeholders, customers in particular, were held. Matters raised included: • Communication by Eskom • Predictability of interruptions • Reliability of load shedding schedules • Possibility of a national blackout	Declining generating plant performance with inadequate space and funding for maintenance Insufficient capital investment in network strengthening and refurbishment Inadequate supplies of coal and liquid fuel may impact the security of supply Connection of IPPs to the grid may be delayed by Eskom, affecting the security of supply	Management of risks and opportunities – Readiness for a national blackout Page **30** Revenue and customer sustainability – Load shedding and the impact on customers Page **59**
Delivering capital expansion: progress on delivering new capacity and impact of delays Stakeholders have expressed concern about the effect of the delays in bringing online new capacity on the constrained supply. Additional concerns raised include the quality of contractor performance, strike action, possible skills shortages, cost overruns and the overall safety on construction sites. At the same time, stakeholders were able to celebrate with us on milestones achieved, such as the first synchronisation of Medupi Unit 6 and the completion of the Sere Wind Farm, our first utility-scale renewable project.	Delivery delays due to labour unrest, safety incidents, late capacity allocations, contractor performance and skills, lack of funds and project cost escalations could place further pressure on the constrained power system	Sustainable asset creation Page **64** to **68**
Changes in and stability of leadership The organisation has been subject to numerous changes affecting our leadership and the composition of the top decision-making structures over the past year. Stakeholders have cited their worries regarding the effect of the following on Eskom and its operations: • Executive vacancies, resignations and acting appointments • Appointment of a new Board and Chairman • Suspension of executives	Lack of adequate skills to support Eskom's technology intensive operations in certain areas of the business	Key Board activities Page **20** to **21** Our leadership and governance – Board and Exco Page **105** to **108**

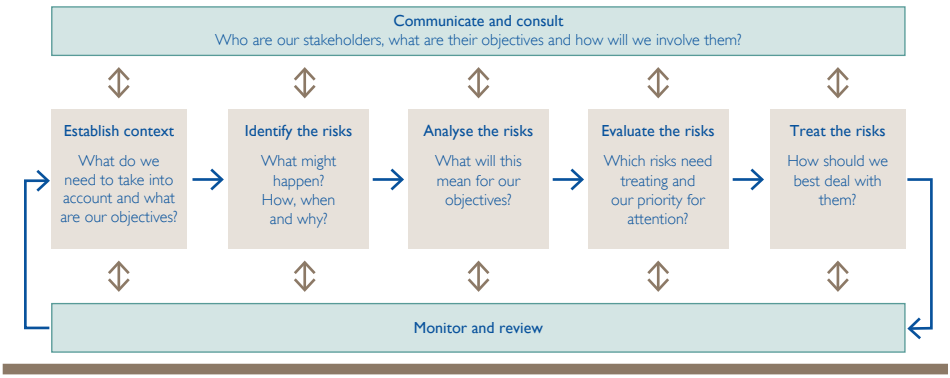
Management of risks and opportunities

Risk is about the effect of uncertainty on objectives and therefore a clearly defined, time-based objective is crucial to successful risk management. An enterprise risk focus is not intended to identify every risk facing an organisation but to identify those that are most significant to its ability to achieve and realise its core business strategy and objectives supporting value creation.

Continuous scanning of the external and internal environments in which we operate allows for the identification of emerging events or risks that may pose opportunities or threats to our current and future business. To fully comprehend the complexity of our enterprise risk profile, it is important to recognise that our environment is dynamic, posing challenges, threats and opportunities, and to acknowledge the integrated risk landscape in which an Eskom risk profile, which cuts across the whole business, has been developed.

We have implemented a risk management system to respond appropriately to all significant risks. Risk management is done at departmental, regional, operating unit and subsidiary level and is reported upwards to our centralised Risk and Resilience Department. The risks are consolidated into an integrated risk report focusing on the top risks impacting us at enterprise level, which are reviewed by Exco and the Audit and Risk Committee. Risk controls and treatment plans are put in place to manage risks within our approved appetite and tolerance levels.

Our risk management process can be set out as follows:



Eskom's management is responsible for managing our risk and resilience in order to provide greater security for our employees, our customers and other stakeholders. They evaluate the risk profile to determine the enterprise and business risk profiles.

An **enterprise risk profile** gives Exco and the Board a robust and holistic top-down view of key risks facing the organisation. This makes it possible to manage those risks strategically and to increase the likelihood that our objectives will be achieved. Enterprise risks are one or a combination of the following:

- Risks emanating from external factors, such as climate change, and/or enterprise events that are strategic challenges which may affect our ability to achieve our objectives
- Risks associated with our ability to develop and execute strategy, achieve strategic objectives and build and protect value
- Business risks may not be recognised as material in any one division but occur across multiple divisions and, when integrated and aggregated, become significant and impact our objectives
- A single business risk may be material enough to impact our strategic objectives and as such may be reported as a corporate risk

The **business risk profile** gives Exco and the Board a robust and holistic bottom-up view of key risks facing the divisions, as well as a view of the level of effectiveness of the management of those risks, in order to increase the likelihood that divisional and company objectives are achieved.

We consider certain risks inherent to our operations, such as:

- Risks that will have a significant consequence should they materialise, but that may not be consistently listed on the risk register because of the perceived adequacy of the controls or due to their perceived low likelihood
- Risks which by their nature fall into the realm of business continuity management, being related to the continuity of critical products and services in the event of a disruption to processes providing these. The focus here is not on the cause of the disruption but on the time-critical impact on the process if buildings, equipment, systems, technologies, human resources or suppliers are affected
- Risks that fall into the category of disaster risks, i.e. with a potentially significant impact on the country if our products and services are disrupted (if business continuity is not adequate), and if we do not have the capability to respond

In line with our integrated risk management methodology, inherent risks are continuously reviewed with a particular focus on the effectiveness of controls.

We are required to comply with the relevant provisions of the Disaster Management Act, 2002 and the associated National Disaster Management Framework; we are focusing on improving the processes around this requirement.

Our top risks, reported to the Audit and Risk Committee, relate to our sustainability dimensions as set out alongside:

The following table details the enterprise risks and provides the associated risk rating, reference to the associated material matters, as well as the mitigating response to these risks and key performance indicators used to monitor performance.

*The enterprise level risks, plotted on the Eskom Risk Matrix in terms of their risk rating, which is a combination of the expected impact and likelihood, are shown on page **30***

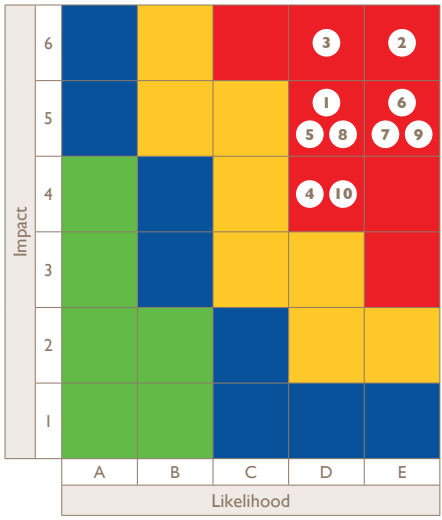
Enterprise risk	Risk rating	Associated material matters	Mitigating response and controls	Key performance indicators
Safety and security				
1. Health and safety risks to employees, contractors and the public Inherent electricity business risks, and the potential inability to adequately implement occupational health and safety requirements, could pose health and safety risks to employees, contractors and the public.	5D		• Eskom's Zero Harm initiative, including our life-saving rules • Integrated crime prevention plan • Interventions to improve motor vehicle safety • Security drive to protect employees, contractors and infrastructure	• Number of fatalities • LTIR • Near misses • Safety inspections
Financial sustainability				
2. Pressure on financial sustainability, liquidity and going concern The revenue gap resulting from the MYPD 3 tariff determination, the significant increase in primary energy costs and the high cost of operating the OCGTs due to the shortage of other generating capacity are impacting our liquidity and compromising our financial sustainability. This could lead to insufficient funds available to meet financial obligations, thereby negatively impacting operations and the new build programme. The lack of a predictable electricity price path towards cost-reflectivity affects future planning and impacts our credit ratings. Further credit ratings downgrades could impact loan covenants and hamper prospects of securing future funding, thereby resulting in increased borrowing costs.	6E	Going concern status and overall financial performance Liquidity position Arrear customer debt	• Constant monitoring of the funding and liquidity position • Monitoring by the Board Recovery and Build Programme Committee • Reprioritisation of capital expenditure • Monitoring of cash flows and compliance with loan covenants • Business Productivity Programme value packages and savings targets • Revenue adjustment applications to NERSA • Refer to note 4 in the annual financial statements for more information regarding our financial risk management policies	• Financial and liquidity ratios • Daily cash position and monthly cash flow forecast

Management of risks and opportunities
continued

Enterprise risk	Risk rating	Associated material matters	Mitigating response and controls	Key performance indicators
Operational sustainability				
3. Declining generating plant performance with inadequate space and funding for maintenance Insufficient available capacity to execute maintenance may delay improvements in plant performance, and combined with partial load losses arising from poor coal quality and restrictions in available ashing space, this may prolong energy constraints and impact security of supply, thereby increasing the risk of load shedding.	6D	Technical performance of Generation plant, including the maintenance backlog and incidents at Duvha and Majuba Power Stations Security of supply Impact of load shedding and load curtailment on customers	• Generation Sustainability Strategy focusing on improvement of plant performance, prioritisation of critical outages and creating capacity for maintenance by using OCGTs and IPPs and doing weekend maintenance • Additional ash dumps included in technical plans	• UCLF • EAF • Maintenance backlog
4. Insufficient capital investment in network strengthening and refurbishment due to financial constraints Significant incidents impacting networks and equipment may impair operations and performance, and lead to the loss of supply to customers. Incidents could include the theft of electricity and equipment, ageing plant, a lack of funding for maintenance and network strengthening, equipment failure and network unavailability.	4D	Security of supply Impact of load shedding and load curtailment on customers	• Transmission network strengthening and increase in strategic spares • Monitoring of supply from HCB • Distribution Sustainability Strategy focusing on prioritised interventions towards refurbishment, reliability improvement and maintenance • Security of supply recovery project and system emergency preparedness, NERSA-approved NRS 048-9 load curtailment protocols, load shedding, black start readiness and disaster risk planning through national disaster management structures • Load curtailment agreements with large customers • Protection systems and operating standards • Controls to limit the theft of electricity and equipment • Operation Khanyisa together with prosecution of perpetrators • Power Alerts and quarterly state of the system media briefings	• System minutes lost (for events <1 minute) • Number of major incidents • SAIDI • SAIFI • Integrated demand management and energy efficiency
5. Inadequate supplies of coal and liquid fuel, either in terms of either volumes or quality, may impact the security of supply This is exacerbated by the lack of capital allocated for recapitalisation required at cost-plus mines.	5D	Security of supply Impact of load shedding and load curtailment on customers	• Contracting alternative coal and diesel suppliers to make up shortfalls • Capital expenditure at cost-plus mines to be approved and initiated • Extension of certain existing long-term coal supply agreements • Miner Development Fund to develop black emerging miners • Coal to be designated a strategic resource	• Coal stock days
6. Connection of IPPs to the grid may be delayed due to financial constraints, affecting the security of supply and resulting in deemed energy payments	5E	Security of supply Impact of load shedding and load curtailment on customers	• Engagement with DoE and NERSA on the development of a national policy for the funding of future IPP projects • Expediting the connection of IPPs to the grid through our Grid Access Unit	• IPPs connected to the grid • Deemed energy payments • IPP purchases

Enterprise risk	Risk rating	Associated material matters	Mitigating response and controls	Key performance indicators
Revenue and customer sustainability				
7. Late and non-payment of outstanding debt by municipalities and Soweto contributing to cash flow contraints	5E	Arrear customer debt	• Managing the increase and collection of outstanding electricity debt • Installation of split meters and conversion to prepaid meters • Disconnection and load management of defaulting municipalities	• Arrear debt write-off as a percentage of revenue • Average debtors days • Eskom KeyCare and MaxiCare
Sustainable asset creation				
8. Delivery delays due to labour unrest, safety incidents, late capacity allocations, contractor performance and skills, lack of funds and project cost escalations could place further pressure on the constrained power system	5D	Progress on installing new Generation capacity New build project delays and the escalating cost to completion	• Monitoring by the Board Recovery and Build Programme Committee • Medupi improvement centre and commercial and contract management • Kusile contractor and schedule management, with focus on execution and quality issues, control and instrumentation recovery, coal transport and contract negotiations • Supplier development and localisation • Integrated risk management on mega projects • Appropriate insurance portfolio • Employee engagement strategy and employee satisfaction surveys • Monitoring labour environment and strike prevention mechanisms • Engagement with Government intelligence agencies and environmental scanning	• Generation capacity, transmission lines and transmission capacity installed • Generation capacity milestones (Medupi, Kusile and Ingula)
Environmental sustainability				
9. Deteriorating emissions performance together with national Minimum Emission Standards and inadequate ashing space may impact security of supply The emissions performance could further deteriorate and jeopardise the security of supply should generating plant have to be wholly or partially shut down. The risk is negatively impacted by a lack of funds and available generating capacity to do maintenance and upgrades where required. Failure to embed the climate change strategy and sustainable development in our operations, as well as our access to natural resources and licence to operate, may jeopardise the reliability of electricity supply.	5E		• Climate change strategy in place • Emissions treatment plans in response to Minimum Emission Standards postponement application are in place but cannot always be executed due to the postponement of outages • Kusile will be fitted with flue gas desulphurisation (FGD) technology and Medupi retrofitted six years after commissioning of units • Ongoing reviews to ensure compliance with water-use licences • Investment in renewable energy projects by both Eskom and IPPs • Energy efficiency programmes in place to reduce demand and associated environmental impact	• Specific water usage • Relative particulate emissions • Environmental legal contraventions in terms of the Operational Health Dashboard
Building a sustainable skills base				
10. Lack of adequate skills to support Eskom's technology intensive operations in certain areas of the business	4D	Changes in and stability of leadership	• Skills development initiatives and skills development through the capacity expansion programme • Skills transfer • Training through Eskom Academy of Learning and learner programmes • Succession planning	• Number of technical learners • Learner throughput or qualifying • Training expenditure as a percentage of gross employee benefit costs

The enterprise level risks can be plotted on the Eskom Risk Matrix as follows:



In summary, our key risks relate to our ability to sustain operations and improve our deteriorating financial performance. We face critical challenges regarding poor quality of coal, extensive use of diesel in our OCGT stations, the current state of the generating assets, delays in commissioning new plant, delays in performing maintenance and adequacy of a skilled workforce. These challenges call for immediate action, but require funding. Furthermore, the electricity supply industry is at risk of having insufficient generating capacity in future due to delays in issuing an update to the IRP 2010.

Readiness for a national blackout

South Africa's infrastructure, of which the power system forms an essential part, is exposed to a wide variety of threats, such as extreme weather and the impact of climate change, wilful damage (including vandalism and sabotage), network and plant failures, the impact of a sequence of unforeseen events, the potential failure of barriers and protection systems, as well as sustained stresses due to generation and network infrastructure capacity shortages. Unlike countries that are more regularly exposed to the impacts of some of these threats, South African society has been relatively unprepared for the associated disruptions and therefore, when these threats materialise, the resulting impact on society and the economy can be significant. This implies a need for deliberate measures to be implemented to enhance the resilience of the country in the face of such threats.

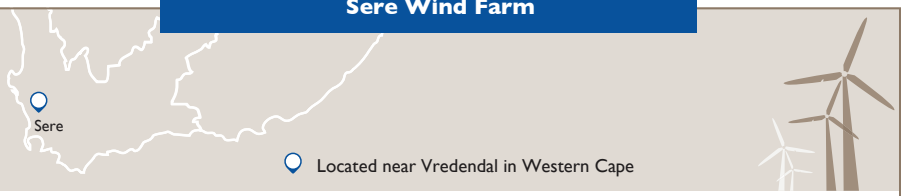
A national blackout is a very low probability but high impact disaster scenario. The likelihood of a national blackout occurring remains low, given the various layers of protection in place, such as:

- Scheduled rotational load shedding in terms of the National Code of Practice for Emergency Load Reduction (NRS 048-9) is one of several manual response measures in place to prevent a national blackout
- Should the system constraint exceed the scheduled load reduction stages in NRS 048-9, we will implement unscheduled load shedding
- Should a blackout occur, we have a blackout restoration plan in place; various components of this are tested through physical and simulation exercises. We are fully compliant with the Grid Code requirement for both of our black start facilities, namely Kendal and Drakensberg, to be fully tested every six years
- Generation unit islanding has been implemented on some of our power stations to reduce the time required to restart the national power system. Units undergo physical testing to retain their certification for islanding

We plan to undertake one national blackout exercise and one regional exercise per province in each financial year. These exercises address the requirements of the Grid Code to test grid emergency preparedness plans. They also test the integrated response structures in a particular province.

Operation Breaking Dawn, an exercise which simulated a national blackout, was conducted on 23 March 2015. The exercise highlighted certain shortcomings in the readiness in each of the divisions involved, which we are addressing.

Sere Wind Farm



Total project value
R2.5 billion

Number of people involved in construction at peak
560

Height of turbine
115m

Lifting capacity of largest crane
800t

Standard households powered by this project
124 000

Construction time
24 months

Area of site
37km²

Length of turbine blade
53m

Weight of wind turbine
470t

Clean wind energy generated per year
298GWh

Carbon emissions to be avoided over 20 years
6Mt

Performance against the shareholder compact

Each year, in consultation with the shareholder, we agree on our performance objectives, measures and indicators, as well as our annual targets, in line with the Public Finance Management Act, 1999.

The table that follows sets out our performance for the year ended 31 March 2015 in terms of the shareholder compact. All KPIs in the compact refer to the Eskom company only. Commentary on performance is contained in the "Operating performance" and "Financial review" sections of this report, where [SC] indicates that a key performance indicator is included in the shareholder compact.

Throughout this report, unless otherwise indicated, performance against target is indicated as follows:

- Performance for the year met or exceeded target
- Performance for the year almost met target
- Performance for the year did not meet target

Key performance indicator and unit	Target 2014/15	Target met?	Actual 2014/15	Actual 2013/14	Actual 2012/13	Page ref
Focus on safety						
Employee lost-time injury rate (LTIR), index	0.35	●	**0.33**	0.31	0.40	44
Sustainable asset base whilst ensuring security of supply						
Maintenance backlog, number[1]	1	●	**2**	5	–	50
Demand savings, MW	246.0	●	**171.5**	409.6	595.0	57
Internal energy efficiency, GWh	10.0	●	**10.4**	19.4	28.9	57
Put customer at the centre						
Eskom KeyCare, index	102.0	●	**108.7**	108.7	105.8	59
Enhanced MaxiCare, index	96.0	●	**99.8**	92.7	93.2	59
Improve operations						
Normal unplanned capability loss factor (UCLF), %[2]	13.00	●	**15.22**	12.61	12.12	50
Less: Constrained unplanned capability loss factor, %[2]	3.00		**1.00**	1.63	3.41	50
Underlying unplanned capability loss factor, %[2]	10.00		**14.22**	10.98	8.71	50
Energy availability factor (EAF), %	80.00	●	**73.73**	75.13	77.65	50
System average interruption frequency index (SAIFI), events	22.0	●	**19.7**	20.2	22.2	53
System average interruption duration index (SAIDI), hours	43.0	●	**36.2**	37.0	41.9	53
Total system minutes lost for events <1 minute, minutes	3.80	●	**2.85**	3.05	3.52	53
Deliver capital expansion						
Generation capacity installed: first synchronisation, units[3]	1	●	**1**	–	–	65
Generation capacity installed and commissioned, MW	433	●	**100**	120	261	65
Transmission lines installed, km	315.1	●	**318.6**	810.9	787.1	65
Transmission capacity installed and commissioned, MVA	2 090	●	**2 090**	3 790	3 580	65
Reduce environmental footprint in existing fleet						
Relative particulate emissions, kg/MWh sent out	0.35	●	**0.37**	0.35	0.35	71
Specific water consumption, ℓ/kWh sent out	1.39	●	**1.38**	1.35	1.42	71
Implementing coal haulage and the road-to-rail migration plan						
Migration of coal delivery from road to rail (additional tonnage transported on rail), Mt	11.50	●	**12.59**	11.60	10.10	46

Key performance indicator and unit	Target 2014/15	Target met?	Actual 2014/15	Actual 2013/14	Actual 2012/13	Page ref
Ensure financial sustainability						
Cost of electricity (excluding depreciation), R/MWh	532.63	●	**610.43**	541.92	496.24	**96**
Interest cover, ratio	0.69	●	**0.44**	0.65	0.27	**96**
Debt/equity (including long-term provisions), ratio	2.48	●	**2.70**	2.21	1.96	**100**
FFO as % of total debt, %	7.63	●	**2.37**	9.21	8.55	**100**
Maximise socio-economic contribution: Procurement equity						
Local content contracted (Eskom-wide), %	65.00	●	**25.13**	40.80	–	**79**
Local content contracted (new build), %	65.00	●	**33.62**	54.60	80.20	**79**
Percentage of broad-based black economic empowerment spend, % of TMPS	75.00	●	**88.89**	93.90	86.30	**79**
Procurement spend with black-owned suppliers, % of TMPS	12.50	●	**34.91**	32.70	22.10	**79**
Procurement spend with black women-owned (BWO) suppliers, % of TMPS	6.00	●	**6.61**	7.20	4.70	**79**
Procurement spend with black youth-owned (BYO) suppliers, % of TMPS	2.00	●	**0.64**	1.00	1.00	**79**
Procurement spend with suppliers owned by black people living with disabilities (BPLwD), % of TMPS	1.00	●	**0**	0	–	**79**
Procurement spend with qualifying small enterprises (QSE) and exempted micro enterprises (EME), % of TMPS	12.50	●	**11.86**	11.90	–	**79**
Maximise socio-economic contribution: Employment equity						
Disability equity in total workforce, %	2.50	●	**3.12**	2.99	2.59	**80**
Racial equity in senior management, % black employees	60.00	●	**61.58**	59.50	58.30	**80**
Racial equity in professionals and middle management, % black employees	70.00	●	**72.28**	71.20	69.60	**80**
Gender equity in senior management, % female employees	31.00	●	**29.83**	28.90	28.20	**80**
Gender equity in professionals and middle management, % female employees	37.00	●	**36.10**	35.80	34.60	**80**
Build strong skills						
Training spend as % of gross employee benefit costs	5.00	●	**6.18**	7.87	–	**76**
Learner throughput or qualifying, number[4]	1 200	●	**424**	–	–	**76**

Notes to the shareholder compact

1. The maintenance backlog in the shareholder compact is based on the 36 outages that informed the 2011 PFMA application, which has since been reduced to 35. Of the 35 outages, five remained at 31 March 2014. The KPI in 2013/14 was tracking the nine outages that had been approved by the Technical Governance Committee and all nine were completed. As the KPI definition has changed for the current year, the comparative as at 31 March 2014 has been restated.
2. The shareholder compact UCLF KPI refers to underlying UCLF, which is the difference between normal and constrained UCLF, and represents the UCLF that is still within Generation's control. The target was approved at 10%, which incorporates OCLF of 1%. Constrained UCLF results from emissions and short-term related UCLF due to system constraints to meet the objective of keeping the lights on.
3. Only Medupi Unit 6 was contracted for first synchronisation in the 2014/15 financial year. Eskom and DPE will, in subsequent years, contract on first synchronisation for Unit 5 of Medupi and Units 1 and 2 of Kusile. The subsequent units of Medupi and Kusile will then be contracted on capacity installed and commissioned.
4. The learner throughput or qualifying target includes only engineer, technician and artisan learners and refers to learners in their final year, less those who fail and less those who left the pipeline. Other learners are not included in the target.

Operating performance

Chief Executive's review

Brian Molefe
Acting Chief Executive

Sustainable power for a better future

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 1.38ℓ/kWhSO for the year was better than the target of 1.39ℓ/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.

In order to accelerate progress on the Medupi Power Station Project, additional shifts were introduced, 24 hours a day, seven days week. Unit 6 reached its full load of 794MW on 26 May 2015

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** 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.

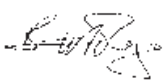
The challenges we face are immense, but not dissimilar to those faced by other developing and developed economies alike; I believe that we have many factors counting in our favour. I am convinced that with the right policy choices we can go a long way towards successfully addressing South Africa's triple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

Exco changes

*Exco was impacted by a number of resignations and other movements. Refer to page **108** 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

Executive Management Committee

at 28 May 2015

IFC P&G RBP SES IFC RBP TC

Mr Brian Molefe (49)
Acting Chief Executive

Seconded from Transnet
Appointed to Exco in April 2015

Brian is an accomplished executive, having served as the Chief Executive of both Transnet (since February 2011) and Public Investment Corporation (2003 to 2010).

Ms Nonkululeko Veleti (41)
Acting Chief Financial Officer

Years in Eskom: 14
Appointed to Exco in March 2015

Nonkululeko is a chartered accountant. She started in Eskom as a corporate management accountant and worked her way up to Senior General Manager of the Shared Services Unit, a position she occupied for four years prior to serving as acting Chief Financial Officer. As the head of Shared Services, she managed the integration of Shared Services Finance, Revenue Management, Fleet Management Services, Human Resources, Master Data Management and Service Management.

Mr Thava Govender (47)
Group Executive: Transmission and Sustainability

Years in Eskom: 25
Appointed to Exco in September 2010

Thava joined Eskom as an engineering graduate-in-training, and has since gained experience covering the full electricity supply value chain. He has held senior management positions with the utility and its subsidiaries since April 2000, most recently as the Group Executive of Generation Division from 2008 to 2014.

Thava was previously a Governor on the Board of the World Association of Nuclear Operators (WANO) Atlanta Centre.

Mr Edwin Mabelane (53)
Acting Group Executive: Group Technology and Commercial

Years in Eskom: 20
Appointed to Exco in March 2015

Edwin, a mechanical engineer, joined Eskom as a mechanical manager. Since his appointment as Power Station Manager of Tutuka, he held numerous senior positions in the company. Prior to his acting position, Edwin was Senior General Manager of the Outage Management Unit, where he was responsible for outages of the Generation fleet and maintenance standardisation across all Eskom assets.

ARC Audit and Risk Committee
IFC Investment and Finance Committee
P&G People and Governance Committee
RBP Board Recovery and Build Programme Committee
SES Social, Ethics and Sustainability Committee
TC Board Tender Committee

Mr Abram Masango (46)
Acting Group Executive: Group Capital

Years in Eskom: 23
Appointed to Exco in March 2015

Abram is a skilled engineer and has managed maintenance and capital projects in Eskom for over 20 years. Prior to his acting position, he was the General Manager on the Kusile Power Station Project since 2011.

Ms Ayanda Noah (48)
Group Executive: Distribution and Group Customer Services

Years in Eskom: 23
Appointed to Exco in June 2007

Ayanda joined Eskom as an engineer-in-training, and has worked in various fields primarily in the Wires business, including engineering, training and development, as well as substation and line design and application. Since her appointment as Western Region General Manager in 2005, she has been part of the leadership of the Distribution Division and at the helm as Group Executive since 2013.

Mr Mongezi Ntsokolo (54)
Group Executive: Generation

Years in Eskom: 24
Appointed to Exco in October 2003

Mongezi joined Eskom as an engineer. He has gained experience across the business enhancing his engineering skills, also gaining skills in other fields including sales and customer services, customer relations, capital projects, commercial and business support. He headed up the Transmission Division for seven years, and took on the position of Group Executive for Human Resources in an acting capacity in 2014.

Ms Elsie Pule (47)
Acting Group Executive: Human Resources

Years in Eskom: 17
Appointed to Exco in November 2014

Elsie has a background in social work and academia and started her career in Eskom as an organisational development advisor. She held senior positions in Human Resources in both Eskom and SARS, including that of Senior General Manager, prior to her acting appointment.

Further information, such as the qualifications and significant directorships of members of Exco, are provided as a fact sheet

The acting Chief Executive and acting Chief Financial Officer are not members of the Board, but serve on selected Board committees due to the nature of their roles.

The former Chief Executive, Mr Tshediso Matona, has resigned effective 31 May 2015.

Ages shown are as at 28 May 2015.

Safety and security

HIGHLIGHTS

OHSAS 18001:2007 certification achieved at all sampled Group Capital sites, and 94% business units in Generation Division

Our security operations and assurance functions remain resilient

PROGRESS

Improvement in LTIR, from its highest recent level of 0.54 in 2009/10 to 0.33

Public safety initiatives resulted in a reduction in the number of public fatalities

Over 400 supervisors trained in safety leadership

Development of a roadmap and implementation strategy to ensure compliance with the 2014 Construction Regulations

CHALLENGES

Industrial action and community protests jeopardising the safety of employees and contractors on site

LOWLIGHTS

Public fatalities related to electrical contact remain unacceptably high

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

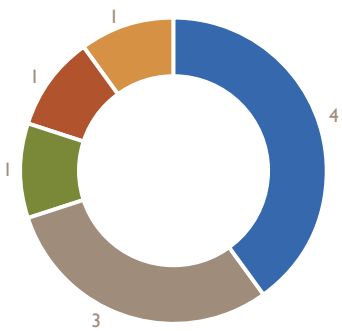
A gradual improvement in safety performance is visible. The Ingula incident in October 2013 had a significant impact on the previous year's safety performance, although lessons learnt from the investigation have been embedded in the organisation. Following this tragic incident, the importance of Zero 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.

