About this report

Board responsibility and approval

The Board is accountable for the integrity and completeness of the integrated report and any supplementary information, and is assisted by the Audit and Risk Committee and the Social, Ethics and Sustainability Committee.

The Board has applied its collective mind to the preparation and presentation of the integrated report and has concluded that it is presented in accordance with the International <IR> Framework. In considering the completeness of the material items dealt with and the reliability of information presented, based on the combined assurance process followed, the Board approved the 2017 integrated report, annual financial statements and supplementary information on 15 June 2017.

Mr Zethembe Khoza
Interim Chairman
Ms Chiewynta Malusa
Interim Chairman Audit and Risk Committee
Dr Puthumathi Nadoo
Chairman Social, Ethics and Sustainability Committee

Reporting boundary and frameworks

This integrated report reviews our operational, environmental, social, and financial performance for the year from 1 April 2016 to 31 March 2017 and follows our 2016 integrated report. Material events up to the date of approval have been included. For a comprehensive overview of our financial performance, the integrated report should be read in conjunction with our full set of group annual financial statements.

Our group annual financial statements are available online at www.eskom.co.za/IR2017.

The report examines our performance and considers the impact of stakeholders on our ability to create value, as well as our impact on them. Unless otherwise indicated, the information presented is comparable to that of prior years, with no significant restatements. The information in this report relates to the performance of the group, which includes the business of Eskom Holdings SOC Ltd, operating in South Africa, and its major operating subsidiaries, unless otherwise stated.

Our business model on pages 8 and 9 provides more detail on our value creation process.
Our business and strategy

12 Operating environment
15 Strategy and outlook
19 Our leadership
24 Stakeholder engagement and material matters
28 Risks and opportunities, assurance and controls

Our strategy

Eskom’s key roles remain assisting in lowering the cost of doing business in South Africa, enabling economic growth and providing a stable electricity supply in an efficient and sustainable manner. We also contribute to job creation, skills development, transformation and broad-based black economic empowerment (B-BBEE), in support of the National Development Plan (NDP) and other country initiatives.

Last year, we launched a comprehensive turnaround strategy, which included the Design-to-Cost (DTC) strategy, aimed at leading Eskom and South Africa into an era of reliable power supply and excess capacity, while supporting economic growth through moderate tariff increases over the medium to long term. Despite the challenges over the past few years, DTC has delivered significant efficiencies, supporting the turnaround of the business. We can now move from stabilisation to growth.

We are proud of the major progress the strategy delivered in its first year of implementation, as Eskom achieved the required stability to deliver on a number of important objectives for South Africa and the SADC region, including:

• Ensuring reliable electricity supply through improved generation asset performance
• Delivering additional new build capacity
• Supporting moderate electricity price increases through cost efficiencies across the business, particularly in primary energy
• Increasing universal access to electricity by connecting more than 200,000 households to the grid
• Enabling growth in the region by supplying more electricity to our neighbouring countries facing harsh drought conditions
• Successfully executing our funding plan

We have further refined the strategy to catalyse economic growth in South Africa and the region through moderate tariff increases over time, by creating sustainability in our existing business, while laying the foundation for the Eskom of tomorrow. Our overall objective over the medium term is to achieve a standalone investment-grade credit rating to reduce the burden on the fiscus, while ensuring reliable and competitively priced electricity for the country.

The strategy is based on aggressive sales volume growth by stimulating industrial activity, coupled with efficiency improvements across the business, to ensure a tariff path that supports the economy. We aim to achieve our objectives by driving seven strategic initiatives, by focusing on five critical targets. Our strategy will enable us to manage the impact of the 2.2% price increase for one year.

Chairman’s statement

Refer to “Strategy and outlook” on pages 15 to 19 for more information

Governance

To ensure transparency and objectivity, the Board has embarked on a comprehensive independent review of various reports pertaining to perceived governance issues – the State of Capture report issued by the Office of the Public Protector, draft reports issued by National Treasury following a review of contracts, and the Dentons report, amongst others. Areas of concern broadly relate to procurement, contract management and governance. This review follows internal reviews to ensure that all perceived gaps are covered.

The Board is confident that significant progress has been made in addressing findings and recommendations. The Audit and Risk Committee will provide oversight of management’s continued efforts to implement the action plan to improve the control environment in a sustainable manner.

Outlook and conclusion

The execution of our strategy is dependent on three key enablers, namely governance that drives accountability, successful stakeholder management and effective risk mitigation strategies, particularly to respond to lower than budgeted tariffs.

We remain committed to connecting independent power producers (IPPs) up to bid window 4.5, as long as they are economical at a price of 77c/kWh or lower, given our surplus capacity. Any further IPPs will need to be assessed against a holistic framework of security of supply, electricity price, environmental benefits and socio-economic factors, to ensure that the programme is rolled out at a cost and pace that is optimal for both South Africa and Eskom.

We extend our condolences to the friends and family of those who lost their lives serving Eskom.

I thank our current directors, as well as those who stepped down over the past year – Ms Nazia Carrim, Ms Viroshini Naidoo, Mr Mark Pamensky, Ms Venete Klein and Dr Baldwin Ngubane. Also to the Honourable Minister Lynne Brown, our shareholder representative, and her team for their continued guidance.

I congratulate the members of Exco for their supreme efforts in proving that we can deliver against an ambitious plan, with the notable improvement in operational and financial performance this past year. These successes have strengthened the Board’s confidence that the organisation can deliver on a strategy that will see Eskom once again take centre stage as a catalyst for economic growth in South Africa and the region.

Zethembe Khoza
Interim Chairman
Our business model

Our mandate, vision and mission
Eskom Holdings SOC Ltd is South Africa’s primary electricity supplier and generates approximately 90% of the electricity used in South Africa, and approximately 40% of the electricity used on the African continent.

We are a state-owned company (SOC) as defined in the Companies Act, 2008, and are wholly Government owned, through the Department of Public Enterprises (DPE). As such, we are subject to the Public Finance Management Act (PFMA), 1999, and the provisions of our Memorandum of Incorporation (MOI).

The Minister of Public Enterprises (the Minister) sets the overall strategic direction in the Strategic Intent Statement, which forms our mandate. Our key roles are assisting in lowering the cost of doing business in South Africa, enabling economic growth, and providing a stable electricity supply in an efficient and sustainable manner. Through our activities, we also contribute to job creation, skills development, transformation and broad-based black economic empowerment.

To implement this mandate, our annual Corporate Plan sets out our strategic and operational direction. It gives effect to our medium- to long-term strategic objectives, while the annual shareholder compact set by DPE outlines the annual key performance indicators (KPIs) in support of our mandate and strategic objectives.

The Minister receives the Corporate Plan and approves the shareholder compact before the start of each financial year. The latest Board-approved plan spans the five-year period from 1 April 2017 to 31 March 2022.

Shareholder compact KPIs are noted throughout the report using . These KPIs are also included in the statistical tables, available as a fact sheet at the back of this report.

Vision and mission
In support of our vision statement of “Sustainable power for a better future”, our mission remains to provide sustainable electricity solutions to foster economic growth and social prosperity.

Our business model and the value we create
Eskom creates value for itself, its shareholder and stakeholders, by transforming inputs in the form of primary energy – namely coal, nuclear and liquid fuels, while using significant amounts of water – into a more convenient form of energy, being electricity, which is supplied to customers who use it to power their homes and businesses, thereby contributing to economic growth and prosperity. In so doing, we produce waste in the form of ash and nuclear waste, as well as gaseous and particulate emissions. As part of the process, we balance supply and demand in real time.

Our value chain consists of core operations, backed by support functions in the form of finance, human resources, procurement, information technology, stakeholder management and communications. Our core operations include the generation, transmission, distribution and sale of electricity, as well as the construction of new power stations and network infrastructure. Safety underpins our operations – we remain committed to maintaining a safe, healthy working environment for all employees and contractors.

The electricity supply industry
South Africa’s electricity supply industry comprises the generation, transmission, distribution and sale of electricity, including the import and export thereof. Eskom operates most of the base-load and peak capacity, although the role played by IPPs is expanding.

For more information on the capacity added and energy supplied by IPPs, refer to pages 49 to 51.

NERSA, as South Africa’s energy regulator, regulates the electricity industry as mandated chiefly by the Electricity Regulation Act, 2006, and the National Energy Regulatory Act, 2004, by providing licences, regulatory rules, guidelines and codes.

NERSA determines our revenue requirement based on multi-year price determination (MYPD) applications we submit, considering the requirements of the Electricity Pricing Policy. The third revenue application, MYPD 3, is currently in effect and covers the five-year period from 1 April 2013 to 31 March 2018.

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

Nature of our business and customer base
We are vertically integrated across a value chain that supplies electricity to both South Africa and the Southern African Development Community (SADC) region. The Southern African Power Pool (SAPP) is connected through an integrated grid, and comprises South Africa, Botswana, Lesotho, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe.

Eskom’s business follows the South African economy’s boom (surplus) and bust (deficit) cycles. The long lead times needed to build new power stations or transmission networks can lead to misalignment between power supply and economic cycles.
Our business and strategy
Eskom Holdings SOC Ltd

Integrated report  |  31 March 2017

Our business model
continued

During 2016/17, we supplied energy output of 220 166GWh from the following primary energy sources:

<table>
<thead>
<tr>
<th>Source</th>
<th>GWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal-fired stations</td>
<td>200 893</td>
</tr>
<tr>
<td>Nuclear power</td>
<td>15 026</td>
</tr>
<tr>
<td>Pumped storage stations</td>
<td>3 294</td>
</tr>
<tr>
<td>Hydro stations</td>
<td>579</td>
</tr>
<tr>
<td>Wind</td>
<td>345</td>
</tr>
<tr>
<td>Open-cycle gas turbines (OCGTs)</td>
<td>29</td>
</tr>
<tr>
<td>Total</td>
<td>220 166</td>
</tr>
</tbody>
</table>

After accounting for energy losses, we sold 214 121GWh of electricity to a total of 5 976 557 customers.

For electricity sales by customer segment, both volumes and revenue, as well as the number of customers by segment, refer to the fact sheet at the back of this report.

Eskom’s energy wheel

Our energy flow diagram, or energy wheel, shows the electricity that flowed from local and international power stations and IPPs to Eskom’s distribution and export points, including energy losses incurred in reaching our customers.

Electricity available for distribution GWh

| Generation | 220 166 |
| Loss: Pumping | (6 860) |
| Generated by Eskom | 210 358 |
| IPP purchases | 11 529 |
| International purchases | 7 418 |
| Wheeling1 | 2 910 |

Available for distribution GWh

| 237 215 |

1. Wheeling refers to the movement of electricity between international customers through our network, without the power being available to customers on the South African grid.

The detailed energy flow diagram, with comparatives, is available as a fact sheet at the back of the report.

Our impact on the capitals

Our sustainability dimensions are aligned to the six capitals in the International <IR> Framework. These dimensions are integrated and incorporate all aspects of our business and the value that we create over time.

We use natural capital in the form of coal, liquid fuels, uranium and a significant amount of water as primary energy sources to generate electricity in our various power stations.

Electricity generation results in waste, such as gaseous and particulate emissions, ash and nuclear waste, thereby negatively impacting natural capital. In order to reduce our impact on natural capital, we are gradually transitioning to a cleaner energy mix, including nuclear energy, clean coal technologies and renewable energy, the latter provided mainly by IPPs.

Our power stations, together with our transmission and distribution networks, make up our manufactured capital. This is eroded through the process of using our plant to generate, transmit and distribute electricity, while it is restored to some extent through planned and unplanned maintenance, and refurbishment. Depreciation is a financial approach to account for the erosion of manufactured capital.

Electricity available for distribution GWh

| Generation | 220 166 |
| Loss: Pumping | (6 860) |
| Generated by Eskom | 210 358 |
| IPP purchases | 11 529 |
| International purchases | 7 418 |
| Wheeling1 | 2 910 |

Available for distribution GWh

| 237 215 |

1. Wheeling refers to the movement of electricity between international customers through our network, without the power being available to customers on the South African grid.

The detailed energy flow diagram, with comparatives, is available as a fact sheet at the back of the report.

Our sustainability dimensions

The six capitals

1. Wheeling refers to the movement of electricity between international customers through our network, without the power being available to customers on the South African grid.

The detailed energy flow diagram, with comparatives, is available as a fact sheet at the back of the report.
Our business model continued

As part of the process of generating and supplying electricity to customers, we employ human capital, in the form of our employees’ competencies, capabilities and experience. Our human capital is enhanced by training, whether theoretical or practical, as well as the development of learners as part of our skills pipeline. We aim to recruit, develop and retain a highly skilled, committed, engaged and accountable staff base. We have set targets to achieve the optimal headcount and skills mix to capture efficiencies and employee-related cost savings across the business, while striving for racial and gender transformation.

We contribute further to building social and relationship capital through our corporate social investment (CSI) activities, which are administered by the Eskom Development Foundation (the Foundation).

Since the commencement of our electrification programme in 1991, we have electrified more than 5 million households within our licensed areas of supply.

We depend on a licence to operate from NERSA, but also on community support, in those communities directly impacted by our operations. We rely on strong stakeholder relationships, to support us in our value creation process.

The impact of stakeholder support in practice

A recent example of the influence of stakeholders and the impact on Eskom is the revenue determination for the 2017/18 financial year. Eskom submitted the Regulatory Clearing Account (RCA) application for 2013/14 (year one of MYPD 3) of R22.8 billion to NERSA in November 2015. NERSA undertook a public consultation process, allowing various stakeholders an opportunity to comment on our submission. This included written comments from the public as well as public hearings in six provinces, during January and February 2016. The public raised concerns on various aspects of the application. NERSA allowed a balance of R1.12 billion to be recovered, resulting in an average price increase of 9.4% for the 2016/17 financial year, compared to 8% originally awarded under MYPD 3.

In the Borbet case, the Port Elizabeth Chamber of Commerce and others requested the North Gauteng High Court to review NERSA’s decision regarding the 2013/14 RCA application. On 16 August 2016, the High Court set aside NERSA’s decision and remitted it back to NERSA.

An appeal against the decision by NERSA and Eskom was heard in the Supreme Court of Appeal (SCA) on 4 May 2017, the judgment on 6 June 2017 upheld the appeal in favour of NERSA and Eskom.

Due to the judicial process, NERSA has decided not to consider further RCA applications. This means we will now only be allowed 2.2% for the 2017/18 financial year, which is well below inflation of approximately 6%, although we had budgeted for an average increase of 13%. This creates a revenue shortfall and cash flow deficit of approximately R21 billion for the year, which will result in a weakening of all our financial ratios, which may further impact our credit ratings.

Furthermore, an increase of 3% was required for IPPs, which implies a “negative” increase for Eskom, which can only be supplemented by significant cost cutting in order to earn a reasonable return. We will attempt to reduce the revenue shortfall through increased efficiencies and further trade-offs across the business.

We provided information on our major operating subsidiaries on page 28 of our 2016 integrated report. Details of subsidiaries at 31 March 2017 are available in note 12 of our annual financial statements.

Contribution to financial performance

Each of the companies in the group contributes to the financial performance and position as follows. The Eskom business remains by far the most significant.

Government’s National Development Plan remains the guiding document for economic growth, but without sufficient electricity capacity, further economic growth will be hampered. As the base-load supplier in the market, we are directly responsible for enabling GDP growth. This requires increased capacity to support expected future demand. We are building capacity to ensure that South Africa’s future energy needs are met. We expect sustained surplus capacity in South Africa over the next five years, as our plant performance continues to improve and additional capacity is commissioned, from both IPPs and our new build programme.

It is important to recognise the macroeconomic climate and utility sector context in which we operate, as these directly influence our strategy. This context poses a number of risks to which we need to respond. However, it also presents a number of exciting opportunities that we can capitalise on to strengthen the organisation and plant the seeds for the Eskom of tomorrow.

**Macroeconomic climate**

A challenging macroeconomic landscape with pockets of real opportunity

Global economic growth has slowed to approximately 2.6% a year; the outlook for the next five years is for continued low growth of 3.3% a year. South Africa’s GDP growth slowed to less than 1% in 2016. This has had a significant impact on Eskom’s key customers and their ability to increase, or even maintain, their electricity consumption. In 2017, GDP is expected to grow at just 1.2% with no immediate signs of recovery. In the SADC region, economic growth has also been affected by regional challenges such as drought. Despite these challenges, the opportunities in the local and regional macroeconomic landscape suggest that there is large latent and unserved electricity demand in the region which Eskom can meet.

Signs of improvement in commodity markets although volatility continues

Most major commodities have experienced a significant decline in price over the past decade. In addition, commodity price volatility has increased significantly, adding to the risks involved in capital and growth decisions for metals and mining players. As a result, South African metals and mining companies have reduced production in a number of sectors, such as gold, platinum and ferrochrome, with energy-intensive consumers having reduced their production and consumption by 1.7% a year over the past five to 10 years. With a few commodities experiencing improved prices over the last year, Eskom has a real opportunity to support and accommodate regulatory trading environments required to develop power pools. As the sole transmission licensee in South Africa, Eskom is responsible for developing and maintaining the country’s transmission infrastructure, and South Africa’s interconnectors within the region. We play a key role in the Southern African Power Pool and expect to collaborate further with our regional partners.

**Operating environment**

Rapidly changing dynamics in the global power sector

The increased competitiveness of renewables and growth in their market share have created a challenging situation for traditional fossil fuel-based utilities, forcing them to adapt their operating models. In Europe, power sector profits declined significantly as cheaper renewables gained market share.

In response, European utilities sought to shift their business models to a growing share of large-scale renewables and small-scale distributed generation. In South Africa, the RE-IPP (renewable independent power producer) Programme has successfully driven growth in renewables capacity over the last five years. The country will need to seriously consider the electricity supply-demand balance when considering further IPP capacity beyond bid window 4.5, as it impacts the plant mix required to ensure security of supply as well as the operating reserve margin.

Discontinuities in technology create both opportunities and threats

Multiple new technologies will disrupt the electricity value chain. The cost of energy storage is expected to decline by approximately 20% over the next four years as investment in this technology grows rapidly. When it becomes viable, energy storage has the potential to increase the competitiveness of renewables even more and change customers’ consumption behaviour. Our continued growth will be further enhanced by creating new business opportunities in the storage sector.

In South Africa, the penetration of small-scale generation has already increased considerably as the cost of rooftop solar photovoltaic (PV) panels continues to decline. The potential to increase distributed generation is close to a tipping point, creating new opportunities for Eskom to play a role in the shifting energy landscape. However, this also brings with it challenges associated with net metering and safety of technicians working on networks which could be live.

Customer experience and satisfaction are moving to centre stage

With increased competition from renewables, greater customer choice, and new technology changing consumption patterns, utilities increasingly need to better understand the customer journey and preferences.

**Power sector trends**

Globally, the last five years have been challenging for traditional power utilities, which have suffered significant declines in market share and profitability. A number of market and demand trends have reshaped the global energy sector landscape dramatically. Although the implications for South Africa and Eskom are still uncertain, what is clear is that we will need to prepare to operate in a world in which traditional utilities’ business models will come under pressure, and in which we will need to adapt our business model and take innovative steps to meet customer needs.

Regionalisation and greater local collaboration

Regionalisation and greater local collaboration is expected to play a bigger role. Regional power pools are well developed in the EU, where they contribute to base-load capacity requirements, increase the supply of security and provide cost efficiencies. A regional development focus, strong policy support and accommodating regulatory trading environment requirements are developed to support power pools. As the sole transmission licensee in South Africa, Eskom is responsible for developing and maintaining the country’s transmission infrastructure, and South Africa’s interconnectors within the region. We play a key role in the Southern African Power Pool and expect to collaborate further with our regional partners.

**Updated Integrated Resource Plan (IRP)**

The IRP sets out South Africa’s long-term energy needs and discusses the generating capacity, technologies, timing and costs associated with meeting that need. The existing national programme scope is aligned to the current IRP 2010 which calls for 9 600MW of nuclear power capacity. The draft IRP 2016, recently issued by the Department of Energy (DoE), calls for 20 385MW of nuclear power by 2050. Sufficient time is required to properly plan and implement new base-load power plants; implementation decisions need to be made long before commercial operation.

Our new build programme has expanded transmission lines by 6.747km and substation capacity by 34.936MVA since inception
Our business and strategy

The draft IRP 2016 is based on electricity demand growth rates of about 2% per year, compared to 3% per year in the IRP 2010. Our latest Corporate Plan pursues average sales growth of 2.3% per year, across local and cross-border sales.

The draft revised IRP has important implications for Eskom, particularly around the shift towards lower carbon-emitting energy sources, to meet agreements made at the United Nations’ COP 21 climate change conference in Paris, December 2015.

The IRP will also affect our generation plant life extension decisions, with Generation set to complete a full review of its asset base and life extension and/or possible plant decommissioning strategy. The IRP provides guidance on the opportunities for greater regional development and electric power imports outlined in the NDP.

Eskom’s Integrated Strategic Electricity Plan (ISEP), which was completed in March 2017, provides a long-term view of the future generation expansion needs of the country, comprising an optimal mix of generation technologies until 2050 to meet customer demand and environmental requirements.

ISEP shows a need for new base-load plant by 2028: a total of 23 700MW is required by 2050, to be provided from coal-fired and nuclear plants. No more than 15 300MW can be coal-fired due to the CO2 limitation. For nuclear plants, the total overnight cost should be between R172 000/kWe and R1 000 000/kWe for the first unit, with further units reducing in cost.

Various renewable generation scenarios were considered. The final ISEP calls for additional renewable generation by 2050, with solar PV of 14 500MW and wind of 42 000MW. ISEP shows a significant requirement for gas-fired generation to provide a flexible generation option to the system, although the gas supply arrangements were not considered.

Outlook and implications for Eskom

The challenging operating environment is expected to continue to put pressure on our ability to deliver strong financial and operational performance.

Market demand

The continuing slowdown in the economy and the availability of alternative energy sources are driving the stagnation and/or decline in electricity demand.

Regulation

Eskom’s current revenue determination cycle in terms of MYPD 3 concludes at the end of the 2017/18 financial year. Due to legislative and consultation requirements, we have submitted a one-year application for 2018/19 to NERSA.

The judgment by the North Gauteng High Court in the Borbet case created further ambiguity in the tariff path and placed our liquidity under additional pressure, although the SCA judgment should have a positive impact.

Refer to the information block on page 38 under “Financial sustainability” for more on the effect of the regulatory environment on our credit ratings

Independent power producers

Electricity supplied by IPPs is increasing at a rate above demand growth, which is negatively impacting primary energy costs and displacing Eskom-generated power, as the IPP cost is much higher than the short-run marginal cost of our coal fleet. This is, however, only true when surplus capacity is available. Nevertheless, we accept that a mix of plant is needed to ensure security of supply and compliance with environmental regulations.

Refer to the information block on page 46 under “Operational sustainability” for more information on the different types of generating plant.

New power stations

Although increasing capacity, the commissioning of the new power stations, Medupi, Kusile and Ingula, will increase the cost base as these stations need to be staffed, insured and maintained. The depreciation charge will also increase substantially.

Managing surplus capacity

Due to the surplus capacity and the age of some of our coal-fired stations, some stations may have to be decommissioned earlier than originally anticipated. Although provision for decommissioning of stations is made, earlier decommissioning would result in an immediate acceleration of depreciation to comply with International Financial Reporting Standards (IFRS). Effectively, the remaining life of affected stations will be reduced to zero. However, operating costs will also reduce as activities are ramped down during the decommissioning period. Staff will assist with the decommissioning and thereafter be absorbed in other areas of the business. The dismantling of plant and rehabilitation of coal mines will have a significant cash flow impact.

No decision on the possible decommissioning of stations has yet been made. Feasibility studies are being undertaken to reassess the lifespan of our power stations, to inform the available options, such as cold reserve, loan preservation, mothballing or decommissioning of stations.

Refer to page 47 for further information on the various options available to manage surplus capacity.

Sovereign credit rating

Uncertainty regarding the stability of South Africa, demonstrated by the recent downgrade of the Sovereign to sub-investment grade, reduces our ability to raise adequate funding at historic interest rates. Therefore, given our dependency on Government guarantees to access certain sources of funding.

Strategy and outlook

In the previous year, we set out to re-establish Eskom as a catalyst for economic growth in South Africa by improving electricity availability. The Board approved the Design-to-Cost (DTC) strategy as part of our comprehensive turnaround strategy to deliver reliable power supply and excess capacity, while enabling economic growth through moderate tariff increases over the medium to long term.

In its first year of implementation, our strategy drove the business to achieve these objectives by enhancing the reliability of supply and creating excess capacity, enabling us to support the SADC region; adding new capacity to the grid under the new build programme; improving efficiencies across the business in support of moderate electricity price increases; and connecting more than 200 000 new households to the grid.

Going forward, we aim to build on this strong start to ensure that we support South Africa’s economic recovery and enable industrial growth across Southern Africa. In response to concerns raised by stakeholders and the change in economic circumstances, we have refined our strategy, to catalyse South Africa’s development through moderate tariff increases over time, while achieving a standalone investment-grade credit rating. This strategy is based on the strategic objectives from DPE’s Strategic Intent Statement and is defined across seven pillars.

Our strategic context

As a state-owned entity, Eskom must implement Government policy and strategy alignment between our strategy and the shareholder’s expectations is critical to ensure that we fulfil our mandate and deliver on Government’s expectations.

Our overall strategic direction remains aligned to DPE’s Strategic Intent Statement, which has set a number of strategic objectives:

- Provide reliable and predictable electricity in line with regulatory methodology, while striving for cost containment and improved operational efficiencies
- Ensure and maintain a financially viable and sustainable company
- Reduce Eskom’s impact on the environment through identifying, implementing or supporting options for low carbon-emitting generation and transportation opportunities
- Consolidate our socio-economic contribution to ensure alignment to national transformation imperatives to unlock growth, drive industrialisation, create employment and support skills development

As discussed earlier, we have to operate in a challenging macroeconomic landscape with continued volatility in commodities, increased signs of improvement. Although pockets of real opportunity for growth remain, do so pressure on sources and cost of funding.

We have the benefit of hindsight in understanding the potential implications of the power sector trends as they start to affect the South African electricity market. They offer exciting opportunities but, if we fail to act on them, we will be under ever-greater financial and operational pressure.

Our strategy

The DTC strategy was adopted last year to extract further efficiencies from the business, through reductions in primary energy, operating and capital expenditure (opex and capex), to support moderate price increases.

We also said we would launch a set of strategic programmes, in order to:

- Ensure long-term revenue certainty
- Increase our generation availability and capacity, and avoid load shedding
- Optimise our capital portfolio through prioritisation based on our core business
- Drive cost efficiencies to support a long-term electricity price path
- Deliver a funding plan that leverages the full Eskom balance sheet

In order to catalyse growth, increase electricity demand, and accelerate industrial projects that were cancelled or deferred during periods of load shedding, we realised we need a more focused strategy, which remains aligned to the objectives we set last year – these are still contained in the strategic initiatives we will be targeting. We haven’t changed direction; our strategy has merely evolved in response to our changing environment and stakeholder concerns, aiming to capitalise on the opportunities discussed earlier.

Our strategic objectives

The strategy, approved by the Board, is based on aggressive sales volume growth by stimulating industrial activity, and efficiency improvements across the business to ensure a tariff path that supports the economy. It is expected to transform the business across multiple fronts, including capacity, cost and manpower.
Our business and strategy

Our strategic initiatives: the “seven pillars”

1. Become a customer-centric organisation that stimulates demand
   - Partner with customers to lead South Africa’s economic recovery while ensuring local sales growth of 2.1% a year
   - Focus demand stimulation on sectors that are critical to the economy and aligned with the NDP
   - Increase export sales by 8% over the next five years

2. Ensure the reliability and availability of power capacity to support South Africa’s economic growth
   - Continue to drive operational excellence and reliability efforts across our generation fleet and network through a combination of effective maintenance, performance improvements, and application of new technologies, such as advanced analytics
   - Achieve EAF of 80% by 2019/20 through continued application of the Tetris maintenance planning tool
   - Complete Medupi and Kusile on time and within budget
   - Drive growth by adding 8.7GW generation capacity, establishing 2.095km new transmission lines, purchasing approximately 14.500GWh per year from IPPs
   - Increase access to electricity by achieving one million new customer connections

3. Continue capturing efficiencies in operating and capital costs to achieve a sustainable tariff path for the economy
   - Reduce coal spend by a further R43 billion compared to the previous Corporate Plan
   - Further reduce headcount and employee benefits costs, supported by a comprehensive independent review of our operating model
   - Optimise capex by a further R25 billion, although our capital portfolio has already been reduced from R334 billion previously to R315 billion for the current five-year planning cycle, in support of our intent to deliver investment-grade ratings
   - Consider decommissioning some power stations over 11GWh this year alone. In the medium term, although higher increases may be required initially
   - Improve recovery of revenue from non-paying customers

4. Decarbonisation of the economy
   - Connect all renewables as part of the RE-IPP Programme up to bid window 4.5 at prices of 77c/kWh or lower, in support of COP 21 targets to reduce carbon emissions
   - Prepare for the nuclear build programme

5. Innovation and transformation to create new revenue sources
   - Develop both regulated and non-regulated growth opportunities and drive growth in new businesses, like rooftop solar PV panels, through our subsidiary, EE
   - Partner with players in battery storage technology
   - Enable transformation in the coal mining industry, by recapitalising cost-plus mines, optimising logistics and coal-contract mix, and supporting black-owned suppliers
   - Ensure universal access to electricity

6. Drive value through new capabilities and advanced analytics
   - Initiate advanced analytics and digitisation initiatives across the business, through smart grids, field force effectiveness tools, detection of non-technical losses and predictive maintenance
   - We have already delivered improvements using advanced analytics at the Maubila coal mill
   - Strengthen our capabilities to improve EBITDA by R6 billion over the next five years

7. Deliver a funding plan that ensures successful delivery of the strategy
   - Deliver a R33.7 billion funding plan that reduces our exposure to Government guaranteed debt, to achieve an investment-grade credit rating
   - Release R105 billion in Government guarantees to reduce pressure on the fiscus
   - Ensure that we are able to meet our capital obligations and maintain sufficient liquidity

We will drive the seven pillars while maintaining our support of the country’s RE-IPP Programme, which aims to increase renewables capacity while ensuring that South Africa begins the journey to meet its COP 21 carbon emission targets.

The IPPs we have connected to the grid have supplied over 11.5GWh this year alone. In the medium term, the dynamics and assumptions underlying the original RE-IPP Programme have shifted, particularly with slower growth in electricity demand and declining costs of renewables technology. With expected surplus capacity of approximately 3.600GWh by 2020/21, there is limited opportunity to connect new IPPs to the grid unless they are economical at a price of 77c/kWh or lower.

In the long term, as the costs of renewables decline further and the South African economy shows strong growth, we fully support growth in renewables in order to lead the country in reducing its carbon emissions while delivering electricity at the most competitive price possible. We will be investing in energy storage technology over the next five years in support of this long-term commitment to renewables. Once South Africa’s position on COP 21 and emissions targets have been clarified, our strategy will be updated.
Eskom Holdings SOC Ltd

Our business and strategy

Strategy and outlook

Executing the strategy

Initiatives translated into targets

<table>
<thead>
<tr>
<th>#</th>
<th>Target</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sales growth</td>
<td>2.1% p.a. local 8% exports</td>
</tr>
<tr>
<td>2</td>
<td>Primary energy production in South Africa and SADC</td>
<td>Transforming the South African coal sector, through greater efficiencies and industry restructuring to ensure sustainability of the sector</td>
</tr>
<tr>
<td>3</td>
<td>Optimising capex spend</td>
<td>Optimising planned capex spend over the next five years, while meeting regulatory and licensing requirements</td>
</tr>
<tr>
<td>4</td>
<td>Analytics to improve EBITDA</td>
<td>Establishing world-class capabilities in digital and advanced analytics</td>
</tr>
<tr>
<td>5</td>
<td>Release Government guarantees</td>
<td>Reducing the burden on the focus by releasing Government guarantees, while maintaining a moderate price path over time</td>
</tr>
</tbody>
</table>

In achieving these targets, we will manage headcount to an optimal level without compromising operational performance, investing in new skills and capabilities into the organisation, and improve organisational health in a way that makes Eskom an employer of choice once again.

Tracking our progress

We have proven that we can be successful when great plans are supported by hands-on leadership, strong execution and dynamic monitoring, supported by timely risk identification and mitigation.

In order to provide adequate oversight and support execution, each of the strategic initiatives has been mapped into delivery streams, each of which will provide a monthly report to the DTC Steering Committee as well as the relevant Executive Management Committee (Exco) subcommittee.

Furthermore, Exco has established a Results Management Office (RMO) to coordinate, monitor and drive the execution of strategic initiatives across the business. The RMO uses a multi-dimensional senior management committee to track performance of the identified initiatives. The committee serves as a platform to highlight key performance issues across the business, identify interventions and follow up on corrective action. Initiatives will be prioritised so that those with the highest impact receive optimal attention.

The RMO provides feedback to Exco on performance of delivery streams and progress made against strategic initiatives. The implementation plans will also form the basis upon which group executives (GEs) are compacted for performance management purposes. GEs will identify initiative owners, and ensure that delivery of strategic initiatives is cascaded into their performance compact. This will drive a stronger link between strategic objectives and individual performance and reward.

Short-term annual cash incentives will reward the achievement of annual operational excellence, while long-term incentives will reward long-term sustainability. A balanced approach will be put in place to ensure that both short- and long-term targets are appropriately incentivised.

Outlook

In pursuing our strategy, we may encounter a number of challenges, among which:

Revenue determination uncertainty

The 2.2% tariff increase for 2017/18 is much lower than expected and well below inflation. To recover efficient costs and earn a reasonable return during the next revenue cycle, a reasonable step-up in price, in line with the regulatory framework, will be necessary. On 9 June 2017, we submitted a revenue application requesting a 19.9% increase for 2018/19 to improve revenue certainty, essential to attract the necessary funding. We will engage key stakeholders on our application. Revenue certainty is key to regaining an investment-grade credit rating.

Assumptions not materialising

A shortfall in sales volumes, with expected growth not materialising, an increase in opex or capex costs, or additional revenue not materialising, could all affect the execution of our strategy.

Municipal debt repayments

We have a strategy to reduce the arrear municipal debt and limit bad debt in the future. This will require strong support from all relevant stakeholders.

Further ratings downgrades

Deterioration in ratings of either Eskom or the Sovereign will affect our ability to execute our funding plan with limited Government support, as well as our aim to release Government guarantees. The availability and cost of funding will also be affected.

Generation and grid asset uncertainty, surplus capacity and compliance

We will optimise delivery of N–1 compliance by effectively sequencing project delivery and ensuring financial prudence. Given the current surplus capacity, we may have to decommission some coal-fired power stations earlier than anticipated to ensure an optimal generation cost. We will however work with communities and affected mines to limit the socio-economic impact of the decommissioning.

As always, our strategy will require trade-offs between competing priorities, such as the need to do maintenance, manage financial challenges, reduce our environmental impact and ensure our overall sustainability in the longer term.

Our leadership

Governance that drives accountability has been identified as a key enabler for the successful execution of our strategy. Eskom’s Board of Directors is responsible for providing strategic direction, while Exco is responsible for implementing the strategy. There is a clear distinction of roles and responsibilities between the Board and Exco.

The Board is responsible for:

- Setting our strategic direction, aligned with DPE’s Strategic Intent Statement, and accepting that strategy, risk, performance and sustainability are inseparable.
- Providing oversight through an effective compliance framework and processes; ensuring that risks are recognised and managed through the establishment of effective internal controls; internal audit is risk-based; and by promoting integrity in financial reporting.
- Ensuring Eskom is a responsible corporate citizen (ethically, socially and environmentally) and promoting an ethical culture.

The shareholder expects the Board to implement sound governance practices to ensure transparency, equality and fairness. Being the focal point for corporate governance, the Board is responsible to the shareholder and other stakeholders for performance and meeting their legitimate expectations, and to the company for survival and prosperity. The challenging operating environment requires a strong implementation plan and clear governance structures to ensure success.

The Board also ensures that Eskom and its subsidiaries comply with the requirements of the Companies Act, 2008, PFMA, 1999 and section 29 of the National Treasury regulations, as well as any other relevant legislation, regulations and guidelines.

Detail information on the activities of our Board and Exco is set out in “Our governance” on pages 94 to 97. Our values, which underpin our governance, are noted on page 94.
Dr Baldwin Ngubane (75)
Chairman
Independent non-executive director

Qualifications
MB ChB (University of Natal)
Diploma in Tropical Medicine (University of Witwatersrand)
Master of Family Medicine and Primary Health (University of Natal)
Postgraduate Diploma in Economic Principles (University of London)

Directorships
AD and E Property Investment (Pty) Ltd
Blue Horizon Investments 39 (Pty) Ltd
Blue Horizon Investments 41 (Pty) Ltd
Gade Holdings (Pty) Ltd
Gade Investments (Pty) Ltd
Gade Mineral Investments (Pty) Ltd
Gade Oil and Gas (Pty) Ltd
Global Coltones Fuel Distribution (South Africa)
Han Invest (Pty) Ltd
Hutiewe 305 (Pty) Ltd
Natal Sand Supplies (Pty) Ltd
Toyota South Africa (Pty) Ltd
Zululand Quarries (Pty) Ltd

Ms Venete Klein (58)
Independent non-executive director

Qualifications
Barber’s Exams (Institute of South African Barristers)
Senior Executive Programme (Wits Business School)
Executive Development Programme (INSEAD)
Corporate Strategy (Massachusetts Institute of Technology)

Directorships
Calgro M3 Holdings
Centuria (Pty) Ltd
D B Schenker (Pty) Ltd
Institute of Directors in Southern Africa (Chair)
Kleinic Management Consultants (Pty) Ltd
Klein Family Trust
PG Group Ltd
SANDF Trust
South African Reserve Bank

Dr Pathmanathan Naidoo (56)
Independent non-executive director

Qualifications
B Eng Electrical Engineering (University of Durban-Westville)
M Sc Electrical Engineering (University of KwaZulu-Natal)
Ph D in Technology Management and Innovation (Da Vinci Institute for Technology Management)
MBA (Samford University)

Directorships
Pat Naidoo Consulting Engineers CC
Professor of Research (University of Johannesburg)
City of Johannesburg Research Chair in Green Economy and Innovation
South African Institute of Electrical Engineers (Member of Council)
IEEE South Africa Section (Chair)

Board of Directors: Gender and racial equity

Black
White

Adjacent names indicate chairmanship of a committee

Ages are shown at 31 March 2017.
Ms Venete Klein resigned as a director on 12 May 2017.
Dr Baldwin Ngubane resigned on 12 June 2017.
Executive Management Committee
at 31 March 2017

Mr Matshela Koko (48)
Interim Group Chief Executive
Years in Eskom: 20
Appointed to Exco in December 2014
Qualifications
B Sc Chemical Engineering (University of Cape Town)
Directorships
Eskom Rotek Industries SOC Ltd

Mr Anoj Singh (43)
Chief Financial Officer
Years in Eskom: 2
Appointed to Exco in August 2015
Qualifications
B Comm Accounting (University of Durban-Westville)
P ost Graduate Diploma in Accounting (University of Durban-Westville)
Chartered Accountant (SA)
Directorships
Eskom Rotek Industries SOC Ltd
Escap SOC Ltd
Eskom Enterprises SOC Ltd
Eskom Finance Company SOC Ltd
Even Grand Trading 173 CC
Spring Green Trading 199 CC

Mr Prish Govender (43)
Acting Group Executive: Group Capital
Years in Eskom: 18
Appointed to Exco in March 2017
Qualifications
B Sc Mechanical Engineering (University of Witwatersrand)
Directorships
Classic Number Trading 120 (Pty) Ltd
Escap SOC Ltd
Eskom Enterprises SOC Ltd
Eskom Finance Company SOC Ltd
Even Grand Trading 173 CC
Spring Green Trading 199 CC

Mr Thava Govender (49)
Group Executive: Transmission and Sustainability
Years in Eskom: 26
Appointed to Exco in September 2010
Qualifications
B Sc Chemistry and Biochemistry (University of Durban-Westville)
B Sc Hons Energy Studies – Nuclear & Fossil (Rand Afrikaans University)
Management Development Programme (Umbilo)
Advanced Management Program (Harvard Business School)
Directorships
Electric Power Research Institute (EPR)
Eskom Enterprises SOC Ltd
Eskom Rotek Industries SOC Ltd

Ms Ayanda Noah (50)
Group Executive: Customer Services
Years in Eskom: 25
Appointed to Exco in June 2007
Qualifications
B Sc Electrical Engineering (University of Cape Town)
MBA (International Management Centres)
Executive Development Programme (University of Witwatersrand)
Advanced Management Program (Harvard Business School)
Directorships
Council for Scientific and Industrial Research
Eskom Rotek Industries SOC Ltd
South African National Energy Association (SANEA)

Mr Mongaiz Nitsako (56)
Group Executive: Distribution
Years in Eskom: 26
Appointed to Exco in October 2003
Qualifications
B Sc Electrical Engineering (University of Witwatersrand)
BBA Honours (University of Stellenbosch)
P MBA (University of Stellenbosch)
Executive Development Programme (City University of New York)
Directorships
ACWIA Energy
Eskom Enterprises SOC Ltd
Eskom Rotek Industries SOC Ltd

Ms Elise Pule (49)
Group Executive: Human Resources
Years in Eskom: 19
Appointed to Exco in November 2014
Qualifications
BA Social Work (University of the North)
BA-Psychology (University of Pretoria)
M Sc Business Engineering (Warwick University)
Directorships
Eskom Finance Company SOC Ltd

Ms Suzanne Daniels (47)
Group Company Secretary
Years in Eskom: 11
Appointed as Group Company Secretary in October 2013
Qualifications
BA (University of Cape Town)
LLB (University of Cape Town)
Postgraduate Diploma in Law (University of Cape Town)
Directorships
None

Ages are shown at 31 March 2017.

