



# Chairman's report

*For the board, Eskom's role in a changing South Africa has three thrusts: economic, social and environmental*



This is my first report as Eskom's chairman. I am rapidly becoming more familiar with a state-owned entity of global stature where a tradition of stringent corporate governance standards is continually being enhanced. Given that Eskom touches the lives of the majority of South Africans every day, this attention to continual improvement is both a civic duty and business imperative.

Globally, Eskom is well among the top 10 power companies by sales, and 11th by generating capacity. It has some of the largest coal-fired power stations in the world and is an established and innovative forerunner in meeting the demands of life in the 21st century.

Eskom's financial results for the year underscore the strength of the group and should not be overshadowed by the unfortunate incidents in the Western Cape. Eskom's response strategy was clear-headed and its partnerships with other role players ensured predictability and minimised inconvenience. This extraordinary combination of factors tested Eskom's systems to the utmost and they passed, confounding those who argued that a national energy crisis was unfolding.

### A new era

Eskom's new vision is *Together building the powerbase for sustainable growth and development.*

In formulating a new vision to drive the group, cognisance was taken of industry trends and changes – locally and abroad – and challenges specific to Eskom. These ranged from increasing demand and

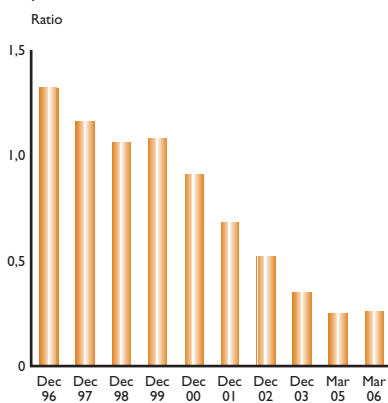
diminishing surplus capacity to future funding. The result is a group focused on expansion, strengthening existing networks, managing risk and extending its skills base. The board is confident that Eskom has the strategies, structures and management teams to achieve its vision.

### Eskom's role in a changing South Africa

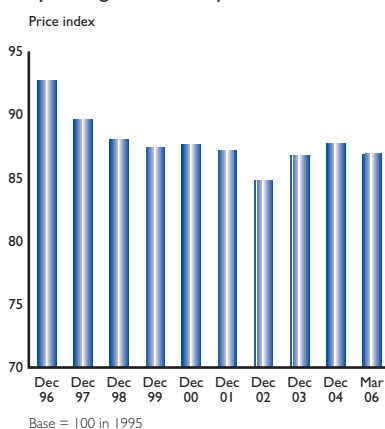
For the board, Eskom's role in a changing South Africa has three thrusts: economic, social and environmental:

- On the economic side, the supply of energy is pivotal in the national drive to eliminate poverty and stimulate the economy. Eskom, in turn, is a vital participant in supplying energy
- economic goals are underpinned by social goals, specifically the objectives of the country's reconstruction and development programme. As a subscriber to the United Nations Millennium Development Goals, South Africa has a moral duty to improve the quality of life of its citizens. Again, a basic requirement is energy
- the quality of life of all citizens will be forever harmed if we neglect the impact of environmental change, specifically climate change. South Africa is a responsible member of the global community, with an important role to play in combating climate change. The development of renewable and non-fossil fuel primary energy sources is crucial and Eskom is making significant progress in investigating alternative technologies as well as using our coal resources more efficiently and with lower impact

**Eskom debt:equity, including long-term provisions**



**Electricity tariff increase deflated by average consumer price index**



Eskom's ambitious capacity enhancement programme is detailed in the chief executive's report. As a board and in support of national economic growth, our duty is to prioritise this programme and ensure its steady and efficient implementation.

**Supporting national goals**

As part of its accelerated shared growth initiative for South Africa, government aims to ensure electricity for every South African by 2012. This is a formidable challenge in a developing country that has a sizeable low-income population and vast distances to cover in reaching rural settlements.

For Eskom, core programmes in attaining this goal are free basic electricity – 50kWh/month for qualifying households – and the electrification programme. To date, Eskom has connected millions of households, schools and clinics to the national grid as part of the latter programme. Progress with the former initiative has been slower, given the need to first contract with identified municipalities. Once contracted, municipal authorities have to determine qualifying customers whose meters must then be reconfigured. Encouragingly, good progress was made during the year with almost all of the identified municipalities now under contract and meters reconfigured for 84% of qualifying customers.

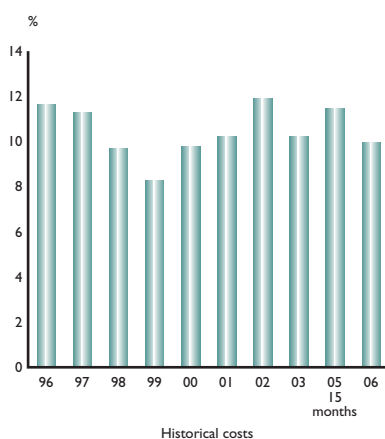
Our aim is to reduce the quantity of greenhouse gases emitted per megawatt of electricity generated. Achieving this goal requires, among others, assessing our energy mix and considering all options in planning for future electricity supply. Refer to page 74 in the directors report. Non-generation measures to reduce greenhouse gas emissions include the demand-side management programme and other energy efficient initiatives. Eskom is also a signatory to the voluntary business accord that supports the national energy efficiency initiative. The success of demand-side management in the Western Cape indicates the significant opportunities which can be achieved nationally in the future.