The maintenance of over 48 000km of distribution power lines across South Africa requires strict adherence to safety regulations

Fatalities

Measure and unit	Target 2019/20	Target 2015/16	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
Fatalities (employees and contractors), number	0	0	0	**10**	23	19	●
Fatalities (public), number	0	0	0	**28**	33	29	●



Causes of employee and contractor fatalities 2014/15

- Vehicle accidents
- Falls
- Electrical contact
- Caught between or under objects
- Struck by an object

Causes of employee and contractor fatalities 2013/14

- Vehicle accidents
- Falls
- Electrical contact
- Assaults/gunshot
- Caught between or under objects
- Contact with heat
- Struck by an object

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.

In memoriam

We remember the following people who lost their lives in the line of duty. To their families, friends and colleagues we convey our heartfelt condolences. The contribution of each person to the success of Eskom has not gone unnoticed.

Employees
Mr Pierre Liebenberg
Mr Kaizer Kangelani Pekiso
Mr Dawid Petrus Venter
Contractors
Mr Trynos Dube
Mr Ayanda Jack
Mr Mziwempi Maseko
Mr Mncedisi Simangaliso Mndebele
Mr Laurenti Mochela Mochela
Mr Conty Mojeremane Sebetha
Mr Lebogang Matule Seerane

Update on the Ingula Pumped Storage construction site incident

The investigation into the cause of the tragic incident at Ingula on 31 October 2013, which resulted in the untimely deaths of six contractors, has been concluded.

As previously reported, the investigation in terms of Section 60 of the Mine Health and Safety Act (MHSA) was converted into a formal enquiry in terms of Section 66(1) of the MHSA. The evidence-gathering enquiry was conducted at Ingula from 21 July to 2 September 2014. The Presiding Officer requested written closing submissions to be made relative to the evidence collected. The process was completed on 15 October 2014. A report from the Presiding Officer in terms of Section 72 of the MHSA is awaited.

Lost-time injuries

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.

Safety and security
continued

Measure and unit	Target 2019/20	Target 2015/16	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
Employee lost-time injury rate, including occupational diseases, index[SC]	0.20	0.31	0.35	**0.33**	0.31	0.40	●

Motor vehicle accidents, falls on the same level (referred to as slips, trips and falls), being caught between or under objects and being struck by objects remain the major causes of lost-time injuries of both employees and contractors. An increase in lost-time incidents related to occupational diseases (increasing from 12 to 35) was the biggest contributor to the increase in LTIR in the current year. Despite that, the LTIR performance for the year was within target, as a result of the implementation of safety improvement initiatives and significant efforts to manage the safety of employees and contractors more effectively, including the continued focus on compliance with OHS requirements.

Management of contractor safety

Overall contractor safety performance has shown significant improvement, showcasing the effect that the safety initiatives we have implemented have had on the general attitude towards safety. These initiatives include:

- Development of a roadmap and implementation strategy to ensure compliance with the 2014 Construction Regulations, promulgated by the Minister of Labour in February 2014, which imposed additional safety compliance responsibilities on clients and contractors in the construction sector and which, if not adhered to, could hamper our operations. Training on the regulations was conducted across all provinces with an estimated 500 people being trained
- Revision of the Eskom standard "SHE Requirements for the Eskom Commercial Process", which requires that safety evaluations are conducted on all new supplier registrations before acceptance. By the end of the year, 1 298 applications had been assessed, of which 360 were rejected due to suppliers not meeting our safety requirements (2013/14: 1 203 assessed and 512 rejected)
- Execution of third party contractor management compliance audits at sample sites across the organisation and implementing safety improvement plans
- Development of a Contractor SHE Management Handbook and induction DVD as a communication and awareness tool

Nuclear safety

Safety of operations at Koeberg Nuclear Power Station is of paramount importance. Unit 1 celebrated 30 years of safe operation in April 2014. The replacement of the steam generators on both units, scheduled for 2018, will enable continued safe operation for at least another 30 years.

Nuclear safety oversight has been enhanced through the introduction of a Nuclear Safety Review Board which includes independent international experts. The safety and technical performance of Koeberg Nuclear Power Station for 2014/15 reflects improvements in many areas. The improvements are partly attributed to benchmarking against international best practice, undergoing frequent peer reviews by the World Association of Nuclear Power Operators (WANO) and scrutiny by the different safety oversight bodies in Eskom. This performance resulted in the highest ever WANO index (previously referred to as the INPO index) score for the station during 2014/15.

Benchmarking of Koeberg Nuclear Power Station is included as a fact sheet

Security

The implementation of the Eskom Security Recovery Programme has progressed well, with interventions aimed at improving security conditions across Eskom having been set up.

The relationship between Eskom and other security agencies has improved over the last year. These agencies include the South African Police Service (SAPS), the National Police Commissioner, the Government Sector Regulator and National and Provincial Joint Operations Committees (JOCs) for disaster management.

The Eskom Network Equipment Crime Work Group, established in October 2014, commenced with various meetings and interventions to address the scourge of network and related crimes against Eskom. These crime prevention interventions and security investigations resulted in the following breakthroughs in combating security threats against Eskom over the past year:

- The recovery and confiscation of a container carrying 25 tons of copper valued at R3.6 million at the Durban harbour through a joint operation by Eskom, SARS (Customs), the Hawks and Transnet
- Detecting and stopping a cyber-security threat, whereby organised criminals, along with two contractors, attempted to defraud Eskom by infiltrating the payroll system

Investigations into illegal electricity sales are conducted on an ongoing basis.

Future focus areas

- Implementing and monitoring compliance with the 2014 Construction Regulations
- Guiding the constant development and competence enhancement of contractors

Operational sustainability

HIGHLIGHTS

Secured adequate water supply for Medupi's production requirements and half of the flue gas desulphurisation retrofit requirements

A full black start test was conducted successfully in March 2015

Excellent transmission network performance, and both SAIDI and SAIFI technical measures performed better than target

PROGRESS

Improved performance on UCLF, with the number of boiler tube failures and UAGS trips reducing since January 2015

Energy losses were contained below target

Renewable IPP capacity of 1 795MW has been connected to the grid since inception

Given current power system constraints, sufficient funding was released in February 2015 to allow IDM programmes previously put on hold to continue

CHALLENGES

Financial constraints restricting capital expenditure at cost-plus mines, which may impact future coal supply

Coal-related energy losses at Tutuka and Matla due to poor coal quality continue

Balancing a constrained electricity supply system remained a challenge throughout the year

Sustaining and improving the operating performance in light of significant financial constraints

Two major Transmission system incidents due to plant failures at substations

Network risks remain, with ageing assets and vulnerabilities due to network unfirmness

LOWLIGHTS

Load curtailment and load shedding was required on numerous occasions

Unpredictable plant performance and a low operating margin necessitated the deferral of a number of planned outages

Funding constraints may result in critical maintenance being deferred

Operational sustainability
continued

Operational sustainability focuses on security of supply, as well as balancing the supply and demand of electricity. Security of supply remains a key concern, with the focus on the Generation plant health and the ability to generate sufficient electricity to meet our customers' expectations while containing costs. This calls for an integrated perspective on demand management and energy conservation, as well as the need to use the expensive open-cycle gas turbines (OCGTs) and other supply-side options. It is enabled by the Generation Sustainability Strategy and, as a regulated business, has to comply with environmental and regulatory requirements.

Looking back on 2014

The draft Mineral and Petroleum Resources Development Amendment Bill, which included a proposal that coal be declared a strategic resource, has been referred back to the National Assembly for reconsideration. This may have implications for the future availability of coal to our power stations.

As reported previously, we implemented the five-year Generation Sustainability Strategy during the prior year. Therefore our aim of achieving a predictable and sustainable Generation performance until 2017/18 in terms of the strategy remains valid for the current year, although it is expected to take longer than originally anticipated. Over the course of the year, Generation performance continued to worsen, although performance started to improve towards the end of the year with improved UCLF performance, and the number of boiler tube failures and UAGS trips reducing, since January 2015.

There was a continued focus on Distribution sustainability through prioritised interventions towards refurbishment, reliability improvements and addressing maintenance backlogs, as evidenced by the good SAIDI and SAIFI performance during the year. These, together with network strengthening to achieve N–1 Grid Code compliance for the Transmission network, as well as the integration of new generation sources, will continue to be focus areas going forward.

Accessing alternative funding for Eskom's IDM programme and developing low cost energy saving programmes in view of financial constraints remain a challenge. Although IDM achieved some success during the year, this was limited by the funding constraints. Going forward, sufficient funding has been allocated, allowing projects to resume.

Securing Eskom's resource requirements

Our aim is to safely and sustainably identify, develop, source, procure and deliver the necessary amounts of primary energy – coal, nuclear fuel, liquid fuels and water – of the required quality to our power stations, at the right time and at optimal cost. Ultimately, our goal is to enable an efficient, reliable and secure electricity supply, which forms the backbone of economic development.

Measure and unit	Target 2019/20	Target 2015/16	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
Coal burnt, Mt[1]	n/a	120.60	121.28	**119.18**	122.42	122.95	
Coal purchased, Mt[1]	n/a	n/a	126.21	**121.67**	121.98	126.44	
Coal stock days	31	37	42	**51**	44	46	●
Road-to-rail migration (additional tonnage transported on rail), Mt[SC]	21.30	13.60	11.50	**12.59**	11.60	10.10	●

1. Future targets are dependent on system requirements.

Securing our coal requirements

Coal stock

The significantly higher than targeted stock days is largely due to more coal than that required being delivered by the cost-plus mines to the Lethabo and Kendal Power Stations, where there is no financial benefit to Eskom in reducing the coal production. However, Tutuka, Duvha and Majuba Power Stations ended the year with coal stock below their minimum levels. Coal stock at Tutuka was below the minimum level due to the underperforming tied colliery and reduced coal stockpile as a result of the rail infrastructure challenges; Duvha's low stock was a result of reduced offtake from the mine due to the coal conveyer being out of service following the fire damage, as well as lower utilisation after the Duvha Unit 3 incident; at Majuba, stock levels were impacted by the poor rail tippler performance and the non-availability of the coal stockyard stacker following the collapse of the coal silo.

Primary energy costs

As a result of construction delays, contracted coal could not be delivered to Medupi, as its stockyard was not ready to receive the coal, leading to a cost of R8 billion in terms of the take-or-pay coal supply agreement.

Almost all the cost-plus mines require significant investments or recapitalisation in order to increase production and/or maintain existing production; this will put further strain on our financial resources. Lower production from these mines is expected until the collieries can be recapitalised. Although production at some cost-plus mines has reduced, we still pay all the operating and ongoing capital requirements of these collieries, resulting in an increase in the cost per ton.

To make up the production shortfall at cost-plus mines, there is a corresponding increase in production by more expensive short- or medium-term coal contracts, which have a higher cost base and include the added cost of transporting the coal to the affected stations.

Coal supply strategy

We continue to give effect to the coal supply strategy implemented in January 2013. Some of the actions undertaken include the following:

- We continue to work closely with Transnet Freight Rail (TFR) and the Department of Water and Sanitation (DWS) to develop funding models for the development of rail and water infrastructure to access the Waterberg coalfields
- A full-scale combustion test of the Waterberg coal from Exxaro was successfully completed at Majuba Power Station. Further studies are to be undertaken on other Waterberg coal seams, as well as the ability of the ash handling facilities at Majuba to handle the ash from these coal sources

Coal and limestone contracting status for Kusile

Anglo American Inyosi Coal (AAIC) has agreed to meet the PFMA conditions set by DPE, and signed a Memorandum of Understanding (MoU) on 21 November 2014. The MoU will allow AAIC to proceed with a feasibility study for the New Largo Mine, which is to supply Kusile Power Station, on the basis of Mine Plan 7, which has limited impact on wetland areas, compared to Mine Plan 6, which would have impacted some of the wetland areas. This trade-off with environmental sustainability negatively impacts our operational sustainability. Mine Plan 6 would allow Kusile to be supplied for a period of 51 years with a total supply of 550Mt; Mine Plan 7 will have a reduced environmental footprint, but will reduce the accessible coal reserves by 100Mt, including a reduction of the better quality coal reserves. This reduces the contract duration to 45 years, with a peak production period of 38 years. In addition, the loss of the better quality reserves will result in the washing plant being required from the start of the contract and not only after 10 years, as it would have been in terms of Mine Plan 6.

In the interim, four multi-year coal supply contracts have been signed to meet the coal needs by the planned commissioning date of Kusile Unit 1.

Negotiations for the limestone supply to Kusile Power Station have been concluded and the contract is expected to be signed in the first quarter of 2016, once the Kusile commissioning dates are fixed. Limestone will be used in Kusile's flue gas desulphurisation (FGD) plant, which will assist in reducing particulate emissions.

Implementing coal haulage and the road-to-rail migration plan

For the rail solution, coal is transported in containers by train. At the power station, the rail tippler system is used to tip the containers, feeding the coal onto conveyors to the coal stockyard. Despite the capital outlay to set up the tippler system infrastructure, the rail solution is more economical in the long term than road transport.

The tonnage of coal delivered by rail for the year exceeded the target, despite challenges which included numerous tippler and conveyor belt breakdowns. The problem was exacerbated by the coal silo collapse at Majuba, resulting in the suspension of tippler operations for almost a month.

The construction of the Majuba heavy-haul railway line is progressing according to schedule. Once completed in 2017, this dedicated line will transport 14Mt of coal a year from Ermelo to Majuba. In addition, TFR implemented a temporary offloading terminal at the Balfour station, while the process to create a permanent terminal at Grootvlei Power Station has commenced.

The dynamic coal environment has resulted in some rail projects no longer being deemed financially viable as there have been a number of changes in the factors that underpinned the initial road-to-rail migration approach.

The assumption of anticipated coal shortages from the tied collieries at Hendrina and Duvha Power Stations is no longer valid. These collieries, Optimum and Middelburg Mines, have proven to have enough reserves at required qualities to meet the power stations' burn requirements. As such, the rail projects linked to these power stations are no longer necessary.

We have requested TFR to provide additional rail solutions, such as installing a tippler system at Tutuka Power Station. At Arnot Power Station, the tied colliery is no longer performing at the required level to meet the power station's burn requirement, and Arnot has an existing rail infrastructure. Minor modifications to the rail infrastructure can be done at minimal capital cost to create a viable rail coal terminal. Collaboration with TFR will enable us to make progress towards our strategy of supplying 32Mt per annum to our power stations by rail.

Securing our water requirements

The bulk of the water requirements for our coal-fired power stations have been secured until 31 March 2017 through an extension of the existing Memorandum of Agreement with DWS. The extension allows sufficient time for a new water supply agreement to be negotiated and concluded, which is dependent on DWS gazetting the revised National Water Pricing Strategy.

We have an authorised bulk water abstraction licence for our coal-fired power stations. The water supply augmentation infrastructure to support existing and new coal-fired power stations' requirements has been commissioned and declared operational by DWS, with the exception of the Mokolo Crocodile Water Augmentation Project.

Mokolo Crocodile Water Augmentation Project Phases 1 and 2

The Mokolo Crocodile Water Augmentation Project (MCWAP) Phase 1 is in the final stages of commissioning, and the pipeline is currently delivering water from the Mokolo Dam to Medupi, Matimba and Exxaro's Grootegeluk coal mine. MCWAP Phase 1 is expected to be declared fully operational by the end of June 2015 and will provide adequate water for Medupi's full production requirements and half of the station's water requirements for the required FGD retrofits.

Medupi Power Station will have a water requirement of 15.4 million cubic metres per annum at full load. The available water from Mokolo Dam is 43.8 million cubic metres per annum, of which 10.9 million cubic metres per annum is licensed to Medupi under MCWAP Phase 1. However, the water shortfall will be made up with the implementation of MCWAP Phase 2.

MCWAP Phase 2, which would provide the necessary water capacity for the coal mines required to support our Waterberg coal supply strategy, comprises a pipeline to be constructed from a new weir in the Crocodile River at Thabazimbi to directly supply end users in the Waterberg area. Excess water exists in the Crocodile River catchment area due to the high return flows from treated effluent from sewerage treatment works in Gauteng. MCWAP Phase 2 is awaiting final capacity commitments by end users and Government, therefore the size of the pipeline to be installed is still to be decided. The project is expected to be completed by the end of 2022.

Outstanding water-use licences for coal mines

We regularly engage with DWS to address the backlog in water-use licences for coal mines supplying Eskom. As at 31 March 2015, we were supplied by 39 coal sources, 34 of which had valid licences, while the remaining five have submitted applications and are awaiting approval.

Deteriorating quality of raw water

The deteriorating quality of raw water from DWS water sources requires collective action by the DWS and water users, including Eskom, to protect water resources and deal with polluters. Treatment plans are currently being implemented to manage this risk.

Water for future power stations

The development of new power stations beyond our current new build programme will need to take into account available water resources and lead times for the development of new water supply infrastructure.

Securing our nuclear fuel requirements

The existing uranium and enriched uranium contracts are sufficient for Koeberg Nuclear Power Station's requirements until 2017, while the current fuel fabrication contracts are sufficient to cover Koeberg's demand until 2015/16.

Once these contracts come to an end, normal commercial processes will be followed to enter into appropriate contracts for the supply of nuclear fuel. The contracting and pricing strategy will depend on the market and policies applicable at that time.

Nuclear fuel balances at 31 March 2015

	Actual 2014/15	Actual 2013/14	Actual 2012/13
Nuclear fuel (inventory balance)	**2 011**	1 456	856
Future fuel balance (nuclear portion)	**347**	981	1 023

Eskom's gas strategy

We are currently pursuing the option of gas as a fuel source, to be facilitated through the following projects:

- **Gasnosu pipeline project**

  The Gasnosu pipeline initiative involves a possible north-south gas pipeline from northern Mozambique through the load centre around Maputo and into South Africa. Associated with this pipeline is the construction of around 5 000MW of gas-fired power stations along the pipeline, with half the capacity in each country. We are engaging with EDM (the national electricity utility of Mozambique) regarding the joint development of the capacity required in Mozambique. We continue to engage with the proposed developers regarding the project development cost, budget and timelines; it is anticipated that the feasibility studies will commence shortly. The feasibility studies are envisaged to take approximately six months, whereafter a decision will be taken on whether or not to advance the projects

- **Buzi gas project**

  ENH (the national gas and petroleum company of Mozambique) has yet to respond with specific developments regarding the drilling at the Buzi site. The project is currently on hold, as the recent drop in international oil and gas prices has made the project less attractive

- **OCGT conversion**
  The focus is on accelerating the conversion of our existing OCGTs from using diesel fuel only into combined-cycle gas turbines (CCGTs) able to use either gas or diesel

In addition to the abovementioned gas projects, we are considering a number of other energy projects outside South Africa, including the Grand Inga Project on the Congo River in the Democratic Republic of the Congo. We conducted a workshop with stakeholders to explore funding and ownership structures for regional projects. The Grand Inga Transmission Integration Project (a joint Eskom and SNEL project) was used as a case study in this process. We participated in the Minister of Energy's visit to Kinshasa to mark the Grand Inga Treaty, ratified on 14 November 2014, coming into effect and to discuss the way forward for the project.

Generation performance

We aim to optimally operate and maintain our electricity generating assets for the duration of their economic life. We operate 23 base-load, peaking and renewable power stations with a total nominal capacity of 42 090MW, including 100MW of wind power commissioned on 31 March 2015.

Generation Sustainability Strategy

The previous strategy of deferring maintenance in order to keep the lights on, combined with operating the plant at unacceptably high load factors, has exacerbated the degraded plant condition and resulted in a backlog of necessary preventative maintenance, as well as an increasing incidence of plant breakdowns, requiring unplanned maintenance.

The focus of the Generation Sustainability Strategy is now to ensure that adequate preventative or philosophy-based maintenance is performed to ensure sustainable improvement of the generating plant performance whilst making every effort to ensure an adequate supply of electricity. This is supported by specific actions and programmes to support improvement in three areas, namely people, plant, as well as systems and processes.

We have to constantly consider the following trade-offs when attempting to balance capacity constraints with the need to do maintenance:

- **Fluctuating electricity demand.** We aim to ensure that there is enough supply to meet demand, as an undersupply of electricity would have negative economic consequences for both ourselves, in terms of lost revenue, and more severely, for the country and our customers
- **System reserve requirements.** Over and above meeting the expected demand for electricity, we need to have sufficient generation capacity in reserve to cater for an unforeseen increase in demand, or unplanned plant breakdowns where additional plant capacity will need to kick in to replace the generation capacity lost
- **Deteriorating plant health,** resulting in reduced plant availability and reliability. We need to do more plant maintenance, but the constrained system does not allow for sufficient planned outages to do so. Furthermore, potential delays in commissioning new generating capacity means that the power system remains too constrained to enable sufficient planned maintenance to be performed on our existing plant, resulting in plant health deteriorating even further
- **Poor quality coal** results in inefficient energy production, placing further strain on generating plant and negatively affecting our environmental footprint. Although measures are in place to ensure that suppliers provide us with coal of suitable quality and in sufficient quantity, Matla and Tutuka continue to receive poor quality coal
- The **financial constraints** on capital expenditure will negatively affect the execution of Technical Plan projects, which may compromise the execution of the Generation Sustainability Strategy

We are therefore implementing appropriate levels of necessary planned maintenance. This requires space of 3 000MW for the foreseeable future, in order to ensure long-term plant health and reduce unplanned outages or breakdowns, even if this gives rise to a shortfall in the overall supply to the country, resulting in load shedding. While load shedding is regrettable, we will continue with the necessary maintenance on our plant to improve performance for the medium to long term – while remaining cognisant of current system constraints, compliance, safety and statutory requirements, as well as financial constraints – even if this requires additional load shedding for some time. The alternative is further deterioration in plant health, which will result in an increase in breakdowns. The only way to arrest the downward trend in plant availability seen over a number of years is to perform adequate levels of planned maintenance.

Generation technical performance

Plant performance

Generation's technical operations are assessed in terms of the following:

- **Unplanned capability loss factor** (UCLF), which measures the lost energy due to unplanned energy losses resulting from equipment failures and other plant conditions
- **Planned capability loss factor** (PCLF), which measures energy losses because of planned shutdowns during the period
- **Energy availability factor** (EAF), which measures plant availability and takes account of planned and unplanned unavailability and energy losses not under the control of plant management

Operational sustainability
continued

Generation technical 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?
EAF, %[SC]	78.20	74.10	80.00	**73.73**	75.13	77.65	●
Normal UCLF, %[SC]	10.10	13.90	13.00	**15.22**	12.61	12.12	
Less: Constrained UCLF, %[SC, 1]	n/a	n/a	3.00	**1.00**	1.63	3.41	
Underlying UCLF, %[SC, 1]	n/a	n/a	10.00	**14.22**	10.98	8.71	●
Normal PCLF, %	10.40	10.60	10.00	**9.91**	10.50	9.10	●
Maintenance backlog reduction, number[SC, 2]	n/a	0	1	**2**	5	–	●

1. Constrained and underlying UCLF will no longer be monitored from 2015/16, as the strategy of keeping the lights on is no longer pursued.
2. The maintenance backlog reduction as identified in the 2011 PFMA application will have been completed, so this KPI is not applicable for 2019/20.

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 catering for short-duration corrective maintenance opportunities. This is shown by the unplanned maintenance (unplanned capability loss factor or UCLF) performance for the year ended 31 March 2015 which deteriorated significantly to 15.22% (2013/14: 12.61%), an indication of the deteriorating plant health of our ageing power station fleet. The deterioration in UCLF, coupled with planned maintenance (planned capability loss factor or PCLF) of 9.91% (2013/14: 10.50%) resulted in decreased plant availability (energy availability factor or EAF) of 73.73% for the year to 31 March 2015 (2013/14: 75.13%).

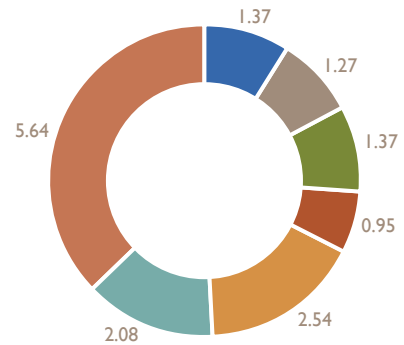
As nearly two-thirds of our coal-fired power stations are beyond the mid-point of their expected lifespan, the technical performance has been declining over the past few years, requiring an increased maintenance effort to keep the plant operating at desired levels.

The target for planned maintenance is 10%, which should include at least 8% for philosophy-based outages, which is the level required to return the plant to sustainability. Although we came close to achieving the required levels of planned maintenance for the year, less than 6% of that was for philosophy-based outages, due to the need for high levels of unplanned corrective maintenance.

In support of the strategy, we are focusing on the following areas:

- Unplanned capability loss factor (UCLF)
- Unplanned automatic grid separations (UAGS)
- Planned capability loss factor (PCLF) for philosophy-based outages
- Post-outage UCLF, which refers to unplanned losses within 60 days of returning a unit to service after an outage (either planned or unplanned)

The main contributors to the system UCLF of 15.22% were as follows:



Breakdown of system UCLF, %

- Outage slips
- Unit trips
- Duvha Unit 3 incident
- Other major or significant incidents
- Other full load losses
- Boiler tube failures
- Partial load losses

UAGS trips per 7 000 operating hours for the year to 31 March 2015, which is considered a leading indicator for plant reliability, was 5.63 (2013/14: 5.24), against a target of 4. There were 575 UAGS trips during the year to 31 March 2015.

Maintenance backlog and post-outage UCLF

We are employing proactive planned maintenance practices to reduce unplanned outages. Planned maintenance levels have increased to between 11% and 13% since January 2015, indicating our commitment to continue with maintenance on our ageing plant so that the recovery to sustainable and reliable power generation is expedited.

While there is significant commitment to adhering to the maintenance outage plan, the unpredictable performance of plant and tight operating reserve margins required that some outages be deferred. The result is a further delay in the turnaround of plant performance. Some short-duration maintenance interventions only provide temporary gains, as longer term benefits require that the units be taken out of service for extended periods.

The focus is now on post-outage UCLF, which is measured up to 60 days after the unit synchronises to the grid after returning from maintenance. The year-end post-outage UCLF – for units that implemented interim repairs, as well as mini-general overhaul and general overhaul philosophy outages – stood at 17.74%, which is significantly worse than the target of 10%. A number of initiatives are being implemented to bring post-outage UCLF measures within the target range.

Maintenance schedule for coal-fired power stations

Coal-fired generating units need to be taken out of service regularly to conduct routine repairs and inspections. While these units are down, the rest of the generating fleet has to compensate for the commensurate decrease in generating capacity. The types of required maintenance, together with the frequency and duration of the outages, are shown below:

Activity	Frequency (years)	Duration (days)
General overhaul	6 – 12	40 – 60
Interim repairs	2 – 3	14 – 35
Mini general overhaul	6	28
Boiler inspection	1 – 1.5	7 – 14
Statutory inspection and test	6	35
Main steam pipe work	As needed	120

Update on significant events

Duvha Unit 3 over-pressurisation incident

On 30 March 2014, we experienced an over-pressurisation incident in the boiler of Unit 3 at Duvha Power Station, taking the 575MW unit out of service. This has had a material impact on UCLF during the year, contributing 1.37% to the system UCLF.

The incident investigation has been completed and a report issued. A process is underway to address all the recommendations from the report; the project team is finalising the way forward for the recovery of the boiler. We are currently engaging with potential boiler suppliers to place a contract in the next six months for the repair or replacement of the boiler.

The insurance claim, which is estimated at R4.2 billion, including business interruption costs, is being finalised. The loss adjuster presented a common cause report to the insurers and Eskom. Settlement options were tabled for consideration by the business and deliberations are still in progress.

Collapse of Majuba coal silo

A coal storage silo at Majuba Power Station in Mpumalanga collapsed on Saturday, 1 November 2014. The generating capacity was reduced to just over 600MW, down from a full load of 3 843MW, as the coal supply to the boilers of five of the units was interrupted. Load shedding was implemented on Sunday, 2 November 2014 to preserve coal at Majuba and water at our pumped storage plant, in order to meet demand during the following week and to prevent the power system suffering a total blackout.

The investigation into the cause of the collapse is being finalised and is expected to be presented to Board in June 2015.

A short-term solution has been implemented, which entails the relocation and repair of the incline coal conveyors with coal being fed through an elevated mobile boom feeder. This 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. Towards the end of May 2015, coal supply to the station was fully restored, enabling the station to operate at 100% load at all times.

The short-term solution is expected to be replaced by a more cost-effective interim coal handling system in September 2015. The interim solution entails the construction of a temporary conveyor system to feed coal from the coal stockyard to the boilers. The designs for the mechanical, civil, structural and electrical works have been completed, while the procurement and manufacturing of mechanical components for the interim solution are at an advanced stage.

The feasibility study for a permanent solution has commenced. The insurance claim is estimated at R150 million, which excludes business interruption costs.

Full black start test carried out

The various defence systems in place to protect the power system are frequently tested to ensure the effectiveness of their response capability to prevent a total system blackout. Notwithstanding this, regular black start tests are required to be performed, in terms of both the Grid Code as well as the practices of a prudent system operator. A full black start test was successfully carried out during the year, which tested the ability of a black start generation facility to start up without any external electrical supply, energise a portion of the transmission system and supply load.

