

## Directors' report continued

comprising raw materials and consumables used, services and abnormal items and the excess of turnover over cost of goods and services of non-regulated activities.

The value added statement shows the total wealth created, how it was distributed to meet certain obligations and reward those responsible for its creation, and the portion retained for the continued operation and expansion of the business.

### Value added statement

	Group		Company	
	2007 Rm	2006 Rm	2007 Rm	2006 Rm
<b>Value created</b>				
Revenue	40 068	36 052	39 399	35 384
Less: primary energy and other operating expenses	(14 535)	(14 690)	(14 784)	(14 260)
	<b>25 533</b>	<b>21 362</b>	<b>24 615</b>	<b>21 124</b>
<b>Value distributed</b>	<b>14 370</b>	<b>13 802</b>	<b>14 010</b>	<b>13 324</b>
Salaries, wages and other benefits	10 243	8 215	9 789	7 703
Social spending	75	84	75	84
Net interest expense	1 548	1 738	1 747	1 797
Dividend paid	–	1 643	–	1 643
Taxation	2 504	2 122	2 399	2 097
<b>Value reinvested to maintain and develop operations</b>	<b>11 163</b>	<b>7 560</b>	<b>10 605</b>	<b>7 800</b>
Depreciation and amortisation of property, plant and equipment and intangible assets	4 709	4 562	4 597	4 373
Net profit after dividend	6 454	2 998	6 008	3 427
	<b>25 533</b>	<b>21 362</b>	<b>24 615</b>	<b>21 124</b>
Value created per employee (R)	781	679	801	711

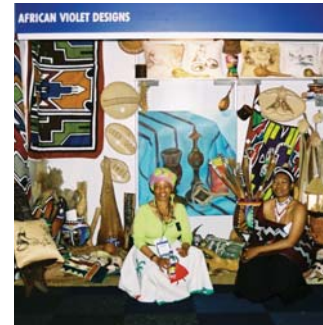
### CONTRIBUTION TO SOCIETY

Eskom strives to be a good corporate citizen in all spheres of its activities. We try to demonstrate this commitment in everything we do – the electrification programme, corporate transformation, employment equity, black economic empowerment procurement policies, environmental reporting and many other activities.

### ACCELERATED AND SHARED GROWTH INITIATIVE FOR SOUTH AFRICA

Eskom is committed to the Accelerated and Shared Growth Initiative for South Africa (Asgisa) and its prime objectives of higher growth, more jobs and less poverty.

Eskom's most significant contribution is through its core business of supplying competitively priced electricity. The capacity expansion



programme and our focus on operating efficiency are central to our effort to provide the power that will drive accelerated growth. These themes are reflected throughout this report.

Asgisa is not only about economic growth, but ensuring the growth is shared. To contribute to this objective, Eskom will leverage its build programme and associated activities for optimum developmental impact.

Optimising local content in procurement will help to grow local industry and thereby create job opportunities locally. We will promote skills development and encourage entrepreneurship by contracting with BEE, SME and BWO organisations. These criteria have been integrated into our procurement process. Refer page 86 for additional information on Eskom's BEE procurement and page 54 for progress with the build programme.



**Asgisa project at Grootvlei power station**

The return to service of Grootvlei power station near Balfour began in 2004. From the outset, the project team was mindful of its responsibilities towards the local community.

As a first step, the project manager contacted the mayor of Dipaleseng Municipality and the Department of Labour to set up a system to ensure local people benefited from job opportunities. Volunteer community representatives were appointed to inform the community on a weekly basis of possible job opportunities.

The Grootvlei team has met with great success. Over a thousand of the contractors employed on site, including some in semi-skilled categories, are from a local community that is predominantly agricultural in nature. A number of the local residents was subsequently hired by contractors and have moved on to other projects.

A team of 15 locals was employed to assemble splash grid supports on site, rather than have these items assembled in Gauteng. They were each paid for every unit they produced, earning R180 000 in total.

In addition to supporting the local economy through wages paid to local people, Eskom sourced services and goods with an estimated value of R62 million from companies within the Dipaleseng Municipality. Some members of the project team are tutoring at local schools and organise clothing and food for the children through personal donations.

**Picture caption**

1. The Eskom Development Foundation supports small business in terms of funding and training.
2. The Eskom Small Business Development Expo invites black SMMEs to interface with procurement managers from big companies.

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Through its learnership programme, Eskom will optimise skills development. We have committed to registering 4 000 learners on our learnership programme by April 2007. For more information, refer to page 62.

Eskom has a proud history of achieving electrification programme targets. However, to reach the goal of universal access to electricity by 2012, the current programme requires significant acceleration. Refer to page 88 for more details on electrification and the free basic electricity programme.

Corporate social investment (CSI) continues to be an important part of our corporate citizenship. A prime goal is to develop the communities in which we operate, focusing on the previously disadvantaged. CSI programmes will continue to emphasise skills development, job creation and poverty alleviation.