Black
White

Our business and strategy
Eskom Holdings SOC Ltd
Integrated report | 31 March 2017
22
23
Stakeholder engagement and material matters

The Board has delegated the management of stakeholder relationships to Exco, with oversight by the Social, Ethics and Sustainability Committee (SESC). To enable the successful execution of our strategy, and thereby our ability to create value, we require effective stakeholder management to ensure the right level of advocacy and clear communication with major stakeholders.

To that end, we engage with stakeholders to determine their legitimate needs, interests and concerns, as well as to ensure alignment and a collaborative approach on key strategic initiatives. We commit to the principles of accountability, inclusivity, materiality, responsiveness and completeness.

Our strategy has been adapted in recent years in response to concerns raised by stakeholders—an example would be the realisation that the country cannot afford the transition to cost-reflective tariffs in the short term. As a result, we now aim for moderate electricity price increases over time while right-sizing Eslom’s cost base, to support economic growth.

Our interaction with stakeholders

Stakeholder groups

Our stakeholders cover a broad spectrum. They include groups that affect, and/or are affected by, our activities, whether directly or indirectly, and whether positively or negatively.

As a state-owned company, we are accountable to our shareholder ministry, DPE, and also work closely with our policy ministry, DoE. We interact with a number of other government departments, such as National Treasury, Department of Environmental Affairs (DEA), Department of Water and Sanitation (DWS), Cooperative Government and Traditional Affairs (DGTA), and many others. We interact regularly with Parliament and its various committees providing oversight of our operations. NERSA and the NNR regulate our business, as previously explained.

Our customers comprise large industrial customers, metros and municipalities, commercial, agricultural and residential customers, whether supplied by Eskom or municipalities, as well as a number of cross-border customers and utilities. Business and industry provide representation on behalf of various customer groups. We could not deliver on our mandate without our suppliers and contractors or our employees, represented by a number of trade unions.

As the execution of our strategy relies heavily on funding, we are dependent on lenders and investors, supported by credit ratings agencies and other financial agencies, such as the South African Reserve Bank (SARB) and the International Monetary Fund (IMF). We are further held to account by civil society, the communities in which we operate, and the media at large.

Quality of relationships

We strive for value-adding relationships with our stakeholders, to create an environment that enables collaborative conversations on key strategic topics of mutual concern. Over the years, Government in particular has demonstrated unwavering support and commitment to enable us to deliver on our mandate to promote GDP growth and ensure energy security for the country.

The quality of our relationships with stakeholders is constantly monitored and enhanced. One way of assessing our relationships is to consider our RepTrak™ score, which signifies the strength of our brand and reputation. Currently, our score falls into the weak/vulnerable range. Our aim is to improve that to at least moderate over the medium term.

A recent stakeholder relationship assessment conducted with North West Province and national stakeholders indicated a reasonably strong relationship with our stakeholders, with an average score of 65%. There is, however, room for improvement.

Stakeholder engagements and topics covered

Engagements with stakeholders occur on a regular basis through various platforms, in many instances monthly or at least quarterly. Engagements are carefully planned by the Stakeholder Relations Department within the Corporate Affairs Division, in terms of scope and engagement approach, as well as the intended outcome. Some of the engagements are noted below:

<table>
<thead>
<tr>
<th>Stakeholder group</th>
<th>Type of engagement</th>
<th>Topics covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government departments and Parliament</td>
<td>One-on-one meetings</td>
<td>Strategy, governance and leadership</td>
</tr>
<tr>
<td></td>
<td>Presentations to Parliamentary portfolio committees</td>
<td>Government support package conditions</td>
</tr>
<tr>
<td></td>
<td>Committee meetings</td>
<td>Electricity price path, RCA submissions and revenue application</td>
</tr>
<tr>
<td></td>
<td>Annual general meeting</td>
<td>Financial and operational performance</td>
</tr>
<tr>
<td></td>
<td>Site visits</td>
<td>Management of municipal and arrear debt</td>
</tr>
<tr>
<td>Regulators</td>
<td>Submissions in terms of legislation, regulatory methodology and rules</td>
<td>Lenders, investors and credit ratings agencies</td>
</tr>
<tr>
<td>Public hearings</td>
<td>Financial and operational performance</td>
<td>Eskom tariff structures and pricing policies</td>
</tr>
<tr>
<td>Key customers</td>
<td>Customer forums and liaison meetings</td>
<td>Energy supply, surplus capacity, energy mix and allocations, including renewables and nuclear energy</td>
</tr>
<tr>
<td></td>
<td>Breakfast sessions and meetings with senior management</td>
<td>Energy market regulation</td>
</tr>
<tr>
<td></td>
<td>Site visits</td>
<td>Legal and regulatory compliance</td>
</tr>
<tr>
<td></td>
<td>Industry associations and forums</td>
<td>Disaster management protocols</td>
</tr>
<tr>
<td></td>
<td>Quarterly briefings</td>
<td></td>
</tr>
<tr>
<td>Lenders, investors and credit ratings agencies</td>
<td>Roadshows</td>
<td>Power system status and emergency protocols</td>
</tr>
<tr>
<td></td>
<td>One-on-one meetings</td>
<td>Eskom tariff structures and pricing policies</td>
</tr>
<tr>
<td></td>
<td>Results presentations and webcasts</td>
<td>Impact of electricity price uncertainty on customer operations and planning</td>
</tr>
<tr>
<td></td>
<td>Site visits</td>
<td>Progress on the new build programme</td>
</tr>
<tr>
<td></td>
<td>Panel discussions, investor conferences and networking opportunities</td>
<td>Security of supply, plant maintenance, ageing fleet and future coal supply</td>
</tr>
<tr>
<td>Employees and trade unions, suppliers and contractors</td>
<td>Provincial employee engagements</td>
<td>Nuclear build programmes—affordability and risk of stranded assets</td>
</tr>
<tr>
<td></td>
<td>Collective bargaining practices</td>
<td>Strategy, governance and leadership</td>
</tr>
<tr>
<td></td>
<td>Development programmes</td>
<td>Financial performance and liquidity management</td>
</tr>
<tr>
<td></td>
<td>Wellness campaign, HIV and Aids awareness</td>
<td>Funding plan, utilisation of Government guarantees and continued Government support</td>
</tr>
<tr>
<td></td>
<td>Open dialogues, conferences and forums</td>
<td>Credit ratings and impact on funding</td>
</tr>
<tr>
<td></td>
<td>Regular staff communiqués</td>
<td>Electricity price path and impact of High Court decision in the Bosbok case</td>
</tr>
<tr>
<td></td>
<td>Expos</td>
<td>Power system status and operational performance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dealing with surplus capacity, including possible decommissioning of power stations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Progress on the new build programme</td>
</tr>
<tr>
<td>Employee benefits</td>
<td></td>
<td>Energy strategy, renewables and nuclear energy</td>
</tr>
<tr>
<td>Health and safety</td>
<td>Employees and trade unions, suppliers and contractors</td>
<td>Strategy, governance and leadership</td>
</tr>
<tr>
<td>Skills development programmes</td>
<td>Provisional employee engagements</td>
<td>Financial and operational performance</td>
</tr>
<tr>
<td>Supplier development and localisation, job creation</td>
<td>Collective bargaining practices</td>
<td>Dealing with surplus capacity</td>
</tr>
<tr>
<td></td>
<td>Development programmes</td>
<td>Employee benefits</td>
</tr>
<tr>
<td></td>
<td>Wellness campaign, HIV and Aids awareness</td>
<td>Health and safety</td>
</tr>
<tr>
<td></td>
<td>Open dialogues, conferences and forums</td>
<td>Skills development programmes</td>
</tr>
<tr>
<td></td>
<td>Regular staff communiqués</td>
<td>Supplier development and localisation, job creation</td>
</tr>
<tr>
<td></td>
<td>Expos</td>
<td>Progress on the new build programme and workforce demobilisation</td>
</tr>
</tbody>
</table>

We use our GgRig to educate the public about the dangers of unsafe electricity use.
Stakeholder engagement and material matters

Enabling execution of our strategy

There are critical areas on which we need to align with key stakeholders, in particular:

- Support energy-intensive users and the Government in driving new projects and increasing consumption of existing projects, and developing sector-specific strategies for high-growth sectors aligned to the NDP
- Partner with municipalities to drive growth from low-debt, high-growth industrial areas, improve collections and roll out smart meters to residential customers
- Collaborate with government entities for support across a number of areas, including financial sustainability, environmental compliance, decisions on energy mix and sustainable asset creation for future provision of electricity, to support economic growth
- Cooperate with research institutions to develop sustainable and renewable energy solutions for customers in South Africa and Africa
- Involve employees and affected communities if required, to minimise the anticipated negative environmental and socio-economic impacts of the possible decommissioning of power stations
- We require the understanding and support of stakeholders to meet business objectives, such as the drive towards cost savings and increased productivity, particularly in manpower, primary energy procurement, capital project execution and customer service
- Future tariff escalations granted by NERSA need to take into account both the needs of South African citizens and Eskom’s financial sustainability, with any trade-offs made explicitly and transparently

Material stakeholder matters

Material matters are those that are both of importance to stakeholders and could have a substantial impact on our business, with the potential to significantly affect the achievement of our strategic objectives and consequently, our ability to create value.

Materiality determination process

The first step in the materiality determination process is to identify relevant matters based on their ability to affect our value creation process. We perform the process annually. Our starting point is those matters reported in the prior year, which we then update based on a review of changes during the current year.

As part of that review, we consider topics discussed at Board level, the outcome of the risk management process, as well as issues raised through various stakeholder platforms – lenders and investors, key customers, customer surveys, matters raised in Parliament and by the media, and more generally via the Stakeholder Relations Department.

The following have been identified as material matters in this report:

No engagements were conducted specifically as part of the process of preparing the integrated report.

Engaging with key customers

The Top Customer Department within the Customer Service Division manages Eskom’s full service provision to 143 key industrial customers (KICs), to meet their expected service requirements. KICs are direct customers within the industrial and mining sectors who individually consume more than 100GWh of electricity per year.

KICs comprise approximately 38% of local sales and 33% of local revenue. In view of the decline in local sales and the availability of surplus capacity, KICs are engaged to identify areas to increase sales or to accelerate current expansion projects already in the pipeline.

The Top Customer Department strives to hear the voice of our key industrial customers and ensure that we clearly understand their needs and expectations. We endeavour to interact with these customers on a proactive basis, to allow for their meaningful influence on important issues which could impact them in future but can be dealt with proactively. The sharing of information is continuous and is done in a transparent and open manner.

No engagements were conducted specifically as part of the process of preparing the integrated report.

<table>
<thead>
<tr>
<th>Material matter</th>
<th>Current impact on value creation</th>
<th>Timeframe of impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory environment and uncertainty of the electricity price path, including the treatment of KICs</td>
<td>Negative</td>
<td>Short, medium and long term</td>
</tr>
<tr>
<td>The impact of stagnant or declining sales on Eskom, combined with the impact of increased electricity prices on the economy</td>
<td>Negative</td>
<td>Short to medium term</td>
</tr>
<tr>
<td>Financial performance, cost management and liquidity</td>
<td>Positive</td>
<td>Short to medium term</td>
</tr>
<tr>
<td>Funding and the impact of credit ratings downgrades, together with Government support</td>
<td>Both positive and negative</td>
<td>Short, medium and long term</td>
</tr>
<tr>
<td>Arrear customer debt – mainly municipalities and residential customers – and the impact of disconnections on customers</td>
<td>Negative</td>
<td>Short to medium term</td>
</tr>
<tr>
<td>Surplus capacity, which is due to improved plant performance, new capacity being brought online by the new build programme and connecting IPPs, coupled with stagnant sales, which may require the decommissioning of older power stations</td>
<td>Both positive and negative</td>
<td>Medium to long term</td>
</tr>
<tr>
<td>Environmental performance, including emissions, water use and environmental contraventions, which may affect our capacity and compromise our licence to operate</td>
<td>Negative</td>
<td>Short to medium term</td>
</tr>
<tr>
<td>Energy mix and carbon footprint of our fleet, including renewables and nuclear energy, coupled with concerns around water scarcity and climate change</td>
<td>May be either positive or negative</td>
<td>Medium to long term</td>
</tr>
<tr>
<td>Skills and transformation of our workforce</td>
<td>Positive</td>
<td>Medium to long term</td>
</tr>
<tr>
<td>Governance and procurement practices</td>
<td>Perceived as negative</td>
<td>Short, medium and long term</td>
</tr>
</tbody>
</table>

Our strategy risks, which are largely aligned to the material matters, are set out on page 29 with their associated risk rating and treatment strategy.
Risks and opportunities, assurance and controls

Whereas risk in general speaks to the effect of uncertainty on achieving objectives, strategic risks are those which are most significant to our ability to achieve our strategic objectives, thereby impacting value creation and sustainability. Effective risk mitigation strategies have been identified as a key enabler to the successful execution of our strategy, particularly mitigating the risk of lower than budgeted tariffs.

Our strategy development process integrates risk management, as shown below:

![Risk Management Process Diagram]

- **Scanning our environment**
- **Emerging risk and strategic risk profile**
- **Risk of strategy misalignment and critical assumptions**
- **Shaping our future through strategy development**
- **Planning strategy execution**
- **Monitoring and adjusting our direction**

**Strategic risk management process**

Our Board, through the Audit and Risk Committee (ARC), manages our risk and resilience in order to provide greater security for our employees, our customers and other stakeholders. They assess the risk landscape to determine the strategic and business risk profiles of the organisation. This occurs through both a top-down process for strategic risks, and a bottom-up process for business or operational risks.

**Enterprise risk management process**

Our Board, through the Audit and Risk Committee (ARC), manages our risk and resilience in order to provide greater security for our employees, our customers and other stakeholders. They assess the risk landscape to determine the strategic and business risk profiles of the organisation. This occurs through both a top-down process for strategic risks, and a bottom-up process for business or operational risks.

**Disaster risks**

Disaster risks are those inherent to our operations that would have a significant consequence should they materialise. Generally, those are not listed as Priority 1 risks on the risk register because of their perceived low likelihood, coupled with the perceived adequacy of the controls. They are generally managed through our resilience initiatives. The disaster risks have remained relatively unchanged over the past year. They are:

- National blackout
- Severe power system constraint
- Nuclear incident
- Cyber-attack or catastrophic IT failure
- National drought

Although South Africa experienced a severe drought over the past year, as a strategic water user, we were less severely affected.

**Our strategic risks**

The following table details the strategic risks and provides the associated risk rating on the Eskom Risk Matrix, the impact on value creation and the associated timeframe, as well as the treatment strategy.

<table>
<thead>
<tr>
<th>Strategic risk/opportunity</th>
<th>Rating</th>
<th>Impact on value creation</th>
<th>Timeframe of impact</th>
<th>Treatment strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Impact of energy policy and IRP allocations with unclear industry structure, impacting or altering our energy mix and flexibility to balance the system</td>
<td>6D</td>
<td>Could be positive or negative</td>
<td>Short, medium and long term</td>
<td>Regulatory strategy: Stakeholder engagement</td>
</tr>
<tr>
<td>2. Energy policy and price path misalignment, which could result in delays in migrating to prices reflecting prudent and efficient costs, thereby impacting financial sustainability, energy mix and emissions</td>
<td>6D</td>
<td>Negative</td>
<td>Short, medium and long term</td>
<td>Regulatory strategy: Stakeholder engagement</td>
</tr>
<tr>
<td>3. Declining long-term profitability, requiring higher tariffs, cost cutting or increased borrowings to fund the shortfall</td>
<td>6E</td>
<td>Negative</td>
<td>Medium to long term</td>
<td>Financial strategy: Optimisation of scope and capex</td>
</tr>
<tr>
<td>4. Impact of the following on the ability to borrow: credit ratings downgrades; loss or exhaustion of Government guarantees; country-level fiscal stress; inadequate electricity supply; regulatory uncertainty</td>
<td>5D</td>
<td>Negative</td>
<td>Medium to long term</td>
<td>Funding strategy</td>
</tr>
<tr>
<td>5. Escalating municipal debt and revenue shortfalls, leading to financial and liquidity constraints</td>
<td>5E</td>
<td>Negative</td>
<td>Short to medium term</td>
<td>Debt management strategy: Installation of split, smart and prepaid meters</td>
</tr>
<tr>
<td>6. With decreasing local sales volumes coupled with surplus capacity, the inability to sell surplus capacity into the region may lead to stranded assets</td>
<td>5D</td>
<td>Negative</td>
<td>Medium to long term</td>
<td>Sales growth strategy: Asset management strategy</td>
</tr>
<tr>
<td>7. Changing load profile and impact of adding IPP capacity, leading to base-rat ed plant being operated as mid-merit, with the knock-on effect on plant health</td>
<td>5D</td>
<td>Negative</td>
<td>Short, medium and long term</td>
<td>Generation Sustainability Strategy: Asset management strategy</td>
</tr>
<tr>
<td>8. Inability to build transmission lines fast enough to connect IPPs and the region</td>
<td>4D</td>
<td>Negative</td>
<td>Medium to long term</td>
<td>Integrated project management</td>
</tr>
<tr>
<td>9. Inability to meet climate change mitigation targets (e.g. carbon budgets) and failure to implement climate change adaptation measures</td>
<td>6E</td>
<td>Negative</td>
<td>Medium to long term</td>
<td>Climate change strategy</td>
</tr>
<tr>
<td>10. Lack of adequate, available and affordable skills</td>
<td>4D</td>
<td>Negative</td>
<td>Medium to long term</td>
<td>Human resources strategy: Succession planning, Skills development and training</td>
</tr>
</tbody>
</table>

These risks relate to our ability to sustain our operations and financial performance over the medium to long term.

**Strategic risks**

Strategic risks are identified through risk and resilience workshops with Exco and Board, supported by a bottom-up review by divisions and the involvement of key subject matter experts in the business. These interventions are supported by regular environmental scanning that monitors changes in our broader operating environment.

**Business risks**

The identification of business risks is driven by line management, focusing on the key risks that may affect the achievement of divisional business plans. Business risks fall into four different priority levels, with Priority 1 risks at the highest level, and Priority IV risks at the lowest level. The levels are determined through the use of a combination of consequence criteria – that range from financial to reputational, safety and environmental outcomes or impacts – and likelihood criteria.

The accountability and responsibility to treat business risks rests with line management, although Priority I risks are reported to Exco and ARC for oversight. As a Level 2 assurance provider, the Enterprise Risk Management function develops guidance around Eskom’s risk management policy, and ensures that such guidance is adhered to.

The business risks faced by our subsidiary in Uganda are not markedly different from those facing our South African operations.
Noteworthy emerging opportunities include:

- Investigating opportunities associated with storage options in both diversifying the business and retaining customers in the medium term. Storage technologies have matured enough to enable large-scale implementation within reasonable risk parameters. We are identifying areas where battery storage can be deployed, with a view to applying these technologies at scale across the grid in the next three years.
- Leveraging clean fossil fuel and transmission-based opportunities in the region through our integrated Africa strategy.
- Exploring water usage and potential partnerships as a revenue-generating business.

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

**IT governance**

The Board has delegated its IT governance oversight and responsibility to ARIC and Exco respectively.

A&F includes reports on IT audits in its quarterly submissions to Exco and ARIC, which provide assurance on Group IT’s compliance with relevant legal and regulatory requirements. Governance, risk and compliance reports which include IT performance are also submitted to ARIC on a quarterly basis.

**Group IT**

Group IT performs self-assessments to review compliance with standards in line with best practice and legislation. Areas of non-compliance identified are remediated and monitored accordingly. Group IT is confident that adequate compensating controls are in place where needed.

Group IT remains ISO 9001:2008 certified, and maintains substantial alignment to the IT governance principles in King III; any outstanding principles will continue to be addressed and covered through a King IV gap analysis which is currently under way.
Risks and opportunities, assurance and controls

Combined assurance

Combined assurance assists management in identifying duplication or potential shortfalls in assurance work, and developing improvement plans where necessary. The model further guides assurance providers to reach consensus on the key risks faced by the company, their significance and effectiveness of treatment strategies, thereby reducing the likelihood that significant risks remain unidentified.

The combined assurance model assists Board and ARC in forming their view of the adequacy of risk management and internal controls in the organisation. The model recognises three lines of defence:

LEVEL 1 Operations management and specialised review functions

Assurance over the adequacy of operational risk management, effective adherence to control processes and delivery against business operational sustainability objectives

Line management is responsible for managing risk and performance

Oversight by group executives

LEVEL 2 Specialised control functions Risk, resilience and compliance management

Assurance over the implementation of risk, resilience and compliance management policies and processes

Management is supported in executing its duties; provides a layer of control over risk management

Oversight by Exco, ARC and SESC

LEVEL 3 Internal audit External audit

Assurance over the adequacy and effectiveness of the network of risk management, control and governance processes, including key financial controls as represented by management

Independent reasonable assurance that the financial statements are free from material misstatement and are prepared, in all material respects, in accordance with IFRS

Provides business insights on internal financial controls and financial reporting

Independent of management

Final oversight by ARC

ARC is ultimately accountable for providing oversight of the combined assurance activities in terms of the combined assurance framework. Operational responsibility for combined assurance has been delegated to A&F, which performs our internal audit function, facilitates and coordinates the execution of combined assurance activities and reports back to the committees. ARC receives reports on the status of governance, risk management, compliance and the adequacy of preventative and corrective controls from the various levels of assurance.

The combined assurance approach to our reports is set out below:

<table>
<thead>
<tr>
<th>Report</th>
<th>Framework(s) applied</th>
<th>Internal assurance</th>
<th>External assurance</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated report</td>
<td>International &lt;IR&gt; Framework GRI G4 guidelines</td>
<td>Reviewed by line management, group executives and CFO Reviewed and recommended for approval by Exco, ARC and SESC Approved by Board A&amp;F verified the entire report</td>
<td>Sustainability KPIs contained in the shareholder compact were externally assured by SNG</td>
<td>Reasonable assurance provided by A&amp;F on figures and associated text Reasonable assurance provided by SNG on all but four KPIs</td>
</tr>
<tr>
<td>Annual financial statements</td>
<td>IFRS Companies Act PFMA</td>
<td>Reviewed by line management and CFO Reviewed and recommended for approval by Exco and ARC Approved by Board</td>
<td>Audited by SNG, our independent external auditors</td>
<td>Qualified audit opinion relating to compliance with PFMA and completeness of irregular expenditure The consolidated annual financial statements are fairly presented, except for the qualification</td>
</tr>
</tbody>
</table>

ARC has concluded, based on the information and explanations given by management and A&F, as well as through discussions with the external auditors, that the system and processes of risk management and compliance are adequate, and that the internal controls are adequate to ensure that the financial records can be relied on for the preparation of reliable financial statements.

Refer to the report of the Audit and Risk Committee in the annual financial statements for the full assessment of the internal control environment

Our high-voltage transmission network links power stations and IPPs to our distribution network, which relays electricity to customers.
Executive overview

Our strategy

Eskom is ideally positioned to support the economic recovery of South Africa and enable industrial growth across Southern Africa. We have refined our strategy launched last year – which is aligned with Government's NDP objectives to drive economic recovery and GDP targets – to ensure that Eskom drives the reindustrialisation of the economy.

We will build on the momentum of our performance and efficiency improvements over recent years and become a more customer-centric organisation that partners with key sectors to increase industrial activity, electricity consumption and job creation. We will respond to the changes in our environment, such as technology and policy shifts, to ensure our longer term sustainability.

Our strategy is built around seven strategic pillars, namely customer centricity; reliability and increase in capacity; cost efficiencies to ensure a sustainable electricity price path; decarbonisation of the economy; innovation and transformation; new capabilities and advanced analytics; and funding. These will support us in achieving sustainability in our current business, and lay the foundation for the Eskom of the future, while ensuring that our funding strategy supports both objectives with financial prudence. Eskom will be fully accountable for efficient implementation of the initiatives.

Our strategy targets a number of key improvements over the medium term:

- Encouraging electricity demand to support economic growth, by achieving average annual growth of 2.1% in local demand and 8% in export sales
- Reducing primary energy spend by R43 billion through greater efficiencies and influencing coal sector restructuring
- Optimising planned capex spend by R25 billion and incorporating a private sector partnership strategy
- Driving efficiencies through advanced analytics, to deliver a R4 billion EBITDA improvement
- Releasing R105 billion in Government guarantees, while maintaining a moderate electricity price path over the medium to long term

We also plan to optimise our workforce through a fit-for-purpose operating model, retaining and redeploying skilled and talented people, and creating a high-performance leadership culture.

Refer to “Strategy and outlook” on pages 15 to 19 for more information.

Operating performance

We set out with the aim of stabilising and re-energising our business for longer term sustainability and growth, by setting aggressive goals for progress. We intended continuing with a rigorous programme of planned maintenance without implementing load shedding and minimising the use of OCGTs. We are already reaping the rewards.

All four units at Ingula, with total installed capacity of 1 322MW, are now in commercial operation. Medupi Unit 5 was synchronised on 8 September 2016. The 1 322MW Unit, with installed capacity of 794MW, achieved commercial operation on 3 April 2017, after completing performance, reliability and compliance tests. After the synchronisation of Kusile Unit 1 on 26 December 2016, the unit achieved full load during March 2017, while testing continues. The project is working towards commercial operation of the unit. Medupi Unit 4 was also synchronised on 31 May 2017.

A total of 585 4km transmission lines were constructed during the year. We also commissioned 2 300MVA transmission transformer capacity, both exceeding the year-end target. The 765kV network to the Western Cape was completed, signifying a significant milestone towards improving grid stability.

The Board provisionally approved discontinuing the Kiwano concentrated solar power (CSP) project. However, the lenders require an equally transformational renewable project that addresses the CSP project’s objectives and the existing funding conditions. We are in the process of exploring alternative options that will satisfy the lenders’ requirements.

Plant availability (EAF) improved significantly to 77.30% for the year (March 2016: 71.07%). The improvement in EAF, coupled with a reduction in unplanned maintenance (UCLF), is indicative of the turnaround of Generation performance. As a result, OCGT usage was negligible at 29GWh at a cost of R340 million (March 2016: R8.7 billion spent producing 3 936GWh).

Eskom purchased 11 529GWh from IPPs at a cost of R21.7 billion during the year (March 2016: 9 033GWh at an average cost of 188c/kWh). At 31 March 2017, total IPP capacity of 5 027MW was available to the system.

Medupi Unit 4 was also synchronised on 31 May 2017. All four units at Ingula, with total installed capacity of 1 322MW, are now in commercial operation. Medupi Unit 5 was synchronised on 8 September 2016. The 765kV network to the Western Cape was completed, signifying a significant milestone towards improving grid stability.

The Board provisionally approved discontinuing the Kiwano concentrated solar power (CSP) project. However, the lenders require an equally transformational renewable project that addresses the CSP project’s objectives and the existing funding conditions. We are in the process of exploring alternative options that will satisfy the lenders’ requirements.

Plant availability (EAF) improved significantly to 77.30% for the year (March 2016: 71.07%). The improvement in EAF, coupled with a reduction in unplanned maintenance (UCLF), is indicative of the turnaround of Generation performance. As a result, OCGT usage was negligible at 29GWh at a cost of R340 million (March 2016: R8.7 billion spent producing 3 936GWh).

Eskom purchased 11 529GWh from IPPs at a cost of R21.7 billion during the year (March 2016: 9 033GWh at an average cost of 188c/kWh). At 31 March 2017, total IPP capacity of 5 027MW was available to the system (March 2016: 3 932MW).

By improving the performance of the existing generation fleet, delivering on the new build programme and connecting IPPs to the grid, we are now in a position where we have surplus capacity available to meet future demand and stimulate economic growth.

Notwithstanding the negative impact of a few relatively large incidents involving plant failures in the first half of the year, the Transmission system minutes <1 performance target was attained, with no major incidents during the year. Distribution network performance in terms of average interruption frequency and duration is better than target, with interruption frequency showing an improvement on last year.
Executive overview

Particulate emissions performance at 0.30kg/MWh(SO) met target and showed an improvement on last year (March 2016: 0.36kg/MWh(SO)). Water usage related to power station operations for the year was slightly better at 1.42ℓ/kWh(SO) (March 2016: 1.44ℓ/kWh(SO)), although not meeting target.

Group earnings before interest, tax, depreciation, amortisation and fair value adjustments on financial instruments and embedded derivatives (EBITDA) increased to R37.5 billion (March 2016: R32.8 billion, restated), driven by the 9.4% electricity price increase, improved export sales volumes and primary energy costs being contained.

We are still experiencing a number of challenges, such as declining or stagnant sales volumes in key segments. Demand from key industrial customers remains lower than in previous years, largely due to a reduction in output by key customers or the closure of customer plants due to the difficult economic environment.

Total municipal arrear debt continued to escalate to R9.4 billion at year end (March 2016: R6 billion) and remains unacceptably high, despite numerous interventions. During January and February 2017, supply was interrupted to four municipalities in the North West Province, two in the Northern Cape and two in Mpumalanga.

Safety performance has deteriorated slightly year-on-year, although we experienced fewer fatalities. Meeting the procurement and employment equity targets set by the shareholder remains a challenge, although there has been some improvement over the past year. Through our social development programmes, we continue to impact the lives of hundreds of thousands of South Africans. We also connected 207,189 households to our network in terms of the DoE funded electrification programme.

Outlook

Eskom will continue to stimulate economic growth in support of the NDP while striving to regain an investment-grade credit rating. However, we face a number of challenges in delivering on our strategy, such as doubt around tariff determination and RCAs, the ability to drive increases in sales volumes, municipal debt payments and arrear debt, further credit ratings downgrades, uncertainty around generation and grid assets, combined with the challenges, and also opportunities, of managing surplus capacity.

To ensure optimal generation costs we will continue to apply the least-cost merit order dispatch of power stations. The combination of slower demand growth, improved plant performance and an increase in IPP and our own capacity, has resulted in surplus generation capacity in South Africa. In order to ensure an optimal generation cost, we may need to consider decommissioning some coal-fired power stations, but in a way that optimises coal, people and capital costs across our fleet. In the meantime, three stations will be placed in lean preservation, to minimise surplus capacity.

We will continue to work with Government, collaborating closely with DoE and NERSA in particular, to manage the risks of the IPP programme and mitigate any unintended negative operational and financial impacts on Eskom. In the medium term, we will connect IPPs for all procured rounds at prices of 77c/kWh or lower.

Our capital expansion programme, the largest in Africa, includes completion of Medupi and Kusile on schedule, in such a way that we continue to create jobs, build skills and alleviate poverty. We aim to strengthen the transmission network towards attaining N-1 compliance, and to expand the network into the SADC region to unlock regional constraints to growth.

We will continue to implement technologies to prevent tampering using split metering units, facilitate the conversion of customers to prepaid, and roll out smart metering in Sandton, Midrand and Soweto, with a target of 365,500 over the next five years. We further aim to ensure universal access through one million electrification connections over the medium term. Areas where battery storage can be deployed are being investigated, with a view to applying these technologies at scale across the grid in the next three years.

Realising our aspirations will require a single-minded focus on delivery. We need further alignment between Eskom’s strategic direction and the expectations of the shareholder and key stakeholders. Exco will ensure that the identified strategic initiatives are embedded in the business. We are committed to deliver on our strategy and to renew Eskom to enable economic growth in South Africa and the region.
Revenue and customer sustainability continued

We strive to become a customer-centric organisation that delivers world-class customer service across all segments. We focus on customer service performance using a number of metrics, as well as revenue and debtor management, primarily through measuring arrear debt as a percentage of revenue and the average number of debtors days across various customer categories.

Looking back on 2016

We continue to focus on timely customer query resolution through primary touch points such as Top Customer account executives, contact centres, customer service hubs, the MyEskom app and email service. The results are reflected in our improved customer perception scores.

While revenue recovery from large power users (LPUs) has improved, the management of municipal and residential arrear debt, especially Soweto, remains a significant challenge. The rollout of split and/or smart meters and subsequent conversion to prepaid meters continues, in an effort to improve residential revenue recovery.

Management of energy protection and revenue losses remains ongoing.

Customer service performance

We continue to employ a range of statistical perception and interaction-based customer surveys, conducted by independent research organisations, to measure our customers’ satisfaction with our service.

Eskom KeyCare and Top Customer KeyCare, which measure the satisfaction of our large industrial customers, improved over the year. However, priority areas identified by the surveys are our reliability and quality of supply, as inadequate electricity supply impacts customer production and expansion initiatives, and the price of electricity, which customers consider uncompetitive.

Key account executives continue to engage actively with large customers to maintain relationships, share important information and identify service-related issues.

The Enhanced MaxCare perception survey score across residential, small and medium-sized customers declined marginally year-on-year. The most common complaints remain not being adequately informed about planned electricity interruptions, and the price of electricity, which customers consider uncompetitive.

In an effort to increase local demand, customer executives and regional managers are engaged with key customers to ascertain their potential to increase demand, as well as their ability to expedite projects and take supply earlier than planned. Just over 60% of key customers have been engaged.

During the year, we piloted a winter short-term incentive sales scheme which resulted in additional sales of 182GWh. Customers participating in the scheme were selected based on their ability to respond strongly to the winter peak price signal. We identified operators of electric arc furnaces as ideal targets for the pilot. The scheme encouraged participants to run additional furnaces from June to August 2016, outside of peak periods, or to run already-scheduled furnaces for longer periods.

Managing arrear debt

Despite our efforts to ensure that customers pay their accounts on time and entering into reasonable payment arrangements where necessary, we still experience a significant challenge with arrear debt across all customer segments, with municipalities and Soweto small power users (SPUs) being the largest defaulters. Approximately 61% of our total electricity debtors are considered overdue (March 2016: 57%).

In an effort to increase local demand, customer executives and regional managers are engaged with key customers to ascertain their potential to increase demand, as well as their ability to expedite projects and take supply earlier than planned. Just over 60% of key customers have been engaged.

Municipal arrear debt and arrear debt percentage at 31 March 2017, R billion

At year end, we had concluded 66 payment agreements with defaulting municipalities, with adherence being closely monitored. Only six payment arrangements have been fulfilled. Of the 60 remaining agreements, 31 are being fully honoured and 20 partially honoured, with nine payment arrangements not being honoured. However, only seven of the top 20 defaulting municipalities are honouring their payment agreements.

The top three Free State municipalities account for almost R3.7 billion of the total outstanding debt (March 2016: R2.3 billion). The process of litigation with two of those municipalities continues, while customers in the third are being earmarked for conversion to prepaid meters. Five of the Free State municipalities are however honouring their payment arrangements, compared to none a year ago.

Municipal disconnections

We initiated the PAJA process to disconnect non-paying municipalities in November 2016 to encourage defaulting municipalities to pay outstanding overdue debt. In a case brought by Afriforum, the High Court ruled in our favour in January 2017, concluding that Eskom may disconnect non-paying municipalities. However, we had to request that we put the interruptions on hold until 31 January 2017, to afford municipalities more time to conclude payment agreements or settle their debt.

During January and February 2017, we intermittently interrupted supply to four municipalities in the North West Province, two in the Northern Cape and two in Mpumulanga. Interventions between the then Eskom Interim Group Chief Executive and the Premiers of North West Province, Free State and Mpumulanga took place during January and February 2017 to address the outstanding debt.

After we threatened to introduce planned supply interruptions in Lekwa Local Municipality due to its failure to pay its arrear debt, poultry producer Astral Foods took Eskom to court, as the interruptions would have had devastating consequences for Astral’s activities. Eskom and Astral Foods came to an agreement, which was made an order of court. In terms of this, Astral Foods will now pay its municipal electricity account directly to Eskom, and will have an uninterrupted power supply. The court ordered the municipality to pay a portion of its equitable share to Eskom.

Key debt management indicators at 31 March 2017

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2016/17</th>
<th>Actual 2015/16</th>
<th>Target 2015/16</th>
<th>Actual 2014/15</th>
<th>Target 2014/15</th>
<th>met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrear debt as % of revenue, %</td>
<td>1.12</td>
<td>1.29</td>
<td>1.22</td>
<td>2.43</td>
<td>1.14</td>
<td>1.27</td>
</tr>
<tr>
<td>Debtors days – municipalities, average debtors days</td>
<td>71.10</td>
<td>67.70</td>
<td>60.99</td>
<td>53.25</td>
<td>42.93</td>
<td>47.58</td>
</tr>
<tr>
<td>Debtors days – large power top customers excluding disputes, average debtors days</td>
<td>15.30</td>
<td>15.40</td>
<td>15.32</td>
<td>15.34</td>
<td>15.51</td>
<td>16.84</td>
</tr>
<tr>
<td>Debtors days – small power users excluding Soweto, average debtors days¢</td>
<td>16.00</td>
<td>16.30</td>
<td>16.55</td>
<td>16.78</td>
<td>16.24</td>
<td>17.02</td>
</tr>
<tr>
<td>Debtors days – small power users excluding Soweto, average debtors days</td>
<td>48.60</td>
<td>48.20</td>
<td>47.70</td>
<td>48.75</td>
<td>48.24</td>
<td>49.06</td>
</tr>
</tbody>
</table>

1. Debtors days are based on amounts processed on our billing system, and shown before accounting adjustments relating to IAS 18.
Revenue and customer sustainability
continued

Disconnection of supply remains the last resort, as we realise that paying customers of the relevant municipalities are severely affected. Nonetheless, where municipalities renege on payment, we will initiate disconnection of supply in line with the PAJA process, until the debt is paid in full.

In response to concerns raised by municipalities and SALGA, we have tabled a number of proposals to various Parliamentary committees. These include rationalising the number of municipal tariffs, reducing the rate of interest charged on overdue accounts and changing the payment period on municipal accounts. The proposals are being considered by our Board, and if approved, external approvals will be obtained where required.

We are involving municipalities to implement a pilot project in two provinces to install prepaid electricity meters for their customers. The project aims to improve revenue collection on behalf of these municipalities and enable settlement of municipal electricity bills.

We continue to engage with all municipalities, as well as local and national government stakeholders, to find amicable business solutions for the electricity payment defaults.