Koeberg performance

Koeberg Unit 1 remained online for a continuous run of 398 days after returning to service from its previous refuelling outage on 29 December 2013. The unit tripped on 1 February 2015 due to a transformer earth fault, one week before a planned shutdown for a 98 day scheduled refuelling outage, which also included ten-yearly maintenance. The outage commenced as planned on 9 February 2015 and is expected to be completed at the end of May 2015, although the unit will be offline slightly longer than planned, due to an outage slip.

Koeberg Unit 2 has remained on full load after returning to service from a refuelling outage on 17 May 2014, although it was offline for 11 days longer than planned, due to an outage slip.

Koeberg Steam Generator Replacement Project
Eskom signed a contract with Areva in September 2014 for the manufacture and replacement of Koeberg's steam generators. Manufacturing activities have commenced, and the project is currently on track for installation during the refuelling outages in 2018.

Benchmarking

Coal-fired stations

Generation benchmarks the performance of its coal-fired power stations against those of the members of VGB (Vereinigung der Großkesselbesitzer e.V), a European-based technical association for electricity and heat generation industries. VGB's objective is to provide support and facilitate the improvement of operating safety, environmental compatibility and the availability and efficiency of power plants for electricity and heat generation, either in operation or under construction.

When interpreting the results of the benchmarking study, it must be noted that the operating regimes of other utilities contributing to the VGB database may not be the same as those of Eskom. The results indicate that:

- The trend in the performance of our coal-fired plant across all indicators continues to be worse than the VGB benchmark
- The availability of the top performing stations in the VGB benchmark has historically been consistent, but a decline was observed in 2012 and 2013, and the availability of the benchmark stations in the median and worst quartiles has also been declining
- Our units are on a par with the VGB benchmark with respect to planned maintenance in the median and low quartiles, while the planned maintenance of our best performing units was significantly better than that of the VGB benchmark units
- Since 2012, our UCLF performance showed a significant deterioration compared to the VGB benchmark on all quartiles; this trend continues
- With respect to the use of available plant (measured by energy utilisation factor or EUF), all of our coal-fired units are performing at a level close to, and in many cases above the VGB best quartile, an indication that we are operating our power station units at much higher levels than the VGB benchmark units

Koeberg Nuclear Power Station

Eskom is a member of the World Association of Nuclear Operators (WANO) and the Institute of Nuclear Power Operations (INPO), and South Africa is a member of the International Atomic Energy Agency (IAEA). These affiliations enable us to benchmark performance, conduct periodic safety reviews, define standards, disseminate best practice and train personnel at our nuclear plant, Koeberg.

A WANO peer review of Koeberg was carried out in July 2014, followed by a WANO corporate peer review in February 2015. Following the Fukushima event in Japan in March 2011, corporate peer reviews have been introduced by WANO to determine the adequacy of corporate support for nuclear power stations.

During the review period, Koeberg's performance has generally been better than median for the suite of WANO performance indicators.

Through INPO, we have maintained our accreditation from the National Nuclear Training Academy in the United States for our systematic approach to the training of licensed and non-licensed nuclear operators at Koeberg. We are the only non-US utility to receive such accreditation.

For the benchmarking graphs relating to our coal-fired and nuclear power stations, refer to the fact sheet

Transmission and Distribution performance

Transmission plans, operates and maintains the transmission assets throughout their economic life. The transmission grid comprises approximately 31 107km of transmission lines and 160 substations totalling 139 610MVA of installed transformer capacity.

Our distribution network relays electricity from the high-voltage transmission network to customers, including municipalities that manage their own distribution networks, via infrastructure consisting of 48 278km of distribution lines, 281 510km of reticulation lines and 7 436km of underground cables, as well as 99 880MVA of installed transformer capacity.

Measure and unit	Target 2019/20	Target 2015/16	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
Total system minutes lost for events <1 minute, minutes[SC]	3.80	3.80	3.80	**2.85**	3.05	3.52	●
Number of major incidents >1 minute, number	2	2	2	**2**	–	3	●
System average interruption frequency index (SAIFI), events[SC]	20.0	21.0	22.0	**19.7**	20.2	22.2	●
System average interruption duration index (SAIDI), hours[SC]	39.0	41.0	43.0	**36.2**	37.0	41.9	●

Transmission achieved an excellent technical performance for system interruption incidents of less than one system minute as well as line faults. Two major incidents occurred at the Prospect and Vulcan substations following plant failures, which impacted City Power and industrial customers in eMalahleni respectively. However, performance risks still remain, with ageing assets and vulnerabilities due to network unfirmness.

Previous investments to refurbish and strengthen the Distribution network, coupled with continued managerial focus on network performance, continue to yield good results, as evidenced by the above-target performance of the technical measures, SAIDI and SAIFI. The utilisation of mobile computing devices assisted the business to deal with reducing restoration times while increasing field staff utilisation. Over the past five years, the SAIDI performance has improved by more than 33% while the SAIFI performance has improved by more than 20%. However, the ability to sustain this network performance within the current financial constraints remains a risk.

Regular maintenance of meters is undertaken to ensure accurate billing

Benchmarking

Transmission

Transmission took part in a benchmarking exercise with 27 other international transmission companies in 2012/13. The study focused on maintenance and plant performance and identified international best practices for the transmission industry. These results have been used to identify opportunities with the development of objectives and strategies for continuous improvement.

The results of the 2012/13 study indicated that Transmission's substation and line asset performance were marginally below the benchmark average. Internal benchmarking performed this year has confirmed the previous results. Benchmarking is conducted every second year, with the next study scheduled for 2015/16, based on 2014/15 information.

Distribution

The business has not conducted an external benchmarking study during this financial year, but continues to reference data from a previous benchmarking study for planning purposes.

In 2012, the then Distribution and Customer Services Division participated in a benchmarking study which used North American utility data for benchmarking purposes. Our network interruption performance is historically impacted by our long radial overhead lines for rural electrification customers, with limited ring feeds in the event of supply interruptions, which limits the opportunity to build redundancy into the networks. In South Africa, urban areas are largely supplied by municipalities, which are in turn supplied in bulk by Eskom.

At the time of the study, the Distribution SAIDI and SAIFI performance was categorised as fourth or bottom quartile. Since the 2012 benchmark exercise, we have substantially improved our SAIDI and SAIFI performance.

Distribution has developed an internal resource model which models workforce demand based on operating standards and underlying asset data, which provides comparative benchmarking data used for planning purposes by all the Operating Units.

Distribution is currently preparing to benchmark technical and operational performance against international utilities.

For benchmarking information relating to Transmission and Distribution, refer to the fact sheet

Managing supply-and-demand constraints

Role of the System Operator

The System Operator provides an integrative function for the operation and risk management of the interconnected power system by balancing supply and demand in real time, trading energy internationally and buying energy from IPPs, which assists us in implementing our mandate of supplying electricity.

In order to balance and protect the power system, we have to apply demand management practices, which include supply-side and demand-side options. Supply-side options focus on increasing electricity supply, including utilising our open-cycle gas turbines (OCGTs), our pumped storage schemes, supply by IPPs as well as international power imports. Demand-side options, which are contingent upon the support of customers, focus on reducing demand, and include demand response programmes which utilise interruptible load agreements, demand side management, energy efficiency initiatives as well as the "5pm to 9pm" demand reduction campaign and higher winter tariffs.

Power system emergency declarations and load shedding

When sufficient demand savings are not realised, we apply load curtailment and controlled rotational load shedding to protect the power system. While load shedding is regrettable, we have to continue with the necessary maintenance of our Generation plant to improve performance for the medium to long term, even if this requires additional load shedding for some time. The relatively flat (or "Table Mountain") daily load profile during summer increased the energy requirements from the OCGTs as well as the duration of load reduction when required. The current deficit of approximately 3 000MW is expected to continue until the availability of the existing fleet is increased and substantial new generating capacity has been commissioned. While there is a very real possibility of further load shedding in the foreseeable future, even when load shedding is implemented in stage 1, we still supply electricity to 96% of the country at any given time.

During 2014/15, a substantial number of load reduction events occurred when the available supply was insufficient to meet the demand. While only three events occurred over evening peak during winter, we had to implement load shedding and/or load curtailment on 34 days between 1 November 2014 and 31 March 2015.

Use of open-cycle gas turbines

The diesel powered OCGTs continued to be used extensively at higher than expected load factors in order to ease the strain on electricity supply and to reduce the impact of load shedding, which resulted from continued generating capacity constraints and tight operating margins. However, the high demand on the OCGT stations, together with local diesel constraints in the Western Cape and the logistics associated with delivering fuel to Ankerlig Power Station in particular, have constrained operations at these stations.

Actual OCGT expenditure for the year amounted to R9.5 billion (2013/14: R10.6 billion) compared to an original budget of R6 billion, although Board approved an additional amount of R4.3 billion to ensure system sustainability until the end of March 2015; part of the additional amount had to be made up by savings in other areas of the business. While the OCGTs were originally intended to provide only peaking power, they have continued to exceed targeted production as a means of closing the power supply gap. This raises concerns over the financial sustainability of Eskom, as a megawatt of power produced by an OCGT station costs almost nine times as much as the equivalent produced by a coal-fired power station.

NERSA has provided a preliminary prudency approval of up to 450GWh per month from OCGT generation for the last quarter of the 2014/15 year; any usage over and above this would be subject to a further prudency and efficiency review if claimed as a variance through the Regulatory Clearing Account (RCA) mechanism. We will therefore be able to apply to NERSA for the clawback of additional OCGT costs within this preliminary approval undertaken in the 2014/15 financial year, although if approved, this clawback would only flow to us in future years.

Measure and unit	Target 2019/20	Target 2015/16	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
OCGT production, GWh	590	1 180	2 092	**3 709**	3 621	1 905	●
OCGT diesel usage, R million	2 246	2 885	6 019	**9 546**	10 561	4 993	●

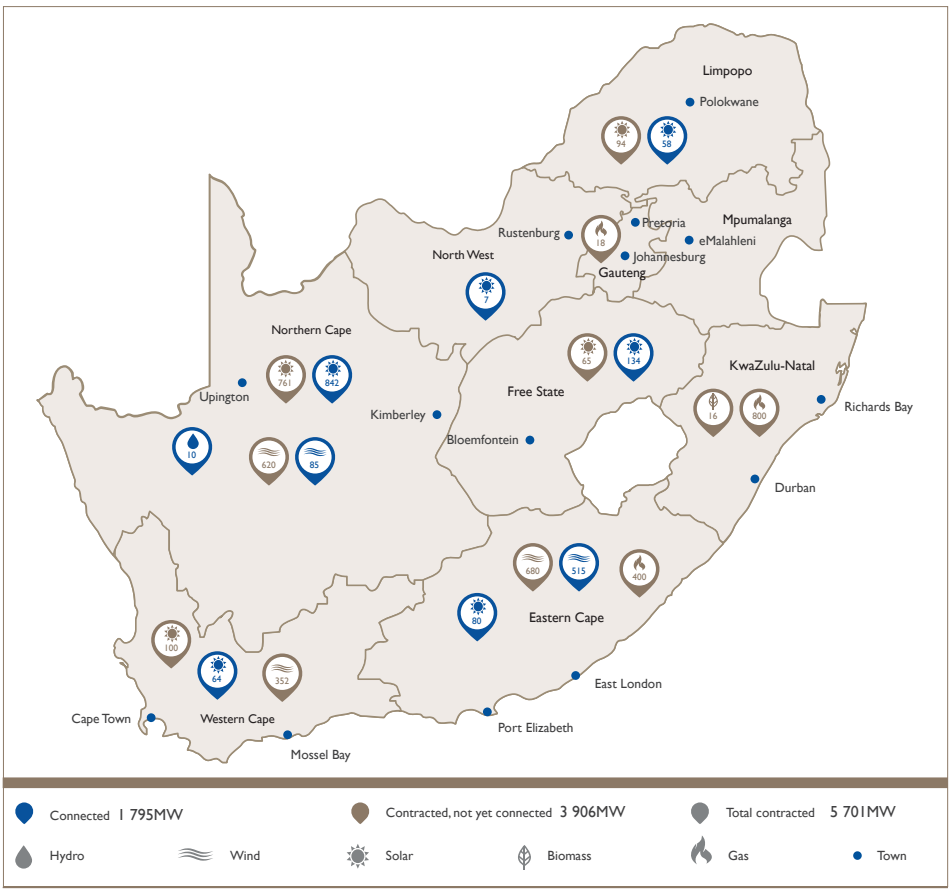
The actual OCGT production for the year to 31 March 2015 was 3 709GWh compared to a target of 2 092GWh (2013/14: 3 621GWh). The average actual OCGT load factor for the year to 31 March 2015 amounted to 17.58% against a targeted load factor of 9.91% (2013/14: 17.16%). The expectation is that the OCGT fleet will continue to be used extensively, although this is subject to the availability of funding.

Purchasing and installing IPP capacity

We acknowledge the role that IPPs must play in the South African electricity market, and remain committed to facilitating the entry of IPPs, to strengthen the system adequacy and meet the growing power demand.

Total capacity of 5 701MW has been contracted with IPPs as at 31 March 2015, of which 3 887MW relates to contracts under DoE's renewable energy (RE-IPP) programme. At 31 March 2015, a total of 1 795MW of renewable IPP generation capacity has been connected and is providing power to the grid. An average load factor of 30.85% was achieved during the year. Short- and medium-term contracts which were expiring at the end of March 2015 were renewed for another year, so they can continue to contribute to reducing the supply shortage.

IPPs contracted and connected (by province)



The average cost of energy purchased from all IPPs is R1 570/MWh, while the average cost of renewable IPPs is R2 172/MWh. Although this is cheaper than the cost of generating from OCGTs (at about R2 573/MWh), it is still significantly more than the cost of our base-load power stations (at about R300/MWh). However, IPPs provide much needed renewable energy to the energy mix; they also play a vital role in balancing supply and demand, as well as providing space for maintenance and reducing the need for load shedding.

The table below summarises the actual energy procured under various IPP programmes 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?
Total energy purchased, GWh[1]	n/a	n/a	5 106	**6 022**	3 671	3 516	
Total spent, R million[1]	n/a	n/a	7 473	**9 454**	3 266	2 941	
Weighted average cost, c/kWh	n/a	n/a	–	**157**	88	83	

1. Future targets are not available, as figures are dependent on system requirements.

Deemed energy payments totalling R129 million for the year (2013/14: RNil) were made to two IPPs due to delays in connecting them to the grid, caused by delays in project approvals, site access and delivery of materials due to labour action.

Cross-border sales and purchases of electricity

We are aware that our responsibilities to supply our neighbouring countries may create an apparent conflict when the domestic supply-demand balance is constrained. To reduce the impact of exports, we have ensured that power suppply agreements with SAPP trading partners are sufficiently flexible to allow for the following controls during emergency situations in South Africa:

- Discretionary agreements (Zimbabwe and Zambia) are declined in advance in anticipation of a tight supply situation
- International industrial end-use customers (Mozal and Skorpion Zinc) are interrupted in line with the terms of their agreements
- Non-firm agreements (Botswana and Namibia) are reduced in proportion to our local large customers in the event of an emergency, and reduced to zero if rotational load shedding is required
- Firm supply agreements (Swaziland and Lesotho) continue to be supplied, but they are urged to reduce consumption. However, if rotational load shedding is required in South Africa, they are required to undertake proportional load shedding

GWh	Target 2019/20	Target 2015/16	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
International sales[1]	5 626	6 317	11 262	**11 911**	12 378	13 791	
International purchases	3 712	3 717	11 266	**10 731**	9 425	7 698	
Net sales/(purchases)	1 914	2 600	(4)	**1 180**	2 953	6 093	

1. International sales for 2014/15 and 2013/14 exclude sales made by Distribution International to Lesotho, of 89GWh and 91GWh respectively.

Exports of electricity by Eskom, referred to as international sales, for the year to 31 March 2015 were down 4% compared to the previous year due to lower exports to Namibia and Botswana. In contrast, international purchases, or imports of electricity by Eskom, for the year to 31 March 2015 increased by 14% year-on-year. The increase in imports was due to the replacement of a smoothing reactor at Hidroeléctrica de Cahora Bassa (HCB) in Mozambique that had been out of service for a lengthy period in the preceding year. Nevertheless, line and equipment faults on the high-voltage direct current transmission line from HCB meant that targeted imports from HCB could not be achieved.

A power purchase agreement entered into with Aggreko in Mozambique, for 148MW of mid-merit supply, was extended from July 2014 to August 2015, with the option to extend for a further two months to secure continued supply.

Integrated Demand Management

Integrated Demand Management (IDM) plays a key role in assisting us to balance power supply and demand during periods of generation constraints. Demand side management interventions encourage customers to use electricity more efficiently, thereby reducing the gap between supply and demand in the short to medium term.

As no funding was available for new projects from October 2013 until January 2015, no new projects were implemented, and therefore verified demand savings are significantly below target. Although sufficient funding was allocated to IDM in February 2015, savings from projects will only be realised over the next three financial years.

Verified demand side management and internal energy efficiency savings

Measure and unit	Target 2019/20	Target 2015/16	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
Demand savings (evening peak), MW[SC]	304.0	187.0	246.0	**171.5**	409.6	595.0	●
Energy savings, GWh	1 862.0	763.0	592.0	**816.2**	1 363.0	2 244	●
Internal energy efficiency, GWh[SC, 1]	n/a	1.2	10.0	**10.4**	19.4	28.9	●

1. Target not set, as funds have not yet been allocated.

Demand side management costs for the year ended 31 March 2015

R million	Target 2019/20	Target 2015/16	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
Total energy efficiency demand side management[1]	n/a	n/a	949	**656**	1 314	2 851	●
Power buybacks[2]	n/a	n/a	–	**–**	87	2 808	
Demand market participation[1]	n/a	n/a	688	**309**	262	283	●
Total (excluding transfer pricing)	n/a	n/a	1 637	**964**	1 663	5 942	●

1. Target not set.
2. Power buybacks are no longer funded by NERSA and therefore not utilised.

IDM runs a number of programmes to manage demand and improve energy efficiency:

Demand response

The Demand Response Programme has a combined certified (instantaneous, supplemental and standby generation) capacity of 1 356MW of dispatchable load, which can be reduced or completely switched off on a scheduled day, if requested by the System Operator.

Residential sector

The focus in the residential sector was the rollout of Phase 3 of compact fluorescent lamps (CFLs), which commenced in February 2014. A total of 251 000 CFLs were installed up to August 2014, when the programme was put on hold due to financial constraints. A total of 390 643 CFLs have been installed inception-to-date, against a target of 500 000.

Eskom internal energy efficiency (IEE) saving initiatives

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.

Power Alert and other campaigns

Our Power Alert and "5pm to 9pm" campaigns continue to reduce power demand during the evening peak. The average impact for the red flightings in the evening peak was 339MW on the worst-constrained days, in April and July 2014.

Future focus areas

- Manage coal quality to reduce coal-related load losses and coal costs within approved regulatory constraints and approved tariffs
- Conclusion of long-term coal and limestone supply agreements
- Conclusion of water supply agreements with DWS to ensure long-term water security for Medupi and Matimba Power Stations
- Facilitate the investment required to recapitalise existing cost-plus mines to meet contractual obligations whilst meeting Government's transformational objectives
- Continued implementation of the Generation Sustainability Strategy, with a focus on the quality of planned philosophy-based outages, post-outage UCLF and outage slips performance, together with the improvement of UCLF performance and trips. This will require space of about 3 000MW for the required maintenance, even during winter
- Transmission network strengthening to achieve N–1 Grid Code compliance, as well as the integration of new generation sources
- Connection of IPPs to the Eskom grid within the contracted timeframes as they come online, to avoid deemed energy payments
- Continued focus on Distribution sustainability through prioritised interventions towards refurbishment, reliability improvements and addressing maintenance backlogs
- Exploring further options to manage power demand, including demand response programmes
- Aggressively pursuing the implementation of IDM projects to meet the demand savings target of 975MW over the next three years

Revenue and customer sustainability

HIGHLIGHTS

Excellent performance on customer satisfaction measures

PROGRESS

Demand reduction contracted with key industrial customers reduced the need for load shedding

Load management interventions to be implemented at the top 20 defaulting municipalities if no payment agreement is concluded

CHALLENGES

Debtors days for all customer segments are worse than target

Residential debt, particularly Soweto, continues to escalate

Ongoing management of energy protection and revenue losses

LOWLIGHTS

Numerous instances of load shedding, negatively impacting all customer segments

Arrear municipal debt increased to R4 953 million (2013/14: R2 593 million)

We aspire to consistently satisfy our customers with the level of service they receive. In order to measure this, we focus on customer service performance in terms of a number of metrics, as well as revenue and debt management, primarily through the average number of debtors days.

For the number of customers by customer segment and electricity sales, both volume and revenue, refer to the fact sheet

Looking back on 2014

Last year, we said that we would focus on improving debt collection and implementing processes in terms of the revenue management strategy, approved in 2013/14, to enhance energy protection and energy loss programmes. The problem has worsened significantly, particularly in the area of debt collection, although progress is being made in implementing the revenue management strategy, albeit slower than anticipated.

Customer service performance

We measure customer satisfaction through a number of perception- and interaction-based customer surveys, which are conducted by independent research organisations. The measures include:

- **Eskom KeyCare**, which measures the satisfaction of our large industrial customers, while **Top Customer KeyCare** concentrates on those customers who consume more than 100GWh per year
- **Enhanced MaxiCare**, which assesses the satisfaction of our residential, small and medium customers on a perception, rather than a transactional, basis
- **CustomerCare**, which evaluates customer satisfaction on a transactional basis, based on recent interaction with our contact centres or the resolution of service requests by our operating units

Measure and unit	Target 2019/20	Target 2015/16	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
Eskom KeyCare, index[SC, 1]	n/a	102.0	102.0	**108.7**	108.7	105.8	●
Top Customer KeyCare, index[1]	n/a	104.0	104.0	**110.5**	110.8	107.5	●
Enhanced MaxiCare, index[SC]	94.0	93.7	96.0	**99.8**	92.7	93.2	●
CustomerCare, index[1]	n/a	8.2	8.2	**8.0**	8.3	8.4	●

1. Target not set.

The sustained above-target scores on Eskom KeyCare and Top Customer KeyCare for large industrial customers, despite numerous occurrences of load shedding, are attributed to extensive interactions and interventions with customers through various forums, where we provide information on the system status, capacity expansion programme, IDM programmes and the like. Regional Account Managers and their teams frequently visit these customers to share information and detect service-related issues. Our engagement with key industrial customers regarding load curtailment over critical hours allows customers to plan effectively and also minimise the need for load shedding.

The significant improvement in Enhanced MaxiCare reflects the impact of our customer service improvement programme on residential, small and medium customers. Customers also continue to rate delivery on normal services highly, although load shedding has impacted call centre volumes and thereby service levels, causing the slight decrease in the CustomerCare score since last year.

Load shedding and the impact on customers

The National Code of Practice for Emergency Load Reduction (NRS 048-9) was developed by a multi-stakeholder task team after the load shedding experienced in 2008, and was approved by NERSA as a regulatory licence requirement in 2010. The Code was applied operationally for the first time on 19 November 2013 and then again on 20 and 21 February 2014, although in both cases only large customers were called on to curtail load. On 6 March 2014, both load curtailment and load shedding in stage 3 were called on for the first time since 2008, when a coal supply incident affected all units at Kendal Power Station. Significant experience had since been gained with the application of the Code, in particular to minimise the economic and social impact. This experience has been used to modify the application through a formal agreement with NERSA. A revised Edition 2 of NRS 048-9 has been drafted, which is expected to be finalised by March 2016.

The initial objective of NRS 048-9 was to deal with ad hoc power system emergencies only, as the intention was to also put in place an Energy Conservation Scheme (ECS). The Eskom Energy Conservation Scheme was developed in 2008, in response to Government's Power Conservation Programme. Through the application of high tariffs, the ECS aims to penalise electricity customers that do not reduce their consumption by an allocated percentage. For industrial customers, the expected target was a reduction of 10% compared to their historical baseline consumption profile. The necessary legislation to support this programme has not yet been put in place.

We acknowledge the crippling effect that load shedding has on our customers, both large and small. We are constantly working with customers to better understand how we can improve the load shedding experience, until such time as we have recovered the health of our plant. The following issues were raised during our engagements with customers on load shedding-related issues:

- The impact of load shedding on different sectors, such as industrial, mining, commercial, agricultural, transport and residential, with particular reference to the economic cost and socio-political implications
- Type of reduction, being load shedding versus load curtailment
- Predictability of load shedding, which talks to planned or ad hoc load shedding, advance warning of ad hoc load shedding, availability of load shedding schedules and adherence to schedules by Eskom and municipalities
- Design of the load shedding time slots, in terms of duration and frequency of the time slots, together with consideration of rotational versus fixed time slots
- Time of day of load shedding

Contrary to popular belief, South Africa is not the only country that has had to implement load shedding. Many developing countries, particularly in Africa and Asia, as well as some developed countries, have experienced load shedding, or even a total blackout.

As evidenced in countries that have experienced a total blackout, extricating a country from that situation is significantly more expensive and disruptive than enduring load shedding for a few hours a day. Without minimising the impact that load shedding has on businesses and the daily life of all South Africans, it is important to remember that, even when load shedding is implemented in stage 3, we still supply electricity to about 90% of the country at any given time.

Revenue and debtor management

We make every effort to ensure that customers pay their accounts on time. We constantly monitor payments and are willing to enter into reasonable payment arrangements that take into account defaulting customers' circumstances. Considerable effort also goes into building stronger relationships with these customers. Disconnection of supply is a last resort.

In terms of their contracts, customers have a predetermined number of days within which they are expected to settle their accounts. If payment is not made within the required number of days, the amount payable is referred to as arrear debt. In other words, arrear debt refers only to overdue amounts, excluding interest, and not the total amount due.

Arrear customer debt has increased across all segments over the past year, with approximately 38% of debt being outstanding for more than 60 days (2013/14: 35%); the most significant increase was seen in arrear municipal debt. Electricity debtors (before provision for impairment) increased to R22 657 million (2013/14: R20 269 million), while the provision for impairment increased to R7 430 million (2013/14: R5 667 million). The increase in the provision for impairment is largely due to an increase in arrear municipal debt, coupled with a decision to provide for all overdue debt over 15 days – being the contractual due date – for certain defaulting municipalities, as well as those not honouring their payment plan agreements.

Previously, we recognised revenue and thereafter impaired the debtor if the amount was later deemed not to be collectable. In the current year, due to the materiality of the amounts now involved, we applied the IAS 18 principle of not recognising revenue if it is deemed not to be collectable at the date of sale. As the revenue and corresponding debtor is never accounted for, there is no need to impair the debtor. At year end, this has resulted in external revenue and debtors of R597 million being derecognised, and impairment amounting to R566 million being reversed. Despite this, we continue to actively pursue recovery of these amounts. The amounts mentioned earlier are net of the adjustment.

The worsening situation across the board can be seen in the table below.

Key debt management indicators at 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?
Arrear debt as % of revenue, %	1.16	1.68	0.75	**2.17**	1.10	0.82	●
Debtors days – municipalities, average debtors days[1]	n/a	n/a	25.0	**47.6**	32.7	22.4	●
Debtors days – large power top customers excluding disputes, average debtors days	14.5	14.5	14.5	**16.8**	14.5	12.3	●
Debtors days – other large power users (<100GWh p.a.), average debtors days[2]	16.5	16.5	16.0	**17.0**	16.9	18.3	●
Debtors days – small power users (excluding Soweto), average debtors days	46.0	46.0	46.0	**49.1**	50.2	48.2	●

1. Target being reviewed, pending interventions with municipalities.
2. Provisional target, currently under discussion by the relevant approval bodies.

Arrear debt

Debt collection from municipalities and small power users, particularly in Soweto, remains a concern. At 31 March 2015, ten municipalities had total overdue debt greater than R100 million each; the top 20 defaulting municipalities contributed approximately 80% of the total arrear municipal debt.

Total Soweto debt, including interest was R8 611 million at 31 March 2015 (2013/14: R7 020 million).

Arrear municipal and Soweto debt (excluding interest) at 31 March 2015

R million	2014/15	2013/14	2012/13
Municipal debt			
Total municipal debt (including current amounts)	**9 849**	6 928	5 142
Municipal arrear debt (>15 days)	**4 953**	2 593	1 202
Percentage arrear debt to total debt	**50.3%**	37.4%	23.4%
Soweto debt			
Total Soweto debt (including current amounts)	**4 182**	3 622	3 159
Soweto arrear debt (>30 days)	**4 022**	3 442	3 078
Average Soweto payment level, %	**16%**	20%	16%

After the disconnection of three Free State municipalities, namely Maluti-a-Phofung, Ngwathe and Dihlabeng, was suspended following interventions by the Ministers of Public Enterprises and of Cooperative Governance and Traditional Affairs (CoGTA), the outstanding debt of Free State municipalities has increased significantly. At 31 March 2015, Free State municipalities contributed 39% to total municipal arrear debt, with Mpumalanga municipalities contributing 30% and North West municipalities 14%.

Historically, payments by municipalities were strongly correlated to them receiving their quarterly equitable share payment from National Treasury. Previously this funding was sufficient to settle outstanding electricity debt, although this is no longer the case, as municipalities face increased electricity prices and reduced funding. A number of other issues also contribute to non-payment by municipalities, such as inadequate skills and competencies to manage municipal functions, poor management of revenue management processes, misalignment of tariffs between Eskom and the municipalities, as well as cash flow challenges.

