

Eskom Holdings Limited (South Africa) 2010 Reporting on Progress United Nations Global Compact Date: 22 July 2010

A message from the Eskom chairman – Mpho Makwana

Dear Stakeholders

It is a privilege to have been asked to serve Eskom and South Africa as Acting Chairman of this important utility. I wish to thank the Board of Directors and the shareholder, the Honourable Ms Barbara Hogan (MP), for the confidence she placed in me. The biggest challenge was to execute this mandate with deep humility, ensuring that such confidence is not misplaced. I am reporting on the 2010 annual results as Acting Chairman following the resignation of both the Chairman of the Board, Bobby Godsell, in November 2009 and the Chief Executive, Jacob Maroga in October 2009. I was tasked to focus on recovery and, more importantly, to heal the people of Eskom following these unsettling leadership challenges.

We believe that we are slowly returning to the status we've always had: a great place to work, a great place to invest for financiers, a great customer for some of the world's leading technology suppliers and a great source of pride for all South Africans. We are pleased to report back at this point on the progress we've made over the past 12 months, and what still needs to be done.

Our assets and challenges

Last year we defined our objective as regaining the trust from our local and regional markets and customers, the global financial markets, our regulator and government stakeholders. While this is a work in progress, I believe we're well on our way to recovery.

They are also the reason I believe we will overcome our current, and future challenges, significant as these are:

- While the deliberate under-pricing in the early nineties, referred to above, needed to stimulate the South African economy and investments as it was coming out of the apartheid era at the time, it is now clear that it was extended too far, and too long, and that this needs to be recovered.*
- After more than 80 years of delivering the lifeblood of our economy, we have let the country down through supply shortages and other operational issues.*
- Our capacity expansion programme is enormous: the three projects currently underway are among the biggest in the world, with a single project such as Medupi power station being bigger than all the 2010 FIFA World Cup™ investments and Gautrain combined.*



- We are partnering with the South African government in working through the challenges of developing a sustainable supply of electricity, increasing the energy efficiency of the South African economy, while facing the requirements of climate change obligations, for instance through large-scale solar and wind power projects.
- We have to continue our commitment to numerous programmes that invest in social development. These include projects run under the auspices of the Eskom Development Foundation, and focus on the empowerment of women and children in rural communities.

I believe we are currently staring down the challenges ahead of us, which I see as supply challenges, associated funding challenges, managing the large capital investment programme, and regaining the trust of our customers and other stakeholders. The reason I believe we will emerge from this challenging phase of our history stronger and with pride is unambiguous – because of the special people we have, and the special organisation I have the privilege of stewarding, and the extraordinary support we have experienced from all our stakeholders.

As a massive business, with the kind of projects we undertake, and under the kind of pressure we operate, we have to continue to live our values, and be guided by a clear sense of ethics in all our endeavours.

We believe it is essential that the integrity of our people, processes and practices are beyond reproach. As founding signatories to the United Nation's Global Compact (which includes an anticorruption clause) and the World Economic Forum's Partnership Against Corruption Initiative, we are proud of our long record of integrity in this regard.

Sustainability

Eskom is a leader in sustainability reporting – focusing transparently on reporting our financial, technical, environmental and social impact performance. We include full disclosure of our compact with our shareholder as well as against the norms of the Global Reporting Initiative (GRI) and strive to continually improve our performance in this regard. Eskom is also a trend setter in this regard – as reflected in the deep respect we show for our value of innovation. In 1990 we were applying the principles of managing our business in terms of the triple bottom line – committed to maximise the economic, environmental and social returns of our business.

We acknowledge that 2010 is declared by the United Nations as the international year of biodiversity and continue to work with our partners and stakeholders to control our impacts on ecosystems and seek opportunities to contribute to the South African biodiversity strategy.

We may make more mistakes in future – but I hope you share my belief that, while the threats and challenges are still out there, the base that makes Eskom special is also still there. Together with the special partnerships we have throughout the South African society we can build on the hard lessons we have learnt in recent years and only go from strength to strength from here on.



*Mpho Makwana
Chairman*

This communication on Eskom's progress in terms of the United Nation's Global Compact is based on extracts from Eskom's 2010 Annual Report (www.eskom.co.za).

