

## Reporting on Progress: United Nations Global Compact



### Message from the Eskom Chief Executive – Jacob Maroga

While our current focus is understandably on responding to the demand for electricity we continue to ensure that overall good practices are in place and that we do not take our attention off our triple bottom line. We are determined to make a positive difference through our continued support for the United Nations Global Compact.

As a signatory to the compact, the world's largest voluntary corporate responsibility initiative, we commit to show leadership in the compact's 10 principles around labour standards, the environment and anti-corruption.

This communication on Eskom's progress in terms of the United Nation's Global Compact is based on extracts from Eskom's 2008 Annual Report.

### Scope of the Eskom 2008 Annual Report

The annual report for 1 April 2007 to 31 March 2008 is an integrated sustainability report as Eskom aligns itself with international sustainability best reporting practices, including the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines.

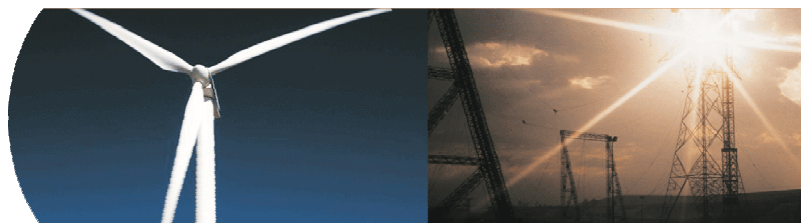
The report considers economic, environmental, social and technical performance and is also available in an internet version on the Eskom website ([www.eskom.co.za/annreport08](http://www.eskom.co.za/annreport08)). Additional sustainability information is disclosed in the internet report. When this is the case, the availability of extra web-based information is signalled in the printed report.

### Nature of business, major products and services

Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers and redistributors. Additional power stations and major power lines are being built to meet rising electricity demand in South Africa. Since the programme started in 2005, additional capacity of 2 582MW has been commissioned. The approved capacity expansion budget is R343 billion (in nominal terms) up to 2013.

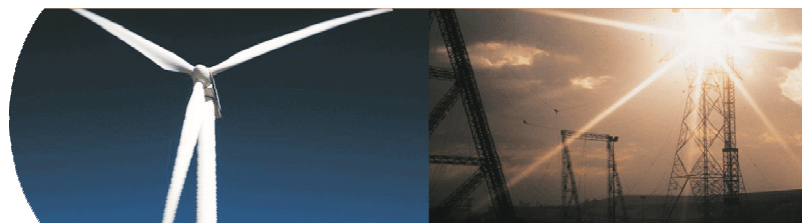
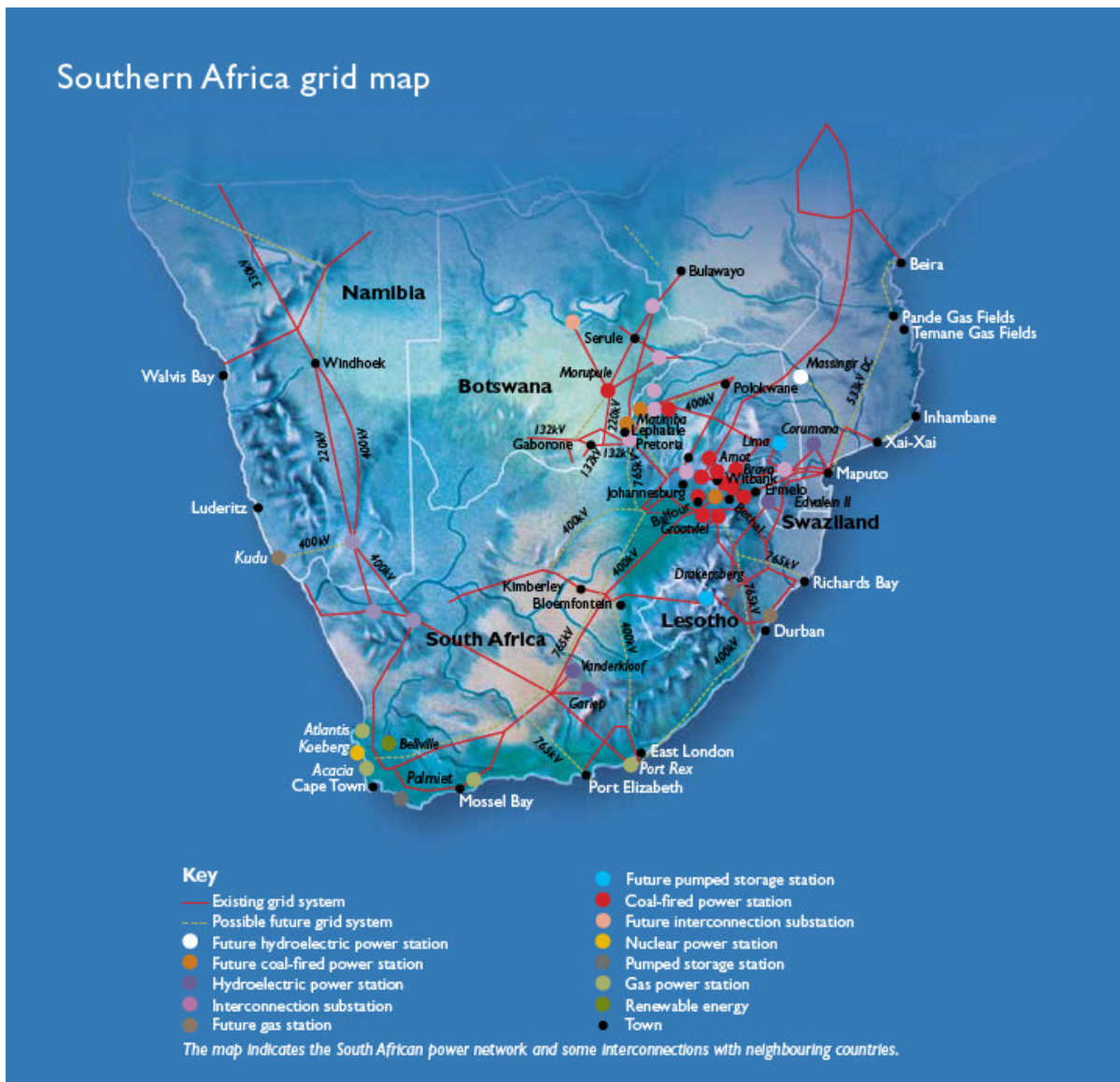
Eskom buys electricity from and sells electricity to the countries of the Southern African Development Community (SADC). The future involvement in markets outside South Africa (that is SADC, African countries connected to the South African grid and the rest of Africa) is limited to those projects that have a direct impact on ensuring security of supply for South Africa.

