

Report of the chief executive

Eskom's material issues discussed



We kept South Africa's lights on, as we have now done consistently since April 2008. This achievement is the result of a focused approach by Eskom to managing the challenge of a tight power system, as well as expanded partnerships with businesses and households that aim to manage demand and raise awareness of the need to use electricity more efficiently.

An integrated view of our business

At all major turning points in the life of an economy, companies face a difficult choice: how to meet present demand while ensuring that they are investing to safeguard the future.

As this integrated report shows, Eskom is achieving this balance. We are keeping the lights on and we are building the power stations and transmission infrastructure needed to power South African businesses and households well into the 21st century.

Doing so has not been easy and, as this report describes, the road ahead is strewn with obstacles. But we are confident that we are setting the utility up for success; that our organisation is becoming financially sustainable; and that as a result of initiatives now under way, we will in time become the high-performance organisation that South Africa needs to grow its economy and create jobs.

Our goal is to provide South Africa with secure, affordable, accessible and cleaner power in the decades to come. This report charts our progress along this path. It sets out, in a concise manner, the range of material concerns affecting our business. Beyond our financial bottom line, it addresses issues of governance, remuneration, risk and sustainability, and

explains how these factors interact and affect our ability to create and maintain value. Eskom has been a leader in integrated reporting for a number of years. This report is the first in a new, more focused format, in response to new international initiatives that are leading the way towards improved reporting. We welcome your comments and suggestions on both the content and the format of this report.

The global challenges of energy supply

South Africa is not alone, particularly among developing countries, in facing the challenges of energy supply. Around the world, electricity utilities are grappling with how to provide energy to growing populations and economies in a safe and sustainable way. Doing so requires long-term planning that takes into account the complex interplay of economic growth, demographic shifts, a finite supply of primary energy resources (and countries' specific allocation of those resources), transmission requirements, protection of the environment, and cost recovery.

In Eskom's case, these challenges are underlined by the company's developmental mandate. Providing reliable and affordable electricity is not only a commercial undertaking; it is also about creating a foundation on which South

Africa can grow, helping to transform the lives of the large percentage of the population that lives in poverty.

As a state-owned company, Eskom is an enabler of the government's vision and a supporter of economic growth in our country and the southern African region. Eskom buys and sells electricity in the countries of the Southern African Development Community (SADC). Eskom is investigating additional opportunities in SADC that have a direct impact on ensuring a secure supply of electricity for South Africa.

Over the past year, the global economy registered a weaker-than-expected performance, marked by slow growth in most developed countries. These trends have been partially offset by strong growth in leading emerging markets – particularly China – which has helped to keep commodity prices at high levels. Slower growth in South Africa has softened electricity demand and, while this is certainly not a desirable outcome for the economy, it has coincided with a period of constrained electricity supply, reducing demand on an overloaded system. As economic growth gathers pace in the period ahead, and mines and factories increase their output, the margin between electricity supply and demand will narrow to uncomfortable levels.

The only solution to this dilemma is to build generating capacity while encouraging energy efficiency and managing demand – and this is just what we are doing. Eskom's capacity expansion programme is fully under way, with 5.8GW of the planned 17GW already commissioned. At the same time, we are working with the national government and municipalities, businesses and households to increase energy efficiency, and to raise



Chief executive **Brian Dames**

The system average interruption frequency index improved to 23.73 from 25.31 in the previous year



The maintenance backlog decreased to 26 as at 31 March 2012 from 36 as at 31 March 2011



awareness of the need to manage demand so that we can keep the lights on.

The business case for sustainability is getting stronger and we are committed to embedding sustainability into our business culture and operations. We remain committed to supporting the UN Global Compact, including the associated LEAD initiative – which aims to improve sustainability performance – as well as the CEO Water Mandate¹ and Caring for Climate. The UN has declared 2012 the “international year of sustainable energy for all”. The UN secretary-general launched the Sustainable Energy for All initiative in September 2011 and I am personally involved in the high-level advisory group for this project.

Eskom has extensive, on-going stakeholder engagements across the whole spectrum of Eskom’s stakeholders, ranging from Government departments (including the Department of Public Enterprises, Department of Energy, Department of Water Affairs and National Treasury) local government and trade unions. In addition, Eskom has regular interactions with Eskom customer groupings, including the quarterly State of the System briefings, meetings with industry forums, community groups, etc. Refer to page 152 for more details of these interactions.