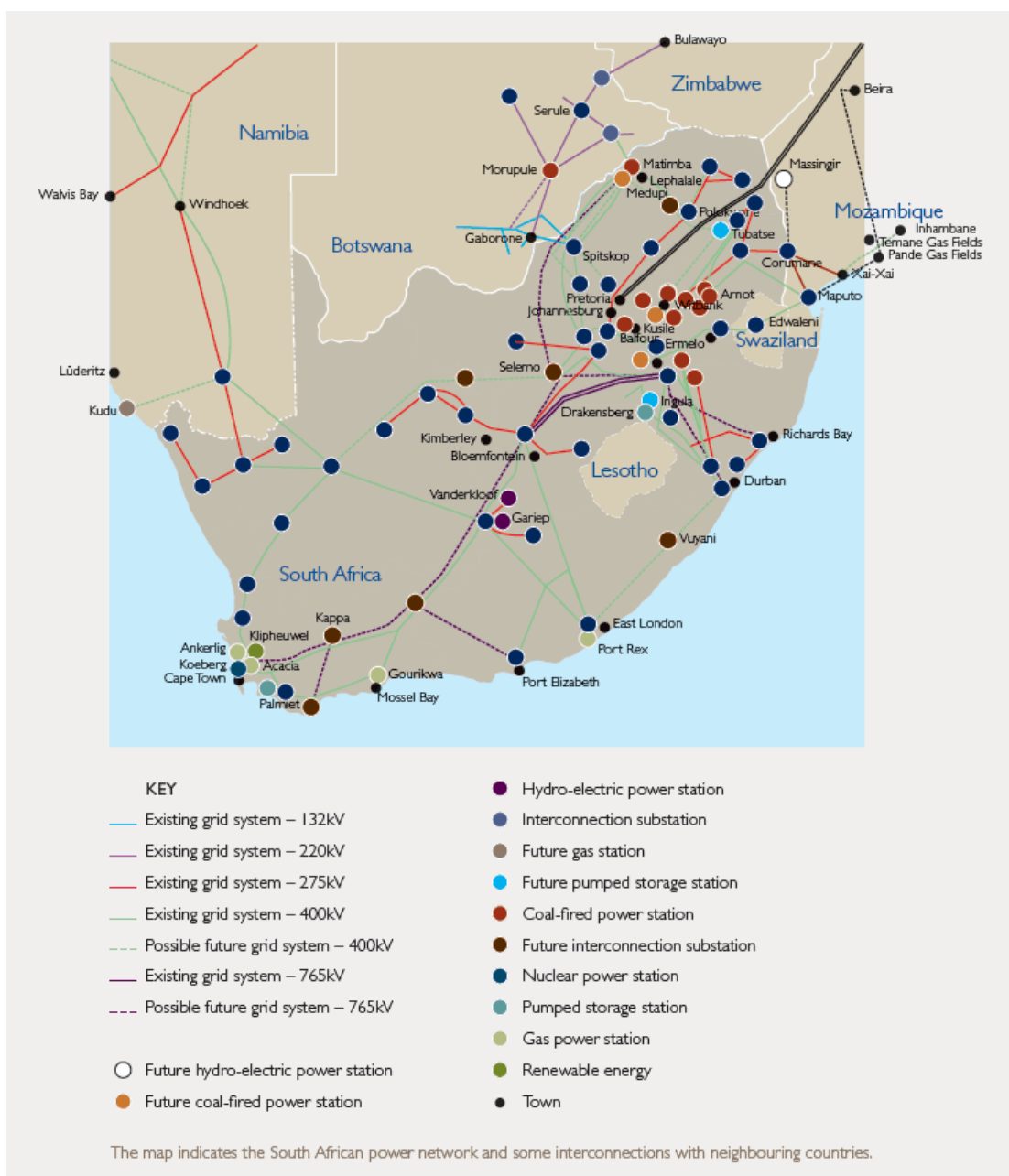
Profile of Eskom Holdings limited: Scope of annual integrated sustainability report

The annual report for 1 April 2009 to 31 March 2010 is an integrated financial, economic, environmental and social sustainability report. Eskom Holdings Limited (“Eskom”) and its subsidiaries aligns itself with international sustainability best reporting practices, including the Global Reporting Initiative (GRI) Sustainability Reporting Guideline, and the AA1000APS (2008) Accountability Principles Standard.

The report considers financial, economic, environmental, social and technical performance and is available in an Internet version on the Eskom website (www.eskom.co.za/annreport10). Additional sustainability information is disclosed in the Internet version of the report. The availability of extra web-based information is indicated in the printed report.

Nature of business, major products and services

Eskom generates approximately 95% of the electricity used in South Africa and approximately 45% of the electricity used in Africa. Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers and redistributors. The majority of sales are in South Africa. Other countries of Southern Africa account for a small percentage of sales.



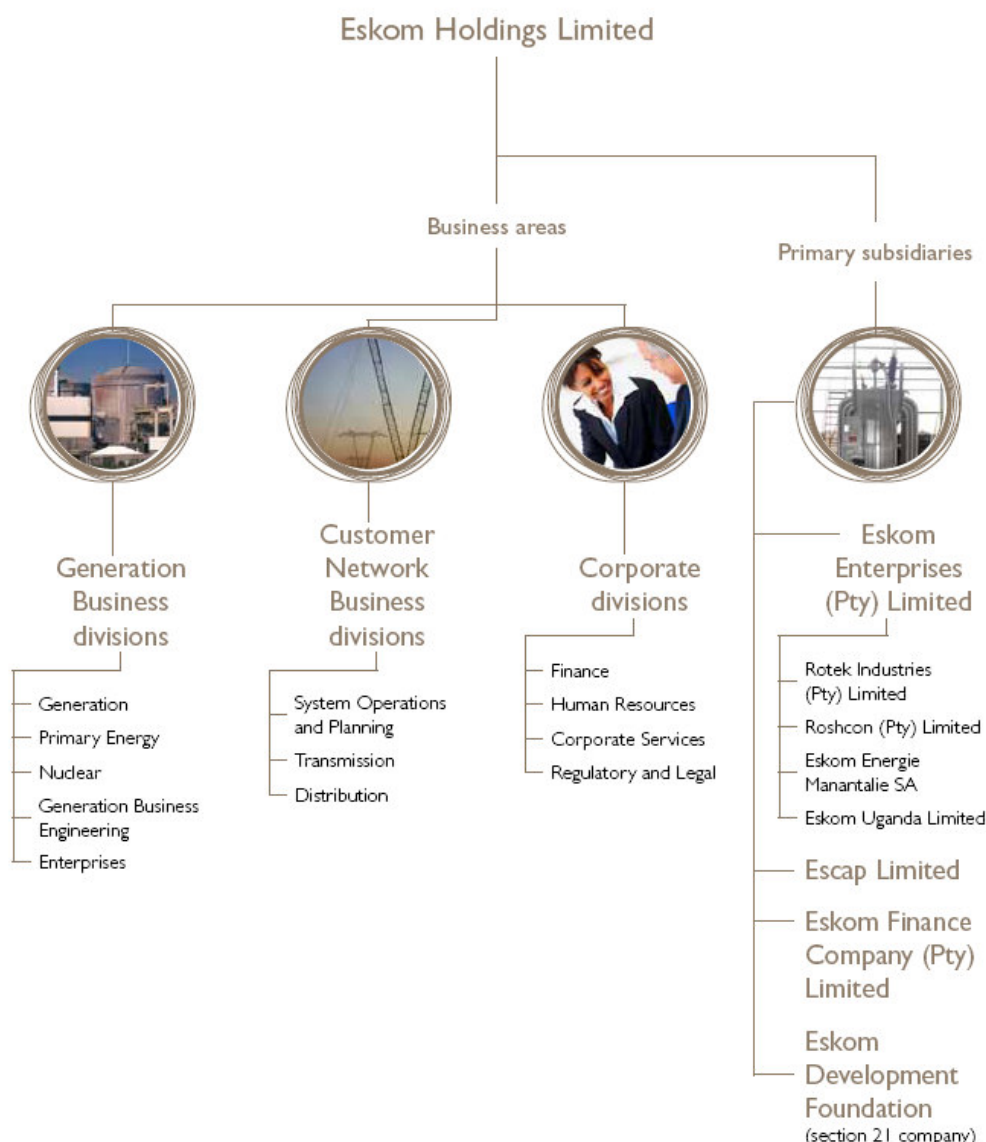
Additional power stations and major power lines are being built to meet rising electricity demand in South Africa.