Residential revenue management
We continue with initiatives to improve revenue recovery from residential customers, such as:
- Removing illegal connections, conducting meter audits, repairing faulty or tampered meters and limiting ghost vending of prepaid electricity
- Installing split smart and/or prepaid meters within protective enclosures to prevent tampering
- Converting customers from post-paid to prepaid
- Stepping up disconnection of customers not honouring their current accounts

Soweto and Kagiso split prepaid metering rollout
Last year we indicated that we plan to convert all Soweto SPU customers to split prepaid meters by 2019/20.

The programme had to be suspended during the local government elections, but has since resumed. During the year, a total of 15 494 split meters were installed in Soweto and Kagiso, while 13 255 meters were converted to prepaid.

Energy losses
During the year, total energy losses were 8.85% (March 2016: 8.59%). Transmission energy losses performed better than target, at 2.22% (March 2016: 2.61%), although distribution losses deteriorated quite significantly to 7.55% (March 2016: 6.43%). Losses performance is within international norms.

In excess of 600 000 meter audits were completed during the year, covering large and small power users and prepaid customers. This resulted in R215 million being billed to recover revenue due to meter tampers, faulty or vandalised metering installations or customers not correctly loaded on the system. Tamper fines of R24 million were also raised.

Future focus areas
- Stimulate demand in LPUs in priority growth industries through a key account management approach
- Increase sales in low-debt, high-growth municipalities
- Improve debt collection by participating in collection processes on an agency basis in municipal areas, reinforcing credit control across all customer segments and by converting customers to prepaid
- Reduce non-technical losses by implementing an early warning system, regular and targeted meter audits through automating analysis, and by converting residential customers in Soweto, Midrand and Sandton to split meters
### HIGHLIGHTS

- Coal quality-related load losses reduced by 43% compared to prior year, improving plant availability
- UCLF improved by 34% and EAF by 9% compared to the preceding year
- Both Kusile units set new performance records
- Permanent coal handling plant at Moaboa was completed, excluding the rebuilding of Silo 20
- No major transmission outages occurred during the year
- Renewable IPP capacity of 3110MW added since inception

### CHALLENGES

- Maintenance of the required coal stock levels at all stations, and improving coal quality
- Coal production affected by increased community unrest, as well as labour and union tensions, increasing the risk of strikes at collieries
- Medium-term water supply remains a risk
- Most Generation plants have reached or exceeded their mid-life, requiring extensive rehabilitation
- Managing network performance with increasing unplanned outages due to overloaded networks, high levels of vandalism, and equipment theft
- Strengthening networks to accommodate customer growth due to new connections
- No new IPP power purchase agreements signed since September 2016, given the current surplus capacity

### PROGRESS

- Coal costs were managed within targets, and stringent measures implemented to maintain coal quality
- Some capital allocated to fund much-needed capital expenditure at cost-plus coal mines
- Water security risk mitigated through increased dam levels
- Despite challenges early in the year, the system minutes <1 target was achieved
- SAIDI and SAIFI performed better than target
- A total of 61 demand-side management projects installed, enabling savings of 2277MW

### Securing our resource requirements

Our aim is to safely and sustainably source, procure and deliver the necessary amounts of primary energy – coal, nuclear fuel, liquid fuels, diesel, water and limestone – of the required quality to our power stations, at the right time and at optimal cost.

### Looking back on 2016

We continue to collaborate with cost-plus mines to increase coal volumes through capital expansion. Coal purchase contracts are continually reviewed to achieve the optimal balance between price, quality and flexibility.

Water-supply plans are developed to ensure an adequate water supply, together with improved conservation and management of water resources, although heavy summer rains have alleviated the short-term water supply risk.

Generation plant performance made excellent progress during the year, allowing additional maintenance to be performed. There was a continued focus on the maintenance and refurbishment of the transmission and distribution network, in addition to network strengthening towards the achievement of N-1 Grid Code compliance and the integration of new capacity, including IPPs.

In view of the improved power system status and surplus capacity, the focus of our IDM function is shifting to creating space for future sales growth initiatives.

### Investment in cost-plus mines

Almost all the cost-plus mines require significant investment or recapitalisation in order to increase production and/or maintain existing production. Until the collieries can be recapitalised, lower production is expected from these mines. Earlier financial constraints have hampered our ability to fund this capital expenditure in the past, requiring us to purchase and transport more expensive coal.

During the past year, we focused on improvements at cost-plus mines that were possible without any capital investment. These improvements, although effective, are limited; further capital will be required. We target to spend R9.4 billion on financing overdue expansion over the next five years.

Recapitalisation will be assessed based on a business case for each mine where long-term benefits can be demonstrated. Increased volumes of acceptable quality coal will reduce the overall coal bill by limiting the short- and medium-term coal required. Furthermore, we will consider financing overdue expansion at cost-plus mines to access remaining contracted reserves, thereby increasing production and enabling contract extensions.

### Coal quality issues

The Board approved significant enhancements in contract negotiations and management of coal supply agreements to transfer the risk of coal quality to the supplier. New agreements have more rigorous quality clauses which provide us with more recourse for the supply of poor quality coal. We are evaluating the feasibility of a multitude of cost-effective technologies to improve coal quality, such as de-stoning, washing and screening of coal.

Our long-term goal is to determine coal quality at the point of delivery. We are advancing the design of real-time processes and systems to sample and analyse every coal consignment upon arrival at the power stations, prior to offloading, by using coal DNA characterisation.

### Kusile coal and limestone contracting status

To ensure the boiler guarantees remain in effect, more stringent coal specifications have been instituted for the commissioning period at Kusile Power Station. A request for proposal for the coal procurement was issued in April 2017, covering both the commissioning period and the life of the station. We have signed a long-term contract for the supply of limestone for Kusile’s flue gas desulphurisation (FGD) plant, which will reduce sulphur dioxide emissions.
Technical performance

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2021/22</th>
<th>Target 2017/18</th>
<th>Target 2016/17</th>
<th>Actual 2016/17</th>
<th>Actual 2015/16</th>
<th>Actual 2014/15</th>
<th>Target met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal burnt, Mt</td>
<td>n/a</td>
<td>n/a</td>
<td>110.12</td>
<td>113.74</td>
<td>114.81</td>
<td>119.18</td>
<td>n/a</td>
</tr>
<tr>
<td>Coal purchased, Mt</td>
<td>n/a</td>
<td>117.62</td>
<td>125.25</td>
<td>118.70</td>
<td>121.67</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Coal stock days</td>
<td>37</td>
<td>37</td>
<td>37</td>
<td>74</td>
<td>58</td>
<td>51</td>
<td>n/a</td>
</tr>
<tr>
<td>Road-to-rail migration (additional tonnes transported on rail), Mt</td>
<td>58.1</td>
<td>15.1</td>
<td>14.6</td>
<td>13.2</td>
<td>13.6</td>
<td>12.6</td>
<td>n/a</td>
</tr>
</tbody>
</table>

1. Future targets are dependent on system requirements.
2. The 2016/17 figure excludes 623kt coal burnt during the commissioning of Medupi Unit 4.
3. The 2021/22 road-to-rail target is the cumulative target over the next four years, until 2020/21. No target has been set for 2021/22.

Coal stock days were significantly higher than target largely due to the risk of coal required being delivered to Lethabo and Medupi Power Stations. Excluding these, the normalised coal stock days were 38, in line with the target.

Lethabo is supplied by a cost-plus mine, where there is no financial benefit in reducing coal production. Due to the delays in commissioning units at Medupi, current coal requirements are lower than originally anticipated, although we continue to take coal in terms of the take-on-payment coal supply contract. To cater for the extra coal, the stockpile height has been increased; work to increase the area of the stockpile will commence during the coming year.

Poor quality coal production at two cost-plus mines accounted for 90% of the total coal quality-related load losses for the financial year. We have initiated measures at these collieries to reduce the extent of stone contaminating the coal. Overall, coal quality-related load losses for the year have reduced by 43% compared to the prior year.

The average cost per ton of coal purchased has increased only 3.5% year-on-year, and was 5.6% below target.

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

The haulage of coal by rail did not meet the annual target due to a number of Transnet Freight Rail infrastructure failures, as well as reduced mine production following heavy rains in the last quarter of the financial year.

Six coal transport companies contracted to Eskom unlawfully introduced additional trucks onto the road transportation system. This severely prejudiced other transporters as it deprived them of a fair and equitable distribution of coal transportation to various power stations. We terminated the six contracts with effect from 3 February 2017.

The strategy to reduce fatalities associated with the transportation of coal by road continues to deliver results, with no Eskom contractor fatalities recorded during the financial year (March 2016 on).

Securing our water requirements

Our short-term water security risk has improved due to the increase in dam levels in the Vaal River System. The commissioning by DWS of the acid mine drainage project by 2023 and the Lesotho Highlands Water Project Phase 2 by 2024 will contribute to longer term water security for Eskom. The Vaal River Eastern Sub-system Memorandum of Agreement with DWS was extended to 31 March 2019. A new water supply agreement for the bulk of our water requirements will be concluded once DWS gazettes the revised National Water Pricing Strategy.

However, the deteriorating quality of raw water requires collective action by DWS and water users, including Eskom, to protect water resources and deal with polluters. We are implementing treatment plans to manage this risk.

To assist with water security in Gauteng, we have committed to use the Drakensberg Pumped Storage Scheme to pump at least 285 million cubic metres of water per year over the next three years from the Thukela River into the Sterkfontein Dam, which feeds into the Vaal River System.

Molokolo Crocodile Water Augmentation Project (MCWAP) Phase 2

The MCWAP Phase 2 comprises a pipeline with a capacity of 75 million cubic metres per annum from the Crocodile River at Thabazimbi to Lephale in the Waterberg region. It will provide the necessary water capacity for coal mines in the region, thereby supporting our coal supply strategy. It will also supply Medupi’s last three units with the water required for FGD technology retrofits. Water for the FGDs for the first three units will be sourced from the existing Moloko Dam supply.

The project delivery date is now expected to be June 2023, while water is required by the Medupi FGD plant by February 2024, leaving only an eight-month lead time. The water delivery date is however contingent upon the necessary environmental authorisations and approval of funding by National Treasury.

Water for future power stations

The development of new power stations beyond our current new build programme will need to take into account the availability and quality of water resources, climate change impacts and lead times for the development of new water supply infrastructure.

For detail of our water usage performance, refer to “Environmental and climate change sustainability – Reducing water consumption” on page 61 for more information.

Securing our nuclear fuel requirements

The existing contracts for the supply of nuclear fuel fabrication services and the delivery of fabricated nuclear fuel to Koeberg Nuclear Power Station are sufficient to cover Koeberg’s demand until 2021/22. The existing contracts for uranium and enriched uranium to be used as feed for the abovementioned fuel fabrications are sufficient for 100% of Koeberg’s demand until the end of 2017 and for about 40% of demand until the end of 2020.

Future contracts for the supply of nuclear fuel to Koeberg will follow the normal commercial process. The contracting and pricing strategy will depend on the market and prevailing policies.

Progress on regional gas and hydro projects

Mozambican projects

While we remain interested in pursuing hydro, gas and transmission projects in Mozambique, further direction is awaited from Mozambique’s Ministry of Mineral Resources and Energy about which projects it wishes to pursue and what role is envisaged for South Africa, and Eskom in particular.

Grand Inga Hydro Project

The governments of South Africa and the Democratic Republic of Congo (DRC) signed a treaty for the establishment of a 4 800MW hydroelectric station on the Congo River in the DRC, of which 2 800MW is allocated to South Africa. We continue to support Dd in its negotiations with the DRC, and have completed and submitted studies on a possible transmission solution.

Generation performance

We aim to optimally operate and maintain our electricity generating assets for the duration of their economic life. We operate 29 base-load, peaking and renewable power stations with a total nominal capacity of 44 134MW, including the recently commissioned Ingula Pumped Storage Scheme with a total nominal capacity of 1 324MW.

Generation Sustainability Strategy

We are committed to accomplishing the overarching goal of meeting the country’s electricity demand at minimum cost. We will continue to improve the availability and performance of our generation assets and optimise our production plan based on the least-cost merit order dispatch approach, thereby reducing the usage of the more expensive coal-fired power stations.

Our 80.10.10 strategy strives for 80% plant availability by 2019/20, requiring unplanned maintenance to be limited to 10% on average, while performing an average of 10% planned maintenance. Additional capacity coming online through the new build programme and purchases from IPPs creates space for more planned maintenance and mid-life refurbishments.

For more information, refer to page 62 for a summary of the solar and wind power stations and to page 61 for a summary of our nuclear fuel supply contracts.
Operational performance
continued

The mix of generating plant types
Demand for electricity fluctuates throughout the day. It is the function of a system operator to balance the supply and demand by adding additional capacity to the grid when demand increases and reducing capacity as demand decreases.

Intermediate, or mid-merit plant, is usually available only during a specific time of day. Solar PV is a good example, as it is only available during hours of daylight, and the load profile is fairly predictable (refer to the following graph).

Coal-fired plant can be used as mid-merit plant by running units in spinning reserve mode (essentially idling) when demand is low. Wind is generally not as predictable as solar PV or base-load plant, as it depends on the strength and consistency of the wind.

The system operator requires a reserve margin to mitigate against plant unpredictability. The reserve margin is a measure of the available surplus capacity over a peak demand period. Regulators typically require a reserve margin of between 10% to 20% of normal capacity, as insurance against plant breakdowns or a sudden increase in demand while base-load plant is required to provide at least the minimum demand, units can also be used to supplement the required reserve by operating in spinning reserve.

It is important that South Africa has an appropriate mix of generation plant in future, to ensure a stable electricity supply. The mix should take into account climate change, environmental and socio-economic requirements. We recognise that there is no single technology option which will meet sustainable development goals. In reality these goals are often conflicting and trade-offs become necessary.

It is difficult to compare plant costs on a like-for-like basis. Two internationally accepted methodologies have been developed to achieve this, namely overnight cost of construction and levelised cost of electricity (LCOE).

Operational sustainability
Managing surplus capacity
In 2015 we changed the life of some of our generating plants from 50 to 60 years. In April 2016, the Board moved away from an age-based decommissioning strategy to a fleet renewal strategy based on the economic viability of fleet renewal.

Due to surplus capacity, it is not necessary to run all our existing plant to meet demand. We prioritise which stations to run based on the least-cost merit order dispatch approach. We have identified Hendrina, Groenvlei and Komati as the stations with the biggest cash impact and they will be ramped down to zero production and placed in lean preservation to minimise surplus capacity and optimally manage generation costs. Hendrina in 2018/19, Groenvlei in 2019/20 and Komati in 2020/21. Should demand growth be higher than current assumptions, these stations could be fully recalled to meet demand. The timing of the new build after Medupi and Kusile will be determined by DoC’s updated Integrated Resource Plan.

Updated on Medupi Unit 3 over-pressureisation incident
The over-pressureisation incident in the boiler of Unit 3 at Medupi Power Station on 30 March 2014, taking the 375MW unit out of service, continues to have a material impact on UCLF, contributing 1.24% to the system total.

For benchmarking relating to our coal-fired and nuclear power stations, refer to the fact sheet at the back of this report.

Technical performance
Generation’s technical performance is assessed in terms of the energy availability factor (EAF) which measures plant availability and takes account of:

• Planned capacity loss factor (PCLF), which measures energy losses because of planned shutdowns
• Unplanned capability loss factor (UCLF), which measures unplanned energy losses resulting from equipment failures and other plant conditions
• Other capability loss factor (OCLF), which measures unplanned energy losses not under the control of plant management.

EAF has improved significantly year-on-year, reflecting improved plant performance and availability, as well as the improved UCLF. This reflects the impact of the optimised maintenance strategy and reduced coal quality-related load losses. The commissioning of Ingula, the synchronising to the grid of Medupi Unit 5 and Kusile Unit 1 and the increased purchases from IPPs during the year, have all contributed to increased capacity, providing more space to perform maintenance.

Unplanned breakdowns (UCLF) improved due to the following:

• Boiler tube leak improvements: Unplanned outages due to tube leaks have decreased by 32%, from 9.313GWh in the previous year to 6.321GWh in the current year. This was achieved by reducing unplanned outage duration and decreasing the number of tube leaks due to more proactive inspections. The improved coal quality (partly through lower stone contamination) is a major contributor.
• Partial load losses: Energy lost due to unplanned outages resulting from partial load losses has decreased by 37% compared to last year.

Plant utilisation (EUf) for the year was 74.95% for all stations (March 2016: 82.69%). The utilisation of coal-fired power stations was 83.18% (March 2016: 92.66%); Koeberg Nuclear Power Station was 99.80% (March 2016: 99.19%) and the peaking stations 7.86% (March 2016: 20.26%). Eskom’s ELF remains above the international norm, indicating the high levels at which we are operating our plant, to maintain security of supply.

Koeberg performance
Koeberg Unit 1 had been online for 474 days and Unit 2 for 476 days, both exceeding previous records, when the units went on their respective refuelling outages in September 2016 and April 2017.

Steam Generator Replacement Project
The replacement project for the ageing steam generators forms part of the plant life extension programme. Rework required on the forgeries has added almost three years to the delivery date of the steam generators for the first unit, now being expected in 2021. The manufacturing and assembly activities are on track in terms of the revised timeline.

Refer to the information block on page 55 for information on the overnight cost of construction of different types of generation plant and page 86 for the levelised cost of electricity.
Operational sustainability

Following the insurance settlement, we have awarded contracts for structural repairs, demolition of the damaged boiler and construction of the new boiler. Demolition is expected to be completed early during the 2018/19 financial year and the unit is estimated to return to commercial operation by the end of the 2022/23 financial year.

Maintenance plan

In line with industry trends, our maintenance approach has moved away from prescriptive time-based maintenance, to condition- and risk-based maintenance. This has allowed maintenance to be shifted from time-based intervals in terms of the Occupation Health and Safety Act, 1993. We now assess the health and condition of each plant item, together with the consequence of failure, which determines the risk.

Outages will be executed first on high-risk plant items, even if it is earlier than the prescribed time-based interval, while outages for low-risk plant will be deferred. Using the Tetris planning tool and advanced analytics, we optimised the maintenance plan, as it allows for more informed decision-making regarding the prioritisation of maintenance and rescheduling outages.

We planned to execute 89 outages during the year. Of those, 51 have been executed (including 21 deferred from last year), while 27 have been deferred and 11 cancelled. An additional 37 unplanned, mainly short-term outages were also executed during the year.

We plan to execute 75 outages during the coming financial year, with a total of 463 outages planned for the next five years.

Transmission and distribution performance

Transmission plans, operates and maintains our transmission assets, while our distribution network relays electricity from the high-voltage transmission network to customers, including municipalities that manage their own distribution networks.

Use of open-cycle gas turbines

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2021/22</th>
<th>Target 2017/18</th>
<th>Actual 2016/17</th>
<th>Actual 2015/16</th>
<th>Actual 2014/15</th>
<th>Target met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of system minutes lost 1 minute, minutes/year</td>
<td>3.33</td>
<td>3.53</td>
<td>3.60</td>
<td>3.80</td>
<td>3.50</td>
<td>2.85</td>
</tr>
<tr>
<td>Number of major incidents 1 minute, number</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>System average interruption frequency index (SAIPI), events/year</td>
<td>20.0</td>
<td>20.0</td>
<td>20.0</td>
<td>19.9</td>
<td>20.5</td>
<td>19.7</td>
</tr>
<tr>
<td>System average interruption duration index (SAIDI), hours/year</td>
<td>19.0</td>
<td>19.0</td>
<td>39.0</td>
<td>38.9</td>
<td>38.6</td>
<td>36.2</td>
</tr>
<tr>
<td>Distribution capex for strengthening and refurbishment, R million</td>
<td>n/a</td>
<td>n/a</td>
<td>3 347</td>
<td>2 911</td>
<td>2 499</td>
<td>n/a</td>
</tr>
</tbody>
</table>

1. One system minute is equivalent to interrupting the entire South Africa at maximum demand for one minute.

No major incidents occurred on the Transmission system during the year. The system minutes lost < 1 minute was attained in spite of the negative impact of a few relatively large incidents involving plant failures in the first half of the year. We are developing advanced analytics to monitor the health of our transmission assets. However, performance risks still remain, with ageing assets and vulnerabilities due to network unfitness, which should be addressed as we move towards N-1 compliance.

SAIPI and SAIDI performed better than target following step-change interventions introduced to manage the distribution network performance. We remain focused on sustainability through refurbishment, reliability improvements and addressing maintenance backlogs. Nevertheless, the sustained performance of the distribution network remains at risk given prevailing resource constraints; this could lead to an inability to maintain network performance within regulatory norms.

Equipment theft

The theft of steel members from transmission lattice towers, as well as cable theft and vandalism of transmission and distribution network equipment remains an ongoing occurrence. Treatment actions include upgrading security at several high-risk and critical transmission substation sites, patrols to prevent incidents on sensitive installations, installation of monitoring devices, and the development and piloting of technology solutions for lattice towers.

Energy supplied by IPPs

DoE’s RE-IPP Programme called for 3 725MW of renewable energy to be in commercial operation by the end of 2018.

Although we acknowledge the role that IPPs play in the South African electricity market and remain committed to facilitating their entry, we have not signed any PPAs since September 2016, given the shift in our generation capacity and demand outlook since the start of the RE-IPP Programme.

Managing supply and demand

Role of the System Operator

The System Operator performs an integrative function for the operation and risk management of the interconnected power system by balancing supply and demand in real time, enabling us to supply electricity to our customers in accordance with our mandate. Protecting the stability of our power system is of great importance to the System Operator. The various defence systems in place are frequently tested to ensure their effective response capability to prevent a major system event.

There was a sustained improvement of our operating reserve margin over the year, due to capacity added by the Ingula Pumped Storage Scheme and IPPs, as well as improved performance of our generating plant. Intermittent production during commissioning tests carried out after synchronisation of Medupi Unit 5 and Kusile Unit 1 also contributed to available capacity. The complete 765kV network to the Western Cape was commissioned, enabling security of supply to the region in the event of the loss of both units at Kooberg and contributing to grid stability.

To manage surplus capacity, the System Operator required a number of coal-fired units to be placed in cold reserve. This is when a generator is taken offline but is available to be called into service at short notice (typically 12 to 16 hours). The number of units in cold reserve varies from four to six units during weekdays, and up to 14 units over weekends. Units at Grootvlei and Komati Power Stations have been placed in extended cold reserve with a call-back time of five days.

IPP contracted and connected

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2021/22</th>
<th>Target 2017/18</th>
<th>Actual 2016/17</th>
<th>Actual 2015/16</th>
<th>Actual 2014/15</th>
<th>Target met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCGT production, GWh</td>
<td>1 056</td>
<td>900</td>
<td>1 266</td>
<td>1 300</td>
<td>936</td>
<td>1 079</td>
</tr>
<tr>
<td>OCGT diesel usage, R million</td>
<td>4 016</td>
<td>690</td>
<td>3 403</td>
<td>2 460</td>
<td>649</td>
<td>9 546</td>
</tr>
</tbody>
</table>

1. The current year’s cost includes diesel storage and demurrage costs of R280 million, incurred as a result of not running the OCGTs.
2. The 2012/13 target is the cumulative target over the next five years.

Slowing electricity demand, coupled with the combination of commissioning of new capacity and a noteworthy improvement in our operational performance, have resulted in significant surplus capacity, making the future outlook for Eskom operationally and financially unsustainable, given the continued entry of IPPs.

We remain committed to connecting IPPs up to bid window 4.5, as long as they are economical at a price of 77c/kWh or lower, given our surplus capacity. The IPP programme must be rolled out at a cost and pace that does not negatively impact the country or Eskom. We are engaging with the relevant government departments to reach an agreement on the way forward.

IPP contracted and connected
During the year, we commissioned 965MW of RE-IPP capacity, slightly less than the expected 1 030MW, and the 670MW Avon gas peaker, adding IPP capacity of 1 635MW. Projects with signed PPAs during the year, made up of 511MW wind, 100MW concentrated solar and 6MW of landfill gas.

**Considerations around additional IPP capacity**

The dynamics and assumptions underlying the original RE-IPP Programme have shifted. Slowing electricity demand, adding new build capacity and a significant improvement in our operational performance have resulted in surplus capacity. Further large-scale renewables capacity will lead to significant overcapacity on the system, an acceleration of tariffs and a reduction in the expected consumer and stranded assets for Eskom.

Current prices for RE-IPPs range from 77.5c/kWh to 380c/kWh. Prices in earlier rounds were significantly higher, thereby pushing up the average price for the year to 209c/kWh, against revenue of 83.6c/kWh, which includes transmission and distribution costs. In contrast, our short-run marginal cost is about 40c/kWh. To be cost competitive, IPPs have to reach more economical levels of 77c/kWh or lower. In the long term, declining costs of renewables are expected to support an electricity price path that supports economic growth.

IPP costs are currently a full pass-through to the consumer, negatively impacting electricity prices and ultimately, economic growth. The judgment in the Borbet case found that the efficiency and prudency test must also be applied to IPP costs, therefore full cost recovery of IPP costs in future is uncertain.

Lower revenues will impact our ability to generate adequate cash flows to meet existing debt commitments. We could be placed in a position where we may have to utilise the Government guarantees provided to lenders. This would put the Sovereign balance sheet at risk.

Our capacity being displaced could have many interrelated impacts. A reduced requirement for coal will directly affect the coal industry, impacting the livelihood of communities and mines in areas surrounding affected power stations. The full impact has not been quantified but could have a significant impact on an already distressed economy.

Any additional IPPs must be assessed against the holistic benefits of security of supply, minimising the electricity price, environmental benefits and socio-economic factors. Without that, there are significant risks to introducing additional capacity to the system. We believe that DoE’s assumptions about IPPs should be reviewed.

Traditional integrated utilities around the world are experiencing financial distress as a result of the large-scale introduction of IPPs. We can learn from their experience to avoid a similar adverse impact.

**Energy capacity and purchases**

The following table summarises the IPP capacity available and the actual energy procured under various IPP programmes for the year to 31 March 2017.

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2012/13</th>
<th>Target 2013/14</th>
<th>Target 2014/15</th>
<th>Actual 2015/16</th>
<th>Actual 2016/17</th>
<th>Actual 2017/18</th>
<th>Target</th>
<th>% met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total capacity, MW</td>
<td>6 001</td>
<td>5 521</td>
<td>4 930</td>
<td>5 027</td>
<td>3 979</td>
<td>3 606</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total energy purchases, GWh</td>
<td>72 639</td>
<td>11 217</td>
<td>12 866</td>
<td>11 529</td>
<td>9 033</td>
<td>6 022</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total spent on energy, R million</td>
<td>163 316</td>
<td>23 391</td>
<td>23 051</td>
<td>21 731</td>
<td>15 446</td>
<td>9 454</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRIC 4 accounting adjustment, R million</td>
<td>(10 234)</td>
<td>(1 999)</td>
<td>-</td>
<td>(1 944)</td>
<td>(345)</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total expenditure, R million</td>
<td>153 082</td>
<td>21 392</td>
<td>23 051</td>
<td>19 737</td>
<td>15 106</td>
<td>9 454</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted average cost, c/kWh</td>
<td>225</td>
<td>209</td>
<td>179</td>
<td>188</td>
<td>171</td>
<td>157</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. The 2012/13 target is the cumulative target over the next five years.
2. The weighted average cost has been calculated on total spent on energy before the IFRIC 4 adjustment.

Renewable IPPs achieved an average load factor of 30.7% during the year (March 2016: 30.7%), while the weighted average cost amounted to 209c/kWh (March 2016: 223c/kWh).

We entered into PPAs with the Avon and Dedisa IPP gas peakers. For accounting purposes, the capacity charges are treated as arrangements that contain a lease in terms of IFRIC 4. These leases have been assessed as finance leases and are accounted for under property, plant and equipment at a value of R 9.8 billion (March 2016: R 3.5 billion). The IPP cost for gas peakers under primary energy was reduced by R 1 964 million (March 2016: R 340 million), while depreciation of R 638 million and interest of R 840 million were charged to the income statement (March 2016: R 135 million depreciation and R 302 million interest).

Deemed energy expenditure of R 477 million was incurred during the year (March 2016: R 224 million), due to delays in grid connection of a number of projects, as well as system curtailment events.

Cross-border sales and purchases of electricity Non-availability of electricity has been a significant impediment to regional growth and development for a number of years; this has been exacerbated by the drought affecting most of the SADC region. The Southern African Power Pool (SAPP) aims to provide reliable and economical electricity supply to each of its members.

Access to electricity in all SAPP member states (excluding South Africa) is below 45%, and as low as 10% in one instance. Electricity consumption per capita in the region lags both South African and global norms. Our surplus capacity provided an opportunity for additional electricity sales to the region during the year.

Export growth strategy

Our export growth strategy approved by the Board received PFMA approval by the Minister in February 2017. The strategy is to maximise exports through the existing transmission infrastructure, while also building additional transmission lines to further enable exports. There is considerable demand that cannot currently be met due to a lack of investment in transmission infrastructure. We are looking to invest with our regional partners to add much needed transmission infrastructure.

In line with the mandate received, we have concluded a number of firm power supply agreements at 31 March 2017, all for a period of five years until 31 March 2022, for total supply of 450MW. All agreements provide for the supply of additional non-firm energy when required. Work to conclude additional agreements is ongoing.

**International sales and purchases**

<table>
<thead>
<tr>
<th>GWhs</th>
<th>Target 2012/13</th>
<th>Target 2013/14</th>
<th>Target 2014/15</th>
<th>Actual 2015/16</th>
<th>Actual 2016/17</th>
<th>Actual 2017/18</th>
<th>Target</th>
<th>% met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>International sales</td>
<td>86 375</td>
<td>15 029</td>
<td>11 918</td>
<td>15 993</td>
<td>15 467</td>
<td>12 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>International purchases</td>
<td>47 203</td>
<td>9 670</td>
<td>10 712</td>
<td>7 410</td>
<td>9 703</td>
<td>10 731</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net sales</td>
<td>39 172</td>
<td>5 359</td>
<td>1 206</td>
<td>7 675</td>
<td>3 762</td>
<td>1 269</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. The 2012/13 target is the cumulative target over the next five years.

International sales have increased 12% year-on-year. The volume of cross-border purchases was, however, lower than target, primarily because Hidroelèctrica de Cahora Bassa (HCB) reduced its supply as a result of low dam levels due to the drought.
Operational sustainability
continued

Integrated demand management
Integrated demand management (IDM) plays a key role in assisting us to balance power supply and demand during periods of constraint, as it encourages customers to use electricity more efficiently.

Demand management costs

<table>
<thead>
<tr>
<th>Measure</th>
<th>Target 2021/22</th>
<th>Target 2017/18</th>
<th>Actual 2016/17</th>
<th>Actual 2015/16</th>
<th>Actual 2014/15</th>
<th>Target met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total energy efficiency demand side management</td>
<td>n/a</td>
<td>n/a</td>
<td>936.9</td>
<td>375.8</td>
<td>613.0</td>
<td>616.0</td>
</tr>
<tr>
<td>Demand response</td>
<td>n/a</td>
<td>n/a</td>
<td>398.0</td>
<td>193.9</td>
<td>248.4</td>
<td>308.6</td>
</tr>
<tr>
<td>Total (excluding transfer pricing)</td>
<td>n/a</td>
<td>n/a</td>
<td>1 324.9</td>
<td>569.7</td>
<td>661.4</td>
<td>964.6</td>
</tr>
</tbody>
</table>

1. Future targets are dependent on system requirements.

Verified demand side management and internal energy efficiency savings

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2021/22</th>
<th>Target 2017/18</th>
<th>Actual 2016/17</th>
<th>Actual 2015/16</th>
<th>Actual 2014/15</th>
<th>Target met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand savings (evening peak), MW</td>
<td>n/a</td>
<td>190.0</td>
<td>196.5</td>
<td>236.9</td>
<td>214.9</td>
<td>171.5</td>
</tr>
<tr>
<td>Internal energy efficiency, GWh</td>
<td>n/a</td>
<td>n/a</td>
<td>1.2</td>
<td>6.0</td>
<td>17</td>
<td>10.4</td>
</tr>
</tbody>
</table>

In view of the improved power system status and outlook, the focus of the IDM function is shifting from balancing electricity demand, to creating space for future sales growth initiatives by shifting demand from peak to off-peak periods.

In line with international best practice for power system operation, 32 large industrial customers participated in our demand response programme, which provides the System Operator the flexibility to manage short-term fluctuations on the grid as and when they occur. The programme achieved average certified capacity of 1 287MW during the year (March 2016: 1 466MW).

A total of 2 705 699 compact fluorescent lamps (CFLs) were installed in KwaZulu-Natal, Eastern Cape, Free State, North West and Gauteng during the year. The Eastern Cape and Free State have concluded their rollouts. Since inception of the current rollout in 2015, a total of 4 765 921 CFLs have been installed.

Future focus areas

- Effectively implement the coal business strategy, improve management of coal quality from all suppliers and maintain the required coal stock levels at all stations
- Implement drought contingency plans to mitigate the medium-term water supply risk, until Lesotho Highlands Phase 2 is commissioned
- Continue to improve the availability of our generation assets and optimise our production plan based on the least-cost merit order dispatch approach
- Optimise maintenance planning using advanced analytics
- Continue to evaluate fleet-renewal or preservation options

- Strengthen the transmission backbone towards attainment of N-1 compliance, and strengthen distribution networks to accommodate customer growth in support of universal access
- Monitor transmission asset health by developing advanced analytics and optimising maintenance
- Execute the Distribution refurbishment plan to improve the integrity and reliability of the low-voltage network infrastructure, and transition from time-based to condition-based maintenance across priority distribution asset classes
- Roll our mobility and real-time dispatching tools to improve scheduling, response times and outage resolution to Distribution customers
- Continue to reposition the IDM function to support sales growth initiatives

Our impact on the capitals

Social and relationship capital is positively impacted by our support of the coal industry, as well as the assistance we provide to the region. However, natural capital is negatively affected by our use of primary energy sources, most notably coal and water.

Our manufactured capital is diminished through use of the plant, but is restored to some extent through maintenance. We apply our intellectual capital in the running of our operations, such as through the use of the Tennis maintenance planning tool. Furthermore, we could not operate an integrated power system without the use of advanced systems and technology. Financial capital is depleted through the costs of running our operations, but enhanced through revenue earned.

Sustainable asset creation

HIGHLIGHTS

- All four Ingula units were commissioned, adding installed capacity of 1 332MW
- Medupi Unit 5 synchronised in September 2016 and achieved commercial operation shortly after year end, adding 748MW installed capacity
- Kusile Unit 1 synchronised to the grid on 26 December 2016, ahead of schedule
- Medupi Unit 4 synchronised on 31 May 2017, also ahead of schedule
- Transmission lines constructed and substations commissioned exceeded the target

CHALLENGES

- Completion of boiler cladding and insulation remains a concern at Medupi
- Contractor productivity remains an issue at Medupi and Kusile, requiring continual supervisory attention to ensure progress

PROGRESS

- A total of R3.9 billion and R328 million spent on N–1 and environmental compliance respectively, exceeding the target

LOWLIGHTS

- An unfortunate incident occurred during commissioning and optimisation of Ingula Unit 3, thereby delaying commissioning
Operating performance

Eskom Holdings SOC Ltd

Delivering capacity expansion

The capacity expansion programme, to build new power stations and increase high-voltage transmission power lines and transformer capacity, started in 2005 and is expected to be completed by 2022. The programme will increase installed generation capacity by 17 384MW, transmission lines by 9 756km and substation capacity by 42 470MVA.

Since inception to 31 March 2017, we have increased installed generation capacity by 8 363MW, mainly through the return-to-service programme, OCGTs, Sere Wind Farm, Medupi Unit 6 and most recently, all four units of Ingula. Transmission lines were expanded by 6 747km and substation capacity by 34 396MVA. The programme has cost R335.7 billion to date (excluding capitalised borrowing costs).

Overnight cost of construction

Comparing the cost of constructing different power plants is challenging, due to difference in site, construction time, inflation, technology, location, etc. Overnight cost is an internationally accepted method used to compare the construction cost of different power plants on a common basis.

Overnight cost of construction typically includes costs associated with civils and construction, mechanical equipment, electrical work, control and instrumentation, project management and development. Interest capitalised to the project is excluded, while all costs are expressed in a base year by allowing for inflation and other adjustments such as exchange rates.

The cost is usually expressed as a cost per unit of output and converted to the same base year, thereby enabling like-for-like comparison. In order to ensure like-for-like comparison, international benchmarks are adjusted to a common base. A number of organisations provide these benchmarks.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Generation capacity installed and commissioned (commercial operation), MW(^2)</td>
<td>8 074</td>
<td>10 686</td>
<td>13 300</td>
<td>13 332</td>
<td>13 300</td>
<td>13 332</td>
<td>13 300</td>
</tr>
<tr>
<td>Transmission lines installed, km(^2)</td>
<td>2 045.0</td>
<td>677.0</td>
<td>525.0</td>
<td>585.4</td>
<td>345.8</td>
<td>318.6</td>
<td>0</td>
</tr>
<tr>
<td>Transmission transformer capacity installed and commissioned, MVA(^3)</td>
<td>10 775</td>
<td>2 010</td>
<td>1 800</td>
<td>2 300</td>
<td>2 435</td>
<td>2 090</td>
<td>0</td>
</tr>
<tr>
<td>N–1 compliance - new build, R million SC</td>
<td>n/a</td>
<td>n/a</td>
<td>2 024</td>
<td>3 917</td>
<td>n/a</td>
<td>n/a</td>
<td>0</td>
</tr>
<tr>
<td>Environmental compliance, R million SC</td>
<td>n/a</td>
<td>n/a</td>
<td>95</td>
<td>328</td>
<td>n/a</td>
<td>n/a</td>
<td>0</td>
</tr>
</tbody>
</table>

1. The 2012/13 target is the cumulative capacity to be commissioned and/or installed over the next five years.
2. Medupi Unit 5, with an installed capacity of 794MW, attained commercial operation after year end on 3 April 2017, and is therefore not reflected in capacity installed above.
3. Target for spend on N–1 compliance was exceeded, partly due to execution of activities carried over from the previous financial year. The target on the Generation coal environmental projects was also exceeded, due to work on the Camden burners and the Grootevlei and Tutuka fabric filter plant.
4. The target for spend on N–1 compliance was exceeded, partly due to execution of activities carried over from the previous financial year. The target on the Generation coal environmental projects was also exceeded, due to work on the Camden burners and the Grootevlei and Tutuka fabric filter plant.

Capital expenditure (excluding capitalised borrowing costs) per division

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Capital</td>
<td>37 017</td>
<td>35 458</td>
<td>33 799</td>
<td>31 691</td>
<td>31 691</td>
<td>31 691</td>
<td>31 691</td>
<td>31 691</td>
</tr>
<tr>
<td>Generation</td>
<td>13 587</td>
<td>14 376</td>
<td>11 640</td>
<td>10 555</td>
<td>10 555</td>
<td>10 555</td>
<td>10 555</td>
<td>10 555</td>
</tr>
<tr>
<td>Transmission</td>
<td>1 205</td>
<td>940</td>
<td>990</td>
<td>1 121</td>
<td>1 121</td>
<td>1 121</td>
<td>1 121</td>
<td>1 121</td>
</tr>
<tr>
<td>Distribution</td>
<td>6 338</td>
<td>5 220</td>
<td>5 490</td>
<td>6 073</td>
<td>6 073</td>
<td>6 073</td>
<td>6 073</td>
<td>6 073</td>
</tr>
<tr>
<td>Subtotal</td>
<td>58 147</td>
<td>55 994</td>
<td>51 727</td>
<td>49 440</td>
<td>49 440</td>
<td>49 440</td>
<td>49 440</td>
<td>49 440</td>
</tr>
<tr>
<td>Future fuel</td>
<td>1 090</td>
<td>114</td>
<td>2 116</td>
<td>1 651</td>
<td>1 651</td>
<td>1 651</td>
<td>1 651</td>
<td>1 651</td>
</tr>
<tr>
<td>Eskom Enterprises</td>
<td>1 560</td>
<td>1 107</td>
<td>373</td>
<td>439</td>
<td>439</td>
<td>439</td>
<td>439</td>
<td>439</td>
</tr>
<tr>
<td>Other areas including intergroup eliminations</td>
<td>3 884</td>
<td>2 817</td>
<td>3 338</td>
<td>1 567</td>
<td>1 567</td>
<td>1 567</td>
<td>1 567</td>
<td>1 567</td>
</tr>
<tr>
<td>Total Eskom group funded capital expenditure(^1)</td>
<td>64 681</td>
<td>60 032</td>
<td>57 352</td>
<td>53 077</td>
<td>53 077</td>
<td>53 077</td>
<td>53 077</td>
<td>53 077</td>
</tr>
</tbody>
</table>

1. Capital expenditure includes additions to property plant and equipment, intangible assets and future fuel but excludes construction stock and capitalised borrowing costs.
The Ingula escarpment forms part of the upper site at Ingula, expected to be proclaimed as a nature reserve of approximately 8,000 hectares. The Ingula Partnership, a 15-year old partnership between Eskom, Birdlife South Africa and Middelpunt Wetland Trust, plays an important role in the environmental success story at Ingula.