### Black economic empowerment

Eskom makes a significant contribution to black economic empowerment (BEE) by supporting black businesses with a

procurement spend of R15,43 billion in 2007 against a target of R13,95 billion.

The BEE target for 2007 was 67% of all discretionary expenditure. Discretionary expenditure excludes procurement from Eskom group businesses, the public enterprises and state departments and costs relating to human resources, but includes expenditure on coal (refer to page 40) and demand-side management.

Eskom continues to foster the empowerment of black women entrepreneurs to accelerate their participation in the mainstream economy. Expenditure on black women-owned businesses almost doubled in the last financial year.

BEE procurement is seen as a business imperative rather than a social investment. Supplier businesses are selected on merit and every effort is made to ensure they are not dependent on Eskom for sustainability. The increase in procurement value over time indicates that Eskom's BEE activities are contributing to an empowered economy that is growing and sustainable.

### BEE expenditure

	Target 2007 Rm	Actual 2007 Rm	Actual 2006 Rm
<b>Eskom company</b>			
Total BEE expenditure	13 945	15 429	11 069
Black women-owned businesses (included in total BEE expenditure)	1 822	2 039	1 287
<b>Eskom group<sup>1</sup></b>			
Total BEE expenditure	14 567	16 557	11 681
Black women-owned businesses (included in total BEE expenditure)	1 931	2 096	1 301

*1. Excludes subsidiaries classified as held-for-sale and the African subsidiaries.*

### Picture caption

1. Eskom teams and contractors are working hard to electrify new homes.  
2. An insulator on a high-voltage power line.

We have updated our BEE strategy. Following the publication of the Codes of Good Practice for Broad-based Black Economic Empowerment, procurement systems, policies and procedures are being optimised to accommodate changes in BEE recognition and reporting. We continue to meet or exceed our empowerment targets.

The capacity expansion programme creates new opportunities for empowerment. These are being carefully managed to ensure the maximum benefit is derived despite the inevitable importation of equipment and use of international contractors.

#### Electrification and free basic electricity

##### Electrification

The DME began funding the Integrated National Electrification Programme (Inep) in April 2001. Eskom is responsible for implementing the programme in its licensed areas of supply on the DME's behalf.

Houses built on stands that were unoccupied during the electrification of a town/area are subsequently connected as in-fills

and are planned to be funded through the National Electrification Fund. In 2004, Eskom made available R150 million to be spent over three years in order to relieve some of the backlog in-fill connections.

Operating costs relating to this electrification programme are met by Eskom as the licensed electricity distributor supplying electricity to the consumers.

Since the inception of the electrification programme in 1991, 3 469 650 homes have been electrified, including subsequent in-fill connections.

Currently funding is made available for projects identified as part of the Inep for new connections and infrastructure development. The average cost of infrastructure development and the cost per connection will increase as we electrify communities in more remote rural areas. In addition, technical specifications for network design have been enhanced to better accommodate future growth in electricity demand and to further enhance the quality and reliability of the electricity supply in these areas.

#### Electrification programme

	Unit of measure	Target 2007	Actual 2007	Actual 2006
<b>Total connections</b>	number	141 578	152 125	135 903 <sup>1</sup>
– Direct connections, excluding farm workers	number	140 134	151 088	134 798
– Farm worker connections	number	1 444	1 037	1 105
<b>Total capital investment</b>	Rm	754	765	582 <sup>1</sup>
– Reticulation and connections	Rm	616	626	127
– Sub-transmission infrastructure development	Rm	120	123	409
– Farm worker connections incentives paid	Rm	4	2	2
– Special projects	Rm	14	14	44

<sup>1</sup> Includes in-fill connections.

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### Electrification of grid schools and clinics

	Target 2007		Actual 2007		Actual 2006	
	Number	Rm	Number	Rm	Number	Rm
Department of Minerals and Energy	398	34	272	17	473	37

The stated government objective is to achieve universal access to electricity by 2012. Meeting the future universal access programme requirements is dependent on availability of funding from DME via the Inep. Eskom is in discussion with DME and other key stakeholders regarding the planning, funding and other requirements needed to achieve universal access.

### Electrification of schools and clinics

The electrification of schools and clinics is funded by the DME through the National Electrification Fund. This programme is focused on electrifying specifically identified schools and clinics.

### Free basic electricity

Government aims to bring relief to low-income households through the national electricity basic services support tariff, thereby ensuring optimal socio-economic benefits from the

national electrification programme. Qualifying customers are eligible for 50kWh of free electricity a month.

Two categories of customers receive free basic electricity (FBE):

- > customers who receive a monthly electricity bill, adjusted to allow for their free electricity entitlement
- > customers who buy prepaid electricity tokens and collect their free basic electricity token from an electricity vendor

Eskom provides FBE in its supply areas which is recoverable from municipalities at a standard tariff. Any under-recoveries from differences between the customer tariff and the applied free basic electricity standard tariff, implementation costs or other costs are recoverable from government. Eskom engages with various inter-governmental stakeholders to find a sustainable solution for any under-recoveries that arise as a result of providing FBE under the current policy and guidelines.