Eskom is regulated under licences granted by the National Energy Regulator of South Africa (Nersa), originally under the Electricity Act (41 of 1987) – to be replaced by licences under the Electricity Regulation Act (4 of 2006) – and by the National Nuclear Regulator in terms of the National Nuclear Regulatory Act (47 of 1999).



The Eskom Enterprises (Pty) Limited group focuses mainly on activities that support its holding company and is also responsible for all non-core businesses. It supports Eskom by providing plant life-cycle support and plant maintenance, including return-to-service work, and supports the build programme for all the line divisions. It is also in the process of disposing of a number of non-core businesses, including its investment in arivia.com. At the end of the past financial year, Eskom Enterprises disposed of Mountain Kingdom Communications (Pty) Limited (MKC), the telecommunications provider in Lesotho.

The core businesses of subsidiaries, Eskom Finance Company (Pty) Limited, Escap Limited and Gallium Insurance Company Limited include the granting of employee home loans and the management and insurance of business risk. R1,95 billion (82%) of the mortgage book of Eskom Finance Company has been securitised, (2007: R1,6 billion representing 68%). The planned disposal of this company is expected to be finalised in the 2009 financial year. Eskom's corporate social investment is channelled principally through the Eskom Development Foundation, a section 21 company.



## Countries in which operations are located

Eskom's head office is in Johannesburg and its operations are focused on South Africa. The Eskom Enterprises group operates electricity generation concessions in Mali, Zambia and Uganda. Other than South Africa, Eskom Enterprises also has subsidiaries in various African countries, with offices in Uganda, Mali, Zambia and, up until the disposal of MKC, in Lesotho.

## Regional sales breakdown

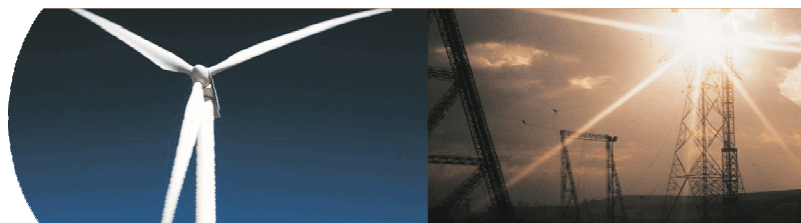
The majority of sales are in South Africa. Other countries of southern Africa account for a small percentage of sales.



## Application of the GRI principles

Eskom aligns itself with the Global Reporting Initiative (GRI), by applying the GRI principles as follows:

- **exclusivity:** the results of our stakeholder engagement processes, as set out on page 82 of the 2008 Annual Report, are used to inform the structure and, more importantly, the issues reported on
- **relevance and materiality:** the current and future issues addressed in this report have been determined by what our stakeholders have said to us, our business focus areas, priorities and the actively managed risks we face. This is depicted on page 1 of the 2008 Annual Report covering our vision, values and strategic objectives
- **sustainability context:** our understanding of sustainable development is set out on page 28 of the 2008 Annual Report (business and sustainability performance review – as set out in the introductory paragraph). The Eskom sustainability performance index on page 28 of the 2008 Annual Report, together with the performance areas and indicators set out in this report, reflect both the opportunities and constraints we face in executing our sustainable development strategy



- **completeness:** our intention is to ensure that the material aspects of Eskom's business regarding sustainable development are reflected in terms of actual performance over the last financial year, giving insight into our future direction
- **setting the report boundary:** the areas of our business included in this report are defined on the flap in Profile of the 2008 Annual Report (nature of business, major products and services). The extent to which we have reported on these was based on the scale of our sustainability impacts and the degree to which we have control and influence

## Key facts

### Eskom, South Africa's electricity utility:

- Is one of the **top 13** utilities in the world by generation capacity
- Is among the **top 9** by sales
- Generates approximately **95%** of electricity used in South Africa
- Generates approximately **45%** of electricity used in Africa
- Total assets: **R171 181** million
- Net profit: **R974** million
- Cash flows from operating activities: **R7 655** million
- Capital expenditure: **R24 764** million
- Number of employees: **35 404**
- Training cost: **R784** million
- Electricity customers: **4 152 312**
- Electricity sales: **224 366**GWh
- Nominal capacity: **43 037**MW
- Net maximum capacity: **38 744**MW
- Power lines: **366 203**km (all voltages)
- Carbon dioxide emissions: **224**Mt
- Total water consumption: **322 666**ML

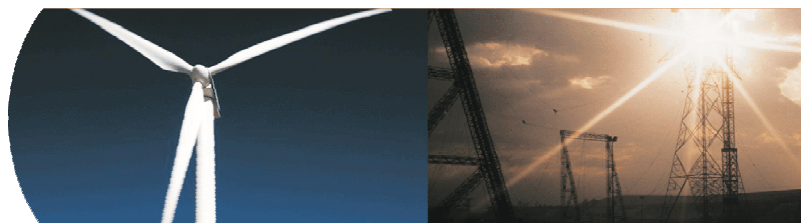
## Sustainability

At Eskom, we ensure that sustainable development issues are fully integrated into all our activities and business practices.

## Governance

Our Board Sustainability committee comprises four independent non-executive directors and the chief executive, as well as Mr BL Fanaroff and Mr MM Matutu, external appointees who bring additional expertise to the committee. This committee deals with integrated sustainability issues and approves or recommends policies, strategies and guidelines, particularly related to safety, health, environment, quality and nuclear issues. The committee also scrutinises nuclear safety at Eskom facilities to ensure that standards exceed all regulatory and internal requirements, and remain consistent with international best practice.

The chief executive, as chief safety officer and chairman of Executive Management Committee sustainability and safety subcommittee, is accountable for overall sustainability and safety performance. The sustainability and safety subcommittee guides our strategy and sets performance targets on sustainability, occupational health and safety and environmental matters, in line with Eskom's safety, health and environmental policy, the National Environmental Management Act (107 of 1998), as amended, and the Occupational Health and Safety Act, (85 of 1993), as amended. Strategies are reviewed and approved by the sustainability committee of the board. Exco's operations subcommittee assesses occupational health, safety and environmental performance and reviews major incidents to ensure that corrective action is taken.





## Strategy

Our sustainability strategy was first developed in 2004 and is periodically reviewed. Our broader definition of sustainability includes issues such as technology development and deployment, quality, risk, safety and skills development. This allows us to take a long-term view and ensure that the scope of our work covers all relevant elements and assesses the practicality of implementation.

Eskom has integrated sustainable development issues into decision-making for many years. Given that our sector is long term in nature and that many decisions have implications for decades, it is vital that we take robust and responsible decisions.