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

Eskom is regulated under subject licences granted by the National Energy Regulator of South Africa (NERSA), originally under the Electricity Act (41 of 1987) – and more recently 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) Ltd group (“Eskom Enterprises”), a wholly owned subsidiary of Eskom Holdings, provides lifecycle support and plant maintenance, network protection and support for the capacity expansion programme for all divisions of Eskom Holdings Limited.

Organisational structure



Role in South Africa

Eskom, as a state-owned enterprise, has a greater role to play in addition to the supply of electricity. Eskom also supports South Africa’s growth and development aspirations. Eskom’s value proposition to the country can be summarised as follows:

- Providing electricity to all South Africans
- Having mutually beneficial arrangements with support industries such as the coal mining sector and related industries

- Driving transformation through our procurement strategy
- Creating jobs and new industries through our local content drive associated with our massive capacity expansion programme
- Continually improving environmental performance, including climate change mitigation

Countries in which operations are located

Eskom's head office is in Johannesburg and its operations are spread throughout the country. In December 2008 Eskom also opened a small office in London in the United Kingdom, primarily to exercise quality control for the equipment being manufactured in Europe for our capacity expansion programme.

Eskom Enterprises operates primarily in South Africa. It has two subsidiaries that operate electricity generation concessions in the African countries of Mali, Senegal, Mauritania and Uganda.

Key Facts

Electricity sales

	2010	2009	2008	2007	2006
Sales within South Africa (GWh)	205 364	202 202	210 458	204 531	194 799
International sales (GWh)	13 227	12 648	13 908	13 589	13 122
Total sales (GWh)	218 591	214 850	224 366	218 120	207 921
Growth in GWh sales (%)	1,7	(4,2)	2,9	4,9	(18,9) ¹
Revenue within South Africa (Rm)	66 970	50 766	41 585	37 874	34 071
International revenue (Rm)	2 972	2 334	1 971	1 515	1 290
Total revenue (Rm) ²	69 942	53 100	43 556	39 389	35 361
Growth in revenue (%)	31,7	21,9	10,6	11,4	(14,2) ¹
Customers (number)	4 463 301	4 361 007	4 152 312	3 963 164	3 758 506
Peak demand (MW)	35 850	35 959	36 513	34 807	33 461

Electricity production by own stations

	2010	2009	2008	2007	2006
Coal-fired (GWh)	215 940	211 941	222 908	215 211	206 606
Hydro-electric (GWh)	1 274	1 082	751	2 443	1 141
Pumped storage (GWh)	2 742	2 772	2 979	2 947	2 867
Gas turbine (GWh)	49	143	1 153	62	78
Nuclear (GWh)	12 806	13 004	11 317	11 780	11 293
Wind energy (GWh) ³	1	2	1	2	3
Total production (GWh)	232 812	228 944	239 109	232 445	221 988
Electricity purchased by Eskom					
• Foreign imports (GWh) ⁴	10 047	9 162	10 998	10 624	9 318
• Local IPP and co-generation, (GWh)	0	0	0	0	0
Reserve margin (including imports) (%)	16,4	10,6	5,6	7,8	12,7
Demand-side management Savings (MW)	372^{RA}	916 ^{RA}	650	170	72

Power station net maximum capacity (own)

	2010	2009	2008	2007	2006
Coal-fired (MW)	34 658	34 294	33 566	33 036	32 256
Hydro-electric (MW)	600	600	600	600	600
Pumped storage (MW)	1 400	1 400	1 400	1 400	1 400
Gas turbine (MW)	2 409	2 409	1 378	925	342
Nuclear (MW)	1 800	1 800	1 800	1 800	1 800
Wind energy (MW)	3	3	3	3	3
Total production (MW)	40 870	40 506	38 747	37 764	36 401

Transmission and distribution equipment

	2010	2009	2008	2007	2006
Transmission lines (km)	28 482	28 243	28 164	27 619	27 406
Distribution lines (km)	46 018	45 302	44 680	44 044	43 330
Reticulation lines (km)	305 151	297 783	293 424	288 040	282 361
Underground cables (km)	10 687	10 379	9 921	8 622	8 031
Transformer capacity (MVA)					
• Transmission	123 990	122 860	122 180	120 745	118 445
• Distribution	99 408	96 372	93 956	90 184	87 217

Capacity expansion

	2010	2009	2008	2007	2006
Generation capacity installed and commissioned (MW)	452^{RA}	1 770 ^{RA}	1 061	1 351	170
Transmission lines installed (km)	600^{RA}	418 ^{RA}	246	430	237
Transmission transformer capacity installed (MVA)	1 630^{RA}	1 255 ^{RA}	1 295	1 000	1 090
Distribution lines installed (km)	8 392	5 439	7 319	6 984	5 944
Distribution transformer capacity installed (MVA)	3 036	2 776	3 412	2 967	1 866