In order to manage the problem we enforce our revenue management policy and procedures, such as issuing disconnection letters, and conform to the relevant legal and regulatory requirements (such as PFMA, MFMA and PAJA) should no corrective action be taken. We also consult with National and Provincial Treasury and CoGTA to address the systemic causes of arrear municipal debt.

On 6 March 2015, National Treasury issued a cautionary procedure to all municipalities advising them to pay the current bulk service accounts and honour their payments by 13 March 2015. Failure to comply would result in National Treasury withholding the payment of their quarterly equitable shares. National Treasury duly withheld the March equitable share payments to 60 defaulting municipalities for failing to settle their accounts or honour their payments to Eskom and water boards.

We have made cross-functional teams available to municipalities to share best practices in managing electricity portfolios and offered prepayment options to all municipalities to limit the growth of arrear debt.

Judgement was issued in February 2015 against Matjhabeng in the Free State, with a six-month sentence being handed to the municipal manager, suspended on certain conditions that centred around payment of their electricity account. Matjhabeng has since made some payment with their equitable share.

Furthermore, we announced during April that we have notified the top 20 defaulting municipalities across the country that we would be interrupting their bulk electricity supply from 5 June 2015, should they not settle their accounts or make payment arrangements by then, as we can no longer continue supplying electricty without receiving payment in return. The interventions include the following:

- Implementing load shedding during daily morning and evening peak periods to avoid incurring OCGT cost and also to restrict the increase in arrear debt
- Prioritising load shedding to defaulting municipalities, both during emergencies and when small loads are required in stage 1
- Restricting supply to notified maximum demand (NMD) and tripping bulk points if NMD is exceeded
- Limiting supply to municipalities in line with their current payment trend

Since the announcement, the majority of municipalities have made payment arrangements, therefore they will not have their bulk electricity supply interrupted. It should be noted that the interruption of supply is the initial step to ensure payment of overdue accounts. In the event that we cannot reach a satisfactory solution with a municipality, it will be permanently disconnected until its debt is paid in full. The Minister of Public Enterprises has agreed not to intervene in the disconnection process. It should be noted that there are litigation processes underway with certain municipalities in the Free State.

Residential revenue management

The residential revenue management strategy, which includes Soweto, drives energy protection and energy loss programmes, such as Switch OVA!, to enhance safety, improve quality of supply and reduce energy theft. It also aims to improve debt collection among small power users through the following initiatives:

- Installation of split metering with protective enclosures to prevent tampering
- Converting the meters of non-paying credit metering customers to prepaid meters, with new supply group codes to eliminate ghost vending
- Focused credit management process, together with disconnections, to recover outstanding debt
- Driving other recoveries in a structured approach through the Business Productivity Programme

The programme was approved late in the 2013/14 financial year. Implementation commenced in Soweto in July 2014 and was expanded since 1 November 2014, with 18 000 households targeted to be converted to prepaid. As part of the process, we engage with customers to educate them on energy efficiency, safety, free basic electricity, inclining block tariffs, buying of prepaid power through legal vendors, as well as the need for household budgeting to provide for electricity purchases.

As at year end, a total of 4 209 customers have been switched, against the year-end target of 7 000 customers, with the balance targeted for conversion in the 2015/16 financial year. Project data indicates that 93% of customers chose prepaid, and the balance conventional metering. The potential revenue unlocked is estimated at R1.26 million per month (at R300 per customer per month). Although the programme is still being disrupted by community protests, as well as technical issues and data challenges, steady progress is being made through community and stakeholder engagements, and our normal credit management process.

The project is currently live in Dobsonville Ext. 3, Meadowlands, Protea North, Kagiso and Orlando West, while Dobsonville Ext. 1 and 2 have been completed.

Energy losses and theft

Utilities throughout the world struggle with energy losses, which can be divided into two broad categories:

- **Technical energy losses**, which are a natural result of transferring electrical energy from one point to another, with some of the energy being dissipated as heat. The further the energy has to travel, the bigger the losses
- **Non-technical energy losses**, which refers to losses caused by theft, including illegal connections, meter tampering and illegal vending of prepaid electricity, as well as billing errors

Transmission experiences only technical energy losses, while in Distribution, technical losses are estimated at between 60% and 75% of total energy losses in the distribution networks. The actual percentage is influenced by factors such as network design, network topology, load distribution and network operations. In other words, between 25% and 40% of Distribution energy losses, which amounts to between 3 730GWh and 5 968GWh (or between 1.57% and 2.52% of total energy sent out), relate to non-technical losses.

Total energy losses for the year ended 31 March 2015

12-month moving average, %	Target 2019/20	Target 2015/16	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
Loss through Distribution	7.36	7.18	7.12	**6.78**	7.13	7.12	●
Loss through Transmission	3.45	3.41	3.30	**2.53**	2.34	2.80	●
Total Eskom losses	10.28	10.00	9.65	**8.79**	8.88	9.08	●

Non-technical losses, which include illegal connections, theft of equipment and vandalism, amounted to between 3 730GWh and 5 968GWh for 2014/15. Installation of split metering with protective enclosures is one of the interventions undertaken to reduce these losses

Losses performance in both Transmission and Distribution was better than target, with the performance in Distribution improving markedly from the prior year.

Specific interventions aimed at reducing energy and revenue losses are being pursued with the support of the social marketing campaign Operation Khanyisa, aimed at promoting the legal use of electricity by customers. Moreover, as part of the Business Productivity Programme, a savings aspiration of R2.1 billion has been set over the MYPD 3 period, to be achieved through the reduction of energy losses and recovery of revenue. Planned interventions include:

- Energy balancing at reticulation feeder level to identify and prioritise high loss hotspots for action
- Meter audit programmes across all customer categories to identify and correct tampered and faulty meters, together with the issuing of tamper fines and recovery of revenue by the calculation and billing of energy unaccounted for in the past
- Prosecution of customers for tampering with metering installations
- Similar strategies to those employed in residential revenue management, such as the installation of split metering and protective enclosures to prevent tampering, as well as the conversion of customers to prepaid meters coupled with prevention of the use of illegal prepaid vouchers

Some of the successes as a result of the continuous focus on energy and revenue losses are:

- R122.5 million revenue recovered from large and small power customers with conventional meters during 2014/15
- Fines realised from prepaid customers tampering with their electricity meters amounted to R23 million for the year
- As a result of Operation Khanyisa, over 2 700 tipoffs were received from the public during the year

Equipment theft

Eskom is plagued by network equipment theft (generally referred to as conductor, cable or copper theft). This includes the theft of overhead lines, underground cables, airdac and bundle conductors, earthing equipment, transformers, pylon support lattices and so forth.

The value of material stolen remains a serious concern, as it is indicative of organised, syndicate-driven criminal activity in the conductor theft environment, which is also experienced by other state-owned enterprises.

Theft of steel members from transmission towers is an ongoing occurrence, even though this is being mitigated by security and line inspection patrols.

The fight against network equipment theft is being addressed by means of intelligence driven investigations by the Hawks, a division of SAPS, which encompasses aggressive policing of the scrap metal market for stolen goods. The courts are also taking this crime seriously and significant sentences are being handed out to perpetrators.

A joint industry working group, formed by Eskom, Transnet, Telkom, SAPS, the National Prosecuting Authority, Business Against Crime and the South African Chamber of Commerce and Industry (SACCI), continues to contribute positively in the fight against this crime.

Operation Khanyisa

Following a successful pilot in Limpopo, the Customer Compliance Approach (CCA) has been expanded with the rollout extended to various sites in Mpumalanga, Free State and North West. Further rollouts to hotspot areas and townships within these areas will commence in 2015, with implementation in other provinces planned for the latter part of 2015. The localised approach taken by the CCA has led to the issuing of over R2.7 million in fines to date, with R1.4 million from the Free State and over R0.5 million each from Mpumalanga and North West. It has also led to 19 arrests and 18 criminal cases being opened to date.

Operation Khanyisa concluded a new partnership with SACCI, while engagements with existing partners Crime Line, SALGA and Proudly SA to unlock opportunities are ongoing. Operation Khanyisa aims to induct additional influencers into the programme over the coming year.

Future focus areas

- Ensuring our financial sustainability by managing and reducing arrear debt, by accelerating debt collection in the municipal, residential and other large and small customer segments
- Continued management of energy protection and revenue losses, through Operation Khanyisa and other initiatives

Sustainable asset creation

HIGHLIGHTS

First synchronisation of Medupi Unit 6 on 2 March 2015, the first coal-fired unit to be brought online since 2001

Sere Wind Farm in full commercial operation on 31 March 2015

PROGRESS

Work at Ingula Pumped Storage Scheme recommenced after MHSA Section 54 work stoppage was lifted

CHALLENGES

Labour instability impacting progress on new build projects

Recovering schedule at remaining units at Medupi, impacted by delays at Unit 6

Completion of construction and turnover of systems at Kusile

LOWLIGHTS

Delays at Medupi resulted in R8 billion due under the take-or-pay coal supply agreement

Our capital expansion strategy focuses on new build projects, infrastructure upgrades aimed at generation sustainability and environmental compliance, transmission strengthening, customer connections, as well as asset maintenance and replacement projects. We strive to deliver projects on time, within budget and to the right quality.

Looking back on 2014

The single biggest commitment we made last year was to achieve the first synchronisation of Medupi Unit 6 in the second half of 2014, with a target date of 24 December 2014. However, first synchronisation was delayed to 2 March 2015, due to labour unrest during 2014, as well as a number of technical challenges experienced during the ramp-up period.

The first wind turbines of the 100MW Sere Wind Farm were energised in October 2014 as planned, and Sere was placed in commercial operation on 31 March 2015.

Delivering capacity expansion

We started the capacity expansion programme in 2005 to build new power stations and high-voltage transmission power lines to meet South Africa's rising demand for electricity and also to diversify our energy mix. The programme, which started with the return-to-service (RTS) programme and is currently expected to be completed by 2021, will increase generation capacity by 17 384MW, transmission lines by 9 756km and substation capacity by 42 470MVA.

Since inception, the capacity expansion programme has resulted in additional generation capacity of 6 237MW, mainly through the RTS programme, 5 816km of transmission lines and 29 655MVA of substation capacity. The programme has cost R265 billion to date (excluding capitalised borrowing costs), while the total cost-to-completion of the programme is currently estimated at R361 billion (excluding capitalised borrowing costs).

The light on top of Unit 6 of Medupi Power Station was turned on when the unit was first synchronised on 2 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?
Generation capacity installed: first synchronisation, units[SC, 1]	n/a	0	1	**1**	–	–	●
Generation capacity installed and commissioned, MW[SC, 2]	1 594	794	433	**100**	120	261	●
Generation capacity milestones (Medupi, Kusile and Ingula), days delay	30.00	30.00	30.00	**59.56**	48.90	43.48	●
Transmission lines installed, km[SC]	836.0	310.0	315.1	**318.6**	810.9	787.1	●
Transmission capacity installed and commissioned, MVA[SC]	8 915	2 120	2 090	**2 090**	3 790	3 580	●

1. Eskom and DPE will, in subsequent years, contract on first synchronisation of Unit 5 of Medupi and Units 1 and 2 of Kusile. The subsequent units will then be contracted on capacity installed and commissioned.
2. Target for 2015/16 refers to Medupi Unit 6 being put into commercial operation.

The target of 433MW for generation capacity installed and commissioned was not met – although the 100MW Sere Wind Farm was commissioned on 31 March 2015 in line with the target, Ingula Unit 3 (333MW) is currently forecast to be commissioned only during the second half of 2016, as a result of delays due to the work stoppage following the tragic incident on 31 October 2013.

The delays in meeting generation capacity milestones are caused by technical delays at Medupi and Kusile, as well as the delays at Ingula due to the MHSA Section 54 work stoppage.

Medupi

First synchronisation (or first power) of Medupi Unit 6 was achieved on 2 March 2015, with full load achieved on 26 May 2015, at which time the unit delivered full power of 794MW to the national grid. Commercial operation is anticipated during August 2015. The unit is the biggest coal-fired unit of its kind in Africa, and the first coal-fired unit to be brought online since the last unit of Majuba in 2001.

During the testing phase, while combustion optimisation of the unit continues, output from the unit is variable. The testing phase ensures that all systems are fully operable and reliable for handover, and the unit is safe to operate and perform as designed for the next 50 years. Normal commissioning and optimisation issues are being resolved as they arise, without any significant holdups to reaching commercial operation expected.

Additional resources were mobilised to Unit 6 by both the boiler and C&I (control and instrumentation) contractors to mitigate any resource-driven delays. Additional shifts were introduced 24 hours a day, seven days a week in order to accelerate progress on site. We continue to work with contractors to resolve any issues that could affect the schedule.

The critical path to first synchronisation included the delivery, installation, testing and integration of the boiler protection system, together with the distributed control system. The recovery strategies that were put in place to implement solutions to the post-weld heat treatment that were reported previously were successful and the technical issues surrounding welding on the Unit 6 boiler reported last year were resolved. The weld procedure requalification exercise was completed, with all weld procedures verified and accepted by both Eskom and the authorised inspection authority. Furthermore, a number of key milestones were achieved during the past year, all leading up to first synchronisation of the unit:

- Successful completion of the boiler chemical clean, the draught group test run and the site integration tests for Unit 6 and the balance of plant, as well as the water treatment plant
- First coal was delivered to the coal stockyard, Coal Stacker 1 was safety cleared and commissioning of the coal stacker and coal mills is progressing well
- First oil fire of Unit 6 on 17 October 2014, followed by first coal fire on 27 November 2014, boiler blow-through on 2 January 2015 and steam to set on 12 February 2015

The Transmission integration implementation is ready for the synchronisation of all six units to the Eskom grid, and all required auxiliary services for the whole power station are ready to deliver power to the grid, as and when the remaining units come online.

Although labour stability has been acceptable over the past year, matters erupted on 25 March 2015, when a NUMSA delegation of contractor employees, bypassing all labour partnership agreed processes and site-specific undertakings, handed a Memorandum of Demands to Medupi site leadership, during which workers were intimidated and damage caused to Eskom property. The site was able to identify 1 772 perpetrators who were put on final warning, although we agreed to hearings where participants could make representations as to why they should not be dismissed. Extensive meetings between Eskom, union leaders and contractors culminated in an apparent agreement to proposals, expected to lead to the return to work of employees on 15 April 2015. However, a certain faction of NUMSA rejected the proposals, and a number of demonstrations took place in Lephalale, with massive intimidation of those wishing to return, as well as further damage to Eskom property.

A court interdict was since issued to compel employees to return to work. Although some employees responded, most defied the court interdict. Violence and intimidation were experienced in the accommodation areas where these contractor employees reside, as well as en route to the project site, which has resulted in employees who want to return to work being intimidated or prevented from doing so. The unprotected industrial action has resulted in further construction delays at the project.

Towards the end of May 2015, more than 5 000 workers returned to site, a positive move which paves the way for the recovery of the lost production time.

A number of site-wide productivity enhancements, incorporating lean construction techniques, have been implemented in an effort to recover the schedule on the remaining units, which were negatively impacted by the delays at Unit 6; these were generally showing satisfactory results, prior to the unprotected industrial action.

Originally, the commissioning of the next unit, Unit 5, was forecast to occur within six months of bringing Unit 6 online. However, due to the challenges experienced at Unit 6 this will not be possible, as resources were redeployed from Unit 5 in an attempt to recover the schedule at Unit 6. First synchronisation of Unit 5 is currently planned for the first half of 2017, with the final unit expected to be in commercial operation by the first half of 2019.

The cumulative cost incurred on the project is R84.7 billion (2013/14: R77 billion) against a total budget of R105 billion. All amounts exclude capitalised borrowing costs.

Eskom decided to locate Medupi in Lephalale for a number of carefully considered reasons, such as:

- Availability and accessibility of primary energy sources, such as water and coal
- Ease of connecting the new power station to the existing Eskom network
- Environmental acceptability
- Favourable cost of production

The Waterberg coalfields and the Lephalale area was ranked as the most favourable option for the establishment of a new coal-fired power station, due to land availability in close proximity to the primary coal source, properties of coal in the area being well known because of the experience acquired through the existing Matimba Power Station located in the vicinity, competitive coal prices and low environmental impact on the chosen site.

Kusile

Eskom 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, including successful completion of the steam turbine lube oil system flush, setting the generator step-up transformer into place and the unit being placed on electrical barring. Work related to the flue gas desulphurisation scope of work was also completed recently. Unit 1's boiler air leak test and hydrotest were successfully conducted during April 2015.

Kusile Power Station in Mpumalanga, once completed, will be one of the largest dry-cooled coal-fired power stations in the world

Good progress has been made on the civil works for all units, with the boilers of Units 1 to 5 in various stages of construction. Boiler erection, already completed at Unit 1, is expected to drive the critical path for Units 2 to 6. Work necessary to support first coal delivery to the coal stockyard is targeted for completion in the second half of 2015.

With effect from 1 September 2014, the Kusile Execution Team and contractors began implementing productivity improvement plans that include working additional shifts, more weekends, as well as selected crews and contractors working critical areas during the traditional builders' break in December. The ramp-up to commissioning of Unit 1 will include strategies to support around-the-clock commissioning activities. The project team remains focused on critical activities necessary to achieve the earliest possible first synchronisation of Unit 1, as well as improving productivity and clawing back schedule on all six units.

First synchronisation of Unit 1 is currently planned for the first half of 2017, with the final unit expected to be in commercial operation by the second half of 2021.

The cumulative cost incurred on the project is R78.7 billion (2013/14: R66.6 billion) against a total budget of R118.5 billion. All amounts exclude capitalised borrowing costs.

Ingula

The MHSA Section 54 work stoppage was lifted completely in September 2014, allowing underground works to resume, although the Presiding Officer's report has not yet been received. Since the tragic incident on 31 October 2013, progress was significantly impacted resulting in limited progress for a period of approximately 12 months. However, the lifting of the work stoppage will enable acceleration of the construction schedule.

Despite the delays, the operation floors of Units 3 and 4 have been completed and handed over to mechanical and electrical contractors; the machine hall of Unit 1 was also completed and handed over. In addition, diesel generator safety clearance and cold commissioning were achieved in September 2014, while all four generator-transformers have been installed underground, with the gas-insulated switchgear systems connected on the high-voltage side of the transformers. To date, two of the transformers have been filled with 83 000ℓ of oil each. Environmental authorisation and water-use licences have also been received.

However, industrial action has led to delays in installation of the heating, ventilation and air-conditioning (HVAC) ducting for the control room. Delays have also been experienced in the main underground civil works.

First synchronisation of Unit 3 is currently planned for the second half of 2016, with the final unit expected to be in commercial operation by the first half of 2017.

The cumulative cost incurred on the project is R22.8 billion (2013/14: R19.4 billion) against a total budget of R25.9 billion. All amounts exclude capitalised borrowing costs.

Renewables

Eskom's first utility-scale renewable energy project, the Sere Wind Farm near Vredendal in the Western Cape, has been completed and was put into commercial operation on 31 March 2015, after achieving Grid Code compliance. The new Skaapvlei substation and the 44km 132kV line to the existing Juno substation, both required to connect Sere to the national grid, were energised on 11 July 2014. The first seven wind turbines were synchronised to the grid on 10 October 2014, with the last of the 46 turbines being energised in December 2014.

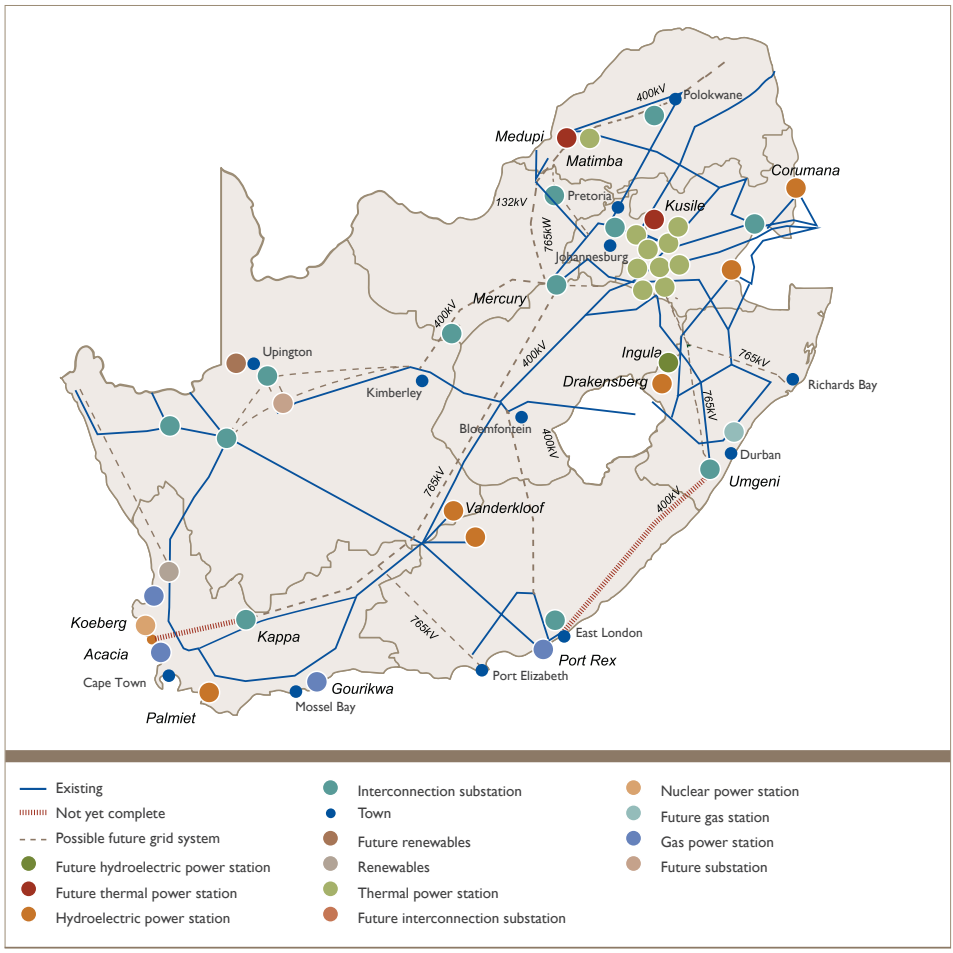
Although Sere has been feeding available power into the grid since October 2014, it achieved the target nominal generating capacity of 100MW on 27 January 2015. The project was completed on time and within budget, with a safety record in line with our Zero Harm policy, and without any environmental legal contraventions or incidents of industrial action. It demonstrates our commitment to renewable energy, diversifying our energy mix and reducing our carbon footprint.

Development work continues on the photovoltaic (PV) rollout at existing administration buildings, power stations and transmission substations, and also on solar augmentation where existing power stations are hybridised with solar thermal energy. Project Ilanga, the PV project, is expected to add 150MWp by 2017/18, of which 2.35MWp has been installed.

Power lines and substation capacity commissioned

During the current year, we installed 318.6km of high-voltage transmission lines and commissioned 2 090MVA of substation capacity under the new build programme, bringing the total since inception of the capacity expansion programme to 5 816km of transmission lines and 29 655MVA of substation capacity.

Our Transmission projects as at 31 March 2015



Capital expenditure (excluding capitalised borrowing costs) per division for the year ended 31 March 2015

Division, R million	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13
Group Capital	28 822	**31 691**	33 475	37 690
Generation	9 998	**10 555**	10 326	8 512
Transmission	1 180	**1 121**	1 516	893
Distribution	7 706	**6 073**	10 265	8 317
Subtotal	47 706	**49 440**	55 582	55 412
Future fuel	4 893	**1 651**	2 675	2 634
Eskom Enterprises	0	**439**	453	376
Other areas including intergroup eliminations	2 721	**1 547**	1 093	1 711
Total Eskom group funded capital expenditure[1]	55 320	**53 077**	59 803	60 133

1. Capital expenditure includes additions to property, plant and equipment, intangible assets and future fuel, but excludes construction stock and capitalised borrowing costs.

Investing in appropriate technologies

Due to financial constraints, the research budget for the year was reduced from R194.7 million to R130.2 million. Actual expenditure for the year was R138.4 million (2013/14: R156.2 million), with 69% or R95.7 million being spent on renewables and the environment, power system technologies and improving Generation performance.

We remain focused on delivering high impact solutions in high value areas of our business model. High priority projects are on track to deliver benefits within the coming financial year. These include:

High frequency electrostatic precipitator pilot at Lethabo Power Station

The purpose of the project is to improve the particulate capture efficiency of the existing infrastructure at Lethabo Power Station, in order to improve particulate emissions performance. The unit was installed and has proved effective in lowering cost and reducing particulate emissions. The rollout of the technology to other power stations is being considered as part of our emissions reduction strategy.

Waterberg coal suitability analysis

Waterberg coal samples were analysed to determine the suitability for use in the Mpumalanga power stations, to inform procurement and transport strategies when sourcing coal for these power stations. Successful testing and characterisation of the samples have been completed. A strategy for the use of Waterberg coal in Mpumalanga power stations is being finalised.

Low-loss distribution transformers

A total of 1 000 transformers with a lower internal impedance will be installed (with 140 already installed), with the potential to improve efficiencies on the Distribution network by reducing network losses and thereby reducing the constraints on the system. Provisional savings on network losses of up to 83% have been recorded during initial tests. If the technology is implemented throughout Eskom, the energy savings would exceed R500 million per annum.

Large-scale energy storage

A facility for the testing and evaluation of different technology batteries for use in Eskom applications and for integration of renewables to the grid is under construction in Rosherville. Installation and commissioning is expected to occur in the first half of the next financial year.

Smart off-grid energy solutions

A test site has been established in Kroonstad, Free State, and we are working with DoE and Anglo Platinum on hybrid solutions to sustainably provide energy access to remote communities.

Majuba Underground Coal Gasification (UCG)

Eskom, in partnership with Sasol, explored synergies regarding strategic opportunities for UCG gas, aiming to leverage Sasol's gas handling and clean-up expertise. Improved particulate removal technologies were commissioned, which showed continued indications of improved performance in particulate removal at the test site. However, due to budget constraints, we have approved the closure and rehabilitation of the initial pilot plant, which has resulted in an impairment of R1.05 billion.

Future focus areas

- Managing the new build projects within the MYPD 3 capital allocations remains a challenge, but teams are actively exploring options to execute the projects within existing funding allocations
- General construction attention at Medupi is being focused on Units 5 to 1, and on bringing back the schedule for first synchronisation of Unit 5 as far as possible
- The Kusile project is aggressively driving significant performance improvements by all principal contractors to achieve the required overall site production and productivity, in order to claw back schedule on all six units
- Site stability is an imperative, and considerable attention is being focused on stabilisation of worker unrest and demonstrations, with a recommitment to the labour partnership agreements
- As reported in the prior year, servitude acquisition remains a critical priority, causing delays in Transmission project execution. We will continue engaging with the Government departments responsible to assist in dealing with the challenges

Environmental sustainability

HIGHLIGHTS

Received the 2014 *Sunday Times* Top Brands Survey Green Grand Prix Award for our efforts in preserving the environment and harnessing the country's natural resources

PROGRESS

The Minimum Emission Standards postponement decision allows our power stations to continue operating

Environmental legal contraventions for the year down to 18, from 34 last year

CHALLENGES

Particulate emissions performance at 0.37kg/MWhSO was worse than target and prior year

Several power stations are reaching the capacity limits of their ashing storage facilities

Funding constraints may result in critical environmental projects being deferred

Retrofitting of emissions control equipment at several power stations is required by 2025, at a cost of R134 billion

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.

Reducing our 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.

Refer to the fact sheet for information on the environmental impact of using or saving electricity

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 occured 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.

Flue gas desulphurisation (FGD), which reduces SO_2 emissions by more than 90%, will be installed at Kusile Power Station prior to commissioning and at Medupi Power Station between 2021 and 2024. In addition, Kusile and Medupi will both be fitted with fabric filter plant, which reduces particulate emissions by more than 99.9%, as well as low-NOx burners, which reduce NOx emissions. As a result, the commissioning of the new power stations will not cause a significant deterioration in ambient air quality or a significant increase in health risks.

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

The dry ash dam at Tutuka Power Station – we continue to explore ways to recycle the large amounts of ash produced by our coal-fired stations

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

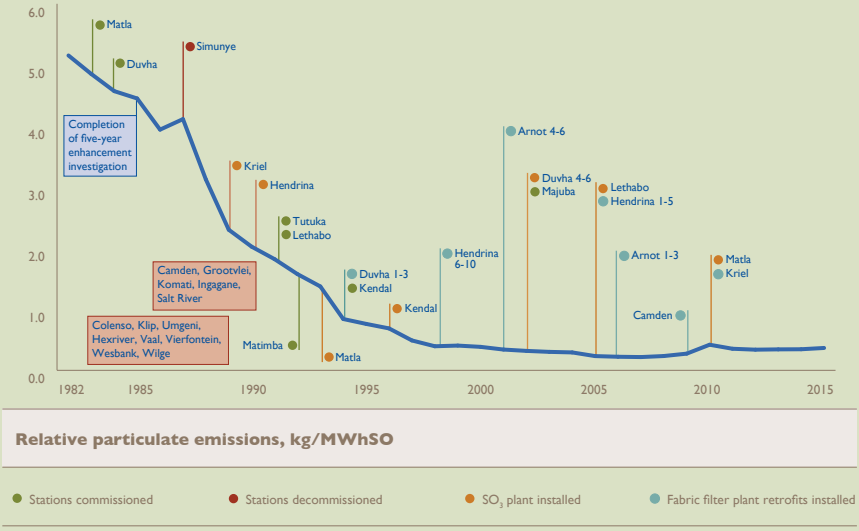
Water performance of 1.38ℓ/kWhSO for the year was better than the target of 1.39ℓ/kWhSO, but worse than the performance of 1.35ℓ/kWhSO in the prior year. Water performance has been negatively affected by excessive water leaks on systems and an increased number of unit trips, which require additional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



Reduction in relative particulate minimum emissions from Eskom's power stations from 1982 to the present, due to the decommissioning of older power stations and commissioning of more efficient technology.