As the new build programme progresses and decisions are taken on key operational practices and programmes, many of the critical issues are identified and factored into decisions. These include diversification of the energy mix, climate change considerations, financial aspects, improvements in environmental performance and social issues such as job creation.

Eskom's sustainable development philosophy and practice form a vital and integral part of our business which guides our vision. It ensures that we strive to continually improve our performance in consultation with our stakeholders in a transparent manner. Our performance is continually benchmarked against international practice, as we strive to go beyond what is required of us in terms of legislation.

## Sustainability performance

Our sustainability performance index provides an overarching view of our long-term sustainability status through the use of 20 appropriate indicators drawn from different indices in the organisation. The index addresses economic, environmental, social and technical aspects of the organisation and provides a score from a holistic perspective. It is used to determine our long-term sustainability status.

The overall performance is considered sustainable if the score is equal to or greater than three on a five-point scale. Eskom's overall performance for the reporting period was 2,5 (2007: 3,0) with sector scores as follows:

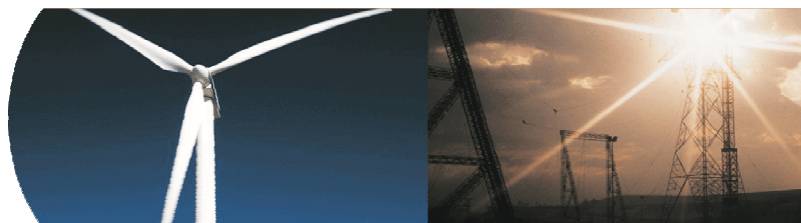
- technical 2,5 (2007: 3,5)
- economic 2,5 (2007: 3,2)
- environmental 2,2 (2007: 2,6)
- social 2,6 (2007: 2,6)

With the decline in the reserve margin the load factor increased, resulting in a drop in plant availability. Performance also declined as a result of the unacceptably high number of fatalities, an important element of the social sector of the index. Further areas that declined were productivity, interest and return on capital employed, as well as contraventions of environmental legislation.

Areas that performed well included the reduction in electricity demand through demand-side management, race and gender equity, electrification and black economic empowerment.

To ensure continual improvement, Eskom was benchmarked by Ethical Investment Research Services Limited (London) (EIRIS) against the JSE SRI index using 2007 financial year performance data, which assessed non-financial risk policies, management systems and performance including environmental, social and governance issues. We performed particularly well for the 2006/7 period and achieved the required standard to qualify for the JSE SRI index. We also stood out in the HIV/Aids section, meeting all the criteria.

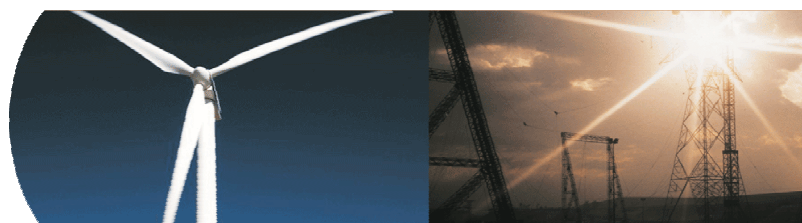
Practical examples of how Eskom has implemented the United Nations Global Compact Principles are detailed below.





*Eskom's workforce remains highly committed during this challenging period.*

United Nations (UN) Global Compact	Eskom's main activities in support of principles
<p><b>Human rights</b></p> <p><u>Principle 1</u></p> <p>Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence.</p> <p><u>Principle 2</u></p> <p>Make sure that they are not complicit in human rights abuses.</p>	<p><b>Our people</b></p> <p>World-class technology is essential, but it's not just a technical exercise – people, Eskom employees and contractors and their combined human capital assets, form the lifeblood of the organisation.</p> <p>Reliable electricity supply in Eskom is dependent on many factors, but mainly on people with the necessary expertise to research and design global practices, provide leadership and enable strategies, processes, systems and practices in the various functional areas of the business.</p> <p>Eskom is in an extremely challenging but exciting phase of its 85-year existence. We are in a growth phase where major capital expansion projects are being planned and implemented. At the same time, we have to maintain production and ensure its reliability and availability. This offers individuals an opportunity to embark on a rewarding career in Eskom.</p> <p>A vast array of technologies – from renewable energies to nuclear, gas, hydro and coal-fired power stations – form part of the opportunities individuals will have to contribute to the business.</p> <p>As such, the organisation is facing major challenges in terms of key-skills planning, attraction, development and retention – given that major build projects are happening simultaneously in South Africa and everyone is sourcing the same skills-sets. Eskom will continue to develop its employee value proposition to ensure it remains an employer of choice. The human resources function engages the organisation as functional experts and business partners to ensure the attainment of strategic objectives. An important role is to monitor and measure critical factors relating to people management. A human resources sustainability index (HRSI) was established some years ago, measuring relevant areas that are also contracted into leadership performance compacts.</p> <p>The areas of measurement and measurement criteria are reviewed on an annual basis to ensure applicability. These can be summarised as employee satisfaction, employee competence, equity and employee health and wellness categories.</p>



**Labour standards**

The HRSI score for the past year was 82,3% (2007: 83,4%) against a target of 80,0%. The performance figure is lower than the previous year mainly due to an increase in staff resignations, an increase in days to fill vacancies, aggravated by the current national skills shortage, and a more challenging disability target.

However, the performance does indicate that our human resources interventions are largely relevant and generally meet the needs of our people and organisation.

Eskom is a constantly evolving organisation that provides the lifeblood of our economy. We need the right people for the right job, and the right time is now. Every effort is being made to ensure that we employ and retain the skills needed to ensure a reliable electricity supply for generations to come.



We actively support the "take a girl child to work" initiative.

**Skills**

Principle 3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

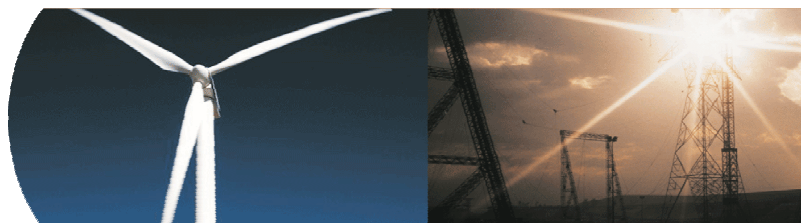
Eskom's manpower numbers show a net growth of 2 208 over the reporting period. A combination of internal development, internal promotions, learner pipelining, external recruitment and contracting constitute the skills resourcing strategy. National and international recruitment expos were held during the year.

The initial international focus has been on South Africans living abroad. Given Eskom's formidable new build programme, additional recruitment practitioners have been appointed and trained.