Environmental information

	2010	2009	2008	2007	2006
Coal burnt in power stations (Mt)	122,7	121,2	125,3	119,1	112,1
Specific water consumption by power stations (ℓ/kWh sent out)	1,34^{RA}	1,35 ^{RA}	1,32	1,35	1,32
Net raw water consumption (Mℓ)	316 202	323 190	322 666	313 064	291 516
Relative particulate emissions (kg/MWh sent out)	0,39^{RA}	0,27 ^{RA}	0,21	0,20	0,21
Carbon dioxide emissions (CO ₂) (Mt)	224,7^{RA}	221,7 ^{RA}	223,6	208,9	203,7
Radiation release (mSv)	0,0040	0,0045	0,0047	0,0034	0,0049

Safety information

	2010	2009	2008	2007	2006
Employee fatalities	2^{RA}	6 ^{RA}	17	8	10
Contractor fatalities	14^{RA}	21 ^{RA}	12	18	13
Lost-time incident rate	0,54^{RA}	0,50 ^{RA}	0,46	0,35	0,40
Public fatalities	41	28	42	41	34

Developmental initiatives

	2010	2009	2008	2007	2006
B-BBEE attributable spend (Rbn) ¹	20,8^{LA}	46,3	–	–	–
B-BBEE attributable spend (%) ¹	28,65	63,17	–	–	–
BEE spend	–	35 209	25 447	16 557	11 681
Electrification, homes connected	149 901	112 965	168 538	152 125	135 903
Corporate social investment (Rm)	58,7^{RA}	79,5 ^{RA}	69,8	74,7	83,6
Jobs created through capital expansion projects cumulative ²	15 707	–	–	–	–
Eskom trainees/bursars (pipeline)	5 255^{RA}	5 907	5 368	5 136	2 163

Employees

	2010	2009	2008	2007	2006
Employees (number)	39 222	37 857	35 404	32 674	31 548
Training cost (Rm)	758	823	784	748	543

Sustainability

What sustainability means to us

Our long-term drive for sustainable development is inherent in the long-term nature of our business. While we are responding to the demand for electricity by building new capacity, ensuring financial stability and driving energy efficiency we understand that the long-term nature of our business has an impact on environmental sustainability into the future. Therefore we continue to strive for a balance between the different legs of sustainability. Bearing this in mind, our long-term planning processes take into account a lower carbon future for South Africa, while ensuring that we uphold our definition of sustainability – providing affordable energy and related services through the integration and consideration of economic development, environmental quality and social equity into business practices in order to continually improve performance and underpin development. Eskom integrates sustainability criteria into its decision-making process in order to ensure that this aspiration for sustainable development is continuously achieved.

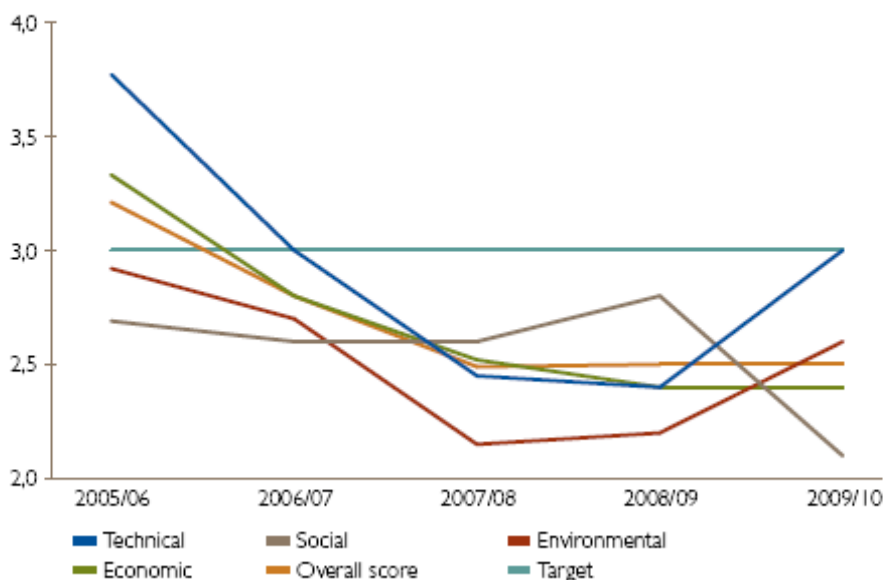
An important part of our sustainability drive is increasing consumer awareness of the implications of electricity generation – the resources consumed, the cost, and the impacts on the environment – as well as the benefits of using electricity. Sustainable development requires that every person in South Africa starts thinking about energy – how we generate it, what we pay for it, how we use it and how sustainable it is. Collectively we can make national decisions to ensure a sustainable electricity system for South Africa.

Sustainability performance index

Our internally developed sustainability performance index has now been in place for five years and provides a view of our long-term sustainability status. This is achieved through the use of economic (including financial), environmental, social and technical indicators for our operations.

The index has 20 indicators and each indicator is allocated a relative weighting and further modified with regard to the relative contribution of each of the four areas of economic, environmental, technical and social aspects. The overall performance is considered sustainable if the score is equal to or greater than three on a five-point scale. Our overall performance was 2,5 (2009: 2,5) with sector scores as follows:

Sustainability performance index



After five years of measurement we have seen an initial three years of decline and a subsequent stabilisation of sustainability performance during the last two reporting periods.

The performance was the result of improvements in the areas of staff commitment, electrification connections, HIV/Aids strategy and return to profitability. Areas contributing to the score being low, are staff and contractor fatalities, our reserve margin, productivity, equity and B-BBEE spend. The index will be re-looked at during the next financial year based on a revised sustainability strategy.