We believe adaptation to climate change is important, as studies show that parts of South Africa will experience increased drought due to climate change. The board is particularly encouraged by the early successes achieved in Eskom's drive for energy efficiency and energy saving, which demonstrates the willingness of consumers to adapt their use of electricity to a more sustainable model. I believe the combination of energy efficiency and energy saving can play a significant role in reducing greenhouse gas emissions and thus mitigate the effects of climate change. In context, the energy saving achieved in the past two reporting periods through demand-side management programmes is enough to electrify a small town. Demand-side management will become a permanent feature of the drive for energy efficiency and savings as the programme is rolled out nationally.

We remain committed to reporting on our climate change priorities, specifically the strategy roll-out and participation in processes aimed at dealing with climate change adaptation and mitigation, and our performance in reporting carbon dioxide emissions. Refer to page 172.

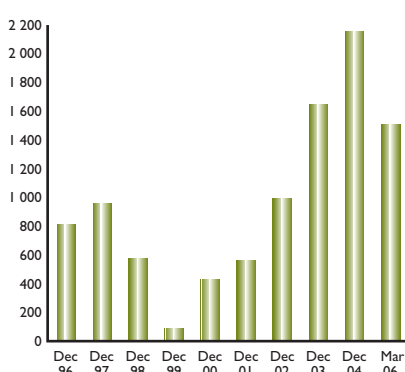
On the supply-side, Eskom's renewable energy strategy was implemented during

**Eskom rate of return on total assets after tax**



**Eskom productivity improvement for all resources**

Rm – 2006 rand



The sum of the cumulative annual productivity savings over the 10-year period amounted to R9 736 million.

**Climate change**

Given the serious threat of climate change to sustainable national development, Eskom finalised a robust plan in 2005 in line with government's response strategy. In 2006, the strategy was rolled out. Priority areas include climate change criteria as part of decision-making, continual improvement in reporting, commitment to national and international government and business processes, and participation in the Clean Development Mechanism. Refer to page 75 in the directors' report.

the year. Renewable sources that have been evaluated are wind, solar, wave, tidal, ocean current, biomass and hydro. Refer to page 76 in the directors' report. Among other issues, research has focused on how renewable technology interacts with the South African environment and has highlighted unique factors that can impact its performance. Eskom also participated in a Department of Minerals and Energy pilot project on green power trading and contributed to the development of draft market rules. Eskom will act as the independent market operator for the duration of the project.

### Shareholder compact

In 2004, the Minister of Public Enterprises refocused state-owned enterprises as catalysts for economic development. This was in line with government's investment-led strategy to achieve higher levels of investment by improving the use of resources across the spectrum. Eskom revised its business model to ensure a robust enterprise, capable of meeting the current and future needs of a changing customer base by focusing on its core business – generating, transporting, trading and retailing of electricity.

Annually, Eskom's key performance objectives, measures and indicators are agreed with the shareholder and encapsulated in a shareholder compact. Enshrined in the compact are the principles of good governance and absolute compliance with the laws of the land. Refer to page 16 in corporate governance and 49 in directors' report.

Essentially, the board is responsible for ensuring these targets are met, particularly capacity expansion, capital efficiency and capital deployment. Through the Chairperson's Forum, a co-operative initiative between state-owned enterprises, the board is also responsible for ensuring that knowledge is shared.

### Industry fundamentals

The restructuring of the electricity supply and distribution industries and the national drive for energy efficiency have long been contentious issues, given the plethora of affected parties and the need to balance the resources and requirements.

While progress is being made in developing an optimal solution for South Africa, we believe the most pressing consideration is fulfilling the demands associated with steady economic growth. This sustained growth is effectively absorbing the surplus capacity in the national electricity supply system, underscoring the importance of urgent and appropriate decisions to support future growth while meeting the government's targets of universal access.

### Dividend policy

With the build programme under way and the company's desire to fund its own capital programme, the board believes it would not be appropriate to pay dividends during this period.

### A formidable team

Eskom is home to a vast base of knowledge and intellectual capital – people who are experts in fields as diverse as physics and finance. It is also home to several of the very few women in the world in charge of power stations. In many respects, I believe Eskom is about scale – the sheer size of its power stations, the intellectual capital that keeps them functioning and the innovation that delivers progress to the world. As a board, it is also a pleasure to work with such a strong and passionate management team under the able leadership of the chief executive Thulani Gcabashe. We are confident the collective skills and dedication of these individuals will keep Eskom among the leaders in its field globally, to the benefit of South Africa and its people.

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### Acknowledgments

Eskom enjoys the support of its shareholder, particularly the Department of Public Enterprises that plays such an active and engaging role. The synergy between Eskom and the department will underpin the progress of numerous development initiatives. The Parliamentary Portfolio Committee has given a new dimension to its oversight responsibilities through active, constructive and transparent interaction. We value these relationships and will continue building on this strong base.

During the period, Nonkululeko Msomi, Sindi Zilwa and Eddie Funde retired from the board and we thank them for their valuable contributions while in office. My personal thanks to Reuel Khoza, chairman of Eskom for eight years, for making the transition so seamless for me.



**Valli Moosa**

Chairman