Long-term skills requirements have been determined in terms of critical workforce segments as well as core, critical and scarce skills. The recruitment section on the Eskom website ([www.eskom.co.za](http://www.eskom.co.za)) has been improved considerably to make it easy for job seekers to find opportunities in our organisation.

An integral part of retaining current staff and recruiting new people is establishing Eskom as an employer of choice. Key activities in this regard were:

- incentives: motivating people by looking at reward and recognition strategies. Where there is a shortage of core, critical or scarce skills, we will pay competitive salaries and fringe benefits and review the latest remuneration principles and practices
- employee engagement: meaningful engagement through effective organisational



communication and ensuring that people are given work that is challenging and motivating, while having a work/life balance

An annual performance bonus scheme is in place for all Eskom staff, excluding senior general managers and above. The scheme is governed by a predetermined set of rules and targets, which are approved annually by Exco. The actual performance of each employee is assessed at the end of the year and those employees who have achieved or exceeded their performance contracts are eligible to claim from the bonus pool relative to their performance, salary and grading.

The total bonus pool payable is determined by actual company performance relative to these targets. Performance measures include technical, people-related, customer, social and financial performance. Allocation of this bonus pool is based on division/department and individual performance.

2 958 additional core, critical and scarce skills need to be recruited or developed cumulatively over the next five years to replace losses and cater for Eskom's new build programme.

**Cumulative projected additional core, critical and scarce skills requirements**

	2009	2010	2011	2012	2013
Skills required (number)	1 431	1 712	2 054	2 465	2 958

Eskom is not unique: there is a general technical skills shortage in the global market. Given the global electricity expansion programmes, Eskom will continue to face a challenge in terms of skills. The likes of China and India are also competing for technical skills internationally.

We will continue international and national recruitment drives. However, resourcing options do not only include permanent employment. We are also seriously considering contracting in skills via agencies for specific projects. This also calls for more flexible remuneration packages.

**Training interventions**

Training has always been a major focus area in Eskom – to such an extent that many outside organisations make use of our training facilities. We have 28 facilities with 244 training venues spread across South Africa, which can accommodate a maximum of 3 300 students. There are approximately 540 teaching staff with 153 instructors and in excess of 1 600 courses in Eskom's course catalogue.

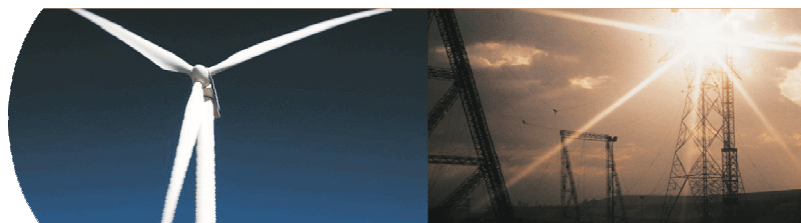
These facilities, staff and programmes are used to support the development of new employees and of existing employees, in accordance with individual development plans, to ensure optimal performance in the work environment.

**Eskom's total training investment per year**

	Unit of measure	Actual 2008	Actual 2007
Total training costs	Rm	784,2	747,7

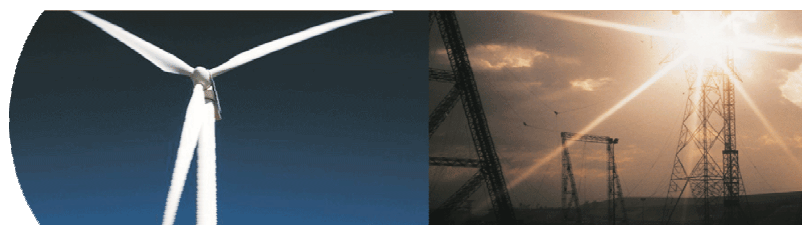
**Principle 4**

The elimination of all forms of forced and compulsory labour.