The cumulative cost incurred on the project is R29.3 billion (March 2016: R26.8 billion) against a revised budget of R29.8 billion, approved by the Board during the year. All amounts exclude capitalised borrowing costs.

Ingula Pumped Storage Scheme

Units 4 and 3 were synchronised during March 2016. Units 2 and 1 were synchronised on 21 May and 16 June 2016 respectively. Thereafter, Units 4, 2 and 1 were successfully commissioned on 10 June, 22 August and 30 August 2016 respectively, all ahead of schedule, adding an additional 999MW of installed peak capacity to the national grid.

The final generating unit of 333MW installed capacity became operational on 30 January 2017, when Unit 3, which had been damaged during testing in April 2016, was brought into commercial operation.

All four units of Ingula are now in commercial operation and produce a total of 1,324MW nominal capacity of peak power, against total installed capacity of 1,332MW.

The project won two prestigious awards during the annual South African Institute of Civil Engineering (SAICE) and South African Forum of Civil Engineering Contractors (SAFCEC) awards, for most outstanding civil engineering and technical excellence achievements.

The upper site at Ingula, expected to be officially proclaimed as a nature reserve during the coming financial year, consists of approximately 8,000 hectares, several hundred of which are wetland. The Ingula Partnership, a 15-year old partnership between Eskom, Birdlife South Africa and Middelpunt Wetland Trust, plays an important role in the environmental success story at Ingula.

The cumulative cost incurred on the project is R29.3 billion (March 2016: R26.8 billion) against a revised budget of R29.8 billion, approved by the Board during the year. All amounts exclude capitalised borrowing costs.

Power lines and substation capacity

During the year, we installed 585.4km of high-voltage transmission lines and commissioned substation capacity of 2,300MVA under the new build programme.

Since April 2013, a total of 40 schemes has been completed, including 13 IPP projects. A scheme refers to a group of related or similar projects managed in a coordinated way to realise synergies, e.g. completion of the Foskor Acanthook Transformation Upgrade Scheme.

Other projects

The Dryna Unit 3 boiler structural repairs were completed in February 2017, followed by pre-demolition activities in March 2017. The contract for the procurement and fitment of the boiler was awarded in March 2017.

The full permanent solution of the Majuba Silo Project, including the rebuilding of Silo 20, the reinforcement of Silos 10 and 30, as well as the lift shaft, two piers and the coal conveyor system, was returned to service ahead of schedule in December 2016.

Investing in the future

Nuclear

Following the section 34 determination by DoE in December 2016, a request for information (RFI) for the nuclear new build programme was issued in December 2016, and closed on 28 April 2017.

Subsequent to year end, the Western Cape High Court set aside the determination which formed the basis for nuclear procurement. All current procurement processes have therefore been suspended. This is expected to significantly delay the nuclear new build programme.

The business case for nuclear power

The need for nuclear power arises from a number of factors, such as climate change, the existing power generation fleet approaching the end of its useful life, the need for future security of supply, and maintaining strategic relevance in South Africa and Africa.

As close to 85% of our installed generation capacity is from coal-fired power generation, we need to diversify our electricity generation mix over time to achievement climate change goals. The average age across our coal fleet is approximately 37 years. Capacity will decline once existing stations retire, that capacity will not be replaced at the rate new build is currently being introduced, as it takes a long time to develop base-load options.

Approximately 10GW of our existing fleet will have to be retired by 2030, based on a 50-year lifespan. Capacity will greatly decline after that by 2040 approximately 30GW will have to be decommissioned. No large base-load station beyond Kusile has been allocated to Eskom under the IRP 2010, with IPPs contributing only 900MW in base-load.

Although life extension of existing power stations can postpone the requirement for large new base-load plant, it is not a long-term solution, and will be further limited by environmental laws and cost of compliance. Given the highly regulated nature of a nuclear programme in any country, Eskom is the best state-owned vehicle to implement nuclear power in South Africa. This will further secure our position in the electricity market for many years to come.

A likely date for first unit commercial operation is approximately 10 years after the procurement process is finalised. Our preferred strategy is to pursue a nuclear programme framework agreement with a vendor, which will enable us to commit to two nuclear power units as a time – a phased commitment approach.

The nuclear new build programme will be regulated by the National Nuclear Regulatory Act, 1999, the National Radioactive Waste Disposal Institute Act, 2008, and the Nuclear Energy Act, 1999. This legislation ensures that any nuclear installation is safe for humans and the environment. Nuclear costs vary greatly across different countries. Overnight costs range from USD2,021/kWe to USD6,215/kWe, while the levelised cost of electricity ranges from USD40/MWh to USD136/MWh. The cost of nuclear is competitive compared to other base-load technologies. The cost of nuclear power is less sensitive to fuel cost than coal and gas, ensuring a more stable operational cost. The greatest hurdle to overcome are the significant capital outlay, coupled with cost of investment required to keep pace with improvements in safety standards. The cost of nuclear waste management and decommissioning is also significant.

A nuclear programme promotes long-term security of supply and environmental sustainability. It can be part of a future electricity generation mix where these objectives are met in the most affordable way over time.

Gas strategy

Four open-cycle gas turbine units at Ankerlig and two units at Gourikwa have now been converted to dual-fuel capability. All four dual-fuel units are expected to be converted by the end of the 2017/18 financial year.

Investing in appropriate technologies

We spent R441 million on Board-approved research, development and demonstration work during the year (March 2016: R396 million).

The main project this year was the high-voltage direct current (HVDC) test facility, which will provide us with knowledge and expertise for HVDC use in future transmission expansion projects. Other projects include coal DNA characterisation, off-grid technologies and control systems, as well as refurbishment of the flow laboratory.

Some examples of future projects are:

- Collaborating with electric vehicle (EV) manufacturers and Government to lower the capital cost of entry for new EVs, increase sales of EVs in the local market; and develop innovative pricing models that will help Eskom increase demand and shift energy use to more optimal periods
- Advancing innovative business models for the deployment of commercial and industrial rooftop solar PV systems as a product offering to customers wishing to install their own systems, giving them the option of procuring directly from Eskom
- Developing bulk and beyond-the-meter energy storage value propositions that will allow us to deploy energy storage technologies at scale, to increase revenue and operational benefits. The business case for large-scale storage plus PV solutions, as well as off-grid and grid strengthening options, will be developed during the coming financial year
Sustainable asset creation

More on research and development opportunities

eMobility

The aim is to stimulate the uptake of electric vehicles or eMobility, through the deployment of charging and other infrastructure, in conjunction with other market players. The environment will benefit and the local economy be stimulated. Furthermore, the dependency on energy imports (oil for fuel) is reduced.

While Eskom can increase electricity sales, improve asset utilisation and sustain our business into the future, the customer receives increased value from electricity through convenient facilities and services.

Although an electrical vehicle is more economical than a fossil-fuel driven vehicle based on running costs, the initial capital outlay and limited distances such vehicles can cover make them less practical, except over shorter distances.

Smart energy

This option implements “smart” electricity supply, through enhanced monitoring, better information and advanced control, such as by automatically detecting and reporting outages, giving customers more options to manage demand, consumption and cost of usage.

The result will be a more inclusive, adaptive and efficient energy market. Eskom will improve asset utilisation and grid stability, also lowering costs, reducing theft and managing debt. The customer benefits from flexibility and choice in balancing cost and value of usage, together with more convenience, information and better service levels.

Customer generation and storage

This considers implementing options for customers to generate and store solar power for their own use, while still having access to the grid when required.

While the environment benefits and the local economy is stimulated, Eskom transforms sustainably, adapting to the evolving energy market and the needs of our customers, and starts laying the foundation for the future electricity grid. Customers have access to more cost-effective energy options, and an improved ability to manage their energy usage.

Future focus areas

- Commercial operation of Medupi Unit 4 and Kusile Unit 1
- Construction of 677km transmission and other lines, as well as commissioning of 2 x1000MVA transmission transformer capacity for N–I compliance, grid strengthening and expansion
- Execution of environmental compliance projects which include nitrogen oxide, sulphur dioxide and fabric filter plants
- Finalising the dual-fuel conversion of OCGTs at Anlerlig and Gourikwa
- Completion of demolition works at Duvha Power Station in preparation for reconstruction of Unit 3
- Identification of areas where battery storage can be deployed at scale across the grid

Our impact on the capitals

Our manufactured capital is increased through the building of new power stations and extending our grid capacity, although the funding thereof simultaneously depletes financial capital.

Social and relationship capital is generally enhanced in the communities surrounding our new build sites, as we contribute to job creation and economic growth in the surrounding areas.

Although our activities negatively impact the environment and natural capital, the declaration of the Ingula wetlands as a nature reserve will contribute towards maintaining natural capital in that region.

Our research and development work adds to our intellectual capital.

We spent R2.9 billion during this year on strengthening and refurbishing our distribution network.
Environmental and climate change sustainability continued

### Adjusted Performance

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2016/17</th>
<th>Actual 2016/17</th>
<th>Target 2015/16</th>
<th>Actual 2015/16</th>
<th>Actual 2014/15</th>
<th>Target met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net raw water consumption, Mℓ</td>
<td>314 685</td>
<td>313 078</td>
<td>316 085</td>
<td>313 078</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental legal contraventions in terms of the Operational Health Dashboard, number</td>
<td>3</td>
<td></td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reluse particulate emissions, kg/Myth</td>
<td>0.21</td>
<td>0.34</td>
<td>0.35</td>
<td>0.30</td>
<td>0.36</td>
<td>0.37</td>
</tr>
<tr>
<td>Specific water consumption, ℓ/kWh</td>
<td>1.30</td>
<td>1.37</td>
<td>1.38</td>
<td>1.42</td>
<td>1.44</td>
<td>1.38</td>
</tr>
<tr>
<td>Atmospheric emission licences (AELs)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Atmospheric emission licences (AELs)
We continue with the implementation of our Board-approved emission reduction plan in order to meet air quality standards by 2025 and comply with commitments made to environmental authorities. Changes to the plan have been communicated to DEA.

A further fabric filter plant retrofit at Grootevlei Power Station was completed, resulting in significantly lower relative particulate emissions. The final unit’s retrofit commenced in April 2017. Work at Tutuka and Kriel is in progress. Planning for the installation of high frequency burners at Tutuka is on track for construction from 2021 to 2025. Development work continues for low NOX burner retrofits or replacement at Tutuka, Majuba and Matla, as well as the FGD plant retrofit at Medupi Power Station.

A condition of DEA’s approval of our application for postponement of the Minimum Emission Standards compliance timelines was the development and implementation of an air quality offset programme, to improve ambient air quality (especially particulate matter levels) in communities close to Eskom’s power stations.

An Eskom air quality offset plan for communities adjacent to our coal-fired power stations, with a nominal cost in excess of R4 billion over the next nine years, was approved by DEA and the relevant licensing authorities in the affected district municipalities in September 2016. The pilot project in KwaZamokuhle was concluded during the year.

Approvals for the implementation stage in KwaZamokuhle, Ezamokuhle and Sharpeville have been obtained and contracts are being placed. The baseline establishment has almost been concluded, which will inform the design of the offset interventions. The first phase of interventions in KwaZamokuhle is planned for late 2017. The rollout of interventions in Ezamokuhle is expected to start early in 2018. Work to identify sources of ambient air pollution in Sharpeville has commenced. This work will help in the design of the offset interventions for Lethabo Power Station.

**NEMA section 30 performance**
The atmospheric emission licences issued to power stations require the reporting of unexpectedly high atmospheric emissions in terms of section 30 of the National Environmental Management Act, 1998 (NEMA). A total of 48 of these incidents occurred during the year, an improvement from 59 reported in the previous year. Power stations have operated under conditions where section 30 is triggered for 2.24% of the time during the year (March 2016: 6.6%).

AEL sulphur dioxide (SO2) emission limits for Medupi and Matimba are being exceeded due to the high sulphur content of coal used by these stations. An application to increase the SO2 limit in the AEL will be submitted to DEA in the coming year.

**Ashing facilities and ash utilisation**
Our exemption applications to allow for a period of four to six years after authorisation to install ligning at the Majuba, Kendal, Tutuka and Matimba dry-ashing facilities have all been approved.

Work around the beneficiation of ash and the execution of the ash strategy approved by the Board continued this year, focusing on increasing our ash sales. This has resulted in a slight improvement in our ash utilisation to 8.46% (or 2 760kt) for the year (March 2016: 8.32% or 2 712kt). We are liaising with DEA to obtain waste management exemptions for businesses wishing to make use of our ash for brick and block making. This will create jobs and new skills while continuing to ensure responsible environmental management.

**Reducing water consumption**
Our strategy
The Board has approved a comprehensive water strategy for all coal-fired power stations based on our strategic user status being maintained and applicable water legislation complied with. The strategy supports overall financial, environmental and operational sustainability by working with relevant stakeholders in addressing both the country’s and our particular water challenges.

All power stations have developed water strategy implementation plans, focusing on actions to reduce water use and ensure compliance. Progress against the plans is being monitored and reported, and initial actions have been closed out.

**Water usage**
Water usage related to power station operations for the year was slightly worse than target but better than last year’s performance. Hot, dry conditions for much of the year contributed to high water usage. Inefficiencies at power stations, including excessive system leaks and poor water management practices, remain an area of concern and focus.

Collieries decanting mine-affected water
The Kilbarchan Colliery continues to decant mine-affected water, although the pilot water treatment plant is operational on site. We are working on a request by DWS to expand the treatment plant.

Reducing environmental legal contraventions
There were no Operational Health Dashboard contraventions (as defined earlier) reported during the year. There were, however, 28 legal contraventions identified (March 2016: 20), worse than the target of 24. There were 17 waste-related incidents, six related to emission licences, three biodiversity-related and one each to waste and conservation.

**Provisions for environmental restoration and rehabilitation**
We continue to provide for the estimated decommissioning cost of nuclear plant, including the rehabilitation of the associated land, as well as for the management of nuclear fuel assemblies and radioactive waste. Provision is also made for the decommissioning of other generating plant and the rehabilitation of the associated land.

Furthermore, where a constructive or contractual obligation exists to pay coal suppliers from cost-plus mines, provision is made for the estimated cost of closure at the end of the life of the mine, together with pollution control and rehabilitation of the land. The following provisions have been raised for environmental rehabilitation and restoration:

<table>
<thead>
<tr>
<th>R million</th>
<th>Actual 2016/17</th>
<th>Actual 2015/16</th>
<th>Actual 2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power station-related environmental restoration – nuclear plant</td>
<td>17 454</td>
<td>12 677</td>
<td>15 982</td>
</tr>
<tr>
<td>Power station-related environmental restoration – other power plant</td>
<td>12 643</td>
<td>8 339</td>
<td>7 705</td>
</tr>
<tr>
<td>Mine-related closure, pollution control and rehabilitation</td>
<td>11 706</td>
<td>8 580</td>
<td>5 465</td>
</tr>
<tr>
<td>Total environmental provisions</td>
<td>41 999</td>
<td>29 596</td>
<td>24 152</td>
</tr>
</tbody>
</table>

Refer to note 29 in the annual financial statements for more information on these provisions.
Environmental and climate change sustainability
continued

Biodiversity
The Board approved the declaration agreement and management plan for Ingula as a nature reserve, which were submitted to the MECs of KwaZulu-Natal and the Free State for final approval. We expect that the nature reserve will be declared during the coming year.

A total of 502 red data bird mortalities were recorded on our transmission and distribution infrastructure this year (March 2016: 391). We initiated a proactive strategy last year, aimed at prioritising which lines would be most vulnerable to bird collisions. It is expected that it will take some time before the strategy bears fruit.

Investing in renewable energy
We continue to deliver on our commitment to environmental sustainability and reducing our carbon footprint with purchases of renewable energy from IPPs, coupled with our own investment in renewables. Renewable energy sources include wind, solar power, biomass, landfill gas and small hydro technologies.

Sere-Wind Farm contributed 345GWh to the national grid during the year (March 2016: 311GWh), with a load factor of 37.63% and an availability factor of 99.65% (March 2016: 34.10% and 97.67% respectively). The small hydro plants in the Eastern Cape recorded total energy sent out of 20GWh during the financial year (March 2016: 71GWh).

There are eight rooftop and ground-mounted PV sites in operation at our power stations and administration buildings, which produced total energy sent out of 4.19GWh during the year. The Mkondeni rooftop project was transferred into commercial operation on 31 March 2017.

Climate change
South Africa’s pledge at COP 21
South Africa’s pledge at COP 21 requires the country’s CO2 emissions to stabilise by 2025, and then to decline from 2035. Electricity historically accounts for around 44% of national CO2 emissions. To achieve this, the country will need to invest in lower or zero-emitting technologies, as the current coal-fired electricity generation fleet reaches the end of its life.

A concerted effort is therefore required to focus on technologies such as nuclear, cleaner coal technologies, renewables, gas and large hydro imports. The trade-offs between technologies must be discussed and rationalised to arrive at an appropriate energy mix. This will be informed by the updated Integrated Resource Plan 2016 once it is finalised by DoE.

Carbon budgeting
DEA requested projected emissions for 2016 to 2020 in order to determine carbon budgets. DEA has granted us a favourable carbon budget for the period, and we achieved the 2016 carbon budget by a comfortable margin. However, until such time as we are allocated additional lower carbon-emitting technologies through the IRP process, the ability to reduce our liability relating to the pending carbon tax is a concern.

We shared the impact of the carbon tax on electricity tariffs up to 2023/24 with National Treasury, NERSA and the DoE’s IPP Office. National Treasury indicated that a revised Carbon Tax Bill should be available for public comment during 2017.

Future focus areas
• Continued implementation of the emissions reduction and air quality offset plans, coupled with increasing ash utilisation
• Reduce water use and ensure compliance with water licence conditions through power station water strategy plans
• Maintain the focus on reducing red data bird mortalities

Our impact on the capitals
Although both our emissions and water usage deplete natural capital, the introduction of carbon budgets and the air quality offset programme attempt to limit the impact, as does the declaration of the Ingula Nature Reserve. Emissions in particular negatively affect the communities surrounding our coal-fired power stations; thereby diminishing social and relationship capital.

Costs incurred in managing our environmental performance deplete our financial capital.

Operating performance

Safety and security

We remain committed to the principle of Zero Harm, which means that no operating condition or urgency of service justifies exposing anyone to risk as a result of exposure to our business or causing them injury, or damage to the environment. It requires a work environment which supports the health and safety of everyone, by building strong relationships with our employees, contractors, suppliers and the community.

We pledge to care for and protect all people exposed to our operations, through the belief that any workplace injury or disease is preventable.

Looking back on 2016
Over the past year, safety-related initiatives have brought about improvement in many areas, especially regarding workforce safety and contractor safety management. Our database of OHS-compliant suppliers has increased significantly through ongoing supplier safety evaluations. Comprehensive analysis of all contractor safety incidents is conducted on a monthly basis, and shared with safety managers within the respective divisions.

Focus on safety
In memoriam
Our heartfelt condolences to the families, friends and colleagues of the following people who lost their lives in the line of duty:

Employees
Makhosonke Martin Mbile
Dumisani Israel Phiba
Bongimpilo Terrance Mgwayi
Melusi Edwin Nkosi

Contractors
Adam Grlic
Olwethu Mlakane
Tafakory Nowodi
Daniel Simango
Lohatin van Niekerk
Andre Williams

Our safety performance is assessed in terms of the number of fatalities among employees and contractors, as well as the lost-time injury rate (LTI), which is a proportional representation of the occurrence of lost-time injuries per 200 000 working hours over a period of 12 months.

PROGRESS

• Large-scale public safety awareness campaigns to educate the public about the dangers of unsafe electricity use continue
• Security partnership was established between Eskom and a number of mines in the Gauteng mining corridor to detect and prevent crime

CHALLENGES

• LTI-indexed despite safety improvements initiated and leadership engagement sessions
• Our OHS performance remains a priority due to the lost-time injuries and fatalities recorded
• Compliance with the Construction Regulations 2014 across the organisation remains a concern
• Public demonstrations and picketing actions at our facilities remain a threat for the foreseeable future

LOWLIGHTS

• The number of fatalities, although less than 2016, remains a concern
The number of contractor and public fatalities reduced compared to the prior year. Unfortunately, despite our intense commitment to safety, we suffered four employee fatalities (March 2016: four) and six contractor fatalities (March 2016: 13). The causes of fatalities are shown below:

### Safety programmes

We are continuing with various programmes and initiatives aimed at improving our safety performance. These programmes are regularly revised to ensure that safety is prioritised, maintained and, where practical, continually improved.

### Contractor management

Due to the vital role that contractors play in our operations, contractor safety management remains a priority. Contractor safety initiatives have been communicated throughout the organisation. Line divisions host contractor safety forums to share expectations and lessons learned, line divisions are responsible for monitoring compliance.

Through stakeholder engagement, OHS has been formally integrated into our commercial process. All potential suppliers undergo OHS evaluations prior to being registered on the Eskom vendor database. Contractors who commit a serious safety non-conformity are investigated and sanctioned.

We continue to engage with the Department of Labour and South African Council for the Construction and Project Management Professions to ensure that adequate measures are in place for the professional registration of construction health and safety personnel.

### Public safety education

Our public safety programme aims to educate the public on the dangers of electricity and encourage the safe use thereof, while also inspiring employees to be public safety ambassadors. We have assisted the Department of Basic Education with the development of new Life Orientation textbooks for Grades 1 to 9 that will cover electricity safety.

National Electricity Safety Week is hosted annually to educate communities about the basics of safe electricity usage and the risks of electricity theft, including meter tampering or bypassing, and illegal connections. We continue to conduct large-scale public safety educational awareness campaigns which include school and community visits, radio interviews, agricultural and construction forums, as well as engagements that cover commercial and large power users, counsellors, clinics, hospices, radio interviews and municipalities. These public safety campaigns have yielded positive safety improvement performance between the two years.

### Nuclear safety

The Koeberg Nuclear Power Station plant design and resultant assessment of risk to the public remain well within licensing limits and better than the recommended international standards. Operational practices at Koeberg are not challenging the design boundaries or assumptions; there is no current unacceptable nuclear risk due to the design or operation of Koeberg. The interaction between regulatory organisations and line management is continually monitored by the related governance and nuclear oversight bodies; these organisations are having a positive impact on nuclear safety and our efforts.

The Koeberg units continue to be operated safely, with solid technical performance demonstrated by long periods of continuous operation.

### Security

In addition to experiencing economic crime in general, we also find ourselves the target of organised crime syndicates. We also lose a significant amount of revenue due to illegal connections and ghost vending. Losses due to conductor theft, cabling and related equipment totalled R700 million for the year (March 2016: R85 million), involving 5,734 incidents (March 2016: 5,161 incidents). Actions to combat these losses are managed by the Eskom Network Equipment Crime Committee in collaboration with affected state-owned enterprises and the South African Police Service. The combined effort resulted in 235 arrests (March 2016: 229) and R5 million worth of stolen material was recovered (March 2016: R5 million). Progress was made in the arrest of a number of syndicates targeting network infrastructure components of state-owned enterprises, including Eskom.

We are implementing a number of initiatives to combat equipment theft:

- Copper conductors are being replaced with aluminium conductor, with unique markings
- Normal bolts on pylons will be replaced with anti-theft bolts, and support latches on steel pylons are marked with Eskom’s name
- Alarms are installed on the overhead lines. If the line is cut or tampered with, an alarm is triggered and a reaction unit is despatched to the location
- Air surveillance of hot spots is conducted at night

We are implementing a security modernisation strategy based on a technology-centric approach to ensure higher operational effectiveness and improved security conditions across Eskom, including our National Key Point sites.

Due to the evolving cyber-threats facing organisations today, we are establishing a cyber-security solutions centre, to implement and maintain protective mechanisms and take action where required.

### Future focus areas

- Cascade leadership safety conversations to all levels of the organisation
- Focus on incident prevention and sharing key learnings in safety communications
- Continue to drive OHS compliance amongst suppliers
- Target high-incidence areas and focus on educating children about unsafe electricity usage in public safety programmes
- Reduce incidences of cable theft

### Our impact on the capitals

The impact of fatalities and LTIs on human capital, for employees and contractors, and social and relationship capital for public incidents, is significantly negative. Safety programmes aimed at reducing incidents attempt to diminish the impact.

Financial capital is also affected by these incidents, due to days lost and the impact on morale and productivity in the wake of an incident. Incidents of theft also diminish financial capital.

Educating people on safer ways of working, and coming up with innovative ways to improve safety performance, positively influences intellectual capital.
Building sustainable skills

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

Looking back on 2016

We continue to recruit learners and facilitate training for our employees to address identified competency gaps. The targets for closing competency gaps and leadership behavioural change were achieved during the past year. Nevertheless, this remains a high priority, with targets set for the next five years.

Building strong skills

Our learner pipeline is one of our critical development areas, not only sustaining our supply of skills, but also supporting the country’s socio-economic upliftment. Overall, 12.5% of the total Eskom company staff complement consists of learners, against a target of 8%, a level which is more than sufficient to meet the future demand for core, critical and scarce skills, as well as the organisation’s needs due to normal attrition.

Furthermore, we supported 3 048 learners this year (March 2016: 1 370), far exceeding target. In addition, R1.54 billion was spent on training and development (March 2016: R1.25 billion).

We have been at the forefront of learner pipeline management for many years; this has been acknowledged by a number of accolades received including EWSETA and our state-owned counterparts. We pride ourselves on our ability to build a strong learner pipeline to satisfy the requirements of our future needs based on our workforce plan.

This pipeline has proven to be imperative for both internal and external deployment in support of the National Skills Accord. We continue to support the National Development Plan and the National Skills Accord by ensuring that South Africa has a strong skills base to satisfy future requirements.

We continue to upskill and provide qualification-driven training and development to young South Africans. All trained learners will be equipped with a recognised qualification which will enhance their ability to enter the business environment, whether at Eskom or elsewhere.

The Tertiary Education Support Programme (TESP) supported universities and universities of technology to deliver engineering learning interventions. Some examples of these include the real-time digital simulator at Durban University of Technology; the SMART grid centre at the University of KwaZulu-Natal; the High-Voltage Cable Centre at Vaal University of Technology, high-voltage interventions at Wits University and Stellenbosch University, renewable energy at the University of Cape Town and asset management at the University of Pretoria.

Training

The Eskom Academy of Learning (EAL) has been training 100 learner recruits in the one-year warehouse skills programme. The objective of the programme is to mitigate the attrition of employees within supply chain operations in Group Commercial in the next five years. A total of 60 positions were reserved to be filled by the successful learners.

A five-year agreement for the Eskom Power Plant Engineering Institute (EPPEI) Programme Phase II was concluded at the 2016 PowerGen Africa Conference. It follows Phase I of the programme, which ended in December 2016.

The SANEA (South African National Energy Association) Awards 2016 took place in Johannesburg in September 2016. The Eskom Academy of Learning EPPEI initiative received a highly commended recognition, in the category for SANEA Energy Education Award.

Headcount

The Eskom group headcount at year end was 47 658 (March 2016: 47 798), including permanent staff and fixed-term contractors, and consisting of 41 940 Eskom employees and 5 718 Eskom Korsik Industries employees (March 2016: 42 767 and 5 211 respectively). Of these, approximately 84% are covered by collective bargaining agreements.

The reconciliation of our headcount is shown below. Staff turnover during the past year was approximately 4%.

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2015/16</th>
<th>Target 2016/17</th>
<th>Actual 2015/16</th>
<th>Actual 2016/17</th>
<th>Actual 2017/18</th>
<th>Target met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering learners</td>
<td>1 602</td>
<td>456</td>
<td>1 480</td>
<td>895</td>
<td>1 315</td>
<td>✔</td>
</tr>
<tr>
<td>Technician learners</td>
<td>670</td>
<td>1 209</td>
<td>826</td>
<td>415</td>
<td>461</td>
<td>✔</td>
</tr>
<tr>
<td>Artisan learners</td>
<td>5 873</td>
<td>5 873</td>
<td>955</td>
<td>955</td>
<td>1 723</td>
<td>✔</td>
</tr>
<tr>
<td>Learner intake</td>
<td>2 500</td>
<td>500</td>
<td>685</td>
<td>3 048</td>
<td>1 370</td>
<td>✔</td>
</tr>
</tbody>
</table>

Training spend as % of gross employee benefit costs

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2015/16</th>
<th>Target 2016/17</th>
<th>Actual 2015/16</th>
<th>Actual 2016/17</th>
<th>Actual 2017/18</th>
<th>Target met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training spend</td>
<td>5.00</td>
<td>5.00</td>
<td>5.00</td>
<td>4.89</td>
<td>4.45</td>
<td>✔</td>
</tr>
</tbody>
</table>

1. The 2017/18 target is the cumulative target over the next five years.
2. Learner intake is a new measure with effect from 1 April 2016. It refers to new learner appointments and learners with new contracts.
Building sustainable skills
continued

Remuneration structure
Our remuneration structure for bargaining unit and managerial level employees is set out below.

Bargaining unit
Bargaining unit employees, being all those below middle management, receive a basic salary plus benefits. Major benefits include medical aid, a housing allowance and membership of the Eskom Pension and Provident Fund, as well as a thirteenth cheque. Basic salaries and conditions of service are negotiated through the collective bargaining process. Bargaining unit employees participate in an annual short-term incentive scheme.

Managerial level
Managerial level employees are remunerated on a cost-to-company basis. The package includes pensionable earnings, compulsory benefits and a residual cash component. Managerial employees also participate in an annual short-term incentive scheme, consisting of rewards for achieving objectives set by the Group Chief Executive and approved by the People and Governance Committee.

Incentive scheme
Our short-term incentive scheme aims to align individual performance with strategic organisational initiatives, by setting targets for KPIs that contribute to these initiatives. Key performance areas focus on financial sustainability, improved operations, safety, compliance and the achievement of new build milestones. All permanent employees participate in the scheme.

The size of the bonus pool is determined by Eskom’s overall performance. The bonus pool is further influenced by four factors: qualifiers (for managerial level) or a primary bonus driver (for bargaining unit employees), operational modifiers, gatekeepers as well as a qualitative rating.

The bonus paid to an individual is derived by taking into consideration the available pool amount, the respective group or division’s achievement, team performance and the individual’s performance. An on-target bonus equates to 12% of basic salary for bargaining unit employees, 16.67% of pensionable earnings for middle managers and 25% for senior managers.

Income differentials
An independent exercise was conducted to determine whether employees at the same level are equally remunerated, despite gender, race and disability. A number of discrepancies were discovered, for which a provision of R475 million was raised at year end. The required adjustments still have to follow our internal governance process.

Employee relations
The overall Industrial Relations Index has improved in terms of grievances resolved, disciplinary actions with sanction and disputes referred to external institutions which are ruled in our favour.

The Eskom Employee Engagement Programme
We established the Eskom Employee Engagement Programme in 2015. It uses various platforms to ensure that we rebuild relationships with our employees, to increase employee engagement levels and create a harmonious workplace. The programme is aimed at enabling and empowering employees to feel a sense of connection to the business and one another, thereby driving a culture of performance.

The programme has received positive feedback and realised many successes. Highlights during the year include the 2016 Eskom Chairman’s Awards, where the focus was on harnessing internal talent; the release of the 100th Eskom Employee Engagement Bulletin to the business; an unprecedented response rate of 42.6% to the annual Eskom Employee Engagement Survey; the Group Chief Executive’s country-wide employee engagement roadshows; the inaugural 2016 Eskom Women’s Conference; and the Eskom Heritage Month Good Food and Beverage Show.

The overarching theme of employee engagement is summed up in the Ryunosuke Satoro quote, “Individually, we are one drop; together, we are an ocean”, which emphasises the impact of leadership, vision alignment and synergy to drive optimal performance at all levels of the organisation.

Future focus areas
• Focus on four areas in support of our objectives, namely workforce optimisation, increasing employee engagement, and reducing both manpower costs and headcount.

Our impact on the capitals
Human capital is largely improved through training, while employees personally benefit through the remuneration and benefits they receive, although this diminishes financial capital.

Operating performance

HIGHLIGHTS
• Our CSI programmes benefited 841 845 beneficiaries (March 2016: 502 736)
• A total of 15 203 learners and teachers benefited from our maths and science programmes
• Eskom Contractor Academy produced 150 graduates
• Achieved 207 189 electrification connections (target: 199 714), partly enabled by the use of live-line techniques

CHALLENGES
• Underrepresentation of women at professional and middle management level remains a concern
• Achieving racial equity at senior management, as well as professional and middle management levels, still poses a challenge
• People living with disabilities continue to be underrepresented at supervisory, professional and managerial levels

PROGRESS
• Significant progress was made in improving gender equity at senior management level
• Procurement spend with black-owned and black women-owned suppliers exceeded target

LOWLIGHTS
• Procurement spend for a number of supplier categories remains significantly below target
Operating performance
Eskom Holdings SOC Ltd

Corporate social investment committed, Africans by bringing them electricity.

and the sub-Saharan African region. They have seen about the energy sector, started their company to

Lamo Solar in 2012. Based in Randburg, the company Tshibvumo and his partner, Elmond Khoza, established

helped open more doors for this budding and highly

Engineering and Construction category of Eskom’s

In late 2016, his company won first prize in the

South Africa, and the capabilities required to lead such

role of distributed generation of renewable energy

for the International Entrepreneurial Venture Award

Tshibvumo Sikhwivhilu, CEO and co-owner of Lamo

Eskom competition winner achieves international recognition

Tshibvumo Sikhwivhilu, CEO and co-owner of Lamo

Looking back on 2016
We continued to drive supplier development and localisation. Although not yet meeting target, the spend with black youth-owned enterprises, those owned by black people with disabilities, qualifying small enterprises and exempted micro enterprises all showed an improvement compared to the prior year.

While gender equity has improved year-on-year, with gender equity in senior management improving significantly, much work remains to be done.

Maximising our socio-economic contribution

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2021/22</th>
<th>Target 2017/18</th>
<th>Target 2016/17</th>
<th>Actual 2016/17</th>
<th>Actual 2015/16</th>
<th>Actual 2014/15</th>
<th>Target met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate social investment committed, R million</td>
<td>924.6</td>
<td>192.9</td>
<td>225.3</td>
<td>225.3</td>
<td>103.6</td>
<td>115.5</td>
<td>✔</td>
</tr>
<tr>
<td>Corporate social investment, number of beneficiaries</td>
<td>750 000</td>
<td>350 000</td>
<td>400 000</td>
<td>841 045</td>
<td>302 736</td>
<td>323 082</td>
<td>✔</td>
</tr>
<tr>
<td>Total electrification connections, number</td>
<td>729 914</td>
<td>201 200</td>
<td>199 714</td>
<td>207 189</td>
<td>158 016</td>
<td>139 815</td>
<td>✔</td>
</tr>
</tbody>
</table>

1. The 2021/22 target is the cumulative target over the next five years.
2. The reporting boundary for the number of connections was changed in March 2014, to exclude farm worker connections. A total of 247 farm worker connections were also completed during the year resulting in a total of 207 436 connections being achieved.

Corporate social investment

During the year, our CSI activities impacted 841 845 beneficiaries with a committed spend of R225.3 million (March 2016: 302 736 beneficiaries and committed spend of R103.6 million). The number of beneficiaries increased due to a number of interventions with a national footprint.

Eskom competition winner achieves international recognition

Tshibvumo Sikhwivhilu, CEO and co-owner of Lamo Solar, was nominated by the Wits Business School for the 2016/17 year, which is available online

The Foundation approved funding of over half a million Rand for intercommunication systems for four schools in the George area of the Western Cape. The benefits of such a system are the security it offers, and the improvement of communication to learners and educators. The beneficiaries are Imizamo Yethu Secondary School, Tshobalale Secondary School, George High School and Parkdene Secondary School.

In March 2017, we participated in the 2030 NDP Career Expo hosted by DPE. Minister Lynne Brown commented that CSI programmes help shape the competitive business environment in which we operate.

Contractor Academy helps upskill Cape Town entrepreneur

Glyn Mashonga, the owner of Globescope Security Solutions, successfully completed the Eskom Contractor Academy accredited course. She heard about the academy when her company competed and became a finalist in the Business Investment Competition in 2015.

Globescope Security Solutions was established in 2012 and is based in Cape Town. Glynne started the company after working for a security company and deciding to venture out on her own. The company installs sophisticated electronic security systems in tertiary institutions, corporates and homes in the Western Cape. Products include alarms, access control, CCTV systems, electric fences, gate automation, etc. As a qualified technician, Glynne does most of the product installations herself.

The Contractor Academy is the Foundation’s programme to equip small business owners and entrepreneurs with the necessary skills required to build sustainable businesses, as part of our support of Government’s initiatives of job creation, skills development and poverty alleviation. It is offered to contractors and suppliers wishing to improve their skills in project and financial management, entrepreneurship, legislation and technical acumen to sustain and grow their businesses. Between 2010 and 2015, contracts totalling R2.3 billion were awarded to contractors who graduated from the Academy.

The programme was awarded two international Global Best Awards by the International Partnership Network in Oslo, Norway, in September 2016, namely the Africa Gold Winner: Entrepreneurship and Enterprise Skills, as well as the Overall Global Thematic Winner: Entrepreneurship and Enterprise Skills. The programme also won the local Triologue Strategic CSI Award in December 2016.

For more information on our CSI initiatives, please refer to the Foundation’s report for the 2016/17 year, which is available online

Electrification

The DoE funded electrification programme continues to connect previously disadvantaged households in our licensed areas of supply. The majority of the electrification programme is now being implemented in more remote and deep rural areas, where the construction of network infrastructure is challenging, on difficult terrain and therefore more expensive.

The implementation of the Distribution Performance Centre has enabled the excellent connection performance this year, with eight of the provinces exceeding their annual electrification target, with only the Eastern Cape not meeting target. Furthermore, the average cost per connection has decreased to R14 271 (March 2016: R18 236). The results are a clear indication that we have changed gear to deliver on the aim of universal access to electricity.

Electrification of grid schools and clinics

After the schools contract with the Department of Basic Education (DBE) was signed in October 2016, we resumed electrification of schools. However, some schools were found to be vandalised and some either closed or in the process of being closed. These have been reported to DBE through regular engagements.

Our contribution to supplier development

Our procurement and supply chain management is led by the Chief Procurement Officer. The policy framework and strategic sourcing is guided centrally, whilst execution is managed at various sites. Project Sourcing provides specialised support to new build projects, whilst Strategic Sourcing seeks to maximise total cost of ownership by placing key strategic contracts across our value chain. Special emphasis is placed on supplier development and localisation to transform the supplier base, whilst industrialising key supply sectors.

During the year, we placed a total of 5 388 contracts with 2 937 suppliers (March 2016: 2 892 contracts with 1 656 suppliers). Our total procurement spend (including primary energy) amounted to R178.1 billion for the year (March 2016: R169.9 billion).

Procurement equity performance

Our group and company procurement equity performance is set out in the non-technical statistical tables at the back of the report.

We created 39 277 jobs at 31 March 2017 through the capacity expansion programme at the Medupi, Kusile and Ingube new build sites and Power Delivery Projects (March 2016: 23 169). The expected demobilisation at these sites has not yet materialised due to delays at these projects.