Application of GRI Guideline

We make use of the Global Reporting Initiative (GRI) guideline as a reporting framework for this report and have declared a GRI B+ application level. We aim for an A+ application level in the future using the GRI Electric Utility Sector Supplement.

In terms of providing assurance around the sustainability issues in this report, our assurance provider was requested to provide assurance for certain non-financial/sustainability measures against the International Standard on Assurance Engagements 3000: Assurance Engagements other than Audits or Reviews of Historical Information and the AA1000AS (2008) Assurance Standard – Requirements for independent assurance on disclosed information regarding non-financial/ sustainability and sustainability performance.

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

United Nations (UN) Global Compact	Eskom's main activities in support of principles
<p>Human rights</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>Our strategic objectives are to create a world-class power company, keep the lights on, deliver on the capacity expansion programme, focus on safety and health, reduce the environmental impact of our operations, treatment of all risk, maintain and improve quality, live within our means, care for our people and restore the confidence of all South Africans in their national power company, Eskom.</p> <p>Safety</p> <p>Although there has been a reduction in the number of employee and contractor fatalities for the past year as compared to 2009, we remain concerned about this unacceptable performance. To this end, a number of safety improvement initiatives have been and are in the process of being implemented, to reduce the number of safety related incidents for contractors and employees to zero.</p> <p>The implementation of a safety improvement programme has led to enhanced operational discipline among employees and visible felt leadership in safety. We have identified critical behaviours or actions that, when performed, have a very high probability of causing incidents resulting in severe injuries or fatalities. In order to prevent these unacceptable consequences, we implemented five safety cardinal rules that apply to Eskom employees and other persons performing work for Eskom. This initiative has led to zero fatalities among employees in the high-risk activities covered by the cardinal rules.</p> <p>There has also been a greater focus on the health and safety of Eskom contractors and the public. To this end, Eskom is working with suppliers, customers and contractors to integrate safety, health and environmental issues into their operations. Contractors working under our supervision or on our premises, are expected to comply with Eskom's safety, health and environment (SHE) policy, and support the zero tolerance approach to safety management.</p> <p>Eskom leadership has taken the initiative to engage with contractors in the form of quarterly contractor forums to ensure that the standard of safety management at Eskom sites is in line with best practice.</p>

Safety performance

	Unit of measure	Actual 2010	Actual 2009	Actual 2008	
Employee safety					
Total fatalities	number	2 ^{RA}	6 ^{RA}	17	●
Electrical contact fatalities	number	0	4	5	●
Vehicle accident fatalities	number	2	0	8	●
Other fatalities	number	0	2	4	●
Lost-time incident rate, including occupational diseases	index	0,54 ^{RA}	0,50 ^{RA}	0,46	●
Electrical contact injuries	number	17	13	25	●
Contractor safety					
Total contractor fatalities	number	14 ^{RA}	21 ^{RA}	12	●
Electrical contact fatalities	number	1	1	1	●
Other fatalities	number	13	20	11	●
Public safety					
Total public fatalities	number	41	28	42	●
Electrical contact fatalities	number	27	22	32	●
Fatalities from other causes	number	14	6	10	●

Health and wellness

Eskom supports a comprehensive health and wellness programme that provides occupational health services, an employee assistance programme, chronic disease management (including HIV and Aids), sport and recreation, preventive care and biokinetics to all employees. In the past year we have seen an increase in awareness and employees accessing health and wellness services.

Golden Key Award for Public Body of the Year (2009)

The South African Human Rights Commission announced Eskom Holdings Limited the overall winner of this year's openness and responsiveness award - the Golden Key Award for Public Body of the Year (2009).

Held annually on the International Right to Know Day (28 September), the Golden Key Awards are a joint effort between the South African Human Rights Commission and the Open Democracy Advice Centre. They are aimed at giving recognition to government departments, deputy information officers and private institutions for best practice in nurturing positive sentiment to openness and setting up enabling organisational systems and procedures that promote compliance with the provisions of the Promotion of Access to Information Act (PAIA.)

Eskom received the Golden Key Award for Best National Department as well as the Best Institution (overall).



From left to right: Eddie Laubscher (National Deputy Information Officer: Eskom Holdings Limited), Lorraine Molepo (Human Rights Commission) and Mukelani Dimba (Open Democracy Advice Commission).

Principle 2

Make sure that they are not complicit in human rights abuses.

Labour standards

Principle 3

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

Principle 4

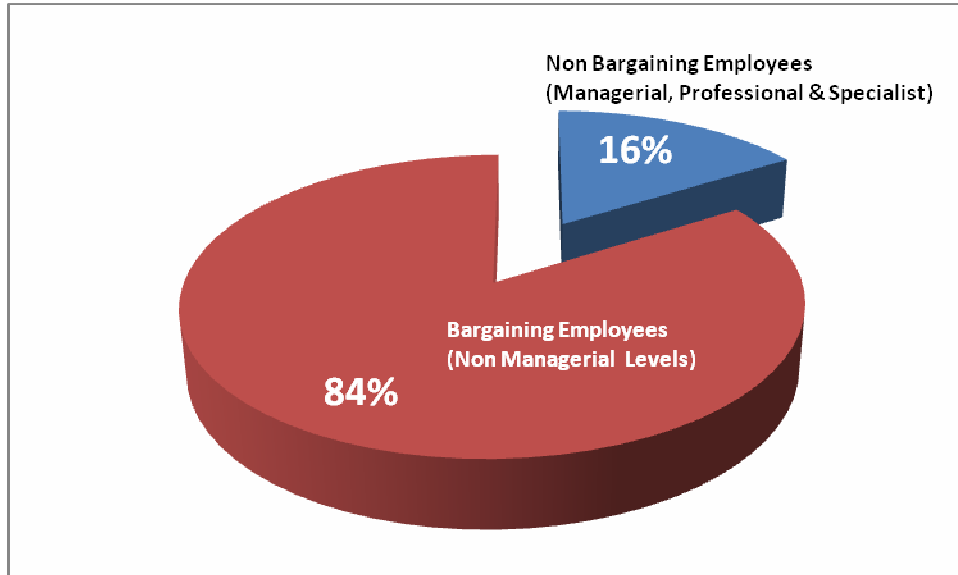
The elimination of all forms of forced and compulsory labour.