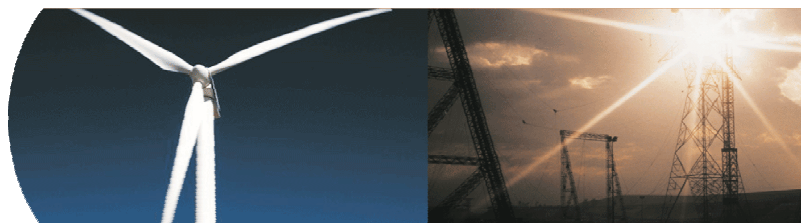




<p><b>Principle 5</b></p> <p>The effective abolition of child labour.</p>	<p>Furthermore, development plans have been established for critical and scarce skills to ensure appropriate succession management. Currently, for the purposes of knowledge transfer, we are also using the skills of highly experienced former and current employees. This includes involving the extremely valuable experience of Eskom pensioners in a formal mentorship programme. Last year, Exco approved the implementation of an Eskom university. This resulted in the appointment of a university council consisting of managing directors and general managers. A chief learning officer was appointed as well as the university management team.</p> <p>The university will co-ordinate and integrate all learning throughout Eskom, focusing on business needs, and will cater for all facets of the learning value chain, covering strategy and planning, learning design and development, learning delivery, learning administration, as well as learning operations, supported by a quality management process. Four faculties have already been created.</p> <p>The key focus will be on engineers and artisans for the future. We have 5 368 learners in the pipeline – 85% of them studying in engineering and technical fields. Once they have completed their training they will be absorbed into the business as engineers or graduates-in-training.</p> <p>The Eskom Learning Institution (ELI) drives artisan and technician training and development across Eskom. ELI’s role has become increasingly important, as the skills challenge continues to mount.</p> <p>In response, ELI has embraced e-learning and formed learning partnerships with various organisations, independent individuals and learning providers.</p>																																																																				
	<p>ELI responds to immediate learning needs within functional areas and to strategic imperatives such as Eskom’s commitment to Asgisa and, specifically, the need for accelerated skills development and transfer to drive Eskom’s new build and maintenance programmes.</p> <p><b>Employment equity</b></p> <table border="1"> <thead> <tr> <th rowspan="2"></th> <th rowspan="2">Unit of measure</th> <th colspan="3">Group</th> <th rowspan="2">Actual 2007</th> </tr> <tr> <th>Target 2008</th> <th>Actual 2008</th> <th>Actual 2007</th> </tr> </thead> <tbody> <tr> <td colspan="6"><b>Race:</b></td> </tr> <tr> <td>– Black<sup>1</sup> staff at managerial<sup>2</sup> level</td> <td>%</td> <td>61,1</td> <td>65,9</td> <td>62,5</td> <td></td> </tr> <tr> <td>– Black staff at all levels</td> <td>%</td> <td>n/a</td> <td>73,7</td> <td>71,0</td> <td></td> </tr> <tr> <td colspan="6"><b>Gender:</b></td> </tr> <tr> <td>– Women at managerial level</td> <td>%</td> <td>32,8</td> <td>34,1</td> <td>32,7</td> <td></td> </tr> <tr> <td>– Women at all levels</td> <td>%</td> <td>n/a</td> <td>27,5</td> <td>26,0</td> <td></td> </tr> <tr> <td>People with disabilities</td> <td>%</td> <td>2,9</td> <td>3,1</td> <td>2,7</td> <td></td> </tr> <tr> <td colspan="6"><b>Internal promotions</b></td> </tr> <tr> <td>– Black staff at all levels</td> <td>%</td> <td>n/a</td> <td>79,1</td> <td>75,9</td> <td></td> </tr> <tr> <td>– Women at all levels</td> <td>%</td> <td>n/a</td> <td>36,0</td> <td>35,9</td> <td></td> </tr> </tbody> </table> <p><sup>1</sup> Black, Asian and coloured South Africans.  <sup>2</sup> Managers, professionals and supervisors – CU to F band on the Paterson grading; TASK grading 11 to 18 plus F Bands in Eskom.</p> <p><b>Focus on leadership</b></p> <p>As part of continually improving our leadership echelons, a leadership direction and support unit was created. The unit focuses on:</p> <ul style="list-style-type: none"> <li>➤ the accurate assessment of leadership performance</li> </ul>		Unit of measure	Group			Actual 2007	Target 2008	Actual 2008	Actual 2007	<b>Race:</b>						– Black <sup>1</sup> staff at managerial <sup>2</sup> level	%	61,1	65,9	62,5		– Black staff at all levels	%	n/a	73,7	71,0		<b>Gender:</b>						– Women at managerial level	%	32,8	34,1	32,7		– Women at all levels	%	n/a	27,5	26,0		People with disabilities	%	2,9	3,1	2,7		<b>Internal promotions</b>						– Black staff at all levels	%	n/a	79,1	75,9		– Women at all levels	%	n/a	36,0	35,9
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<p><u>Principle 6</u></p> <p>Eliminate discrimination in respect of employment and occupation.</p>	<ul style="list-style-type: none"> <li>➤ proper selection and placement of leaders in the organisation</li> <li>➤ assessment and development of leadership potential and capability</li> <li>➤ developing leadership talent in the organisation</li> </ul> <p>During the 2007/08 year, 1 592 managers and professionals were trained in the theory and application of Situational Leadership II. “Leading in Times of Crisis” e-learning material was developed and activated and a “Vision Dialogue Initiative” partly rolled out.</p> <p><b>Diversity</b></p> <p>Eskom continues to be a leader in driving employment equity, which has enabled us to achieve a staff complement that reflects South African diversity.</p> <p>We will continue with the affirmative action drive, the promotion of women and the focus on employment equity for people living with disabilities, not because it is required of us by statute, but because we believe that it is the right thing to do. It is also a business imperative.</p> <p><b>Highlights</b></p> <ul style="list-style-type: none"> <li>➤ on 13 June 2007, in New York, Eskom was recognised by the Global Business Coalition (GBC), under the category “Counselling and Testing at the Workplace”, for having one of the best models for the provision of voluntary counselling and testing (VCT) at the workplace and for having more than 50% of our employees knowing their HIV status</li> <li>➤ the HR Shared Services unit has been visited by other organisations in the past year to learn from Eskom’s experiences with the implementation of the unit, highlighting Eskom as a successful case study</li> <li>➤ the occupational health and safety project commenced to establish occupational risk exposure profiles (OREPs) of employees within 12 high-risk job categories, such as live-line workers. We have started with performing risk assessments on all the 12 job categories. The next steps will be to confirm the man-job specifications, and to then review and conduct risk-based medical and psychological surveillance on all the employees within these job categories</li> <li>➤ no man-hours were lost due to industrial action at Eskom in the last year. Good communication is a feature of the industrial relations environment. There are direct lines of communication with managers and professionals and consultation in the bargaining unit through recognised trade unions. Cosatu called for a public service solidarity strike in support of the public services unions wage demands, but this had no impact on Eskom. Eskom concluded a two-year salary and conditions of service agreement with trade unions during 2007. The next round of negotiations begins in May 2009</li> <li>➤ the grading, assessment, and remuneration positioning project (GARP) was implemented with effect from 1 November 2007. GARP achieved the conversion of job evaluation in Eskom from the Paterson broadband system to the TASK (tuned assessment of skills and knowledge) system. This also involves a “close-to-market” approach in remuneration positioning</li> </ul>
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#### Eskom staff turnover and age distribution

Company	Actual 2008	Actual 2007
Employees at start of year	30 746	29 697
Add: Recruitment	4 385	2 738
Less: Resignations	(1 370)	(1 050)
Deaths	(260)	(268)
Dismissals	(85)	(76)
Retirements	(447)	(309)
Other	(15)	14
<b>Total employees at end of year</b>	<b>32 954</b>	<b>30 746</b>
<b>Employee turnover rate, %</b>	<b>6,9</b>	<b>5,9</b>

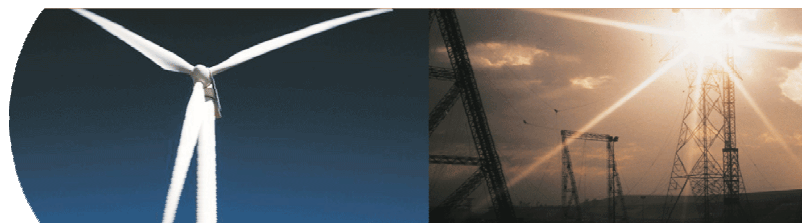
Company	Actual 2008 %	Actual 2007 %
Age distribution of workforce – end of period		
18 – 20 years	0,05	0,01
20 – 29	19,35	15,90
30 – 39	25,60	24,20
40 – 49	28,40	33,10
50 – 59	23,50	23,80
Over 60	3,10	2,99

#### Medical and health services

Eskom provides an employee assistance programme through internal advisors and an external service provider. This ensures that all employees and their families have access to psychosocial support 24 hours a day, seven days a week in the event of trauma or crisis. Support entails telephonic counselling, face-to-face counselling services, and voluntary counselling and testing (VCT) campaigns. The external service provider also has a managerial consultancy and coaching programme that assists managers to help employees deal effectively with psychosocial issues that may affect their productivity.