The annual targets for procurement spend with B-BBEE compliant suppliers, black-owned and black women-owned companies were met. The performance can be attributed to the implementation of the new B-BBEE measurement spend directive.
Transformation and social sustainability

which excludes spend with renewable IPPs as it does not qualify as discretionary spend. The collection and maintenance of valid B-BBEE certificates further reduced the procurement spend with non-compliant suppliers.

The attributable spend with black youth-owned enterprises, those owned by black people with disabilities, qualifying small enterprises and exempted micro enterprises performed below target, although performance has improved compared to the previous year. Due to the implementation of the new B-BBEE Codes of Good Practice, certain elements can no longer be considered when calculating total measured procurement spend.

Technology transfer
We have acquired intellectual property (IP) worth R31 million (March 2016: R54 million) and undertook:

Employment equity performance for the group

<table>
<thead>
<tr>
<th>Measure and unit</th>
<th>Target 2021/22</th>
<th>Target 2017/18</th>
<th>Target 2016/17</th>
<th>Actual 2016/17</th>
<th>Actual 2015/16</th>
<th>Actual 2014/15</th>
<th>Target met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Racial equity in senior management, % of black employees</td>
<td>83.06</td>
<td>71.39</td>
<td>72.00</td>
<td>65.80</td>
<td>61.06</td>
<td>61.70</td>
<td>■</td>
</tr>
<tr>
<td>Racial equity in professionals and middle management, % of black employees</td>
<td>85.34</td>
<td>78.22</td>
<td>78.00</td>
<td>73.50</td>
<td>71.68</td>
<td>71.77</td>
<td>■</td>
</tr>
<tr>
<td>Gender equity in senior management, % of female employees</td>
<td>42.35</td>
<td>35.64</td>
<td>36.00</td>
<td>36.58</td>
<td>28.13</td>
<td>29.82</td>
<td>■</td>
</tr>
<tr>
<td>Gender equity in professionals and middle management, % of female employees</td>
<td>43.66</td>
<td>39.59</td>
<td>40.00</td>
<td>35.98</td>
<td>35.11</td>
<td>35.29</td>
<td>■</td>
</tr>
<tr>
<td>Eskom group disability, %</td>
<td>2.50</td>
<td>2.50</td>
<td>2.50</td>
<td>2.93</td>
<td>2.73</td>
<td>2.89</td>
<td>■</td>
</tr>
</tbody>
</table>

We have developed an ambitious and rigorous gender equity plan, which strives to equalise the gender gap by 2020 through the Eskom Women Advancement Programme (EWAP). It is envisaged that opportunities which arise due to attrition will be targeted and reserved for women.

To support the drive towards transformation, employment equity and gender awareness training is being rolled out across the business to sensitise employees on the requirements of the Employment Equity Act, 1998.

The overall picture regarding people with disabilities remains a concern, as they are represented mainly at lower occupational levels. To ensure that the business is disability-friendly, managers will be encouraged to recruit and promote more employees with disabilities, including exposing all managers and employees to disability awareness training. Ensuring that facilities are accessible and allowing for reasonable accommodation in the workplace remains a challenge due to our national footprint.

Future focus areas
• Implement CSI initiatives in large Eskom infrastructure development sites to improve the sustainability of projects
• Prioritise electrification, with one million households to be connected over five years, with universal access targeted by 2019/20
• Advance transformation of the supplier landscape through the Eskom spend, increasing the capacity and capacity of black suppliers
• Strive to equalise the gender gap by 2020 by reserving vacancies arising through attrition for women.

Our impact on the capitals
Human capital is enhanced by our efforts to improve racial and gender equity in our workforce. Similarly, social and relationship capital is enhanced through our procurement equity efforts, CSI initiatives and electrification of households.

However, all of these deplete financial capital.
Chief Financial Officer’s report

Financial results for the year
The business has achieved above-target financial performance over the year despite a challenging operating environment and a price increase of 9.4% being awarded for 2016/17, against a budget of 13%. The performance reflects a concerted effort by the business to improve efficiencies, resulting in cost reduction and increasing cross-border sales supported by improved plant performance.

For the year ended 31 March 2017, the group achieved a net profit after tax of R0.9 billion (March 2016: R5.2 billion, restated). Group EBITDA (earnings before interest, tax, depreciation, amortisation and fair value adjustments on financial instruments and embedded derivatives) of R37.5 billion is a significant improvement against the prior year (March 2016: R84.7 billion). The increase in total coal costs (including environmental levy) was contained to 5.4%, while spending on OCGTs was reduced. The group achieved a 9.4% average electricity price increase, growth in export sales volumes, and containing primary energy costs.

Group revenue amounted to R177.1 billion (March 2016: R164.2 billion, restated). However, overall sales volumes have decreased by 2.0% against the prior year, export sales volumes have increased by 12.1%. Primary energy costs of R82.8 billion are slightly lower than the prior year (March 2016: R84.7 billion). The increase in total coal costs is significantly lower than anticipated, leading to an 85% reduction in own generation costs. IPP expenditure has increased further due to higher volumes being produced, although the average cost per MWh has also increased by approximately 10%.

The increase in operating expenditure to R58.4 billion (March 2016: R49.9 billion) is driven largely by an increase in employee benefit costs and other operating expenses. Depreciation has increased to R20.3 billion (March 2016: R16.6 billion, restated) due to new plant being commissioned. BPP spendings of R20.2 billion (March 2016: R17.5 billion) were achieved against a target of R17 billion, in order to maintain high levels of capital expenditure. Capital expenditure (excluding DoE funded capex) amounted to R60 billion for the year (March 2016: R57.4 billion).

Our financial rating for the year under review was reduced from an original amount of R68.8 billion to R57.4 billion. We therefore only borrowed R57.4 billion for the year. For the 2017/18 financial year, funding sources of R71.7 billion have been identified, of which R38.3 billion (including committed bank facilities), or 53%, had already been secured at 31 March 2017.

Our credit ratings were downgraded further during the financial year, and again since year end, largely driven by uncertainty around Government’s ability to provide timely support should Eskom require it. National Treasury has extended the current Government guarantee framework agreement to 31 March 2022.

Outlook
Key to enhancing Eskom’s financial health is improving the EBITDA margin to at least 35% over the medium to long term, through a combination of driving local and export sales, delivering on cost efficiencies by limiting price escalations in key inputs such as coal costs, and ultimately migrating to a cost-reflective electricity price.

However, the successful execution of our strategy will be at risk should any of the interventions not materialise as planned.

Given the pressure on NERSA not to increase the electricity tariff significantly, coupled with our sizeable debt service commitments, our only options are to focus on internal cost efficiencies and sales growth programmes to offset our significant fixed-cost base. Even with aggressive cost cutting, a substantial price increase of approximately 20% is required, regardless whether once-off or phased in over time.

However, low economic growth, customer concerns about affordability and other uncertainties in the electricity industry will see NERSA encountering resistance to significant price increases in 2018/19. As a result, the price of electricity will still not reflect its cost; this will have an even greater negative impact on our financial health. Although no further credit enhancement mechanisms are expected from Government, further shareholder support may have to be considered should our revenue not improve significantly, as the only other option is additional borrowings, which would further weaken our key financial ratios.

We currently have surplus generating capacity available, which may necessitate decisions about the decommissioning of power stations, which would negatively impact our cash flow. Our short-term marginal cost — which is relevant in times of surplus capacity — is far below the price we pay for IPP production, negatively affecting our financial position. It makes sense to decelerate the RE-IPP Programme until such time as the surplus capacity has been reduced.

Liquidity management is critical to ensure our status as a going concern. We will continue to engage key customers, especially municipalities, to rationalise their debt. Operational cash flow is expected to show strong growth over the next five years.

The impact of the latest downgrades of Eskom’s credit rating, directly or as a result of the recent downgrade of the Sovereign to sub-investment grade, could also have a negative impact on the sourcing of funding, as access to investment-grade mandates utilising Government guarantees may drastically reduce. However, we have maintained a very conservative debt portfolio that has not yet been severely impacted by previous ratings downgrades. Although current market conditions remain supportive, the cost of funding is also likely to be adversely impacted by the downgrades.

We have to repay interest of R213 billion over the next five years, with debt repayments of R200 billion, with a peak of R63 billion in 2020/21. Cash interest cover and debt service cover ratios will both come under pressure as debt servicing increases over the medium term. Nevertheless, cash flow from operations is expected to be sufficient to cover debt and interest payments.

Although debt funding of R338 billion is required over the next five years to finance expansion, strengthening of networks, environmental requirements and servicing debt, we remain confident that our funding target will be achieved.

The group has access to adequate resources and facilities to continue as a going concern for the foreseeable future.

Our financial position has improved over the past few years and is expected to improve further, given successful implementation of our strategy.

The main focus over the medium term will be to increase sales volumes and reduce costs, in order to improve profitability. The biggest challenge will be to moderate the electricity price increase while strengthening our financial position. The ultimate goal is to achieve a standalone investment-grade credit rating, which will allow us to release R105 billion in Government guarantees.

Anoj Singh
Chief Financial Officer
Value added statement
for the year ended 31 March 2017

<table>
<thead>
<tr>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rm</td>
<td>Rm</td>
</tr>
<tr>
<td>Revenue</td>
<td>177 136</td>
</tr>
<tr>
<td>Other income</td>
<td>6 088</td>
</tr>
<tr>
<td>Loss: Primary energy and other operating expenses</td>
<td>(109 529)</td>
</tr>
<tr>
<td>Value added</td>
<td>69 215</td>
</tr>
<tr>
<td>Finance income</td>
<td>5 212</td>
</tr>
<tr>
<td>Wealth created</td>
<td>74 427</td>
</tr>
<tr>
<td>Value distributed</td>
<td>75 947</td>
</tr>
<tr>
<td>Benefits to employees</td>
<td>36 038</td>
</tr>
<tr>
<td>Social spending to communities</td>
<td>201</td>
</tr>
<tr>
<td>Finance costs to lenders</td>
<td>37 822</td>
</tr>
<tr>
<td>Taxation to Government</td>
<td>1 091</td>
</tr>
<tr>
<td>Value reinvested in the group to maintain and develop operations</td>
<td>(1 120)</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>20 300</td>
</tr>
<tr>
<td>Borrowing costs capitalised</td>
<td>(18 233)</td>
</tr>
<tr>
<td>Employee costs capitalised</td>
<td>(3 655)</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>(820)</td>
</tr>
<tr>
<td>Net profit</td>
<td>65 202</td>
</tr>
<tr>
<td>Wealth created</td>
<td>74 427</td>
</tr>
<tr>
<td>Value created, R million</td>
<td>3 32</td>
</tr>
<tr>
<td>Revenue per employee</td>
<td>1.45</td>
</tr>
<tr>
<td>Value added per employee</td>
<td>1.56</td>
</tr>
<tr>
<td>Value added per GWh generated</td>
<td>0.31</td>
</tr>
<tr>
<td>Number of employees and fixed-term contractors</td>
<td>47 658</td>
</tr>
<tr>
<td>GWh generated</td>
<td>220 166</td>
</tr>
</tbody>
</table>

Condensed annual financial statements
for the year ended 31 March 2017

The group and company financial results set out in the condensed financial statements which follow have been extracted from the Eskom Holdings SOC Ltd consolidated annual financial statements for the year ended 31 March 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2008.

The consolidated annual financial statements have been prepared under the supervision of the Chief Financial Officer, Mr Anoj Singh CA(SA), and were duly approved by the Board of Directors on 15 June 2017.

The consolidated annual financial statements have been audited by the group’s independent auditors, SizweNtsalubaGobodo Inc. in accordance with the Public Audit Act of South Africa, 2008, the General Notice issued in terms thereof and International Standards on Auditing; they issued a qualified opinion relating to compliance with PFMA and completeness of irregular expenditure. The consolidated annual financial statements are fairly presented, except for the qualification.

The consolidated annual financial statements, which detail the financial performance of the group and company, are available online. The financial statements may also be inspected at Eskom’s registered office; limited copies are available on request.

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

Condensed income statements
for the year ended 31 March 2017

<table>
<thead>
<tr>
<th>Group</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>Restated 2016</td>
</tr>
<tr>
<td>Rm</td>
<td>Rm</td>
</tr>
<tr>
<td>Revenue</td>
<td>177 136</td>
</tr>
<tr>
<td>Other income</td>
<td>1 573</td>
</tr>
<tr>
<td>Primary energy</td>
<td>(82 760)</td>
</tr>
<tr>
<td>Employee benefit expenses</td>
<td>(22 187)</td>
</tr>
<tr>
<td>Net impairment loss</td>
<td>(1 669)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(22 570)</td>
</tr>
<tr>
<td>Profit before depreciation and amortisation expense and net fair value loss (EBITDA)</td>
<td>37 532</td>
</tr>
<tr>
<td>Depreciation and amortisation expense</td>
<td>(20 300)</td>
</tr>
<tr>
<td>Net fair value loss on financial instruments, excluding embedded derivatives</td>
<td>(3 342)</td>
</tr>
<tr>
<td>Net fair value gain on embedded derivatives</td>
<td>1 611</td>
</tr>
<tr>
<td>Profit before net finance cost</td>
<td>15 561</td>
</tr>
<tr>
<td>Net finance cost</td>
<td>(14 377)</td>
</tr>
<tr>
<td>Finance income</td>
<td>(9 589)</td>
</tr>
<tr>
<td>Finance cost</td>
<td>5 212</td>
</tr>
<tr>
<td>Share of profit of equity-accounted investees after tax</td>
<td>35</td>
</tr>
<tr>
<td>Profit/(loss) before tax</td>
<td>1 159</td>
</tr>
<tr>
<td>Income tax</td>
<td>(271)</td>
</tr>
<tr>
<td>Profit/(loss) for the year</td>
<td>888</td>
</tr>
</tbody>
</table>

Notes:

1. A nominal amount is attributable to the non-controlling interest in the group. The remainder is attributable to the owner of the company.

Refer to note 49 in the consolidated annual financial statements for detail of the restatement of comparatives.
Condensed annual financial statements
continued

Condensed statements of comprehensive income
for the year ended 31 March 2017

<table>
<thead>
<tr>
<th>Group</th>
<th>2017 Rm</th>
<th>Restated 2016 Rm</th>
<th>2017 Rm</th>
<th>Restated 2016 Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/(loss) for the year</td>
<td>888</td>
<td>5 151</td>
<td>(876)</td>
<td>3 136</td>
</tr>
<tr>
<td>Other comprehensive (loss)/income</td>
<td>(7 298)</td>
<td>6 508</td>
<td>(7 269)</td>
<td>6 481</td>
</tr>
</tbody>
</table>

Items that may be reclassified subsequently to profit or loss:

Available-for-sale financial assets – net change in fair value
60
Cash flow hedges – effective portion of changes in fair value
9 123
Net amount transferred to initial carrying amount of hedged items
1 140
Foreign currency translation differences on foreign operations
45
Income tax thereon
2 986

(2 287)

Equity

Items that may not be reclassified subsequently to profit or loss:

Reassessment of post-employment medical benefits
231
Income tax thereon
(65)

Total comprehensive (loss)/income for the year
(4 110)

1. A nominal amount is attributable to the non-controlling interest in the group. The remainder is attributable to the owner of the company.

Condensed statements of changes in equity
for the year ended 31 March 2017

<table>
<thead>
<tr>
<th>Group</th>
<th>2017 Rm</th>
<th>Restated 2016 Rm</th>
<th>2017 Rm</th>
<th>Restated 2016 Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restated balance at the beginning of the year</td>
<td>182 352</td>
<td>118 419</td>
<td>174 103</td>
<td>172 212</td>
</tr>
<tr>
<td>Previously reported</td>
<td>180 563</td>
<td>117 164</td>
<td>172 314</td>
<td>170 957</td>
</tr>
<tr>
<td>Prior year restatements, net of tax</td>
<td>1 789</td>
<td>1 255</td>
<td>1 799</td>
<td>1 255</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>888</td>
<td>5 151</td>
<td>(876)</td>
<td>3 136</td>
</tr>
<tr>
<td>Other comprehensive (loss)/income, net of tax</td>
<td>(7 298)</td>
<td>6 508</td>
<td>(7 269)</td>
<td>6 481</td>
</tr>
<tr>
<td>Share capital issued</td>
<td>–</td>
<td>23 000</td>
<td>–</td>
<td>23 000</td>
</tr>
<tr>
<td>Conversion of subordinated shareholder loan to equity</td>
<td>–</td>
<td>29 274</td>
<td>–</td>
<td>29 274</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>175 942</td>
<td>182 352</td>
<td>165 964</td>
<td>174 103</td>
</tr>
</tbody>
</table>

Comprising:

Share capital
83 000
Cash flow hedge reserve
4 140
Available-for-sale reserve
6
Unrealised for value reserve
(11 873)
Foreign currency translation reserve
(27)
Accumulated profit
100 655

Total equity
175 942

Refer to note 49 in the consolidated annual financial statements for detail of the restatement of comparatives.

Condensed statements of financial position
at 31 March 2017

<table>
<thead>
<tr>
<th>Group</th>
<th>2017 Rm</th>
<th>Restated 2016 Rm</th>
<th>2017 Rm</th>
<th>Restated 2016 Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td>622 331</td>
<td>567 940</td>
<td>622 683</td>
<td>568 873</td>
</tr>
<tr>
<td>Property, plant and equipment and intangible assets</td>
<td>592 848</td>
<td>523 659</td>
<td>593 266</td>
<td>524 713</td>
</tr>
<tr>
<td>Future fuel supplies</td>
<td>8 190</td>
<td>10 903</td>
<td>8 190</td>
<td>10 903</td>
</tr>
<tr>
<td>Investment in equity-accounted investees and subsidiaries</td>
<td>364</td>
<td>360</td>
<td>479</td>
<td>479</td>
</tr>
<tr>
<td>Derivatives held for risk management</td>
<td>16 686</td>
<td>27 600</td>
<td>16 868</td>
<td>27 600</td>
</tr>
<tr>
<td>Investment in subsidiaries</td>
<td>1 537</td>
<td>1 465</td>
<td>1 537</td>
<td>1 465</td>
</tr>
<tr>
<td>Other assets</td>
<td>2 534</td>
<td>3 354</td>
<td>2 313</td>
<td>3 094</td>
</tr>
<tr>
<td>Current assets</td>
<td>70 879</td>
<td>86 248</td>
<td>78 977</td>
<td>87 644</td>
</tr>
<tr>
<td>Inventories</td>
<td>22 359</td>
<td>17 821</td>
<td>22 156</td>
<td>17 641</td>
</tr>
<tr>
<td>Loans receivable</td>
<td>14</td>
<td>10</td>
<td>6 167</td>
<td>6 352</td>
</tr>
<tr>
<td>Derivatives held for risk management</td>
<td>1 000</td>
<td>1 580</td>
<td>1 000</td>
<td>2 582</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>19 379</td>
<td>21 810</td>
<td>20 609</td>
<td>24 455</td>
</tr>
<tr>
<td>Investment in subsidiaries</td>
<td>10 541</td>
<td>7 741</td>
<td>5 167</td>
<td>2 067</td>
</tr>
<tr>
<td>Financial trading assets</td>
<td>2 919</td>
<td>3 844</td>
<td>1 730</td>
<td>2 657</td>
</tr>
<tr>
<td>Other assets</td>
<td>2 242</td>
<td>4 066</td>
<td>1 984</td>
<td>3 754</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>20 425</td>
<td>28 454</td>
<td>19 964</td>
<td>28 136</td>
</tr>
<tr>
<td>Non-current assets held-for-sale</td>
<td>8 799</td>
<td>8 942</td>
<td>70</td>
<td>148</td>
</tr>
</tbody>
</table>

Total assets
710 009

Equity

Capital and reserves attributable to the owner of the company
175 942

Liabilities

Non-current liabilities
453 777

Debt securities and borrowings
336 770

Embedded derivatives
4 032

Derivatives held for risk management
6 767

Deferred tax
10 067

Provisions
44 021

Employee benefit obligations
13 790

Finance lease payable
9 819

Deferred income
17 700

Other liabilities
2 831

Current liabilities
70 607

Debt securities and borrowings
10 539

Embedded derivatives
1 382

Derivatives held for risk management
3 826

Employee benefit obligations
3 349

Provisions
9 057

Trade and other payables
31 782

Financial trading liabilities
1 620

Other liabilities
5 062

Non-current liabilities held-for-sale
1 683

Total liabilities
534 067

Total equity and liabilities
710 009

Refer to note 49 in the consolidated annual financial statements for detail of the restatement of comparatives.

Eskom Holdings SOC Ltd
### Condensed annual financial statements

#### Condensed statements of cash flows

**for the year ended 31 March 2017**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit/(loss) before tax</td>
<td>1 159</td>
<td>7 847</td>
<td>(1 096)</td>
<td>5 041</td>
</tr>
<tr>
<td>Adjustments for non-cash items</td>
<td>47 932</td>
<td>29 162</td>
<td>47 985</td>
<td>29 980</td>
</tr>
<tr>
<td>Changes in working capital</td>
<td>(1 730)</td>
<td>(2 201)</td>
<td>(276)</td>
<td>(2 305)</td>
</tr>
<tr>
<td><strong>Cash generated from operations</strong></td>
<td>47 261</td>
<td>34 908</td>
<td>46 440</td>
<td>32 716</td>
</tr>
<tr>
<td>Net cash flows (used in)/from derivatives held for risk management</td>
<td>(1 787)</td>
<td>643</td>
<td>(1 705)</td>
<td>622</td>
</tr>
<tr>
<td>Interest received</td>
<td>1 342</td>
<td>2 322</td>
<td>1 342</td>
<td>3 322</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(22)</td>
<td>(1)</td>
<td>(22)</td>
<td>(1)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(1 053)</td>
<td>(520)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Net cash from operating activities</strong></td>
<td>45 841</td>
<td>37 242</td>
<td>46 060</td>
<td>35 649</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from disposal of property, plant and equipment</td>
<td>188</td>
<td>308</td>
<td>302</td>
<td></td>
</tr>
<tr>
<td>Acquisitions of property, plant and equipment and intangibles</td>
<td>(57 259)</td>
<td>(54 755)</td>
<td>(56 572)</td>
<td>(54 164)</td>
</tr>
<tr>
<td>Expenditure on future fuel supplies</td>
<td>(639)</td>
<td>(1 754)</td>
<td>(639)</td>
<td>(1 754)</td>
</tr>
<tr>
<td>Increase in payments made in advance</td>
<td>(99)</td>
<td>(276)</td>
<td>(99)</td>
<td>(276)</td>
</tr>
<tr>
<td>Expenditure incurred on provisions</td>
<td>(6 890)</td>
<td>(3 054)</td>
<td>(6 890)</td>
<td>(3 054)</td>
</tr>
<tr>
<td>Net cash flows from derivatives held for risk management</td>
<td>389</td>
<td>771</td>
<td>389</td>
<td>771</td>
</tr>
<tr>
<td>Decrease/increase in investment in securities and financial trading assets</td>
<td>496</td>
<td>(1 886)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Interest received</td>
<td>1 221</td>
<td>1 202</td>
<td>1 546</td>
<td>1 559</td>
</tr>
<tr>
<td>Other cash flows from investing activities</td>
<td>97</td>
<td>220</td>
<td>235</td>
<td>336</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(62 286)</td>
<td>(58 390)</td>
<td>(62 642)</td>
<td>(57 278)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt securities and borrowings raised</td>
<td>50 994</td>
<td>41 052</td>
<td>51 073</td>
<td>41 840</td>
</tr>
<tr>
<td>Payments made in advance to secure debt raised</td>
<td>(1 096)</td>
<td>(555)</td>
<td>(1 096)</td>
<td>(555)</td>
</tr>
<tr>
<td>Debt securities and borrowings repaid</td>
<td>(7 634)</td>
<td>(11 223)</td>
<td>(7 072)</td>
<td>(10 013)</td>
</tr>
<tr>
<td>Share capital issued</td>
<td>–</td>
<td>23 000</td>
<td>–</td>
<td>23 000</td>
</tr>
<tr>
<td>Net cash flows (used in)/from derivatives held for risk management</td>
<td>(7 738)</td>
<td>11 847</td>
<td>(7 738)</td>
<td>11 847</td>
</tr>
<tr>
<td>Net cash flows used in investment in securities and financial trading assets and liabilities</td>
<td>(660)</td>
<td>(1 621)</td>
<td>(660)</td>
<td>(1 621)</td>
</tr>
<tr>
<td>Interest received</td>
<td>2 345</td>
<td>1 375</td>
<td>2 328</td>
<td>1 250</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(28 788)</td>
<td>(22 791)</td>
<td>(28 888)</td>
<td>(22 946)</td>
</tr>
<tr>
<td>Other cash flows from financing activities</td>
<td>(188)</td>
<td>(187)</td>
<td>(188)</td>
<td>(187)</td>
</tr>
<tr>
<td><strong>Net cash from financing activities</strong></td>
<td>7 855</td>
<td>40 927</td>
<td>7 759</td>
<td>41 705</td>
</tr>
<tr>
<td><strong>Net (decrease)/increase in cash and cash equivalents</strong></td>
<td>(8 590)</td>
<td>19 579</td>
<td>(8 023)</td>
<td>20 076</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>28 454</td>
<td>8 063</td>
<td>28 154</td>
<td>7 966</td>
</tr>
<tr>
<td>Foreign currency translation</td>
<td>(45)</td>
<td>21</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Effect of movements in exchange rates on cash held</td>
<td>647</td>
<td>75</td>
<td>651</td>
<td>74</td>
</tr>
<tr>
<td>Cash and cash equivalents transferred to non-current assets held-for-sale</td>
<td>(41)</td>
<td>(84)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the year</strong></td>
<td>20 425</td>
<td>28 454</td>
<td>19 964</td>
<td>28 136</td>
</tr>
</tbody>
</table>

Refer to note 49 in the consolidated annual financial statements for detail of the restatement of comparatives.

### Key accounting policies, significant judgements and estimates

#### Key accounting policies

Our condensed annual financial statements do not include all the information required for full financial statements and should be read in conjunction with the consolidated annual financial statements for the year ended 31 March 2017, which have been prepared on the going concern basis.

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

We have consistently applied the accounting policies to all periods presented, except for new or revised statements and interpretations implemented during the year, the impact of which is detailed in the full set of consolidated annual financial statements, as well as restatements due to a change in the way we account for distribution assets developed by third parties.

We did not correctly account for certain distribution assets that were developed by third parties and transferred to Eskom in prior years. This error was corrected in the 2017 annual financial statements as a prior period restatement. We accounted for the assets transferred to Eskom in terms of the requirements of IFRIC 18: Transfers of assets from customers. The distribution assets were recognised as property, plant and equipment at fair value in terms of IAS 16: Property, plant and equipment, while revenue was recognised in terms of IAS 18: Revenue, as other income.

#### Determination of fair value

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

#### Foreign currency translation

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

#### Revenue

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

### Capital contributions received from customers

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

#### Government grants

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

#### Impairment of non-financial assets

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

#### Finance income

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

#### Finance cost

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

#### Property, plant and equipment

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

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

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

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

Provisions
We recognise a provision when we have a present legal or constructive obligation as a result of a past event, when an outflow of resources is probable and the amount can be reliably estimated.

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

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

Embedded derivatives
We have entered into agreements to supply electricity to electricity-intensive businesses, where the revenue from these contracts is linked to commodity prices, foreign currency exchange rates or foreign production price indices, giving rise to embedded derivatives. The fair value of embedded derivatives is determined by using a forward electricity price curve to value the host contract, while the derivative contract is valued by using market forecasts of future commodity prices, foreign currency exchange rates, interest rate differentials, future sales volumes, production price and liquidity, model risk and other economic factors.

Post-employment medical benefits
We recognise a liability for post-employment medical benefits to qualifying retirees, for both in-service and retired members, based on an actuarial valuation performed annually.

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

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

Provisions for decommissioning, mine closure and rehabilitation
A liability is recognised for occasional and service leave due to employees, based on an actuarial valuation performed annually.

Key assumptions
We have made the following key assumptions in determining the provision for decommissioning, mine closure and rehabilitation:

- Future coal prices
- Production volumes
- Decommissioning costs
- Mine closure costs
- Rehabilitation costs

We review the key assumptions annually.

Looking back on 2016
Our financial performance improved further over the past year with most key financial metrics showing improvement. We also exceeded our cost savings target under the BPP Programme.

Despite a challenging funding environment, impacted by credit ratings downgrades, we managed to maintain our liquidity buffer and successfully executed our borrowing programme. We continue to engage with ratings agencies to address their concerns around our highly leveraged financial profile, regulatory uncertainty, an inadequate electricity price path, cost containment efforts and our funding plan.

Financial results of operations
The group achieved a net profit after tax of R0.9 billion for the year (March 2016: R5.2 billion, restated), and EBITDA of R37.3 billion (March 2016: R32.8 billion, restated). The electricity EBITDA margin has improved to 21.44% (March 2016: 20.29%, restated), due to the 9.4% average electricity price increase, growth in export sales volumes, and containing primary energy costs.

Return on assets (ROA), %

- Normalised ROA - historical valuation method
- Normalised ROA - replacement valuation method
- Normalised WACC (periodic)
- Real WACC (per-tax)
Financial sustainability

Sales and revenue

Electricity revenue increased by 8.3%.

Revenue for the group was R177.1 billion (March 2016: R164.2 billion, restated). Electricity revenue of R175.1 billion (March 2016: R161.7 billion) increased by R13.4 billion year-on-year, which translates to an overall increase of 8.3% against the prior year, lower than the 9.4% standard tariff increase granted, due to lower volumes than anticipated in the MYPD 3 application. However, when considering the revenue per kWh sold of 83.60c/kWh, the year-on-year increase is 9.7%, with export sales at a higher rate than anticipated.

The application of the IAS 18 principle of not recognising revenue if it is not deemed collectable at the date of sale resulted in external revenue and debtors of R3.2 billion not being recognised during the year, and R5.3 billion cumulatively (March 2016: R1.5 billion and R2.1 billion respectively).

Electricity sales of 214.121GWh for the year (March 2016: 214.487GWH) were 0.2% lower than last year. Industrial customers recorded a decline of 3.7%, which was offset by an increase of 12.1% in export sales. This was driven by higher demand due to the drought in the SADC region, and was enabled by the surplus capacity available.

We have initiated a strategy to address the decline in sales volumes, focusing on both retention of sales to existing customers, as well as the stimulation of sales growth, while aligning to an electricity price path that supports economic growth. It addresses cross-border sales, local demand stimulation, corporate development and unregulated revenues.

Operating costs

Operating costs largely contained

Primary energy

Primary energy cost (including coal, water and liquid fuels) decreased marginally to R82.8 billion (March 2016: R84.7 billion). Our own generation costs (including the environmental levy) declined by 8.5% to R60.1 billion (March 2016: R65.7 billion), largely due to significantly lower OCGT usage.

Total coal costs (including environmental levy) showed a 5.4% increase to R35.8 billion (March 2016: R35.5 billion), with production from coal-fired stations remaining relatively stable. We have applied the least-cost merit order dispatch of stations, with increased burn at cheaper stations such as Lethabo and Duvha.

Due to the improved availability of the coal fleet, evidenced by the improvement of EAF, coupled with more energy being supplied by IPPs, usage of OCGTs was kept to a minimum, with only 29GWh being generated during the year at a cost of R40 million (March 2016: R7.7 billion spent producing 3 936GWh). The current year cost includes diesel storage and demurrage charges of R280 million, required due to the low utilisation of the OCGT units.

Expenditure on IPPs amounted to R19.8 billion for the year, adding an additional 11.529GWh to the energy mix (March 2016: R15.1 billion and 9.033GWh). An amount of R2 billion has been deducted from IPP expenditure, relating to the IFRIC 4 charge on the Avon and Dedisa gas peakers, which are treated as arrangements containing a lease (March 2016: R340 million). The average cost (before the IFRIC 4 adjustment) increased to 188.4c/kWh (March 2016: 171.6c/kWh), as more energy proportionately was procured from RE-IPPs at a higher average cost than other IPPs. The capacity charge paid for the gas peakers also increases the average cost.

Our Treasury Department has its own dealing room.
Financial sustainability continued

Levelised cost of electricity (LCOE)
Different types of power plants have different characteristics – like the costs relating to initial construction, fuel, operating and maintenance, environmental matters, financing and decommissioning, as well as expected useful life and annual electricity production – making cost comparison between technologies difficult.

Levelised cost is an internationally acceptable methodology which expresses the total cost of building and operating a generating plant over its estimated useful life, as a cost per kWh of production. It is calculated as the total life-cycle cost based on assumed utilisation (discounted to present value) divided by total assumed life-cycle production, and represents a break-even price per unit of production that an electricity supplier would require in order to justify an investment in a particular energy project.

LCOE equates to the total real cost per unit of production, making it possible to compare different technologies. In theory, the long-run marginal cost (LRMC) of a specific technology is represented by the LCOE of an incremental unit of generating capacity that is needed to meet the next unit of incremental electricity demand, whereas short-run marginal cost (SRMC) applies when surplus capacity is available, and only variable costs are required to increase production.

The estimated life-cycle production takes into account the type of plant, capacity, availability, technical characteristics (e.g. dispatchability and flexibility), variable cost (which largely determines its position in the system merit order), system load profile, etc. All of these combine to result in an expected load factor and thus an expected annual production volume. Life-cycle costs and revenues are discounted at a specific rate, depending on cost of capital and the risk profile of the specific technology.

In order to ensure like-for-like comparison, international benchmarks are adjusted to a common base. The benchmarks are compared to the Eskom LCOE below.

<table>
<thead>
<tr>
<th>USD/MMWh (2017 values)</th>
<th>Pulverised coal without FGD</th>
<th>Pulverised coal with FGD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lazard</td>
<td>65 – 150</td>
<td>65 – 150</td>
</tr>
<tr>
<td>Electric Power Research Institute (EPR)</td>
<td>71 – 79</td>
<td>86 – 95</td>
</tr>
<tr>
<td>International Energy Agency</td>
<td>76 – 107</td>
<td>76 – 107</td>
</tr>
<tr>
<td>Medupi (excluding FGD)</td>
<td>53 – 55</td>
<td>n/a</td>
</tr>
<tr>
<td>Kusile (including FGD)</td>
<td>n/a</td>
<td>76 – 77</td>
</tr>
</tbody>
</table>

The graphs set out the breakdown of primary energy costs, with the contribution to energy production in brackets.

Other operating costs
The number of employees in the group (including fixed-term contractors) decreased to 47 658 (March 2016: 47 978). Net employee benefit costs for the year amounted to R3 32.2 billion (March 2016: R29.3 billion), due to higher overtime and wage increases. Furthermore, we raised a provision of R0.5 billion to levelise income differences.

Net impairments recognised amounted to R1.7 billion (March 2016: R1.2 billion), largely due to the uncertainty of collecting amounts due from debtors, as well as impairment of the Majuba underground coal gasification plant. The cumulative impairment provision raised at year end for arrear customer debt (excluding interest) was R8.7 billion for all electricity debtors (March 2016: R7.8 billion).

Maintenance expenditure remains a large contributor to operating expenditure. The group’s net repairs and maintenance for the year (after capitalisation, but before group eliminations) amounted to R14.1 billion (March 2016: R13.2 billion). Planned maintenance exceeded target, while unplanned maintenance has decreased due to fewer breakdowns. More short-term maintenance was also performed.

Other operating expenses, including maintenance, amounted to R23.6 billion (March 2016: R18.7 billion). The increase is largely due to a change in the discount rate applied to the decommissioning provisions.

Depreciation and amortisation increased to R20.3 billion (March 2016: R16.6 billion, restated), due to more capital projects being transferred to commercial operation, such as the four units at Ingula.

Progress on the Business Productivity Programme
BPP was introduced to close the revenue gap created by the MYPD 3 revenue determination. Although DTC was launched as a continuation of BPP to identify additional cost savings, compliance with the BPP targets is one of the conditions of the Government support package, and will remain in effect until 31 March 2018.

For the year under review, savings of R20.2 billion were achieved (March 2016: R17.5 billion), exceeding the target of R17 billion, primarily as a result of lower coal prices and efficiencies in maintenance.

Inception-to-date savings amount to R48.7 billion against a target of R43 billion.

Net fair value loss on financial instruments and embedded derivatives
The net fair value loss for the group on financial instruments, excluding embedded derivatives, was R3.3 billion (March 2016: R1.5 billion), and arose from exchange rate movements and fair value adjustments, as well as premium and volume variances on forward exchange contracts due to the ongoing hedging of interest and capital repayments on foreign borrowings.

Changes in the fair value of embedded derivatives continued to impact the group income statement. The net impact for the year was a fair value gain of R1.6 billion (March 2016: R1.1 billion), as a result of exchange rate movements, changes in aluminium prices and the unwind of volumes and interest.

Net finance cost
Gross finance income for the year was R5.2 billion for the group (March 2016: R3.4 billion). Gross finance cost for the group was R3.7 billion (March 2016: R3.08 billion). Borrowing costs capitalised to property, plant and equipment amounted to R18.2 billion (March 2016: R19.4 billion), and the unwind of interest included in gross finance cost amounted to R5.6 billion (March 2016: R4.4 billion).

Net finance cost for the group amounted to R14.4 billion (March 2016: R7.9 billion).

Taxation
The effective tax rate for the year was 23% (March 2016: 34%, restated), due to an increase in non-taxable income.

Applications submitted to NERSA
Refer to the information block on page 10 under “Our impact on the capital” for a discussion of the reasons behind the price increase of only 2.2% for the 2017/18 financial year.

We submitted the 2014/15 and 2015/16 RCA applications of R19.2 billion and R23.6 billion respectively during May and July 2016. As both RCA submissions exceeded the 10% threshold of allowed revenue in their respective years, NERSA is required to consult on both RCAs before making a decision.

NERSA and Eskom were granted permission to appeal the High Court decision, which was heard by the Supreme Court of Appeal (SCA) on 4 May 2017. The SCA judgment upheld the appeal in favour of NERSA and Eskom. We await feedback from NERSA on the way forward with the RCAs for 2014/15 and 2015/16. In all likelihood, any RCAs granted would only benefit us from the 2019/20 financial year, due to the consultation process required.

Given the current uncertainty, NERSA supported our request to submit a one-year application for 2018/19. This was submitted for consultation to National Treasury and SALGA on 19 April 2017. The formal application for a 19.9% increase was submitted to NERSA on 9 June 2017, with the announcement of the final approved tariff for 2018/19 envisaged by December 2017.

The graphs set out the breakdown of primary energy costs, with the contribution to energy production in brackets.
Financial sustainability continued

Electricity regulation in South Africa and its impact on financial sustainability

NERSA determines our revenues through the MYPD regulatory methodology and broad stakeholder consultation. The MYPD 3 methodology contains a risk-management mechanism – the RCA – that allows for an annual revenue adjustment based on actual revenue received and costs incurred by Eskom, as well as other assumptions. The mechanism includes thresholds – if the RCA balance is greater than 10% of the allowed revenue, public consultation is required. NERSA is responsible for considering the needs of the consumer, while also ensuring Eskom's financial sustainability.

Due to the entrance of IPPs in recent years, investors are putting more pressure on utilities to uphold the consistency, stability and application of regulatory frameworks to create stability, credibility and confidence in the overall regulatory regime. Credit rating agencies also place great importance on the regulatory framework within which we operate.

For example, 50% of Moody's credit rating assessment is weighted towards an assessment of the regulatory framework and environment. Part of the credit risk assessment considers the South African regulatory system, the soundness and predictability of the framework and whether we can reasonably expect to recover our prudent and efficient costs and earn a reasonable risk-adjusted return on capital through NERSA-approved revenues.

The downgrade by Standard & Poor's (S&P) in December 2016 reflected the “assessment of a weak regulatory framework [which] has been subject to negative intervention aimed at protecting consumers, which has hurt Eskom's credit quality”, and their view that “the company's credit metrics will remain weak over the medium term as a result of continued delays in implementing tariffs that reflect costs”. Furthermore, S&P noted that we are facing increased financial pressures as a result of the court case against NERSA, which overruled the 2013/14 RCA award.