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

Eskom has been invited to present this strategy at international meetings and has 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.

*Refer to pages **31** and **55** for further information on Sere and IPPs*

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

Building a sustainable skills base

HIGHLIGHTS

Exceeded targets for engineering and technician learners

Received a platinum award from the University of KwaZulu-Natal for our support of their engineering faculty

PROGRESS

National Skills Fund approved in principle an amount of R173 million to enhance the skills development programme for artisan training

A two-year wage agreement for bargaining unit employees was concluded at 8.5% per annum, after the matter had been referred to the CCMA

CHALLENGES

Labour action delaying progress at new build sites, the latest of which was an extended work stoppage at Medupi

LOWLIGHTS

Learner throughput target not met because of our inability to fund the appointment of interns

Building strong skills

This strategy focuses on driving a culture of performance and creating a productive workforce, which includes building a strong learner pipeline. In order to sustain our business, we aim to recruit, develop and retain appropriately skilled, committed, engaged and accountable employees.

We have reviewed our learner numbers and realigned the learner pipeline aspiration from 14.5% of our staff complement to a more sustainable level of 6%, to be phased in over the next five years. The shareholder compact target of learner throughput was not achieved mainly due to our inability to fund the appointment of interns. However, we have been granted approval in principle by the National Skills Fund for an amount of R173 million to enhance the skills development programme in the area of artisan training. We plan to recruit 1 250 artisans in 2015/16.

We have also partnered with basic education and higher learning institutions to promote access to quality education, particularly in the maths and science fields. Because of this, we have received a platinum award from the University of KwaZulu-Natal for our support of their engineering faculty.

Skills development and training remain internal priorities; contracts with all key suppliers contain skills development targets

Building a sustainable skills base
continued

Learner numbers at 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?
Engineering learners	391	521	1 086	**1 315**	1 962	2 144	
Technician learners	652	869	652	**826**	815	835	
Artisan learners	1 434	1 912	2 390	**1 752**	2 383	2 847	
Learner throughput or qualifying[SC,1,2]	n/a	1 200	1 200	**424**	–	–	

1. This is a new measure effective from 1 April 2014, therefore comparative information is not presented. It is a cumulative year-to-date measure of learners completing their studies.
2. The measure is expected to be replaced by a new measure, learner appointments, by 2019/20, although no target has yet been set.

Training

The mandate of the Eskom Academy of Learning (EAL) is to close competency gaps by coordinating, integrating and addressing all learning needs of employees, as well as enhancing performance throughout our company, by focusing on business needs and catering for all facets of the learning value chain and learning operations. Because of financial constraints, we will focus on skills development with a bias towards closing competency gaps for our specific requirements.

Training spend 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?
Training spend as % of gross employee benefit costs[SC]	5.00	5.00	5.00	**6.18**	7.87	–	

We acknowledge the importance of training and continue to ensure that our employees are suitably equipped for their roles. Even with the emphasis on cost savings through the BPP programme, we have exceeded the training spend target. We have embarked on practical ways to achieve savings, for instance security compliance training is now completed in-house; this has resulted in substantial savings. In addition, through our learning committees, 25 courses will be developed and implemented in-house.

Employee relations

Subsequent to the 2014 Central Bargaining Forum negotiations being referred to the CCMA, a two-year salary and conditions of service settlement agreement was reached and implemented. An increase of 8.5% was effected, substantially higher than the budgeted increase of 5.6%, which has negatively impacted the implementation of relevant BPP initiatives. Nevertheless, we view this multi-year agreement as an opportunity for Eskom and the unions to start focusing on building relationships.

The parties affected have also agreed to establish workgroups to consider the pension fund, medical aid, housing and recognition agreements as well as disciplinary and grievance procedures. They have since established sound working relationships and the progress of the workgroups is positive. Although the industrial relations climate at the Sere project was stable, the situation at the new build sites, particularly Medupi, remains sensitive. We have implemented site-specific agreements at all sites.

The Workplace Skills Plan and Annual Training Report were submitted to the Energy and Water Sector Education and Training Authority (EWSETA) after being approved by organised labour. To date we have received R31 million in mandatory grants.

Future focus areas

- Advancing learning and development aimed at closing competency gaps whilst developing skills for specific requirements, despite the current financial constraints
- Working towards a cohesive organisational development and leadership transformation response that will support the sustainability of leadership behavioural change
- Stabilisation of worker unrest and demonstrations with recommitment to the labour partnership agreements at new build sites, as well as enhancing stakeholder management after an increase in community-related issues affecting industrial relations stability at these sites

Transformation and social sustainability

HIGHLIGHTS

Achieved second place in the community upliftment category of the 2014 *Sunday Times* Top Brands Survey

Annual Business Investment Competition and Business Opportunities and Franchise Expo, helping small and medium enterprises to showcase their business, improve their business skills and network

Sustained good performance on procuring from B-BBEE compliant and black-owned suppliers

PROGRESS

Completed 159 853 electrification connections during the current year

Established the State-Owned Company's DPE Forum in collaboration with DPE and Department of Trade and Industry to explore synergies in public sector procurement

CHALLENGES

Financial constraints resulted in the reprioritisation and deferral of pipelined CSI initiatives

Accounting for supplier development and localisation elements on awarded contracts impacted by system challenges

LOWLIGHTS

Below-target performance on attributable spend on BYO, BPLwD, QSE and EME suppliers

This dimension supports economic development and supplier transformation. It also covers people transformation and managing our corporate social investment initiatives.

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.

Maximising our socio-economic contribution

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, Rekhutjitje 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.

Socio-economic 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?
Corporate social investment committed, R million	150.7	118.2	112.0	**115.5**	132.9	194.3	●
Total electrification connections, number[1]	255 000	195 000	193 151	**159 853**	201 788	139 881	●

1. The reporting boundary for the number of connections was changed in March 2014, to exclude farm dweller connections. The exclusion for the financial year ended 31 March 2015 was 1 080; for the financial years ended 31 March 2014 and 2013 it was 992 and 876 respectively. The March 2015 year-end target for the number of DoE funded connections was reduced by 564 to exclude the targeted farm dweller connections for the year (31 March 2014: 551).

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.

For more information on our CSI initiatives, please refer to the Foundation's report for the 2014/15 year, which is available online

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.

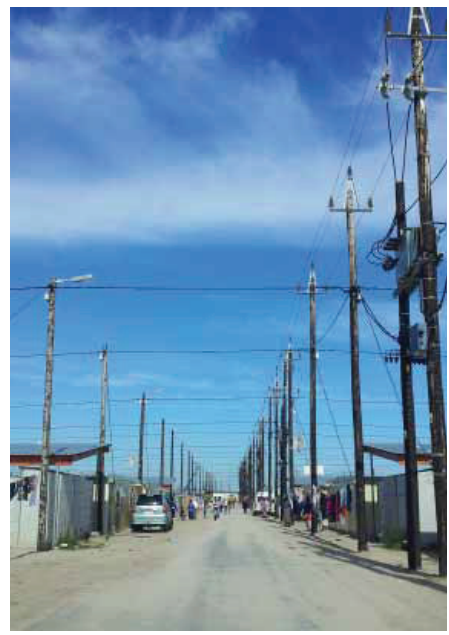
Due to capital restrictions for the 2015/16 year, the number of electrifications which we can fund ourselves will be limited.

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.



Since 1991, Eskom has connected over 4.6 million households to the Distribution network

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

Measure and unit	Target 2019/20	Target 2015/16	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
Local content contracted (Eskom-wide), %[SC]	70.00	65.00	65.00	**25.13**	40.80	–	
Local content contracted (new build), %[SC]	70.00	65.00	65.00	**33.62**	54.60	80.20	
Job creation, number[1]	2 000	8 317	16 334	**25 875**	25 181	35 759	

1. Reduction in target due to reduced activity in new build projects.

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.

Our B-BBEE attributable expenditure performance

Measure and unit	Target 2019/20	Target 2015/16	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
Procurement from B-BBEE compliant suppliers, % of TMPS[SC]	90.00	80.00	75.00	**88.89**	93.90	86.30	
Procurement from black-owned (BO) suppliers, % of TMPS[SC]	50.00	40.00	12.50	**34.91**	32.70	22.10	
Procurement from black women-owned (BWO) suppliers, % of TMPS[SC]	9.00	7.00	6.00	**6.61**	7.20	4.70	
Procurement from black youth-owned (BYO) suppliers, % of TMPS[SC]	2.00	2.00	2.00	**0.64**	1.00	1.00	
Procurement spend with suppliers owned by black people living with disabilities (BPLwD), % of TMPS[SC]	1.00	1.00	1.00	**0**	0	–	
Procurement spend with qualifying small enterprises (QSE) and exempted micro enterprises (EME), % of TMPS[SC]	20.00	15.00	12.50	**11.86**	11.90	–	

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 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 (PPPFA), 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.

Improving internal transformation

We continue our commitment to cultivating a balanced workforce that will support and further our 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

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	●

Eskom had 41 787 employees at 31 March 2015, including both permanent staff and full-time contractors, while Rotek and Roshcon had 4 703 employees, for a total group headcount of 46 490. We reduced our company and divisional headcount targets due to BPP initiatives, while manpower budgets were decreased based on the expected savings from the relevant BPP value packages.

A key concern for our organisation was to ensure skills availability and business continuity, accordingly the voluntary separation packages were stopped. We have however established a project to explore further opportunities to achieve manpower-related efficiencies and ensure that targeted savings are realised.

The employment equity targets on race representation for the year were achieved. Even though gender equity targets were not met, prioritisation of underrepresented groups during recruitment and promotions is likely to address the gender target gap, although the capping of headcount numbers and budgets could negatively affect future performance against these targets.

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.

Future focus areas

- Driving focused and heightened efforts on strategic industrialisation in partnership with dti and other stakeholders, particularly in the procurement of transformers
- Finding innovative funding solutions for our CSI spend
- Delivering on the DoE gazetted electrification connections targets
- Development of tools to measure the value of socio-economic development activities

We actively pursue equitable employment in an effort to be representative of the landscape in which we operate

Building a solid reputation

HIGHLIGHTS

Improved our communication platforms to better utilise social media platforms like Twitter and Facebook

Launch of the "MyEskom" mobile application, available in leading applications stores

Release of an energy efficiency recipe book in partnership with the 49M campaign and Pick n Pay

PROGRESS

We continually increase awareness on energy efficiency and the legal and safe use of electricity

LOWLIGHTS

Load shedding as well as financial sustainability and leadership stability concerns negatively impacted our reputation

Building a solid reputation

We strive to be an organisation which is reputable, trusted and valued by all stakeholders. We aim to improve our current reputation and position ourselves as a key driver of economic growth. For this reason, we improve and safeguard our reputation by proactively educating our stakeholders.

We are committed to effective communication around load shedding and we have extended our communication platforms to more accessible platforms like Facebook and Twitter. Likewise our "MyEskom" mobile application enables our customers to view account information, request updates to personal details and check system as well as load shedding status in real time. It also provides recommendations on how to reduce consumption.

Our Power Alert and "5pm to 9pm" campaigns continue to reduce power demand during the evening peak. Cooking contributes significantly towards the residential evening peak consumption, contributing approximately 8% of electricity use on an individual household level, therefore the energy efficient cooking campaign focuses on promoting energy efficient behaviour and cooking methods as well as alternative energy sources. The energy efficiency recipe book, produced in partnership with the 49M campaign and Pick n Pay, provides energy saving cooking hints and tips and promotes the use of energy efficient cooking methods and appliances.

We completed the repackaging of IDM resources on energy for Grade R to Grade 6 to ensure that the resources are Curriculum Assessment Policy (CAPs) compliant; the National Department of Education has approved loading the resources on their official website, Thutong.

Awarding of the Eskom trophy for best Honours student in Energy Studies at the University of Johannesburg

Front: Mr Greg Tosen (General Manager: Operations, Eskom Research & Development Department); Mr Paul Vermeulen (winner of the Eskom Energy Award); Mrs Caron Vermeulen (wife of winner); Dr Isaac Rampedi (Deputy Head, Department of Geography, Environmental Management & Energy Studies, University of Johannesburg)

Back: Prof John Ledger (Associate Professor of Energy Studies, Department of Geography, Environmental Management & Energy Studies, University of Johannesburg); Mr Dave Lucas (Eskom Corporate Specialist, Environmental Management)

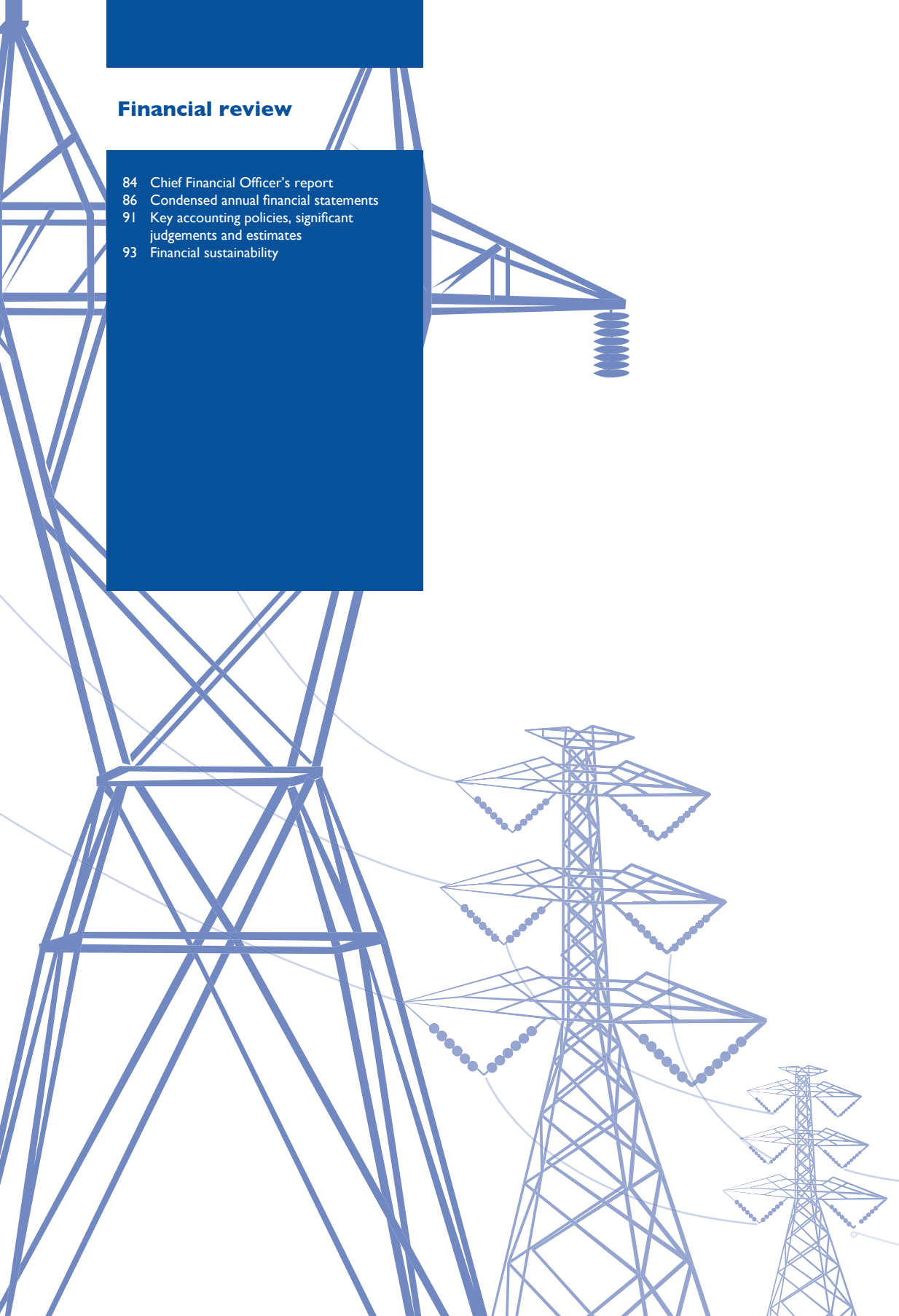
For the third year, Eskom sponsored a trophy and prize for the highest achieving student in the Energy Studies Honours programme at the University of Johannesburg, started in 1979. It comprises three modules – Energy Economics, Energy Technology and International Aspects of Energy – in the first year, and two modules – Energy Modelling and Energy Policy Formulation – plus a project in the second year. In 2014 there were 54 Honours students registered for the degree.

The programme gives them an insight into the rapidly changing world of energy technology, and includes field trips to our Lethabo Power Station, Sasol I and II at Secunda, Johannesburg's City Power facilities, MTN headquarters, NECSA and others.

Future focus areas

- Implementation of Operation Khanyisa's Customer Compliance Approach in the Mmabatho and Rustenburg areas of North West, which entails door-to-door education of customers on the legal, safe and efficient use of electricity as well as free basic electricity and inclining block tariffs
- Continue the 49M Know Your Number campaign, which offers a calculator aimed at assisting South Africans to calculate and understand their energy consumption

Financial review



Chief Financial Officer's report

Nonkululeko Veleti
Acting Chief Financial Officer

Today's constraint is tomorrow's opportunity

I am proud to present my financial report for the year ended 31 March 2015.

This year presented us with a number of challenges, emanating from the revenue shortfall that resulted from NERSA's MYPD 3 determination of 8% instead of the 16% we applied for, which left a significant gap that we need to close. At the same time, we continued with the build programme, the biggest of its kind in Africa – the total spent on the project since 2005 is R265 billion.

Financial health of the business

The financial health of the organisation has deteriorated to such an extent that the net cash from operations, which is cash available after debt and interest repayments, will soon be insufficient to support both continued operations and growth in the business.

The financial position has deteriorated as a result of the following:

- Earning an inadequate pre-tax real rate of return as the current price of electricity is not cost-reflective, as required by Government's Electricity Pricing Policy
- Additional costs incurred to balance the constrained supply-and-demand equation by using the expensive OCGT stations and IPPs significantly more than anticipated

In terms of Government's Electricity Pricing Policy, we are entitled to recover prudent operating costs and earn a reasonable rate of return on our assets. Retrospective recovery of prudent costs as determined by NERSA is available by means of a revenue adjustment through the Regulatory Clearing Account (RCA) mechanism, although we have to finance the shortfall until it is recovered through tariff increases in future years.

*Refer to page **99** under "Financial sustainability" for an update on the revenue applications submitted to NERSA*

The current situation is exacerbated by the fact that we are busy with an extensive build programme and a maintenance drive, both of which require funding. The latest capital budget for the build programme per the Corporate Plan for the five-year period to 31 March 2020 amounts to R293 billion, while the borrowing plan over the same period is only R237 billion. Unless we are able to raise an additional R50 billion, it may be necessary to delay some of the planned capital projects.

We are cognisant of the fact that the recent credit ratings downgrades to sub-investment grade will in future result in increased interest payments and make the implementation of funding initiatives more difficult.

Review of our financial performance

The group net profit for the year ended 31 March 2015 was R3.6 billion (2013/14: R7.1 billion), and R2.8 billion for the company.

Overall, our financial performance at an operating level deteriorated over the last year. Electricity sales declined by 0.7% in 2014/15, with the impact of load shedding contributing 548GWh to the decline, effectively 34% of the loss in sales. Although the electricity price increased by 8%, the above-inflation increase in costs borne by Eskom is not sustainable. Primary energy costs for the year increased by R13.6 billion, driven by the increased use of IPPs to reduce the effect of load shedding, as well as the amount of R8 billion due in terms of the Medupi take-or-pay coal supply agreement as a result of delays.

Income of R4.2 billion from the Duvha Unit 3 insurance claim and the fair value gains recognised on financial instruments and embedded derivatives provided some relief. However, arrear municipal debt increased by R2.4 billion, resulting in a significant increase in the provision for impairment.

Cash and cash equivalents for the company decreased from R19 billion in 2013/14 to R8 billion at 31 March 2015. Net cash from operating activities of R25.4 billion was not sufficient to cover the debt repayments due and interest payable of R15.3 billion and R17.1 billion respectively. A total of R53.2 billion was spent on property, plant and equipment, intangible assets and future fuel; this was largely funded by new debt of R50.6 billion.

As a result of the above, we experienced a deterioration in all of the company's critical financial solvency ratios. Interest cover decreased from 0.65 to 0.44, the debt-to-equity ratio worsened from 2.21 to 2.70, the debt service cover ratio decreased from 1.22 to 0.82 and the gross debt-to-EBITDA ratio deteriorated from 11.84 to 13.32.

A positive rate of return is required to be financially sustainable in the long term; currently the pre-tax real rate of return is 0.57% (2013/14: negative 0.26%).

The way forward

The future of our company is dependent on a solid financial foundation. During this stabilisation phase, we are focused on financial recovery on the way to achieving financial sustainability. The Board Recovery and Build Programme Committee is focused on, amongst other things, the financial recovery of the business. This involves achieving cost-reflectivity in our price, being more cost efficient in our operations and regaining the confidence of stakeholders, particularly our customers and providers of funding, to secure our sustainability and future growth.

Liquidity and financial sustainability

We are working on the following steps to address the liquidity and financial sustainability concerns we currently face:

- Migration to a cost-reflective electricity price, to achieve a return on assets at least equal to the cost of capital
- Initiating a further revenue adjustment application for the second year of the MYPD 3 period (2014/15), together with a selective reopener to increase revenues to a more realistic level
- Recovery of arrear customer debt, particularly from defaulting municipalities and Soweto
- Realisation of targeted cost savings under the BPP programme
- Continuing with our borrowing programme to source additional funding
- With Government support, we aim to avoid further credit ratings downgrades and ultimately, regain an investment grade credit rating

*For further information on cost-reflective prices, refer to pages **94** and **95** under "Financial sustainability"*

Managing outstanding electricity debt

We continue to make every effort to ensure that customers pay their accounts, by constantly monitoring the payments and entering into reasonable payment agreements depending on the circumstances of defaulting customers. In March 2015, we approved various load management interventions with respect to the top defaulting municipalities, to limit our financial risk exposure. This included communicating our intention to interrupt supply to the top 20 defaulting municipalities with effect from 5 June 2015 during morning and evening peak times if they did not settle their debt or make payment arrangements. The majority of the defaulting municipalities have since signed agreements to settle their debt.

The residential revenue management strategy, which includes Soweto, continues to drive 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 meters of non-paying customers to prepaid meters. Although we have encountered protests against the installation of prepaid meters, we are determined to continue with the project.

Savings through BPP

We implemented the BPP programme, which focuses on the reduction of our cost base, increased productivity, operational efficiencies and revisions of our business model and strategy, to assist in closing the MYPD 3 revenue shortfall. Cash savings

opportunities to the value of R61.9 billion over the five years to 31 March 2018 have been identified through the development of various value packages. At the end of the year, cash savings of R9 billion have been banked.

Although the targeted savings for 2014/15 were not achieved, we will continue to be more efficient and spend more prudently. Although critical, a reduction in costs, in terms of estimated savings to be realised under the BPP programme, may be difficult to achieve.

Government support package

The R23 billion equity injection is expected to be received from Government over the two financial years ending 31 March 2017. The first amount of R10 billion is expected to be received around June 2015. In addition, Government will give consideration to converting part of the existing R60 billion subordinated loan to equity.

Funding

Total funding from debt securities and borrowings increased by R42.9 billion during the year, bringing the total balance to R298.1 billion as at 31 March 2015. Notwithstanding the financial and operational constraints and our sub-investment grade status, we managed operations and capital requirements within both the current liquidity and longer term funding requirements. Plans are in place for the execution of the approved borrowing programme of R237 billion for 2015/2016 to 2019/2020.

Avoiding further credit ratings downgrades and ultimately, regaining investment grade status, with support from our shareholder, is critical at this point. We have engaged with the ratings agencies to clarify their concerns; we aim to work on addressing those to regain their confidence.

Conclusion

During this turnaround period, we remain focused on improving business efficiencies, arresting the trend in outstanding debt and improving the Generation performance. Specific recovery plans are being implemented and monitored on a continuous basis to mitigate the effects of the new build programme challenges and to accelerate the schedules as far as possible to avoid further delays.

I wish to convey my gratitude and appreciation to every Eskom employee and contractor for working together with our leadership to move us toward financial sustainability.

We are committed to operating within our financial means and in a way that does not compromise the sustainability of the power system, the natural environment, the safety of our people or surrounding communities. Our new Board has reiterated that our financial sustainability and going concern status will not be compromised in support of operational sustainability or balancing supply and demand. Together with Government, we will continue to seek financial solutions to ensure that we remain financially sustainable and able to deliver on our mandate.

Nonkululeko Veleti
Acting Chief Financial Officer

Condensed annual financial statements

The company and group financial results have been extracted from the Eskom Holdings SOC Ltd consolidated financial statements for the year ended 31 March 2015 that have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2008.

The consolidated financial statements have been prepared under the supervision of the acting Chief Financial Officer, Ms Nonkululeko Veleti CA(SA) and were duly approved by the Board of Directors on 28 May 2015.

The consolidated financial statements may be inspected at Eskom's registered office.

The consolidated financial statements have been audited by the group's independent auditors, SizweNtsalubaGobodo Inc. in accordance with the Public Audit Act of South Africa, 2008, the *General Notice* issued in terms thereof and International Standards on Auditing, who issued an unmodified opinion.

The consolidated financial statements, with the unmodified audit opinion issued by the independent auditors, are available online

Any reference to future performance plans and/or strategies included in the integrated report has not been reviewed or reported on by the group's independent auditors.