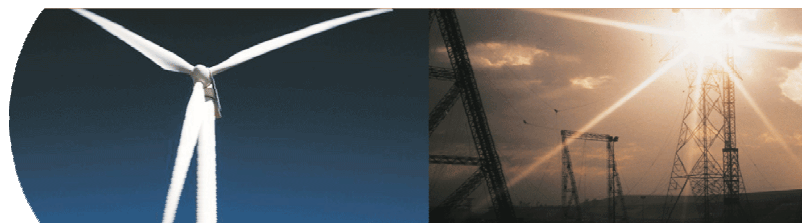
#### Health and wellness

Eskom's comprehensive health and wellness programme is modelled around the six pillars of wellness, namely, physical, emotional, occupational, spiritual, social, and intellectual wellness. The services include focused primary health care, occupational health, chronic disease management, and an HIV/Aids workplace programme. Other services include sports and recreation events, biokinetics, spiritual wellness, health education, and travel medicine and expatriate health, supporting employees on international assignments).

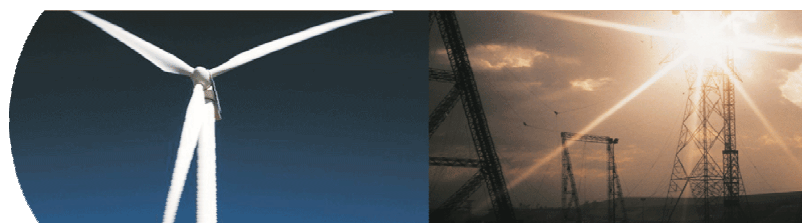


	<p><u>Managing the impact of HIV and Aids</u></p> <p>Eskom operates in a high HIV-prevalent country and has identified HIV/Aids as one of the risks it needs to manage for its own business sustainability. The goals of the HIV/Aids workplace programme are to have zero tolerance to new HIV infections and mother to child transmissions. The company manages the impact of HIV/Aids through integrated response strategies, which are education and awareness, prevention, know your HIV status, treatment, care, and support. Free condoms are provided to all employees. Eskom met the human resources sustainability index standard, which requires 50% of staff to have undergone voluntary counselling and testing (VCT).</p> <p>Last year also saw the launch and formalisation of a support group run by Eskom employees living with HIV and Aids (ELWHA), which assists employees infected with HIV to register early on the disease management programmes provided by the medical aid societies and also assists employees to comply with medication and to de-stigmatise HIV at Eskom.</p> <p>Eskom has a supply chain programme that assists the SMMEs to manage HIV at their workplace. This initiative is managed in partnership with the South African Business Coalition against HIV/Aids (SABCOHA) and Tshepang Trust. These organisations offer VCT and ART (antiretroviral treatment) free of charge to the SMMEs.</p>
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<b>United Nations (UN) Global Compact</b>	<b>Eskom's main activities in support of principles</b>
<p><b>Environment</b></p> <p><u>Principle 7</u></p> <p>Businesses should support a precautionary approach to environmental challenges.</p>	<p>Eskom is controlled by various independent regulators including the National Energy Regulator of South Africa (Nersa) and the National Nuclear Regulator (NNR), the Department of Water Affairs and Forestry as well as the Chief Air Pollution Control Officer (Capco) from the Department of Environmental Affairs and Tourism (DEAT). These independent regulators protect the public interest and regulate Eskom's activities to ensure effective environmental protection. This is achieved, among others, through the issuing of authorisations for construction, permits and licences for particulate emission releases and water usage.</p> <p>South Africa is a signatory to the United Nations Framework Convention on Climate Change (UNFCCC) and its implementing mechanism, the Kyoto Protocol. As a developing country, there are no binding obligations as yet for South Africa to reduce greenhouse gas emissions. However, there is increasing in-country commitment for development to be carried out in a sustainable manner that will result in benefit to the economy, society and the environment and that is compatible with actions required to combat climate change. It is important that South Africa actively contributes to global efforts to combat climate change while ensuring the sustainability of the economy and society.</p> <p>Currently, South Africa is reliant on coal to generate the bulk of its electricity. Coal resources in South Africa are abundant, and Eskom's coal-fired power stations are designed to burn low-grade coal which may not otherwise be used, allowing the provision of low-cost electricity. The use of coal is, however, not without environmental impacts, including the emission of greenhouse gases (GHG). In addition, changes in the climate will almost certainly impact on Eskom's operations, for example in the area of water access. We concur with the IPCC (Intergovernmental Panel on Climate Change) view that climate change is real and largely due to human activities. This why we are continually investigating and implementing appropriate technologies to reduce GHG emissions while maintaining our cost competitiveness in terms of electricity production, which we see as vitally important for a developing economy.</p>