They are concerned that our capital structure and free cash flow will remain at unsustainable levels, even if our liquidity position and operating performance improve over the short term. Our dependence on Government guarantees was also cited as a reason for the downgrade in light of our standalone credit profile, which reflects a greater-than-50% probability of default on our debt.

Liquidity

Eskom deems it prudent to maintain a liquidity buffer covering an average of three months’ organisational cash flow requirements, which we have exceeded, at around 135 days at year end.

Cash and cash equivalents decreased to R20.4 billion at year end (March 2016: R28.5 billion), largely due to increased capex spending coupled with increased interest payments. Liquid assets, which include investment in securities, decreased to R32.5 billion (March 2016: R38.7 billion).

The group's net cash inflow from operating activities for the year was R45.8 billion (March 2016: R37.2 billion). The working capital ratio remained stable at 0.85 (March 2016: 0.83, restated), and the cash interest cover ratio at 1.82 (March 2016: 1.83).

Cash flows used in investing activities were R62.3 billion for the year (March 2016: R58.6 billion) for the group. Capital expenditure cash flows on property, plant and equipment, intangible assets and future fuel included in this line item, exclusive of capitalised borrowing costs, amounted to R57.9 billion (March 2016: R55.9 billion), mainly due to expenditure on the new build programme and Generation outages.

For detail of capital expenditure incurred, refer to the table on page 54.

Net cash inflows from financing activities for the year were R79.9 billion (March 2016: R40.9 billion) for the group. The prior year amount included the equity injection of R23 billion. Debt securities and borrowings raised, excluding commercial paper, amounted to R51 billion (March 2016: R41.1 billion), while interest paid amounted to R28.8 billion (March 2016: R23.8 billion). We repaid debt of R7.1 billion, excluding commercial paper (March 2016: R11.1 billion).

Credit ratings and solvency

Summary of Eskom's credit ratings at 31 March 2017

<table>
<thead>
<tr>
<th>Rating</th>
<th>Standard &amp; Poor's</th>
<th>Moody's</th>
<th>Fitch: local currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign currency</td>
<td>BB-</td>
<td>Ba1</td>
<td>n/a</td>
</tr>
<tr>
<td>Local currency</td>
<td>BB-</td>
<td>Ba1</td>
<td>BBB-</td>
</tr>
<tr>
<td>Standalone</td>
<td>ccc+</td>
<td>b-</td>
<td>Negative</td>
</tr>
<tr>
<td>Outlook</td>
<td>Negative</td>
<td>Negative</td>
<td>Negative</td>
</tr>
<tr>
<td>Last rating action</td>
<td>Downgrade</td>
<td>Affirmed</td>
<td>Affirmed</td>
</tr>
<tr>
<td>Last action date</td>
<td>8 December 2016</td>
<td>5 December 2016</td>
<td>8 December 2016</td>
</tr>
</tbody>
</table>

Most of the key ratios have performed better than target and prior year due to our improved financial performance and strong cash flows from operations, with the exception of the debt/equity ratio, which deteriorated due to additional funding obtained. However, credit ratings remain below the level required to achieve investment-grade status.

During the year, S&P downgraded our foreign currency credit rating from BB+ to BB, with a negative outlook following potential risks to Government support. Their rating action on South Africa in December 2016 also led to a downgrade of our long-term local currency credit rating from BB to BB- with a negative outlook. S&P believed that the downgrade of the Sovereign signalled a weakening of Government’s ability to provide support to Eskom if needed.

Fitch revised its outlook on Eskom from stable to negative and affirmed its long-term local-currency issuer default rating at BBB-. Moody’s confirmed Eskom’s Ba1 senior unsecured and Ba1 senior unsecured medium-term notes’ ratings, reflecting our ongoing access to funding supported by Government’s guarantee framework agreement, and the stabilisation of our operational performance.
Financial review

Eskom Holdings SOC Ltd

also likely to increase.

The cost of funding is

satisfactory.

R6.25 billion at year end. We remain confident of

secured the balance during the coming year.

Government support remains critical to stabilise

costs. The recent downgrades may limit

sources of funding, or lead to requests for guarantees

previously unsecured debt. The cost of funding is also likely to increase.

Funding activities

Eskom faces rising funding challenges in the context of an adverse regulatory framework and evolving political environment. These challenges arise at a time when there are early signs that institutional investors could display increased risk aversion in funding state-owned entities. Whilst there has been no evidence so far of Eskom being impacted,

in investor sentiment is key given our need to access
debt markets to fund our negative free cash flows and refinance debt maturities.

We continue to maintain a conservative debt portfolio that was not severely impacted by previous ratings downgrades. Apart from marginal pricing adjustments on two facilities and potential provision of Government guarantees, we have not experienced any prepayment requirements. Funding costs have gradually increased and include a blend of fixed and floating rates. Given that fixed

finance costs provide better hedging of interest rate exposures, 76% of finance costs are currently fixed.

Progress at 31 March 2017 on the execution of the 2016/17 and 2017/18 borrowing programmes

<table>
<thead>
<tr>
<th>Potential sources, R billion</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source</td>
<td>Committed to date</td>
<td>Drawdowns to date</td>
</tr>
<tr>
<td>New domestic bond private placement</td>
<td>10.2</td>
<td>10.2</td>
</tr>
<tr>
<td>Domestic bonds</td>
<td>1.4</td>
<td>1.7</td>
</tr>
<tr>
<td>International bonds and loans</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Commercial paper and short-term notes</td>
<td>6.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Existing and new DFIs</td>
<td>30.3</td>
<td>30.0</td>
</tr>
<tr>
<td>Existing and new ECAUs</td>
<td>8.4</td>
<td>5.2</td>
</tr>
<tr>
<td>Swap restructuring</td>
<td>1.8</td>
<td>3.3</td>
</tr>
<tr>
<td>Total</td>
<td>58.1</td>
<td>57.4</td>
</tr>
</tbody>
</table>

We reduced our funding requirement for the year under review from an original target of R68.8 billion to R58.1 billion due to savings realised by the business. Of this, we secured R57.4 billion, of which R57.3 billion had been drawn down at year end.

For the coming financial year, we have already secured funding of R32 billion against a target of R71.7 billion. We also had access to committed bank facilities of R6.25 billion at year end. We remain confident of securing the balance during the coming year.

In order to transact in international markets, we are required to remain within a prescribed foreign borrowing limit set by National Treasury, which amounted to R282 billion for the year under review.

We maintained foreign borrowings well under that limit.

We are confident that we will successfully execute our funding plan over the next five years, supported by the available Government guarantees.

A substantial amount of funding is available to us through various sources, thus enabling us to adequately mitigate liquidity risk.

Our debt repayment profile is relatively pressured over both the short and long term, as maturities extend from 2017 to 2043, with interest payments of approximately R213 billion and debt repayments of R200 billion over the next five years alone. Debt repayment peaks in 2020/21 with the redemption of the outstanding USD1.75 billion international issuance. Our funding strategy will prioritise longer term funding to support short-term debt maturities and alleviate repayment risk.

The anticipated outflows of capital and interest payments on our debt book are shown below.

The Board has approved a borrowing programme of R338 billion for the period 1 April 2017 to 31 March 2022, which relates to the funding of Eskom Holdings SOC Ltd and excludes our subsidiaries. Our future borrowing programme prioritises unguaranteed funding, in order to enable us to release R105 billion in Government guarantees.

Our impact on the capitals

Our financial capital is both positively and negatively affected by operations. Revenue and income increase financial capital, while it is decreased by expenditure, whether opex or capex. Furthermore, debt funding decreases financial capital, but debt service charges, both capital and interest, decrease financial capital.

The impact on the other capitals has been discussed under each of the preceding sections.

Future focus areas

- The drive to contain operating costs will be accelerated, with the emphasis on primary energy costs, employee benefit costs, maintenance and third-party spend. This will be done without negatively affecting operating performance.
- Digital and advanced analytics opportunities will be explored to drive cost savings.
- Bad debt will be reduced by working with indebted municipalities to improve collection.
- Capital optimisation and scrapping will drive a reduction in the debt requirement.
- Raise funding to match the organisation’s annual capex spend.

Financial sustainability

continued

Since year end, S&P and Fitch downgraded our long-term foreign and local currency ratings to B+ and BB+ respectively, following the Sovereign downgrades, and citing political and institutional uncertainty. Moody’s also downgraded our credit ratings with a negative outlook, following similar action on the Sovereign. The underlying reasons provided for the ratings actions on Eskom is that the support from Government may not be timeously provided, given the Sovereign’s weakened credit position, underpinned by our strategic importance as the country’s dominant electricity supplier.

After the recent changes in credit ratings the summary is as follows:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Standard &amp; Poor’s</th>
<th>Moody’s</th>
<th>Fitch: local currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign currency</td>
<td>B+</td>
<td>B2</td>
<td>n/a</td>
</tr>
<tr>
<td>Local currency</td>
<td>B+</td>
<td>B2</td>
<td>BB+</td>
</tr>
<tr>
<td>Standalone</td>
<td>CCC+</td>
<td>B3</td>
<td>B–</td>
</tr>
<tr>
<td>Outlook</td>
<td>Negative</td>
<td>Negative</td>
<td>Stable</td>
</tr>
<tr>
<td>Last rating action</td>
<td>Downgrade</td>
<td>Downgrade</td>
<td>Downgrade</td>
</tr>
<tr>
<td>Last action date</td>
<td>6 April 2017</td>
<td>13 June 2017</td>
<td>11 April 2017</td>
</tr>
</tbody>
</table>

Financial sustainability

continued

Government support remains critical to stabilise credit ratings. The recent downgrades may limit sources of funding, or lead to requests for guarantees on previously unsecured debt. The cost of funding is also likely to increase.

Funding activities

Eskom faces rising funding challenges in the context of an adverse regulatory framework and evolving political environment. These challenges arise at a time when there are early signs that institutional investors could display increased risk aversion in funding state-owned entities. Whilst there has been no evidence so far of Eskom being impacted,

in investor sentiment is key given our need to access
debt markets to fund our negative free cash flows and refinance debt maturities.

We continue to maintain a conservative debt portfolio that was not severely impacted by previous ratings downgrades. Apart from marginal pricing adjustments on two facilities and potential provision of Government guarantees, we have not experienced any prepayment requirements. Funding costs have gradually increased and include a blend of fixed and floating rates. Given that fixed

finance costs provide better hedging of interest rate exposures, 76% of finance costs are currently fixed.

Progress at 31 March 2017 on the execution of the 2016/17 and 2017/18 borrowing programmes

<table>
<thead>
<tr>
<th>Potential sources, R billion</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source</td>
<td>Committed to date</td>
<td>Drawdowns to date</td>
</tr>
<tr>
<td>New domestic bond private placement</td>
<td>10.2</td>
<td>10.2</td>
</tr>
<tr>
<td>Domestic bonds</td>
<td>1.4</td>
<td>1.7</td>
</tr>
<tr>
<td>International bonds and loans</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Commercial paper and short-term notes</td>
<td>6.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Existing and new DFIs</td>
<td>30.3</td>
<td>30.0</td>
</tr>
<tr>
<td>Existing and new ECAUs</td>
<td>8.4</td>
<td>5.2</td>
</tr>
<tr>
<td>Swap restructuring</td>
<td>1.8</td>
<td>3.3</td>
</tr>
<tr>
<td>Total</td>
<td>58.1</td>
<td>57.4</td>
</tr>
</tbody>
</table>

We reduced our funding requirement for the year under review from an original target of R68.8 billion to R58.1 billion due to savings realised by the business. Of this, we secured R57.4 billion, of which R57.3 billion had been drawn down at year end.

For the coming financial year, we have already secured funding of R32 billion against a target of R71.7 billion. We also had access to committed bank facilities of R6.25 billion at year end. We remain confident of securing the balance during the coming year.

In order to transact in international markets, we are required to remain within a prescribed foreign borrowing limit set by National Treasury, which amounted to R282 billion for the year under review. We maintained foreign borrowings well under that limit.

The Government guarantee framework agreement has been extended from 31 March 2017 to 31 March 2023. At year end, we have utilised R254 billion in Government guarantees, with a further R84 billion awaiting approval or having been earmarked for funding under negotiation.
Governance and ethics
Ethical leadership forms the foundation of effective corporate governance. Integrating sustainability concerns with decision-making in an effective manner is of utmost importance to Eskom.

Governance framework
As a state-owned company, our purpose is to deliver on the strategic intent as set out by our shareholder. We adhere to the statutory responsibilities set out in the Companies Act, 2008 and the Public Finance Management Act, 1999.

Executive authority over the company is vested in the Minister of Public Enterprises, the Honourable Ms Lynne Brown, MP. The Board of Directors (the Board) guides the group’s strategic direction set out in our Corporate Plan, and monitors Exco’s progress in executing the strategy.

One of the essential components of our governance framework is the clarity of roles between the shareholder, the Board and the management of Eskom, as set out in the Strategic Intent Statement and our shareholder compact with DPE. Our Memorandum of Incorporation regulates the company and our relationship with our shareholder.

The following diagram depicts the elements which contribute towards our governance framework.

The materiality framework sets out the requirements for those matters which require approval in terms of the PFMA and, together with our Delegation of Authority Framework, guides the referral of matters from executive-level committees to Board and also to DPE and National Treasury where applicable.

Legislation and regulations
We are subject to numerous laws and regulations which govern our operations, including conditions relating to tariffs, expansion activities, environmental compliance, as well as regulatory and licence conditions, such as water usage and atmospheric emissions. Our licensing conditions place strict limits on plant emissions to reduce the country’s current and future environmental footprint.


King IV application
We welcome the King IV™ Report of Corporate Governance for South Africa, 2016 (King IV) with its enhanced principles for good corporate governance. Prior to its launch in November 2016, we focused on the application of King III. While this will enable us to transition smoothly to King IV, the process of reviewing our application of the current principles and practices is ongoing and will be refined in the year ahead. During this transitional period, we have completed a concluding report on King III and an initial report on King IV.

We utilise the web-based Governance Assessment Instrument of the Institute of Directors of Southern Africa to assess our governance profile.

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

Values
Our values underpin our vision, and guide how we do business.

Governing principles

Our governance

Eskom Holdings SOC Ltd

Eskom Holdings SOC Ltd

Sinobuntu (Caring)

employees with queries around ethical conduct.

as fraud awareness training are starting to deliver

last five years, showing that preventative actions such

and other forms of economic crime or dishonest activity.

a zero tolerance approach to fraud, corruption and

Programme is effectively implemented. We maintain

Committee, ensures that the Ethics Management

circumstances change.

for the record. Employees are required to perform

members of Exco are raised in meetings and minuted

have, a direct or indirect interest that conflicts with

situations where they have, or may be perceived to

Code of Ethics

Our approach to achieving an ethical culture is set out in our Code of Ethics, titled “The Way”, which provides guidance on the behaviour expected of each

and every director and employee. Policies governing

the declaration of interests and managing any conflicts of

interest of assist directors and employees to avoid situations where they have, or may be perceived to

have, a direct or indirect interest that conflicts with

the company’s interests.

All conflicts of interest declared by directors and

members of Exco are raised in meetings and minuted for

the record. Employees are required to perform an

annual declaration of interest, or as soon as

circumstances change.

The Board, through the People and Governance

Committee, ensures that the Ethics Management

Programme is effectively implemented. We maintain

a zero tolerance approach to fraud, corruption and

other forms of economic crime or dishonest activity.

To encourage whistle-blowing we have a fraud

and corruption hotline on 08000 112 722. The number of

reported incidents has reduced significantly over the

last five years, showing that preventative actions such as

fraud awareness training are starting to deliver results. We also maintain an Ethics Helpline to assist

employees with queries around ethical conduct.

Governing principles

The Board has embarked on a comprehensive

review of the various reports and matters pertaining to

perceived governance issues, including the State of

Capture report by the Public Protector, the PwC report,

the Denons report as well as issues raised by National

Treasury and the Auditor-General’s office. Concerns broadly relate to procurement,

contract management and governance. In the interest of good governance, management has and

will continue to implement remedial measures to

improve the control environment, under the

oversight of ARC.

Management recently initiated a project to assess the

status of implementation of identified weaknesses and to

establish, where necessary, additional measures to

improve the relevant controls in a sustainable manner.

More information on the governance matters is available in the annual financial statements. Refer to the directors’ report and

note 52 on information required in terms of the PFMA

Act.

Board of Directors and committees

Governance of the group and the responsibility for
driving good corporate citizenship is vested in a unitary

board, supported by several Board committees and the

Group Company Secretary. The Board provides

strategic direction, while the Group Chief Executive,

assisted by Exco and its subcommittees, is accountable

for implementing our strategy.

Board constitution and appointments

In accordance with our Memorandum of Incorporation,

the Board must consist of a minimum of three and a

maximum of 15 directors, the majority of which must be

non-executive directors. At the date of approval,

there are four non-executive directors, including the

interim Chairman, and one executive director.

Non-executive directors are appointed to the Board

by the shareholder for a period of three years,

renewable annually. The People and Governance

Committee assists the shareholder by identifying the

necessary skills, qualifications and experience required

by the Board to achieve our objectives.

The Board consists of a majority of independent non-

executive directors who possess diverse skills and

experience in the fields of science, engineering, law,

finance, economics, accounting and auditing, as well as

business and enterprise risk management.

Refer to pages 20 and 21 for the profiles and committee

memberships of the Board, including qualifications and active

directorships.

Changes in Board composition

There were no new appointments to the Board in

2016/17.

Mr Brian Molfe resigned as an executive director effective 31 December 2016.

The following non-executive Board members resigned during the year:

• Mr Romeo Khumalo, effective 12 April 2016

• Ms Marriann Cassim, effective 14 April 2016

• Ms Nazia Cassim, effective 30 June 2016

• Ms Viresh Naidoo, effective 30 June 2016

• Mr Mark Pampalaisky, effective 25 November 2016

Subsequent to year end, Ms Veneta Klien resigned as a director on 12 May 2017. Dr Baldwin Ngpabe

resigned on 12 June 2017, after which Mr Zethembe Khoza was appointed as interim Chairman.

Group Company Secretary

The Group Company Secretary is an officer with a

central role in the governance and administration of

the organisation’s affairs and is key to the efficiency

and effectiveness of the Board, providing advice and

support to directors.

Ms Suzanne Daniels was appointed by the Board on

1 October 2015. With over 20 years’ experience in

the legal industry, she is suitably qualified to serve the

Board and its committees in this role.

Director induction and training

A director onboarding plan is in place, comprising

a formal induction and site visits for all directors.

To ensure that all directors remain informed about

pertinent matters, continuous training and updates are

provided on a regular basis. Time is set aside at each

scheduled Board meeting to address the training

needs of the Board or individual directors, and to brief

directors on any new legislation or regulations.

Board evaluation

A formal Board evaluation was conducted by an

external service provider in May 2016. Feedback on

the outcome of that assessment was submitted to the

shareholder. An independent Board evaluation, which covers the 2016/17 financial year, is under way.

Board committees

The effectiveness of the Board is enhanced by

subcommittees to which it delegates authority without

diluting its own accountability. The Board Recovery

and Build Programme Committee was dissolved on

30 June 2016. The Board appoints members to the

various committees, with due consideration of the

necessary skills and experience required.

Appointments to the Audit and Risk Committee are made by the shareholder in terms of our

Memorandum of Incorporation.

The Audit and Risk Committee and Social, Ethics and Sustainability Committee is statutory committee as

prescribed by the Companies Act, 2008.

All Board committees are chaired by an independent non-executive director and consist of a majority of independent non-executive directors. Committees exercise their authority in accordance with Board-

approved terms of reference, which define their

composition, mandate, roles and responsibilities.

These terms of reference are aligned with the

Delegation of Authority Policy, legislative

requirements and best practice, and are reviewed each year.

Deliberations of the committees do not reduce the

individual and collective responsibilities of directors

regarding their fiduciary duties and responsibilities.

Directors are required to exercise due care and

judgement in accordance with their statutory

obligations.

Audit and Risk Committee

Purpose

Oversight of financial reporting and disclosure, risk management and internal control systems, as well as internal and external audit functions

Members (at year end)

Ms C Mabude (interim chairman), Ms VJ Klien, Mr G Leonardur, Dr P Naidoo

Key activities

• Recommended the Board approves the 2016 year-end and interim group financial statements and integrated reports

• Oversight of close-out of the Denons report recommendations

• Accepted the KPMG controls and governance framework review report and approved the implementation plan

• Monitored financial performance and liquidity, IT governance, risk, security and compliance, ethics, nuclear assurance, enterprise risk and resilience, litigation and new legislation; compliance management

Investment and Finance Committee

Purpose

Investment and financial decision-making

Members (at year end)

Ms C Mabude (chairman), Mr ZW Khoza, Ms VJ Klien, Dr P Naidoo

Key activities

• Monitored progress on municipality and Soweto payments, and approved the write-off of bad debt

• Approved mandates to secure funding, and various capital and refurbishment projects

• Concluded firm power sales agreements with a number of SADC countries

• Approved the dissolution of Eskom Development Foundation NPC, with the activities being absorbed into Eskom with effect from 1 April 2017
Our governance
continued

People and Governance Committee

7 meetings held during the year

Purpose
Nomination and remuneration of directors and senior executives; human resources strategies and policies; custodian of corporate governance

Members (at year end)
Mr VJ K Jain (chairman), Mr ZW Khoza, Mr G Leonard, Ms C Mabudo, Dr BS Ngubane

Key activities
- Approved Eskom’s response to the Public Protector’s reports
- Approved the pay-out of the 2015/16 executive short-term incentive bonus
- Noted the performance management objectives
- Reviewed the report on income differentials
- Noted and reviewed reports on industrial relations, employment equity, ethics, and employee engagement survey feedback

Social, Ethics and Sustainability Committee

4 meetings held during the year

Purpose
Oversight of Eskom’s social and economic development role, good corporate citizenship, as well as environment, health and public safety programming

Members (at year end)
Dr P Ndodoo (chairman), Mr ZW Khoza, Mr VJ K Jain, Mr G Leonard, Ms C Mabudo

Key activities
- Reviewed Eskom’s socio-economic development strategy
- Approved the revised water management policy, and the air quality improvement plan
- Noted and reviewed a number of reports, including occupational health and safety; nuclear oversight; nuclear new build; industrial and employee relations; skills development; stakeholder engagement; environmental management, climate change; operational sustainability; and electrification

Board Tender Committee

13 meetings held during the year

Purpose
Ensure that the procurement system is equitable, transparent, competitive and cost effective to support commercial decision-making. The committee evaluates tenders over R750 million

Members (at year end)
Mr ZW Khoza (chairman), Ms C Mabudo, Dr P Ndodoo

Key activities
- Tenders approved include short-term coal supply agreements, power purchase agreements with IPPs and municipal generators; various capital and refurbishment projects; and supply of petrol, diesel and fuel oil to the coal-fired power stations
- Approved the procurement strategy for spent fuel storage at Koeberg

Meeting attendance
Meetings of the Board and its committees are scheduled annually in advance. Special meetings are convened as and when required to address specific material issues. The Board held 17 scheduled and breakaway meetings during the year.

Exco held nine meetings during the year.

Attendance of Exco meetings is shown in the fact sheet on page 121

Changes in Exco in 2016/17
Ms Elsie Pule was appointed Group Executive: Human Resources, and Mr Sean Maritz was appointed Group Executive: Information Technology, both with effect from 1 June 2016.

Mr Brian Molefe went on early retirement as Group Chief Executive effective 31 December 2016, after which Mr Matshego Koko, previously Group Executive: Generation, was appointed as Interim Group Chief Executive with effect from 1 December 2016. This was followed by the appointment of Mr Willy Majola as acting Group Executive: Generation with effect from 1 January 2017.

Mr Abram Masango, previously Group Executive: Group Capital, was appointed as Group Executive in the Office of the Chief Executive. Mr Phish Govender was appointed as acting Group Executive: Group Capital in his stead, both with effect from 22 March 2017.

On 2 May 2017, the Board rescinded their decision approving Mr Molefe’s early retirement and he returned as Group Chief Executive on 15 May 2017. However, on 2 June 2017, the Board rescinded the subsequent decision and Mr Molefe was asked to step down as Group Chief Executive. Mr Molefe approach the Labour Court on the basis that overturning his reappointment was unlawful; the case has been postponed. On 6 June 2017, the High Court ruled that Mr Molefe may not return to work until such time as the Labour Court has ruled.

Operating structure
Our operating structure comprises line functions that operate the business, service functions that support those operations and strategic functions which develop the organisation. Members of Exco are assigned to take accountability for each of the areas.

Exco subcommittees
The following subcommittees assist Exco in the execution of their duties:

<table>
<thead>
<tr>
<th>Subcommittee</th>
<th>Purpose/key activities</th>
</tr>
</thead>
</table>
| Capital Committee | • Investment decisions to support Eskom’s strategy  
• Decisions about the commercial process  
• Consider impact of decisions on the funding plan, equity, key financial and investment ratios |
| Exco Procurement Committee | • Ensure that the procurement system is equitable, transparent, competitive and cost effective |
| Finance Committee | • Decisions on financial strategy and budgets  
• Integration of Treasury and business activities  
• Monitor funding pipeline, cash flow position and financial risk management |
| Nuclear Management Committee | • Management of Eskom’s nuclear objectives (both existing and new build)  
• Interact with regulatory bodies and deals with licensing matters  
• Risk management for nuclear operations |
| Operating Committee | • Key operational decisions in Generation, Transmission, Distribution and new build  
• Risk evaluation and mitigation approach to technical and operational health performance |
| People Committee | • Human resources decisions, issues, processes and procedures  
• Talent management and staffing  
• Strategic workforce planning |
| Regulation, Policy and Economics Committee | • Review impact of regulatory and economic policies, as well as long-term energy policy  
• Development of regulatory response strategy and tariff outlook  
• Oversight of Eskom’s regulated licences  
• Approach to environmental policies and Eskom’s economic impact |
| Risk and Sustainability Committee | • Consolidation and monitoring of overall business risks and processes  
• Monitor operational risk within compliance guidelines  
• Consider safety, health and environmental compliance  
• Regulatory risk management |

Refer to pages 22 and 23 for the profiles and areas of responsibility of Exco members including their appointment dates, qualifications and directorships, if any.
Executive remuneration and benefits

Our approach to remuneration
International and local benchmarks are considered in determining executive remuneration, to ensure that executive packages are aligned to those offered by companies of similar stature in order to retain key leadership skills. Our executive remuneration strategy is reviewed to align to the DPE Remuneration Guidelines and best practice; the balance between fixed and variable remuneration (short- and long-term incentives) is reviewed annually.

Remuneration structure
Our remuneration structure for non-executive directors and executives is set out below.

Non-executive directors
Remuneration of non-executive directors is benchmarked against companies of a similar size, and is in line with guidelines issued by DPE. Remuneration proposals from the People and Governance Committee are submitted to the Board, which makes recommendations to the shareholder.

Non-executive directors receive a fixed monthly fee and are reimbursed for out-of-pocket expenses incurred in fulfilling their duties.

Executive remuneration
The Group Chief Executive and Chief Financial Officer have term contracts. Other group executives have permanent employment contracts based on our standard conditions of service. None of the executives have extended employment contracts or special termination benefits. No restraints of trade are in place.

The employment contracts of executive directors and Exco members are subject to a six-month notice period, unless otherwise agreed. Other executives have to serve one month’s notice in terms of our standard conditions of service.

The Group Chief Executive’s remuneration is approved by the Board. The People and Governance Committee approves the remuneration of the Chief Financial Officer and group executives, in accordance with the shareholder-approved framework.

Executive remuneration consists of a guaranteed package augmented by short- and long-term incentives, and is based on organisational as well as individual performance, and takes account of executives’ skills and experience.

Remuneration of Exco members consists of the following:

- **Guaranteed package** based on cost-to-company, consisting of a fixed cash portion and compulsory benefits, such as life cover and pension. This is reviewed annually to remain market-related.
- **Short-term incentives**, which reward the achievement of predetermined performance objectives and targets set by the Group Chief Executive, which are linked to the shareholder compact. It is calculated as a percentage of pensionable earnings.
- **Long-term incentives**, designed to attract, retain and reward Exco members for achieving organisational objectives set by the shareholder over a period of three years. It is dependent on the individual remaining in our employment throughout the vesting period, and lapses if employment ceases during the vesting period, other than for permitted reasons.

A market-benchmarked long-term incentive scheme, approved by the shareholder, has been in place since 1 April 2005.

A number of performance shares (award performance shares) were awarded to Exco members on 1 April 2014, 2015 and 2016. The long-term incentive vesting rate for shares awarded on 1 April 2014 and vesting on 31 March 2017 was 49.42% (March 2016: 44.48%). The People and Governance Committee exercised its discretion during the vesting period, other than for permitted reasons.

The cash value of the shares is payable in June 2017 at R1.25 per share, based on the money market rate (March 2016: R1.23).

Remuneration of Exco members consists of the following:

- **Guaranteed package** based on cost-to-company, consisting of a fixed cash portion and compulsory benefits, such as life cover and pension. This is reviewed annually to remain market-related.
- **Short-term incentives**, which reward the achievement of predetermined performance objectives and targets set by the Group Chief Executive, which are linked to the shareholder compact. It is calculated as a percentage of pensionable earnings.
- **Long-term incentives**, designed to attract, retain and reward Exco members for achieving organisational objectives set by the shareholder over a period of three years. It is dependent on the individual remaining in our employment throughout the vesting period, and lapses if employment ceases during the vesting period, other than for permitted reasons.

A market-benchmarked long-term incentive scheme, approved by the shareholder, has been in place since 1 April 2005.

A number of performance shares (award performance shares) were awarded to Exco members on 1 April 2014, 2015 and 2016. The long-term incentive vesting rate for shares awarded on 1 April 2014 and vesting on 31 March 2017 was 49.42% (March 2016: 44.48%). The People and Governance Committee exercised its discretion during the vesting period, other than for permitted reasons.

The cash value of the shares is payable in June 2017 at R1.25 per share, based on the money market rate (March 2016: R1.23). Shares awarded on 1 April 2013 were redeemed during the year.

Remuneration of directors and group executives

<table>
<thead>
<tr>
<th>Category</th>
<th>2016/17</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-executive directors</td>
<td>R 6 429</td>
<td>R 6 656</td>
</tr>
<tr>
<td>Executive directors</td>
<td>R 16 109</td>
<td>R 29 042</td>
</tr>
<tr>
<td>Other Exco members</td>
<td>R 38 966</td>
<td>R 39 628</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>R 75 326</td>
<td>R 75 326</td>
</tr>
</tbody>
</table>

Refer to note 50 in the annual financial statements for detailed remuneration information; which includes disclosure of the remuneration of the three highest paid individuals in Eskom, as required by King III.
Supplementary information

Eskom Holdings SOC Ltd

King III King Report of Corporate Governance for South Africa 2009

King IV King IV Report of Corporate Governance for South Africa 2016

KPI Key performance indicator

kn Kilonewton

kWh Kilowatt-hour = 1 000 watt-hours

kW Kilowatt

kW-hour = 1 000 watt-hours (see glossary)

kW-hour sent out

LTIR Lost-time injury rate (see glossary)

ME Megatonne = 1 million tonnes

mSv Millisievert

Mt Million tons

MVA Megavolt-ampere

MW Megawatt = 1 million watts

MWh Megawatt-hour = 1 000 kWh

MTPY Multi-year price determination

NEDP National Development Plan

NERSA National Energy Regulator of South Africa

NRR National Nuclear Regulator

OCLT Open-cycle gas turbine (see glossary)

OECD Organisation for Economic Co-operation and Development

OF CT Operating cost to revenue ratio

OCGT Open-cycle gas turbine (see glossary)

OHA Occupational health and safety

PBAR Payback period (for investments)

PAIA Promotion of Access to Information Act, 2000

PAAJ Promotion of Administrative Justice Act, 2000

PBMA Public Building Management Agreement

PGMA Public Procurement Management Act

PFMA Public Finance Management Act, 1999

PFA Power purchase agreement

PV (Solar) photovoltaic

PPA Power purchase agreement

PPJG Public Power Jurisdiction Group

PPJG-EPP Renewable independent power producer (see glossary)

RE-IPP Renewable independent power producer

SADC Southern African Development Community

SAIFI System average interruption frequency index

SAIDI System average interruption duration index

SAIPA Social, Ethics and Sustainability Committee

SAIS Social, Ethics and Sustainability Committee

SAPP Southern African Power Pool

SESC Social, Ethics and Sustainability Committee

SESSE Social, Ethics and Sustainability Committee

SESSE-GP Governance Committee

SESSE-IP Independent audit committee

SESSE-PR Professional advisory committee

UCLF Unplanned capability loss factor (see glossary)

USA United States of America

Glossary of terms

Base-load plant

Largely coal-fired and nuclear power stations, designed to operate continuously

Cash interest cover

Provides a view of the company’s ability to satisfy the interest burden on its borrowings by utilizing cash generated from operating activities. It is calculated as net cash from operating activities divided by interest paid on financing activities less interest received from investing and financing activities.

Cost of electricity (excluding depreciation)

Electricity-related costs (primary energy costs, employee benefit costs plus impairment loss and other operating expenses) divided by total electricity sales in GWh multiplied by 1 000

Daily peak

Maximum amount of energy demanded by consumers in one day

Deductible income including long-term provisions

Net financial assets and liabilities plus non-current retirement benefit obligations and non-current provisions divided by total equity

Debt service cover ratio

Net cash from operating activities divided by (net interest paid from financing activities plus debt securities and borrowings repaid)

Decommission

To remove a facility (e.g. reactor) from service and either store it safely or dismantle it

Electricity EBITDA margin

Electricity revenue (excluding electricity revenue not recognised due to uncollectability) as a percentage of EBITDA

Electricity operating costs per kWh

Electricity-related costs (primary energy costs, employee benefit costs, depreciation and amortisation plus impairment loss and other operating expenses) divided by total electricity sales in GWh multiplied by 100

Electricity revenue per kWh

Electricity revenue (including electricity revenue not recognised due to uncollectability) divided by total kWh sales multiplied by 100

Embedded derivative

Financial instrument that causes cash flows that would otherwise be required by modifying a contract according to a specified variable such as currency

Energy availability factor (EAF)

Measure of power station availability, taking account of energy losses not under the control of plant management and internal non-engineering constraints

Energy efficiency

Programs to reduce energy used by specific end-use devices and systems, typically without affecting services provided

Energy utilisation factor (EUF)

Ratio of actual electrical energy produced during a period of time divided by the total available energy capacity. It is a measure of the degree to which the available energy capacity of an electricity supply network is utilised. Available energy capacity refers to the capacity after all unavailable energy (planned and unplanned energy losses) has been taken into account, and represents the net energy capacity made available to the System Operator or national grid

Forced outage

Shutdown of a generating unit, transmission line or other facility for emergency reasons or a condition in which generating equipment is unavailable for load due to unplanned breakdown

Free basic electricity

Amount of electricity deemed sufficient to provide basic electricity services to a poor household (50kWh per month)

Free funds from operations

Cash generated from operations adjusted for working capital

Gross debt

Debt securities and borrowings plus finance lease liabilities plus the after-tax effect of provisions and employee benefit obligations

Gross debt/EBITDA ratio

Gross debt divided by earnings before interest, taxation, depreciation, amortisation and fair value adjustments

Independent non-executive director

A director who:
• Is not a full-time salaried employee of the company or its subsidiary
• Is not a shareholder representative
• Has not been employed by the company and is not a member of the immediate family of an individual who is, or has been in any of the past three financial years, employed by the company in any executive capacity
• Is not a professional advisor to the company
• Is not a significant supplier or customer of the company

Independent power producer (IPP)

Any entity, other than Eskom, that owns or operates, in whole or in part, one or more independent power generation facilities

Abbreviations

ARC Audit and Risk Committee

BB EBE Broad-based black economic empowerment

COGTA Department of Cooperative Governance and Traditional Affairs

CS Corporate social investment

CSP Concentrated solar power

DEA Department of Environmental Affairs

DEE Department of Energy

DPE Department of Public Enterprises

DTC Design-to-Cost strategy

DWS Department of Water and Sanitation

EAF Energy availability factor (see glossary)

EITDA Earnings before interest, taxation, depreciation, amortisation and fair value adjustments

EU European Union

EUF Energy utilisation factor (see glossary)

Eco Executive Management Committee

FGD Flue gas desulphurisation

GDP Gross domestic product

GE Group executive

GRI Global Reporting Initiative

Gw Gigawatt = 1 000 megawatts

GWh Gigawatt-hour = 1 000 MWh

IIP Independent power producer (see glossary)

IPR Independent power producer (see glossary)

King III King Report of Corporate Governance for South Africa 2009

King IV King IV Report of Corporate Governance for South Africa 2016

KPI Key performance indicator

kn Kilonewton

ktonne = 1 000 tonnes

kW Kilowatt

kW-hour = 1 000 watt-hours (see glossary)

kW-hour sent out

LITR Lost-time injury rate (see glossary)

ME Megatonne = 1 million tonnes

mSv Millisievert

Mt Million tons

MVA Megavolt-ampere

MW Megawatt = 1 million watts

MWh Megawatt-hour = 1 000 kWh

MTPY Multi-year price determination

NEDP National Development Plan

NERSA National Energy Regulator of South Africa

NRR National Nuclear Regulator

OCLT Open-cycle gas turbine (see glossary)

OECD Organisation for Economic Co-operation and Development

OF CT Operating cost to revenue ratio

OCGT Open-cycle gas turbine (see glossary)

OHA Occupational health and safety

PBAR Payback period (for investments)

PAAJ Promotion of Administrative Justice Act, 2000

PAIA Promotion of Access to Information Act, 2000

PBMA Public Building Management Agreement

PGMA Public Procurement Management Act

PFMA Public Finance Management Act, 1999

PFA Power purchase agreement

PV (Solar) photovoltaic

PPA Power purchase agreement

PPJG Public Power Jurisdiction Group

PPJG-EPP Renewable independent power producer (see glossary)

RE-IPP Renewable independent power producer

SADC Southern African Development Community

SAIFI System average interruption frequency index

SAIDA System average interruption duration index

SAPP Southern African Power Pool

SESC Social, Ethics and Sustainability Committee

SESSE Social, Ethics and Sustainability Committee

SESSE-GP Governance Committee

SESSE-IP Independent audit committee

SESSE-PR Professional advisory committee

UCLF Unplanned capability loss factor (see glossary)

USA United States of America
Glossary of terms

- **Kilowatt-hour (kWh)**: Basic unit of electric energy equal to one kilowatt of power supplied to or taken from an electric circuit steadily for one hour.

- **Load**: Amount of electric power delivered or required on a system at any specific point.

- **Load curtailment**: Typically larger industrial customers reduce their demand by a specified percentage for the duration of a power system emergency. Due to the nature of their business, these customers require two hours’ notification before they can reduce demand.

- **Load management**: Activities to influence the level and shape of demand for electricity so that demand conforms to the present supply situation, long-term objectives and constraints.

- **Load shedding**: Scheduled and controlled power cuts that reduce available capacity between all customers when demand is greater than supply in order to avoid blackouts. Distribution or municipal control rooms open breakers and interrupt load according to predefined schedules.

- **Lost-time injury (LTI)**: A work injury which arises out of and in the course of employment and which renders the injured employee or contractor unable to perform his/her regular/normal work on one or more full calendar days or shifts other than the day or shift on which the injury occurred. It includes occupational diseases.

- **Lost-time injury rate (LTIR)**: Proportional representation of the occurrence of lost-time injuries over 12 months per 200,000 working hours. It includes occupational diseases.

- **Maximum demand**: Highest demand of load within a specified period.

- **Off-peak**: Period of relatively low system demand.

- **Open-cycle gas turbine (OCGT)**: Liquid fuel turbine power station that forms part of peak-load plant and runs on kerosene or diesel. Designed to operate in periods of peak demand.

- **Outage**: Period in which a generating unit, transmission line, or other facility is out of service.