Condensed statements of financial position

at 31 March 2015

	Group		Company	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Assets				
Non-current assets	**505 198**	439 869	**498 326**	433 440
Property, plant and equipment and intangible assets	**458 881**	404 389	**460 214**	405 017
Investment in equity-accounted investees	**348**	318	**95**	95
Future fuel supplies	**9 079**	8 744	**9 079**	8 744
Investment in securities	**2 481**	4 841	**2 481**	4 841
Loans receivable	**8 646**	8 654	**–**	–
Derivatives held for risk management	**19 242**	9 361	**19 242**	9 361
Other assets	**6 521**	3 562	**7 215**	5 382
Current assets	**57 686**	64 977	**59 442**	66 862
Inventories	**16 033**	12 422	**15 896**	12 135
Investment in securities	**6 015**	6 066	**2 321**	3 319
Loans receivable	**269**	329	**6 553**	6 665
Derivatives held for risk management	**709**	2 812	**709**	2 812
Trade and other receivables	**16 856**	16 578	**18 553**	16 882
Financial trading assets	**6 322**	4 265	**5 143**	3 226
Other assets	**2 619**	2 829	**2 281**	2 779
Cash and cash equivalents	**8 863**	19 676	**7 986**	19 044
Non-current assets held-for-sale	**–**	147	**–**	–
Total assets	**562 884**	504 993	**557 768**	500 302
Equity				
Capital and reserves attributable to the owner of the company	**122 247**	119 784	**116 040**	114 671
Liabilities				
Non-current liabilities	**366 002**	310 915	**364 020**	308 716
Debt securities and borrowings	**277 458**	234 562	**275 954**	233 042
Embedded derivatives	**6 647**	7 871	**6 646**	7 870
Derivatives held for risk management	**520**	310	**520**	310
Deferred tax	**20 131**	19 461	**19 825**	18 842
Deferred income	**14 055**	12 518	**14 055**	12 518
Employee benefit obligations	**11 960**	9 922	**11 665**	9 674
Provisions	**31 078**	21 157	**31 039**	21 093
Other liabilities	**4 153**	5 114	**4 316**	5 367
Current liabilities	**74 635**	74 181	**77 708**	76 915
Debt securities and borrowings	**19 976**	20 258	**22 176**	22 227
Embedded derivatives	**1 375**	1 461	**1 375**	1 461
Derivatives held for risk management	**2 845**	1 197	**2 845**	1 197
Employee benefit obligations	**3 926**	4 561	**3 661**	4 256
Provisions	**9 972**	9 601	**9 807**	9 102
Trade and other payables	**27 984**	28 531	**29 267**	30 062
Financial trading liabilities	**5 499**	5 658	**5 499**	5 658
Other liabilities	**3 058**	2 914	**3 078**	2 952
Non-current liabilities held-for-sale	**–**	113	**–**	–
Total liabilities	**440 637**	385 209	**441 728**	385 631
Total equity and liabilities	**562 884**	504 993	**557 768**	500 302

Condensed income statements

for the year ended 31 March 2015

	Group		Company	
	2015 Rm	Restated[1] 2014 Rm	2015 Rm	Restated[1] 2014 Rm
Continuing operations				
Revenue	**147 691**	138 313	**147 691**	138 313
Other income	**4 444**	1 441	**6 645**	1 873
Primary energy	**(83 425)**	(69 812)	**(83 425)**	(69 812)
Net employee benefit expense	**(25 912)**	(25 622)	**(22 187)**	(22 384)
Depreciation and amortisation expense	**(14 115)**	(11 937)	**(14 001)**	(11 934)
Net impairment loss	**(3 766)**	(1 557)	**(3 755)**	(1 549)
Other expenses	**(15 771)**	(19 177)	**(22 083)**	(24 340)
Profit before net fair value gain/(loss) and net finance cost	**9 146**	11 649	**8 885**	10 167
Net fair value gain/(loss) on financial instruments excluding embedded derivatives	**630**	(620)	**539**	(753)
Net fair value gain on embedded derivatives	**1 310**	2 149	**1 310**	2 149
Profit before net finance cost	**11 086**	13 178	**10 734**	11 563
Net finance cost	**(6 109)**	(4 058)	**(6 769)**	(4 619)
Finance income	**2 996**	3 189	**2 360**	2 622
Finance cost	**(9 105)**	(7 247)	**(9 129)**	(7 241)
Share of profit of equity-accounted investees, net of tax	**49**	43	**–**	–
Profit before tax	**5 026**	9 163	**3 965**	6 944
Income tax	**(1 366)**	(2 137)	**(1 169)**	(1 520)
Profit for the period from continuing operations	**3 660**	7 026	**2 796**	5 424
Discontinued operations				
(Loss)/profit for the period from discontinued operations	**(42)**	63	**–**	–
Profit for the period	**3 618**	7 089	**2 796**	5 424
Attributable to:				
Owner of the company	**3 618**	7 089	**2 796**	5 424

1. Refer to note 48 in the annual financial statements for details of the restatement of comparatives.

Statements of comprehensive income
for the year ended 31 March 2015

	Group		Company	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Profit for the year	**3 618**	7 089	**2 796**	5 424
Other comprehensive (loss)/income	**(1 155)**	3 556	**(1 162)**	3 605
Items that may be reclassified subsequently to profit or loss	**(501)**	2 925	**(525)**	2 948
Available-for-sale financial assets – net change in fair value	**(63)**	(377)	**(64)**	(376)
Cash flow hedges – effective portion of changes in fair value	**471**	5 697	**471**	5 697
Changes in fair value	**528**	5 951	**528**	5 951
Ineffective portion of changes in fair value reclassified to profit or loss	**(57)**	(254)	**(57)**	(254)
Net amount transferred to initial carrying amount of hedged items	**(1 136)**	(1 226)	**(1 136)**	(1 226)
Foreign currency translation differences on foreign operations	**24**	(23)	**–**	–
Income tax thereon	**203**	(1 146)	**204**	(1 147)
Items that may not be reclassified subsequently to profit or loss	**(654)**	631	**(637)**	657
Remeasurement of post-employment medical benefits	**(909)**	882	**(884)**	912
Income tax thereon	**255**	(251)	**247**	(255)
Total comprehensive income for the year	**2 463**	10 645	**1 634**	9 029
Attributable to:				
Owner of the company	**2 463**	10 645	**1 634**	9 029

Condensed statements of changes in equity
for the year ended 31 March 2015

	Group		Company	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Balance at the beginning of the year	**119 784**	109 139	**114 671**	105 642
Total comprehensive income for the year	**2 463**	10 645	**1 634**	9 029
Common control transfer	**–**	–	**(265)**	–
Balance at the end of the year	**122 247**	119 784	**116 040**	114 671
Comprising:				
Share capital	**–**	–	**–**	–
Equity reserve	**30 520**	30 520	**30 520**	30 520
Cash flow hedge reserve	**5 699**	6 178	**5 699**	6 178
Available-for-sale reserve	**4**	50	**5**	51
Unrealised fair value reserve	**(3 771)**	(7 744)	**(3 771)**	(7 744)
Foreign currency translation reserve	**18**	(6)	**–**	–
Accumulated profit	**89 777**	90 786	**83 587**	85 666
	122 247	119 784	**116 040**	114 671

Condensed statement of cash flows

for the year ended 31 March 2015

	Group		Company	
	2015 Rm	Restated[1] 2014 Rm	2015 Rm	Restated[1] 2014 Rm
Cash flows from operating activities				
Profit before tax	**5 026**	9 163	**3 965**	6 944
Adjustment for non-cash items	**31 370**	21 194	**32 132**	21 601
Changes in working capital	**(8 868)**	(7 516)	**(10 647)**	(5 812)
Cash generated from operations	**27 528**	22 841	**25 450**	22 733
Net cash flows (to)/from derivatives held for risk management	**(751)**	676	**(751)**	676
Interest received	**697**	445	**696**	443
Interest paid	**(10)**	(136)	**(10)**	(136)
Income taxes paid	**(153)**	(184)	**–**	–
Net cash from operating activities	**27 311**	23 642	**25 385**	23 716
Cash flows from investing activities				
Proceeds from disposal of property, plant and equipment	**139**	28	**136**	23
Acquisitions of property, plant and equipment and intangibles	**(52 424)**	(53 160)	**(51 204)**	(53 611)
Expenditure on future fuel supplies	**(1 999)**	(2 675)	**(1 999)**	(2 675)
Increase in payments made in advance	**(966)**	(2 088)	**(966)**	(2 088)
Expenditure incurred on provisions	**(1 670)**	(1 349)	**(1 670)**	(1 349)
Increase in investment in securities and financial trading assets	**(966)**	(531)	**–**	–
Interest received	**1 068**	954	**465**	394
Other cash flows from investing activities	**432**	2 360	**446**	2 343
Net cash used in investing activities	**(56 386)**	(56 461)	**(54 792)**	(56 963)
Cash flows from financing activities				
Debt securities and borrowings raised	**49 500**	44 142	**50 559**	44 155
Debt securities and borrowings repaid	**(14 429)**	(8 014)	**(15 251)**	(7 488)
Net cash flows (to)/from derivatives held for risk management	**(1 982)**	7 751	**(1 982)**	7 751
Increase in investment in securities and financial trading assets and liabilities	**778**	9 191	**778**	9 191
Interest received	**1 449**	2 083	**1 417**	2 047
Interest paid	**(17 064)**	(13 102)	**(17 106)**	(13 120)
Other cash flows from financing activities	**(298)**	(532)	**(350)**	(579)
Net cash from financing activities	**17 954**	41 519	**18 065**	41 957
Net (decrease)/increase in cash and cash equivalents	**(11 121)**	8 700	**(11 342)**	8 710
Cash and cash equivalents at the beginning of the year	**19 676**	10 620	**19 044**	9 830
Foreign currency translation	**24**	(23)	**–**	–
Effect of movements in exchange rates on cash held	**284**	504	**284**	504
Cash and cash equivalents at the beginning of the year attributable to non-current assets held-for-sale	**–**	(125)	**–**	–
Cash and cash equivalents at the end of the year	**8 863**	19 676	**7 986**	19 044

1. Refer to note 48 in the annual financial statements for details of the restatement of comparatives.

Key accounting policies, significant judgements and estimates

Key accounting policies

Certain of our key accounting policies are set out below.

Refer to note 2 in the annual financial statements for full details of all accounting policies applied in their preparation

Our summarised annual financial results do not include all the information required for full financial statements and should be read in conjunction with the annual financial statements for the year ended 31 March 2015, which have been prepared on the going concern basis.

The separate and consolidated financial statements are prepared on the historical cost basis except for certain items that are measured at fair value.

We have consistently applied the accounting policies to all periods presented, except for the new or revised statements and interpretations implemented during the year, the impact of which is detailed in the full set of annual financial statements.

Foreign currency translation

Foreign currency transactions are translated into Rand using the exchange rates prevailing at the dates of the transactions. Non-monetary items are measured at historical cost. Foreign loans are remeasured to spot rate at every reporting date.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Land is not depreciated whilst other assets are depreciated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Spare parts classified as strategic and critical spares are treated as property, plant and equipment. Repairs and maintenance is charged to profit or loss during the financial period in which it is incurred.

Financial assets

Non-derivative financial assets are initially recognised at fair value net of any directly attributable transaction costs and subsequently measured per asset category. Thereafter, held-for-trading financial assets are recognised at fair value through profit or loss whilst loans and receivables are measured at amortised cost using the effective interest rate method less accumulated impairment losses.

Financial liabilities

Non-derivative financial liabilities are initially recognised at fair value net of any directly attributable transaction costs. Thereafter, held-for-trading financial liabilities are recognised at fair value through profit or loss whilst those financial liabilities that are not held for trading are measured at amortised cost using the effective interest rate method.

Determination of fair value

Fair values are based on quoted bid prices if available, otherwise valuation techniques are used.

Embedded derivatives

An embedded derivative is an element of a combined instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to those of a standalone derivative. Embedded derivatives are disclosed separately from hedging instruments. Embedded derivatives that are not separated are effectively accounted for as part of the hybrid instrument.

Provisions

We recognise a provision when we have a present legal or constructive obligation as a result of a past event, when an outflow of resources is probable and the amount can be reliably estimated. We also provide for the estimated decommissioning cost of nuclear and other generating plant, as well as for spent nuclear fuel and mine-related closure, pollution control and rehabilitation.

Revenue

We earn revenue through the sale of electricity to customers. Revenue is recognised when the electricity is consumed by the customer, but only to the extent that it is considered recoverable.

Capital contributions received from customers

Contributions received in advance from electricity customers to construct infrastructure dedicated to them are recognised as other revenue once the customer is connected to the electricity network.

Government grants

Government grants received for the creation of electrification assets are first recognised in liabilities as deferred income and thereafter credited to profit or loss within depreciation and amortisation expense on a straight-line basis over the expected useful lives of the related assets.

Impairment of non-financial assets

The carrying amounts of property, plant and equipment and intangibles are reviewed at each reporting date to determine if there is any indication of impairment, or when events indicate that the carrying amount may not be recoverable. Servitude rights, that are considered to have an indefinite useful life, are not subject to amortisation or depreciation but are tested annually for impairment.

Finance income

Finance income comprises interest receivable on loans, advances, trade receivables, finance lease receivables and income from financial market investments, and is recognised as it accrues using the effective interest method.

Key accounting policies, significant judgements and estimates
continued

Finance cost

Finance cost comprises interest payable on borrowings, interest resulting from hedging instruments and interest from the unwinding of discount on liabilities. To the extent that assets are financed by borrowings, certain borrowing costs are capitalised to the cost of assets over the period of construction until the asset is substantially ready for its intended use. The weighted average of borrowing costs applicable to all borrowings is used, unless an asset is financed by a specific loan, in which case the specific rate is used.

Significant judgements and estimates

We make judgements, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. Estimates and judgements are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which they are revised and the future periods they affect.

The items that follow are those that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The estimates and assumptions are set out in detail in note 3 in the annual financial statements

Embedded derivatives

We have entered into a number of agreements to supply electricity to electricity-intensive businesses, where the revenue from these contracts is linked to commodity prices and foreign currency rates or foreign production price indices, giving rise to embedded derivatives.

Post-employment medical benefits

We recognise a liability for post-employment medical benefits to qualifying retirees. The post-employment medical benefits plan is unfunded.

Occasional and service leave

We recognise a liability for occasional and service leave, based on an actuarial valuation performed annually.

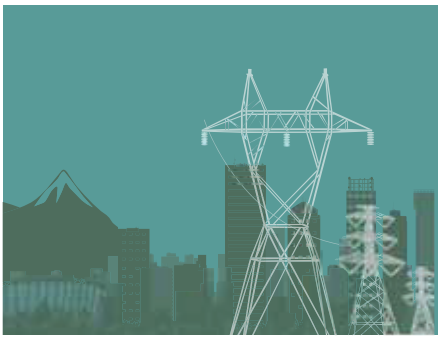
Provisions for decommissioning, mine closure and rehabilitation

Provision is made for the estimated decommissioning cost of nuclear and other generating plant and for the management of spent nuclear fuel assemblies and radioactive waste. Provision is also made for the estimated mine-related closure, pollution control and rehabilitation costs at the end of the life of certain coal mines, where a constructive and contractual obligation exists to pay coal suppliers.

Provision for coal-related obligations

We provide for coal-related obligations which arise out of contractual obligations as a result of delays in commissioning of the related power stations, which are determined by taking into account the anticipated commissioning dates, future coal prices, coal utilisation and coal stockpiles.

Financial sustainability



HIGHLIGHTS

Additional revenue of R7.8 billion allowed through NERSA revenue adjustment for 2015/16 year

Successful international bond issue of USD1.25 billion

PROGRESS

Government support of R23 billion secured from 2015/16 to ease liquidity pressure

BPP cash savings of R9 billion banked

CHALLENGES

Arrear customer debt, particularly municipalities and Soweto, continues to escalate

Expenditure on OCGTs of R9.5 billion exceeded original budget by R3.5 billion

Operating under liquidity constraints

LOWLIGHTS

Downgraded to sub-investment grade by both Moody's and Standard & Poor's

Looking back on 2014

In the previous report we highlighted the looming liquidity concerns resulting from the revenue shortfall following the MYPD 3 determination, coupled with the increasing costs of ensuring security of supply. During the year under review we focused on addressing the growing financial constraints using the tools at our disposal, which include the Business Productivity Programme and the NERSA RCA mechanism, which will provide some relief during the coming year.

The stability of the power system has deteriorated over the past year, and in an attempt to avoid the negative impact of load shedding, we relied on OCGTs and supply from IPPs to supplement generating capacity, albeit at prices that are not sustainable.

Financial sustainability: the Eskom context

Financial sustainability is the ability to cover operating costs from revenue and secure stable and sufficient returns to fund future growth, while maintaining and replacing the current asset base. Financial sustainability, in our context as an asset intensive state-owned entity, requires a return on assets which is at least equal to the cost of capital.

Funding of capital can be sourced from either borrowings or equity, in the form of investment by the shareholder or retained earnings. The level of borrowings we are able to raise is dependent on the extent of our current and future profitability and the strength of our balance sheet. Earning an appropriate return will enable us to accumulate sufficient equity to strengthen the balance sheet and raise additional debt to fund the capacity expansion programme.

To this end, the price of electricity has to be cost-reflective to ensure a fair return and thereby financial sustainability. The lack of a cost-reflective price, as is currently the case, hampers the recovery of efficient costs, as well as the maintenance and replacement of existing assets to allow for growth in the business.

NERSA applies the following equation to determine our revenue requirement:

Revenue requirement = primary energy + operating costs + depreciation + return on assets

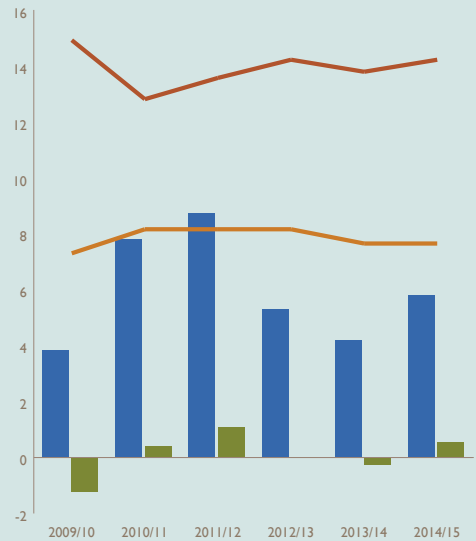
Afterwards, the RCA mechanism reconciles the variance between the MYPD decision, which is based on projections and assumptions, and actual revenue and certain costs. The mechanism allows us to adjust for the over- or underrecovery of some of the preceding years' regulated costs and revenues through the electricity price in subsequent years, as approved by NERSA.

When considering the application, NERSA applies the principle of prudency in terms of capital expenditure, operating costs and costs related to primary energy. It is our responsibility to ensure that we operate efficiently and that operating costs include only those that would have been incurred under normal conditions.

The Electricity Pricing Policy issued by DoE requires that NERSA base its revenue determination on the depreciated replacement value of assets, not the historical cost. This method has an impact on the depreciation and return components of the revenue requirement equation.

We have undertaken a revaluation of our assets considering the expected useful life of our plant of up to 80 years, using replacement cost and taking into account the estimated remaining life. Overnight cost of construction was used to value Generation assets, adjusted for the specific plant configuration to ensure a like-for-like valuation. Transmitting and distributing assets were valued using the latest market prices at the time of the valuation. Revaluations are not undertaken each year but are subjected to inflation-linked adjustments for the intervening years. These revalued or inflation-adjusted values are then used to calculate depreciation and the rate of return on assets.

The price of electricity will only be cost-reflective once we earn a return on assets equal to the cost of capital. NERSA has calculated our current pre-tax real weighted average cost of capital (WACC) to be 7.65%, which implies that we should earn a return on assets of at least 7.65%. Historically, the actual pre-tax return on assets has been below the target real and calculated nominal thresholds; even reaching negative levels in some years. The graph below illustrates our normalised rate of return based on the regulatory methodology, assuming normal operating conditions.

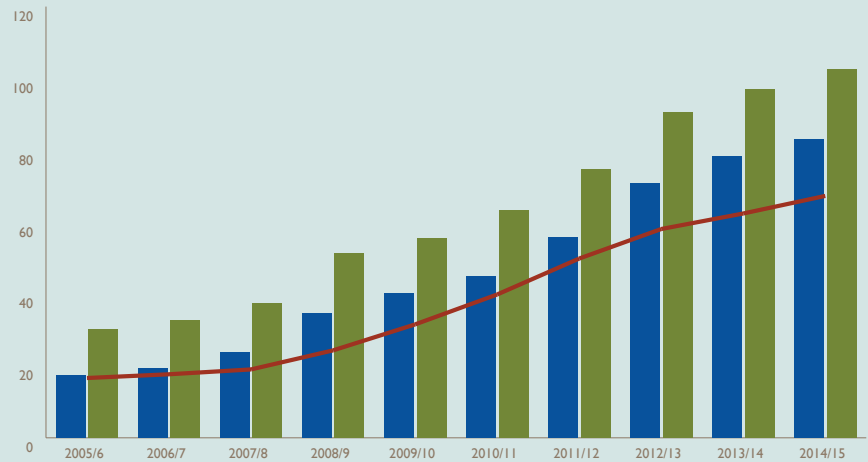


Return on assets (ROA), %

Even when considering historical asset values, the rate of return is substantially below the cost of capital, resulting in the deterioration of the balance sheet, evidenced by the weak performance on most of the financial ratios.

The situation is exacerbated by the ambitious capital expansion programme we embarked on to supplement our ageing infrastructure and to allow for growth. Although the programme has added to the asset base, it has been funded from a weak balance sheet. To address this, we have secured support from our shareholder, in the form of guarantees and a subordinated loan. Ratings agencies, namely Moody's and Standard & Poor's (S&P) have reacted to the current position by downgrading us to sub-investment grade, which may hamper the sourcing of future funding or significantly increase the cost thereof.

Our financial position will improve only once the price of electricity is cost-reflective. The graph below depicts the average price of electricity compared to a cost-reflective price based on assets valued using the historical cost, as well as using a replacement value and in most cases, assuming normal operating conditions. It is apparent that the price has not been cost-reflective since at least 2006; it is estimated that the cumulative revenue shortfall over this period is in excess of R176 billion. This shortfall was funded by debt, with Government support in the form of guarantees and a subordinated loan.



Cost-reflective prices, c/kWh

Historic valuation method | Replacement valuation method | Actual average annual price

In line with the Electricity Pricing Policy, our revenue applications to NERSA have been based on a gradual migration towards cost-reflective prices, even though the present financial difficulties highlight that the rate of migration is too slow.

A substantial increase would be required to migrate to cost-reflectivity, which will have a significant impact on customers. Certainty on the electricity price path towards cost-reflectivity will provide assurance to investors. An immediate increase alone will not address the liquidity concerns as the balance sheet will only be restored over a period of time.

Financial results of operations

We have made a profit for the financial year, but the actual financial performance, especially at an operating level, reflects the financial challenges that we currently face. Commentary on performance and planned actions to address the current reality is set out below.

Refer to the annual financial statements available online, which detail the financial performance of the company and group

Company profit for the year was R2.8 billion, down 48% from the R5.4 billion reported in the previous year. Insurance proceeds of R4.2 billion, R1.5 billion of which was borne by Escap and the balance by our reinsurer, together with gains of R1.8 billion from fair value adjustments on financial instruments and embedded derivatives provided a swing towards profitability which does not fully reflect the underlying performance.

Measure and unit	Target 2019/20	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
Electricity revenue per kWh (including environmental levy), c/kWh[1]	117.42	67.48	**67.91**	62.81	58.49	●
Electricity operating cost per kWh (including depreciation and amortisation), c/kWh[1]	69.76	63.71	**67.52**	59.67	54.15	●
Cost of electricity (excluding depreciation), R/MWh[SC, 2]	819.08	532.63	**610.43**	541.92	496.24	●
Interest cover, ratio[SC, 2]	1.01	0.69	**0.44**	0.65	0.27	●
Working capital, ratio[1]	1.07	0.98	**0.82**	0.70	0.67	●

1. A review of the nature and classification of balances, cash flows and related ratios was undertaken and updates were made to some classifications and definitions to better reflect their nature. Performance indicators for 2013/14 have been updated for ease of comparison.
2. Shareholder compact measures for 2014/15 have been calculated on the same basis as the targets set by the shareholder.

Sales and revenue

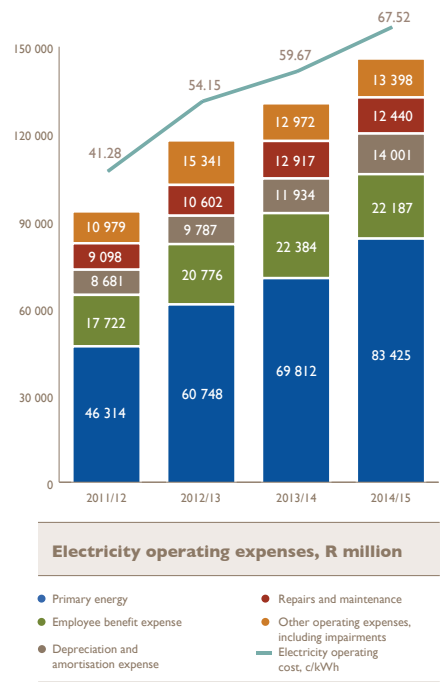
Electricity revenue increased by 7%

The increase in electricity revenue was aligned to the expected growth as a result of the effective average price increase of 8% determined by NERSA for MYPD 3. Sales volumes, however, were down 0.7% on the prior year, reflecting the downward trend witnessed in electricity sales over the past few years, as well as the impact of prolonged strikes, particularly in the mining industry. Several incidents of load shedding led to sales totalling approximately 548GWh being foregone. Electricity revenue was barely sufficient to cover our operating costs.

In December 2014, the collectability of customer debt previously recognised as revenue was reassessed. Due to the materiality of the amounts now involved, a decision was made to apply the IAS 18 principle of only recognising revenue if it is deemed collectable at the date of sale, as opposed to recognising the revenue and then impairing the customer debt when conditions change. External revenue to the value of R597 million was thus not recognised at 31 March 2015. Despite this, we continue to actively pursue recovery of these amounts. Nevertheless, the energy was supplied, and therefore the amount not recognised caused a reduction in year-on-year revenue of 0.43%.

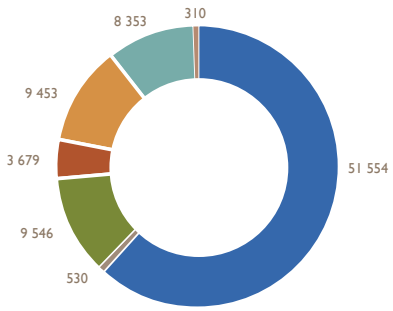
Operating costs

Electricity operating costs increased by 13%

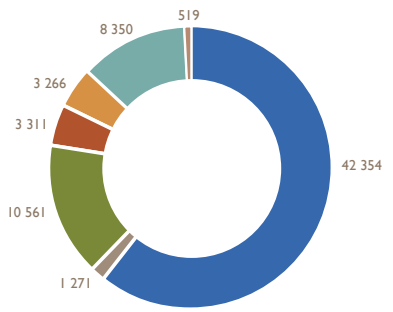


Primary energy

The primary energy cost for the year was R83.4 billion (2013/14: R69.8 billion). The impact of the amount due in terms of the Medupi take-or-pay coal supply agreement due to delays and energy purchases from IPPs led to an increase of R13.6 billion compared to the previous year. A breakdown of the total cost for the year is depicted below:



Primary energy cost breakdown 2014/15, R million



Primary energy cost breakdown 2013/14, R million

- Coal and gas
- IPPs
- Nuclear fuel
- Environmental levy
- OGCT fuel
- Other
- Electricity imports

Employee benefits

Gross employee benefit costs, which includes pension and medical benefits, overtime and training expenses, increased by 1.8% in 2015. Salary increases of 8.5% granted to bargaining unit employees, increased overtime costs from maintenance undertaken and increased contractor labour costs added to the increase. Headcount, inclusive of fixed-term contractors (FTCs), reduced by 1 136 employees, which helped to contain the cost. A total of 258 FTCs are currently employed by Eskom, more than half of which are working on the new build programme. This number reduced from 422 as at 31 March 2014. Direct training costs, performance awards, bursaries and scholarships as well as other staff-related expenses significantly reduced as a result of BPP cost savings initiatives. Employee benefits to the value of R6.4 billion (2013/14: R5.7 billion) were capitalised to the cost of the build programme.

Other operating expenses

Net impairment

The net impairment expense for the year was R2.2 billion higher than that recognised in 2013/14 due to:

- Impairment of R1.05 billion raised on the Majuba Underground Coal Gasification Project. As a result of funding constraints, a capital project reprioritisation was undertaken, leading to approval of the closure and rehabilitation of the project
- Impairment of arrear customer debt. The arrear debt balance increased significantly during the year and the likelihood of recovery became less probable. Arrear municipal debt alone increased from R2.6 billion at 31 March 2014 to R5 billion at 31 March 2015. Accordingly, a R2.6 billion impairment of trade receivables (2013/14: R1.5 billion) was raised, equating to 1.79% of electricity revenue

Billing to Soweto customers amounted to R730 million for the year to 31 March 2015, although payments of only R119 million were received, reflecting a payment level of 16%.

Depreciation and amortisation

More capital projects were completed and transferred to commercial operation in the current financial year, thus the depreciation and amortisation charge increased by R2 billion compared to the prior year.

Repairs and maintenance

The following table sets out the cost of repairs and maintenance (net of costs capitalised) across the business. The deferral of planned maintenance over the past year was the biggest contributor to the slight decline in repairs and maintenance expenditure.

R million	2014/15	2013/14
Generation	**7 535**	7 932
Transmission	**712**	688
Distribution	**4 194**	4 297
Total repairs and maintenance	**12 440**	12 917

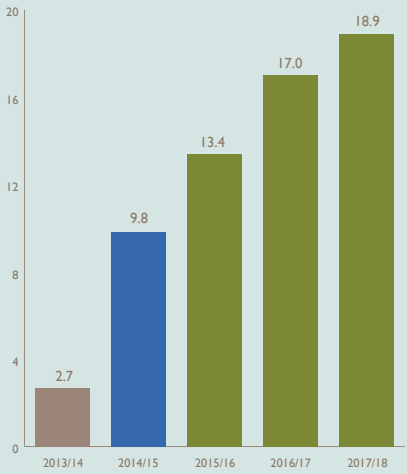
Other expenses

Other operating expenses were down R1 billion from 2013/14, as a result of the BPP cost savings initiatives implemented, which included reductions in travel and subsistence allowances, consulting fees, marketing, as well as reduced expenditure on training and food and beverages. Insurance premiums, however, increased over the past year as a result of the Duvha Unit 3 incident, and due to insurance repairs required following breakages and fire incidents at power stations. Expenditure on IDM initiatives was down by R660 million due to project reprioritisation.

Performance on BPP cost savings value packages

The Business Productivity Programme (BPP) was established in 2013/14 to deliver cost savings opportunities to assist in closing the revenue gap that resulted from NERSA's MYPD 3 electricity price determination of 8% per annum. The programme focuses on the reduction of the cost base, increased productivity, operational efficiencies and revisions of our business model and strategy.

Cash savings opportunities of R61.9 billion over the MYPD 3 period have been identified, to be released through various value packages.



Annual BPP cost savings targets, R billion

The savings target for 2014/15 comprised operating cost savings of R5.1 billion (inclusive of R0.5 billion other income), R2.4 billion savings through reduced working capital and R2.3 billion from savings on capital expenditure.

Cash savings of R9 billion were banked for the year to 31 March 2015, and included additional savings from value packages that performed beyond the original targeted savings (stretch), as well as from additional saving initiatives identified. Leakage – where targets were not met – on one value package was compensated for by a stretch on another value package. Additional and stretched performance value packages amounting to R3.8 billion have been identified to counteract those value packages that recorded a leakage.

Other income

Insurance proceeds from the settlement of the Duvha Unit 3 claim contributed R4.2 billion to other income recognised for the year under review. At group level, the amount receivable from the external reinsurer is R2.7 billion, after deducting the insurance deductible of R1.5 billion borne by Escap.

Net fair value gain on financial instruments and embedded derivatives

A large portion of our funding is sourced from international counterparties; due to the amounts required to fund the build programme, we regularly source funding from foreign lenders. In addition, a significant portion of our purchases, for both the new build programme and ongoing operations, are made in foreign currency. Our hedging strategy is to cover all foreign currency risk above R150 000. The fair value gain on financial instruments contributed R539 million to profit in 2014/15. In 2013/14, a loss of R753 million was recognised.