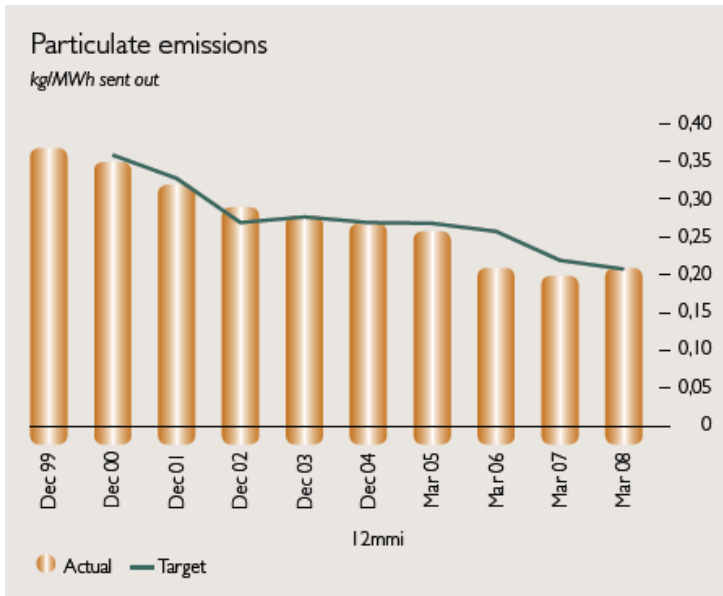


<p>Principle 8</p> <p>Undertake initiatives to promote greater environmental responsibility.</p>	<p>Climate change is, therefore, of great concern to Eskom and as a result, we have been active in climate change discussions since the early 1990s and have a living climate change strategy. Eskom also has a permanent seat on the National Committee for Climate Change (NCCC) and attends the international climate change negotiations as a member of the official government delegation.</p> <p>Eskom's climate change strategy contains our commitment to reduce our greenhouse gas emissions. It also spells out how we understand the impacts of climate change on our business and people and how we pro-actively manage these impacts. The strategy has been summarised into Eskom's six-point plan on climate change. The elements of this plan are:</p> <ol style="list-style-type: none"> <li>1. <b>Diversification</b> of the generation mix to lower carbon-emitting technologies</li> <li>2. <b>Energy efficiency</b> measures to reduce demand and greenhouse gas and other emissions</li> <li>3. <b>Adaptation</b> to the negative impacts of climate change</li> <li>4. <b>Innovation</b> through research, demonstration and development</li> <li>5. <b>Investment</b> through carbon market mechanisms</li> <li>6. <b>Progress</b> through advocacy, partnerships and collaboration</li> </ol> <p><b>Limiting the impact on the environment</b></p> <p>Environmental performance is managed as an integral part of our governance structure, from the board sustainability committee, to the executive management committee (Exco) sustainability and safety subcommittee. Accountable environmental managers and environmental practitioners ensure the effective implementation of environmental management systems throughout our business. The current focus on securing continuity of supply, executing the build programme and responding to climate change provides us with environmental opportunities. These include introduction of renewable technologies, expansion of our nuclear programme, identification and implementation of internal energy-efficiency projects, further expansion of water conservation programmes, and conservation of land as a biodiversity offset.</p> <p>Through this commitment, our objective is to ensure continual improvement in our environmental performance by setting environmental performance indicators and management systems and ensuring the use of balanced criteria in our decision-making processes. These commitments are set out in our safety, health and environment policy.</p> <p>Our environmental commitment continues to be based on the efficient use of natural resources while controlling our activities that impact on the environment.</p> <p><b>Performance</b></p> <p>Environmental performance is co-ordinated at an organisational level and an overall picture of environmental performance is maintained. Divisions and subsidiaries in Eskom report on environmental performance issues to the environmental liaison committee (ELC) which in turn reports on Eskom's environmental performance to the Exco operations subcommittee, the Exco sustainability and safety subcommittee and the board sustainability committee. Environmental performance forms a part of existing business management reporting and components of our operational health dashboard.</p> <p>We continue to measure our performance against a number of environmental parameters. Four of the most significant of these are linked to targets set annually in the Eskom business plan.</p> <p>Alarms and standards are set and measured against these four measures as part of the operational health dashboard.</p>
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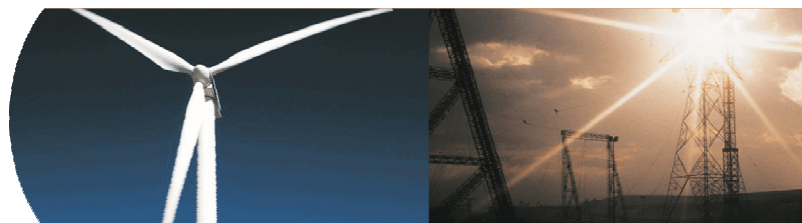
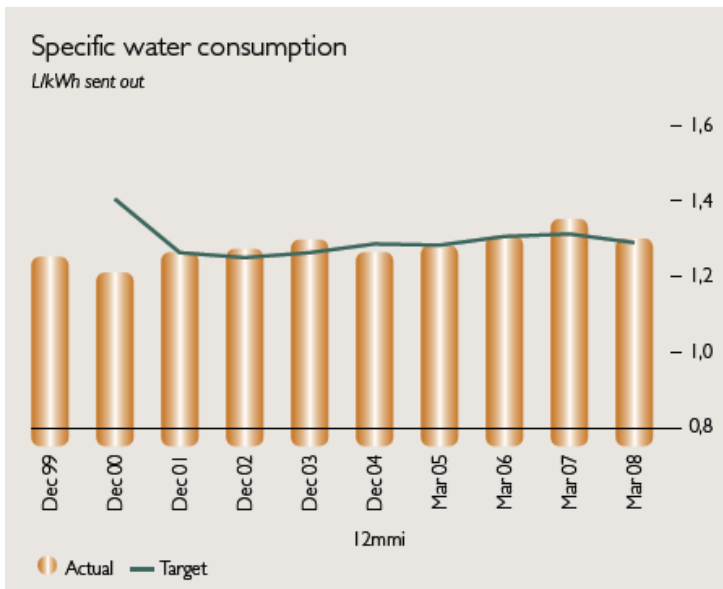


**Principle 9**

Encourage the development and diffusion of environmentally friendly technologies.



Gaseous emissions <sup>1</sup>	Unit of measure	2008	2007
Nitrous oxide (N <sub>2</sub> O)	kt	2,9	2,7
Carbon dioxide (CO <sub>2</sub> )	Mt	223,6	208,9
Sulphur dioxide (SO <sub>2</sub> )	kt	1 949,7	1 875,7
Nitrogen oxide (NO <sub>x</sub> ) as NO <sub>2</sub>	kt	983,9	929,9



We have over 366 000km of power lines, operate 27 existing power stations and have four new power stations under construction, which means that our business footprint on biodiversity needs to be monitored and managed closely.

The significant threats in terms of biodiversity are managed and controlled through our partnerships with civil society to ensure best practice and specialist input. This includes the Endangered Wildlife Trust (EWT) for avian impacts; BirdLife South Africa and the Middelpunt Wetland Trust for the conservation of a sensitive wetland and associated biodiversity next to the new Ingula pumped-storage scheme; and the Wildlife and Environment Society of SA (WESSA) for broader environmental education programmes in the area of energy and sustainability.

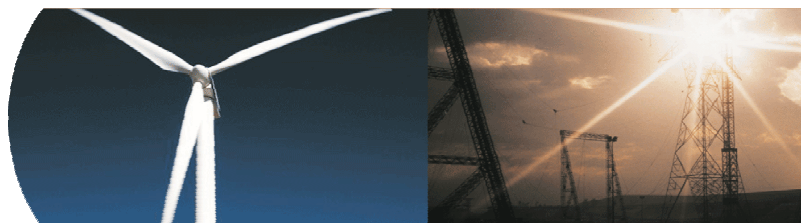
**Stakeholder comment**



*Bjorn Stigson is the president of the World Business Council for Sustainable Development.*

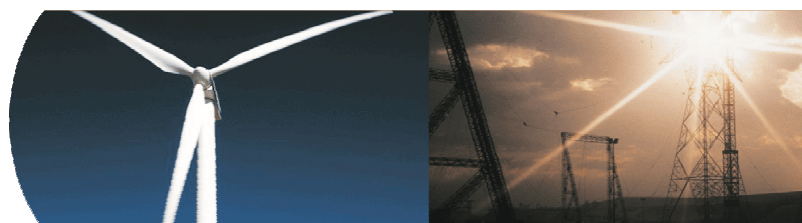
“At no other time in recent memory has the electricity utilities industry faced such tremendous challenges. Balancing a social mandate to extend and enhance access of power to marginal and rural communities while at the same time wage a business savvy fight against climate change is no easy feat. Furthermore, nobody would argue against the fact that electricity is the lifeblood of economic growth and yet almost all of us would also agree that this essential service can no longer be produced and consumed in the same way as it has been for the last century.