- **Peak demand**: Maximum power used in a given period, traditionally between 7:00 and 10:00, as well as 18:00 to 22:00 in summer and 17:00 to 21:00 in winter.

- **Peak capacity**: Generating equipment normally operated only during hours of highest daily, weekly or seasonal loads.

- **Peak-load plant**: Gas turbines, hydroelectric or a pumped storage scheme used during periods of peak demand.

- **Primary energy**: Energy in natural resources, e.g. coal, liquid-fuels, sunlight, wind, uranium and water.

- **Pumped storage scheme**: A lower and an upper reservoir with a power station/pumping plant between the two. During off-peak periods the reversible pumps/turbines use electricity to pump water from the lower to the upper reservoir. During periods of peak-demand, water runs back into the lower reservoir through the turbines, generating electricity.

- **Reserve margin**: Difference between net system capability and the system’s maximum load requirements (peak load or peak demand).

- **Return on assets**: EBIT divided by the regulated asset base, which is the sum of property, plant and equipment, trade and other receivables, inventory and future fuel, less trade and other payables and deferred income.

- **System minutes**: Global benchmark for measuring the severity of interruptions to customers. One system minute is equivalent to the loss of the entire system for one minute at annual peak. A major incident is an interruption with a severity ≥ 1 system minute.

- **Technical losses**: Naturally occurring losses that depend on the power systems used.

- **Unit capability factor (UCF)**: Measure of availability of a generating unit, indicating how well it is operated and maintained.

- **Unplanned capability loss factor (UCLF)**: Energy losses due to outages are considered unplanned when a power station unit has to be taken out of service and it is not scheduled at least four weeks in advance.

- **Used nuclear fuel**: Nuclear fuel irradiated in and permanently removed from a nuclear reactor. Used nuclear fuel is stored on-site in used fuel pools or storage casks.

- **Wast**: The waste is the International System of Units (SI) standard unit of power. It specifies the rate at which electrical energy is dissipated (energy per unit of time).

- **Working capital ratio**: (Inventory plus the current portion of payments made in advance, trade and other receivables and taxation assets) divided by (the current portion of trade and other payables, payments received in advance, provisions, employee benefits obligations and taxation liabilities).

---

**Eskom’s energy flow diagram**

The energy wheel shows the volume of electricity that flowed from local and international power stations and independent power producers (IPPs) to Eskom’s distribution and export points during the past two years, including the losses incurred in reaching those customers.

All figures in GWh, unless otherwise indicated.

---

1. Wheeling refers to the movement of electricity between international customers through our network, without the power being available to customers on the South African grid.

2. International sales includes exports by Distribution International to Lesotho. The actual volumes were 87GWh for 2016/17 and 89GWh for 2015/16.
### Ten-year technical statistics

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer statistics</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arrear debt as % of revenue, %</td>
<td>2.43</td>
<td>1.14</td>
<td>2.17</td>
<td>1.10</td>
<td>0.82</td>
<td>0.53</td>
<td>0.75</td>
<td>0.83</td>
<td>0.83</td>
<td>1.54</td>
</tr>
<tr>
<td>Debtors days – municipalities, average debtors days</td>
<td>53.3REF</td>
<td>42.9</td>
<td>43.6</td>
<td>32.7</td>
<td>22.4</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Debtors days – large power top customers excluding disputes, average debtors days</td>
<td>15.3REF</td>
<td>15.5</td>
<td>16.8</td>
<td>14.5</td>
<td>12.3</td>
<td>14.4</td>
<td>15.5</td>
<td>15.4</td>
<td>16.5</td>
<td>–</td>
</tr>
<tr>
<td>Debtors days – other large power users (&lt;100 GWh p.a.), average debtors days</td>
<td>16.8REF</td>
<td>16.2</td>
<td>17.0</td>
<td>16.9</td>
<td>18.3</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Debtors days – small power users (excluding Soweto), average debtors days</td>
<td>48.8REF</td>
<td>48.2</td>
<td>49.1</td>
<td>50.2</td>
<td>48.2</td>
<td>42.9</td>
<td>45.1</td>
<td>40.5</td>
<td>47.5</td>
<td>–</td>
</tr>
<tr>
<td>Eskom KeyCare, index</td>
<td>107.0</td>
<td>104.3REF</td>
<td>108.7</td>
<td>108.7</td>
<td>105.8</td>
<td>105.9</td>
<td>101.2</td>
<td>98.1</td>
<td>101.2</td>
<td>–</td>
</tr>
<tr>
<td>Top Customer KeyCare, index</td>
<td>108.1</td>
<td>107.2</td>
<td>110.5</td>
<td>110.5</td>
<td>107.5</td>
<td>108.0</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Enhanced MaxCare</td>
<td>95.8</td>
<td>96.5REF</td>
<td>99.8</td>
<td>92.7</td>
<td>93.2</td>
<td>90.7</td>
<td>89.4</td>
<td>93.0</td>
<td>92.8</td>
<td>89.2</td>
</tr>
<tr>
<td>CustomerCare, index</td>
<td>9.8</td>
<td>8.4</td>
<td>8.0</td>
<td>8.3</td>
<td>8.1</td>
<td>12.1</td>
<td>25.0</td>
<td>29.4</td>
<td>31.8</td>
<td>23.8</td>
</tr>
<tr>
<td><strong>Sales and revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total sales, GWh</td>
<td>214 214</td>
<td>214 487</td>
<td>216 274</td>
<td>217 903</td>
<td>216 561</td>
<td>224 785</td>
<td>224 446</td>
<td>218 591</td>
<td>218 850</td>
<td>224 166</td>
</tr>
<tr>
<td>(Reduction)/growth in GWh sales, %</td>
<td>(0.2)</td>
<td>(0.8)</td>
<td>(0.7)</td>
<td>0.6</td>
<td>(3.7)</td>
<td>0.2</td>
<td>2.7</td>
<td>1.7</td>
<td>4.2</td>
<td>2.9</td>
</tr>
<tr>
<td>Electricity revenue, R million</td>
<td>175 994</td>
<td>161 688</td>
<td>146 268</td>
<td>136 869</td>
<td>126 663</td>
<td>112 999</td>
<td>90 375</td>
<td>69 834</td>
<td>52 996</td>
<td>43 521</td>
</tr>
<tr>
<td><strong>Customer statistics</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth in revenue, %</td>
<td>9.8</td>
<td>8.4</td>
<td>7.6</td>
<td>8.3</td>
<td>8.1</td>
<td>12.1</td>
<td>25.0</td>
<td>29.4</td>
<td>31.8</td>
<td>23.8</td>
</tr>
<tr>
<td><strong>Electricity output</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power sent out by Eskom stations, GWh (net)</td>
<td>220 166</td>
<td>219 979</td>
<td>226 300</td>
<td>231 129</td>
<td>227 749</td>
<td>238 287</td>
<td>239 420</td>
<td>232 812</td>
<td>238 944</td>
<td>239 109</td>
</tr>
<tr>
<td>Coal-fired stations, GWh (net)</td>
<td>200 893</td>
<td>199 888</td>
<td>204 838</td>
<td>209 483</td>
<td>214 807</td>
<td>218 219</td>
<td>220 219</td>
<td>215 940</td>
<td>211 941</td>
<td>222 908</td>
</tr>
<tr>
<td>Hydropower stations, GWh (net)</td>
<td>159 879</td>
<td>168 885</td>
<td>170 851</td>
<td>178 036</td>
<td>187 077</td>
<td>190 904</td>
<td>192 746</td>
<td>194 378</td>
<td>194 378</td>
<td>198 378</td>
</tr>
<tr>
<td>Pumped storage stations, GWh (net)</td>
<td>3 294</td>
<td>2 919</td>
<td>3 007</td>
<td>2 881</td>
<td>3 006</td>
<td>2 942</td>
<td>2 953</td>
<td>2 742</td>
<td>2 772</td>
<td>2 979</td>
</tr>
<tr>
<td>Gas turbine stations, GWh (net)</td>
<td>2 936</td>
<td>3 709</td>
<td>2 936</td>
<td>3 621</td>
<td>1 904</td>
<td>709</td>
<td>197</td>
<td>49</td>
<td>143</td>
<td>1 153</td>
</tr>
<tr>
<td>Wind energy, GWh (net)</td>
<td>345</td>
<td>311</td>
<td>314</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Nuclear power stations, GWh (net)</td>
<td>15 026</td>
<td>12 237</td>
<td>13 794</td>
<td>14 106</td>
<td>11 954</td>
<td>13 502</td>
<td>12 099</td>
<td>12 806</td>
<td>13 004</td>
<td>11 317</td>
</tr>
<tr>
<td>IPP purchases, GWh</td>
<td>11 529</td>
<td>9 033</td>
<td>6 022</td>
<td>3 671</td>
<td>3 516</td>
<td>4 107</td>
<td>1 833</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Supply and demand</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total marketed power generation, day-ahead, MW</td>
<td>1 332RA</td>
<td>1 309RA</td>
<td>1 365RA</td>
<td>1 359RA</td>
<td>1 365RA</td>
<td>1 373RA</td>
<td>1 386RA</td>
<td>1 394RA</td>
<td>1 401RA</td>
<td>1 410RA</td>
</tr>
<tr>
<td>Peak demand on integrated Eskom system, MW</td>
<td>34 122</td>
<td>33 345</td>
<td>34 768</td>
<td>34 977</td>
<td>35 525</td>
<td>36 212</td>
<td>36 664</td>
<td>35 850</td>
<td>35 959</td>
<td>36 513</td>
</tr>
<tr>
<td>Peak demand on integrated Eskom system, including load reductions and non-Eskom generation, MW</td>
<td>34 913</td>
<td>34 481</td>
<td>36 170</td>
<td>36 002</td>
<td>36 345</td>
<td>37 065</td>
<td>36 970</td>
<td>35 912</td>
<td>36 227</td>
<td>37 158</td>
</tr>
<tr>
<td>National rotational load shedding</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes**</td>
<td>No**</td>
<td>No**</td>
<td>No**</td>
<td>No**</td>
<td>Yes</td>
<td>–</td>
</tr>
<tr>
<td>Demand surges, MW</td>
<td>126.9</td>
<td>214.9</td>
<td>171.3RA</td>
<td>409.6RA</td>
<td>595.0RA</td>
<td>363.0RA</td>
<td>354.1RA</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Internal energy efficiency, GWh</td>
<td>6.0</td>
<td>1.7RA</td>
<td>10.4RA</td>
<td>19.4RA</td>
<td>28.9RA</td>
<td>45.0RA</td>
<td>26.2RA</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Asset creation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generation capacity installed: first synchronisation, units</td>
<td>2</td>
<td>2**</td>
<td>2**</td>
<td>2</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Generation capacity installed and commissioned, MW</td>
<td>1 332RA</td>
<td>794RA</td>
<td>100RA</td>
<td>120RA</td>
<td>241RA</td>
<td>535RA</td>
<td>315RA</td>
<td>452RA</td>
<td>1 770</td>
<td>1 043</td>
</tr>
<tr>
<td>Transmission lines installed, km</td>
<td>585.4RA</td>
<td>345.8RA</td>
<td>316.8RA</td>
<td>810.9RA</td>
<td>787.1RA</td>
<td>631.3RA</td>
<td>442.4RA</td>
<td>600.3RA</td>
<td>418.3</td>
<td>480.0</td>
</tr>
<tr>
<td>Substation capacity installed and commissioned, MVA</td>
<td>2 390RA</td>
<td>2 435RA</td>
<td>2 090RA</td>
<td>3 790RA</td>
<td>3 580RA</td>
<td>2 525RA</td>
<td>5 940RA</td>
<td>1 630RA</td>
<td>1 375</td>
<td>1 355</td>
</tr>
<tr>
<td>Total capital expenditure – group (excluding capitalised borrowing costs), R billion</td>
<td>60.0</td>
<td>57.4</td>
<td>53.3RA</td>
<td>59.8RA</td>
<td>60.1</td>
<td>58.8</td>
<td>47.9</td>
<td>48.7</td>
<td>43.7</td>
<td>24.0</td>
</tr>
</tbody>
</table>

1. Difference between electricity available for distribution and electricity sold is due to energy losses.
2. Prior to 2009/10, wheeling was combined with the total imported for the Eskom system.
3. Used by Eskom for pumped storage facilities and synchronous condenser mode of operation.
4. The employee LTIR includes occupational diseases.
5. Prior to 2013/14, only company numbers were reported.
6. RA. Reasonable assurance provided by the independent assurance provider. Refer to pages 122 to 125 of the integrated report.
## Ten-year technical statistics

### Measure and unit

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary energy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal stock, M</td>
<td>74</td>
<td>58</td>
<td>51</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road-to-coal migration (additional tonnage transported on rail), Mt</td>
<td>12.29</td>
<td>13.68</td>
<td>12.68</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal purchased, Mt</td>
<td>120.3</td>
<td>118.7</td>
<td>121.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal burnt, Mt</td>
<td>103.7</td>
<td>114.8</td>
<td>119.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average calorific value, MJ/Mg</td>
<td>30.85</td>
<td>19.57</td>
<td>19.68</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average ash content, %</td>
<td>28.62</td>
<td>28.19</td>
<td>27.63</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average sulphur content, %</td>
<td>0.64</td>
<td>0.97</td>
<td>0.80</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall thermal efficiency, %</td>
<td>31.2</td>
<td>31.3</td>
<td>31.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Environmental statistics</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diesel and kerosene usage for OCGTs, Mℓ</td>
<td>10.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diesel and kerosene usage for OCGTs, Mℓ</td>
<td>1.44</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diesel and kerosene usage for OCGTs, Mℓ</td>
<td>1.38</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diesel and kerosene usage for OCGTs, Mℓ</td>
<td>1.42</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Plant performance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unplanned capability loss factor (UCLF), %</td>
<td>9.90</td>
<td>14.94</td>
<td>15.22</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planned capability loss factor (PCLF), %</td>
<td>12.14</td>
<td>12.99</td>
<td>9.91</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy availability factor (EAF), %</td>
<td>97.10</td>
<td>71.01</td>
<td>73.73</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unis capacity factor (UCF), %</td>
<td>78.60</td>
<td>72.10</td>
<td>74.87</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generation load factor, %</td>
<td>57.9</td>
<td>58.8</td>
<td>61.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OCGT load factor trend</td>
<td>0.0005</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Network performance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total system minutes lost for events &lt;1 minute, minutes</td>
<td>3.89</td>
<td>2.41</td>
<td>2.85</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major incidents, number</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System average interruption frequency index (SAIFI), events</td>
<td>20.58</td>
<td>20.51</td>
<td>19.78</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System average interruption duration index (SAIDI), hours</td>
<td>37.10</td>
<td>53.09</td>
<td>48.88</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy availability factor (EAF), %</td>
<td>75.0</td>
<td>82.7</td>
<td>83.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transmission energy losses, %</td>
<td>8.9</td>
<td>8.6</td>
<td>8.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transmission energy losses, %</td>
<td>2.2</td>
<td>2.6</td>
<td>2.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution energy losses, %</td>
<td>7.48</td>
<td>6.4</td>
<td>6.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Water</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net water consumed, Mℓ</td>
<td>307.269</td>
<td>314.685</td>
<td>313.078</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ash produced, Mt</td>
<td>32.61</td>
<td>32.59</td>
<td>34.41</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ash sold, Mt</td>
<td>2.8</td>
<td>2.7</td>
<td>2.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ash recycled, %</td>
<td>8.5</td>
<td>8.3</td>
<td>7.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ash disposed, tons</td>
<td>393.0</td>
<td>374.5</td>
<td>391.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Material containing polychlorinated biphenyls thermally destroyed, tons</td>
<td>61.9</td>
<td>59.8</td>
<td>0.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Nuclear</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public individual radiation exposure due to effluents, mSv</td>
<td>0.0005</td>
<td>0.0006</td>
<td>0.0010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low-level radioactive waste generated, cubic metres</td>
<td>162.9</td>
<td>176.1</td>
<td>164.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low-level radioactive waste disposed of, cubic metres</td>
<td>108.0</td>
<td>213.1</td>
<td>377.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intermediate-level radioactive waste generated, cubic metres</td>
<td>11.4</td>
<td>33.4</td>
<td>27.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intermediate-level radioactive waste disposed of, cubic metres</td>
<td>0</td>
<td>0</td>
<td>138</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Used nuclear fuel, number of elements discharged</td>
<td>48</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Used nuclear fuel, number of elements discharged</td>
<td>60</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Used nuclear fuel, number of elements discharged</td>
<td>2 289</td>
<td>2 219</td>
<td>2 173</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Legal contraventions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental legal contraventions</td>
<td>28</td>
<td>20</td>
<td>20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental legal contraventions reported in terms of the Operational Health Dashboard, number</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Calculated figures based on coal characteristics and power station design parameters based on coal analysis and using coal burn tonnages.
2. Figures include coal-fired and gas turbine power stations, as well as oil consumed during power station start-ups and, for carbon dioxide emissions, NOx reported as NO2 is calculated using average station-specific emission factors (which are measured intermittently) and tonnages of coal burnt.
3. Volume of water consumed per unit of generated power sent out by commissioned power stations.
4. Limit set by the National Nuclear Regulator is ≤0.25mSv.
5. Calculated figures based on coal characteristics and power station design parameters based on coal analysis and using coal burnt tonnages.
6. Figures include coal-fired and gas turbine power stations, as well as oil consumed during power station start-ups and, for carbon dioxide emissions, NOx reported as NO2 is calculated using average station-specific emission factors (which are measured intermittently) and tonnages of coal burnt.
7. Reasonable assurance provided by the independent assurance provider. Refer to pages 122 to 125 of the integrated report.
8. Measured by the National Nuclear Regulator is ≤0.25mSv.
9. Volume of water consumed per unit of generated power sent out by commissioned power stations.
### Five-year non-technical statistics

#### Measure and unit

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity revenue per kWh (including environmental levy), c/kWh</td>
<td>83.60</td>
<td>76.24</td>
<td>67.91</td>
<td>62.82</td>
<td>58.49</td>
<td>666.91</td>
<td>624.02</td>
<td>590.59</td>
<td>526.30</td>
<td>491.84</td>
<td></td>
</tr>
<tr>
<td>Electricity operating costs, R/MWh</td>
<td>677.91</td>
<td>635.01</td>
<td>603.33</td>
<td>535.08</td>
<td>487.92</td>
<td>214.64</td>
<td>202.29</td>
<td>16.54</td>
<td>77.23</td>
<td>16.46</td>
<td></td>
</tr>
<tr>
<td>Electricity EBITDA margin, %</td>
<td>20.55</td>
<td>19.13</td>
<td>16.28</td>
<td>16.13</td>
<td>17.46</td>
<td>37.53</td>
<td>32.81</td>
<td>24.18</td>
<td>23.58</td>
<td>20.84</td>
<td></td>
</tr>
<tr>
<td>EBITDA, R million</td>
<td>35 999</td>
<td>30 932</td>
<td>23 811</td>
<td>22 101</td>
<td>22.14</td>
<td>37.53</td>
<td>32.81</td>
<td>24.18</td>
<td>23.58</td>
<td>20.84</td>
<td></td>
</tr>
<tr>
<td>Cash interest cover, ratio</td>
<td>1.77%</td>
<td>1.69</td>
<td>1.67</td>
<td>2.22</td>
<td>3.97</td>
<td>1.82</td>
<td>1.83</td>
<td>1.88</td>
<td>2.35</td>
<td>4.13</td>
<td></td>
</tr>
<tr>
<td>Debt service coverage ratio</td>
<td>1.37</td>
<td>1.09</td>
<td>0.82</td>
<td>1.28</td>
<td>1.98</td>
<td>1.37</td>
<td>1.14</td>
<td>0.91</td>
<td>1.24</td>
<td>1.97</td>
<td></td>
</tr>
<tr>
<td>Working capital, ratio</td>
<td>0.86</td>
<td>0.86</td>
<td>0.82</td>
<td>0.70</td>
<td>0.67</td>
<td>0.85</td>
<td>0.82</td>
<td>0.81</td>
<td>0.71</td>
<td>0.68</td>
<td></td>
</tr>
<tr>
<td>Gross debt/EBITDA, ratio</td>
<td>11.39</td>
<td>11.71</td>
<td>13.84</td>
<td>12.59</td>
<td>10.09</td>
<td>10.84</td>
<td>10.95</td>
<td>13.60</td>
<td>11.77</td>
<td>10.81</td>
<td></td>
</tr>
<tr>
<td>Debt/equity (including long-term provisions), ratio</td>
<td>2.22%</td>
<td>1.73</td>
<td>2.67</td>
<td>2.12</td>
<td>1.96</td>
<td>2.11</td>
<td>1.65</td>
<td>2.50</td>
<td>2.00</td>
<td>1.84</td>
<td></td>
</tr>
<tr>
<td>Geared, %</td>
<td>69</td>
<td>63</td>
<td>73</td>
<td>68</td>
<td>66</td>
<td>68</td>
<td>62</td>
<td>71</td>
<td>67</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>Free funds from operations, R million</td>
<td>33 66</td>
<td>33 66</td>
<td>33 66</td>
<td>33 66</td>
<td>33 66</td>
<td>47 571</td>
<td>39 443</td>
<td>36 179</td>
<td>31 158</td>
<td>24 615</td>
<td></td>
</tr>
<tr>
<td>Free funds from operations after interest paid, R million</td>
<td>19 776</td>
<td>19 776</td>
<td>19 776</td>
<td>19 776</td>
<td>19 776</td>
<td>21 151</td>
<td>17 928</td>
<td>20 564</td>
<td>20 139</td>
<td>18 074</td>
<td></td>
</tr>
<tr>
<td>Gearing, %</td>
<td>69</td>
<td>63</td>
<td>73</td>
<td>68</td>
<td>66</td>
<td>68</td>
<td>62</td>
<td>71</td>
<td>67</td>
<td>65</td>
<td></td>
</tr>
</tbody>
</table>

#### Building skills

| Headcount (including fixed-term contractors) | 41 940 | 42 767 | 41 787 | 42 923 | 43 402 | 47 588 | 47 978 | 46 490 | 46 919 | 47 295 |
| Training spend as % of gross employee benefit costs | 6.89% | 6.45 | 6.18% | 7.87% | – | – | – | – | – | – |
| Total engineering learners in the system, number | 635.01 | 603.33 | 535.08 | 487.92 | – | – | – | – | – | – |
| Total technician learners in the system, number | 21 151 | 17 928 | 20 564 | 20 139 | 18 074 | – | – | – | – | – |
| Total artisan learners in the system, number | 2 155 | 1 955 | 1 752 | 2 383 | 2 847 | – | – | – | – | – |
| Learner intake | 3 048 | 1 370 | – | – | – | – | – | – | – | – |

#### Transformation

**Eskom Holdings SOC Ltd**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Socio-economic contribution</td>
<td>225.3</td>
<td>103.6</td>
<td>115.5</td>
<td>132 464</td>
<td>194 370</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate social investment, number of beneficiaries</td>
<td>841 845</td>
<td>302 736</td>
<td>323 882</td>
<td>357 443</td>
<td>652 342</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job creation, number</td>
<td>39 277</td>
<td>23 169</td>
<td>25 875</td>
<td>23 169</td>
<td>35 759</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total number of electrification connections, number</td>
<td>1 263</td>
<td>1 271</td>
<td>1 294</td>
<td>1 283</td>
<td>1 126</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procurement equity</td>
<td>0.02%</td>
<td>0.01%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procurement spend with suppliers owned by black people living with disability (BPLwD), % of TMPS</td>
<td>4.81%</td>
<td>5.12%</td>
<td>6.74%</td>
<td>–</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procurement spend with qualifying small enterprises (QSE), % of TMPS</td>
<td>4.81%</td>
<td>6.74%</td>
<td>11.90</td>
<td>–</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procurement spend with exempted micro enterprises (EME), % of TMPS</td>
<td>4.62%</td>
<td>4.25%</td>
<td>5.12</td>
<td>–</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology transfer</td>
<td>31%</td>
<td>54%</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skills development, number of people</td>
<td>54%</td>
<td>29%</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job creation, number of people</td>
<td>69%</td>
<td>54%</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Employment equity

| Disabilities, number of employees | 1 263 | 1 271 | 1 294 | 1 283 | 1 126 |
| Employment equity – disability, % | 3.04% | 2.97% | 3.13% | 2.99% | 2.59% |
| Racial equity in senior management, % black employees | 63.77% | 60.90% | 61.58% | 59.52% | 58.39% |
| Racial equity in professionals and middle management, % black employees | 73.60% | 71.98 | 72.28% | 71.20% | 69.60% |
| Gender equity in senior management, % female employees | 36.69% | 28.07 | 29.83% | 28.90% | 28.20% |
| Gender equity in professionals and middle management, % female employees | 36.69% | 36.01 | 36.10% | 35.80% | 34.40% |
| Local content contracted (new build), % | 158 016 | 159 853 | 201 788 | 139 881 | – |
| Local content contracted (Eskom-wide), % | 10.15 | 13.84 | 12.59 | 11.77 | 10.81 |
| Local content contracted (excluding long-term provisions), ratio | 2.22% | 1.73 | 2.67 | 2.12 | 1.96 |

1. **R** ratios impacted by the restatements in the annual financial statements were restated where possible.
2. **A** qualified by the independent assurance provider.
3. **RA** reasonable assurance provided by the independent assurance provider.
4. **LA** limited assurance provided by the independent assurance provider.

---

108 Integrated report | 31 March 2017

Eskom Holdings SOC Ltd
Customer information
at 31 March 2017

### Number of Eskom customers

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Local</td>
<td>5 976 546</td>
<td>5 688 629</td>
<td>5 477 591</td>
<td>5 232 904</td>
<td>5 013 435</td>
</tr>
<tr>
<td>Distributors</td>
<td>802</td>
<td>801</td>
<td>801</td>
<td>801</td>
<td>795</td>
</tr>
<tr>
<td>Residential</td>
<td>5 838 764</td>
<td>5 550 307</td>
<td>5 388 723</td>
<td>5 093 847</td>
<td>4 874 004</td>
</tr>
<tr>
<td>Commercial</td>
<td>50 966</td>
<td>50 816</td>
<td>50 631</td>
<td>50 425</td>
<td>50 399</td>
</tr>
<tr>
<td>Industrial</td>
<td>2 706</td>
<td>2 733</td>
<td>2 773</td>
<td>2 781</td>
<td>2 789</td>
</tr>
<tr>
<td>Mining</td>
<td>1 012</td>
<td>1 013</td>
<td>1 034</td>
<td>1 054</td>
<td>1 062</td>
</tr>
<tr>
<td>Agricultural</td>
<td>81 806</td>
<td>82 450</td>
<td>83 136</td>
<td>83 489</td>
<td>83 877</td>
</tr>
<tr>
<td>Rail</td>
<td>510</td>
<td>509</td>
<td>508</td>
<td>507</td>
<td>509</td>
</tr>
<tr>
<td>International</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Utilities</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>End users across the border</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5 976 557</td>
<td>5 688 640</td>
<td>5 477 602</td>
<td>5 232 915</td>
<td>5 013 446</td>
</tr>
</tbody>
</table>

### Electricity sales per customer category, GWh

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Local</td>
<td>199 028</td>
<td>201 032</td>
<td>204 274</td>
<td>205 525</td>
<td>202 770</td>
</tr>
<tr>
<td>Distributors</td>
<td>89 718</td>
<td>91 591</td>
<td>91 090</td>
<td>91 262</td>
<td>91 386</td>
</tr>
<tr>
<td>Residential</td>
<td>11 863</td>
<td>11 917</td>
<td>11 586</td>
<td>11 017</td>
<td>10 390</td>
</tr>
<tr>
<td>Commercial</td>
<td>10 339</td>
<td>10 150</td>
<td>9 644</td>
<td>9 605</td>
<td>9 519</td>
</tr>
<tr>
<td>Industrial</td>
<td>48 295</td>
<td>50 150</td>
<td>53 467</td>
<td>54 658</td>
<td>51 675</td>
</tr>
<tr>
<td>Mining</td>
<td>30 559</td>
<td>30 629</td>
<td>29 988</td>
<td>30 667</td>
<td>31 611</td>
</tr>
<tr>
<td>Agricultural</td>
<td>5 405</td>
<td>5 733</td>
<td>5 401</td>
<td>5 191</td>
<td>5 193</td>
</tr>
<tr>
<td>Rail</td>
<td>2 990</td>
<td>2 852</td>
<td>3 098</td>
<td>3 125</td>
<td>2 996</td>
</tr>
<tr>
<td>International</td>
<td>15 093</td>
<td>13 465</td>
<td>12 000</td>
<td>12 378</td>
<td>13 791</td>
</tr>
<tr>
<td>Utilities</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>End users across the border</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>174 121</td>
<td>174 487</td>
<td>176 274</td>
<td>177 903</td>
<td>176 561</td>
</tr>
</tbody>
</table>

### Electricity sales to countries in southern Africa, GWh

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>954</td>
<td>1 099</td>
<td>1 237</td>
<td>1 608</td>
<td>2 374</td>
</tr>
<tr>
<td>Lesotho</td>
<td>202</td>
<td>205</td>
<td>230</td>
<td>252</td>
<td>255</td>
</tr>
<tr>
<td>Mozambique</td>
<td>8 120</td>
<td>8 281</td>
<td>8 360</td>
<td>8 314</td>
<td>8 284</td>
</tr>
<tr>
<td>Namibia</td>
<td>2 699</td>
<td>1 746</td>
<td>924</td>
<td>1 248</td>
<td>1 822</td>
</tr>
<tr>
<td>Swaziland</td>
<td>966</td>
<td>1 044</td>
<td>882</td>
<td>741</td>
<td>598</td>
</tr>
<tr>
<td>Zambia</td>
<td>352</td>
<td>344</td>
<td>16</td>
<td>143</td>
<td>253</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1 743</td>
<td>252</td>
<td>108</td>
<td>154</td>
<td>3</td>
</tr>
<tr>
<td>Short-term energy market1</td>
<td>587</td>
<td>494</td>
<td>243</td>
<td>48</td>
<td>2</td>
</tr>
</tbody>
</table>

1. Prepayments and public lighting are included under residential.
2. The short-term energy market consists of all the utilities in the southern African countries that form part of the Southern African Power Pool. Energy is traded on a daily and monthly basis as there is no long-term bilateral contract.
The difference between installed and nominal capacity reflects auxiliary power consumption and reduced capacity caused by the age of plant.

<table>
<thead>
<tr>
<th>Name of station</th>
<th>Location</th>
<th>Years commissioned, first to last unit</th>
<th>Number and installed capacity of generator sets</th>
<th>Total installed capacity MW</th>
<th>Total nominal capacity MW</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base-load stations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal-fired (14)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amper</td>
<td>Middelburg</td>
<td>Sep 1971 to Aug 1975</td>
<td>1x370; 2x390; 2x396; 2x400</td>
<td>3 352</td>
<td>3 232</td>
</tr>
<tr>
<td>Camden</td>
<td>Ermelo</td>
<td>Mar 2005 to Jun 2008</td>
<td>3x200; 1x196; 1x195; 1x185</td>
<td>1 561</td>
<td>1 481</td>
</tr>
<tr>
<td>Duvha</td>
<td>Emalahleni</td>
<td>Aug 1983 to Feb 1984</td>
<td>3x600</td>
<td>3 600</td>
<td>3 450</td>
</tr>
<tr>
<td>Groseve</td>
<td>Middelburg</td>
<td>Apr 2008 to Mar 2011</td>
<td>4x200; 2x190</td>
<td>1 890</td>
<td>1 793</td>
</tr>
<tr>
<td>Hendrina</td>
<td>Middelburg</td>
<td>May 1970 to Dec 1976</td>
<td>4x200; 3x195; 2x170; 1x168</td>
<td>3 708</td>
<td>3 558</td>
</tr>
<tr>
<td>Kanjal</td>
<td>Emalahleni</td>
<td>Oct 1983 to Dec 1992</td>
<td>6x666</td>
<td>4 116</td>
<td>3 840</td>
</tr>
<tr>
<td>Kamul</td>
<td>Middelburg</td>
<td>Mar 2009 to Oct 2013</td>
<td>4x100; 4x125; 4x190</td>
<td>990</td>
<td>904</td>
</tr>
<tr>
<td>Kriel</td>
<td>Bethal</td>
<td>May 1976 to Mar 1979</td>
<td>4x200; 2x190</td>
<td>1 893</td>
<td>1 793</td>
</tr>
<tr>
<td>Letheha</td>
<td>Vereeniging</td>
<td>Dec 1985 to Dec 1990</td>
<td>6x666</td>
<td>3 708</td>
<td>3 558</td>
</tr>
<tr>
<td>Mqubila</td>
<td>Volksriv</td>
<td>Apr 1996 to Apr 2001</td>
<td>3x657; 3x713</td>
<td>4 110</td>
<td>3 843</td>
</tr>
<tr>
<td>Marabola</td>
<td>Lephalale</td>
<td>Dec 1987 to Oct 1991</td>
<td>6x666</td>
<td>3 990</td>
<td>3 690</td>
</tr>
<tr>
<td>Mba</td>
<td>Bethal</td>
<td>Sep 1979 to Jul 1983</td>
<td>6x600</td>
<td>3 600</td>
<td>3 450</td>
</tr>
<tr>
<td>Tutuka</td>
<td>Standerton</td>
<td>Jun 1985 to Jun 1990</td>
<td>6x200</td>
<td>3 654</td>
<td>3 510</td>
</tr>
<tr>
<td>Mepa</td>
<td>Lephalale</td>
<td>Unit 6: Aug 2015</td>
<td>6x794</td>
<td>794</td>
<td>720</td>
</tr>
<tr>
<td>Kuske</td>
<td>Ogies</td>
<td>Under construction</td>
<td>6x800</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Nuclear (1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Komati</td>
<td>Middelburg</td>
<td>Sep 1979 to Jul 1983</td>
<td>6x600</td>
<td>3 600</td>
<td>3 450</td>
</tr>
<tr>
<td>Camden</td>
<td>Ermelo</td>
<td>Mar 2005 to Jun 2008</td>
<td>3x200; 1x196; 1x195; 1x185</td>
<td>1 561</td>
<td>1 481</td>
</tr>
<tr>
<td>Duvha</td>
<td>Emalahleni</td>
<td>Aug 1983 to Feb 1984</td>
<td>3x600; 2x566</td>
<td>3 600</td>
<td>3 450</td>
</tr>
<tr>
<td>Groseve</td>
<td>Middelburg</td>
<td>Apr 2008 to Mar 2011</td>
<td>4x200; 2x190</td>
<td>1 890</td>
<td>1 793</td>
</tr>
<tr>
<td>Hendrina</td>
<td>Middelburg</td>
<td>May 1970 to Dec 1976</td>
<td>4x200; 3x195; 2x170; 1x168</td>
<td>3 708</td>
<td>3 558</td>
</tr>
<tr>
<td>Kanjal</td>
<td>Emalahleni</td>
<td>Oct 1983 to Dec 1992</td>
<td>6x666</td>
<td>4 116</td>
<td>3 840</td>
</tr>
<tr>
<td>Kamul</td>
<td>Middelburg</td>
<td>Mar 2009 to Oct 2013</td>
<td>4x100; 4x125; 4x190</td>
<td>990</td>
<td>904</td>
</tr>
<tr>
<td>Kriel</td>
<td>Bethal</td>
<td>May 1976 to Mar 1979</td>
<td>4x200; 2x190</td>
<td>1 893</td>
<td>1 793</td>
</tr>
<tr>
<td>Letheha</td>
<td>Vereeniging</td>
<td>Dec 1985 to Dec 1990</td>
<td>6x666</td>
<td>3 708</td>
<td>3 558</td>
</tr>
<tr>
<td>Mqubila</td>
<td>Volksriv</td>
<td>Apr 1996 to Apr 2001</td>
<td>3x657; 3x713</td>
<td>4 110</td>
<td>3 843</td>
</tr>
<tr>
<td>Marabola</td>
<td>Lephalale</td>
<td>Dec 1987 to Oct 1991</td>
<td>6x666</td>
<td>3 990</td>
<td>3 690</td>
</tr>
<tr>
<td>Mba</td>
<td>Bethal</td>
<td>Sep 1979 to Jul 1983</td>
<td>6x600</td>
<td>3 600</td>
<td>3 450</td>
</tr>
<tr>
<td>Tutuka</td>
<td>Standerton</td>
<td>Jun 1985 to Jun 1990</td>
<td>6x200</td>
<td>3 654</td>
<td>3 510</td>
</tr>
<tr>
<td>Mepa</td>
<td>Lephalale</td>
<td>Unit 6: Aug 2015</td>
<td>6x794</td>
<td>794</td>
<td>720</td>
</tr>
<tr>
<td>Kuske</td>
<td>Ogies</td>
<td>Under construction</td>
<td>6x800</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Nuclear (1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Komati</td>
<td>Middelburg</td>
<td>Sep 1979 to Jul 1983</td>
<td>6x600</td>
<td>3 600</td>
<td>3 450</td>
</tr>
</tbody>
</table>

**Total power station capacities (29)**

38 548 36 441

<table>
<thead>
<tr>
<th>Name of station</th>
<th>Location</th>
<th>Years commissioned, first to last unit</th>
<th>Number and installed capacity of generator sets</th>
<th>Total installed capacity MW</th>
<th>Total nominal capacity MW</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Peaking stations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gas/liquid fuel turbines stations (4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acacia</td>
<td>Cape Town</td>
<td>May 1976 to Jul 1976</td>
<td>3x57</td>
<td>171</td>
<td>171</td>
</tr>
<tr>
<td>Ankorlig</td>
<td>Anaconda</td>
<td>Mar 2007 to Mar 2009</td>
<td>4x149.2; 1x148.3</td>
<td>1 338</td>
<td>1 327</td>
</tr>
<tr>
<td>Gourikwa</td>
<td>Mossel Bay</td>
<td>Jul 2007 to Nov 2008</td>
<td>5x149.2</td>
<td>746</td>
<td>740</td>
</tr>
<tr>
<td>Pont Rex</td>
<td>East London</td>
<td>Sep 1976 to Oct 1976</td>
<td>3x57</td>
<td>171</td>
<td>171</td>
</tr>
<tr>
<td>Pumped storage schemes (3)**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drakensberg</td>
<td>Bergville</td>
<td>Jun 1981 to Apr 1982</td>
<td>4x250</td>
<td>1 000</td>
<td>1 000</td>
</tr>
<tr>
<td>Ingula</td>
<td>Ladysmith</td>
<td>Jun 2016 to Feb 2017</td>
<td>4x333</td>
<td>1 332</td>
<td>1 324</td>
</tr>
<tr>
<td>Palmiet</td>
<td>Grabouw</td>
<td>Apr 1988 to May 1988</td>
<td>2x200</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>Hydroelectric stations (2)**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gariep</td>
<td>Norvalspont</td>
<td>Sep 1971 to Mar 1976</td>
<td>4x90</td>
<td>360</td>
<td>360</td>
</tr>
<tr>
<td>Vanderkloof</td>
<td>Paternvlei</td>
<td>Jan 1977 to Feb 1977</td>
<td>2x120</td>
<td>240</td>
<td>240</td>
</tr>
<tr>
<td><strong>Renewables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wind energy (1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sere</td>
<td>Vredendal</td>
<td>Mar 2015</td>
<td>46x2.2</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Solar energy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concentrated solar power</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upington</td>
<td>Cancelled</td>
<td>–</td>
<td>–</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other hydroelectric stations (4)**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colley Wobbles</td>
<td>Mbashe River</td>
<td>3x14</td>
<td>42</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Fins Falls</td>
<td>Umzimvubu River</td>
<td>2x6</td>
<td>6</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Nosiba</td>
<td>Nkorisa River</td>
<td>2x0.6; 1x3</td>
<td>3</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Second Falls</td>
<td>Umzimvubu River</td>
<td>2x5.5</td>
<td>11</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td><strong>Total power station capacities (29)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>46 407</td>
<td>44 134</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Available nominal capacity – Eskom-owned

95.10%
Power lines and substations in service
at 31 March 2017

--- | --- | --- | --- | --- | ---
Power lines  
Transmission power lines, km | 22 220 | 31 957 | 31 107 | 29 924 | 29 297
765kV | 2 782 | 2 608 | 2 235 | 2 235 | 1 667
533kV DC (monopolar) | 1 035 | 1 035 | 1 035 | 1 035 | 1 035
400kV | 18 943 | 18 872 | 18 377 | 17 011 | 16 899
275kV | 7 338 | 7 433 | 7 361 | 7 361 | 7 360
220kV | 1 220 | 1 217 | 1 217 | 1 217 | 1 217
132kV | 882 | 882 | 882 | 1 065 | 1 119
Distribution power lines, km | 40 865 | 49 210 | 48 278 | 46 093 | 44 396
132kV and higher | 25 011 | 25 528 | 24 929 | 22 719 | 21 508
33 to 88kV | 23 794 | 23 682 | 23 349 | 23 374 | 22 888
Reticulation power lines, km | 296 188 | 288 550 | 281 510 | 276 027 | 269 570
22kV and lower | 296 188 | 288 550 | 281 510 | 276 027 | 269 570
Underground cables, km | 7 499 | 7 571 | 7 436 | 7 293 | 7 026
132kV and higher | 75 | 66 | 65 | 65 | 65
33 to 88kV | 215 | 375 | 361 | 364 | 312
22kV and lower | 209 | 7 130 | 7 010 | 6 864 | 6 749
Total all power lines, km | 384 712 | 377 287 | 368 331 | 359 337 | 350 289
Total transformer capacity, MVA | 276 583 | 244 637 | 239 490 | 232 179 | 225 799
Transmission, MVA | 147 415 | 143 440 | 139 610 | 138 350 | 135 840
Distribution and reticulation, MVA | 129 168 | 101 197 | 99 880 | 93 829 | 89 959
Total transformers, number | 375 995 | 342 387 | 335 242 | 329 314 | 320 501
Transmission, number | 433 | 427 | 423 | 420 | 412
Distribution and reticulation, number | 372 562 | 341 960 | 334 819 | 328 894 | 320 089

1. Transmission power line lengths are included as per distances from the Geographic Information System (GIS).
2. The Miyula Umbilo No 1 765kV line, even though constructed at 765kV, is currently still being operated at 400kV and thus reflected under the 400kV total.
3. Base of definition: transformers rated ≥30MVA and primary voltage ≥132kV.