The fair value gain on embedded derivatives amounted to R1.3 billion for the year ended 31 March 2015. This is significantly less than the gain of R2.1 billion recognised in 2013/14, and is mainly attributable to the decline in both US and local interest rates and the NERSA-approved increase in the electricity price for 2015/16 of 12.69% which affects the forward price curve. The closure of the Bayside smelter in June 2014 resulted in a gain, which offset the losses recognised from the variables mentioned above. The embedded derivative liability at 31 March 2015 for the Hillside Potlines 1&2 and Hillside Potline 3 contracts, maturing in 2020 and 2028 respectively, was R8 billion (2013/14: R9.3 billion). The valuation of embedded derivatives is most sensitive to changes in local interest rates, such that for every 1% change in the interest rate there is an approximate impact of R700 million on the fair value of embedded derivatives.

Net finance cost

Gross finance cost for the year was R26.5 billion, a substantial increase from the R20.5 billion recognised in 2013/14, driven mainly by the growth in debt securities and borrowings of R50.6 billion raised in the current year. During the year, finance cost of R17.4 billion (2013/14: R13.3 billion) was capitalised. As units from the capacity expansion programme come online, the impact of the finance cost line on the income statement will become increasingly more severe, as less interest will be capitalised. The cost of the discount changes and the unwinding of environmental, employee and other provisions amounted to R4.3 billion (2013/14: R2.7 billion) for the year. Included in this is the impact of the change in discount rate applied to mining and decommissioning provisions, from 4.99% in 2013/14 to 4.73%, amounting to R705 million.

Finance income from interest earned on trade and other receivables, investment of surplus funds and investment securities held amounted to R2.4 billion.

Taxation

The effective tax rate for the year ended 31 March 2015 was 29.48% compared to an effective tax rate of 21.89% in the prior year, attributable to an increase in non-temporary differences arising from non-deductible expenditure and a decrease in non-taxable income.

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.

Liquidity

Cash and cash equivalents, together with liquid investment in securities, amounted to R12.8 billion as at 31 March 2015 (2013/14: R27.2 billion). The liquid funds consist of R2.9 billion of RSA Government bonds with the balance in money market assets and call deposits.

Notwithstanding the decline in liquid funds, we managed to maintain operations and capital commitments within the current liquidity constraints and funding initiatives.

Cash generated from operations increased from R22.7 billion in 2013/14 to R25.5 billion. The working capital ratio was 0.82, compared to 0.70 at 31 March 2014, but still lower than target.

Cash flows related to acquisitions of property, plant and equipment and intangible assets and expenditure on future fuel supplies included therein, excluding capitalised borrowing costs, amounted to R53.2 billion (2013/14: R56.3 billion).

*For detail on the capital expenditure incurred, refer to the table on page **68***

The raising of borrowings and issuing of securities have been managed in a manner that matches the anticipated capital expenditure. Gross debt of R50.6 billion (2013/14: R44.2 billion) was raised during the year while R15.3 billion (2013/14: R7.5 billion) was repaid. Interest payments for the year were R17.1 billion (2013/14: R13.1 billion).

Net cash flows from operating activities were not sufficient to cover the interest and debt repayments or to finance investment activities, which are funded from borrowings.

The outlook on liquidity indicates that we will be operating below the R20 billion liquidity buffer over the next 12 months, even when considered with the anticipated R23 billion equity injection from the Government support package.

Credit ratings and solvency

Solvency ratios at 31 March 2015

Measure and unit	Target 2019/20	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13	Target met?
Debt/equity (including long-term provisions), ratio[SC, 2]	2.75	2.48	**2.70**	2.21	1.96	●
FFO as % of total debt, %[SC, 2]	7.96	7.63	**2.37**	9.21	8.55	●
Gross debt/EBITDA, ratio[1]	6.43	15.38	**13.32**	11.84	15.37	●
Debt service cover, ratio[1]	1.19	2.19	**0.82**	1.22	2.05	●

1. A review of the nature and classification of balances, cash flows and related ratios was undertaken and updates were made to some classifications and definitions to better reflect their nature. Performance indicators for 2013/14 have been updated for ease of comparison.
2. Shareholder compact measures for 2014/15 have been calculated on the same basis as the targets set by the shareholder.

Eskom's credit ratings were downgraded to sub-investment grade by both Moody's and S&P during the financial year, with S&P citing concerns such as poor operational performance, a weak financial profile due to the lack of cost-reflective pricing and the lack of leadership stability.

Summary of Eskom's credit ratings as at 31 March 2015

Rating	Standard & Poor's	Moody's	Fitch: local currency
Foreign currency	BBB- to BB+	Ba1	–
Local currency	BBB- to BB+	Ba1	BBB+
Standalone	b- to ccc+	b3	B
Outlook	Negative	Stable	Negative
Action date	19 Mar 2015	7 Nov 2014	18 Jun 2014
Affirmation date	19 Mar 2015	7 Nov 2014	28 Oct 2014

The negative ratings outlook is foreseen to impact us in the following ways in the short to medium term:

- Cost of funding is expected to increase, while the availability thereof may decline
- Potential investor base could decrease due to investor or trustee mandates not allowing them to invest in a company with our ratings profile, or reduced volumes available for investment where their mandates do allow it
- Stricter loan covenants required by lenders

The downgrades have triggered covenants with certain financing institutions. We have engaged with development financing institutions without guarantees to ensure that we meet the obligations of the loan covenants.

We continue to monitor the effects of funding initiatives and operational challenges on the ratios which impact our credit rating; these continue to reflect our highly leveraged financial profile.

Funding activities

The implementation of funding initiatives continued during the year and included the issue of a USD1.25 billion 10-year bond in February 2015 as well as raising R17.2 billion from the domestic bond market, through the issuance of bonds listed under the R150 billion Domestic Multi-Term Note (DMTN) programme.

Market holdings of Eskom commercial paper, which is issued for a period up to one year, decreased from R15 billion in 2013/14 to R7.2 billion.

As at 31 March 2015, 80% of our borrowings had a fixed rate and 20% a floating rate.

In the spirit of BPP, a number of strategies have been implemented to achieve savings on our debt portfolio, which translate into real savings of R1.2 billion over the MYPD 3 period.

The borrowing programme remains focused on funding the balance of the committed build programme. The Board has approved a revised borrowing programme of R237 billion, covering the period 1 April 2015 to 31 March 2020.

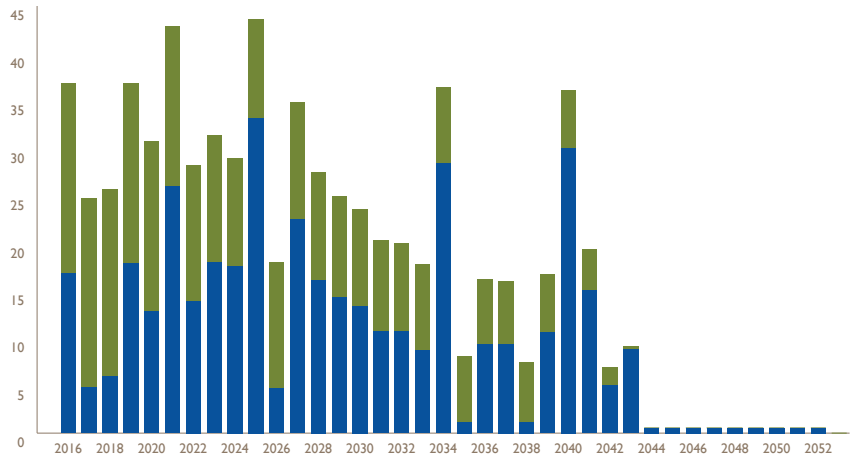
1 April 2015 – 31 March 2020 R billion	Remaining MYPD 3 period			Post MYPD 3		Total
	2015/16	2016/17	2017/18	2018/19	2019/20	
Domestic bonds	8.0	9.0	10.0	12.0	12.0	**51.0**
International bonds/loans	16.5	11.5	11.5	12.0	12.0	**63.5**
Commercial paper[1]	10.0	10.0	12.0	15.0	15.0	**62.0**
DFI financing[2]	7.2	12.7	8.2	3.2	2.2	**33.5**
ECA financing[3]	10.6	4.3	4.6	3.3	1.2	**24.0**
DBSA	3.0	–	–	–	–	**3.0**
Total	55.3	47.5	46.3	45.5	42.4	**237.0**

1. Gross issuance and redemptions of commercial paper are included in borrowing requirements.
2. Development financing institutions (DFI) financing includes existing and new loans.
3. Export credit agency (ECA) financing includes existing and new loans.

Funding initiatives for the year ahead include:

- Draw down on a loan agreement with Kreditanstalt für Wiederaufbau (KfW) for an amount of R3.9 billion that will be used for the integration of renewable IPPs (RE-IPPs) as well as other transmission strengthening and grid integration projects
- Negotiations to conclude loan facilities with various development financing institutions and export credit agencies in support of the build programme
- Initiate domestic and international bond issues and loan facilities

The execution of the borrowing programme will impact our cash flows for many years to come. The anticipated outflows of capital repayments and interest payments on our debt book are indicated in the graph below.



Anticipated capital and interest cashflows (including swaps) of the strategic and trading portfolio at 31 March 2015, R billion

● Capital ● Interest

Future focus areas

- Realise the potential benefits from BPP
- Alleviate rating agencies' concerns regarding our highly leveraged financial profile, the inadequate electricity price and extensive funding requirements in order to avoid further ratings downgrades and ultimately, regain an investment grade credit rating
- Continue to raise funding for the new build programme

Our leadership and governance

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

This section portrays the governance structures of Eskom Holdings SOC Ltd, and notes the value added through each in guiding the business to achieve our objectives.

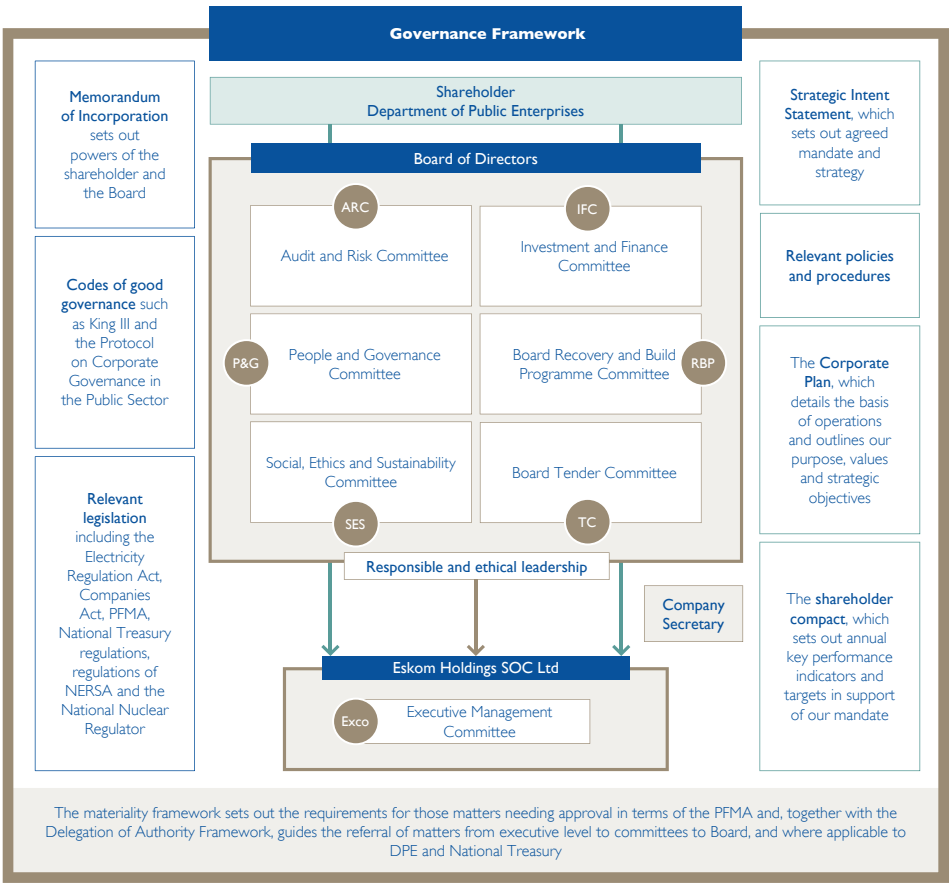
Governance Framework

Eskom was founded in 1923, although the company as it exists today was incorporated in accordance with the Eskom Conversion Act, 2001. We adhere to the statutory responsibilities imposed by the Companies Act, 2008 and the Public Finance Management Act, 1999. As a state-owned company, Eskom's purpose is to deliver on the strategic intent mandated by Government and detailed in our Memorandum of Incorporation.

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

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.

King III application

In the spirit of good corporate governance, we endeavour to apply the principles and practices of the King Code of Corporate Governance (King III). However, as a state-owned company, a few of these are not applicable and, in such instances, we have adopted alternative practices to those recommended by King III.

We utilise the web-based Governance Assessment Instrument (GAI) of the Institute of Directors of Southern Africa (IoDSA) to assess our governance profile. The results of the assessment, based on a chapter view, are indicated in the table below:

King III governance register for the year ended 31 March 2015

Eskom Holdings SOC Ltd (2002/015527/30)	IoDSA GAI score	Applied/ Partially applied/ Not applied
Chapter 1: Ethical leadership and corporate citizenship	AAA	Applied
Chapter 2: Boards and directors	AAA	Partially not applied
Chapter 3: Audit committees	AAA	Applied
Chapter 4: The governance of risk	AAA	Partially not applied
Chapter 5: The governance of information technology	AAA	Applied
Chapter 6: Compliance with laws, rules, codes and standards	AA	Partially not applied
Chapter 7: Internal audit	AAA	Applied
Chapter 8: Governing stakeholder relationships	AAA	Applied
Chapter 9: Integrated reporting and disclosure	AAA	Applied
Overall score	AAA	

AAA Highest application
BB Notable application
C Application to be improved
AA High application
B Moderate application
L Low application

Disclaimer
The assessment criteria of the web-based tool, the Governance Assessment Instrument (GAI), have been based on the practice recommendations of the King III report. These criteria are intended to assess quantitative aspects of corporate governance only and not qualitative governance. As such, the results are proposed to serve as an indication of the structures, systems and processes in place and are not intended to include an indication of the governance culture of an entity.
The responsibility for the input of data in order to attain a result through the use of this is that of the user and the entity in respect of which the user subscription has been granted.
The Global Platform for Intellectual Property (Pty) Ltd (TGPIP), or the IoDSA, as Licensor of the content of the GAI, makes no warranty or representation as to the accuracy or completeness of either the assessment criteria or the results. Neither TGPIP, nor the IoDSA, nor any of its affiliates, nor the software developer shall be held responsible for any direct, indirect, special, consequential or other damage of any kind suffered or incurred, as a result of reliance on the results produced through the use of the GAI.

The full report on Eskom's King III exceptions and alternative practices is available as a fact sheet

Board of Directors and subcommittees

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.

Company Secretary

The Company Secretary is responsible for coordinating meetings of the Board and its committees, and providing guidance to directors. Mr Malesela Phukubje was appointed as Company Secretary on 1 July 2014, replacing Ms Annamarie van der Merwe, who had been acting in the role from September 2013. With over 14 years' experience in the legal industry, Malesela is suitably qualified to serve the Board and its committees in this role.

Board constitution and appointments

Non-executive directors are appointed to the Board by the shareholder for a period of three years, reviewable annually. The People and Governance Committee assists the shareholder by identifying the necessary skills, qualifications and experience required by the Board to achieve the company's objectives.

The Board identifies, evaluates and nominates potential candidates for the positions of Chief Executive and Finance Director. The shareholder appoints the Chief Executive, whereas the Finance Director is appointed by the Board provided that the shareholder approves.

Changes in Board composition

As detailed in the 2014 integrated report, the first three-year term of office of the non-executive directors of the Board expired in July 2014. The Minister approved a five-month extension of this term at the annual general meeting on 11 July 2014. On 11 December 2014, the Minister announced that Cabinet had approved a reconstituted Board of Directors, thereby retiring the following directors from the Board:

Dr Bernie Fanaroff	Appointed May 2010, reappointed July 2011
Ms Queendy Gungubele	Appointed July 2011
Ms Neo Lesela	Appointed July 2011
Ms Bajabulile Luthuli	Appointed July 2011
Ms Yasmin Masithela	Appointed July 2011
Mr Collin Matjila	Appointed July 2011
Dr Boni Mehlomakulu	Appointed April 2010, reappointed July 2011
Mr Mafika Mkwanazi	Appointed July 2011
Mr Phenyane Sedibe	Appointed July 2011
Ms Lily Zondo	Appointed July 2011

At that time, Ms Chwayita Mabude and Mr Zola Tsotsi (as Chairman) were reappointed as members of the Board.

*Refer to pages **18** and **19** for the profiles and committee memberships of the current Board*

On 30 March 2015, Mr Zola Tsotsi resigned as director and Chairman of the Board, and Dr Ben Ngubane was elected acting Chairman by the other members of the Board.

Mr Norman Baloyi, appointed as a non-executive director on 11 December 2014, was removed from the Board by the Minister of Public Enterprises on 22 April 2015 due to a breach of fiduciary duties in terms of Section 76 of the Companies Act.

On 18 May 2015, it was announced that Mr Tshediso Matona would be leaving Eskom effective 31 May 2015, to allow the Board to pursue its plans for the company under the current leadership. This is in no way an anticipation of the outcome of the independent enquiry, which will continue.

The current Board consists of a majority of independent non-executive directors and possesses diverse skills and experience in the fields of science, engineering, law, finance, accounting and auditing, business and enterprise risk management.

Qualifications and significant directorships of the members of the Board are available in a fact sheet

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.

Meetings

Meetings of the Board and its committees are scheduled annually in advance. Special meetings are convened as and when required to address specific material issues.

The Board held four scheduled and 15 special meetings during the year. Furthermore, the induction of the new directors was held in January 2015.

Attendance of Board, Exco and committee meetings is available as a fact sheet

Board evaluation

While an independent evaluation of the performance and effectiveness of the Board, individual directors and Board committees is usually undertaken in line with Eskom practice, such an evaluation could not be conducted for the period under review due to the reconstitution of the Board. The new Board will be evaluated over a longer period of 15 months in the 2015/16 financial year.

Board committees

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.

The Audit and Risk Committee and Social, Ethics and Sustainability Committee are statutory committees as prescribed by the Companies Act. These committees fulfil their duties as recommended by King III.

Board committee	Meetings held in 2014/15	Some key activities for 2014/15
ARC Audit and Risk Committee		
The committee performs a statutory function as set out in the Companies Act, assisting the Board with oversight over financial reporting and disclosure, internal control and risk management systems, combined assurance functions and IT governance. The committee also serves as the Audit and Risk Committee for Eskom's wholly-owned subsidiaries. Refer to the report of the Audit and Risk Committee on pages **3** to **4** in the annual financial statements for more information.	7	• Recommended to the Board for approval the 2014 year end and interim financial statements and integrated reports • Recommended to the Board the appointment of a consortium of SizweNtsalubaGobodo Inc. as the external auditors for Eskom Holdings SOC Ltd and its subsidiaries, with effect from the 2014 annual general meeting • Reviewed the appropriateness of the going concern assumption • Approved the Internal Audit Plan for the three-year period to 2017/18 • Monitored progress on the implementation of BPP, considering the impact of risks on overall performance and evaluating critical success factors for overall programme delivery
IFC Investment and Finance Committee		
The committee oversees our investment strategy, including the capital expansion programme and the funding thereof, and is also responsible for the Treasury function and the health of the company's capital structure. Responsibilities of the committee include: • Reviewing and approving business cases for new investments or projects within its delegated authority • Overseeing the borrowing programme and approving financial budgets	14	• Approved the initial reduction of the capital programme for the remainder of the MYPD 3 period from R337 billion to R251 billion and noted the associated risks. Subsequently further revised the approved amount to R260 billion • Approved, subject to PFMA approval, the investment in a Miner Development Fund in support of future coal and limestone security and transformation of the mining industry • Approved, and referred to Board for consideration, a contingency of R4.3 billion for diesel for OCGTs to ensure security of supply to the end of March 2015 • Approved the impairment of the Majuba Underground Coal Gasification (UCG) project as part of the capital project reprioritisation • Monitored progress made on BPP value projects and savings banked

Board committee	Meetings held in 2014/15	Some key activities for 2014/15
P&G **People and Governance Committee**		
The committee provides oversight on governance matters and is responsible for: • Nomination of executive directors and prescribed officers • Recommending remuneration and other human resource-related policies • Determining and recommending individual remuneration packages for executive directors and prescribed officers • Succession planning • Induction, training and evaluation of the Board and its committees • Monitoring the effectiveness of the Ethics Management Programme The Chief Executive is an ex officio member of the committee, but recuses himself during discussions of his remuneration, or at any time when there is an actual, perceived or potential conflict of interest.	5	• Disallowed the payment of short-term incentive bonuses to F-band executives in 2013/14 as savings targets were not met • Approved the phased-in implementation of the DPE Remuneration Guidelines • Approved the allocation of Grant 10 of the long-term incentive scheme, based on the DPE standards of 60% allocation of total guaranteed remuneration, and a vesting percentage for on-target performance of 100% • Recommended to the Board the appointment of Mr Malesela Phukubje as Company Secretary • Provided a shortlist of candidates for the position of Chief Executive to the shareholder and tabled a comprehensive CE induction programme at Board • Recommended to the Board the approval of the Continuous Director Training and Development Programme • Recommended to the Board the approval of the Ethics Policy and Procedure, the Conflict of Interest Policy and the Declaration of Interest Procedure • Disallowed the payment of short-term incentive bonuses to E- and F-band executives in 2014/15 as new build, savings and recovery targets were not met
RBP **Board Recovery and Build Programme Committee**		
The Board Build Programme Review Committee was established in April 2013 as an ad hoc committee to oversee progress on the build programme. In March 2015 this committee was combined with the Eskom Emergency Task Team, and renamed the Board Recovery and Build Programme Committee. Responsibilities of the committee include: • Ensuring that financial sustainability is secured, demand for electricity is reliably met and that applicable legislation and regulations are complied with • Providing an oversight role over the build programme, in terms of governance, monitoring and review	14 (combined total)	• Guiding the development of enhanced strategies to aid in the recovery of the organisation. These include: – Revenue risk management and recovery strategy – Bad debt recovery strategy – Cost recovery and business productivity • Monitoring performance and progress on the Medupi, Kusile, Ingula and Transmission projects, relative to the locked-down dates, cost estimates and other milestones • Monitoring progress on the recovery of the Majuba coal silo and Duvha Unit 3
SES **Social, Ethics and Sustainability Committee**		
The committee is a statutory committee as set out in the Companies Act. It assists the Board in carrying out its functions in regard to social and economic development, stakeholder relations, environment, health and safety practices and good corporate citizenship. Responsibilities of the committee include: • Monitoring the ethical culture of the organisation, and ensuring that the group strategy and the ethical implementation thereof promotes its overall sustainability • Monitoring safety and environmental practices relating to Eskom's operations to ensure compliance with regulatory and internal requirements, and alignment with international best practice • Monitoring nuclear safety, and making recommendations on policies, strategies and guidelines relating to nuclear issues • Monitoring performance, recommending targets and key performance indicators and ensuring the integrity of information presented in the integrated report The committee also serves as the Social, Ethics and Sustainability Committee for Eskom's wholly-owned subsidiaries.	4	• Considered the 2014 integrated report, and confirmed that the report accurately reflected the social, ethics, financial and sustainability results for the year ended 31 March 2014, and was presented in accordance with the International <IR> Framework • Endorsed the Nuclear Safety Oversight reporting strategy • Monitored the following: – Stakeholder engagement: the committee supported the need for enhanced communication and engagement with stakeholders aligned to the advocacy plan and strategy – Operational and environmental sustainability: recommended for discussion at Board the high risk items and key challenges affecting operational sustainability, particularly involving the Generation assets, and ensured that these were factored into the Corporate Plan and risk registers

Board committee	Meetings held in 2014/15	Some key activities for 2014/15
Board Tender Committee		
The committee ensures that Eskom's procurement system is fair, equitable, transparent, competitive and cost effective, as required by PFMA and PPPFA. Responsibilities include approving tenders and contracts above R750 million within its delegated authority.	14	• Finalised the Koeberg Steam Generator Replacement tender, valued at R4 billion. Installation is scheduled for 2018 • Approved the extension of power purchase agreements for the provision of 755MW base-load energy from 31 May 2014 to 31 March 2015 • Approved the extension of the Memorandum of Agreement between Eskom and Department of Water and Sanitation for the supply of raw water to our power stations in Mpumalanga for a further two years to 31 March 2017

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** 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 Exco 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 Lakmeeharan, 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 Veleti, 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** 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.

Responsible and ethical leadership

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 on 0800 112 722
- Conducting forensic investigations and taking corrective action where applicable

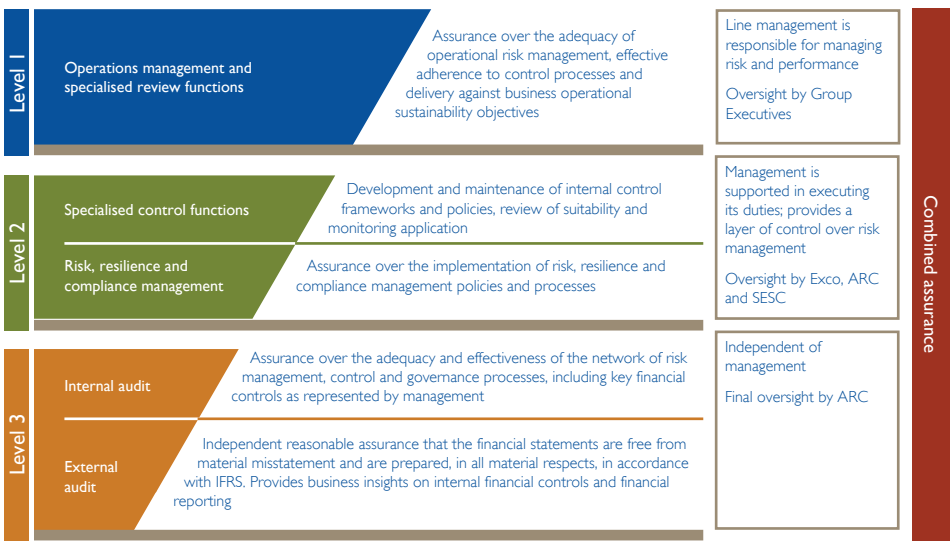
A detailed forensic report is tabled at the Audit and Risk Committee quarterly, describing incidents and cases relating to fraud, corruption and other economic crimes. The information assists management in taking appropriate business decisions in relation to economic crime-related risks. The report further details the progress on incident investigations, trends and observations stemming from these, as well as losses and recoveries recorded.

A total of 144 investigations were undertaken during the year, consisting of incidents related to irregularities (66), fraud (47), corruption (25) and sexual harassment (6). Four employees were dismissed during the year as a result of the outcome of forensic investigations and disciplinary action.

The proactive identification of incidents is critical to ensuring that exposure is mitigated and losses prevented. The number of reported incidents has reduced significantly over the last four years, proving that preventative actions such as fraud awareness training are starting to show results. A total of 995 employees attended fraud awareness and ethics training during the year.

Combined assurance

The combined assurance model introduced by King III is an essential and fundamental element relied on by the Audit and Risk Committee and the Board in forming their view of the adequacy of risk management and internal control in the organisation. The combined assurance model recognises three lines of defence, which are split as follows:



The integrated report is subject to combined assurance. The report is reviewed by management and Exco and internally assured by Assurance and Forensic, while the shareholder compact KPIs are externally assured. Both the Audit and Risk Committee and the Social, Ethics and Sustainability Committee consider the report and recommend its approval to Board.

Combined assurance assists management in identifying duplication in assurance work or potential assurance shortfalls, and developing improvement plans for those areas identified. The model guides assurance providers to reach consensus on the key risks faced by the company and aids in reducing the likelihood that significant risks remain unidentified.

The following key principles guide and inform our combined assurance approach:

- Identification of significant risks needing assurance
- Identification of assurance providers most suited to provide adequate assurance
- Delivering quality assurance results which the Board can rely on
- Reporting and escalating assurance results to the required level, thus ensuring the required attention and focus to address significant matters

The Combined Assurance Forum, established in 2014, has been successful in implementing and embedding the Combined Assurance Framework principles within the organisation.

The Audit and Risk Committee is ultimately responsible for providing oversight over the combined assurance activities and approved the Combined Assurance Framework to guide these. Operational accountability for combined assurance has been delegated to the Assurance and Forensic Department, which performs our internal audit function, facilitates and coordinates the execution of the combined assurance activities and reports back to the Audit and Risk Committee. The committee receives reports on the status of governance, risk management, compliance and the adequacy of preventative and corrective controls from the various levels of assurance.

Independent quality assessment of internal audit

The internal audit function is subjected to an independent quality review every five years, or more frequently if required by the Audit and Risk Committee. The most recent review, which was conducted two years ago, assessed the function as generally compliant. The next scheduled review will take place in 2017/18.

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 to mitigate these risks.