So, what's the good news? Eskom has been a driver of cutting-edge thinking on these challenges while moving the debates into the business opportunity space. As a member of the World Business Council for Sustainable Development, a business coalition of some 200 leading companies that share a commitment to the principles of sustainable development via economic growth, ecological balance and social progress, they have joined forces with 10 other electricity utility companies and developed a concrete understanding of the sustainability challenge facing the sector while identifying urgent needs required to power the 21st century”.





United Nations (UN) Global Compact	Eskom's main activities in support of principles
<p><u>Principle 10</u></p> <p>Business should work against corruption in all its forms, including extortion and bribery.</p>	<p><b>Corporate Governance</b></p> <p>The rapidly changing business environment presents new and increasingly complex corporate governance challenges. It is therefore critical, that an organisation's governance processes and practices are reviewed on a regular basis to ensure that they are in line with best practices.</p> <p>Eskom views good corporate governance practices as integral to good performance. It is therefore essential for Eskom to fulfil its mandate in a manner that is in keeping with governance best practices and, in particular, with regard to accountability, transparency, fairness and responsibility.</p> <p>We have adhered to the statutory duties and responsibilities imposed by the Companies Act as augmented by the Public Finance Management Act (PFMA). Eskom's systems and processes are regularly reviewed to ensure that compliance is monitored in this regard. In addition, Eskom is also guided on best practices by international developments as well as the King Report on Corporate Governance for South Africa – 2002 (King II) and the Protocol on Corporate Governance in the Public Sector – 2002.</p> <p>The year has been a particularly challenging one for Eskom because of the capacity challenge and it was necessary that the governance processes, systems and structures were able to deal with a number of issues in a coherent and effective manner.</p> <p>More frequent meetings of the board of directors and the executive management committee were required. In addition, Eskom had to engage with various stakeholders with regard to the capacity issues. There was a need for alignment with government as shareholder and more intensive communication and interaction with customers and the National Energy Regulator of South Africa (Nersa). At the same time Eskom had to focus on the capacity expansion programme and on the operations of the business and there was a need for quick decision-making on a number of issues.</p> <p>In addition, the need for more intensive engagement with stakeholders resulted in a number of meetings between Eskom, government and customers, including the key industrial customers and major metros. A number of joint task teams were also established to assist with the resolution of some of the problems.</p> <p>Admittedly, there were some weaknesses in the processes. The stakeholder communication and engagement could have been more effective and Eskom has acknowledged the criticism in this regard. However, in other respects, the integrity of Eskom's governance processes and structures was maintained and they functioned effectively. The current challenges and need at times for urgent decision-making did not lead to a deterioration of the high standards of corporate governance. The governance processes were adhered to and duties were fulfilled in a proper manner.</p> <p>Eskom's massive capacity expansion programme in itself presents particular challenges for the governance processes. Eskom needs to ensure that there are adequate resources and expertise, and that our processes are beyond reproach. Consequently, a number of initiatives were implemented last year to strengthen our resources in this regard.</p>





The regular review of governance practices was also carried out based on the conclusions of the last board evaluation. This included a review of the committees, the agendas, documentation tabled at board meetings and ongoing director training. In particular, the review of the delegation of authority was completed, with a special focus on procurement processes. The performance of the board committees was considered and areas for improvement were identified. Special information sessions have been introduced prior to scheduled board meetings to allow an opportunity for more detailed information on particular topics to be shared with directors.

An independent board evaluation for the period under review is being conducted.

### **Ethical business conduct**

Eskom commits itself to the highest standard of ethical conduct, underpinning its key value of integrity. It strives at all times to foster trust, dependability and honesty.

The ethics office assists the chief executive and the board in setting the framework, rules, standards and boundaries for ethical behaviour, and provides guidance to the Eskom group on ethical conduct.

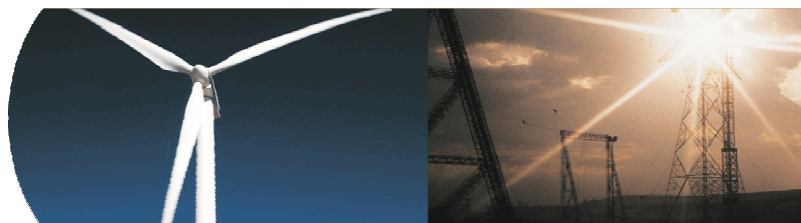
Key milestones for the past financial year include the approval of Eskom's code of ethics by its executive committee and the board, the development of a communication strategy for the launch of the code in April/May 2008 and its subsequent implementation throughout the organisation. Training was provided to 77% of the workforce on conflict of interest and ethics training was given to new employees through the induction programmes.

Ethics awareness is furthermore created through the following channels and ongoing initiatives:

- maintaining effective ethics structures within each division
- keeping the executive committee and the human resources, remuneration and ethics committee informed via quarterly ethics status reports
- providing an ethics advisory service for employees, suppliers and customers
- maintaining an advisory service database in order to identify trends
- monitoring ethics training interventions within the divisions
- monitoring the submissions of the electronic declaration of interests forms by the board of directors, the executive committee and employees
- maintaining the ethics website, covering key ethical issues, frequently asked questions and training material
- hosting the annual ethics networking forum for ethics sponsors and co-ordinators
- promoting Eskom's externally managed toll-free whistle-blowing line, enabling employees, suppliers and customers to report crime and irregularities confidentially

### **Security risk management**

The board ensures that an integrated crime-prevention plan is implemented to minimise exposure to criminal acts, particularly fraud. The security risk management department addresses these threats. Its work covers crime prevention, detection, response and





	<p>investigation.</p> <p>Where serious fraud, corruption and irregularities are suspected, forensic investigations (a division of security risk management) establishes the facts to enable management to deal appropriately with the matter and prevent a recurrence.</p>
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**Contact information**

Eskom Holdings Limited

**Telephone**

Eskom head office: +27 11 800 8111

Eskom group communication: +27 11 800 2323

Eskom Development Foundation: +27 11 800 2758

Ethics office advisory service: +27 11 800 2791/3187 or [ethics@eskom.co.za](mailto:ethics@eskom.co.za)

Confidential fax line: +27 11 507 6358

**Physical address**

Eskom

Megawatt Park

Maxwell Drive

Sunninghill

Sandton

**Postal address**

PO Box 1091

Johannesburg

2000

**Websites and email**

Eskom environmental: [envhelp@eskom.co.za](mailto:envhelp@eskom.co.za)

Eskom annual report: [www.eskom.co.za/annreport08](http://www.eskom.co.za/annreport08)

Eskom Development Foundation: [www.eskom.co.za/csi](http://www.eskom.co.za/csi)

Eskom website: [www.eskom.co.za](http://www.eskom.co.za)