---

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

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

The results indicate that:
• The trend in the performance of our coal-fired plant across all indicators continues to be worse than the VGB benchmark
• The availability of the top performing stations in the VGB benchmark has historically been consistent, although showing signs of instability from 2012 when a decline was observed
• Eskom units generally compare favourably with the VGB benchmark with respect to planned maintenance in the median and low quartiles, while Eskom’s best performing units continue to be better than that of VGB benchmark units
• Since 2012, Eskom’s UCLF performance showed a significant deterioration compared to the VGB benchmark on all quartiles
• With respect to the use of available plant (energy utilisation factor or EUF), all Eskom coal-fired units are performing at a level close to, and in many cases above, the VGB best quartile, an indication that Eskom is running its power station units at much higher levels than the VGB benchmark units
**Supplementary information**

Eskom Holdings SOC Ltd

---

**Planned capability loss factor (PCLF), all coal sizes (92 VGB units, excluding Eskom units), %**

<table>
<thead>
<tr>
<th>VGB worst quartile</th>
<th>Eskom worst quartile</th>
<th>VGB median</th>
<th>Eskom median</th>
<th>VGB best quartile</th>
<th>Eskom best quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td></td>
<td>5</td>
<td></td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td></td>
<td>20</td>
<td></td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td></td>
<td>35</td>
<td></td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>45</td>
<td></td>
<td>50</td>
<td></td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>60</td>
<td></td>
<td>65</td>
<td></td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>75</td>
<td></td>
<td>80</td>
<td></td>
<td>85</td>
<td></td>
</tr>
<tr>
<td>90</td>
<td></td>
<td>95</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

**Energy utilisation factor (EUF), all coal sizes (92 VGB units, excluding Eskom units), %**

<table>
<thead>
<tr>
<th>VGB worst quartile</th>
<th>Eskom worst quartile</th>
<th>VGB median</th>
<th>Eskom median</th>
<th>VGB best quartile</th>
<th>Eskom best quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>35</td>
<td></td>
<td>45</td>
<td></td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>65</td>
<td></td>
<td>75</td>
<td></td>
<td>85</td>
<td></td>
</tr>
<tr>
<td>95</td>
<td></td>
<td>105</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

**Koeberg Nuclear Power Station**

We are affiliated to the World Association of Nuclear Operators (WANO) and the Institute of Nuclear Power Operations (INPO). South Africa is a member of the International Atomic Energy Agency (IAEA). These affiliations enable us to benchmark performance, conduct periodic safety reviews, define standards, disseminate best practice and train personnel at our nuclear plant, Koeberg. A routine WANO peer review of Koeberg was carried out in February 2017.

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

For the review period, Koeberg performance has generally been better than the median for the suite of WANO performance indicators. The complete suite of WANO performance indicators is not shown here.

The graphs that follow depict the performance of Koeberg Nuclear Power Station against all pressurised water reactor (PWR) units worldwide.

---

**Unplanned automatic scrams for all pressurised water reactor (PWR) units worldwide, UA7 rate per 7 000 hours**
Environmental implications of using or saving electricity

**Factor 1** figures are calculated based on total electricity sales by Eskom, which is based on the total available for distribution (including purchases), after excluding losses through Transmission and Distribution (technical losses), losses through theft (non-technical losses), our own internal use and wheeling. Thus to calculate CO₂ emissions, divide the quantity of CO₂ emitted by the electricity sales:

\[
\text{CO₂ emissions} = \frac{\text{quantity of CO}_2 \text{ emitted}}{\text{electricity sales}}
\]

\[
211.1 \text{Mt of CO}_2 ÷ 214,121 \text{GWh of sales} = 0.99 \text{ tons per MWh}
\]

**Factor 2** figures are calculated based on total electricity generated, which includes coal, nuclear, pumped storage, wind, hydro and gas turbines, but excludes the total consumed by Eskom. Thus the quantity of CO₂ emissions divided by (electricity generated less Eskom’s own electricity consumption):

\[
211.1 \text{Mt of CO}_2 ÷ (220,166 \text{GWh generated less 4,808 GWh own consumption}) = 0.98 \text{ tons per MWh}
\]

Figures represent the 12-month period from 1 April 2016 to 31 March 2017.

### Table: Environmental Implications

<table>
<thead>
<tr>
<th>Factor 1 (total energy sold)</th>
<th>Factor 2 (total energy generated)</th>
<th>kWh</th>
<th>MWh</th>
<th>GWh</th>
<th>TWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal used</td>
<td>0.53</td>
<td>0.53</td>
<td>ton</td>
<td>thousand tons (kt)</td>
<td>million tons (Mt)</td>
</tr>
<tr>
<td>Water use</td>
<td>1.44</td>
<td>1.43</td>
<td>k Las</td>
<td>kilolitres (kl)</td>
<td>megalitres (ML)</td>
</tr>
<tr>
<td>Ash produced</td>
<td>152</td>
<td>151</td>
<td>gram</td>
<td>kilogram (kg)</td>
<td>ton</td>
</tr>
<tr>
<td>Particulate emissions</td>
<td>0.20</td>
<td>0.30</td>
<td>gram</td>
<td>kilogram (kg)</td>
<td>ton</td>
</tr>
<tr>
<td>CO₂ emissions²</td>
<td>0.99</td>
<td>0.98</td>
<td>kilogram</td>
<td>ton thousand tons (kt)</td>
<td>million tons (Mt)</td>
</tr>
<tr>
<td>SO₂ emissions²</td>
<td>8.25</td>
<td>8.20</td>
<td>gram</td>
<td>kilogram (kg)</td>
<td>ton</td>
</tr>
<tr>
<td>NO₃ emissions³</td>
<td>4.13</td>
<td>4.11</td>
<td>gram</td>
<td>kilogram (kg)</td>
<td>ton</td>
</tr>
</tbody>
</table>

1. Volume of water used at all Eskom power stations.
2. Calculated figures based on coal characteristics and power station design parameters. Sulphur dioxide and carbon dioxide emissions are based on coal analysis and using coal burnt tonnages. Figures include coal-fired and gas turbine power stations, as well as oil consumed during power station start-ups and for carbon dioxide emissions, the underground coal gasification pilot plant.
3. NOx reported as NO₂ is calculated using average station-specific emission factors, which have been measured intermittently between 1982 and 2006, and tonnages of coal burnt.

Multiply electricity consumption or saving by the relevant factor in the table above to determine the environmental implication.

**Example 1: Water consumption**

Using Factor 1

Used 90MWh of electricity

\[
90 \times 1.44 = 129.6 \text{ kilolitres of water used}
\]

Using Factor 2

\[
90 \times 1.43 = 128.7 \text{ kilolitres of water used}
\]

**Example 2: CO₂ emissions**

Using Factor 1

\[
90 \times 0.99 = 89.1 \text{ tons CO}_2 \text{ emitted}
\]

Using Factor 2

\[
90 \times 0.98 = 88.2 \text{ tons CO}_2 \text{ emitted}
\]

Further information can be obtained through the Eskom Environmental Helpline. Contact details are available at the back of the integrated report.

For CDM-related Eskom grid emission factor information, please go to the following link: www.eskom.co.za/OurCompany/SustainableDevelopment/Pages/CDM_Calculations.aspx or via the Eskom website: Our Company > Sustainable Development > CDM calculations
## Board and Exco meeting attendance

### Attendance at Board and committee meetings for the year ended 31 March 2017

<table>
<thead>
<tr>
<th>Members</th>
<th>Board</th>
<th>Audit and Risk</th>
<th>Investment and Finance</th>
<th>People and Governance</th>
<th>Board Recovery and Build Programme</th>
<th>Social, Ethics and Sustainability</th>
<th>Board Tender</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of meetings</td>
<td>17</td>
<td>5</td>
<td>9</td>
<td>7</td>
<td>1</td>
<td>4</td>
<td>13</td>
</tr>
</tbody>
</table>

#### Independent non-executives

<table>
<thead>
<tr>
<th>Member</th>
<th>Current members</th>
<th>Previous members</th>
<th>Attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr BS Ngubane</td>
<td>*16/17</td>
<td>Ms N Carrim</td>
<td>3/3</td>
</tr>
<tr>
<td>Mr ZW Khoza</td>
<td>16/17</td>
<td>Ms M Cassim</td>
<td>0/0</td>
</tr>
<tr>
<td>Ms VJ Klein</td>
<td>15/17</td>
<td>Mr R Kumalo</td>
<td>0/9</td>
</tr>
<tr>
<td>Mr G Leonard</td>
<td>8/17</td>
<td>Ms DV Naidoo</td>
<td>3/3</td>
</tr>
<tr>
<td>Ms C Malule</td>
<td>16/17</td>
<td>Mr MV Pamensky</td>
<td>7/10</td>
</tr>
<tr>
<td>Dr P Naidoo</td>
<td>14/17</td>
<td>Ms EM Pule</td>
<td>7/9</td>
</tr>
</tbody>
</table>

#### Current members

- Dr BS Ngubane: 16/17, 4/7, 1/1
- Mr ZW Khoza: 16/17, 9/9, 7/7, 4/4, *13/13
- Ms VJ Klein: 15/17, 5/5, 9/9, *2/7*, 4/4
- Mr G Leonard: 8/17, 3/5, 2/7, 1/3
- Ms C Malule: 16/17, *5/5*, *2/6*, *5/7*, 1/1, 13/13
- Dr P Naidoo: 14/17, 5/5, 9/9, 1/1, *4/4*, 10/10

#### Previous members

- Ms N Carrim (resigned 30 June 2016): 3/3, 2/2, 1/1, 1/1, 2/3
- Ms M Cassim (resigned 14 April 2016): 0/0
- Mr R Kumalo (resigned 12 April 2016): 0/9, 0/1, 0/0
- Ms DV Naidoo (resigned 30 June 2016): 3/3, 1/1, 1/1, 3/3
- Mr MV Pamensky (resigned 25 November 2016): 7/10, 2/3, 3/3

### Executive Divisional responsibility

<table>
<thead>
<tr>
<th>Executive</th>
<th>Divisional responsibility</th>
<th>Number of meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr B Molefe</td>
<td>Group Chief Executive (went on early retirement effective 31 December 2016)</td>
<td>1/5</td>
</tr>
<tr>
<td>Mr MM Koko</td>
<td>Interim Group Chief Executive (from 1 December 2016, previously Group Executive: Generation)</td>
<td>7/9</td>
</tr>
<tr>
<td>Mr A Singh</td>
<td>Chief Financial Officer</td>
<td>8/9</td>
</tr>
<tr>
<td>Mr P Govender</td>
<td>Acting Group Executive: Group Capital (from 23 March 2017)</td>
<td>1/1</td>
</tr>
<tr>
<td>Mr T Govender</td>
<td>Group Executive: Transmission and Sustainability</td>
<td>8/9</td>
</tr>
<tr>
<td>Mr W Mpolis</td>
<td>Acting Group Executive: Generation (from 1 January 2017)</td>
<td>1/3</td>
</tr>
<tr>
<td>Mr S Mantz</td>
<td>Group Executive: Information Technology and Chief Information Officer (from 1 June 2016)</td>
<td>5/7</td>
</tr>
<tr>
<td>Mr AA Masango</td>
<td>Group Executive: Office of the Group Chief Executive (from 22 March 2017, previously Group Executive: Group Capital)</td>
<td>8/9</td>
</tr>
<tr>
<td>Ms A Noah</td>
<td>Group Executive: Customer Services</td>
<td>7/9</td>
</tr>
<tr>
<td>Mr MM Ntsokolo</td>
<td>Group Executive: Distribution</td>
<td>7/9</td>
</tr>
<tr>
<td>Ms EM Pule</td>
<td>Group Executive: Human Resources (from 1 June 2016)</td>
<td>7/9</td>
</tr>
</tbody>
</table>

Attendance as reflected above refers to directors who were members of that committee during the year to 31 March 2017, and reflects changes due to rotation of members in committee memberships. An asterisk denotes the chairmanship of the Board or committee at 31 March 2017. The Board Recovery and Build Programme committee was dissolved on 30 June 2016.
**Independent sustainability assurance report**

Independent assurance provider’s reasonable assurance report on selected key performance indicators to the directors of Eskom

**Introduction**
We have been engaged to perform an independent assurance engagement for Eskom Holdings SOC Ltd (Eskom) on selected key performance indicators (KPIs) reported in Eskom’s integrated report for the year ended 31 March 2017. Our engagement was conducted by a team with relevant experience in sustainability reporting.

**Subject matter**
We are required to provide reasonable assurance on the following selected sustainability key performance indicators to be published in the integrated report, which include the indicators contained in the Eskom’s shareholder compact as well as KPIs selected by the directors. The KPIs described below cover only Eskom (company and not group) and have been prepared in accordance with Eskom’s reporting criteria that are available on Eskom’s website, at www.eskom.co.za/OurCompany/SustainableDevelopment/Pages/Sustainable_Development.aspx

<table>
<thead>
<tr>
<th>No.</th>
<th>Indicator</th>
<th>Unit of measure</th>
<th>Boundary</th>
<th>Reporting criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Lost-time injury rate (LTIR) (excluding occupational diseases)</td>
<td>Index</td>
<td>Eskom</td>
<td>Occupational Health and Safety Act</td>
</tr>
<tr>
<td>2.</td>
<td>Planned capability loss factor (PCLF)</td>
<td>Percentage</td>
<td>Generation</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>3.</td>
<td>Energy availability factor (EAF)</td>
<td>Percentage</td>
<td>Generation</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>4.</td>
<td>System average interruption duration index (SAIDI)</td>
<td>Hours</td>
<td>Distribution</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>5.</td>
<td>System average interruption frequency index (SAIFI)</td>
<td>Number</td>
<td>Distribution</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>6.</td>
<td>System minutes &lt;1</td>
<td>Minutes</td>
<td>Transmission</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>7.</td>
<td>Distribution total energy losses</td>
<td>%</td>
<td>Distribution</td>
<td>Eskom’s measurement specification</td>
</tr>
</tbody>
</table>

**Focus on safety**

**Improve operations**

<table>
<thead>
<tr>
<th>No.</th>
<th>Indicator</th>
<th>Unit of measure</th>
<th>Boundary</th>
<th>Reporting criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.</td>
<td>Generation capacity installed and commissioned</td>
<td>MW</td>
<td>Generation</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>9.</td>
<td>Transmission lines installed</td>
<td>Km</td>
<td>Transmission</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>10.</td>
<td>Transmission transformer capacity installed and commissioned</td>
<td>MVA</td>
<td>Transmission</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>11.</td>
<td>Distribution capex for strengthening and refurbishment</td>
<td>Rands</td>
<td>Distribution</td>
<td>Eskom’s measurement specification</td>
</tr>
</tbody>
</table>

**Deliver capital expansion**

**Reduce environmental footprint in existing fleet**

<table>
<thead>
<tr>
<th>No.</th>
<th>Indicator</th>
<th>Unit of measure</th>
<th>Boundary</th>
<th>Reporting criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.</td>
<td>Relative particulate emissions</td>
<td>kg PMVs sent out</td>
<td>Generation</td>
<td>Environmental Act</td>
</tr>
<tr>
<td>13.</td>
<td>Water usage</td>
<td>LAVVs sent out</td>
<td>Generation</td>
<td>Water Act</td>
</tr>
<tr>
<td>14.</td>
<td>Migration of coal delivery volume from road to rail</td>
<td>Mt</td>
<td>Generation</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>15.</td>
<td>Carbon dioxide emissions</td>
<td>Mt</td>
<td>Generation</td>
<td>Eskom’s measurement specification</td>
</tr>
</tbody>
</table>

**Compliance capital investments**

<table>
<thead>
<tr>
<th>No.</th>
<th>Indicator</th>
<th>Unit of measure</th>
<th>Boundary</th>
<th>Reporting criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.</td>
<td>N–1 compliance – new build</td>
<td>R million</td>
<td>Group Capital</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>17.</td>
<td>Environmental compliance</td>
<td>R million</td>
<td>Group Capital</td>
<td>Eskom’s measurement specification</td>
</tr>
</tbody>
</table>

**Ensure financial sustainability**

<table>
<thead>
<tr>
<th>No.</th>
<th>Indicator</th>
<th>Unit of measure</th>
<th>Boundary</th>
<th>Reporting criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>18.</td>
<td>Operating cost per employee</td>
<td>R million/ full-time employee</td>
<td>Eskom</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>19.</td>
<td>Cash interest cover</td>
<td>Ratio</td>
<td>Eskom</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>20.</td>
<td>Debt equity ratio</td>
<td>Ratio</td>
<td>Eskom</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>21.</td>
<td>Free funds from operations as percentage of gross debt</td>
<td>%</td>
<td>Eskom</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>22.</td>
<td>Business productivity programme savings</td>
<td>R</td>
<td>Eskom</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>23.</td>
<td>Free funds from operations as percentage of capex</td>
<td>%</td>
<td>Eskom</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>24.</td>
<td>Average debtors days for municipalities, top customers, LPLUs and SPLUs (excluding Soweto)</td>
<td>Days</td>
<td>Eskom</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>25.</td>
<td>Coal purchased</td>
<td>R/t</td>
<td>Eskom</td>
<td>Eskom’s measurement specification</td>
</tr>
</tbody>
</table>

**Economic impact**

<table>
<thead>
<tr>
<th>No.</th>
<th>Indicator</th>
<th>Unit of measure</th>
<th>Boundary</th>
<th>Reporting criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.</td>
<td>Percentage of local content contracted in new build</td>
<td>%</td>
<td>Eskom</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>34.</td>
<td>Percentage of local sourcing in procurement (Eskom wide)</td>
<td>%</td>
<td>Eskom</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>35.</td>
<td>Percentage of B-BBEE attributable spend against total measured procurement spend (TPMS)</td>
<td>%</td>
<td>Eskom</td>
<td>B-BBEE amended codes of good practice</td>
</tr>
<tr>
<td>36.</td>
<td>Percentage of BO attributable spend against TPMS</td>
<td>%</td>
<td>Eskom</td>
<td>B-BBEE amended codes of good practice</td>
</tr>
<tr>
<td>37.</td>
<td>Percentage of WBO attributable spend against TPMS</td>
<td>%</td>
<td>Eskom</td>
<td>B-BBEE amended codes of good practice</td>
</tr>
<tr>
<td>38.</td>
<td>Percentage of WYO attributable spend against TPMS</td>
<td>%</td>
<td>Eskom</td>
<td>B-BBEE amended codes of good practice</td>
</tr>
<tr>
<td>39.</td>
<td>Percentage of BLWOD attributable spend against TPMS</td>
<td>%</td>
<td>Eskom</td>
<td>B-BBEE amended codes of good practice</td>
</tr>
<tr>
<td>40.</td>
<td>Percentage of QLE attributable spend against TPMS</td>
<td>%</td>
<td>Eskom</td>
<td>B-BBEE amended codes of good practice</td>
</tr>
<tr>
<td>41.</td>
<td>Percentage of PME attributable spend against TPMS</td>
<td>%</td>
<td>Eskom</td>
<td>B-BBEE amended codes of good practice</td>
</tr>
<tr>
<td>42.</td>
<td>Technology transfer (acquisition of intellectual property)</td>
<td>Number</td>
<td>Eskom</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>43.</td>
<td>Technology transfer (skills development)</td>
<td>Number</td>
<td>Eskom</td>
<td>Eskom’s measurement specification</td>
</tr>
<tr>
<td>44.</td>
<td>Technology transfer (job creation)</td>
<td>Number</td>
<td>Eskom</td>
<td>Eskom’s measurement specification</td>
</tr>
</tbody>
</table>

**Electrification**

<table>
<thead>
<tr>
<th>No.</th>
<th>Indicator</th>
<th>Unit of measure</th>
<th>Boundary</th>
<th>Reporting criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>45.</td>
<td>Department of Energy funded electrification connections</td>
<td>Number</td>
<td>Eskom</td>
<td>Eskom’s measurement specification</td>
</tr>
</tbody>
</table>

1. Not assured in the prior year.
2. Not included in the shareholder compact.
Independent sustainability assurance report

Directors’ responsibilities

The directors are responsible for the selection, preparation and presentation of the sustainability information in accordance with the Eskom’s reporting criteria. This responsibility includes the identification of stakeholders and stakeholder requirements, material issues, commitments with respect to sustainability performance and design, implementation and maintenance of internal control relevant to the preparation of the report that is free from material misstatement, whether due to fraud or error.

Inherent limitations

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

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

Our independence and quality control

We have complied with the independence and all other ethical requirements of the Code of Professional Conduct for Registered Auditors issued by the Independent Regulatory Board of Auditors, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

SizweNtsalubaGobodo Inc. applies the International Standard on Quality Control (ISQC 1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibility

Our responsibility is to express a reasonable assurance conclusion on the selected KPIs based on the procedures we have performed and the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. That Standard requires that we plan and perform our engagement to obtain reasonable assurance about whether the selected KPIs are free from material misstatement.

A reasonable assurance engagement in accordance with ISAE 3000 (revised) involves performing procedures to obtain evidence about the quantification of the selected sustainability information and related disclosures. The nature, timing and extent of procedures selected depend on our judgement, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments we considered internal control relevant to Eskom’s preparation of the selected KPIs. A reasonable assurance engagement also includes:

- Assessing the suitability in the circumstances of Eskom’s use of its reporting criteria as the basis for preparing the selected sustainability information
- Evaluating the appropriateness of quantification methods and reporting policies used, and the reasonableness of estimates made by Eskom
- Evaluating the overall presentation of the selected KPIs

Summary of work performed

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

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

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

- Interviewed management and senior executives to obtain an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process
- Reviewed documentation to corroborate the statements obtained from management and senior executives in our interviews
- Reviewed the process that Eskom has in place for determining material selected key performance indicators to be included in the report
- Visited Eskom’s control systems

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

Basis for qualified conclusion

The completeness of the Learner intake KPI could not be established in 33% of the sites visited due to inadequate processes and systems in place to ensure that all learners are accounted for. The validity and accuracy of the Coal migration KPI could not be confirmed as the processes and systems put in place to collect, validate and monitor the data that supports the reliable measurement of the KPI are not compliant. The alternative procedures performed confirmed the weaknesses in the environment. Furthermore, the completeness of the number reported could not be ascertained.

We apply an approach of reasonable assurance criteria in evaluating the data generation and reporting processes

- Reviewed the processes and systems to generate, collate, aggregate, monitor and report on the selected key performance indicators
- Assessed the reasonableness and appropriateness of significant estimates and judgements made by management in the preparation of the key performance indicators
- Performed site work at various coal-fired power stations, Transmission operating units and Distribution operating units
- Evaluated whether the selected key performance indicators presented in the integrated report are consistent with our overall knowledge and experience of sustainability management and performance at Eskom

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

Restriction of liability

Our work has been undertaken to enable us to express the conclusions on the selected KPIs to the directors of Eskom in accordance with the terms of our engagement and for no other purpose. We do not accept or assume liability to any party other than Eskom, for our work, for this report, or for the conclusion we have reached.

SizweNtsalubaGobodo Inc.
Registered auditors
Per BF Zwane
Chartered Accountant (SA)
Director
15 June 2017
We have provided some GRI disclosures in our 2017 integrated report. The disclosures provided are set out in the table below, with a reference to where in the document the information may be found.

### General standard disclosures

<table>
<thead>
<tr>
<th>Ref</th>
<th>Description</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>G4-1</td>
<td>Statement from most senior decision-maker about the relevance of sustainability and the organisation’s strategy for addressing sustainability. The statement should present the overall vision and strategy for the short term, medium term, and long term, particularly with regard to managing the significant economic, environmental and social impacts that the organisation causes and contributes to, or the impacts that can be linked to its activities as a result of relationships with others (such as suppliers, people or organisations in local communities)</td>
<td>Chairman's statement, page 3</td>
</tr>
<tr>
<td>G4-2</td>
<td>Description of key impacts, risks, and opportunities (including the organisation’s key impacts on sustainability and effects on stakeholders, and the impact of sustainability trends, risks, and opportunities on the long-term prospects and financial performance of the organisation)</td>
<td>Our strategic risks, pages 29 and 30</td>
</tr>
</tbody>
</table>

### Organisational profile

| G4-3 | Report the name of the organisation | Contact details, page 132 |
| G4-4 | Report the primary brands, products, and services | Our mandate, vision and mission, page 4 |
| G4-5 | Report the location of the organisation’s headquarters | Legal structure, page 11 |
| G4-6 | Report the number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in this report | Legal structure, page 11 |
| G4-7 | Report the nature of ownership and legal form | Our mandate, vision and mission, page 4 |
| G4-8 | Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries) | Nature of our business and customer base, pages 4 and 5 |
| G4-9 | Report the scale of the organisation (including total number of employees, operations, net sales, total capitalisation broken down in terms of debt and equity, and quantity of products or services provided) | Eskom’s energy wheel, page 7 |
| G4-10 | Report the total number of employees by employment contract and gender, as well as permanent employees, supervised workforce, workforce by region and gender, workers legally recognised as self-employed, or employees of contractors, and significant variations in employment numbers (due to seasonal variations) | Building sustainable skills – Headcount, page 67 |

### Identifiable material aspects and boundaries

<table>
<thead>
<tr>
<th>Ref</th>
<th>Description</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>G4-14</td>
<td>List memberships of associations (such as industry associations) and national or international advocacy organisations in which the organisation holds a position on the governance body, participates in projects or committees, provides substantive funding beyond routine membership dues, or views membership as strategic</td>
<td>Our key strategic international memberships include Electric Power Research Institute (EPRI), World Economic Forum (WEF), World Association of Nuclear Operators (WANO), Pressurised Water Reactor Owners’ Group (PWROG), and Institute of Nuclear Power Operators (INPO)</td>
</tr>
<tr>
<td>G4-16</td>
<td>List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses</td>
<td>United Nations Global Compact, other key UN initiatives, such as the CEO Water Mandate, Caring for Climate, as well as Sustainable Energy for All (SE4All) initiatives. We are also a member of the IIRC’s GRI Business Network and Public Sector Pioneer Network</td>
</tr>
</tbody>
</table>

### Stakeholder engagement

<table>
<thead>
<tr>
<th>Ref</th>
<th>Description</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>G4-24</td>
<td>Provide a list of stakeholders engaged by the organisation</td>
<td>Stakeholder groups, page 24</td>
</tr>
<tr>
<td>G4-25</td>
<td>Report the basis for identification and selection of stakeholders with whom to engage</td>
<td>Stakeholder groups, page 24</td>
</tr>
<tr>
<td>G4-26</td>
<td>Report the organisation’s approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indicator of whether any of the engagement was undertaken specifically as part of the report preparation process</td>
<td>Stakeholder engagements and material matters, page 24</td>
</tr>
<tr>
<td>G4-27</td>
<td>Report key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting</td>
<td>Stakeholder engagements and topics covered, pages 25 and 26</td>
</tr>
</tbody>
</table>

### Reporting process

<p>| EU1 | Installed capacity, broken down by primary energy source and by regulatory regime | Nature of our business and customer base, page 5 |
| EU2 | Net energy output broken down by primary energy source and by regulatory regime | Eskom’s energy wheel, page 7 |
| EU3 | Number of residential, industrial, institutional, and commercial customer accounts | Fact sheet on customer information, page 110 |
| EU4 | Length of above and underground transmission and distribution lines by regulatory regime | Nature of our business and customer base, page 5 |
| EU5 | Allocation of CO₂ emissions allowances or equivalent, broken down by carbon trading framework | Not applicable – carbon budgets will only become mandatory from 2020 |</p>
<table>
<thead>
<tr>
<th>Ref</th>
<th>Description</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>G4-28</td>
<td>Reporting period (such as fiscal or calendar year) for information provided</td>
<td>Reporting boundary and frameworks, IFC</td>
</tr>
<tr>
<td>G4-29</td>
<td>Date of most recent previous report</td>
<td>Reporting boundary and frameworks, IFC</td>
</tr>
<tr>
<td>G4-30</td>
<td>Reporting cycle</td>
<td>We report annually</td>
</tr>
<tr>
<td>G4-31</td>
<td>Provide the contact point for questions regarding the report or its contents</td>
<td>Comments may be sent to <a href="mailto:IRfeedback@eskom.co.za">IRfeedback@eskom.co.za</a> (also noted on the inside flap and under contact details)</td>
</tr>
<tr>
<td>G4-32</td>
<td>Report the “in accordance” option the organisation has chosen, as well as the GRI Content Index for the chosen option, and the reference to the External Assurance Report, if the report has been externally assured</td>
<td>Not applicable. This report is not prepared in accordance with GRI G4 reporting criteria, although it contains some GRI disclosures</td>
</tr>
<tr>
<td>G4-33</td>
<td>Report the organisation’s policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided, as well as the relationship between the organisation and the assurance providers. Report whether the highest governance body or senior executives are involved in seeking assurance for the organisation’s sustainability report</td>
<td>Assurance approach, IFC (Combined assurance, page 33)</td>
</tr>
<tr>
<td>G4-34</td>
<td>Report the governance structure of the organisation, including committees of the highest governance body</td>
<td>Board of Directors and committees, pages 94 to 96. All Board committees play a role, although the Social, Ethics and Sustainability Committee has primary responsibility for sustainability matters</td>
</tr>
<tr>
<td>G4-35</td>
<td>Report the process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees</td>
<td>Executive responsibility has been delegated to Mr Thara Govender, Group Executive: Transmission and Sustainability, who reports to the Group Chief Executive</td>
</tr>
<tr>
<td>G4-36</td>
<td>Report whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body</td>
<td>Executive responsibility has been delegated to Mr Thara Govender, Group Executive: Transmission and Sustainability, who reports to the Group Chief Executive</td>
</tr>
<tr>
<td>G4-37</td>
<td>Report processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body</td>
<td>Consultation with stakeholders has been delegated to the Stakeholder Relations Department, which reports to the Board on a quarterly basis</td>
</tr>
<tr>
<td>G4-38</td>
<td>Report the composition of the highest governance body and its committees by executive or non-executive, independence; tenure on the governance body; number of each individual’s other significant positions and commitments, and the nature of the commitments; gender; membership of under-represented social groups; competencies relating to economic, environmental and social impacts; stakeholder representation</td>
<td>Racial and gender equity of the Board of Directors is noted on pages 20 and 21, as are other significant commitments. Directors are appointed by the Minister of Public Enterprises; no stakeholders other than the shareholders are specifically represented on the Board</td>
</tr>
<tr>
<td>G4-39</td>
<td>Report whether the Chair of the highest governance body is also an executive officer</td>
<td>The Chairman is an independent non-executive director</td>
</tr>
<tr>
<td>G4-40</td>
<td>Report the nomination processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members (including diversity, independence, expertise and experience relating to economic, environmental and social topics, and how stakeholders are involved)</td>
<td>Board constitution and appointments, page 94 (Board committees, page 95)</td>
</tr>
<tr>
<td>G4-41</td>
<td>Report processes for the highest governance body to ensure conflicts of interest are avoided and managed. Report whether conflicts of interest are disclosed to stakeholders</td>
<td>Code of Ethics, page 94</td>
</tr>
</tbody>
</table>

**GRI G4 indicator table**

<table>
<thead>
<tr>
<th>Ref</th>
<th>Description</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>G4-42</td>
<td>Report the highest governance body’s and senior executives’ roles in the development, approval, and updating of the organisation’s purpose, values or mission statements, strategies, policies, and goals related to economic, environmental and social impacts</td>
<td>Our leadership, page 19 (Board of Directors and committees, pages 94 to 96)</td>
</tr>
<tr>
<td>G4-43</td>
<td>Report the measures taken to develop and enhance the highest governance body’s collective knowledge of economic, environmental and social topics</td>
<td>Director induction and training, page 95 (Board evaluation, page 95)</td>
</tr>
<tr>
<td>G4-44</td>
<td>Report the processes for evaluation of the highest governance body’s performance with respect to governance of economic, environmental and social topics. Report whether such evaluation is independent or not, and its frequency, and whether it is a self-assessment. Report actions taken in response to evaluation of the highest governance body’s performance with respect to governance of economic, environmental and social topics, including, as a minimum, changes in membership or organisational practice</td>
<td>Board evaluation, page 95</td>
</tr>
<tr>
<td>G4-45</td>
<td>Report the highest governance body’s role in the identification and management of economic, environmental and social impacts, risks, and opportunities. Include the highest governance body’s role in the implementation of due diligence processes. Report whether stakeholder consultation is used to support the highest governance body’s identification and management of economic, environmental and social impacts, risks, and opportunities</td>
<td>Enterprise risk management process, page 28</td>
</tr>
<tr>
<td>G4-46</td>
<td>Report the highest governance body’s role in reviewing the effectiveness of the organisation’s risk management processes for economic, environmental and social topics</td>
<td>Risk management and internal controls, page 31</td>
</tr>
<tr>
<td>G4-47</td>
<td>Report the frequency of the highest governance body’s review of economic, environmental and social impacts, risks, and opportunities</td>
<td>At least quarterly</td>
</tr>
<tr>
<td>G4-48</td>
<td>Report the highest committees or position that formally reviews and approves the organisation’s sustainability report and ensures that all material Aspects are covered</td>
<td>Not applicable in the current year, as material Aspects are not reported on, although the Social, Ethics and Sustainability Committee is responsible for ensuring the integrity of information presented</td>
</tr>
<tr>
<td>G4-51</td>
<td>Report the remuneration policies for the highest governance body and senior executives for different types of remuneration, and how performance criteria in the remuneration policy relate to the highest governance body’s and senior executives’ economic, environmental and social objectives</td>
<td>Remuneration structure, page 98</td>
</tr>
<tr>
<td>G4-52</td>
<td>Report the process for determining remuneration, and whether remuneration consultants are involved</td>
<td>Our approach to remuneration, page 98</td>
</tr>
<tr>
<td>G4-56</td>
<td>Describe the organisation’s values, principles, standards and norms of behavior such as codes of conduct and codes of ethics</td>
<td>Ethics in Eskom, pages 93 and 94</td>
</tr>
<tr>
<td>G4-57</td>
<td>Report the internal and external mechanisms for seeking advice on ethical and unlawful behavior, and matters related to organisational integrity, such as helplines or advice lines</td>
<td>Code of Ethics, page 94</td>
</tr>
<tr>
<td>G4-58</td>
<td>Report the internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organisational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines</td>
<td>Code of Ethics, page 94</td>
</tr>
</tbody>
</table>
Compliance with Promotion of Access to Information Act

This fact sheet contains our declaration in terms of Section 32 of the Promotion of Access to Information Act, 2000 (PAIA) for 2016/17.

The statistics required by South African Human Rights Commission are as follows:

<table>
<thead>
<tr>
<th>2016/17</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a. The number of requests for access received</td>
<td>67</td>
</tr>
<tr>
<td>b. The number of requests for access granted in full</td>
<td>8</td>
</tr>
<tr>
<td>c. The number of requests for access refused in full</td>
<td>6</td>
</tr>
<tr>
<td>d. The number of requests for access refused partially</td>
<td>25</td>
</tr>
<tr>
<td>e. The number of requests for access in process</td>
<td>18</td>
</tr>
<tr>
<td>f. The number of internal appeals lodged</td>
<td>6</td>
</tr>
<tr>
<td>g. The number of internal appeals in process</td>
<td>–</td>
</tr>
<tr>
<td>h. The number of cases in which access was given as a result of internal appeal</td>
<td>3</td>
</tr>
<tr>
<td>i. The number of internal appeals lodged on the grounds that a request was regarded as having been refused in terms of Section 27</td>
<td>2</td>
</tr>
<tr>
<td>j. The number of applications ending up in court</td>
<td>–</td>
</tr>
<tr>
<td>k. The number of cases in which extension of 30 days were requested</td>
<td>46</td>
</tr>
</tbody>
</table>

Eight formal requests were rejected as they were not in line with the requirements of the Act, while two were deferred.

In addition to these formal requests, we also dealt with informal requests lodged via the PAIA Portal, not in terms of the Act.

Our PAIA manual is available on: http://www.eskom.co.za/OurCompany/PAIA/Pages/Promotion_Of_Access_To_Information.aspx

Eddie Laubscher
National Deputy Information Officer
Eskom Holdings SOC Ltd
15 June 2017
Our suite of reports

Our 2017 suite of reports comprises the following:

Integrated report and supplementary information
The integrated report, which provides an overview of our performance, is prepared in accordance with the IIRC’s International <IR> Framework, and subject to combined assurance. Supplementary information, pertinent to interested stakeholders, is available at the back of the report.

Annual financial statements
The consolidated financial statements of Eskom Holdings SOC Ltd have been prepared in accordance with International Financial Reporting Standards (IFRS) as well as the requirements of the Public Finance Management Act, 1999 and Companies Act, 2008, and are audited by our independent auditors.

Foundation report
The Eskom Development Foundation NPC (the Foundation) is responsible for the coordination and execution of our corporate social investment activities in support of our business imperatives. The report details the operations and activities of the Foundation for the 2016/17 year. The Foundation will be absorbed into Eskom from 1 April 2017, although our CSI initiatives will continue.

All documents are available online at www.eskom.co.za/IR2017

Forward-looking statements
Certain statements in this report regarding Eskom’s business operations may constitute forward-looking statements. These include all statements other than statements of historical fact, including those regarding the financial position, business strategy, management plans and objectives for future operations. Forward-looking statements constitute our current expectations based on reasonable assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised, and as such, are not intended to be a guarantee of future results. Actual results could differ materially from those projected in any forward-looking statements due to various events, risks, uncertainties and other factors. Eskom neither intends to nor assumes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Eskom is a supporter member of

Eskom Development Foundation NPC, PO Box 1091, Johannesburg 2000. Tel: +27 11 800 8111. Email: csi@eskom.co.za. www.eskom.co.za/csi

Energy is never lost
It’s simply transferred
See the good our energy is doing