Principle 5

The effective abolition of child labour.

Employee relations

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 protest marches in various provinces throughout the country intended, amongst others, to highlight the electricity crisis facing South Africa and its impact on employment, but this had no impact on Eskom. We concluded a one-year salary and conditions of service agreement with trade unions during the last year.



Eskom evaluates jobs using the Tuned Assessment of Skills and Knowledge (T.A.S.K.) job evaluation system. There are 23 grades within the system of which grades 1 – 13 are bargaining unit grades and 14 – 23 are non-bargaining unit grades. The main evaluation criteria are complexity, knowledge, influence and pressure. T.A.S.K. also identifies five skill levels, namely, basic, discretionary, specialised, tactical and strategic which fit well within the Eskom context.

International Du Pont Annual Safety Awards

Eskom's Hendrina power station received a special mention at the International Du Pont Annual Safety Awards Ceremony held in Düsseldorf, Germany on 4 November 2009.

DuPont made the following comment on Hendrina's achievement: "The overall quality of the projects that were sent in to apply for a total of 29 projects in 70 category entities was outstanding, which makes your achievement particularly significant."

The project centred around the safety performance improvement at Hendrina over a three-year period which was a five-fold improvement, decreasing from a lost time injury rate (LTIR) of 0,51 (equates to five LTIs) in 2006/7 to an all-time low of 0,10 (equates to one LTI) in 2008/9. Hendrina's total recordable injury rate (TRIR) also decreased from 2,94 to 1,64 over the same period.

Skills

Eskom has been fortunate in benefiting from the extremely low 3,5% staff turnover during the year (6,0% in 2009), mainly due to the restricted job market resulting from the tight economic climate both locally and internationally. However, we continue to face a number of skills-related challenges:

- Ringfencing and operationalising an Eskom Academy of Learning that

Principle 6

Eliminate discrimination in respect of employment and occupation.

- manages all learning in Eskom
- Learner pipeline
- Employee value proposition (EVP)

Eskom has sustained its skills base and even managed to triple the learner pipeline over the last five years (2006 – 2010). During the recent Magnet survey, 4 892 young professionals rated Eskom as “Employer of Choice,” out of 60 South African “blue-chip” companies.

The next planning cycle will be marked by reinforcement of the stakeholder’s vision of being a developmental entity. The higher levels of growth and development will put the required pressure on Eskom to maintain and improve its “employer of choice” niche in the marketplace through high potential (HiPo) talent management strategies and skills development opportunities for all employees. A succession management business process and procedure has been developed to ensure that there is robust talent contingency planning and that career development opportunities are put in place.

The identification and categorisation of skills, be it non-core or core, critical and scarce should be aligned with the new legislative requirements which is the Organising Framework for Occupations (OFO).

Medium and long-term skills requirements have been determined in terms of the critical workforce segments. Likewise the core and scarce skills have been identified and translated into a workforce plan and a medium-term skills plan – aligned to the integrated resource plan (IRP).

The recruitment section on the Eskom website (www.eskom.co.za - “A career at Eskom”) has been streamlined to make it easy for job seekers to find meaningful work opportunities in the organisation.

An integral part of retaining current staff and recruiting new people is developing Eskom as an employer of choice and building a sound EVP. 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 and mutual commitment through effective organisational communication and ensuring that people are given work that is challenging and motivating, while having a work/life balance.
- Co-worker quality: employees value co-worker quality and manager quality highly. Eskom will be able to enhance these qualitative relationships through the introduction of communities of practice (CoPs).

Additional core, critical and scarce skills must be developed or recruited annually over the next five years to replace losses and cater for Eskom’s new build programme. The Eskom learner pipeline has been increased to 5 255 learners with three- or four-year learning bursary contracts to accommodate the new skills requirements and offset normal attrition. This is reflected in the table below:

Transformation

Eskom continues to drive transformation as part of its strategic objectives. The organisation has over the years set targets to improve its workforce profile. A 2020 strategy was put in place to set long-term targets.

The highlight of the transformation process has been the establishment of consultative structures at all business units, at divisional and Eskom Holdings level. The challenge is to revise our long-term strategy for target setting of race, gender and disability to enable the organisation to change its workforce profile within the different occupational