### Free basic electricity programme

Description	Unit of measure	2007	2006
Municipalities contracted to provide FBE	number	240	228 <sup>2</sup>
Municipalities providing FBE (rolled-out)	%	97	98
Customers approved by municipalities for FBE	number	1 181 823	1 254 199
Customers' meters reconfigured to receive FBE	number	1 074 340	1 048 000
Reconfigured customers consuming FBE in the year	average %	65	55
Amount invoiced to contracted municipalities	Rm	172	107
Cumulative tariff differential and cost under-recoveries <sup>1</sup>	Rm	60	27

1. Tariff differentials and cost under-recoveries are cumulative since 2006.

2. Previously included municipalities which had received but not signed their contracts.



### Corporate social investment

In total R74,7 million has been invested in corporate social investment (CSI) initiatives related to skills development, job creation, poverty alleviation and health.

### Analysis of corporate social investment

	Target 2007 Rm	Actual 2007 Rm	Actual 2006 Rm
Eskom small business expo	1,80	1,60	1,50
Economic development	26,70	2,00	11,70
Social development	10,80	2,00	12,10
Eskom maths and science education programme	–	–	3,90
Donations (including Chairman's Fund)	5,20	2,10	6,90
Legacy projects <sup>1</sup>			
– South African Aids vaccine initiative	15,00	30,00	–
– Business Trust (Business Against Crime)	4,00	6,00	1,00
– Other	–	–	6,00
<b>Total Eskom Development Foundation</b>	<b>63,50</b>	<b>43,70</b>	<b>43,10</b>
Rural development	20,00	11,40 <sup>2</sup>	13,60
Schools programmes	8,20	10,20	11,60
University support	9,10	9,10	15,00
National science and technology forum awards	0,30	0,30	0,30
<b>Total</b>	<b>101,10</b>	<b>74,70</b>	<b>83,60<sup>3</sup></b>

### Eskom Development Foundation

CSI is largely channelled through the Eskom Development Foundation, a non-profit company. Its mission is to help improve the lives of the disadvantaged through integrated, efficient and effective development programmes. In 2007, the Development

Foundation approved grants and donations totalling R43,7 million for the benefit of 77 415 people, with particular emphasis on support for women, youth and people with disabilities. Since inception in 1999, the Foundation has invested R414,5 million in development.

1. Legacy projects support priorities that are of strategic importance to Eskom and the community.  
2. The under-spending is due to logistical challenges which are currently being resolved.  
3. Amounts spent on the Eskom public scholarship programme are now reported under skills development.

## Directors' report continued

# R74,7 million

invested in CSI initiatives

2006: R83,6 million



The Development Foundation is informed by the strategic direction pursued by Eskom and the communities in which it operates. The Foundation revised its grant-making and donations strategies, policy, and procedures to align with Eskom's strategic direction. As a result of these changes the Development Foundation was unable to spend its full 2007 budget allocation.

Refer to [www.eskom.co.za/annreport07/033](http://www.eskom.co.za/annreport07/033) for more information about Eskom's corporate social investment activities.

#### SUPPORTING THE NEW PARTNERSHIP FOR AFRICA'S DEVELOPMENT

Eskom supports the New Partnership for Africa's Development (Nepad) by fostering cooperation between African utilities. As a member of the Southern African Power Pool (Sapp), Eskom supports development, studies and energy trading within the sub-region.

In 2007, inter-utility cooperation included:

- > meetings with power utilities in Algeria, Angola, Botswana, Democratic Republic of Congo, Egypt, Guinea (Conakry), Lesotho, Mauritius, Mozambique, Namibia, Niger, Nigeria, Zambia and Zimbabwe (in some cases general cooperation was complemented by work on project development)

- > study of a four-party power system involving Sapp members South Africa, Botswana, Zambia and Zimbabwe with the aim of enhancing the efficiency of the interconnected transmission network joining these countries
- > support for the development of the western power corridor project in the Democratic Republic of Congo, Angola and Namibia
- > leading inter-utility cooperation support projects in response to specific requests and needs, including technical visits to Egypt, Guinea (Conakry), Mauritius and Niger
- > installation and commissioning by Rotek Industries of a diesel-fired power plant in Sierra Leone on behalf of the South African government

#### REQUIRED STATUTORY INFORMATION

##### PUBLIC FINANCE MANAGEMENT ACT

##### Losses through criminal conduct and irregular or fruitless and wasteful expenditure

##### *Irregular or fruitless and wasteful expenditure*

In agreement with the Ministry of Public Enterprises, the reporting threshold in accordance with regulation 28.3.1 of the Public Finance Management Act is set at R10 million per item or class of closely-related items.

No reportable irregular or fruitless and wasteful expenditure was incurred.