*The enterprise risks, with the associated risk rating and mitigating response, as well as the relevant key performance indicators are set out on pages **27** to **29***

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:

Risk management process	IT controls	Internal financial controls	Internal operational controls
A risk management system for identifying, managing and reporting risks is in place. Improvements related to the adequacy of risk management have been noted.	IT controls form a reasonable basis for the preparation of reliable financial statements. Improvements in the stability of the operational technology control environment have been recommended.	The internal financial controls form a reasonable basis for the preparation of reliable financial statements. Isolated areas of improvement, which do not have a major impact on the financial statements, have been identified.	The design of manual and automated operational controls is deemed adequate. Challenges in the organisation have impacted the effectiveness of the operating controls.

Interventions designed to address and improve the control environment have been implemented and benefits are expected to be realised in the medium to long term. Improvements have already been seen in some areas where these have been implemented.

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.

*Refer to the report of the Audit and Risk Committee on pages **3** to **4** in the annual financial statements for the full assessment of the internal control environment*

IT governance

The Board has delegated responsibility of IT governance to the Chief Information Officer within Group IT. Further oversight is provided by the IT Steering Committee, an advisory committee to the Audit and Risk Committee, and the IT Oversight Committee, a subcommittee of Exco.

An independent assessment of IT governance was performed by KPMG Inc. during 2013/14. The results indicated that we have made considerable progress towards achieving the required maturity levels for each of the seven principles of King III related to IT governance. The assessment also indicated that we have made progress in addressing several of the internal audit findings raised previously. Specific improvement was noted in the formal development, approval and implementation of an IT Governance Framework.

The following key observations were noted:

- The strategy and innovation function is perceived as being advanced within the context of our operating environment and when compared to general trends in the industry
- The IT disaster recovery planning processes are mature and testing of critical systems is performed periodically

Key areas for improvement identified include:

- Board monitoring of progress against the IT strategy
- Clearer mandates are needed for the IT Steering Committee and IT Oversight Committee
- Improved monitoring of benefits realisation and return on investment for IT projects

Remuneration and benefits

Our remuneration philosophy

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. We have developed more productive, sustainable relationships with organised labour through a partnering model which guides our interactions. We continue 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.

Short-term incentive scheme for bargaining unit and managerial level

We have a short-term incentive scheme in place that aims to align individual performance with organisational strategic objectives by setting targets for key performance indicators that contribute to these objectives.

The key performance indicators are linked to our strategic objectives and cascade down from the organisational level to individual level. Employees are contracted to achieve targets for selected key performance indicators and are rewarded for meeting or exceeding these targets. All permanent employees participate in the scheme. The value of the bonus itself depends on the organisation's overall performance and the individual's performance.

The key performance areas are weighted as follows: safety (15%), technical (50%), customer service (10%) and achievement of new build milestones (25%).

When the gatekeepers are not met, Exco can reduce the incentive payable to the bargaining unit and managerial level by a maximum of 40%. Furthermore, the achievement of targeted BPP savings of R9.8 billion is a qualifier in 2014/15, and if not achieved, no bonus will be paid.

An on-target bonus equates to 10% of basic salary of bargaining unit employees, and 16.67% of pensionable earnings (or 10% of cost-to-company) of managerial level employees.

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.

Incentives for executives

Our formal remuneration plan links executive remuneration to organisational performance and individual contribution. All key performance areas and key performance indicators in the shareholder compact are included in the Exco performance contracts (compacts). The compact is in essence a performance agreement.

- Compacts of Exco members are focused on the implementation of the Corporate Plan and as such, linked to our strategic objectives

- The People and Governance Committee reviews the key performance areas and key performance indicators of Exco members' compacts annually to ensure alignment with the shareholder compact and the Corporate Plan
- Targets include both company and division-specific priorities (key performance areas and key performance indicators) which link directly to the shareholder compact and Corporate Plan
- Individual performance is reviewed annually and is based on a performance contract between the Group Executive and Chief Executive
- Compacts for all other executives are aligned with the Exco compacts

Exco compacts rely on three elements to determine bonuses for executives:

- **Qualifiers** need to be reached to qualify for bonus. If qualifiers are not reached, then there will be no bonus at all
- **Modifiers** determine the performance score of between 60% and 120%, depending on the achievement of set targets
- **Gatekeepers** reduce the performance score if not reached and can decrease the performance score by up to 82%, depending on how many gatekeepers are not reached

Short-term incentives

Short-term incentives, consisting of rewards for achieving set objectives over a 12-month period, are based on company and division-specific priorities. Executive compact key performance areas include:

- Operating safely
- Financial performance
- Group key priorities
- Chief Executive's discretion

The weight allocated to each person for each of the compact areas will depend on the responsibilities of the specific individual.

No short-term incentive bonus was awarded to executives for the year under review, as we did not achieve the agreed-upon qualifiers, namely the target date for commercial operation of Medupi Unit 6, the targeted BPP savings of R9.8 billion or certain technical measures related to plant recovery initiatives.

Long-term incentives

A number of performance shares (award performance shares) were awarded to the Exco members on 1 April 2010, 2011, 2012 and 2013. The value of the performance shares is deemed to be R1 at grant date, and thereafter escalated at a money market rate to determine the value at the reporting date.

The Board has set performance conditions in line with the shareholder compact and Corporate Plan over a three-year performance period. Performance covers financial and non-financial targets, such as ensuring the business sustainability of Eskom, ensuring reliability of supply to all South Africans, ensuring that South Africa's future power needs are adequately provided for and supporting the country's developmental objectives, with an agreed weighting in each category.

Awards only vest if, and to the extent that, these targets are met. Moreover, the vesting percentage can be reduced by the People and Governance Committee if certain gatekeepers are not met, even if targets have been met.

Potential vesting percentages range from 0% to 100%, with an expected (on-target) vesting rate of 50%, based on a threshold and stretch targets for each measure. The long-term incentive vesting rate for shares awarded on 1 April 2012 and vesting on 31 March 2015 was 47.06% (31 March 2014: 53.48%; 31 March 2013: 48.23%). The cash value of the shares is payable in June 2015 at R1.20 per share, based on the money market rate.

Refer to note 49 in the annual financial statements for detailed remuneration information

The following table sets out directors' and Group Executives' total remuneration for the year, and includes disclosure of the remuneration of the three highest paid individuals in Eskom, as required by King III.

Directors' and Group Executives' remuneration

Name	2014/15 R 000	2013/14 R 000
Non-executive directors	**9 497**	7 077
Zola Tsotsi (Chairman)[1]	**1 152**	1 789
Collin Matjila[2]	**2 989**	493
Other non-executives	**5 356**	4 795
Executive directors	**7 937**	24 428
Brian Dames (former Chief Executive)[3]	**–**	15 367
Tshediso Matona (Chief Executive)[4,5]	**3 033**	–
Tsholofelo Molefe (Finance Director)[5]	**4 904**	3 170
Paul O'Flaherty (former Finance Director)[6]	**–**	5 891
Other Exco members	**31 257**	31 060
Bhabhalazi Bulunga[7]	**–**	3 294
Thava Govender	**4 396**	4 152
Erica Johnson[8]	**3 899**	4 826
Matshela Koko[5,9]	**3 761**	2 415
Steve Lennon[10]	**4 468**	3 674
Dan Marokane[5]	**5 437**	4 737
Ayanda Noah	**4 337**	3 776
Mongezi Ntsokolo	**4 959**	4 186
Acting Exco members[11]	**1 418**	–
Total remuneration	**50 610**	62 565

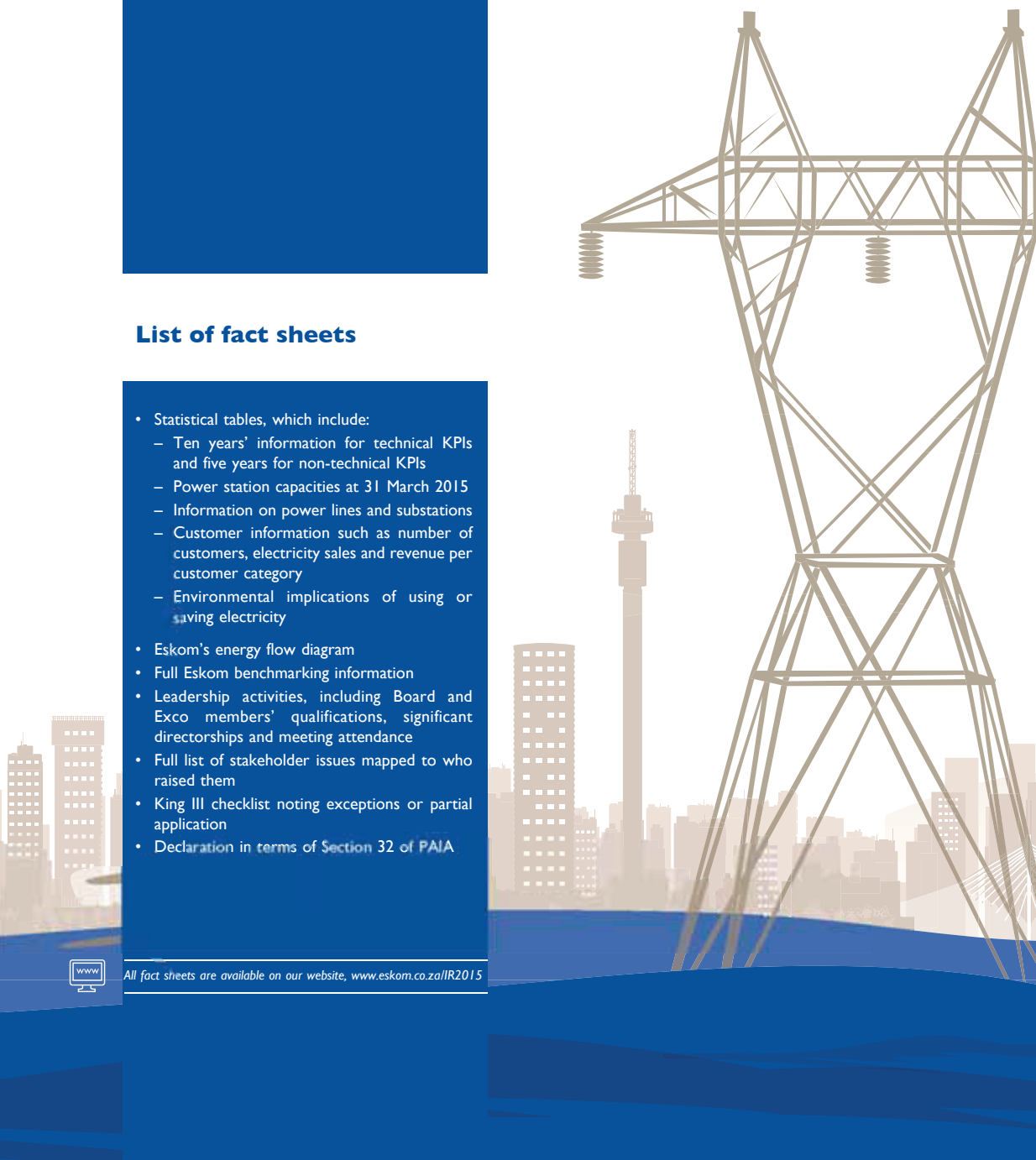
1. Resigned as Chairman on 30 March 2015.
2. Interim Chief Executive from 1 April to 30 September 2014.
3. Resigned on 31 March 2014.
4. Appointed on 1 October 2014.
5. Suspended on 12 March 2015.
6. Resigned on 10 July 2013.
7. Retired on 31 January 2014.
8. Resigned on 31 October 2014.
9. Appointed on 1 December 2014; previously acting Group Executive: Group Technology and Commercial.
10. Retired on 31 March 2015.
11. Acting Exco members include Edwin Mabelane (acting Group Executive: Group Technology and Commercial from 12 March 2015), Abram Masango (acting Group Executive: Group Capital from 12 March 2015), Elsie Pule (acting Group Executive: Human Resources from 1 November 2014) and Nonkululeko Veleti (acting Chief Financial Officer from 12 March 2015).

Supplementary information

List of fact sheets

- Statistical tables, which include:
  - Ten years' information for technical KPIs and five years for non-technical KPIs
  - Power station capacities at 31 March 2015
  - Information on power lines and substations
  - Customer information such as number of customers, electricity sales and revenue per customer category
  - Environmental implications of using or saving electricity
- Eskom's energy flow diagram
- Full Eskom benchmarking information
- Leadership activities, including Board and Exco members' qualifications, significant directorships and meeting attendance
- Full list of stakeholder issues mapped to who raised them
- King III checklist noting exceptions or partial application
- Declaration in terms of Section 32 of PAIA

All fact sheets are available on our website, www.eskom.co.za/IR2015



Abbreviations

B-BBEE	Broad-based black economic empowerment
BPP	Business Productivity Programme
CoGTA	Department of Cooperative Governance and Traditional Affairs
DEA	Department of Environmental Affairs
DoE	Department of Energy
DPE	Department of Public Enterprises
DWS	Department of Water and Sanitation
EAF	Energy availability factor (see glossary)
EBIT	Earnings before interest and taxation
EBITDA	Earnings before interest, taxation, depreciation and amortisation
EUF	Energy utilisation factor (see glossary)
GRI	Global Reporting Initiative
GW	Gigawatt = 1 000 megawatts
GWh	Gigawatt-hour = 1 000MWh
IDM	Integrated demand management
IIRC	International Integrated Reporting Council
IPP	Independent power producer (see glossary)
IRP 2010	Integrated Resource Plan 2010-2030
King III	King Code of Corporate Governance in South Africa 2009
kt	Kiloton = 1 000 tons
kV	Kilovolt
kWh	Kilowatt-hour = 1 000 watt-hours (see glossary)
LTIR	Lost-time injury rate (see glossary)
Mℓ	Megalitre = 1 million litres
mSv	Millisievert
Mt	Million tons
MVA	Megavolt-ampere
MW	Megawatt = 1 million watts
MWh	Megawatt-hour = 1 000kWh
MYPD	Multi-year price determination
NERSA	National Energy Regulator of South Africa
OCGT	Open-cycle gas turbine
OCLF	Other capability loss factor
OHS	Occupational health and safety
PAIA	Promotion of Access to Information Act, 2000
PAJA	Promotion of Administrative Justice Act, 2000
PCLF	Planned capability loss factor
PFMA	Public Finance Management Act, 1999
PPPFA	Preferential Procurement Policy Framework Act, 2000
RCA	Regulatory Clearing Account
SAIDI	System average interruption duration index
SAIFI	System average interruption frequency index
UAGS	Unplanned automatic grid separations
UCLF	Unplanned capability loss factor (see glossary)

Glossary of terms

49M	The 49M initiative aims to inspire and rally all South Africans behind a common goal: to save electricity and create a better economic, social and environmental future for all
Base-load plant	Largely coal-fired and nuclear power stations, designed to operate continuously
Cost of electricity (excluding depreciation)	Electricity-related costs (primary energy costs, employee benefit costs plus impairment loss and other operating expenses) divided by total electricity sales in GWh multiplied by 1 000
Daily peak	Maximum amount of energy demanded by consumers in one day
Debt/equity including long-term provisions	Net financial assets and liabilities plus non-current retirement benefit obligations and non-current provisions divided by total equity
Debt service cover ratio	Cash generated from operations divided by (net interest paid from financing activities plus debt securities and borrowings repaid)
Decommission	To remove a facility (e.g. reactor) from service and store it safely
Demand side management	Planning, implementing and monitoring activities to encourage consumers to use electricity more efficiently, including both the timing and level of demand
Electricity EBITDA margin	Electricity revenue (excluding electricity revenue not recognised due to uncollectability) as a percentage of EBITDA
Electricity operating costs per kWh	Electricity-related costs (primary energy costs, employee benefit costs, depreciation and amortisation plus impairment loss and other operating expenses) divided by total electricity sales in kWh multiplied by 100
Electricity revenue per kWh	Electricity revenue (including electricity revenue not recognised due to uncollectability) divided by total kWh sales multiplied by 100
Embedded derivative	Financial instrument that causes cash flows that would otherwise be required by modifying a contract according to a specified variable such as currency
Energy availability factor (EAF)	Measure of power station availability, taking account of energy losses not under the control of plant management and internal non-engineering constraints
Energy efficiency	Programmes to reduce energy used by specific end-use devices and systems, typically without affecting services provided
Energy utilisation factor (EUF)	Utilisation of the available plant
Forced outage	Shutdown of a generating unit, transmission line or other facility for emergency reasons or a condition in which generating equipment is unavailable for load due to unanticipated breakdown
Free basic electricity	Amount of electricity deemed sufficient to provide basic electricity services to a poor household (50kWh/month)
Free funds from operations	Cash generated from operations adjusted for working capital
Gross debt	Debt securities and borrowings plus finance lease liabilities plus the after-tax effect of provisions and employee benefit obligations
Gross debt/EBITDA ratio	Gross debt divided by earnings before interest, taxation, depreciation and amortisation
Independent non-executive director	Someone who is: • Not a full-time salaried employee of the company or its subsidiary • Not a shareholder representative • Has not been employed by the company and is not a member of the immediate family of an individual who is, or has been in any of the past three financial years, employed by the company in any executive capacity • Not a professional advisor to the company • Not a significant supplier or customer of the company
Independent power producer (IPP)	Any entity, other than Eskom, that owns or operates, in whole or in part, one or more independent power generation facilities
Interest cover	EBIT divided by (gross finance cost less gross finance income)
Kilowatt-hour (kWh)	Basic unit of electric energy equal to one kilowatt of power supplied to or taken from an electric circuit steadily for one hour
Load	Amount of electric power delivered or required on a system at any specific point
Load curtailment	Typically larger industrial customers reduce their demand by a specified percentage for the duration of a power system emergency. Due to the nature of their business, these customers require two hours' notification before they can reduce demand

Glossary of terms
continued

Load management	Activities to influence the level and shape of demand for electricity so that demand conforms to the present supply situation, long-term objectives and constraints
Load shedding	Scheduled and controlled power cuts that rotate available capacity between all customers when demand is greater than supply in order to avoid blackouts. Distribution or municipal control rooms open breakers and interrupt load according to predefined schedules
Lost-time injury (LTI)	A work injury, including any occupational disease/illness or fatality, which arises out of and in the course of employment and which renders the injured employee or contractor unable to perform his/her regular/normal work on one or more full calendar days or shifts other than the day or shift on which the injury occurred
Lost-time injury rate (LTIR)	Proportional representation of the occurrence of lost-time injuries over 12 months per 200 000 working hours
Maximum demand	Highest demand of load within a specified period
Off-peak	Period of relatively low system demand
Open-cycle gas turbine (OCGT)	Liquid fuel turbine power station that forms part of peak-load plant and runs on kerosene or diesel. Designed to operate in periods of peak demand
Outage	Period in which a generating unit, transmission line or other facility is out of service
Peak demand	Maximum power used in a given period, traditionally between 07:00–10:00 as well as 18:00–22:00 in summer or 17:00–21:00 in winter
Peaking capacity	Generating equipment normally operated only during hours of highest daily, weekly or seasonal loads
Peak-load plant	Gas turbines, hydroelectric or pumped storage schemes used during periods of peak demand
Primary energy	Energy in natural resources, e.g. coal, liquid fuels, sunlight, wind, uranium and water
Pumped storage scheme	A lower and an upper reservoir with a power station/pumping plant between the two. During off-peak periods the reversible pumps/turbines use electricity to pump water from the lower to the upper reservoir. During periods of peak demand, water runs back into the lower reservoir through the turbines, generating electricity
Reserve margin	Difference between net system capability and the system's maximum load requirements (peak load or peak demand)
Return on assets	EBIT divided by the regulated asset base, which is the sum of property, plant and equipment, trade and other receivables, inventory and future fuel, less trade and other payables and deferred income
System minutes	Global benchmark for measuring the severity of interruptions to customers. One system minute is equivalent to the loss of the entire system for one minute at annual peak. A major incident is an interruption with a severity ≥ 1 system minute
Technical losses	Naturally occurring losses that depend on the power systems used
Unit capability factor (UCF)	Measure of availability of a generating unit indicating how well it is operated and maintained
Unplanned capability loss factor (UCLF)	Energy losses due to outages are considered unplanned when a power station unit has to be taken out of service and it is not scheduled at least four weeks in advance
Used nuclear fuel	Nuclear fuel irradiated in and permanently removed from a nuclear reactor. Used nuclear fuel is stored on-site in used fuel pools or storage casks
Watt	The watt is the International System of Units' (SI) standard unit of power. It specifies the rate at which electrical energy is dissipated (energy per unit of time)
Working capital ratio	(Inventory plus the current portion of payments made in advance, trade and other receivables and taxation assets) divided by (the current portion of trade and other payables, payments received in advance, provisions, employee benefit obligations and taxation liabilities)

Independent sustainability assurance report

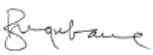
Sustainability assurance statement

The sustainability key performance indicators set out within this report measure performance on issues material to stakeholders. The key performance indicators reported have been guided mainly by the shareholder compact, supported by our internal reporting guidelines.

The King Code on Corporate Governance advocates that sustainability reporting and disclosure should be independently assured. SizweNtsalubaGobodo Inc. provided reasonable and limited assurance on selected sustainability key performance indicators marked with an "RA" or "LA" in the statistical tables.

The Board has applied its collective mind to the preparation and presentation of the integrated report and has concluded that it is presented in accordance with the International <IR> Framework.

The Board believes the integrated report is a fair presentation of the integrated performance of the company, taking into consideration the completeness of the material items it deals with and the reliability of data and information presented, in line with the combined assurance process followed.



Dr Ben Ngubane
Acting Chairman
28 May 2015

Ms Venete Klein
Chairman: Social, Ethics and Sustainability Committee
28 May 2015

Independent assurance provider's report to the directors of Eskom on selected key performance indicators disclosed in the integrated report

Introduction

We have been engaged to perform an independent assurance engagement for Eskom Holdings SOC Ltd (Eskom) on selected sustainability information reported in Eskom's integrated report for the year ended 31 March 2015. The King Code on Corporate Governance advocates that sustainability reporting and disclosure should be independently assured. We provided limited and reasonable assurance on selected sustainability key performance indicators outlined in this report and this report is produced in accordance with the terms of engagement with Eskom Holdings SOC Ltd.

Independence, expertise and quality control

We have complied with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants (IFAC), which includes comprehensive independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our engagement was conducted by a multi-disciplinary team of health, safety, social, environmental and assurance specialists with extensive experience in sustainability reporting.

We maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Subject matter and assurance

We are required to provide reasonable and limited assurance on the following key performance indicators, which include all the indicators contained in the Eskom Holdings SOC Ltd shareholder compact.

a) Reasonable assurance (RA)

The following selected sustainability information in the integrated report was selected for an expression of reasonable assurance:

- Unplanned capability loss factor (UCLF)
- Energy availability factor (EAF)
- Planned capability loss factor (PCLF) *
- System minutes <1
- Number of outstanding maintenance backlog requests as approved by the Technical Governance Committee
- System average interruption duration index (SAIDI)
- System average interruption frequency index (SAIFI)
- Migration of coal delivery volume from road to rail
- Specific water consumption (ℓ/unit sent out)
- Relative particulate emissions (kg/MWh sent out)
- Lost-time injury rate (LTIR) (employee)
- Demand savings
- Internal energy efficiency: energy savings non-essential consumption
- Learners throughput or qualifying
- Training expenditure as a percentage of gross employee benefit costs

- Disability
- Racial equity in senior management
- Gender equity in senior management
- Racial equity in professional and middle management
- Gender equity in professional and middle management
- Percentage of broad-based black economic empowerment spend against TMPS
- Generation capacity installed – first synchronisation
- Generation capacity installed and commissioned
- Transmission lines installed
- Transmission transformers capacity installed and commissioned
- Generation capacity milestones *
- Cost of electricity (excluding depreciation)
- Debt/equity (including provisions)
- Interest cover
- Free funds from operations as percentage of gross debt
- Capital expenditure excluding IDC *

b) Limited assurance (LA)

The following selected sustainability information in the integrated report was selected for an expression of limited assurance:

- Local content contracted (new build)
- Percentage of black youth-owned spend against TMPS
- Total electrification connections *

* Not included in the shareholder compact.

We refer to this information as the "selected sustainability information for reasonable assurance" and "selected sustainability information for limited assurance" respectively, and collectively as the "selected sustainability information".

We have not conducted any work outside of the agreed scope and therefore restrict our opinion to the selected sustainability information.

Directors' responsibilities

The directors are responsible for the selection, preparation and presentation of the sustainability information. This responsibility includes the identification of stakeholders and stakeholder requirements and material issues, commitments with respect to sustainability performance, and the design, implementation and maintenance of internal control relevant to the preparation of the report that is free from material misstatement, whether due to fraud or error. The selection was guided mainly by the shareholder compact.

*Eskom's performance against the shareholder compact is provided on pages **32** and **33***

Our responsibility

Our responsibility is to form an independent conclusion, based on our reasonable assurance procedures, on whether the selected sustainability information for reasonable assurance has been prepared, in all material respects, in accordance with the policies, procedures and specification documents, including the shareholder compact, governing this information within the organisation.

We further have a responsibility to form an independent conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that the selected sustainability information for limited assurance has not been prepared, in all material respects, in accordance with the policies, procedures and specification documents governing this information within the organisation.

We conducted our reasonable and limited assurance engagement in accordance with International Standard on Assurance Engagements: Assurance Engagements Other than Audits and Reviews of Historical Financial Information (ISAE 3000), issued by the International Auditing and Assurance Standards Board. These standards require that we comply with ethical requirements and that we plan and perform the assurance engagement to obtain either reasonable or limited assurance on the selected sustainability information as per the terms of our engagement.

Summary of work performed

Our work included examination, on a test basis, of evidence relevant to the selected sustainability information. It also included an assessment of the significant estimates and judgements made by the directors in the preparation of the selected sustainability information. We planned and performed our work so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence on which to base our conclusion in respect of the selected sustainability information.

Our procedures included the understanding of risk assessment procedures, internal control, and the procedures performed in response to the assessed risks. The procedures we performed were based on our professional judgement and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:

- Interviewed management and senior executives to obtain an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process
- Inspected documentation to corroborate the statements obtained from management and senior executives in our interviews

- Reviewed the process that Eskom has in place for determining material selected key performance indicators to be included in the report
- Applied the assurance criteria in evaluating the data generation and reporting processes
- Tested the processes and systems to generate, collate, aggregate, monitor and report on the selected key performance indicators
- Performed a controls walkthrough
- Conducted interviews with senior management to evaluate reporting processes against the GRI G4 Core guidelines
- Evaluated the reasonableness and appropriateness of significant estimates and judgements made by management in the preparation of the key performance indicators
- Performed site work at the coal-fired power stations (Arnot, Majuba, Grootvlei, Lethabo, Komati, Tutuka, Matimba, Matla, Hendrina, Camden and Kendal), Transmission Operating Units (Gauteng and North West), Distribution Operating Units (Northern Cape, Western Cape, North West, Free State, KwaZulu-Natal, Limpopo and Gauteng), and the subsidiaries Roshcon and Rotek
- Evaluated whether the selected key performance indicators presented in the integrated report are consistent with our overall knowledge and experience of sustainability management and performance at Eskom

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement under ISAE 3000. Consequently, the nature, timing and extent of procedures for gathering sufficient appropriate evidence are deliberately limited relative to a reasonable assurance engagement and, therefore, less assurance is obtained with a limited assurance engagement than in respect of a reasonable assurance engagement.

The procedures selected depend on our judgement, including the assessment of the risk of material misstatement of the selected sustainability information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to Eskom's preparation of the selected sustainability information in order to design procedures that are appropriate in the circumstances.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Inherent limitations

Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the method used for determining, calculating, sampling and estimating such information. The absence of a significant body of established practice on which to draw allows for the selection of certain different but acceptable measurement techniques which can result in materially different measurements and can impact comparability. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgements. The precision thereof may change over time. It is important to read the report in the context of the reporting criteria.

In particular, where the information relies on factors derived by independent third parties, our assurance work has not included examination of the derivation of those factors and other third party information.

Conclusions

Reasonable assurance

Based on the results of our reasonable assurance procedures, in our opinion the selected sustainability information for the year ended 31 March 2015 has been prepared, in all material respects, in accordance with the reporting criteria.

Limited assurance

Based on the results of our limited assurance procedures, nothing has come to our attention that causes us to believe that the selected sustainability information for the year ended 31 March 2015 has not been prepared, in all material respects, in accordance with the reporting criteria.

Other matters

Our report does not extend to any disclosures or assertions relating to future performance plans and/or strategies disclosed in the report.

The maintenance and integrity of Eskom's website is the responsibility of Eskom's management. Our procedures did not involve consideration of these matters and accordingly we accept no responsibility for any changes to either the information in the integrated report or our independent assurance report that may have occurred since the initial date of presentation on the Eskom website.

Restriction of liability

Our work has been undertaken to enable us to express the conclusions on the selected sustainability information to the directors of Eskom in accordance with the terms of our engagement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume liability to any party other than Eskom, for our work, for this report, or for the conclusions we have reached, save where terms are expressly agreed and with our prior consent in writing.

Vonani Chauke CA(SA)
Director
Registered Auditor
SizweNtsalubaGobodo Inc.
28 May 2015

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Small Change, Big Difference
Make the Call
To make a difference
Integrated Demand Management
Eskom Energy Efficiency
OPERATION KHANYISA
Prevent, detect and report
Will you partner with us to protect our electricity grid?
As Eskom Guardians it is our responsibility to set the example and change our electricity consumption behaviour.
Let's make the call to make a difference...
and use less electricity!
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