	<p>levels to reflect the demographics of the country's economically active population.</p> <p>As part of our transformation agenda, 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>
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<p>United Nations (UN) Global Compact</p>	<p>Eskom's main activities in support of principles</p>
<p><i>Environment</i></p> <p><u>Principle 7</u></p> <p>Businesses should support a precautionary approach to environmental challenges.</p>	<p>Managing our environmental impact</p> <p>Due to the nature and extent of our operations, we impact the environment in terms of our use of resources, the processes required to generate electricity and the physical footprint we have on the land. This has led to us adopting a systematic approach to environmental management to ensure our environmental duty of care.</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 from the various line divisions ensure the effective implementation of environmental management systems throughout our business. Corporate Services Division sets overall Eskom strategy on the environment and provides oversight, reporting and assurance.</p> <p>Through this commitment, our objective remains to ensure continual improvement in our environmental performance by setting environmental performance indicators and controlling our activities through management systems and ensuring that our decision-making processes are based on balanced criteria. These commitments are set out in our safety, health and environment policy.</p> <p>Our activities that have significant environmental impacts include:</p> <ul style="list-style-type: none"> • The construction of power stations and transmission and distribution power lines – impact on land use and ecosystems • The generation of electricity at our coal-fired power stations – use of resources (coal and water), land transformation, gaseous and particulate emissions and waste generation (such as ash) • The generation of electricity at our nuclear power station – land transformation, radiation and radioactive waste <p>Our objective is to integrate environmental management into our systems, processes and activities for a sustainable electricity supply, ensuring continual improvement in environmental performance. To achieve this, our environmental management objectives and criteria are entrenched in our procurement and investment strategies, governance structures, operational practices and decision-making processes.</p> <p>In line with this objective, we have developed and implemented environmental management systems throughout our operational divisions. We based our environmental management systems on ISO 14001, a framework of agreed rules for our process to control what we do and how we do it.</p> <p>Our focus is on re-enforcing environmental controls and decision-making, emissions control and water management practices and driving continual improvement by taking a systems approach to environmental management. Opportunities exist to implement our own internal energy efficiency projects and expand on water conservation programmes, and conservation of certain land to secure its biodiversity value.</p>



Members of Eskom's environmental liaison committee and the land and biodiversity task team at the Ingula pumped storage site.

Eskom commitment– pre and post Copenhagen

Climate change has long been an integral part of our business. Our climate change strategy, developed in 2005 and our 6-point plan on climate change are testament to this. The 6-point plan was detailed over the last two years in our annual reports and we remain committed to the principles and aspirations highlighted therein. Over the last year, we have been driving the climate agenda further through planning, research, pricing studies and training sessions, both internally and with our key industrial customers.

Eskom has made significant strides in ensuring that the planning process takes into account a low carbon future and prioritises energy efficiency internally and externally. In the past the integrated strategic electricity planning process was based on a least-cost optimisation imperative, while the sustainability indicators were used to do the sensitivity analyses of the plans. The last round of planning used the least cost plan as a reference plan, but several other plans were developed based on achieving a low carbon future as contained in the objectives of the LTMS work and policy objectives at a national level. The process included a robust multi-criteria decision analysis process which resulted in the plan of choice being one that entrenched a low carbon future. This was outlined in Eskom's MYPD submission.

It is a significant mindset shift but it also needs active support – especially from a financial point of view. This plan needs to be financed and supported at a national level. In the last year we have also initiated studies on carbon pricing and the impact of a carbon tax on electricity pricing. Further work will look at the macroeconomic impacts. It is extremely important to recognise that climate change is not an issue that can be addressed in isolation.

Principle 8

Undertake initiatives to promote greater environmental responsibility.

We need to address this as a nation in an integrated manner. For Eskom, stakeholder engagement and liaison with government will continue to play a crucial role in achieving its climate change aspirations.

Further, there are several opportunities that Eskom could embrace in the next few years up to 2013 and beyond. These include stepping up energy efficiency programmes, and realising benefit from the carbon market and green financing options. While these options do not currently generate enough revenue to cover the entire expense of a new technology, they certainly offer an opportunity to augment Eskom's financing options.

Eskom's research into ground-breaking technologies such as concentrating solar power, underground coal gasification, smart grids and the utility load manager must move to the implementation phase.

An important aspect of Eskom's 6-point plan on climate change is adaptation to the negative impacts of climate change to ensure reliability and continuity of supply. Climate-related risks include, among others, the availability of water for power generation in drought conditions, severe precipitation and extreme weather events impacting on the ability to supply, infrastructure damage and relocation of people. In the last year we completed a scoping exercise to determine the requirements for an adaptation strategy, including working with other institutions to look at downscaling climate models to better inform the strategy. We also completed an extensive desktop review of what other utilities around the world are doing in terms of adaptation strategies. We have also looked at this from a risk and insurance point of view. The full adaptation strategy will be developed over the coming year.

South Africa's obligation

The requirements of the Accord means that South Africa will need to prepare a report on its mitigation action for formal submission to the UNFCCC, confirming that South Africa would undertake a range of voluntary, nationally appropriate mitigation actions (NAMAs). South Africa's undertaking ensures that these actions will enable the country's emissions to deviate below the projected business-as-usual emissions in 2020, by 34% below business as usual growth by 2020 and by 42% by 2025. This level of effort would enable emissions to peak between 2020 and 2025, plateau for approximately a decade and decline in absolute terms thereafter.

Sustainability governance

The directors of Eskom regard corporate governance as vitally important to the success of the business and are unreservedly committed to applying the principles necessary to ensure that good governance is practiced, and that the company remains a sustainable and viable business, of global stature. The board sustainability committee deals with integrated sustainability issues and approves or recommends



Concentrating solar power (CSP) project

The renewable energy research programme has identified CSP as a high-potential future electricity generation option, given Southern Africa's significant solar energy resource. CSP technologies convert the thermal energy of the sun's radiation into steam which powers a steam turbine to generate electricity.

Eskom is developing a 100MW CSP pilot plant that uses the central receiver technology with molten salt storage. This research project will demonstrate the full-scale commercial operation of this technology in the South African context.

The World Bank's approval in April 2010 for a USD3,75 billion loan to help South Africa achieve a reliable electricity supply includes financing for this CSP pilot plant and the planned wind power plant along the west coast of South Africa.



policies, strategies and guidelines, particularly related to safety, health, environment, quality and nuclear issues.

The executive management sustainability and safety subcommittee guides Eskom's strategy on sustainability including environmental management, development issues and occupational health and safety matters. Sustainability strategies are reviewed by this committee for consideration by the sustainability committee of the board.

Research and development

The Eskom research and development programme is driven by the Sustainability and Innovation business unit. The department provides a variety of services such as scientific and technical advice, research and consulting, analysis, detailed design as well as strategic technical planning services and direction.