2011/12 accomplishments

Shortly after I became chief executive in the autumn of 2010, we conducted a strategic review of Eskom’s operations. During 2011/12, with the support of our shareholder, we have started to deliver on the strategic initiatives we put in place to improve our long-term performance.

First and foremost, **we kept South Africa’s lights on**, as we have now done consistently since April 2008. This achievement is the result of a focused approach by Eskom to manage the challenge of a tight power system, as well as expanded partnerships with businesses and households that aim to manage demand and raise awareness of the need to use electricity more efficiently. At the same time, we reached a milestone in the electrification programme: more than 4.2 million additional households have been provided with electricity since the programme began in 1991.

We took **major steps forward in our capital expansion programme**. Minister Gigaba launched the construction of the first boiler at Kusile power station in Mpumalanga, which is due to start generating power from the end of 2014, and we are on track for Medupi power station to deliver first power to the grid in 2013. We completed the return to service of the Grootvlei power station, along with three units at Komati power station. We commissioned a new 2 000 megavolt ampere (MVA), 765/400 kilovolt (kV) transformer at Perseus substation as part of the strengthening of the transmission system to the Western Cape. The capital expansion programme met its key performance targets during the period, considerably exceeding the targets for the amount of generation and transmission capacity commissioned.

Significant progress has been made towards securing water supplies for Medupi power station in Limpopo province, and for Komati and Kusile power stations in Mpumalanga.

¹ United National Global Compact’s CEO Water Mandate is a unique public-private initiative designed to assist companies in the development, implementation and disclosure of water sustainability policies and practices.

We took steps to **strengthen financial sustainability**, earning a surplus which will be re-invested to fund capital expansion over the next six years and to reduce debt. Group net profit for the year to 31 March 2012 was R13.2 billion (2010/11: R8.4 billion). The 25.8% tariff increase (including the environmental levy) granted by NERSA during 2011 contributed to a 24.8% increase in revenue per kWh compared with the previous financial year. This was offset by a 25.9% increase in operating costs, mainly as a result of increases in primary energy costs (including the environmental levy). Given our improved financial health and operational performance and the support of our shareholder, we asked NERSA to reduce the electricity tariff increase granted for the year beginning 1 April 2012 from 25.9% to 16%. Eskom maintains healthy cash reserves and funding progress remains positive. By 31 March 2012, Eskom had secured more than 77% of the funding required for the capital expansion programme.

We registered some progress in **improving the efficiency of our operations**. We completed the first phase of our Back2Basics programme in October 2011, rolling out an enhanced single-instance SAP system on schedule and within budget. The Back2Basics programme is an internal performance-improvement initiative aimed at standardising, simplifying and optimising our processes and systems. We also launched the Eskom Leadership Institute to build and strengthen leadership capacity and to intensify the development outcomes of leadership assessments.

We strengthened our **commitments to environmental protection and mitigating the effects of climate change**. Eskom supported the government in hosting the

successful COP 17 meeting in Durban. We expect construction of the Sere renewable-energy wind project in the Western Cape to begin during 2012. We installed solar panels at Kendal and Lethabo power stations to supplement auxiliary power consumption at these stations – the start of a programme that will be rolled out across our fleet of coal-fired stations. We have improved performances regarding relative particulate emissions, water usage and contraventions of legislation, compared to 2010/11.

We have expanded our **social investment commitments**, including taking responsibility for the way operations affect the environment and promoting the objectives of the government's New Growth Path. Eskom believes its social responsibility goes beyond allocating funds to development projects through corporate social investment. It is also about incorporating an ethic of social responsibility into its business model, taking into account the ways its decisions will affect all its stakeholders.

Eskom is **building its human capital and contributing to the national skills base**. A significant number of engineering/technical learners received training over the past five years. In 2011/12, 5 715 (2010/11: 4 240) learners with three- to four-year learning/bursary contracts were in the pipeline, with a focus on engineers, technologists, technicians and artisans. This number will increase to 6 100 learners in 2015/16. We also train existing staff on a continuing basis.

These accomplishments notwithstanding, Eskom faces some tough challenges that must be addressed in the year ahead and beyond.