The research is focused on the needs of the line divisions within Eskom. Thus, the focus is predominantly on applied, not pure research and the research outputs are linked to the strategic and operational needs of Eskom. In order to remain relevant, however, a portion of research resources is allocated to technology innovation and emerging technology options. Our research expenditure for the year amounted to R197 million (2009: R207 million).

Principle 9

Encourage the development and diffusion of environmentally friendly technologies.



A demonstration solar-powered traffic light in the Western Cape.

United Nations (UN) Global Compact

Eskom's main activities in support of principles

Principle 10

Business should work against corruption in all its forms, including extortion and bribery.

Corporate Governance

As a state-owned enterprise (SOE), it is critical 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.

The year under review remained demanding for Eskom. It was marked by interaction with various stakeholders and more importantly with NERSA and customers regarding the company's application for a multi-year price determination (MYPD). Also notable is the interaction between Eskom and its shareholder on issues affecting the organisation, including the leadership of the company. It was necessary for the governance processes, systems and structures ("governance framework") to deal with a number of issues in a

coherent and effective manner.

The leadership is well aware of the challenges regarding funding for the capital expansion programme and this remains a priority. At the same time Eskom had to focus on the operations of the business and there was a need for in-depth consideration of a number of issues. The increased engagements have been beneficial to Eskom's governance processes, and the company has committed to improve its communication with stakeholders.

More frequent meetings of the board of directors and the executive management committee were required. These challenges demand astute governance practices that will ensure that the business remains sustainable in the long term.

Companies Act and King III Report

The company has 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 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 Reports on Corporate Governance for South Africa (King II – 2002 until King III came into effect) and the Protocol on Corporate Governance in the Public Sector – 2002.

To ensure that Eskom's governance framework continues to be of a superior standard and is aligned with statutory and governance best practice developments, a Companies Act task team and a King III task team were established in 2009. The objectives of the teams are to ensure compliance with the new Companies Act 2008, which comes into effect later in 2010, and application of King III principles and practices, which came into effect in March 2010, respectively. Eskom welcomes these developments and is using it as an opportunity for the organisation to review its entire governance framework ("2010 Governance Review"). To this end provisions impacting Eskom's operations are being identified, assessed and addressed; gaps, if any, are filled through action plans and regular monitoring and reporting to the various governance structures. Eskom is at an advanced stage of readiness for the implementation of the new Companies Act and King III.

Ethical business conduct

Good corporate governance is about effective ethical leadership, which requires leadership that demonstrates ethics in decision-making, leads by example and oversees the management of ethics within the organisation.

Eskom's Board is accountable for Eskom's ethics management programme and the operational responsibilities lie with Exco assisted by the ethics office, which is located within the Corporate Governance department.

The ethics office assists the chief executive in setting the framework, rules, standards and boundaries for ethical behaviour, and provides ethics training and an advisory service to employees, assisting them in dealing effectively with ethics issues and ethical dilemmas in the workplace.

Following the implementation of Eskom's code of ethics, *The Way*, in 2009, the supplementary code procedure was developed through stakeholder engagement. The latter provides assistance to directors and employees in applying the code of ethics in their daily activities and decision-making, in dealing with specific ethics issues in the workplace, and providing information regarding other ethics-related policies that have to be complied with.

Eskom's conflict of interest policy, the declaration of interest procedure, the

electronic declaration form, and declaration monitoring procedure have all been revised in line with the proposed new Companies Act King III. A separate electronic declaration system and procedure for Board members has also been developed, which replaces the manual declaration process. Eskom is also a signatory to the UN Global Compact which includes an anti-corruption clause, as well as the World Economic Forum's partnership Against Corruption Initiative.

Besides these developments, Eskom provided ongoing ethics awareness, training, and an ethics advisory service, which are essential to maintaining an ethical culture within the workplace. The Board and Exco are kept informed of the ethical culture and issues of concern through quarterly ethics status reports.

Anti-fraud and anti-corruption programmes

The forensic and anti-corruption department assists Eskom with good corporate governance and prevents, mitigates, detects and responds appropriately to fraud, corruption and other forms of economic crime or acts of dishonesty. This is in support of our commitment as a signatory to the United Nations Global Compact.

Partnering Against Corruption Initiatives (PACI) principles were developed by a multi-sectoral and multi-national task force of bodies such as the World Economic Forum, Transparency International and the Basel Institute on Governance, of which Eskom is a member. The aim of these principles is to provide a framework for good business practices and risk management strategies to counter corruption.

PACI principles commit companies to two basic actions:

- a zero-tolerance policy towards bribery, and
- development of a practical and effective internal "programme" in line with the policy

It is against this background that Eskom has developed a fraud prevention policy to express its commitment to fight fraud, corruption and economic crime, in line with the national anti-corruption strategy of South Africa and in line with the principles of "partnering against corruption".

Future prospects

Our short- to medium-term focus going forward is to ensure the ongoing security of supply of electricity to all our customers, and to ensure we remain financially sustainable by addressing the significant funding gap.

Operationally we are focused on the successful delivery of the 2010 FIFA World Cup™, significant cost reductions through efficiencies without sacrificing critical expenditure, ongoing interaction with and support for the Inter-Ministerial Committee on Energy, restoring our reputation as a world-class utility and ensuring that in our ongoing operational business we continue to improve and perform at the highest level.

At the same time we must remain aware of the risks facing the business. Volatility in electricity demand, which is heavily dependent on economic growth, coupled with a reserve margin which we anticipate declining in the medium term, means that operating conditions will be difficult for the foreseeable future. In addition, the uncertainty in the recovery of the global economy means that funding activities could be impacted.

Eskom remains confident that its path to recovery will lay the foundation for a brighter future.

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